

JAN 16 2004  
WAYS & MEANS CALENDAR

HOUSE FILE 2038  
BY COMMITTEE ON  
WAYS AND MEANS

(SUCCESSOR TO HSB 500)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to the phaseout of the sales and use taxes on the  
2 sale and furnishing of gas, electricity, and fuel to  
3 residential customers.

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

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HF 2038

1 Section 1. Section 423.3, as enacted by 2003 Iowa Acts,  
2 First Extraordinary Session, chapter 2, section 96, is amended  
3 by adding the following new subsection:

4 NEW SUBSECTION. 84. a. Subject to paragraph "b", the  
5 sales price from the sale or furnishing of metered gas,  
6 electricity, and fuel, including propane and heating oil, to  
7 residential customers which is used to provide energy for  
8 residential dwellings and units of apartment and condominium  
9 complexes used for human occupancy.

10 b. The exemption in this subsection shall be phased in by  
11 means of a reduction in the tax rate as follows:

12 (1) If the date of the utility billing or meter reading  
13 cycle of the residential customer for the sale or furnishing  
14 of metered gas and electricity is on or after January 1, 2004,  
15 through December 31, 2004, or if the sale or furnishing of  
16 fuel for purposes of residential energy and the delivery of  
17 the fuel occurs on or after January 1, 2004, through December  
18 31, 2004, the rate of tax is two percent of the sales price.

19 (2) If the date of the utility billing or meter reading  
20 cycle of the residential customer for the sale or furnishing  
21 of metered gas and electricity is on or after January 1, 2005,  
22 through December 31, 2005, or if the sale or furnishing of  
23 fuel for purposes of residential energy and the delivery of  
24 the fuel occurs on or after January 1, 2005, through December  
25 31, 2005, the rate of tax is one percent of the sales price.

26 (3) If the date of the utility billing or meter reading  
27 cycle of the residential customer for the sale or furnishing  
28 of metered gas and electricity is on or after January 1, 2006,  
29 or if the sale, furnishing, or service of fuel for purposes of  
30 residential energy and the delivery of the fuel occurs on or  
31 after January 1, 2006, the rate of tax is zero percent of the  
32 sales price.

33 c. The exemption in this subsection does not apply to  
34 local option sales and services tax imposed pursuant to  
35 chapters 423B and 423E.

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EXPLANATION

This bill sets the state sales and use tax rates on gas, electricity, and fuel for residential customers as follows: 2 percent for the second half of the 2004 calendar year; 1 percent for the 2005 calendar year; and 0 percent, total state exemption, for the 2006 and subsequent calendar years.

**EIGHTIETH GENERAL ASSEMBLY**  
**2004 REGULAR SESSION**  
**DAILY**  
**HOUSE CLIP SHEET**

JANUARY 29, 2004

**HOUSE FILE 2038**

**H-8009**

1 Amend House File 2038 as follows:

2 1. By striking everything after the enacting.  
3 clause and inserting the following:

4 "Section 1. Section 423.3, as enacted by 2003 Iowa  
5 Acts, First Extraordinary Session, chapter 2, section  
6 96, is amended by adding the following new subsection:  
7 NEW SUBSECTION. 84. a. Subject to paragraph "b",  
8 the sales price from the sale or furnishing of metered  
9 gas, electricity, and fuel, including propane and  
10 heating oil, to residential customers which is used to  
11 provide energy for residential dwellings and units of  
12 apartment and condominium complexes used for human  
13 occupancy.

14 b. The exemption in this subsection shall be  
15 phased in by means of a reduction in the tax rate as  
16 follows:

17 (1) If the date of the utility billing or meter  
18 reading cycle of the residential customer for the sale  
19 or furnishing of metered gas and electricity is on or  
20 after July 1, 2004, through June 30, 2008, or if the  
21 sale or furnishing of fuel for purposes of residential  
22 energy and the delivery of the fuel occurs on or after  
23 July 1, 2004, through June 30, 2008, the rate of tax  
24 is three percent of the sales price.

25 (2) If the date of the utility billing or meter  
26 reading cycle of the residential customer for the sale  
27 or furnishing of metered gas and electricity is on or  
28 after July 1, 2008, through June 30, 2009, or if the  
29 sale or furnishing of fuel for purposes of residential  
30 energy and the delivery of the fuel occurs on or after  
31 July 1, 2008, through June 30, 2009, the rate of tax  
32 is two percent of the sales price.

33 (3) If the date of the utility billing or meter  
34 reading cycle of the residential customer for the sale  
35 or furnishing of metered gas and electricity is on or  
36 after July 1, 2009, through June 30, 2010, or if the  
37 sale or furnishing of fuel for purposes of residential  
38 energy and the delivery of the fuel occurs on or after  
39 July 1, 2009, through June 30, 2010, the rate of tax  
40 is one percent of the sales price.

41 (4) If the date of the utility billing or meter  
42 reading cycle of the residential customer for the sale  
43 or furnishing of metered gas and electricity is on or  
44 after July 1, 2010, or if the sale, furnishing, or  
45 service of fuel for purposes of residential energy and  
46 the delivery of the fuel occurs on or after July 1,  
47 2010, the rate of tax is zero percent of the sales  
48 price.

49 c. The exemption in this subsection does not apply  
50 to local option sales and services tax imposed

**H-8009**

**H-8009**

Page 2

1 pursuant to chapters 423B and 423E."

**By** JENKINS of Black Hawk  
TJEPKES of Webster

WILDERDYKE of Harrison  
DRAKE of Pottawattamie

**H-8009** FILED JANUARY 28, 2004

**Fiscal Services Division  
Legislative Services Agency  
Fiscal Note**

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Phase Out of Sales Tax on Residential Utilities (LSB 5365 HV)  
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)  
Fiscal Note Version — HF 2038

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**Description**

House File 2038 provides for a phase-out of the sales and use tax on residential energy utility bills. The language reenacts a previous phase-out provision.

**Background**

House File 1 (Utility Tax Suspension and Phase-out Act of 2001) reduced Iowa's 5.0% sales and use tax on residential energy utilities by 1.0% per year, beginning January 1, 2002. House File 692 (Tax Law Changes, Grow Iowa Values Fund, and Regulatory Change Act of 2003) froze the phase-out at 3.0% through June 30, 2008. The Governor vetoed the tax freeze language. In addition, the adoption by Iowa of model Streamlined Sales Tax legislation in HF 683 (Grow Iowa Values Fund Appropriations Act of 2003) re-wrote Iowa's sales and use tax laws. The combination of the vetoed tax rate freeze and the enactment of the revised sales and use tax legislation left residential utility tax rates out of the sales and use tax code. This returns the rate to 5.0% on the effective date of the new sales and use tax code (July 1, 2004).

The Revenue Estimating Conference increased the revenue estimate for FY 2005 by \$63.4 million in response to the tax law change. Enactment of HF 2038 would return Iowa law to the previous phase-out schedule and reduce FY 2005 General Fund revenues by the same \$63.4 million.

**Assumptions**

1. Based on a five-year average of residential expenditures on electricity, natural gas, home heating oil, and other forms of home heating fuel, Iowans expend an average of \$1.812 billion on residential energy each year.
2. Each 1.0% of tax for six months generates approximately \$9.0 million for the General Fund.
  - a. HF 2038 would lower the tax from 5.0% to 2.0% for the first six months of FY 2005 and to 1.0% for the second six months.
  - b. For FY 2006, the rate would be reduced to 1.0% for the first six months and to 0.0% for the second six months.
  - c. For FY 2007 and each year thereafter, the rate would remain at 0.0%.
  - d. Seasonal natural gas usage makes the tax generated in the first half of a fiscal year less than the amount generated in the second half.
  - e. Residential energy utility costs will increase 2.5% per year after July 1, 2004.

**Fiscal Impact**

The reinstatement of the previously enacted tax decrease would reduce General Fund revenues by \$63.4 million in FY 2005, \$82.7 million for FY 2006, and \$93.2 million for FY 2007 and subsequent fiscal years.

**Source**

Federal Energy Information Administration

Dennis C. Prouty

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January 19, 2004

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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Van Fossen, Ch.  
Kramer  
Shoultz

Succeeded By  
SF 102038  
HOUSE FILE \_\_\_\_\_

HSB 500  
WAYS AND MEANS

BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL BY  
CHAIRPERSON VAN FOSSEN)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
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