

SENATE FILE 2026
BY COMMITTEE ON
WAYS AND MEANS

(SUCCESSOR TO SSB 3006)

Passed Senate, Date _____ Passed House, 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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SF 2026 WAYS & MEANS

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.

SENATE FILE 2026

S-5130

1 Amend Senate File 2026 as follows:
2 1. Page 1, line 4, by inserting after the word
3 "'b'," the following: "a partial exemption on".
4 2. Page 1, line 10, by inserting after the word
5 "The" the following: "partial".
6 3. Page 1, line 22, by striking the words and
7 figures "through December 31, 2005,".
8 4. Page 1, lines 24 and 25, by striking the words
9 and figures "through December 31, 2005,".
10 5. Page 1, by striking lines 26 through 32.
11 6. Page 1, line 33, by inserting after the word
12 "The" the following: "partial".
13 7. Page 1, by inserting after line 35 the
14 following:
15 "Sec. ____ . Section 423.43, subsection 3, as
16 enacted by 2003 Iowa Acts, First Extraordinary
17 Session, chapter 2, section 136, is amended to read as
18 follows:
19 3. a. The revenue arising on or after January 1,
20 2005, from the sales or use tax imposed on utilities
21 of residential customers as provided in section 423.3,
22 subsection 84, shall be deposited into the alternative
23 energy incentive fund created in section 476.49.
24 b. All other revenue arising under the operation
25 of this chapter shall be credited to the general fund
26 of the state.
27 Sec. ____ . NEW SECTION. 476.49 ALTERNATIVE ENERGY
28 INCENTIVE FUND -- INCENTIVE PROGRAM DEVELOPMENT.
29 1. An alternative energy incentive fund is
30 established in the state treasury. The fund is
31 separate from the general fund of the state. Moneys
32 in the alternative energy incentive fund are not
33 subject to section 8.33 and shall not revert to any
34 other fund. Notwithstanding section 12C.7, subsection
35 2, interest or earnings on moneys deposited in the
36 fund shall be credited to the fund.
37 2. Moneys in the alternative energy incentive fund
38 shall be used to finance the providing of state
39 incentives for the development and encouragement of
40 small independent energy providers. A proposed
41 alternative energy incentive program shall be
42 developed through the cooperation of the utility
43 industry, independent producers, and a legislative-
44 appointed committee. The proposed alternative energy
45 incentive program shall be presented to the general
46 assembly no later than January 15, 2005. The general
47 assembly shall implement an incentive program by July
48 1, 2005."
49 8. Title page, line 1, by striking the word
50 "phaseout" and inserting the following: "reduction".

S-5130

-1-

S-5130

Page 2

1 9. Title page, line 3, by inserting after the
2 word "customers" the following: "and the setting
3 aside of sales and use tax revenues for an alternative
4 energy incentive program".

By DAVID MILLER

S-5130 FILED MARCH 23, 2004

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

Phase Out of Sales Tax on Residential Utilities (LSB 5365 SV)

Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)

Fiscal Note Version — SF 2026

Description

Senate File 2026 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 SF 2026 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. SF 2026 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

January 26, 2004

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.

SENATE FILE 2026
BY COMMITTEE ON
WAYS AND MEANS

(SUCCESSOR TO SSB 3006)

(AS AMENDED AND PASSED BY THE SENATE APRIL 5, 2004)

_____ - New Language by the Senate
* - Language Stricken by the Senate

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

A BILL FOR

1 An Act relating to the reduction of the sales and use taxes on
2 the sale and furnishing of gas, electricity, and fuel to
3 residential customers and the setting aside of sales and use
4 tax revenues for an alternative energy program.

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

S.F. 2026

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

10 b. The partial exemption in this subsection shall be
11 phased in by 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 or if the sale or furnishing of fuel for purposes of
23 residential energy and the delivery of the fuel occurs on or
* 24 after January 1, 2005, the rate of tax is one percent of the
25 sales price.

* 26 c. The partial exemption in this subsection does not apply
27 to local option sales and services tax imposed pursuant to
28 chapters 423B and 423E.

29 Sec. 2. Section 423.43, subsection 3, as enacted by 2003
30 Iowa Acts, First Extraordinary Session, chapter 2, section
31 136, is amended to read as follows:

32 3. a. The revenue arising on or after January 1, 2005,
33 from the sales or use tax imposed on utilities of residential
34 customers as provided in section 423.3, subsection 84, shall
35 be deposited into the alternative energy incentive fund

1 created in section 476.49.

2 b. All other revenue arising under the operation of this
3 chapter shall be credited to the general fund of the state.

4 Sec. 3. NEW SECTION. 476.49 ALTERNATIVE ENERGY INCENTIVE
5 FUND -- INCENTIVE PROGRAM DEVELOPMENT.

6 1. An alternative energy incentive fund is established in
7 the state treasury. The fund is separate from the general
8 fund of the state. Moneys in the alternative energy incentive
9 fund are not subject to section 8.33 and shall not revert to
10 any other fund. Notwithstanding section 12C.7, subsection 2,
11 interest or earnings on moneys deposited in the fund shall be
12 credited to the fund.

13 2. Moneys in the alternative energy incentive fund shall
14 be used to finance the providing of state incentives for the
15 development and encouragement of small independent energy
16 providers. A proposed alternative energy incentive program
17 shall be developed through the cooperation of the utility
18 industry, independent producers, and a legislative-appointed
19 committee. The proposed alternative energy incentive program
20 shall be presented to the general assembly no later than
21 January 15, 2005. The general assembly shall implement an
22 incentive program by July 1, 2005.

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SENATE FILE 2026

H-8442

1 Amend Senate File 2026, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 1, lines 4 and 5, by striking the words
4 "a partial exception on".

5 2. Page 1, line 10, by striking the word
6 "partial".

7 3. Page 1, line 21, by inserting after the figure
8 "2005," the following: "through December 31, 2005,".

9 4. Page 1, line 24, by inserting after the figure
10 "2005," the following: "through December 31, 2005,".

11 5. Page 1, by inserting after line 25 the
12 following:

13 "(3) If the date of the utility billing or meter
14 reading cycle of the residential customer for the sale
15 or furnishing of metered gas and electricity is on or
16 after January 1, 2006, or if the sale, furnishing, or
17 service of fuel for purposes of residential energy and
18 the delivery of the fuel occurs on or after January 1,
19 2006, the rate of tax is zero percent of the sales
20 price."

21 6. Page 1, line 26, by striking the word
22 "partial".

23 7. By striking page 1, line 29 through page 2,
24 line 22.

25 8. Title page, line 1, by striking the word
26 "reduction" and inserting the following: "phaseout".

27 9. Title page, by striking lines 3 and 4 and
28 inserting the following: "residential customers."

By By COMMITTEE ON WAYS AND MEANS
J. K. VAN FOSSEN of Scott,
Chairperson

H-8442 FILED APRIL 6, 2004

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

SF 2026 - Phase Out of Sales Tax on Residential Utilities (LSB 5365 SV.1)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - As Amended and Passed by the Senate

Description

Senate File 2026 as amended and passed by the Senate provides for a phase-out of the sales and use tax on residential energy utility bills. The language reenacts a previous phase-out provision. In addition, the Bill freezes the utility sales tax phase-out at 1.0% on January 1, 2005, and dedicates the revenue after that date to an Alternative Energy Incentive Fund created in the Bill.

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 SF 2026 would return Iowa law to the previous phase-out schedule and reduce FY 2005 General Fund revenues by the same \$63.4 million.

Fiscal Impact

The reinstatement of the previously enacted sales 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. This portion of the fiscal impact re-enacts the previous tax phase-out.

Dedicating the 1.0% sales tax on residential utility sales after January 1, 2005, will have the additional impact of reducing FY 2005 General Fund receipts by \$9.1 million in FY 2005 and \$8.9 million in FY 2006. There would be no General Fund fiscal impact after FY 2006.

Iowa law provides that any growth in sales/use tax above 2.0% in a year is dedicated to the Grow Iowa Values Fund. Therefore, some portion of impact listed in the previous two paragraphs will likely fall on the Grow Iowa Values Fund.

The 1.0% tax on residential utilities will provide funding for the Alternative Energy Incentive Fund created in the Bill. The tax is projected to raise \$9.1 million in FY 2005 and \$18.0 million per year in future fiscal years.

Source

Federal Energy Information Administration

Dennis C Prouty

April 6, 2004

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.

HOUSE AMENDMENT TO
SENATE FILE 2026

S-5322

1 Amend Senate File 2026, as amended, passed, and
2 reprinted by the Senate, as follows:
3 1. Page 1, lines 4 and 5, by striking the words
4 "a partial exception on".
5 2. Page 1, line 10, by striking the word
6 "partial".
7 3. Page 1, line 21, by inserting after the figure
8 "2005," the following: "through December 31, 2005,".
9 4. Page 1, line 24, by inserting after the figure
10 "2005," the following: "through December 31, 2005,".
11 5. Page 1, by inserting after line 25 the
12 following:
13 "(3) If the date of the utility billing or meter
14 reading cycle of the residential customer for the sale
15 or furnishing of metered gas and electricity is on or
16 after January 1, 2006, or if the sale, furnishing, or
17 service of fuel for purposes of residential energy and
18 the delivery of the fuel occurs on or after January 1,
19 2006, the rate of tax is zero percent of the sales
20 price."
21 6. Page 1, line 26, by striking the word
22 "partial".
23 7. By striking page 1, line 29 through page 2,
24 line 22.
25 8. Title page, line 1, by striking the word
26 "reduction" and inserting the following: "phaseout".
27 9. Title page, by striking lines 3 and 4 and
28 inserting the following: "residential customers."
RECEIVED FROM THE HOUSE

S-5322 FILED APRIL 13, 2004

Hosch
Siewers
Connolly

Succeeded By SSB# 3006
SF/HF 2026
SENATE FILE Ways & Means
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON MCKIBBEN)

Passed Senate, Date _____ Passed House, 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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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.

EXPLANATION

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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.

SENATE FILE 2026

AN ACT

RELATING TO THE PHASEOUT OF THE SALES AND USE TAXES ON THE SALE AND FURNISHING OF GAS, ELECTRICITY, AND FUEL TO RESIDENTIAL CUSTOMERS.

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

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

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

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

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

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

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

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

JEFFREY M. LAMBERTI
President of the Senate

CHRISTOPHER C. RANTS
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 2026, Eightieth General Assembly.

MICHAEL E. MARSHALL
Secretary of the Senate

Approved _____, 2004

THOMAS J. VILSACK
Governor