FILED APR 20 2005

SENATE FILE 410
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 1095)

Passed Senate, Date ____________ Passed House, Date ____________
Vote: Ayes _______ Nays _______ Vote: Ayes _______ Nays _______
Approved ______________________________

A BILL FOR

An Act relating to the transferability of eligible housing business tax credits for new housing investment under the enterprise zone program.

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

TLSB 1871SV 81
tm/gg/14

SF 410

S.F. 410 H.F. ________

Section 1. Section 15E.193B, subsection 8, unnumbered paragraph 1, Code 2005, is amended to read as follows:

The amount of the tax credits determined pursuant to subsection 6, paragraph "a", for each project shall be approved by the department of economic development. The department shall utilize the financial information required to be provided under subsection 5, paragraph "e", to determine the tax credits allowed for each project. In determining the amount of tax credits to be allowed for a project, the department shall not include the portion of the project cost financed through federal, state, and local government tax credits, grants, and forgivable loans. Upon approving the amount of the tax credit, the department of economic development shall issue a tax credit certificate to the eligible housing business. An eligible housing business or transferee shall not claim the tax credit unless a tax credit certificate issued by the department of economic development is attached to the taxpayer's return for the tax year for which the tax credit is claimed. The tax credit certificate shall contain the taxpayer's name, address, tax identification number, the amount of the tax credit, and other information required by the department of revenue. The tax credit certificate shall be transferable if the housing development is located in a brownfield site as defined in section 15.291, if the housing development is located in a blighted area as defined in section 403.17, or if low-income housing tax credits authorized under section 42 of the Internal Revenue Code are used to assist in the financing of the housing development. Not more than three million dollars worth of tax credits for housing developments that are located in a brownfield site as defined in section 15.291 or housing developments located in a blighted area as defined in section 403.17 shall be transferred in one calendar year. The three million dollar annual limit does not apply to tax credits awarded to an eligible housing business having low-income housing tax credits authorized under section 42 of the Internal Revenue Code to assist in the financing of the housing development. The department may approve an application for tax credit certificates for transfer from an eligible housing business located in a brownfield site as defined in section 15.291 or in a blighted area as defined in section 403.17 that would result in the issuance of more than three million dollars of tax credit certificates for transfer provided the department, through negotiation with the eligible business, allocates those tax credit certificates for transfer over more than one calendar year. The department shall not issue more than one million five hundred thousand dollars in tax credit certificates for transfer to any one eligible housing business located in a brownfield site as defined in section 15.291 or in a blighted area as defined in section 403.17 in a calendar year. If three million dollars in tax credit certificates for transfer have not been issued at the end of a calendar year, the remaining tax credit certificates for transfer may be issued in advance to an eligible housing business scheduled to receive a tax credit certificate for transfer in a later calendar year. Any time the department issues a tax credit certificate for transfer which has not been allocated at the end of a calendar year, the department may prorate the remaining certificates to more than one eligible applicant. If the entire three million dollars of tax credit certificates for transfer is not issued in a given calendar year, the remaining amount may be carried over to a succeeding calendar year. Tax credit certificates issued under this chapter may be transferred to any person or entity. Within ninety days of transfer, the transferee must submit the transferred tax credit certificate to the department of economic development along with a statement containing the transferee's name, tax identification number, and address, and the denomination that each replacement tax credit certificate is to carry and any other information required by the department of revenue. Within thirty days of receiving the transferred tax credit certificate and the transferee's statement, the department of economic development shall issue one or more replacement tax credit certificates to the transferee. Each replacement certificate must contain the information required to receive the original certificate and must have the same expiration date that appeared in the transferred tax credit certificate. Tax credit certificate amounts of less than the minimum amount established by rule of the department of economic development shall not be transferable. A tax credit shall not be claimed by a transferee under subsection 6, paragraph "a", until a replacement tax credit certificate identifying the transferee as the proper holder has been issued.

Sec. 2. APPLICABILITY. This Act shall apply to transfers of tax credit certificates for projects that begin on or after July 1, 2005.

EXPLANATION

This bill relates to the transferability of eligible housing business tax credits for new housing investment under the enterprise zone program.

An eligible housing business under the enterprise zone program may receive a tax credit of up to 10 percent of the new investment which is directly related to the building or rehabilitating of a minimum of four single-family homes located in that part of a city or county in which there is a designated enterprise zone or one multiple-dwelling unit building containing three or more individual dwelling units located in that part of a city or county in which there is a designated enterprise zone. Currently, the tax credits are transferable if low-income housing tax credits authorized under section 42 of the Internal Revenue Code are used to assist in the financing of the housing development. The bill provides that not more than $3 million worth of tax credits are transferable if the housing development is located in a brownfield site or if the housing development is located in a blighted area. The bill allows the department to approve the issuance of more than $3 million of tax credit certificates for transfer provided that the department allocates those tax credit certificates for transfer over more than one calendar year. The bill prohibits the issuance of more than $1.5 million in tax credit certificates for transfer to any one eligible housing business located in a brownfield site or in a blighted area in a calendar year. The bill provides that, if at the end of a calendar year less than $3 million in tax credit certificates for transfer are issued, the remaining tax credit certificates may be issued in advance to an eligible housing business scheduled to receive a tax credit certificate for transfer in a later calendar year and the department may prorate the remaining certificates to more than one eligible applicant. The bill allows tax credit certificates for transfer that are not issued during a calendar year to be carried over to a succeeding calendar year.

The bill applies to transfers of tax credits for projects that begin on or after July 1, 2005.

Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 410 - Housing Development Tax Credit Act (LSB 1871 SV)
Analyst: Russell Trimble (Phone: (515) 281-4613) (russ.trimble@legis.state.ia.us)
Fiscal Note Version - New

Description

Senate File 410 allows for the transfer of up to $3.0 million in housing business investment tax credits per year for projects started on or after July 1, 2005, in blighted or brownfield areas within an enterprise zone. The Bill requires that no more than $1.5 million is awarded to a single project in one calendar year. The Bill specifies, however, that any moneys that have not been allocated by the end of the calendar year may be prorated to more than one eligible applicant. Senate File 410 allows un-issued tax credits to be carried forward and used in subsequent fiscal years.

Background

1. Under current law, eligible housing business projects in an enterprise zone are eligible to receive tax credits and rebates under the Enterprise Zone Program. A provision in Senate File 410 allows the tax credits to be saleable for projects in a blighted or brownfield area within the enterprise zone. This provision will directly result in projects that otherwise would not have occurred. Up to $3.0 million in investment tax credits involving these projects may be transferred or sold in one fiscal year. However, no more than $1.5 million may be awarded to a single project in one calendar year unless by the end of the calendar year the full $3.0 million has not been fully allocated. Moneys that remain un-allocated at the end of the calendar year may be prorated to more than one eligible applicant.
2. In FY 2004, the Department of Economic Development approved 883 housing units generating an estimated $7.3 million in tax credits and $2.2 million in State sales and use tax rebates.
3. Each project that is eligible may receive a 10.0% investment tax credit per unit. The maximum credit per unit is 10.0% of an investment up to $140,000 per unit, or $14,000 per unit.
4. Tax credits cannot be utilized until a unit or units are completed and receive a certificate of occupancy.

Assumptions

1. Under the proposed legislation, the Department is aware of one project that will result in between 725 and 750 new housing units over a five-year period (145 - 150 units per year). In addition to this project, the Department estimates 50 additional housing units will result each year.
2. No other projects the size of the project mentioned above will occur as a result of the proposed legislation.
3. Like the project the Department is aware will occur, most of the projects that will occur as a result of SF 410 will be market-rate projects with unit costs equal to, or greater than $140,000 per unit.
4. The known project involving between 725 and 750 new housing units will result in $2.0 - $2.1 million in tax credits per year (145 to 150 units per year x $14,000). There will not be sufficient demand from other projects to utilize the full $3.0 million in tax credits during the calendar year. Therefore, this project will initially receive $1.5 million, and will receive the remaining $500,000 - $600,000 at the end of the year from un-allocated funds that remain. Investment tax credits of $700,000 will be awarded for the additional 50 units the

Department estimates will be completed each year. Investment tax credits resulting from the proposed legislation will total between $2.7 and $2.8 million per year.

5. Based on the FY 2004 data mentioned above, sales and use tax rebates are approximately 30.0% of the total investment tax credits awarded. The total sales and use tax rebate for the known project will be approximately $600,000 - $630,000 per year. The sales and use tax rebate for the additional 50 units will be approximately $210,000 per year. The total sales and use tax rebate resulting from the proposed legislation will be approximately $810,000 - $840,000 per year.
6. Projects resulting from SF 410 will begin on or after July 1, 2005. The project involving the 725 to 750 new housing units will be completed in five equal phases. Phase one will not be done until on or after July 1, 2006. It is assumed the other 50 housing units that may result would not be completed until after July 1, 2006.
7. The sales and use tax rebate will be utilized a year prior to the investment tax credits. Each investment tax credit award will have a 100.0% utilization rate and will be fully utilized in one fiscal year.

Fiscal Impact

Senate File 410 will reduce State General Fund revenues by approximately $810,000 to $840,000 in FY 2006. State General Fund revenues will be reduced by $3.5 to $3.6 million annually from FY 2007 – FY 2010. In FY 2011, State General Fund revenues will be reduced by an estimated $2.9 to $3.0 million and by $900,000 annually beginning in FY 2012 due to the completion of the project involving 725 to 750 new housing units.

Sources

Department of Economic Development
Legislative Services Agency

Dennis C Prouty

April 21, 2005

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.

Dotzler Co-chair
Zieman Co-chair
McCoy
McKinley

SSB# 1095
Ways & Means

Succeeded By
SF / HF 410

SENATE FILE ______
BY (PROPOSED COMMITTEE ON WAYS AND MEANS BILL BY CO-CHAIRPERSON BOLKCOM)

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EXPLANATION

This bill relates to the transferability of eligible housing business tax credits for new housing investment under the enterprise zone program.

An eligible housing business under the enterprise zone program may receive a tax credit of up to 10 percent of the new investment which is directly related to the building or rehabilitating of a minimum of four single-family homes located in that part of a city or county in which there is a designated enterprise zone or one multiple-dwelling unit building containing three or more individual dwelling units located in that part of a city or county in which there is a designated enterprise zone. Currently, the tax credits are transferable if low-income housing tax credits authorized under section 42 of the Internal Revenue Code are used to assist in the financing of the housing development. The bill provides that the tax credits are also transferable if the housing development is located in a brownfield site or if the housing development is located in a blighted area.