

Tax Credit Updates

Tax Expenditure Committee – January 8, 2019

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Outline

- Inventory of Department Tax Credit Factsheets
- Provide data on a handful of tax credits not included in Iowa Code 2.48
- Review possible 2019 policy issues regarding tax credits
- Update on development and successes of Tax Credit Award, Claim & Transfer Administration System (CACTAS)

Factsheets Inventory

- Department planning to release factsheets later this week
 - Adoption Tax Credit
 - Biodiesel Blended Fuel Tax Credit
 - E15 Plus Gasoline Promotion Tax Credit
 - E85 Gasoline Promotion Tax Credit
 - Farm to Food Donation Tax Credit
 - Redevelopment Tax Credit
 - School Tuition Organization Tax Credit
 - Solar Energy System Tax Credit
 - Tuition and Textbook Tax Credit
 - Volunteer Firefighter, EMS, and Reserve Peace Officer Tax Credit
- Additional Tax Credit Factsheets will be released as completed

Income Tax Credits Not Currently Included Under 2.48

➤ Automatic Credits

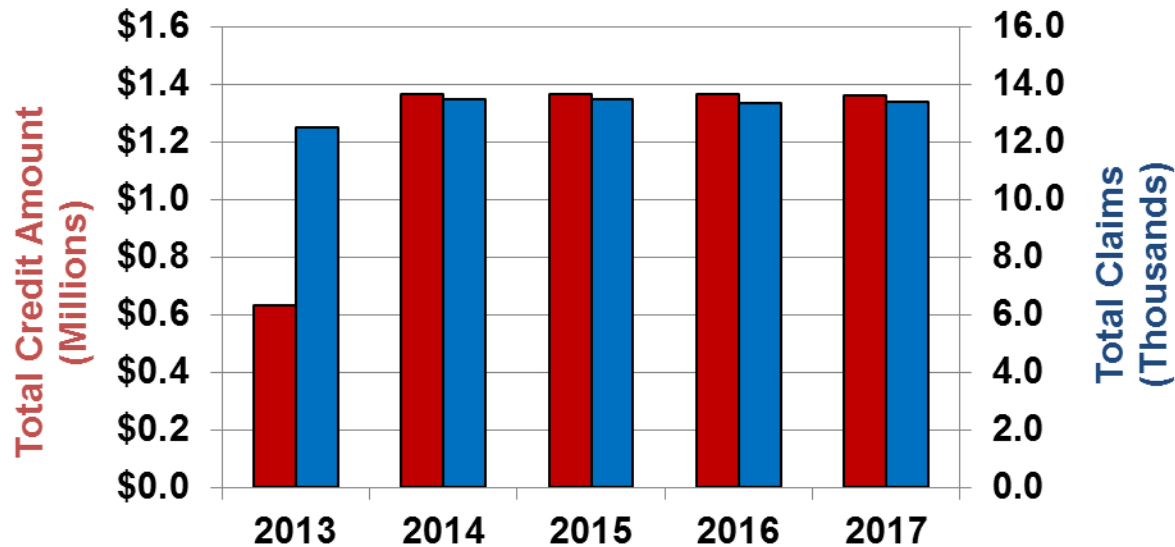
- Adoption Tax Credit
- E15 Plus Gasoline Promotion Tax Credit (covered with other biofuels)
- Geothermal Heat Pump/Geothermal Tax Credit (eliminated for 2019)
- Volunteer Firefighter and Emergency Medical Services Personnel and Reserve Peace Officer Tax Credit

➤ Awarded Credits

- Farm to Food Donation Tax Credit
- Solar Energy System Tax Credit (annual report requirement completed by IDR)
- Workforce Housing Tax Incentive Program
- Accelerated Career Education Program (260G) (annual report requirement completed by IEDA)
- Iowa New Jobs Training Program (260E) (annual report requirement completed by IEDA)

Volunteer Firefighter, EMS, and Reserve Peace Officer Tax Credit

- \$50 nonrefundable tax credit available in 2013, increased to \$100 for tax year 2014
- Over 13,000 claimants on the IA 1040
- Estimated that about 78% of eligible volunteers making claims



Solar Energy System Tax Credit

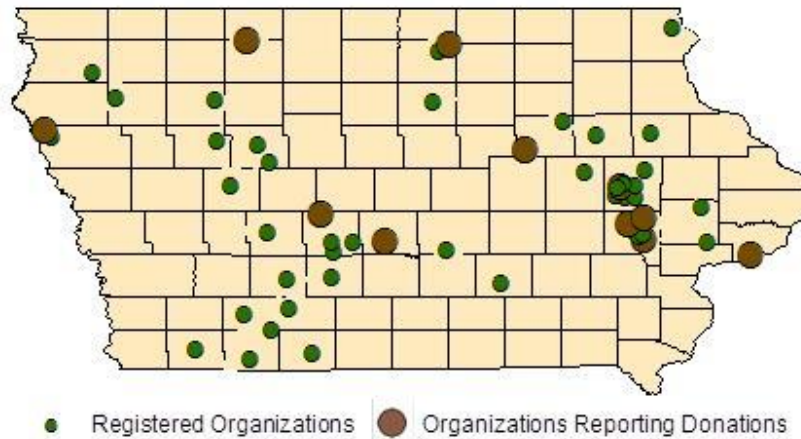
- Nonrefundable tax credit equal to 50% of federal credit
 - Capped at \$5,000 for residential, \$20,000 for business, \$5 million total
- Available since 2012, \$26.6 million awarded by IDR for over 4,200 installations
- Every county has at least one installation with an award
- Over 300 each in Linn, Washington, and Winneshiek counties
- 89% (\$4.5 million) of 2018 cap (\$5 million) was awarded to 2017 installations
- \$3.3 million in tax credits requested to-date for 2018 installations waitlisted for 2019 awards
- Annual reports available:
<https://tax.iowa.gov/report/Reports?combine=Solar%20Energy>

Adoption Tax Credit

- Refundable tax credit for up to \$5,000 (\$2,500 during 2014–16) of qualified adoption expenses
- Over 350 claims totaling \$0.95 million in tax year 2017
- Policy issue
 - Language in the Code: “The taxes imposed ... shall be reduced by an adoption tax credit equal to the amount of qualified adoption expenses paid or incurred by the taxpayer *during the tax year* in connection with the adoption of a child by the taxpayer”
 - Under the current language, any taxpayer who incurred costs in years prior to when the adoption was finalized must file an amended return to claim a credit for those expenses (3% of claims)
 - IA 177 provides this information to taxpayers

Farm to Food Donation Tax Credit

- 15% nonrefundable tax credit on value of produced food donated to registered food banks
- 39 taxpayers have received awards in 2014–2017
- Awards average \$11,000 per year
- IDR administration staff time totals over \$7,000 per year
- In 2017, 10 of 65 registered food banks reported donations eligible for the tax credit



- In 2017, only 12 of 75 eligible donors applied for a tax credit award

Workforce Housing Tax Incentive Program

- Available since FY 2015 to incentivize Iowa housing projects
 - Nearly \$100 million allocated by IEDA to 224 projects
 - 76 projects issued over \$37 million in awards of nonrefundable tax credits and sales and use refunds through early December
 - 85% of tax credits have been transferred (90 cents on the dollar)

- Highly oversubscribed under \$20 million annual cap (over 120 projects for \$53 million on waitlist today)

- Only remaining program targeting building investment with a first-come, first-served tax credit allocation process

- Multiple Code requirements regarding the cap on awards
 - Allocations limited to \$20 million under IEDA \$170 million cap with \$5 million reserved for projects in small cities
 - Awards issued each fiscal year limited to \$20 million with \$5 million reserved for projects in small cities
 - Create tracking complexities

E15 Plus Gasoline Promotion Tax Credit

- Refundable income tax credit of 3 cents per gallon of E15 sold, 10 cents per gallon sold during June 1–Sept 15 to encourage sales when EPA rules on sales are tighter
- Growing sales of E15 in Iowa
 - Gallons sold increased 400% in CY 2017 over CY 2016
 - Expect claims to increase from \$0.4 million in TY 2016 to \$2.3 million in TY 2018, and to \$4.8 million in TY 2020
- Policy issues in 2019
 - President Trump has indicated that the EPA will waive summer sales regulations for E15 like it did years ago for E10
 - This action would negate the need for the 7 cent higher tax credit rate, reducing claims an estimated \$0.6 million in TY 2020 if Code is changed
 - Other biofuel incentives through lower fuel excise tax realized at time of sale; income tax credits for B5+, E15+, and E85 realized up to a year later

Tax Credits Associated with Charitable Contributions

➤ Federal tax law changes

- Tax Cuts and Jobs Act nearly doubled standard deduction
- Capped State and Local Tax (SALT) deductions at \$10,000, but no cap on deduction for charitable contributions
- Some states proposed new charitable state tax credits
- IRS issued regulations allowing a deduction only on the amount of the charitable contribution above the state tax credit if the credit rate is more than 15%, for donations on or after August 27, 2018
- Iowa has three credits impacted: School Tuition Organization (65%), Charitable Conservation Contribution (50%), and Endow Iowa (25%)

➤ Policy issue in 2019

- Although expected only 9% of Iowa taxpayers will continue to itemize at federal level, expected that over 50% of these tax credit claimants will remain federal itemizers
- Example: Federal tax liability associated with a donation of \$1,000 will increase an estimated \$175 (STO) or \$135 (CCC) or \$67 (Endow)

Tax Credit Award, Claim & Transfer Administration System (CACTAS)

- 11 of 14 income tax credit applications developed in CACTAS
 - Changed taxpayer application process from paper to online for 6 income tax credits working with DCA, IUB, IEDA, and STOs
 - Integrated tax credit award details with tax credit claims verification

- Working with OCIO, nearing completion of system
 - Transfer process moving online in early 2019
 - Working with Iowa Finance Authority to replace Agricultural Assets Transfer Tax Credit paper application with online management
 - Working with IEDA to integrate existing online award applications for Endow Iowa and Workforce Housing

- Improved data for analysis
 - Use real-time, consistent award data to update tax credit forecasts
 - Expanded award data allows more detailed evaluations and fiscal estimates
 - Data used to meet GASB 77 requirements in annual State and local reports

Questions?