REPORT OF THE LEGISLATIVE TAX EXPENDITURE COMMITTEE TO THE LEGISLATIVE COUNCIL

June 2014

Meeting. Members of the Legislative Tax Expenditure Committee of the Legislative Council met on December 4, 2013.

Tax Expenditure Review. The committee received presentations and conducted a review of the following:

I. Endow Iowa Tax Credits

Ms. Peggy Russell, Iowa Economic Development Authority (IEDA), presented a report regarding the Endow Iowa Tax Credit Program, a charitable giving incentive program administered by IEDA. The Endow Iowa Tax Credit Program was established in 2003 to encourage individuals, businesses, and organizations to make lasting investments in their communities when they establish permanent, endowed funds at an Iowa community foundation. The Endow Iowa Tax Credit is a 25 percent tax credit available to all Iowa taxpayers who make a qualifying charitable contribution. To qualify, gifts must be made to a permanent endowment fund established for the benefit of an Iowa charitable cause undertaken by a qualified community foundation. Gifts can be of any size. Credits are awarded by the IEDA on a first-come, first-served basis. They are nonrefundable but can be carried forward for up to five years. As of June 2013, $6 million in Endow Iowa Tax Credits are available each year overall; the maximum credit amount available per taxpayer each year is $300,000. Ms. Russell also provided examples of permanent foundations around the state that have received donations from recipients of the Endow Iowa Tax Credit.

Ms. Angela Gullickson, Iowa Department of Revenue (IDR), provided background information and statistical analysis of the Endow Iowa Tax Credit Program. Ms. Gullickson also provided information on similar programs in other states. The data provided by Ms. Gullickson included for each year of the program the total amount and number of credits awarded, the range of credit amounts awarded, and the average credit amount. Ms. Gullickson also provided annual foundation donation data, donor demographic information, and an analysis of the after-tax cost of donations based on household adjusted gross income.

II. Redevelopment Tax Credits

Mr. Matt Rassmussen, IEDA, presented a report regarding the Brownfield and Grayfield Redevelopment Tax Credit Program which provides an investment tax credit for redevelopment projects in Iowa that meet the definition of either a brownfield or grayfield. Under the program, an owner's equity investment in a grayfield project can receive a tax credit of up to 12 percent of a qualifying investment or up to 15 percent if the project meets the requirements of a green development. A brownfield can receive a tax credit of up to 24 percent of a qualifying investment or up to 30 percent if the project meets the requirements of a green development. "Qualifying investment" means costs that are directly related to a qualifying redevelopment project and are incurred after the project has been registered and approved by the IEDA Board and only includes the purchase price, the cleanup cost, and the redevelopment costs. Applications for the credits are accepted throughout the year and considered on a first-come, first-served basis. Mr. Rassmussen provided details of the application and review process and examples of how the program is being used throughout the state.

Mr. Zhong Jin, IDR, provided background information and statistical analysis of the Brownfield and Grayfield Redevelopment Tax Credit Program and discussed other states' brownfield tax credit programs. Mr. Jin detailed the amount of credit transfers administered by IDR and the number and amount of credit claims under the program. He also analyzed impacts of the projects undertaken using the credits in terms of assessed valuation increases and job growth.

III. Child and Dependent Care and Early Childhood Development Tax Credits

Ms. Mandy Jia, IDR, provided background information and statistical analysis of the Iowa Child and Dependent Care (CDC) Tax Credit and the Iowa Early Childhood Development (ECD) Tax Credit. The CDC Tax Credit is 30 percent to 75 percent of the federal CDC Tax Credit for those whose net Iowa income is less than $45,000. The federal CDC Tax Credit is 20 percent to 35 percent of the eligible child care expenses for qualifying children under age 13 or disabled dependents. The ECD Tax Credit is 25 percent of the first $1,000 of eligible early childhood development expenses per child between ages three and five for families with net Iowa income less than $45,000. Taxpayers can claim only one of the two Iowa credits per tax year. Ms. Jia explained a 2012 administrative rule change to the Iowa CDC Tax Credit that has resulted in taxpayers with no federal tax liability being ineligible for Iowa's CDC credit. In addition to data and analysis regarding Iowa's credits, Ms. Jia also provided information on similar tax benefit programs in other states.

IV. Disaster Recovery Housing Project Tax Credits

Mr. Wes Peterson, Iowa Finance Authority (IFA), addressed the current status of the Disaster Recovery Housing Project Tax Credit Program. The program was established in 2009 to provide tax credits for qualifying investments in disaster recovery housing projects in an area declared to be a disaster area by the Governor or President of the United States during the period of time from May 1, 2008, to August 31, 2008. The amount of the credit is equal to 75 percent of the taxpayer's qualifying investment incurred on or after May 12, 2009, and prior to July 2, 2010. The tax credits are not refundable or transferable. During the administrative rulemaking process, IFA received requests for substantive changes to the enabling legislation. Final rules for the program were never adopted and no applications for the credits have been received by IFA. Mr. Peterson opined that the program's lack of use was due to the availability of other funding sources for such projects. IFA recommends the repeal of the program due to its lack of use. Under 2014 Iowa Acts, SF 2328, the credit program is repealed effective January 1, 2015.

V. Property Tax Revenue Divisions for Urban Renewal Areas

Mr. Jeff Robinson, Legislative Services Agency (LSA); Ms. Carrie Johnson, Iowa Department of Management (DOM); and Mr. Ted Nellesen, DOM, provided an update and compliance report to the committee on the urban renewal area reporting requirements enacted in 2012. Mr. Robinson provided aggregate data on the reporting status of the local governments, information on the number of taxing districts by purpose designation, data on the financial status of urban renewal area tax revenue, and data on the amount and type of debt reported by local governments. Mr. Robinson noted that the data presented to the committee is preliminary and that final numbers would be presented in the LSA's annual report in February 2014.

Mr. Tony Girardi, IDR, provided background information on Iowa's urban renewal area law and a description of his ongoing research into the efficacy of tax increment financing. Mr. Girardi described the use of tax increment financing in other states and noted differences in Iowa's urban renewal law. While noting the limited research on tax increment financing, Mr. Girardi identified some of the questions his research hopes to address. Mr. Girardi provided statewide historical property assessment data and tax increment financing property tax revenue data, discussed tax increment financing's impact on the school aid formula, and examined the growth in the amount of assessed valuation that has occurred in tax increment financing districts during the past decade. Mr. Girardi provided a description of economic measures he is seeking to analyze, but he also acknowledged the limitations of tax increment financing research in drawing conclusions about the efficacy of tax increment financing.

Respectfully submitted,

____

Senator Joe Bolkcom, Co-chairperson

____

Representative Thomas R. Sands,
Co-chairperson