

# WAYS & MEANS

IOWA HOUSE OF REPRESENTATIVES

END OF SESSION, 2010

## **TAX CREDIT REFORM**

The cost of tax credits grew from \$213 million in Fiscal Year 2007 to an estimated \$525 million in Fiscal Year 2011. After cutting the state budget about \$600 million the past two years, legislators felt it was fair to also review tax expenditures for savings opportunities.

The bill suspends the Film Tax Credit until July 1, 2013; repeals three little used credits; and makes adjustments to several other credits. While the maximum extra 6.5% Research Activities credit that may be awarded by the Department of Economic Development was cut to 3% for larger businesses, it was increased to 10% for businesses with less than \$20 million gross revenues.

The cap on new credits awarded by state agencies is cut from \$185 million to \$120 million per year and the cap on contingent credits under a long-term venture capital program is cut from \$100 million to \$60 million.

These changes will save about \$4.5 million in Fiscal Year 2011, \$23.6 million in FY 12, \$33.6 million in FY 13, with savings growing in future years as these changes begin to reduce the total amount of credits redeemed each year.

Accountability and Review: The bill set a schedule for reviewing 31 tax credits over the next five years to ensure that each accomplishes its original purpose and the costs are justified. Each credit will be reviewed again five years after its last review. This will be done by a new Tax Expenditure Committee that will provide a detailed report regarding those credits reviewed that year. The committee will also establish a system for making information available to the public regarding the amount and effectiveness of tax expenditures. (SF 2380 – Signed by the Governor; multiple effective dates.)

## **ENTERPRISE ZONE EXTENSION**

The authority to designate new e-zones was due to expire on July 1, 2010. The bill extends this date to July, 2012. (HF 2370 – Signed by the Governor; effective July 1, 2010)

## **ESTATE “PICK-UP” TAX**

Before 2001, Iowa had an estate “pick-up tax” that only applied if the federal estate tax allowed a credit for state taxes paid. In 2001, legislation began to phase-out the federal estate tax, eliminating it in 2010. The Iowa “Pick-up” tax was repealed as obsolete in 2008.

- However, if no action is taken by Congress, the federal estate tax will automatically be reinstated as it existed in 2001.
- This bill reinstates the Iowa “pick-up” tax only if the federal estate tax is reinstated with a credit for state taxes. This will not increase anyone’s taxes, but will let Iowa capture a portion of the revenue from the federal government.

(SF 2380 – Signed by the Governor; multiple effective dates.)

## **INCOME TAX ADVICE FOR FOR MILITARY**

Requires the Iowa Department of Veterans Affairs, in coordination with the National Guard, to advise service members regarding tax issues such as regarding filing returns and tax payments prior to and after returning from active duty deployment outside of the United States. (HF 2384 – Signed by the Governor; effective July 1, 2010)

## **INCOME TAX - DISASTER AREAS WAIVE PENALTY AND INTEREST**

This waives all penalty and interest for paying too little income tax as a result of taking disaster deductions for the 2008 tax year. Congress approved these deductions and, although they were listed in the 2008 Iowa income tax instructions, the legislature could not adopt these deductions due to budget shortfalls.

(HF 2531 – Sent to the Governor; effects the 2008 tax year)

<b>INCOME TAX - VETERANS TRUST FUND</b>	Exempts funds received from the Veterans Trust Fund by: <ol style="list-style-type: none"> <li>1. A wounded veterans for travel expenses directly related to follow-up medical care.</li> <li>2. Any veteran for assistance while unemployed due to prolonged physical or mental illness or disability resulting from military service.</li> </ol> (HF 2532 – Signed by the Governor; effective for tax years beginning January 1, 2010, and after)
<b>INCOME TAX - BROWNFIELD</b>	This tax credit redevelopment projects in Brownfield areas has no funding after July 1, 2010. This bill lets DED allocate funds under its \$120 million tax credit cap. (HF 2531 – Sent to Governor; effective July 1, 2010)
<b>INCOME TAX - CHECKOFFS -- CHILD ABUSE -- FIRE FIGHTER -- VETERANS</b>	Only four checkoffs appear on the income tax form at any time and the lowest two revenue producers drop off every two years. Currently the four are the: (1) State Fair, (2) Fish and Wildlife, (3) Child Abuse, and (4) a joint one for the Volunteer Firefighters and the Veterans Trust Fund, which split the revenue equally.  This bill reinstates the Child Abuse and the joint Volunteer Firefighter / Veterans Trust Fund Checkoffs, which otherwise would be eliminated next year. (HF 2531 – Sent to the Governor; effects tax years beginning January 1, 2010)
<b>SALES TAX - STREAMLINED AGREEMENT UPDATED</b>	Iowa is one of 22 voting members of the Streamlined Sales Tax Agreement (SSTA), which seeks to make definitions and other sales tax laws more uniform, thus making tax compliance easier for businesses. This bill makes changes to bring Iowa sales tax laws into compliance with recent decisions of the SSTA. (SF 2375 – Sent to the Governor; effective on date signed)
<b>SALES TAX REGIONAL BLOOD TESTING LABS</b>	Blood centers are consolidating testing in regional labs to cut costs, so 30 Iowa lab jobs will be relocated. If the regional lab locates in Iowa, it will save 30 jobs and transfer 40 jobs from other states, but competing states don't tax certain lab items.  This exempts reagents and related equipment from the sales tax for a regional blood testing facility, if one is located in Iowa on or before January 1, 2011. The exemption is repealed on that date if this does not occur. (SF 2387 – Sent to the Governor; effective July 1, 2010)
<b>TAX &amp; DEBT COLLECTION BY COUNTY TREASURERS</b>	Allows county treasurer's to collect delinquent taxes, including penalties and interest, owed to the state when a vehicle owner renews the vehicle's registration. The person must pay the debt, plus a \$5 processing fee, before the treasurer can issue the registration. (SF 2383 – Sent to the Governor; effective January 1, 2011)
<b>UTILITY REPLACEMENT TAX UPDATED</b>	In 1998, Iowa eliminated the property tax on electric utilities and replaced it with excise taxes on generation and transmission. This closes a loophole and applies the replacement tax to co-generation plans that are larger than 200 megawatts and sell excess electricity. (SF 2373 – Sent to Governor; Applies to tax years beginning on or after January 1, 2010)
<b>WINE TAX</b>	Applies the \$1.75 per gallon tax on previously exempt Iowa native wines with all revenue going to a special fund used by the Department of Economic Development to promote Iowa produced wine and beer. (HF 2531 – Sent to the Governor; effective July 1, 2010)

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#### OTHER BILLS OF INTEREST

- HF 2531 Puts same penalty to incorrectly apply for a tax credit as for a tax refund. (Sent to Governor)
- SF 2371 Sets the royalty fee to dredge Cedar River sand and gravel in Linn County. (Sent to Governor)