

Tax Credits Tracking and Analysis System

Report to the General Assembly

December 2005

Executive Summary

Reflecting a desire for greater accountability for tax credit programs, the Iowa General Assembly created a new appropriation during its 2005 session to fund the creation of an integrated Tax Credits Tracking and Analysis System.

Many of the programs that are funded through the use of tax credits have annual reporting requirements. The reporting requirements, however, are not consistent across all programs. There is currently no means to efficiently match information related to the awarding and the exercise of tax credits. These deficiencies in existing monitoring and reporting systems make it difficult to account for the amounts of state tax revenue foregone because of the different types of tax credits. Evaluating the effectiveness of the tax credit programs in promoting the goals for which they were created is even more difficult.

The focus of the Tax Credits Tracking and Analysis System is on creating a central repository of information concerning the awarding, usage, and effectiveness of tax credits. Limited information currently available makes it difficult for policymakers to ensure that programs that are in demand and effective are continued while programs that are not in demand or are ineffective are not continued. The Tax Credits Tracking and Analysis System is intended to provide information useful for making these choices.

The creation of the Tax Credit Tracking and Analysis System was seen as a collaborative effort. The Department of Revenue is facilitating a variety of work groups tackling the issues associated with developing the system. These teams have participants from a variety of agencies, including agencies that award credits, agencies that review and authorize credit usage, and agencies that have resources useful in evaluating the effectiveness of tax credits.

These groups first set out to study the problem, by creating a Tax Credit User's Manual and mapping the current system for managing tax credits. A Kaizen Event, a technique used to study and improve a management process, was held during October. This event resulted in the design of a new system for tracking tax credits. Also, it resulted in the development of an action plan, system outputs and a timeline for the project.

Since the Kaizen, several work groups have been meeting to tackle issues related to designing the database, setting up tracking for credits that are transferred or issued to pass-through entities, and reporting desired from the system. These activities will continue as the information system is being built. Furthermore, teams working on improving tax forms and program applications and developing evaluation methodologies will begin their work soon.

The Tax Credits Tracking and Analysis System will have three key types of reports as system outputs:

Situation Assessment

State of Iowa Tax Credits

Current Situation

Currently, several agencies of the State of Iowa offer tax credits for a variety of purposes. Each agency does its own tracking of the awarding of tax credits. Each agency maintains its own database. Each agency does its own tracking of program results, typically based on what is specifically required by statute. In many cases, these reports provide useful information. However, from a state perspective, the information provided is not uniform in terms of issues addressed or consistent in terms of depth of coverage. There is some coordination between credit awarding agencies and the Department of Revenue (IDR). However, beyond the compliance activities conducted by agencies themselves, IDR has little ability to effectively ensure taxpayer compliance on tax credits.

In an attempt to improve information available on tax credits and other tax expenditures (including exemptions, exclusions and reductions in tax base), the IDR conducted a "Tax Expenditure Study" in 2001 to assess the amount of tax revenues that are foregone. While the study provides improvement in centralizing information about tax expenditures, it still suffers from substantial shortcomings. Estimates, in some cases, were based on budgetary caps or other forecasts, rather than the actual amount claimed on taxpayer returns. In addition, no attempt was made as part of that study to evaluate the return the state receives from the various tax expenditures.

Problems Arising from the Current Situation

Several problems arise from the current situation that limit the ability of IDR to offer clear oversight of the awarding, usage and effectiveness of tax credits awarded by the State of Iowa.

1. There is no central repository where interested parties (i.e., the Legislature, media, citizens, etc.) can have access to accurate, system-wide data on tax credits awarded by the State of Iowa.
2. Current IDR tax forms may provide one line on which taxpayers enter multiple credits. As a result, it is impossible to differentiate one credit from another without asking the taxpayer for additional information.
3. In other cases, credits that have their own line on tax forms may not be entered into IDR information systems because of data entry costs.
4. Although there is some communication between IDR and agencies that award credits, there is no real feedback, particularly in terms of linking the awarding of tax credits by agencies and the claiming of tax credits on tax returns.
5. There has been no attempt made at evaluation of the relative effectiveness of State of Iowa tax credit programs.
6. The number of tax credit programs has increased in recent years, increasing the complexity of understanding tax credits in Iowa.

Tax Credit Tracking and Analysis System
Covered Programs

| Tax Credit Program | Usage Type | Awarded by: |
|--|------------|--------------------------------------|
| Child and Dependent Care Credit | Automatic | NA |
| Cow-Calf Credit | Automatic | NA |
| Earned Income Credit | Automatic | NA |
| Ethanol Blended Gasoline Credit | Automatic | NA |
| Motor Vehicle Fuel Tax Credit | Automatic | NA |
| Research Activities Credit (not doubled) | Automatic | NA |
| S Corporation Credit | Automatic | NA |
| Soy-Based Cutting Tool Oil Credit | Automatic | NA |
| Tuition and Textbook Credit | Automatic | NA |
| Accelerated Career Education (ACE) Program (260G) | Awarded | Community Colleges |
| Iowa New Jobs Training Program (260E) | Awarded | Community Colleges |
| Historic Preservation & CED Tax Credit | Awarded | DCA |
| Assistive Device Credit | Awarded | DED |
| Economic Development Region Revolving Loan Fund Tax Credit | Awarded | DED |
| Endow Iowa Tax Credit | Awarded | DED |
| Enterprise Zone Program | Awarded | DED |
| High Quality Job Creation Program | Awarded | DED |
| New Capital Investment Program | Awarded | DED |
| New Jobs and Income Program | Awarded | DED |
| Venture Capital Credit--contingent credit for investments in IA fund of funds) | Awarded | Iowa Capital Investment Board (ICIB) |
| Venture Capital Credit--investments in seed capital funds | Awarded | Iowa Capital Investment Board (ICIB) |
| Venture Capital Credit--investments in venture capital funds | Awarded | Iowa Capital Investment Board (ICIB) |
| Renewable Energy Tax Credit | Awarded | IUB |
| Wind Energy Production Tax Credit | Awarded | IUB/ Supervisors |
| Early Childhood Development Tax Credit | Awarded | Revenue |
| Wage-Benefit Tax Credit | Awarded | Revenue |