



## Iowa's Credit Score

### *Tax giveaways amid talk of austerity*

During the 2011 legislative session, lawmakers frequently spoke of the need for an austere budget. Despite such calls, legislators proposed many tax cuts — primarily for corporations — and tax-credit expansions and exemptions. While the General Assembly and the Governor ultimately did not reach agreement on large proposed reductions in the corporate income tax and commercial and industrial property taxes, a number of tax reductions were enacted at the same time there were significant reductions in many programs.

Collectively, tax changes signed by the Governor represent nearly \$80 million in costs to the state treasury in 2012 and a greater amount in future budget years. The Governor vetoed two tax-credit changes. One of these, the Earned Income Tax Credit (EITC), would have benefited Iowans who most need a tax break. Despite bipartisan support for the EITC expansion, the Governor vetoed it — twice.

Below are tax changes from the 2011 session of the General Assembly, signed into law by the Governor.

- **Creation of Taxpayers Trust Fund.<sup>1</sup> Estimated Cost: Up to \$60 million annually.** — The Economic Emergency Fund (EEF) — one of Iowa's "rainy day funds" — has a statutory limit of 2½ percent of the fiscal year's revenue estimate. Funds in excess of that limit flow back to the General Fund to finance public services. The first \$60 million in excess of the EEF's statutory limit flows into a new Taxpayers Trust Fund (SF209). Lawmakers will have to designate where those funds go. They could go for such disparate purposes as creating or expanding business tax breaks or for increasing the size of the EITC.
- **Endow Iowa Tax Credit Expansion.<sup>2</sup> Estimated Cost: \$291,000 to \$800,000 in FY12; Exceeding \$500,000 in FY13 and FY14.<sup>3</sup>** — Iowans who donate to qualified community foundations may be awarded a 25 percent tax credit by the Department of Economic Development. SF302 raised the annual cap on the Endow Iowa credit, meaning more Iowans can claim it or make larger claims. Mostly, people who have donated more than \$30,000 receive this credit, generally very wealthy individuals.
- **Redevelopment Tax Credit Expansion.<sup>4</sup> Estimated Cost: \$0 to ?.<sup>5</sup>** — Taxpayers who redevelop sites with potential environmental contamination may claim a tax credit, worth up to 30 percent of investment. SF514 expands the amount of money available to the Development credit and places the credit under the "global cap" along with five other credit programs.
- **Biofuel Tax Credits and Incentives Expansions.<sup>6</sup> Estimated Cost: \$90.0 million from FY11 to FY20. \$1.2 million in FY12, \$9.9 million in FY13, peaking at \$15.6 million in FY2018.<sup>7</sup>** — Iowa offers a number of renewable fuel incentives, from payments to producers and credits to retailers of biodiesel and ethanol. Some of these programs were set to end at the end of this year; SF531 extends them through 2017, loosens some qualifying standards, and increases the credit.
- **Wind Production Tax Credits.<sup>8</sup> Estimated Cost: \$31.1 million from FY11 to FY20. \$0 in FY11; \$0.8 million in FY12; \$2.4 million in FY13.<sup>9</sup>** — This provision extends the deadline to qualify for wind production credits by three years, and alters requirements to qualify for the credit.
- **Military Personnel Exemption.<sup>10</sup> Estimated Cost: \$42.3 million from FY11 to FY15. \$0.9 million in FY11; \$11.2 million in FY12.<sup>11</sup>** — A provision exempting active-duty military income from Iowa income tax will help families of Iowans serving in Iraq and Afghanistan, or anywhere in the U.S. military.
- **School Tuition Organization Tax Credit cap expansion.<sup>12</sup> Estimated Cost: \$0.9 million in FY12;**

**\$1.25 million each fiscal year after FY12.**<sup>13</sup> — This provision allows taxpayers to deduct up to 65 percent of a contribution to a school tuition organization. SF533 raises the \$7.5 million cap to \$8.75 million in FY12.

- **Targeted Jobs Withholding Tax Credit expansion.**<sup>14</sup> **Estimated Cost: No estimate.** — This credit will now include job retention as well as job creation by companies in several border cities.<sup>15</sup> This could dramatically expand the tax credit, but the Legislative Services Agency could not estimate its cost.

In addition, the General Assembly passed two tax provisions later item-vetoed by the Governor.

- **Earned Income Tax Credit expansion.**<sup>16</sup> **Estimated Cost: \$51.6 million from FY11 to FY15.**<sup>17</sup> **\$0.1 million in FY11; \$14.7 million in FY12.** . — The EITC is a highly targeted tax credit benefiting lower-income working individuals and families. As families earn more income from working, the value of the credit increases to a point; but once earnings exceed about \$45,000 for the year, families are no longer eligible for the credit. Iowa's EITC is simply calculated by taking 7 percent of the federal credit. The General Assembly passed an expansion of the credit to 10 percent of the federal on two different occasions during the session; both were item-vetoed by the Governor.
- **Federal Tax Code Conformity, including Bonus Depreciation Deduction.**<sup>18</sup> **Estimated Cost: \$227.5 million between FY11 and FY15. \$46.7 million in FY11; \$137.4 million in FY12; \$43.4 million in FY13.**<sup>19</sup> — Recent federal tax changes allow businesses to delay paying a share of current income taxes. The proposed change would have allowed Iowa businesses to do the same with their Iowa income taxes. The Iowa Fiscal Partnership opposed this provision and the Governor vetoed it.

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<sup>1</sup> Iowa General Assembly, [Senate File 209](#), signed enrolled bill, April 21, 2011.

<sup>2</sup> Iowa General Assembly, [Senate File 302](#), signed enrolled bill. May 12, 2011.

<sup>3</sup> [Fiscal Note on SF302](#), Iowa Legislative Services Agency, Fiscal Division, March 16, 2011.

<sup>4</sup> Iowa General Assembly, [Senate File 514](#), signed enrolled bill, June 9, 2011.

<sup>5</sup> [Fiscal Note on SF514](#), LSA, Fiscal Division, March 29, 2011. The Redevelopment expansion was estimated by Legislative Services Agency to have no fiscal impact; however, their LSA estimate assumed that increases in Redevelopment credits would be offset by reductions in other programs under the global cap of \$120 million. Current spending on the six programs under the cap remains about half of the \$120 million limit, meaning this credit expansion could have a fiscal impact.

<sup>6</sup> Iowa General Assembly, [Senate File 531](#), signed enrolled bill, May 26, 2011.

<sup>7</sup> [Fiscal Note on SF531](#), LSA, Fiscal Division, May 2, 2011.

<sup>8</sup> Iowa General Assembly, [House File 672](#), signed enrolled bill, May 26, 2011.

<sup>9</sup> [Fiscal Note on SF672](#), LSA, Fiscal Division, April 21, 2011.

<sup>10</sup> Iowa General Assembly, [House File 672](#), signed enrolled bill, May 26, 2011.

<sup>11</sup> [Fiscal Note on HF652](#), LSA, Fiscal Division, April 20, 2011.

<sup>12</sup> Iowa General Assembly, [Senate File 533](#), signed enrolled bill, July 27, 2011.

<sup>13</sup> [Standing Appropriations Bill Senate File 533, Notes on Bills and Amendments](#) (NOBA), LSA, Fiscal Division, June 27, 2011.

<sup>14</sup> SF533.

<sup>15</sup> Andrew Cannon, "[Off Target: Targeted Jobs credit proposal drifts from intent, increases state costs](#)," IFP, June 29, 2011.

<sup>16</sup> SF533.

<sup>17</sup> [Standing Appropriations Bill Senate File 533, NOBA](#), LSA, Fiscal Division,, May 4, 2011.

<sup>18</sup> SF209.

<sup>19</sup> [Tax Changes and Supplemental Appropriations Bill, Senate File 209, NOBA](#), Iowa LSA, Fiscal Division. February 21, 2011.

## Iowa Fiscal Partnership

*The Iowa Fiscal Partnership is a joint budget and tax policy initiative of two nonpartisan, Iowa-based organizations, the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines. Find IFP on the web at [www.iowafiscal.org](http://www.iowafiscal.org).*