REPORT OF THE LEGISLATIVE TAX EXPENDITURE COMMITTEE TO THE LEGISLATIVE COUNCIL

August 10, 2015

Meeting. Members of the Legislative Tax Expenditure Committee of the Legislative Council met on December 3, 2014.

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

I. Qualifying Business and Community-Based Seed Capital Fund Tax Credits

Ms. Kristin Hanks-Bents, Iowa Economic Development Authority (IEDA), presented a report on the qualifying business and community-based seed capital fund tax credits, colloquially referred to as the “angel investor tax credits”. The angel investor tax credit is equal to 20 percent of an investor’s equity investment in a qualifying business or community-based seed capital fund. The credits are limited to a total aggregate amount of $2 million per fiscal year. The credits are also limited per taxpayer to $50,000 per investment in a qualifying business, and cannot be granted for more than five investments. Taxpayers are generally required to wait three years after making a qualifying investment to claim a credit, unless the investment was made in a qualifying business in calendar year 2014 or later, in which case the credit may be redeemed any time after December 31, 2015. The definitions of “qualifying business” and “community-based seed capital fund” were explained. Ms. Hanks-Bents reviewed IEDA’s proposed changes to the angel investor tax credits for 2015, including increasing the credit to 25 percent from 20 percent, making the credits refundable but not transferable, focusing the credits on individual angel investors and not institutions, streamlining eligibility, eliminating community-based seed capital funds, capping the individual credit level at $100,000 per taxpayer per year, and reducing the carryforward period from five years to three years.

Ms. Angela Gullickson, Iowa Department of Revenue (IDR), provided background information and statistical analysis of the angel investor tax credits. Ms. Gullickson also provided information on similar programs in other states. The data provided by Ms. Gullickson included the total number and amount of investments made and tax credits issued and claimed. Ms. Gullickson also provided data on the residency status of tax credit award recipients, the timing of the tax credit claims, the number and amount of unclaimed tax credits, and the investment amounts by business type. Finally, Ms. Gullickson provided data on differences in firm survival between venture capital firms that received qualifying investments and those that did not receive qualifying investments.

II. Historic Preservation and Cultural and Entertainment District Tax Credits

Mr. Steve King, Iowa Department of Cultural Affairs (IDCA), discussed the environmental, cultural, and economic benefits of preservation; and provided an update on the historic preservation and cultural and entertainment district tax credit program that was substantially modified during the 2014 Legislative Session. Mr. King stated that administrative rules are being created and are targeted for release in April 2015. Regarding the program's transition away from the practice of reserving tax credits up to three years in advance, Mr. King stated that approximately \$28 to \$32 million of previously reserved, but unclaimed tax credits have been voluntarily declined by taxpayers. These declined tax credits are now eligible to be awarded to projects by IDCA through the new registration process scheduled to begin on January 26, 2015. To date, IDCA has held 51 pre-application meetings with prospective owners and developers in anticipation of this new registration process. A handful of these prospective applicants have been able to begin rehabilitation work prior to formal registration. Applications under the new registration process will be accepted electronically, which, according to Mr. King, will improve the efficiency and transparency of the program.

Mr. Zhong Jin, IDR, provided background information and statistical analysis of the historic preservation and cultural and entertainment district tax credit and similar tax credits offered by other states and the federal government. The Iowa tax credit equals 25 percent of the qualified rehabilitation expenditures for the preservation of historic properties located in Iowa. The tax credit awards are limited to a total aggregate amount of \$45 million per fiscal year. Mr. Jin detailed the tax credit awards by reservation year and county, the tax credit claims and transfers by tax type, and the tax credit claims and refunds by tax year. Mr. Jin provided results from a tax credit survey that gathered information on project types, funding, size, and expenditures. Mr. Jin used those results and other data to analyze the impact of the credit in terms of employment, average wages, and sales tax revenues at project properties.

III. Data Center and Web Search Portal Business Tax Incentives

Mr. Tim Whipple, IEDA, provided background information on the various tax incentives available to data centers and web search portal businesses through IEDA's programs. There is no particular IEDA program dedicated to data centers and web search portal businesses, so these projects have been financed through IEDA's High Quality Jobs Program. The High Quality Jobs Program provides income tax credits, sales and use tax refunds on construction materials, and value-added property tax exemptions to eligible businesses that create jobs and make substantial capital investments in Iowa. The property tax exemptions must be granted by the local communities where the project is located. Mr. Whipple provided data on the relevant data center and web search portal businesses that have participated in the High Quality Jobs Program, including company name, location, project cost, capital investment, tax benefits awarded, qualifying wage, total jobs, and duration.

Ms. Victoria Daniels, IDR, provided background information on various tax incentives administered by IDR that are specifically targeted at data centers and web search portal businesses. These include a sales and use tax exemption for the sale or rental of computers, equipment, backup power generation fuel, and electricity; a limited sales and use tax refund for tax paid upon the purchase of electricity and fuel used to create power; and a property tax exemption for data center and web search portal business property other than land, buildings or other improvements. These three tax incentives are not awarded by IDR. Instead, a data center or web search portal business is automatically eligible for the tax incentives if it meets the statutory requirements. IDR estimated the value of several recent property tax exemptions using data obtained from county assessors, but stated that due to confidentiality rules and the manner in which the tax incentives are claimed, IDR cannot release or reliably quantify the value of the other tax exemptions and refunds.

IV. Wind Energy Production Tax Credits and Renewable Energy Tax Credits

Ms. Ellen Shaw, Iowa Utilities Board (IUB), presented a report on the wind energy production and renewable energy tax credits jointly administered by IUB and IDR. The wind energy production tax credit is available for 10 years to wind facilities and is equal to $0.01 per kilowatt-hour. The renewable energy tax credit is available for 10 years to wind, biogas, biomass, methane, solar, refuse conversion, and cogeneration facilities and is equal to $0.015 per kilowatt-hour of electricity, $4.50 per million British thermal units of heat for a commercial purpose or of methane gas or other gas used to generate electricity, or $1.44 per one thousand standard cubic feet of hydrogen fuel. Both credits have separate restrictions on a facility's placed-in-service date, and on the megawatt nameplate capacity of each facility and for all facilities. Ms. Shaw explained IUB's application process to establish eligibility for the tax credits.

Mr. Anthony Girardi, IDR, provided background information and statistical analysis of the wind energy production and renewable energy tax credits and of similar programs offered by other states and the federal government. The data provided by Mr. Girardi included the number of operational projects approved for tax credits, the amount of generating capacity and share of wind energy capacity by energy sector, the total megawatt production from wind compared to the amount credited, and the median wind project generation efficiency. Mr. Girardi also analyzed tax credit awards by year according to amount, average award, residency of the recipient, percentage transferred, and tax type. Finally, Mr. Girardi provided data on the estimated property tax impact of tax credit projects.

V. Biofuel Retailers' Tax Credits

Mr. John Good and Ms. Mandy Jia, IDR, presented a report on the ethanol promotion tax credit, E-85 gasoline promotion tax credit, E-15 plus gasoline promotion tax credit, and the biodiesel blended fuel tax credit. The report also included information on similar tax credits offered by other states. The ethanol promotion tax credit amount ranges from $0.04 to $0.08 per gallon of pure ethanol sold through December 31, 2020, depending on how close a retailer's biofuel distribution percentage is to the credit's biofuel threshold percentage. For both percentages, Mr. Good explained the formulas and provided data. A retailer that varies from the threshold percentage by 4 percentage points or more is not eligible for the ethanol promotion tax credit. The E-85 gasoline promotion tax credit is equal to $0.16 per gallon of E-85 gasoline (ethanol blends of E-70 to E-85) sold through December 31, 2017. The E-15 plus gasoline promotion tax credit is equal to $0.03 per gallon of E-15 gasoline (ethanol blends of E-15 to E-69) sold through December 31, 2017. The E-15 gasoline promotion tax credit rate increases to $0.10 per gallon during the summer months (June 1 through September 15) to account for special blending requirements of the federal Environmental Protection Agency. The biodiesel blended fuel tax credit is equal to $0.045 per gallon of fuel rated B-5 (5 percent ethanol) or higher sold through December 31, 2017. Mr. Good analyzed credit claims by year according to number, amount, and recipient, including the percentage of claims refunded. Mr. Good also provided data on the number of stations reporting E-85 sales by county, the registered flex fuel vehicles compared to end-of-year target goals, the number of registered vehicles compatible with E-15 fuel, and the percentage of stations reporting zero biofuel sales. Finally, Ms. Jia provided a forecast of future Iowa biofuel sales, tax credit claims, and distribution percentages.

Respectfully submitted,

Senator Joe Bolkcom, Co-chairperson

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