Tax Credits Contingent Liabilities Report

History and Purpose

Report to the Legislative Tax Expenditure Committee

Jeff Robinson, LSA Fiscal Services Division

November 16, 2011

The Tax Credits Contingent Liabilities Report was created by the Tax Research and Program Analysis Section of the Iowa Department of Revenue for the benefit of the Revenue Estimating Conference (REC). The first report was issued April 2007. Reports are prepared by the Department of Revenue three to four times each year just prior to each meeting of the REC. The most recent report is dated October 2011.

The Department works closely with the State agency responsible for issuing each type of tax credit, collecting data on when tax credits are issued, when they can be redeemed, and the dollar value of the credit. Significant responsible agencies include the Iowa Economic Development Authority, Department of Cultural Affairs, the Community Colleges, as well as the Department of Revenue.

The information from Iowa tax form IA 148 (Tax Credit Schedule) provides most of the information needed to calculate actual tax credit redemptions and, in combination with information on tax credits awarded, the information necessary to make future year projections.

The report provides three methods to track tax credit awards and redemptions by program and by fiscal year.

Table 1: Tax Credit Awards by Fiscal Year

Tax credits are discussed in two categories: Awarded and automatic. Awarded credits require application and qualification. Automatic credits do not require agency approval. The October 2011 report provides a history of tax credit awards from FY 2003 through FY 2011. Fiscal year awards range from $99.2 million (FY 2003) to $346.7 million (FY 2007). The three largest programs are the High Quality Jobs Program, the 260E Jobs Training Program, and the Enterprise Zone Program.

Table 8: Tax Credit Contingent Liabilities Projection

The Tax Credit Contingent Liabilities Projection is based on the assumptions that 100% of the available tax credits will be awarded each year and all of the awarded credits will be redeemed. (The history portion of Table 8 is based on actual claims). Tax credits are divided into two classifications: Capped and uncapped. The uncapped tax credits include those programs that

do not have a dollar limit for total awards (lifetime or annual). The capped programs do have a total dollar limit that may be awarded under the program. Table 8 provides three years of history and five years of projections.

Table 9: Tax Credit Expected Claims Projection

The Tax Credit Expected Claims Projection provides estimates by program and by fiscal year of the amount of tax credits that will actually impact each fiscal year. Table 9 provides three years of history and five years of projections.   History years in this Table also are based on actual claims, so history years should match Table 8. For projection years, the difference between Table 9 and Table 8 will reflect:

1) Tax credits that are available in a year but never awarded.

2) Tax credits that are earned but never redeemed.

3) Tax credits that are earned but not redeemed until a later fiscal year.

For REC purposes, the information from Table 9 is most valuable. Table 9 first appeared in the Tax Credits Contingent Liabilities Report in March 2010

Tax Credit Reporting Links:

Most recent report

http://www.iowa.gov/tax/taxlaw/1011RECReport.pdf

All Tax Credits Contingent Liabilities Reports

http://www.iowa.gov/tax/taxlaw/creditstudy.html#Con

Department of Revenue's Tax Credit Tracking and Analysis System Website

http://www.iowa.gov/tax/taxlaw/creditstudy.html

Department of Revenue's Tax Credits Users' Manual

http://www.iowa.gov/tax/taxlaw/IDRTaxCreditsUsersManual.pdf

Table 9 Expected Claims Projection Comparisons (Excludes Film Program)
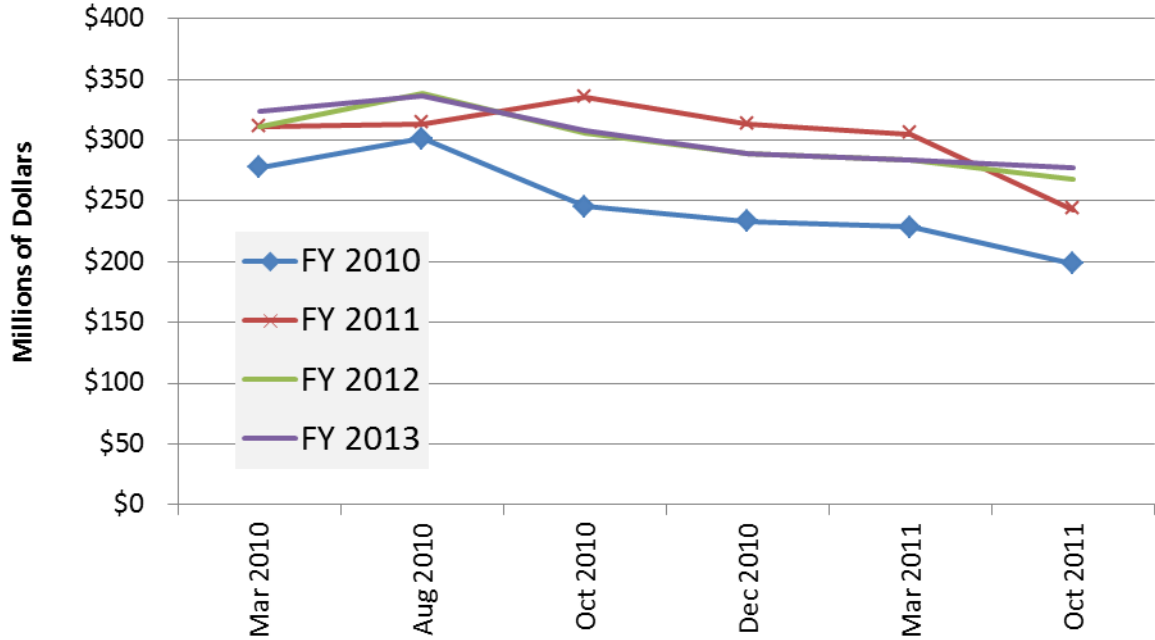
Table 9 Expected Claims - Actual and Projected