

# IOWA Department of REVENUE

## Tax Credits Contingent Liabilities Brief

December 8, 2008

The Tax Credits Contingent Liabilities Brief was created by the Tax Research and Program Analysis Section of the Iowa Department of Revenue (IDR) for the benefit of the Revenue Estimating Conference (REC). This report is part of a project to create the Tax Credits Tracking and Analysis System. The goal of the system is to provide a repository for information concerning the awarding, usage and effectiveness of tax credits.

This report presents five types of data:

1. Tax Credit Awards in State Fiscal Years 2001 through 2009
2. Tax Credit Claims in Tax Years 2000 through 2007
3. Sales and Use Tax Refunds by Tax Credit Program for State Fiscal Years 2000 through 2009
4. Withholding Tax Credit Claims by Quarter since January 2005
5. Forecasts of the Contingent Liabilities Due to Tax Credits for FY 2009 through 2013

All of the data presented points to an increase in the impact of tax credits on General Fund revenues. The number of tax credit programs is increasing as the Legislature creates additional programs. The amount of credits claimed under each tax credit program often increases as more taxpayers learn about the credits. Overall, the data point to tax credits as an increasingly important factor that must be better understood in order to be accurately factored into the revenue estimation process.

### **Summary**

- There has been tremendous growth in the amount of credits awarded since FY 2001. In FY 2001, the amount of awarded credits was just over \$100 million; in FY 2007, over \$470 million in tax credits were awarded. In FY 2008, there was a decrease in awards from FY 2007 with nearly \$300 million in tax credits awarded.
- The potential liability of tax credits has also continued to increase. In FY 2005, \$123 million in tax credits were claimed against Iowa taxes. This amount is expected to increase to over \$460 million by FY 2010, which is an increase of over 270%. The projected liability amounts for the uncapped tax credits awarded by the Department of Economic Development only include awards that have already been made and do not attempt to forecast what future awards will be. Also, once a year the Department of Economic Development reviews projects to which awards are made and cancels or revises awards for those projects that do not meet their commitments. It is anticipated these annual adjustments will be made prior to the next report.
- The programs that appear to be having the greatest amount of growth and impact on contingent liabilities are the High Quality Job Creation Program, Enterprise Zone Program, the Iowa Industrial New Jobs Training Program (260E) and the Research Activities Tax Credit. The fiscal impact of the first claims of the Wage-Benefit Tax Credit was also seen in the FY 2008.
- Sales and use tax refunds due to tax credit awards made by the Department of Economic Development decreased to almost \$6.5 million in FY 2008 from over \$8 million in FY 2007.

## ***Tax Credit Awards***

In general, Iowa has two types of tax credits: automatic and awarded. Awarded credits require application and a specific award in order for a taxpayer to claim the credit. The total amount of the awarded credits may also be capped on a fiscal year basis. Automatic credits may be claimed by any eligible taxpayer and the amount of claims has no limit or cap. More information about Iowa's tax credit programs may be found in the Appendix.

The amount of awarded tax credits has substantially increased between FY 2001 and FY 2007 (see Table 1). The increase is due to increasing utilization and the increasing caps of some of the existing programs as well as new tax credit programs being added. For the Accelerated Career Education (ACE) Program, School Tuition Organization Tax Credit and the Wage-Benefit Tax Credit, it is assumed that the full amount of the tax credit cap was awarded during the fiscal year. The amount of the awards was received from the agencies issuing the tax credits. In the upcoming months there may be a decrease in some of the historical award numbers as the Department of Economic Development will be updating their numbers to account for cancelled projects.

In FY 2008, the amount of tax credits awarded decreased by over \$180 million. The largest decreases in the amount of awards were seen in the High Quality Job Creation Program (\$117 million decrease) and the Enterprise Zone Program (\$77 million decrease). Some of the decrease may be attributed to the large amount of awards made to biofuel producers in FY 2007 that were not made in FY 2008. The cap on the Wage-Benefit Tax Credit was also reduced from \$10 million in FY 2007 to \$4 million in FY 2008.

## ***Tax Credit Claims***

Some data on the amount of tax credits claimed against certain tax types is also available. However, this data is limited because prior to the 2006 tax year, most tax credits were aggregated on tax forms. This prevented collection of data on tax credit claims by tax credit program, but with the implementation of the IA 148 Tax Credits Schedule the availability of detailed tax credit claim data has improved. A summary of data from the IA 148 for tax year 2006 will be published separately.

Tax credits claimed against individual income tax nearly tripled between 2000 and 2006 (see Table 2). "Other Refundable Tax Credits" exhibited the largest growth since 2000 at over 600%; "Other Nonrefundable Tax Credits" had the next largest amount of growth at nearly 300%. Preliminary data from the 2006 IA 148 indicates that nearly 70 percent of the "Other Nonrefundable Tax Credit" claims are from administrative tax credits which are meant to make state tax law fair for all taxpayers.

At this point in 2007, there is a \$34.2 million decrease from 2006 in the amount of "Other Nonrefundable Tax Credits" claims. This may be due to taxpayers having less tax liability in tax year 2007 than in 2006. In which case they may be carrying forward more credits than they did in 2006. "Other Refundable Tax Credit" claims made in 2007 against individual income tax increased about \$3 million over claims made in 2006.

The majority of tax credits claims made against corporate income tax are claimed through the Research Activities Tax Credit. In 2005, Research Activities Tax Credit claims accounted for over 80% of the dollars of all corporate income tax credit claims. The data for tax credit claims against corporate income tax is not complete for 2006 because not all data from the IA 148 has been captured from late filed returns.

## ***Sales & Use Tax Refunds for Tax Credit Programs***

As part of the Enterprise Zone (including the Housing provision), New Capital Investment, New Jobs & Income and the High Quality Job Creation Programs, taxpayers are allowed to file for refunds of sales and use taxes paid to contractors and subcontractors. The first refunds were made during FY 2000 through the Enterprise Zone Program (see Table 3). Refunds continue to be issued through these programs and in FY 2007 the amount of refunds hit an all-time high of over \$8 million. Refunds decreased in FY 2008 to \$6.4 million, but already in FY 2009 over \$2.6 million in refunds have been issued. These refunds may decrease if there is a slowdown in these projects due to the economic slowdown.

## ***Tax Credits from Withholding***

There are five tax credits that can be claimed against the withholding tax. The largest is the Iowa Industrial New Jobs Tax Credit (260E). There is also a Supplemental New Jobs Credit, which is part of the 260E program. These two credits allow employers to train new employees. The Housing Assistance Credit is available under the Enterprise Zone Program. The Accelerated Career Education (ACE) credit allows employers to sponsor training slots at community colleges. The Targeted Jobs Tax Credit is a withholding tax for jobs meeting certain requirements in targeted communities in the State of Iowa. These tax credit programs are diversionary which means that the employer's tax liability is not reduced, but instead of all of the tax payments going to the General Fund a portion is diverted to the appropriate program fund.

The withholding credits are reported on a quarterly basis because that is when taxpayers are required to report their withholding credit claims. Withholding tax credit claims are available since March 2005 (see Table 4), which was the first quarter of the Department of Revenue's E-File and Pay system. This system allows taxpayers to file withholding tax returns on a secure Internet website. An increase can be seen in withholding tax credits over this time period. It is apparent that total withholding credits is strongly driven by the Iowa Industrial New Jobs Tax Credit (260E) (see Figure 1).

It appears that there may be a lag between when 260E credits are awarded and claimed (see Table 5). The amount of 260E credits awarded, the payments received by the community colleges from the employers, and the amount of 260E claims correctly filed through the Department of Revenue vary quite a bit within the same fiscal year. The variance could also potentially be explained by taxpayers not filing their withholding tax credit claims correctly. This variance appears to be less in FY 2008, which could be a result of better reporting or better tracking of these tax credits.

## ***Tax Credit Contingent Liabilities Projection***

Forecasts of the potential liability facing General Fund revenues due to tax credits show that tax credit claims will continue to increase, but may be leveling off (see Table 6). The amounts of contingent liability were estimated using a number of methods. These methods are listed in the footnotes. The Appendix includes descriptions of each of the tax credit programs, including its citation in the *Code of Iowa*.

Overall, the total contingent liability due to tax credits in Iowa is growing and is expected to continue to grow through FY 2010 (see Figure 2). It appears that the contingent liability of tax credits will decrease in years after FY 2010, part of this can be attributed to the fact that these estimates do not include projections of future awards of uncapped tax credits to be made by the Department of Economic Development. Another reason for this potential reduction in contingent liability is that the amount of tax credit awards being made appear to be decreasing from the high point experienced in FY 2007.

**Table 1: Tax Credit Awards by Fiscal Year**

|   | FY 2001              | FY 2002              | FY 2003             | FY 2004              | FY 2005              | FY 2006              | FY 2007              | FY 2008              | FY 2009*            |
|---|----------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|
| Accelerated Career Education Program (ACE) <sup>†</sup>                               | \$684,059            | \$2,784,552          | \$2,900,752         | \$3,900,872          | \$5,814,485          | \$6,000,000          | \$6,000,000          | \$6,000,000          | \$6,000,000         |
| Agricultural Assets Transfer Tax Credit <sup>†</sup>                                  | n/a                  | n/a                  | n/a                 | n/a                  | n/a                  | n/a                  | \$0                  | \$1,358,604          | \$2,000,000         |
| Assistive Device Tax Credit   | \$0                  | \$2,500              | \$0                 | \$0                  | \$0                  | \$0                  | \$0                  | \$0                  | \$0                 |
| Economic Development Region Revolving Fund Tax Credit <sup>†</sup>                    | n/a                  | n/a                  | n/a                 | n/a                  | n/a                  | \$0                  | \$0                  | \$0                  | \$0                 |
| Endow Iowa Tax Credit <sup>†</sup>  | n/a                  | n/a                  | n/a                 | \$1,003,773          | \$2,000,000          | \$2,000,000          | \$2,000,000          | \$1,710,453          | \$631,000           |
| Enterprise Zone Program   | \$21,799,195         | \$68,865,745         | \$13,282,669        | \$17,731,335         | \$42,194,899         | \$77,957,239         | \$113,000,318        | \$36,155,892         | \$10,139,540        |
| Enterprise Zone Program - Housing Component   | \$4,570,044          | \$6,073,415          | \$2,918,717         | \$10,681,804         | \$10,250,170         | \$15,391,100         | \$7,773,275          | \$11,982,601         | \$3,243,633         |
| Film Expenditure Tax Credit   | n/a                  | n/a                  | n/a                 | n/a                  | n/a                  | n/a                  | n/a                  | \$383,934            | \$2,900,511         |
| Film Investment Tax Credit  | n/a                  | n/a                  | n/a                 | n/a                  | n/a                  | n/a                  | n/a                  | \$206,397            | \$3,150,186         |
| High Quality Job Creation Program   | n/a                  | n/a                  | n/a                 | n/a                  | n/a                  | \$42,674,526         | \$256,017,393        | \$139,253,826        | \$14,853,679        |
| Historic Preservation and Cultural and Entertainment District Tax Credit <sup>†</sup> | \$2,400,000          | \$2,400,000          | \$2,400,000         | \$2,400,000          | \$2,370,000          | \$6,400,000          | \$6,400,000          | \$10,000,000         | \$15,000,000        |
| Iowa Industrial New Jobs Training Program (260E)                                      | \$38,567,500         | \$36,465,750         | \$26,705,000        | \$26,746,500         | \$60,659,000         | \$34,860,000         | \$66,388,000         | \$68,274,000         | \$10,012,000        |
| New Capital Investment Program  | n/a                  | n/a                  | n/a                 | \$21,606,680         | \$17,809,003         | n/a                  | n/a                  | n/a                  | n/a                 |
| New Jobs and Income Program   | \$39,714,446         | \$24,995,065         | \$47,523,776        | \$40,433,473         | \$45,518,278         | n/a                  | n/a                  | n/a                  | n/a                 |
| Renewable Energy Tax Credit <sup>†</sup>  | n/a                  | n/a                  | n/a                 | n/a                  | n/a                  | \$0                  | \$0                  | \$1,492,898          | \$0                 |
| School Tuition Organization Tax Credit <sup>†</sup>                                   | n/a                  | n/a                  | n/a                 | n/a                  | n/a                  | n/a                  | \$2,500,000          | \$4,873,878          | \$7,500,000         |
| Soy-Based Transformer Fluid Tax Credit <sup>†</sup>                                   | n/a                  | n/a                  | n/a                 | n/a                  | n/a                  | n/a                  | \$17,062             | \$17,540             | \$0                 |
| Targeted Jobs Tax Credit from Withholding   | n/a                  | n/a                  | n/a                 | n/a                  | n/a                  | n/a                  | \$845,700            | \$5,918,588          | \$1,206,000         |
| Venture Capital Tax Credit - Fund of Funds <sup>†</sup>                               | n/a                  | n/a                  | n/a                 | n/a                  | \$0                  | \$0                  | \$0                  | \$0                  | \$0                 |
| Venture Capital Tax Credit - Qualified Business or Seed Capital Fund <sup>†</sup>     | n/a                  | n/a                  | \$374,419           | \$719,535            | \$824,872            | \$2,166,308          | \$3,784,713          | \$2,130,133          | \$0                 |
| Venture Capital Tax Credit - Venture Capital Fund <sup>†</sup>                        | n/a                  | n/a                  | \$200,448           | \$384,600            | \$185,625            | \$742,740            | \$580,223            | \$12,900             | \$104,662           |
| Wage Benefit Tax Credit <sup>†</sup>  | n/a                  | n/a                  | n/a                 | n/a                  | n/a                  | n/a                  | \$10,000,000         | \$4,000,000          | \$4,000,000         |
| Wind Energy Production Tax Credit <sup>†</sup>  | n/a                  | n/a                  | n/a                 | n/a                  | n/a                  | \$0                  | \$0                  | \$0                  | \$0                 |
| <b>Total Credits Awarded Each Fiscal Year</b>   | <b>\$107,735,244</b> | <b>\$141,587,027</b> | <b>\$96,305,781</b> | <b>\$125,608,572</b> | <b>\$187,626,332</b> | <b>\$188,191,913</b> | <b>\$475,306,685</b> | <b>\$293,771,644</b> | <b>\$80,741,210</b> |

<sup>†</sup> Awards made on CY basis, but reflected in FY in which the credits can be claimed

Source: Awarding Agencies

n/a = program not yet created, or discontinued

<sup>†</sup> = tax credit programs that have capped awards

\* = partial award year

**Table 2: Tax Credit Claims by Tax Year**

|  | 2000         | 2001         | 2002         | 2003         | 2004         | 2005          | 2006          | 2007          |
|--|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Total Individual Income Tax Credits    | \$48,279,743 | \$51,410,455 | \$72,705,744 | \$81,418,844 | \$84,959,270 | \$105,116,138 | \$146,702,688 | \$129,470,230 |
| Child & Dependent Care Tax Credit      | \$6,396,628  | \$6,236,660  | \$6,160,402  | \$8,354,236  | \$8,120,963  | \$8,241,622   | \$8,918,055   | \$8,957,814   |
| Early Childhood Development Tax Credit | n/a          | n/a          | n/a          | n/a          | n/a          | n/a           | \$457,802     | \$515,302     |
| Earned Income Tax Credit               | \$6,142,575  | \$6,504,698  | \$8,304,908  | \$8,534,392  | \$8,902,719  | \$9,800,348   | \$10,667,288  | \$24,018,691  |
| Tuition and Textbook Tax Credit        | \$11,453,646 | \$12,379,883 | \$13,138,193 | \$13,772,790 | \$14,267,756 | \$15,235,560  | \$15,054,930  | \$15,525,122  |
| Other Nonrefundable Tax Credits        | \$23,228,165 | \$24,668,908 | \$42,394,881 | \$46,272,542 | \$49,359,183 | \$65,243,453  | \$104,145,155 | \$69,951,972  |
| Other Refundable Tax Credits           | \$1,058,729  | \$1,620,306  | \$2,707,360  | \$4,484,884  | \$4,308,649  | \$6,595,155   | \$7,459,458   | \$10,501,329  |

|   | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007*        |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total Corporate Income Tax Credits                | \$34,977,630 | \$30,233,861 | \$31,992,106 | \$34,502,493 | \$37,987,706 | \$45,000,414 | \$77,779,588 | \$31,277,551 |
| Other Credits                                     | \$8,626,270  | \$3,169,334  | \$2,333,210  | \$2,438,500  | \$3,433,238  | \$2,610,613  | #            | #            |
| Iowa Industrial New Jobs Income Tax Credit (260E) | \$1,015,304  | \$1,636,162  | \$2,205,314  | \$2,297,844  | \$1,517,117  | \$5,195,359  | #            | #            |
| Research Activities Credit                        | \$25,336,056 | \$25,428,365 | \$27,453,582 | \$29,766,149 | \$33,037,351 | \$37,194,442 | #            | #            |

Source: IDR data

\* = incomplete data for tax year

n/a = program not yet created, or discontinued

# = tax credit detail not yet available

**Table 3: Sales & Use Tax Refunds by Tax Credit Program by Fiscal Year**

|          | Enterprise Zone | Housing-Enterprise Zone | New Jobs & Income Program | New Capital Investment Program | High Quality Job Creation Program | Total Refunds |
|----------|-----------------|-------------------------|---------------------------|--------------------------------|-----------------------------------|---------------|
| FY 2000  | \$104,215       | \$36,527                |                           |                                |                                   | \$140,742     |
| FY 2001  | \$367,794       | \$213,055               | \$893,857                 |                                |                                   | \$1,474,706   |
| FY 2002  | \$859,141       | \$237,998               | \$545                     |                                |                                   | \$1,097,684   |
| FY 2003  | \$1,546,062     | \$304,471               | \$447,793                 |                                |                                   | \$2,298,326   |
| FY 2004  | \$991,620       | \$416,615               | \$753,322                 |                                |                                   | \$2,161,557   |
| FY 2005  | \$711,623       | \$569,971               | \$653,280                 | \$70,059                       |                                   | \$2,004,933   |
| FY 2006  | \$482,531       | \$881,387               | \$404,974                 | \$924,309                      | \$0                               | \$2,693,201   |
| FY 2007  | \$455,458       | \$1,939,675             | \$1,827,393               | \$3,925,886                    | \$4,258                           | \$8,152,670   |
| FY 2008  | \$1,644,432     | \$962,879               | \$1,181,953               | \$194,668                      | \$2,468,854                       | \$6,452,786   |
| FY 2009* | \$906,433       | \$600,897               | \$0                       | \$0                            | \$1,127,897                       | \$2,635,227   |

Source: IDR data

\*=partial year

**Table 4: Withholding Tax Credits Claimed by Quarter**

| Quarter     | Number | Total Tax Credits | New Jobs Tax Credit (260E) | Supplemental Jobs Tax Credit | Targeted Jobs Tax Credit | ACE Tax Credit | Housing Assistance Tax Credit | Incorrectly Claimed Tax Credits | Total of Paper Filed Returns Without Credit Detail |
|-------------|--------|-------------------|----------------------------|------------------------------|--------------------------|----------------|-------------------------------|---------------------------------|--|
| 3/31/2005   | 456    | \$5,747,304       | \$3,923,986                | \$421,810                    | \$0                      | \$664,511      | \$0                           | \$700                           | \$736,298  |
| 6/30/2005   | 545    | \$7,053,205       | \$5,376,609                | \$275,858                    | \$0                      | \$534,135      | \$0                           | \$700                           | \$865,905  |
| 9/30/2005   | 601    | \$7,080,875       | \$5,535,382                | \$256,837                    | \$0                      | \$1,181,479    | \$0                           | \$3,553                         | \$103,626  |
| 12/31/2005  | 715    | \$10,086,342      | \$7,827,978                | \$647,505                    | \$0                      | \$1,419,595    | \$0                           | \$63,461                        | \$127,805  |
| 3/31/2006   | 646    | \$8,220,874       | \$6,460,322                | \$525,543                    | \$0                      | \$1,114,214    | \$0                           | \$18,012                        | \$102,783  |
| 6/30/2006   | 703    | \$9,800,347       | \$7,684,331                | \$580,727                    | \$0                      | \$1,436,115    | \$0                           | \$94,666                        | \$4,508  |
| 9/30/2006   | 793    | \$11,416,720      | \$9,522,574                | \$604,754                    | \$0                      | \$1,004,534    | \$0                           | \$236,465                       | \$48,393   |
| 12/31/2006  | 877    | \$12,105,121      | \$10,340,719               | \$882,061                    | \$0                      | \$759,043      | \$0                           | \$107,791                       | \$15,507   |
| 3/31/2007   | 793    | \$10,747,538      | \$8,192,366                | \$941,495                    | \$1,864                  | \$1,287,368    | \$0                           | \$307,813                       | \$16,633   |
| 6/30/2007   | 778    | \$10,602,463      | \$7,604,275                | \$1,017,453                  | \$5,926                  | \$1,838,466    | \$0                           | \$124,254                       | \$12,089   |
| 9/30/2007   | 798    | \$11,543,403      | \$9,128,619                | \$1,077,867                  | \$63,101                 | \$1,134,442    | \$0                           | \$129,607                       | \$9,767  |
| 12/31/2007  | 859    | \$11,551,409      | \$9,112,352                | \$1,320,766                  | \$100,322                | \$822,681      | \$0                           | \$183,968                       | \$11,320   |
| 3/31/2008   | 757    | \$11,077,354      | \$8,101,651                | \$1,206,144                  | \$99,217                 | \$1,238,707    | \$0                           | \$424,329                       | \$7,306  |
| 6/30/2008   | 732    | \$11,063,887      | \$8,209,509                | \$1,110,832                  | \$75,002                 | \$1,222,973    | \$0                           | \$198,074                       | \$247,497  |
| 9/30/2008   | 663    | \$9,830,623       | \$7,565,977                | \$1,160,688                  | \$78,538                 | \$767,751      | \$0                           | \$255,671                       | \$1,998  |
| FY 2006     | 2665   | \$35,188,438      | \$27,508,013               | \$2,010,612                  | \$0                      | \$5,151,403    | \$0                           | \$179,692                       | \$338,722  |
| FY 2007     | 3241   | \$44,871,842      | \$35,659,934               | \$3,445,763                  | \$7,790                  | \$4,889,411    | \$0                           | \$776,323                       | \$92,622   |
| FY 2008     | 3146   | \$45,236,053      | \$34,552,131               | \$4,715,609                  | \$337,642                | \$4,418,803    | \$0                           | \$935,978                       | \$275,890  |
| YTD FY 2009 | 663    | \$9,830,623       | \$7,565,977                | \$1,160,688                  | \$78,538                 | \$767,751      | \$0                           | \$255,671                       | \$1,998  |
| CY 2005     | 2317   | \$29,967,726      | \$22,663,955               | \$1,602,010                  | \$0                      | \$3,799,720    | \$0                           | \$68,414                        | \$1,833,634  |
| CY 2006     | 3019   | \$41,543,062      | \$34,007,946               | \$2,593,085                  | \$0                      | \$4,313,906    | \$0                           | \$456,934                       | \$171,191  |
| CY 2007     | 3228   | \$44,444,813      | \$34,037,612               | \$4,357,581                  | \$171,213                | \$5,082,957    | \$0                           | \$745,642                       | \$49,809   |
| YTD CY 2008 | 2152   | \$31,971,864      | \$23,877,137               | \$3,477,664                  | \$252,757                | \$3,229,431    | \$0                           | \$878,074                       | \$256,801  |

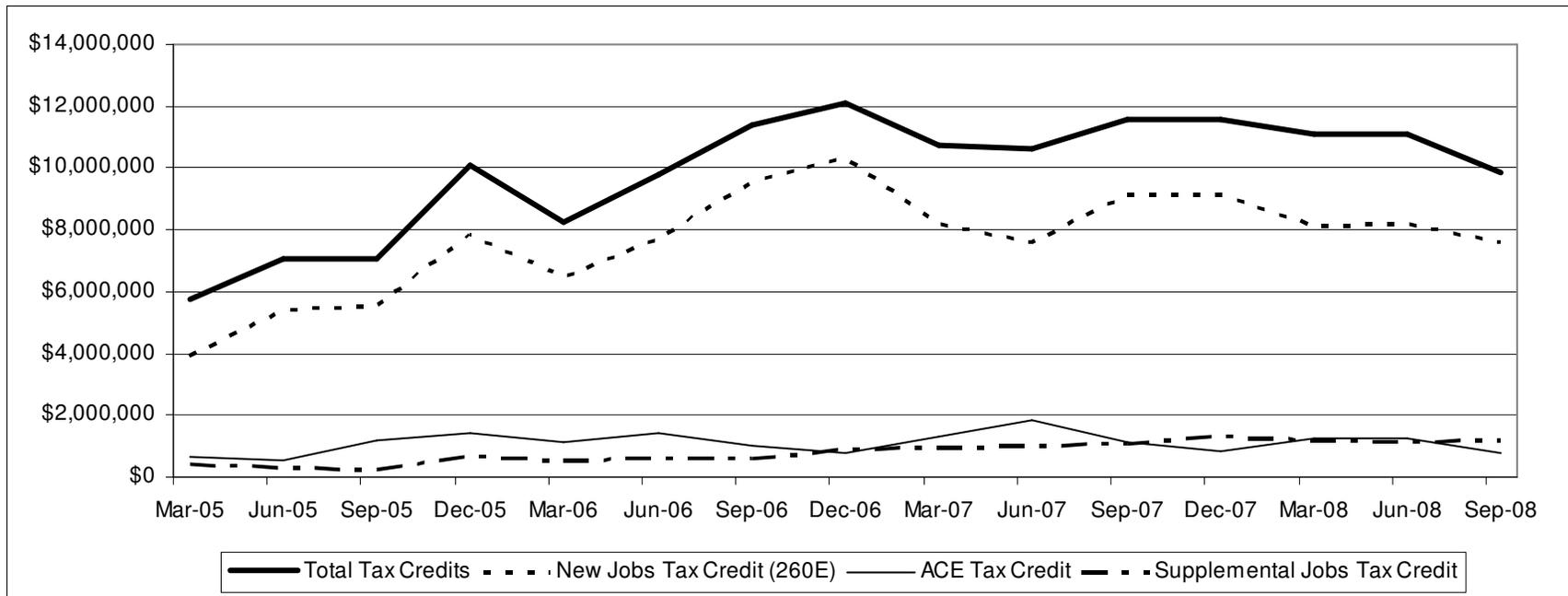
Source: IDR data

**Table 5: Iowa Industrial New Jobs Training Program (260E) Award and Claim Information**

|             | Amount of 260E Credits Awarded by DED | Amount Reported Paid to the Community Colleges | Amount of 260E and Supplemental Credit Correctly Claimed on Withholding Returns |
|-------------|---------------------------------------|--|---|
| FY 2001     | \$38,567,500                          | n/a  | n/a   |
| FY 2002     | \$36,465,750                          | n/a  | n/a   |
| FY 2003     | \$26,705,000                          | n/a  | n/a   |
| FY 2004     | \$26,746,500                          | \$40,667,329                                   | n/a   |
| FY 2005     | \$60,659,000                          | \$42,218,828                                   | n/a   |
| FY 2006     | \$34,860,000                          | \$42,763,460                                   | \$29,518,625  |
| FY 2007     | \$66,388,000                          | \$46,110,828                                   | \$39,105,697  |
| FY 2008     | \$68,274,000                          | \$43,111,908                                   | \$39,267,740  |
| YTD FY 2009 | \$10,012,000                          | \$12,426,290                                   | \$8,726,665   |

Source: IDR data and Data reported by the Department of Economic Development and Community Colleges

**Figure 1: Graph of Withholding Tax Credit Claims**



**Table 6: Tax Credit Contingent Liabilities Projection**

| Capped Programs   | History             |                     |                     |                     | Forecast            |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|   | FY 2005             | FY 2006             | FY 2007             | FY 2008             | FY 2009             | FY 2010             | FY 2011             | FY 2012             | FY 2013             |
| Accelerated Career Education Tax Credit   | \$5,814,485         | \$6,000,000         | \$6,000,000         | \$6,000,000         | \$6,000,000         | \$6,000,000         | \$6,000,000         | \$6,000,000         | \$6,000,000         |
| Cow-Calf Tax Credit   | \$1,770,342         | \$1,770,342         | \$2,000,000         | \$2,000,000         | \$2,000,000         | \$2,000,000         | \$2,000,000         | \$2,000,000         | \$2,000,000         |
| Economic Development Region Revolving Fund Tax Credit   | \$0                 | \$0                 | \$0                 | \$0                 | \$2,000,000         | \$2,000,000         | \$2,000,000         | \$2,000,000         | \$2,000,000         |
| Endow Iowa Tax Credit   | \$2,000,000         | \$2,000,000         | \$2,000,000         | \$2,000,000         | \$3,000,000         | \$3,000,000         | \$3,000,000         | \$3,000,000         | \$3,000,000         |
| Historic Preservation and Cultural and Entertainment District Tax Credit <sup>2</sup>             | \$2,315,358         | \$2,607,055         | \$5,371,291         | \$6,194,835         | \$8,933,728         | \$16,791,691        | \$16,828,101        | \$16,314,648        | \$15,815,206        |
| Redevelopment Tax Credit <sup>3</sup>   | \$0                 | \$0                 | \$0                 | \$0                 | \$0                 | \$550,000           | \$200,000           | \$50,000            | \$50,000            |
| Renewable Energy Tax Credit <sup>4</sup>  | \$0                 | \$0                 | \$0                 | \$4,400,000         | \$5,400,000         | \$5,500,000         | \$5,500,000         | \$5,500,000         | \$5,500,000         |
| School Tuition Organization Tax Credit  | \$0                 | \$0                 | \$2,500,000         | \$5,000,000         | \$7,500,000         | \$7,500,000         | \$7,500,000         | \$7,500,000         | \$7,500,000         |
| Soy-Based Transformer Fluid Tax Credit <sup>5</sup>   | \$0                 | \$0                 | \$17,062            | \$17,540            | \$85,398            | \$0                 | \$0                 | \$0                 | \$0                 |
| Venture Capital Tax Credit - Iowa Fund of Funds   | \$0                 | \$0                 | \$0                 | \$0                 | \$0                 | \$20,000,000        | \$20,000,000        | \$20,000,000        | \$20,000,000        |
| Venture Capital Tax Credit - Qualified Business or Community-Based Seed Capital Fund <sup>6</sup> | \$0                 | \$374,419           | \$719,535           | \$824,872           | \$2,166,308         | \$3,784,713         | \$2,130,133         | \$0                 | \$0                 |
| Venture Capital Tax Credit - Venture Capital Funds <sup>6</sup>                                   | \$0                 | \$200,448           | \$384,600           | \$185,625           | \$742,740           | \$580,223           | \$12,900            | \$104,662           | \$315,885           |
| Wage-Benefits Tax Credit  | \$0                 | \$0                 | \$0                 | \$10,000,000        | \$4,000,000         | \$4,000,000         | \$4,000,000         | \$4,000,000         | \$0                 |
| Wind Energy Production Tax Credit <sup>7</sup>  | \$0                 | \$0                 | \$0                 | \$12,505,000        | \$14,069,000        | \$14,069,000        | \$14,069,000        | \$14,069,000        | \$14,069,000        |
|   |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| <b>TOTAL OF CAPPED PROGRAMS</b>   | <b>\$11,900,185</b> | <b>\$12,952,264</b> | <b>\$18,992,487</b> | <b>\$49,127,872</b> | <b>\$55,897,174</b> | <b>\$85,775,628</b> | <b>\$83,240,134</b> | <b>\$80,538,310</b> | <b>\$76,250,092</b> |

<sup>2</sup> Estimates are based on data received from awarding agency and award recipients. Timing adjustments have been made to account for tax types against which the credits can be claimed.

<sup>3</sup> Estimates are based on information from the Fiscal Note for HF2687, 2008 Legislative Session and the \$1 million cap in the legislation.

<sup>4</sup> Estimates are based on full utilization of capacity limits set within the legislation of SF 390, 2005 Legislative Session. No applications were received in FY 2007 and the amount reported for FY 2008 is the dollar amount of applications approved.

<sup>5</sup> Estimates are based on the aggregate cap of the program and awards already issued.

<sup>6</sup> Once the award has been issued to the taxpayer, the taxpayer is required to wait three years before claiming the credit.

<sup>7</sup> Estimates are based on information from the Fiscal Note for SF 2405, 2008 Legislative Session.

**Table 6 Continued: Tax Credit Contingent Liabilities Projection**

| Uncapped Programs   | History              |                      |                      |                      | Forecast             |                      |                      |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|   | FY 2005              | FY 2006              | FY 2007              | FY 2008              | FY 2009              | FY 2010              | FY 2011              | FY 2012              | FY 2013              |
| Agricultural Assets Transfer Tax Credit <sup>8</sup>                | \$0                  | \$0                  | \$0                  | \$518,400            | \$1,612,800          | \$2,575,914          | \$3,010,131          | \$4,011,291          | \$4,942,676          |
| Assistive Device Tax Credit <sup>9</sup>                            | \$0                  | \$0                  | \$0                  | \$0                  | \$0                  | \$0                  | \$0                  | \$0                  | \$0                  |
| Biodiesel Blended Fuel Tax Credit <sup>10</sup>                     | \$0                  | \$119,823            | \$767,787            | \$2,176,838          | \$3,602,335          | \$4,095,430          | \$4,444,535          | \$4,667,879          | \$3,553,596          |
| Charitable Conservation Contribution Tax Credit <sup>11</sup>       | \$0                  | \$0                  | \$0                  | \$0                  | \$300,000            | \$500,000            | \$800,000            | \$1,100,000          | \$1,400,000          |
| Child & Dependent Care Tax Credit <sup>12</sup>                     | \$8,120,963          | \$8,241,622          | \$8,918,055          | \$8,921,373          | \$8,359,818          | \$8,185,857          | \$8,001,020          | \$5,814,980          | \$5,674,791          |
| E85 Gasoline Promotion Tax Credit <sup>10</sup>                     | \$0                  | \$19,678             | \$287,487            | \$594,021            | \$965,812            | \$1,372,384          | \$1,548,238          | \$1,444,756          | \$925,138            |
| Early Childhood Development Tax Credit <sup>13</sup>                | \$0                  | \$0                  | \$457,802            | \$513,059            | \$574,986            | \$644,387            | \$722,165            | \$809,330            | \$907,017            |
| Earned Income Tax Credit <sup>12</sup>                              | \$8,902,719          | \$9,800,348          | \$10,667,288         | \$23,909,882         | \$21,805,388         | \$21,997,151         | \$21,890,875         | \$20,478,469         | \$20,496,038         |
| Enterprise Zone Program <sup>14</sup>                               | \$23,501,957         | \$29,184,585         | \$39,673,599         | \$53,069,419         | \$62,236,305         | \$68,623,727         | \$65,617,733         | \$55,128,720         | \$36,459,052         |
| Ethanol Blended Gasoline Tax Credit <sup>15</sup>                   | \$3,636,880          | \$5,499,516          | \$5,825,084          | \$6,735,017          | \$7,062,894          | \$4,262,656          | \$2,207,475          | \$17,072             | \$0                  |
| Ethanol Promotion Tax Credit <sup>16</sup>                          | \$0                  | \$0                  | \$0                  | \$0                  | \$0                  | \$9,300,000          | \$10,200,000         | \$11,400,000         | \$12,300,000         |
| Film, Television, and Video Project Promotion Program <sup>17</sup> | \$0                  | \$0                  | \$0                  | \$590,332            | \$8,067,595          | \$10,756,793         | \$10,950,416         | \$11,147,523         | \$11,348,179         |
| High Quality Job Creation Program <sup>14</sup>                     | \$0                  | \$0                  | \$0                  | \$8,534,905          | \$59,738,384         | \$87,589,149         | \$90,559,885         | \$90,559,885         | \$82,024,980         |
| Iowa Industrial New Job Training Program (260E) <sup>18</sup>       | NA                   | \$29,518,625         | \$39,105,697         | \$39,267,740         | \$39,844,998         | \$40,430,741         | \$41,025,096         | \$41,628,188         | \$42,240,145         |
| New Capital and Income Program <sup>19</sup>                        | \$0                  | \$4,321,336          | \$7,883,137          | \$7,883,137          | \$7,883,137          | \$7,883,137          | \$3,561,801          | \$0                  | \$0                  |
| New Jobs and Income Program <sup>19</sup>                           | \$22,446,657         | \$30,533,352         | \$39,637,008         | \$31,694,118         | \$26,695,105         | \$17,190,350         | \$9,103,656          | \$0                  | \$0                  |
| Research Activities Tax Credit <sup>20</sup>                        | \$30,569,495         | \$33,935,183         | \$38,715,556         | \$49,099,597         | \$62,658,946         | \$74,695,734         | \$89,166,536         | \$106,601,584        | \$127,657,915        |
| Soy-Based Cutting Tool Oil Tax Credit <sup>21</sup>                 | \$0                  | \$0                  | \$60,000             | \$60,000             | \$0                  | \$0                  | \$0                  | \$0                  | \$0                  |
| Targeted Jobs Tax Credit from Withholding <sup>22</sup>             | \$0                  | \$0                  | \$7,790              | \$337,642            | \$796,879            | \$827,029            | \$827,029            | \$827,029            | \$827,029            |
| Tuition and Textbook Tax Credit <sup>12</sup>                       | \$14,267,756         | \$15,235,560         | \$15,054,930         | \$15,315,865         | \$16,348,410         | \$16,730,080         | \$17,174,787         | \$17,592,325         | \$17,976,958         |
| <b>TOTAL OF UNCAPPED PROGRAMS</b>                                   | <b>\$111,446,428</b> | <b>\$166,409,628</b> | <b>\$207,061,219</b> | <b>\$249,221,344</b> | <b>\$328,553,791</b> | <b>\$377,660,518</b> | <b>\$380,811,376</b> | <b>\$373,229,030</b> | <b>\$368,733,512</b> |
| <b>TOTAL OF ALL PROGRAMS</b>  | <b>\$123,346,613</b> | <b>\$179,361,892</b> | <b>\$226,053,706</b> | <b>\$298,349,217</b> | <b>\$384,450,964</b> | <b>\$463,436,146</b> | <b>\$464,051,510</b> | <b>\$453,767,340</b> | <b>\$444,983,604</b> |

<sup>8</sup> Estimates are based on data from the awarding agency. Future awards are projected in these estimates based on estimated growth of the program.

<sup>9</sup> Only one award has been made under this program since its inception.

<sup>10</sup> Estimates are based on data from the IA 148 and the Annual Fuel Retailers Report for FY08.

<sup>11</sup> Estimates are based on the Fiscal Note for HF 2080, 2008 Legislative Session.

<sup>12</sup> Estimates are based on the IDR individual income tax model simulation.

<sup>13</sup> Estimates are based on the growth between the 2006 and 2007 tax year claims.

<sup>14</sup> Estimates are based on information from the awarding agency and include only the potential claims of awards made as of 9/30/08. No attempt is made to project future awards.

<sup>15</sup> Estimates are based on data from the IA 6478, IA 148 and Corporate Income Tax returns.

<sup>16</sup> Estimates are based on the Fiscal Note for HF 2754, 2006 Legislative Session.

<sup>17</sup> Estimates are based on information in the Fiscal Note for HF 892, 2007 Legislative Session and awards made to date for this program.

<sup>18</sup> Estimates are based on credits claimed multiplied by the compound annual growth rate of the amount paid to the community colleges which is reported in Table 3.

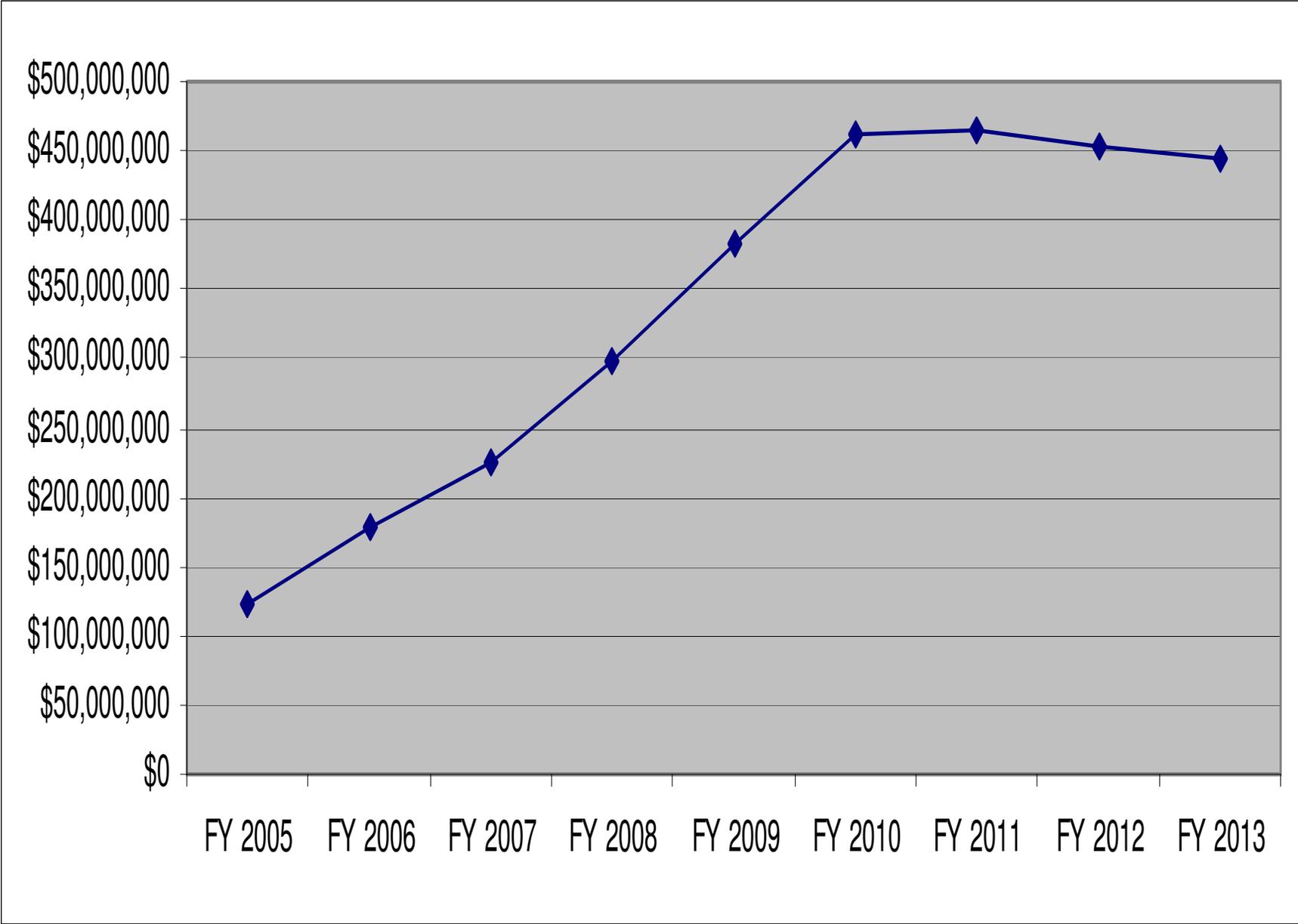
<sup>19</sup> Estimates are based on information from the awarding agency. This program ended 7/1/05 and it is expected that all awards will be claimed before FY 2012.

<sup>20</sup> Estimates are based on the CAGR of individual claims captured from the IA 128 and 128A schedules and the CAGR from the Schedule C on corporate returns.

<sup>21</sup> Estimates are based on the Fiscal Note for SF 389, 2005 Legislative Session.

<sup>22</sup> Estimates are based on awards and claims made to date and does not project future awards.

**Figure 2: Graph of Potential Contingent Liability Due to Tax Credits in Iowa**



## ***Appendix: Description of Iowa's Tax Credit Programs***

**Accelerated Career Education Program (ACE) (260G):** This withholding credit is administered by Iowa's Community Colleges and provides credits for employers that sponsor training slots at community colleges. Section 260G, Code of Iowa.

**Agricultural Assets Transfer Tax Credit:** This credit is awarded by the Iowa Agricultural Development Authority to taxpayers that lease agricultural assets to qualified beginning farmers. Section 175.37, Code of Iowa.

**Assistive Device Tax Credit:** This credit is awarded by the Iowa Department of Economic Development (DED) to taxpayers who make investments in assistive devices that allow for disability workplace accommodation. Section 422.11E, Code of Iowa.

**Biodiesel Blended Fuel Tax Credit:** This credit is available to retail dealers who sell biodiesel blended fuel equal to over 50 percent of their total diesel sales. Section 422.11P, Code of Iowa.

**Charitable Conservation Contribution Tax Credit:** This credit is available to taxpayers who make an unconditional charitable donation of a qualified real property interest located in the State of Iowa to a qualified organization exclusively for conservation purposes. Section 422.11V, Code of Iowa.

**Child and Dependent Care Tax Credit:** This credit is available to individual taxpayers who have eligible child and dependent care expenses. Section 422.12C, Code of Iowa.

**Cow-Calf Tax Credit:** Eligible individual and corporation income taxpayers who operate cow-calf beef operations in Iowa are eligible for a cow-calf credit. Section 422.120, Code of Iowa.

**E85 Gasoline Promotion Tax Credit:** An income tax credit, on a rate per gallon sold basis, is available to retail dealers of gasoline who sell E85 gasoline. Section 422.11O, Code of Iowa.

**Early Childhood Development Tax Credit:** The Early Childhood Development tax credit is equal to 25% of the first \$1,000 of expenses paid for early childhood development expenses for each dependent from the ages of three to five. Section 422.12C(1A), Code of Iowa.

**Earned Income Tax Credit:** This credit is available to individual taxpayers who qualify for the federal earned income tax credit. The credit is equal to 7% of the federal earned income credit. Section 422.12B, Code of Iowa.

**Economic Development Region Revolving Fund Tax Credit:** This credit is awarded by DED and is equal to 20% of the contribution made to an economic development region revolving fund. Section 15E.232, Code of Iowa.

**Endow Iowa Tax Credit:** This credit is awarded by DED and is equal to 20% of a taxpayer's endowment gift (up to \$100,000 for a single taxpayer) to a qualified community foundation. Section 15E.305, Code of Iowa.

**Enterprise Zone Program (EZ):** This program, administered by DED, encourages investment in Iowa's economically distressed areas by providing local and state tax credits, refunds and exemptions to qualifying companies that expand or locate in designated Enterprise Zones. Section 15E.191 through 15E.196, Code of Iowa.

**Ethanol Blended Gasoline Tax Credit:** A tax credit is available to service stations at which more than 60 percent of the total gasoline sold is ethanol blended gasoline. The credit is equal to two and a half cents for each gallon sold in excess of 60 percent. This credit will be replaced in 2009 by the Ethanol Promotion Tax Credit. Section 422.11C (2), Code of Iowa.

**Ethanol Promotion Tax Credit:** This credit will replace the ethanol blended gasoline credit beginning in 2009. It will be based on the amount of pure ethanol gallons sold. Section 422.11N, Code of Iowa.

**Film, Television, and Video Project Promotion Program:** This program, administered by DED, provides a 25 percent tax credit for investments or qualified expenditures in film projects produced in the State of Iowa. Section 15.391 through 15.393, Code of Iowa.

**High Quality Job Creation Program (HQJCP):** This program, administered by DED, provides tax benefits to eligible companies that create high-paying jobs and make capital investments. The program was created in 2005 and replaced the New Jobs and Income Program (NJIP) and the New Capital Investment Program (NCIP) beginning in FY 2006. Section 15.326 through 15.337, Code of Iowa.

**Historic Preservation and Cultural and Entertainment District Tax Credit:** This tax credit, administered by the Iowa Department of Cultural Affairs, provides a 25 percent tax credit for investments made in the rehabilitation of eligible historic properties. Section 404A, Code of Iowa.

**Iowa Industrial New Jobs Training Program (260E):** This program, administered by Iowa's Community Colleges, assists businesses that are creating new positions with new employee training. Participating companies divert withholding taxes that would be remitted to the Department of Revenue to a community college to pay for training for company employees. Section 260E, Code of Iowa.

**New Capital Investment Program (NCIP):** This program, administered by DED, was replaced by the High Quality Job Creation Program, beginning in FY 2006. Section 15.381 through 15.387, Code of Iowa.

**New Jobs and Income Program (NJIP):** This program, administered by DED, was replaced by the High Quality Job Creation Program, beginning in FY 2006. Section 15.326 through 15.337, Code of Iowa.

**Redevelopment Tax Credit:** This credit is available to taxpayers that invest in redeveloping a brownfield or grayfield site. Section 15.291 and 15.293, Code of Iowa.

**Renewable Energy Tax Credit:** This credit is available for a producer or purchaser of energy from a renewable energy facility approved as eligible by the Iowa Utilities Board (IUB). The Department of Revenue determines the amount of the tax credits and issues tax credit certificates, which authorize credits to be claimed, to eligible applicants. Section 476C, Code of Iowa.

**Research Activities Tax Credit:** This credit is 6.5 percent of Iowa's apportioned share of qualifying expenditures for increasing research activities. The Iowa research credit is based on the federal research activities credit, with the Iowa credit based on the ratio of Iowa research expenditures over total research expenditures. Section 15.335, Code of Iowa.

**School Tuition Organization Tax Credit:** This credit, administered by IDR, is for 65% of the amount of a voluntary cash contribution made by a taxpayer to a school tuition organization. Section 422.11S, Code of Iowa.

**Soy-Based Cutting Tool Oil Tax Credit:** A manufacturer is eligible to take a credit equal to the costs incurred for the purchase and replacement costs relating to the transition from using nonsoy-based cutting tool oil to using soy-based cutting tool oil. Section 422.11I, Code of Iowa.

**Soy-Based Transformer Fluid Tax Credit:** Electric utilities may claim this credit, administered by IDR, for the costs incurred by the utility for the purchase and replacement costs relating to the transition from using nonsoy-based transformer fluid to using soy-based transformer fluid. Section 476D, Code of Iowa.

**Targeted Jobs Tax Credit from Withholding:** This pilot program, administered by DED and four pilot project cities, provides for a withholding credit equal to 3% of the gross wages paid by the employer to each employee under the withholding agreement. These funds are to be used by the pilot city for an urban renewal project related to the employer. Section 403.19A, Code of Iowa.

**Tuition and Textbook Tax Credit:** This credit is available to individual taxpayers who have one or more dependents attending grades K-12 in an Iowa school. The credit percentage is 25% of the first \$1,000 paid for each dependent for tuition and textbooks. Section 422.12 (2), Code of Iowa.

**Venture Capital Tax Credit – Iowa Fund of Funds:** This contingent tax credit, administered by the Iowa Capital Investment Board (ICIB), is allowed for investments made into the Iowa fund of funds. The tax credit is only allowed to the extent that the actual rate of return on these investments does not meet the rate of return guaranteed to investors. Section 15E.61 through 15E.69, Code of Iowa.

**Venture Capital Tax Credit – Qualified Business or Community-Based Seed Capital Fund:** This credit, administered by ICIB, is 20 percent of the equity investment made into a qualifying business or community-based seed capital fund. Section 15E.41 through 15E.46, Code of Iowa.

**Venture Capital Tax Credit – Venture Capital Funds:** This credit, administered by ICIB, is 6 percent of the equity investment made in a venture capital fund. Section 15E.51, Code of Iowa.

**Wage-Benefit Tax Credit:** This credit, administered by IDR, is based on creating new jobs with good wages and benefits. The credit is either 5 percent or 10 percent of wages (depending on total wages and benefits relative to county average wage) for up to five years, as long as the job is retained. Section 15I.1 through 15I.5, Code of Iowa.

**Wind Energy Production Tax Credit:** This credit is for electrical production facilities that produce electricity from wind and are approved as eligible by the local board of supervisors and the IUB. The Department of Revenue determines the amount of the tax credits and issues tax credit certificates, which authorize credits to be claimed, to eligible applicants. Section 476B, Code of Iowa.