

SENATE FILE 2258

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

A BILL FOR

1 An Act relating to a targeted jobs withholding tax credit to be
2 used for funding improvements in certain urban renewal areas.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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ECONOMIC GROWTH

SF 2258

1 Section 1. NEW SECTION. 403.19A WITHHOLDING AGREEMENT --
2 TAX CREDIT.

3 1. For purposes of this section, unless the context
4 otherwise requires:

5 a. "Business" means any commercial, professional services,
6 or industrial enterprise, including medical treatment
7 facilities, manufacturing facilities, corporate headquarters,
8 and research facilities. "Business" does not include a
9 business which closes or substantially reduces its operation
10 in one area of this state and relocates substantially the same
11 operation to another area of this state.

12 b. "Employee" means the individual employed in a targeted
13 job that is subject to a withholding agreement.

14 c. "Employer" means a business creating targeted jobs in
15 an urban renewal area of a pilot project city pursuant to a
16 withholding agreement.

17 d. "Pilot project city" means the largest city in a county
18 with a population of at least ninety-five thousand but not
19 more than one hundred ten thousand residents or the largest
20 city in a county with a population of at least eighty-one
21 thousand but not more than eighty-eight thousand five hundred
22 residents. The population figures are based upon the 2000
23 certified federal census.

24 e. "Qualifying investment" means a capital investment in
25 real property including the purchase price of land and
26 existing buildings, site preparation, building construction,
27 and long-term lease costs. "Qualifying investment" also means
28 a capital investment in depreciable assets.

29 f. "Targeted job" means a job in a business which is or
30 will be located in an urban renewal area of a pilot project
31 city that pays a wage at least equal to the countywide average
32 wage. "Targeted job" does not include jobs that formerly
33 existed in the business in this state unless the business is
34 considering in good faith to relocate outside this state or
35 unless the relocation is related to an expansion which will

1 generate significant new job creation.

2 g. "Withholding agreement" means the agreement between a
3 pilot project city and an employer concerning the targeted
4 jobs withholding credit authorized in subsection 2.

5 2. a. A pilot project city may provide by ordinance for
6 the deposit into a designated account in the special fund
7 described in section 403.19, subsection 2, of the targeted
8 jobs withholding credit described in this section. The
9 targeted jobs withholding credit shall be based upon the wages
10 paid to employees pursuant to a withholding agreement.

11 b. An amount equal to three percent of the gross wages
12 paid by an employer to each employee under a withholding
13 agreement shall be credited from the payment made by the
14 employer pursuant to section 422.16. If the amount of the
15 withholding by the employer is less than three percent of the
16 gross wages paid to the employees covered by the withholding
17 agreement, the employer shall receive a credit against other
18 withholding taxes due by the employer or may carry the credit
19 forward for up to ten years or until depleted, whichever is
20 the earlier. The employer shall remit the amount of the
21 credit quarterly, in the same manner as withholding payments
22 are reported to the department of revenue, to the pilot
23 project city to be allocated to and when collected paid into a
24 designated account in the special fund for the urban renewal
25 area in which the targeted jobs are located. All amounts so
26 deposited shall be used or pledged by the pilot project city
27 for an urban renewal project related to the employer pursuant
28 to the withholding agreement.

29 c. (1) The pilot project city shall enter into a
30 withholding agreement with each employer concerning the
31 targeted jobs withholding credit. However, an agreement shall
32 not be entered into by a pilot project city with a business
33 currently located in this state unless the business either
34 creates ten new jobs or makes a qualifying investment of at
35 least five hundred thousand dollars within the urban renewal

1 area. The withholding agreement may have a term of up to ten
2 years. However, the agreement may provide for the extension
3 of the agreement for up to an additional ten years or until
4 the debt for which the designated account in the special fund
5 was established is paid off or is refinanced, or the project
6 for which the designated account is established is completed,
7 whichever is the earlier. An employer shall not be obligated
8 to enter into a withholding agreement.

9 (2) The pilot project city shall not enter into a
10 withholding agreement after June 30, 2010, except in the case
11 of an extension of a previously existing agreement as provided
12 in subparagraph (1).

13 d. (1) The employer shall certify to the department of
14 revenue that the targeted jobs withholding credit is in
15 accordance with the withholding agreement and shall provide
16 other information the department may require. Notice of any
17 withholding agreement shall be provided promptly to the
18 department of revenue following its execution by the pilot
19 project city and the employer.

20 (2) Following termination of the withholding agreement,
21 the employer credits shall cease and any money received by the
22 pilot project city after termination shall be remitted to the
23 treasurer of state to be deposited into the general fund of
24 the state. Notice shall be provided promptly to the
25 department of revenue following termination.

26 e. A pilot project city shall certify to the department of
27 revenue the amount of the targeted jobs withholding credit an
28 employer has remitted to the city and shall provide other
29 information the department may require.

30 f. An employee whose wages are subject to a withholding
31 agreement shall receive full credit for the amount withheld as
32 provided in section 422.16.

33 g. An employer may participate in a new jobs credit from
34 withholding under section 260E.5 or a supplemental new jobs
35 credit from withholding under section 15E.197 or section

1 15.331, Code 2005, at the same time as the employer is
2 participating in the withholding credit under this section.
3 Notwithstanding any other provision in this section, the new
4 jobs credit from withholding under section 260E.5 and the
5 supplemental new jobs credit from withholding under section
6 15E.197 or section 15.331, Code 2005, shall be collected and
7 disbursed prior to the withholding credit under this section.

8 h. At the time of submitting its budget to the department
9 of management, the pilot project city shall submit to the
10 department of management and the department of economic
11 development a description of the activities involving the use
12 of withholding agreements. The description shall include, but
13 is not limited to, the following:

14 (1) The total number of targeted jobs and a breakdown as
15 to those that are Iowa business expansions or retentions and
16 those that are jobs resulting from out-of-state businesses
17 moving to or expanding in Iowa.

18 (2) The number of withholding agreements and the amount of
19 withholding credits involved.

20 (3) The types of businesses that entered into the
21 agreements, and the types of businesses that declined the
22 city's proposal to enter into the agreement.

23 EXPLANATION

24 This bill allows two pilot project cities to assist in
25 funding projects in their urban renewal areas by means of a
26 targeted jobs credit from withholding. This credit is
27 available to businesses that are or will locate in an urban
28 renewal area. Businesses already located in the area must
29 either create 10 new jobs or make at least \$500,000 in capital
30 investment within the area. The credit is 3 percent of the
31 amount of gross wages paid to the employees of the targeted
32 jobs by the business. The credit is paid to the pilot project
33 city to be used to pay for debts incurred or assistance
34 provided by the city for urban renewal projects related to the
35 business in the urban renewal area. Presently, property tax

1 imposed on the increase in value as a result of the business's
2 arrival is used to provide such financing. The withholding
3 credit is available to each targeted job of the business in
4 the area provided the job's wage is equal to at least the
5 average county wage. A withholding agreement shall not be
6 entered into after June 30, 2010, unless it is an extension of
7 a previous agreement.

8 The two pilot project cities are the largest city located
9 in a county with a population of 95,000 to 110,000 and the
10 largest city located in a county with a population of 81,000
11 to 88,500.

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 2258 – Pilot Project New Tax Incentive (LSB 5535 XS)
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Fiscal Note Version - New

Description

Senate File 2258 allows two cities to qualify as pilot projects for a new tax incentive equal to 3.0% of the wages paid employees in created or retained jobs.

Significant features of the proposal include:

- To qualify for the incentive, businesses must create at least 10 jobs or make a qualifying capital investment of at least \$500,000.
- A currently existing job may be considered a created job if it is determined the business is considering in good faith a relocation to another state. A currently existing job may also be considered a created job if it is part of a significant business expansion.
- Qualifying capital investments include real property, long-term lease payments, and equipment purchases.
- The level of pay for the created jobs must equal at least the “countywide average wage.”
- The business must be located in an Urban Renewal Area (Tax Increment Financing District).
- The initial agreement is limited to a maximum of 10 years, but the agreement may provide for an extension up to an additional 10 years.
- New agreements cannot be created after June 30, 2010.
- The tax incentive is equal to 3.0% of the gross wages paid to an employee holding a created job. The tax incentive is not related to the amount of State income tax actually withheld from the employees.
- Instead of forwarding all of the income tax withheld from its employees, an employer retains an amount equal to 3.0% of gross wages paid to employees in created jobs.
- If the amount of tax withheld from the employees is less than the 3.0% incentive, the employer may retain withholding from employees not included in the new jobs agreement.
- The business forwards the 3.0% incentive to the pilot project city for deposit into the city’s Special Fund created pursuant to Section 403.19(2), Code of Iowa.
- The revenue received by the city shall be used for a project related to the business.
- The two cities that are eligible under the qualification set forth in the Bill are Sioux City and Council Bluffs.

Assumptions

1. The tax incentive agreements will cover 300 jobs in FY 2007 and the number will grow to 1,293 by FY 2010, the last year allowed for new agreements.
2. The average gross wage for jobs subject to the agreements will be \$33,400 in FY 2007 and increase at an annual rate of 3.0%.

3. There will be sufficient tax revenue available at each business to meet the 3.0% tax incentive.

Fiscal Impact

The amounts listed in the "SF 2258 Tax Incentive" column of the following table represent the estimated direct impact on State General Fund revenue.

	<u>Jobs</u>	<u>Average Gross Wage</u>	<u>SF 2258 Tax Incentive</u>
FY 2007	300	\$33,400	\$301,000
FY 2008	615	34,402	635,000
FY 2009	946	35,434	1,005,000
FY 2010	1,293	36,497	1,416,000
FY 2011	1,293	37,592	1,458,000
FY 2012	1,293	38,720	1,502,000

The numbers in the table do not include an adjustment for "indirect" impacts on State or local revenue. Both positive and negative indirect impacts are possible. Positive indirect impacts may include employees expending salary dollars within the State and growth in other businesses created and expanded to meet the needs of the new business. Negative indirect impacts may include the effect of the new business on other Iowa businesses when competing for labor, capital, and sales, as well as the additional demand for schools, roads, police and fire protection, and other government services that necessarily result from higher levels of employment and population.

Source

Department of Economic Development

/s/ Holly M. Lyons

March 7, 2006

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.
