Legislative Services Agency
Fiscal Services Division

Tax Credits and Other State General Fund Revenue Expenditures

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Data Sources – Iowa Tax Credits and Other Revenue Expenditures

- Iowa Department of Revenue (IDR) Contingent Liabilities Report
- IDR Tax Credits Users' Manual
- IDR Tax Expenditure Studies **(every five years)**
- Tax Expenditure Committee Report Series
- Tax Credit Fiscal Impact Fiscal Topic
- Tax Credit Fiscal Topics
- **General Fund Appropriations Tracking**
- **State Accounting System**

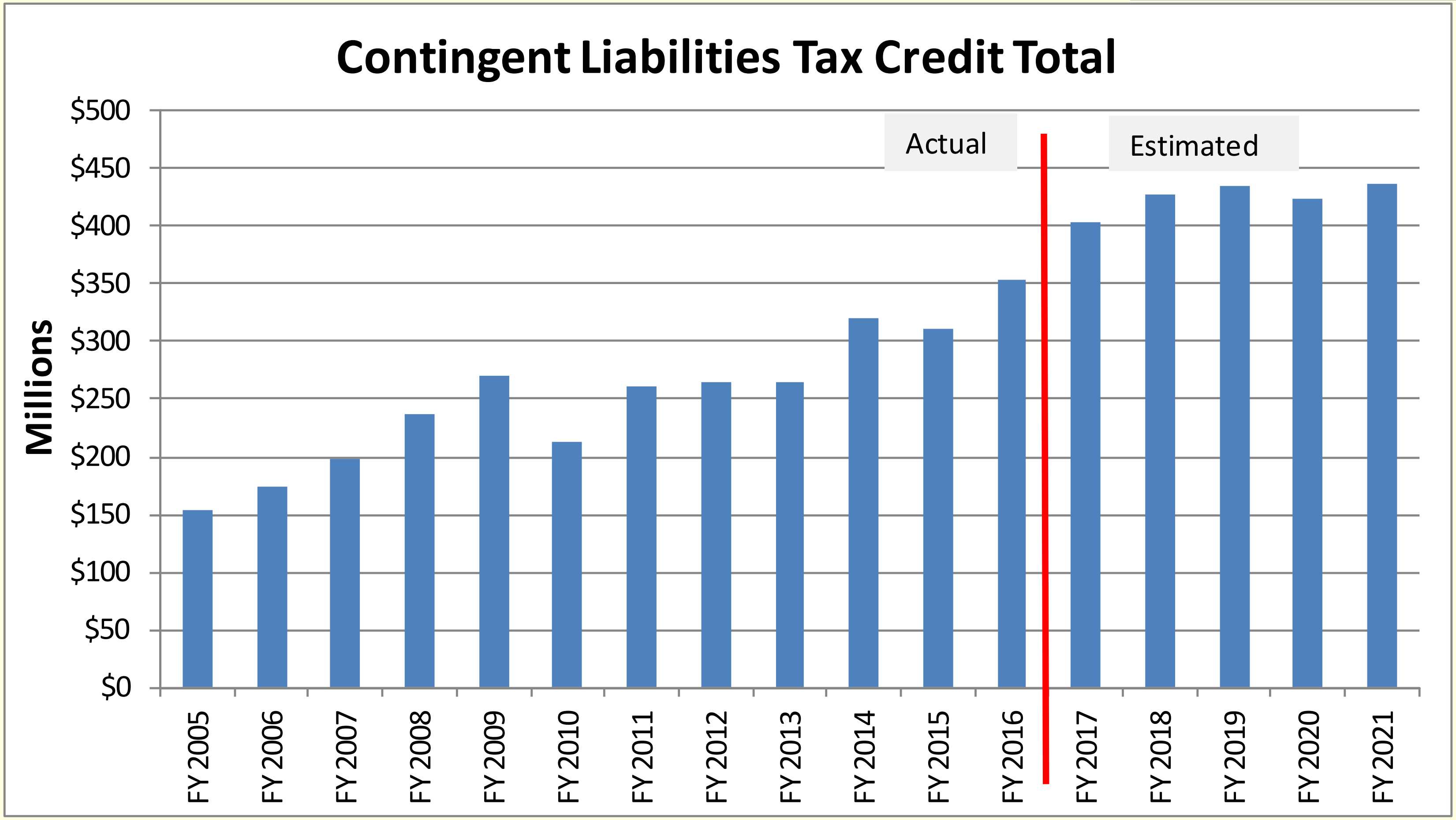
Types of Tax Credits and Revenue Expenditures

- **Contingent Liabilities – Tax credits continually tracked by the IDR and reported in the periodic Contingent Liabilities Report.**
  FY 2018 Estimate totals $426.9 million
- **Iowa Form 1040 Tax Credits – Four individual income tax credits are not included in the Contingent Liabilities Report. The credits are claimed on the Iowa 1040 individual income tax return.**
  FY 2018 Estimate totals $103.3 million
- **Other Programs Paid Directly from State General Fund Revenue.**
  FY 2018 Estimate totals $74.2 million
- **Property Tax Credits and Exemptions – Property tax reduction and economic incentive programs paid through State General Fund appropriations.**
  FY 2018 Estimate totals $561.8 million

Contingent Liabilities Report

- **Completed by the Iowa Department of Revenue.**
- **Periodic document designed to assist the public, elected officials, and the Revenue Estimating Conference (REC).**
- **Table 9 of the report provides a tax credit redemption three-year history and five-year projection.**
- **The Table 9 amounts are designed to represent the actual impact on State General Fund revenue for each tax credit tracked by the report.**
- **Historical numbers can and do change.**
- **Projected years change based on revised information available since the time of the previous report.**
- **The Contingent Liabilities Report assists the REC process by allowing REC members to adjust revenue and refund projections for the incremental net revenue implications of the credits tracked by the report.**
- **The combined FY 2018 net General Fund revenue reduction associated with the Contingent Liabilities Report items is estimated to be $426.9 million.**

Contingent Liabilities Report
Tax Credit Totals



Iowa Individual Income Tax Form 1040 Tax Credits

- **Four tax credits are available to all taxpayers who qualify:**
  - **Taxpayers Trust Fund Tax Credit**
  - **Dependent Credit**
  - **Elderly and/or Blind Credit**
  - **Personal Credit**
- **To benefit, the qualified taxpayer must have sufficient income tax liability for that tax year.**
- **The four tax credits are not part of the Contingent Liabilities Report.**
- **The combined FY 2018 net General Fund revenue reduction associated with the four credits is estimated to be $103.3 million.**

Tax Credits and Exemptions Not Included in this Discussion

- Franchise Tax Credit
- Alternative Minimum Tax Credit
- Nonresident/Part-Year Resident Tax Credit
- Out-of-State Tax Credit
- S-Corporation Apportionment Tax Credit
- Claim of Right Tax Credit
- Iowa Fuel Tax Credit
- Tax rate differentials that do not impact the State General Fund.
- Provisions of the Iowa Code that lower the tax base by exempting specified sales and income from the State sales, income, and other taxes.
- Iowa Code provisions that direct tax and other revenue to funds and accounts other than the State General Fund.

Other Programs Paid Directly from State General Fund Revenue

- **Six identified situations that are not part of the Contingent Liabilities Report and are not referred to as tax credits, but do reduce net General Fund revenue through the expenditure of net revenue:**
  - **Biodiesel Production Payment – Paid to biodiesel production plants on a per-gallon produced basis.**
  - **Sales Tax to Race Tracks and Ball Fields – A form of tax increment financing using sales tax.**
  - **Reinvestment Districts – Tax increment financing with sales tax.**
  - **Reinvestment Districts – Diversion of sales tax receipts to fund qualified projects in specified areas.**
  - **Workforce Training Withholding Transfer – Instead of an appropriation, this program is financed directly with General Fund revenue.**
  - **Department of Revenue Operations and Tax Gap – Instead of appropriations, these programs are financed directly with General Fund revenue.**

Property Tax Credits and Direct Appropriations

- **Six standing appropriations from the State General Fund reimburse local government finance for the financial implications of property tax credits and exemptions which are available to qualified property owners. Combined, the estimated FY 2018 appropriations total $479.6 million.**
  - **Commercial/Industrial (C/I) Rollback Reimbursement – 2013 legislation lowered the taxed value of C/I property to 90.0%. This appropriation reimburses local government finance for the property tax reduction associated with the C/I rollback.**
  - **Business Property tax Credit – 2013 legislation provided a new tax credit for commercial, industrial, and rail property. This appropriation reimburses local government finance for the property tax reduction associated with the new credit.**

Property Tax Credits and Direct Appropriations – Continued

- **Homestead Tax Credit – Reimburses local government finance for the property tax reduction associated with the Homestead Credit.**
- **Agland and Family Farm Tax Credits – Reimburses local government finance for the revenue reduction associated with two property tax credits available to all farmland (Agland Credit) and qualified farmland (Family Farm Credit).**
- **Elderly and Disabled Property Tax Credit – Reimburses local government finance for the revenue reduction associated with this income-based property tax credit. A portion of the money goes directly to renters.**
- **Military Service Exemption Reimbursement – Reimburses local government finance for $6.92 per $1,000 of taxed value that results from the Military Service Property Tax Exemption. An additional $5.40 per $1,000 is reimbursed through the General Fund appropriation for school aid.**

Tax Increment Financing Impacts the State General Fund through the School Aid Formula

- **Owners of all property within a Tax Increment Financing (TIF) area that is not otherwise exempt from property tax pay property tax. However, with the exception of debt levies, the property tax revenue from any utilized portion of the incremental value within the area is deposited to separate TIF accounts and is not available to the local governments that established the tax levies.**
- **The revenue from the incremental value is instead available to the local government that established the TIF area (city, county, community college, or Rural Improvement Zone).**
- **The State's basic property tax levy for school finance ($5.40 per $1,000) is part of the diverted property tax.**
- **By action of the State School Aid Formula, the State General Fund reimburses local school districts for $5.40 per $1,000 that is part of TIF increment revenue.**
- **The estimated FY 2018 total impact on the State General Fund is $58.5 million.**

Property Tax Exemptions Impact the State General Fund through the School Aid Formula

- **Property tax exemptions remove property that would otherwise be taxed from the property tax rolls. This reduces or eliminates the property tax owed by the property owner, either for a specified number of years, or for an unlimited period of time.**
- **Property tax exemptions are available automatically through the Code of Iowa and through action of local government boards and councils.**
- **Through action of the State School Aid Formula, exempting property that would otherwise be subject to property tax increases the State General Fund appropriation for State School Aid by $5.40 per $1,000 of exempt value.**
- **For FY 2018, the impact of this set of property tax exemptions on the State School Aid appropriation is estimated to be $23.7 million.**

Additional Types of Tax Exemption and Valuation Procedures Not Covered by this Report and the Accompanying Spreadsheet

- **Iowa's property tax system is based on valuing property for tax purposes according to its fair market value. The system has many exceptions that do not qualify as property tax credits or property tax exemptions. These provisions lower the taxed value of property below the market value and due to that, increase the State General Fund appropriation for State School Aid. A partial list of special valuation procedures includes:**
  - **Iowa's system of property tax rollbacks**
  - **Gas, electric, and water utility valuation**
  - **Valuation of agricultural property based on a productivity formula**
  - **Special valuation calculations for wind energy conversion property**
  - **Subdivided property valuation limitations**
  - **Certain low-income housing valuation**
  - **Literary and educational institutions**
  - **Government, war veteran association, religious, and charitable property**
  - **Certain racetracks**

Tax Credit Types

- **Sales Tax Refunds – The eligible taxpayer applies for a refund after the project is complete.**
- **Income Tax Withholding Diversions – The employer does not send employee withholding tax (and perhaps other taxes owed) to the State. Employees still receive credit for the withholding tax paid.**
- **Automatic vs. Awarded Tax Credits**
- **Capped vs. Uncapped**
- **Availability of Income Tax Credits to the Taxpayer:**
  - **Available for a single tax year**
  - **Available for a tax year with a carry-forward period**
  - **Transferable**
  - **Refundable**

Tax Credit Types
Income Tax Withholding Diversions

- **The income tax withholding does not reach the State General Fund. It is instead diverted to qualified program costs of the employer.**
  - **Accelerated Career Education (ACE) Program**
  - **Iowa Code chapter 260E Job Training Program**
  - **Targeted Jobs Withholding Pilot Project**

Tax Credit Types
Automatic vs. Awarded

- **Automatic Examples:**
  - **Adoption Tax Credit**
  - **Ethanol and Biodiesel Retail Tax Credits**
  - **Child and Dependent Care Tax Credit**
  - **Earned Income Tax Credit**
  - **Research Activities Credit (regular)**
- **Awarded Examples:**
  - **Historic Preservation and Cultural and Entertainment District Tax Credit**
  - **Innovation Fund Tax Credit**
  - **Redevelopment Tax Credit (Brownfield/Grayfield)**
  - **Renewable and Wind Energy Tax Credits**
  - **Research Activities Tax Credit (Supplemental)**

Tax Credit Types
Capped vs. Uncapped

- **Capped Examples:**
  - **Endow Iowa Tax Credit**
  - **Historic Preservation and Cultural and Entertainment District Tax Credit**
  - **Redevelopment Tax Credit (Brownfield/Grayfield)**
  - **School Tuition Organization Tax Credit**
  - **Solar Energy System Tax Credit**
- **Uncapped Examples:**
  - **Adoption Tax Credit**
  - **Ethanol and Biodiesel Retail Tax Credits**
  - **Earned Income Tax Credit**
  - **Research Activities Tax Credit**

Tax Credit Types
Capped vs. Uncapped – EDA Credit Cap

- **The Iowa Economic Development Authority (EDA) has available a set of tax incentive programs that exist under a single aggregate annual cap amount (Iowa Code section 15.119). For FY 2017, the aggregate cap is $155.0 million. Programs under the FY 2017 EDA cap and the amounts allocated include:**
  - **High Quality Jobs Program ($105.0 million)**
  - **Redevelopment Tax Credit ($10.0 million)**
  - **Renewable Chemical Tax Credit ($10.0 million)**
  - **Innovations Fund Tax Credit ($10.0 million)**
  - **Workforce Housing Tax Credit ($20.0 million)**
- **The EDA has authority to exceed the annual cap by utilizing a portion of the next fiscal year's cap and/or by reallocating revoked or declined awards from the previous fiscal year's allocation.**
- **The EDA did not fully utilize all FY 2015 and FY 2016 tax credits available under the cap.**

Availability of Income Tax Credits to the Taxpayer

- **Some tax credits are useful to the taxpayer only in that specific tax year. If the taxpayer does not have sufficient tax liability to fully utilize the credit, the remaining credit expires unused.**
- **Other tax credits may be claimed in a tax year, and if the taxpayer does not have sufficient tax liability to fully utilize the entire credit amount, the unused credits are allowed to carry forward for up to a specified number of tax years.**
- **Another set of tax credits may be transferred to another taxpayer. This type of tax credit is useful to taxpayers with limited tax liability and even nonprofit entities. The person receiving the tax credit sells a transferable credit and receives the benefit in that manner. The purchaser than uses the tax credit to reduce the purchaser's Iowa tax liability.**
- **A final type of tax credit is refundable. This means the taxpayer may redeem the tax credit in a single year, and if the value of the credit exceeds their tax liability, they receive a check for any credit that exceeds actual tax liability. Refundable credits avoid the need to find a tax credit buyer.**

Calculating the Fiscal Impact of Changes to Tax Credit Programs

- **For a tax credit that is available for a single tax year, changes to the tax credit can have an impact on the General Fund revenue stream within the first year after enactment. Examples of tax credits with a short time between modification and tax credit redemption include:**
  - **Adoption Tax Credit ($0.9 million)**
  - **Child and Dependent Care Tax Credit ($6.5 million)**
  - **Earned Income Tax Credit ($71.8 million)**
  - **Research Activities Tax Credit ($69.4 million)**

Calculating the Fiscal Impact of Changes to Tax Credit Programs

- **When proposed legislation changes an existing income tax credit, the Department of Revenue utilizes tax credit award and redemption patterns for that specific tax credit to project when the credit will impact the General Fund through the redemption of the awarded credit. The following pattern is used to project the impact of changes to the Beginning Farmer Tax Credit.**

	Custom Farming Contract Tax Credit	Agricultural Assets Transfer Tax Credit
First Year	31.8%	27.0%
Second Year	17.7%	15.6%
Third Year	17.9%	8.3%
Fourth Year	6.0%	5.4%
Fifth Year	4.4%	3.4%
Sixth Year	3.0%	2.8%
Seventh Year	2.8%	2.5%
Eighth Year	2.0%	2.0%
Ninth Year	2.0%	2.0%
Tenth Year	2.0%	2.0%
Eleventh Year	2.0%	2.0%
	91.7%	73.0%

Calculating the Fiscal Impact of Changes to Tax Credit Programs

- **For new tax credits, the Department may choose the redemption pattern of one or more similar tax credits to use as a template to project the redemption pattern for the new credit. The following statement is from a Department of Revenue analysis for a proposed income tax credit for the purchase of a gun safe.**
  - Tax credit claims would appear when taxpayers file their final returns. Timing of nonrefundable individual income tax credits with similar carry forward periods including the Endow Iowa Tax Credit and the School Tuition Organization Tax Credit, are used to estimate the timing of claims. It is estimated that 60.8% of the newly earned Gun Safe Tax Credits would be claimed in the first fiscal year following the tax year, 23.2% would be claimed in the second fiscal year, and 4.0% would be claimed in the third fiscal year. Approximately 12.0% of tax credits earned would remain unused.

Calculating the Fiscal Impact of Changes to Tax Credit Programs

- **The Economic Development Authority's High Quality Jobs (HQJ) Program is composed of several State tax benefits. Like tax credits targeting economic development, there is a significant lag time between project approval and tax credit redemption. The bottom portion of this table reflects the assumed tax credit redemption reduction should the HQJ Program be eliminated June 30, 2017. Keep in mind that the HQJ Program currently has a $105.0 million annual cap.**

Estimated Fiscal Impact of Eliminating the High Quality Jobs Program Effective July 1, 2017

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Total Program Claims					
Current Law	$56,063,271	$54,573,686	$41,111,401	$47,464,074	$49,130,795
Proposal	$56,060,551	$53,884,885	$35,508,006	$37,781,790	$33,310,949
Expected Change					
ITC	-$2,720	-$119,938	-$1,849,296	-$3,810,221	-$6,602,271
Sales Refund	$0	-$568,863	-$3,754,099	-$5,688,746	-$6,823,083
Supp RAC	$0	$0	$0	-$183,317	-$2,394,492
Total	-$2,720	-$688,801	-$5,603,395	-$9,682,284	-$15,819,847

Unlike in the Contingent Liabilities Report, the total claims numbers include Supplemental RAC.

Calculating the Fiscal Impact of Changes to Tax Credit Programs

- **Changes to an existing tax credit program, the creation of new tax credits or eliminating old ones have fiscal impacts that reach the State General Fund on differing timescales. Generally speaking:**
  - **The fiscal impact of tax credit changes is based on when the tax credits are redeemed, not when the tax credits are awarded, earned, or received. In some cases, the fiscal impact arrives when the taxpayer determines that earned tax credits mean they do not have to remit estimate payments for the current tax year.**
  - **The fiscal impact of tax credit changes are calculated with the best knowledge available at the time of the estimate. The impact is not calculated based on earlier assumptions about how the tax credit program would or was designed to function.**

Calculating the Fiscal Impact of Changes to Tax Credit Programs (continued)

- **Changes to an existing tax credit program, the creation of new tax credits or eliminating old ones have fiscal impacts that reach the State General Fund on differing timescales. Generally speaking:**
  - **The importance of a fiscal impact calculation is much more significant for the current and one future fiscal year, as the State does not currently maintain a balance sheet beyond that one future fiscal year.**
  - **Economic and business development tax credits impact the General Fund at a slower pace than social tax credits.**
  - **Once awarded and/or earned and fully redeemable, refundable tax credits and transferable tax credits reach the General Fund much faster than tax credits that are dependent on a taxpayer's own income tax liability.**

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