

SENATE FILE 2296
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 2238)

Passed Senate, Date 4/3/96 (p.1213) Passed House, Date _____
Vote: Ayes 46 Nays 2 Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the abatement of corporate income taxes for
2 increasing production jobs in the state and providing an
3 applicability date provision.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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S.F. 2296

1 Section 1. Section 422.33, Code Supplement 1995, is
2 amended by adding the following new subsection:

3 NEW SUBSECTION. 9. The taxes imposed under this division
4 shall be abated for a period of up to five tax years as
5 provided in this subsection.

6 a. To be eligible for the tax abatement, the taxpayer must
7 increase the number of full-time production jobs at sites
8 located in the state by fifty percent from the previous tax
9 year. If the taxpayer did not have full-time production jobs
10 in the state in the previous tax year, the taxpayer is
11 eligible if the taxpayer creates full-time production jobs at
12 sites located in the state. However, the taxpayer is not
13 eligible if at any time during the last five years the
14 taxpayer or taxpayer's predecessor has used permanent
15 replacement workers. For purposes of this subsection,
16 "production job" means employment which, by means of
17 manufacturing, processing, or combining, adds value to a
18 commodity or product.

19 b. A taxpayer who is eligible for the tax abatement shall
20 qualify and receive the tax abatement for the tax year if all
21 of the following criteria are met:

22 (1) Production workers at each work site located in the
23 state are paid in wages at least one hundred fifty percent per
24 hour of the county average hourly wage for that site.

25 (2) At least two percent of the taxpayer's gross sales
26 made during the tax year are spent for worker training.

27 (3) Employees are offered all of the following benefits:

28 (a) A standard benefit health care plan which applies to
29 all employees, including part-time workers, and does not
30 discriminate in favor of highly compensated employees, as
31 defined in section 414(q) of the Internal Revenue Code.

32 (b) A pension or profit-sharing plan.

33 (c) A dependent care assistance program that provides a
34 facility or financial assistance and meets the definition of a
35 dependent care assistance program in section 129(d) of the

1 Internal Revenue Code.

2 c. The taxpayer may continue to receive a tax abatement
3 for each year of the next four tax years for which both of the
4 following apply:

5 (1) The number of full-time production jobs added or
6 created as specified under paragraph "a" are maintained.

7 (2) All the criteria designated in paragraph "b" are met.

8 d. The tax abatement granted under this subsection shall
9 be calculated as a percentage of the tax due under this
10 division. The percentage equals that percentage of total
11 full-time production jobs at sites located in the state as of
12 the end of the first tax year which were added or created as
13 specified in paragraph "a". This percentage shall be used for
14 subsequent tax years for which abatement is received as
15 provided under paragraph "c".

16 e. The amount of tax abated under this subsection shall be
17 determined and taken prior to all other corporate income tax
18 credits.

19 Sec. 2. This Act applies to tax years beginning on or
20 after the effective date of this Act.

21 EXPLANATION

22 The bill provides for the abatement of a corporation's
23 income tax if it increases by 50 percent its full-time
24 production jobs workforce in Iowa or if it creates a workforce
25 in Iowa and meets other criteria. These criteria include:
26 spends for worker training 2 percent of gross sales; pays
27 wages of 150 percent of the county average wage; and offers
28 its employees a standard benefit health care plan, pension or
29 profit-sharing plan, and dependent care program. The
30 abatement can be had for up to 5 tax years. The amount of the
31 abatement is a percent of the tax. The percentage amount is
32 the percent of the total full-time production jobs located in
33 Iowa at the end of the first tax year which were added or
34 created during the first tax year. This percentage applies to
35 the subsequent tax years. The abatement is to be taken prior

1 to all other corporate credits.

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**SENATE FILE 2296
FISCAL NOTE**

A fiscal note for Senate File 2296 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 2296 provides for the abatement of a corporations's income tax if the corporation increases certain types of employment by 50.0%. To be eligible, a corporation must: pay workers 150.0% of the average county wage; spend 2.0% of gross sales on worker training; offer benefit plans including health, pension or profit sharing, and dependent care assistance.

ASSUMPTIONS

1. This estimate assumes that "production jobs" would exclude code numbers 52 and above from the Standard Industrial Classification Manual.
2. Behavioral changes and associated economic ramifications resulting from SF 2296 are not quantified in this fiscal note, and benefits offered by eligible corporations are not considered. In practice, behavioral changes would be expected to increase the impact, and adjusting for benefit offerings would decrease the impact. This fiscal note implicitly assumes these two factors would equally offset one another.
3. This estimate is based on tax year 1994 corporate income tax returns, and 1994 employment practices. In 1994, approximately 358 corporations increased employment by at least 50.0%. In the aggregate, these corporations paid approximately \$1.3 million in corporate income taxes.
4. Of the corporations identified in the previous assumption, 21 paid average wages above 150.0% of the State average (\$17.60). An additional 14 companies paid average wages above \$15.00 per hour, which is approximately 128.0% of the State average. Although the Bill requires an eligible corporation to pay production workers 150.0% of the average county wage, there is no effective method for assigning a county to the corporations in the sample. Due to the fact that the State average is disproportionately weighted by wage levels in a few counties, this estimate utilizes the midpoint, which equates to an average wage of approximately \$16.30 per hour.
5. Future hiring practices will mirror those in 1994.
6. This estimate does not consider any constitutional issues presented by the Bill.

FISCAL IMPACT

Senate File 2296 is expected to result in a decrease in revenues to the General Fund of approximately \$0.5 million in FY 1998 and \$1.0 million in FY 1999. The

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impact would level at approximately \$4.8 million in FY 2002 and subsequent fiscal years. A significant portion of the impact would be expected to be recovered in the form of income taxes on higher future dividends or capital gains to the shareholders of the affected corporations.

SOURCES

Department of Employment Services
Department of Revenue and Finance

(LSB 4281SV, JAM)

FILED MARCH 25, 1996

BY DENNIS PROUTY, FISCAL DIRECTOR

Vilsack
Murphy
Palmer
Drake
Hedge

SSB-2238
Ways & Means
Succeeded by
SF/HF 2296

SENATE FILE
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON PALMER)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
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