

Legislative Services Agency Fiscal Services Division

State General Fund Tax Credits

Presentation to the Tax Credit Review Committee

October 30, 2019

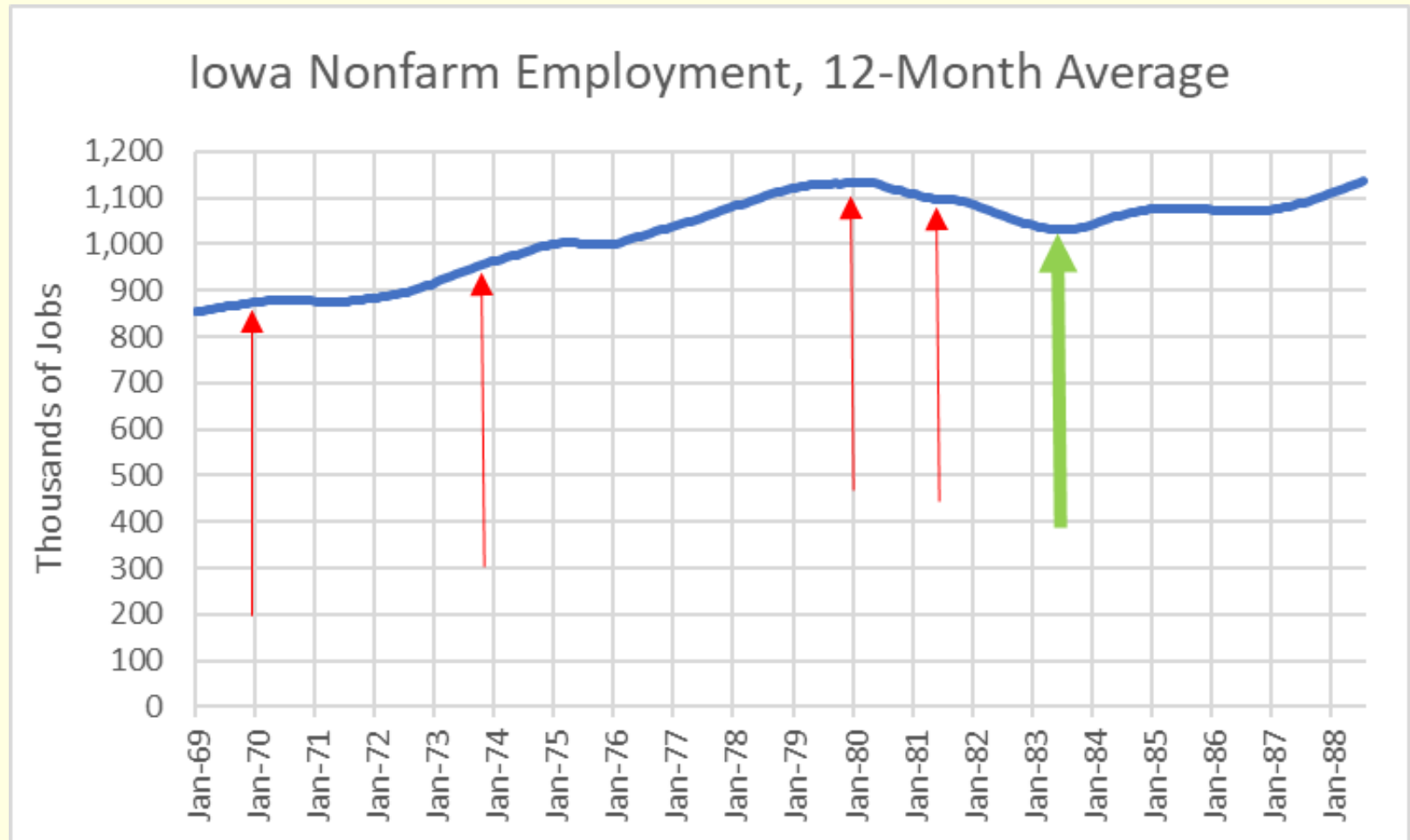
Jeff Robinson, Senior Legislative Analyst

History — 1983 Iowa Code

- No “Economic Development” heading in the Iowa Code index and the Iowa Code provided no business or economic development credits impacting the State General Fund.
- The number of sales tax exemptions was 20.
- The only tax credits available:
 - Child and Dependent Care Credit
 - Personal Credits (taxpayer, dependent, 65+, blind)
 - Adoption expense deduction

Iowa Economy in 1983 — Nonfarm Employment

U.S. recessions (red arrows) begin in Dec. 1969, Nov. 1973, Jan. 1980, Jul. 1981. Green arrow indicates the end of the 1983 Legislative Session.



History — 1983 Legislation

- House File 623 (1983 Iowa Acts, chapter [171](#), Iowa Industrial New Jobs Training Act) — Created a job training program subsidized through the State General Fund (individual income tax withholding). That program and the withholding financing is now referred to as “260E” after the Iowa Code chapter in which it now resides.
- Senate File 548 (1983 Iowa Acts, chapter [207](#), Job Creation Programs Act) — Among several new job creation programs (some item vetoed), this Act created an Iowa Venture Capital Fund and an Iowa Venture Capital Fund Investment Credit. The credit was equal to 5.0% of the qualified investment. The credit was repealed in 1989.
- Senate File 386 (1983 Iowa Acts, chapter [179](#), Internal Revenue Code Update Act) — Created a State Research Activities Credit based on an existing federal credit.

History — Other Significant Legislation from the 1980s

- House File 225 (1985 Iowa Acts, chapter [33](#), Iowa Lottery Act) — Created the Iowa Lottery (to sunset in five years), created the Iowa Plan Fund to hold lottery profits, and dedicated the Fund to economic development. The Act also created the framework for the creation of the Department of Economic Development in 1986.
- Senate File 2175 (1986 Iowa Acts, chapter [1245](#), State Government Reorganization Act) — Created the Department of Economic Development (became the Economic Development Authority in 2011).
- Senate File 511 (1987 Iowa Acts, chapter [233](#), Various Agencies Appropriations Act) — Created the Tuition and Textbook Tax Credit.
- Senate File 537 (1989 Iowa Acts, chapter [268](#), Income Tax Act) — Created the State Earned Income Tax Credit (5.0% of federal credit).
- Senate File 154 (1989 Iowa Acts, chapter [251](#), State and Local Tax Act) — Created the New Jobs Tax Credit (an enhancement to 260E).

History — 1994 Legislation

- House File 2180 (1994 Iowa Acts, chapter [1008](#), Quality Jobs Enterprise Zones and New Jobs and Income Act). This Act:
 - Created Quality Jobs Enterprise Zones. Incentives under this program included:
 - Iowa Code chapter 260E job training financed through income tax withholding and a new supplemental 260E job training withholding benefit.
 - An investment income tax credit of 10.0% of the qualified investment.
 - A property tax exemption on qualified new property value for 20 years.
 - A sales tax exemption (or refund) for qualified purchases.
 - A Research Activities Credit of up to 13.0% of qualified research expenditures.
 - An exemption from certain land ownership restrictions.
 - Created the New Jobs and Income Program (NJIP). Incentives under NJIP included:
 - Iowa Code chapter 260E job training financed through income tax withholding and a new supplemental 260E job training withholding benefit.
 - A property tax exemption on qualified new property value for up to 20 years.
 - An investment income tax credit of up to 10.0% of the qualified investment.
 - A property tax exemption on machinery, equipment, and computers for up to 20 years.
 - A Research Activities Credit of up to 6.5% of qualified research expenditures.
 - The NJIP was replaced with the High Quality Jobs Program in 2005. All Quality Jobs Enterprise Zones provisions were repealed in 2014.

History — 1997 Legislation

- House File 724 (1997 Iowa Acts, chapter [144](#), Enterprise Zones Act)
 - Allowed local cities and counties to designate certain distressed areas as enterprise zones and development within the designated areas would be eligible for enhanced benefits. Incentives under the Enterprise Zone program included:
 - Iowa Code chapter 260E job training financed through income tax withholding of up to 3.0% of gross payroll.
 - A property tax exemption on qualified new property value for up to 10 years.
 - An investment income tax credit of up to 10.0% of the qualified investment.
 - A Research Activities Credit based on qualified research expenditures.
 - A sales tax refund for contractors and subcontractors during construction.
 - A sales tax refund for warehouse and distribution center racks, shelving, and conveyor purchases.
 - Housing assistance component added in 1998.
 - Development business component added in 2001.
- The Enterprise Zone Program was repealed in 2014. It was replaced with the High Quality Jobs Program and workforce housing tax incentives.

History — 2003 New Capital Investment Program

- House File 677 (2003 Iowa Acts, chapter [125](#), New Capital Investment Act)
 - Required a capital investment of at least \$1.0 million and the creation of high quality jobs. The term high quality jobs was defined as:
 - A wage equal to at least the average county wage.
 - Full-time or career-type positions.
 - Comprehensive health benefits provided.
 - The New Capital Investment Program required the community to approve and submit the application on behalf of the business.
 - Incentives under the New Capital Investment Program included:
 - Sales tax refund.
 - Research Activities Credit.
 - An investment tax credit of up to 5.0%, with the tax credit percentage dependent upon the number of high quality jobs created.
 - The New Capital Investment Program was repealed in 2005 and replaced with the High Quality Jobs Program.

History — 2005 High Quality Jobs Program

- House File 868 (2005 Iowa Acts, chapter [150](#), Grow Iowa Values Fund and High Quality Jobs Creation Act)
 - Replaced the New Jobs and Income Program and New Capital Investment Program with the High Quality Jobs Program. The actual incentive levels for each qualified business are determined by the level of capital expenditure and the number of qualifying jobs created. The incentives available under the new program include:
 - Sales tax refund.
 - An investment tax credit equal to up to 10.0% of the qualified investment. The investment tax credit is awarded over a five-year period.
 - Research Tax Credit of up to 13.0% of qualified research expenditures.
 - A property tax exemption for up to 20 years.

History — Other Significant Legislation of the 2000s

- House File 2560 (2000 Iowa Acts, chapter [1194](#), Tax Credits Deductions and Exemptions Act) — Created an income tax credit equal to 25.0% of the qualified expenditures needed to restore, rehabilitate, or repurpose qualified historic buildings and barns.
- House File 716 (2001 Iowa Acts, chapter [123](#), Ethanol Blended Gasoline Act)
 - Modified the existing motor fuel tax rate for ethanol blended gasoline and unblended gasoline. The modification made the tax rate differential between the two fuels variable.
 - Created a refundable Ethanol Blended Gasoline Tax Credit available to retailers equal to 2.5 cents per gallon of ethanol blended gasoline sold above a base threshold of 60.0% of total gasoline sales.
 - The Ethanol Blended Gasoline Tax Credit was later replaced by other tax credits designed to encourage motor fuel ethanol and biodiesel sales.
- Senate File 2298 (2004 Iowa Acts, chapter [1175](#), Administration and Regulation Appropriation Act) — Created a Wind Energy Production Tax Credit. This concept of tax credits for the production of energy from wind was expanded in 2005 Iowa Acts chapter [160](#), to include other forms of renewable energy.

History — Economic Development Tax Credit Limitation

- Senate File 483 (2009 Iowa Acts, chapter [135](#), Tax Credit Limitation Act) — This Act established an aggregate annual tax credit award limitation for a number of tax credit programs administered by the Economic Development Authority. The limitation is found in Iowa Code section [15.119](#).
- The annual limit is currently \$170.0 million and the limit applies to tax credits awarded under the following programs:
 - High Quality Jobs Program
 - Enterprise Zone Program
 - Assistive Device Tax Credit
 - Qualifying Businesses Tax Credit
 - Innovation Fund Tax Credit
 - Redevelopment Tax Credit
 - Workforce Housing Tax Incentive Program
 - Renewable Chemical Tax Credit

History — Tax Credit Reductions and Oversight

- Senate File 2380 (2010 Iowa Acts, chapter [1138](#), Tax Credit Reduction and Oversight Act) — This Act:
 - Reduced the annual limit on many individual tax credits by 10.0%.
 - Reduced the annual aggregate Economic Development Authority tax credit award limitation from \$185.0 million to \$120.0 million (subsequently increased to \$170.0 million in 2013).
 - Created the Legislative Tax Expenditure Committee, a committee of the Legislative Council. The Legislative Tax Expenditure Committee meets annually.

History — Repealed Tax Credits and Programs

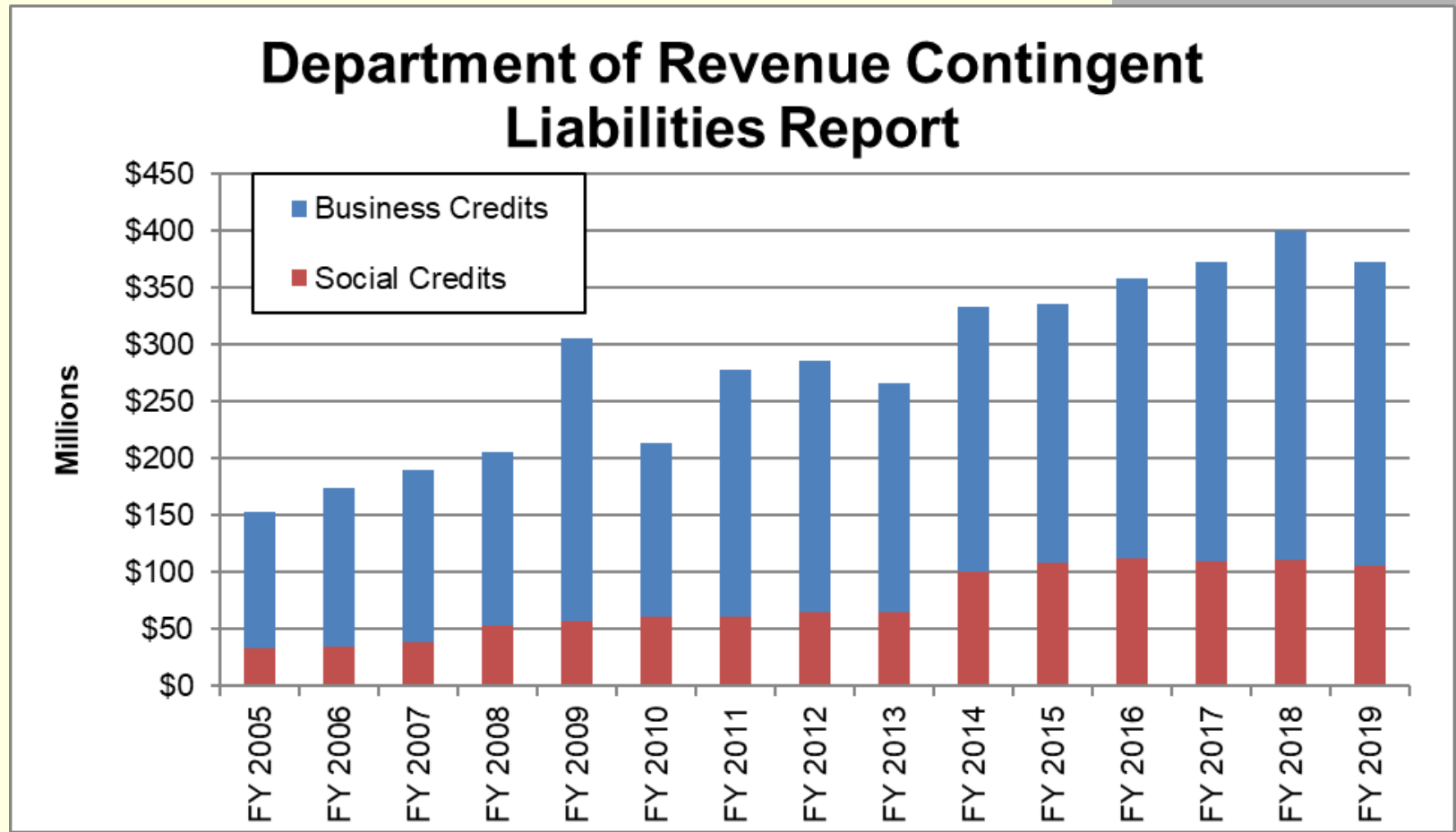
- Livestock Production Tax Credit (Cow-Calf)
- Film, Television, and Video Project Promotion Program
- Wage-Benefit Tax Credit
- Soy-Based Cutting Tool Oil Tax Credit
- Soy-Based Transformer Fluid Tax Credit
- Taxpayer Trust Fund Tax Credit
- Disaster Recovery Housing Project Tax Credit
- Quality Jobs Enterprise Zones
- Economic Development Region Revolving Tax Credit
- Venture Capital Tax Credit, Venture Capital Funds
- Iowa Venture Capital Fund Tax Credit (Replaced)
- Enterprise Zone Program (replaced)
- Ethanol Blended Gasoline Tax Credit (replaced)
- New Capital Investment Program (replaced)
- New Jobs and Income Program (replaced)
- Geothermal Heat Pump Tax Credit (reinstated in 2019)

Tax Credits — Contingent Liabilities and Other Tax Preference Items

- Contingent Liabilities – Totaled \$373.1 million for FY 2019 and \$4.244 billion for the period from FY 2005 through FY 2019.
 - Broad-Based Business Tax Credits = \$231.2 million (FY19) and \$2.838 billion (FY05-FY19)
 - Biofuel Tax Credits = \$21.9 million (FY19) and \$0.207 billion (FY05-FY19)
 - Renewable Energy Tax Credits = \$13.8 million (FY19) and \$0.082 billion (FY05-FY19)
 - Social Tax Credits = \$106.1 million (FY19) and \$1.118 billion (FY05-FY19)
- Tax Credits and credit-like items not included in the Contingent Liabilities Report:
 - Biodiesel Production Payment (approximately \$4.3 million annually).
 - Ballfield and Racetrack Tax Payments (Less than \$1.0 million annually).
 - Workforce Training Withholding Diversion (\$6.0 million per year).
 - Taxpayer, Dependent, 65+, Blind Personal Credits (approximately \$110.0 million annually).
 - Taxpayer Trust Fund Tax Credit (repealed).
 - Sales Tax credits, exemptions, rebates, and refunds.

Contingent Liabilities Report Annual Total

Average annual growth FY05 through FY19 = \$15.7 million



Fiscal Services Division Tax Credit Publications

- The Fiscal Services Division (FSD) produces a Fiscal Topic document series covering the individual income tax credits available to Iowa taxpayers. The documents are updated each fall and the series is a work in progress. The document series combines information from several Department of Revenue sources, including:
 - The most recent Contingent Liabilities Report.
 - The current Tax Credit Users' Manual.
 - Any tax credit review analysis completed for the Tax Expenditure Review Committee.
- An FSD [Fiscal Topic](#) is available that briefly explains the timing considerations that apply to the fiscal impact analysis of the creation, repeal, or modification of tax credits.

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