

# IOWA Department of REVENUE

## Tax Credits Contingent Liabilities Brief

March 17, 2009

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 Program. The goal of the program 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 \$400 million in tax credits were awarded. In FY 2008, there was a decrease in awards from FY 2007 with nearly \$290 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 \$435 million by FY 2010, which is an increase of over 250%. The projected liability amounts for most of 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 revises award amounts for those projects that do not meet their commitments or have declined the award. These revisions resulted in a decrease of \$101 million tax credits awarded.
- The programs that appear to be having the greatest amount of impact on contingent liabilities are the High Quality Job Creation Program, Enterprise Zone Program, Research Activities Tax Credit, and the Iowa Industrial New Jobs Training Program (260E). In addition, The Film, Television, and Video Project Promotion Program is being utilized more than was estimated when the program was adopted and therefore having a greater fiscal impact than was predicted. Federal and State legislative changes to the Earned Income Tax Credit are increasing the fiscal impact of the tax credit.
- 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. The numbers for FY 2009 appear to be on course to match FY 2008 refunds.

## **Tax Credit Awards**

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 increased 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. The Department of Economic Development recently revised their historical award numbers which resulted in a decrease of over \$101 million.

In FY 2008, the amount of tax credits awarded decreased by over \$115 million. The largest decreases in the amount of awards were seen in the High Quality Job Creation Program (\$76 million decrease) and the Enterprise Zone Program (\$50 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 has been published separately and can be found online at: <http://www.state.ia.us/tax/taxlaw/TaxCreditsClaimReport2006.pdf>.

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 nearly 900%; The Earned Income Tax Credit had the next largest growth at nearly 300%, but this growth is due to a change in the amount of the credit as well as the credit moving from nonrefundable to refundable. "Other Nonrefundable Tax Credits" also had triple digit growth at just over 200%. Data from the 2006 IA 148 indicates that nearly 60 percent of the "Other Nonrefundable Tax Credit" claims are from administrative tax credits which are meant to avoid double taxation or the taxation of income not earned in Iowa.

There was a \$20 million decrease from 2006 in the amount of "Other Nonrefundable Tax Credits" claims made in 2007. 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 tax years 2001 through 2005, Research Activities Tax Credit claims accounted for over 80% of the dollars of all corporate income tax credit claims. In 2006, the Research Activities Tax Credit only accounted for 57%. There has been tremendous growth in the amount of "Other Credits" claimed. "Other Credits" claims normally account for 5 to 10% of all corporate claims; in 2006, those claims accounted for over 40% of corporate tax credit claims.

In tax year 2006, over 80% of nonrefundable tax credit claims were made on individual income tax returns (see Table 3). Nonrefundable tax credit claims were also made against corporate income, franchise, and insurance premium taxes. Refundable tax credit claims were only made against corporate income and individual income taxes (see Table 4).

## ***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 5). 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 \$4.0 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. Withholding tax credit claims are available since March 2005 (see Table 6), 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 7). 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 8). 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 some of the 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	\$2,212,946
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	\$1,325,985
Enterprise Zone Program	\$21,799,195	\$68,865,745	\$13,282,669	\$16,983,376	\$41,301,760	\$75,089,337	\$91,320,167	\$41,128,544	\$13,943,865
Enterprise Zone Program - Housing Component	\$2,937,569	\$4,453,528	\$5,780,202	\$7,493,932	\$10,932,164	\$14,735,244	\$7,830,737	\$12,067,177	\$10,932,142
Film Expenditure Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$383,934	\$10,805,152
Film Investment Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$206,397	\$3,989,704
High Quality Job Creation Program	n/a	n/a	n/a	n/a	n/a	\$39,068,026	\$203,478,829	\$127,006,570	\$16,646,043
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	\$66,418,000	\$68,299,000	\$10,012,000
New Capital Investment Program	n/a	n/a	n/a	\$21,606,680	\$16,267,471	n/a	n/a	n/a	n/a
New Jobs and Income Program	\$39,714,446	\$24,995,065	\$47,523,776	\$19,830,231	\$59,060,396	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	\$2,107,818
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	\$3,394
Targeted Jobs Tax Credit from Withholding	n/a	n/a	n/a	n/a	n/a	n/a	\$845,700	\$5,918,588	\$4,497,000
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	\$764,411	\$618,154	\$55,410	\$130,760
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
Total Credits Awarded Each Fiscal Year	\$106,102,769	\$139,967,140	\$99,167,266	\$101,069,499	\$199,415,773	\$181,083,326	\$401,213,363	\$286,649,126	\$109,106,809

<sup>1</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	2008*
Total Individual Income Tax Credits	\$48,279,743	\$51,410,455	\$72,705,744	\$81,418,844	\$84,959,270	\$105,116,138	\$132,114,609	\$129,470,230	\$22,617,743
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	\$4,544,986
Early Childhood Development Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	\$457,802	\$515,302	\$272,438
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	\$13,187,142
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	\$4,087,144
Other Nonrefundable Tax Credits	\$23,228,165	\$24,668,908	\$42,394,881	\$46,272,542	\$49,359,183	\$65,243,453	\$89,726,920	\$69,951,972	\$480,488
Other Refundable Tax Credits	\$1,058,729	\$1,620,306	\$2,707,360	\$4,484,884	\$4,308,649	\$6,595,155	\$7,289,614	\$10,501,329	\$45,545

	2000	2001	2002	2003	2004	2005	2006	2007*	2008*
Total Corporate Income Tax Credits	\$34,977,630	\$30,233,861	\$31,992,106	\$34,502,493	\$37,987,706	\$45,000,414	\$71,411,874	\$38,124,793	\$72,452
Other Credits	\$8,626,270	\$3,169,334	\$2,333,210	\$2,438,500	\$3,433,238	\$2,610,613	\$28,835,867	#	#
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	\$1,951,311	#	#
Research Activities Credit	\$25,336,056	\$25,428,365	\$27,453,582	\$29,766,149	\$33,037,351	\$37,194,442	\$40,624,696	#	#

Source: IDR data

\* = incomplete data for tax year

n/a = program not yet created, or discontinued

# = tax credit detail not yet available

**Table 3: Nonrefundable Tax Credit Claims from IA 148**

Tax Type	TY 2006
Corporate Income Tax	\$17,848,834
Franchise Tax	\$717,319
Individual Income Tax	\$89,726,920
Insurance Premium Tax	\$3,278,104
<b>Total</b>	<b>\$111,571,177</b>

**Table 4: Refundable Tax Credit Claims from IA 148**

Tax Type	TY 2006
Corporate Income Tax	\$53,563,040
Franchise Tax	\$0
Individual Income Tax	\$7,289,614
Insurance Premium Tax	\$0
<b>Total</b>	<b>\$60,852,654</b>

**Table 5: Sales & Use Tax Refunds by Tax Credit Program by Fiscal Year**

	<b>Enterprise Zone</b>	<b>Housing-Enterprise Zone</b>	<b>New Jobs &amp; Income Program</b>	<b>New Capital Investment Program</b>	<b>High Quality Job Creation Program</b>	<b>Total Refunds</b>
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*	\$1,689,102	\$855,434	\$0	\$0	\$1,502,529	\$4,047,065

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	\$9,669,289	\$7,410,925	\$647,505	\$0	\$1,419,595	\$0	\$63,461	\$127,805
3/31/2006	647	\$8,439,178	\$6,678,626	\$525,543	\$0	\$1,114,214	\$0	\$18,012	\$102,783
6/30/2006	705	\$10,053,245	\$7,937,229	\$580,727	\$0	\$1,436,115	\$0	\$94,666	\$4,508
9/30/2006	796	\$11,771,318	\$9,877,172	\$604,754	\$0	\$1,004,534	\$0	\$236,465	\$48,393
12/31/2006	879	\$12,350,752	\$10,586,350	\$882,061	\$0	\$759,043	\$0	\$107,791	\$15,507
3/31/2007	797	\$11,123,935	\$8,568,130	\$952,094	\$1,864	\$1,287,368	\$0	\$297,848	\$16,633
6/30/2007	784	\$11,000,572	\$7,992,247	\$1,027,590	\$5,926	\$1,838,466	\$0	\$124,254	\$12,089
9/30/2007	805	\$12,241,662	\$9,809,723	\$1,095,022	\$63,101	\$1,134,442	\$0	\$129,607	\$9,767
12/31/2007	867	\$12,136,763	\$9,665,438	\$1,343,341	\$100,322	\$822,681	\$0	\$183,968	\$21,013
3/31/2008	780	\$11,744,389	\$8,735,361	\$1,239,000	\$99,217	\$1,238,707	\$0	\$424,798	\$7,306
6/30/2008	758	\$11,601,636	\$8,687,408	\$1,156,960	\$87,428	\$1,226,085	\$0	\$196,259	\$247,497
9/30/2008	710	\$11,198,170	\$8,864,930	\$1,204,540	\$119,529	\$775,416	\$0	\$231,706	\$2,049
12/31/2008	773	\$10,672,352	\$7,950,314	\$1,601,651	\$138,952	\$797,710	\$0	\$157,856	\$25,869
FY 2006	2668	\$35,242,587	\$27,562,162	\$2,010,612	\$0	\$5,151,403	\$0	\$179,692	\$338,722
FY 2007	3256	\$46,246,577	\$37,023,899	\$3,466,499	\$7,790	\$4,889,411	\$0	\$766,358	\$92,622
FY 2008	3210	\$47,724,450	\$36,897,930	\$4,834,323	\$350,068	\$4,421,915	\$0	\$934,632	\$285,583
YTD FY 2009	1483	\$21,870,522	\$16,815,244	\$2,806,191	\$258,481	\$1,573,126	\$0	\$389,562	\$27,918
CY 2005	2317	\$29,550,673	\$22,246,902	\$1,602,010	\$0	\$3,799,720	\$0	\$68,414	\$1,833,634
CY 2006	3027	\$42,614,493	\$35,079,377	\$2,593,085	\$0	\$4,313,906	\$0	\$456,934	\$171,191
CY 2007	3253	\$46,502,932	\$36,035,538	\$4,418,047	\$171,213	\$5,082,957	\$0	\$735,677	\$59,502
YTD CY 2008	3021	\$45,216,547	\$34,238,013	\$5,202,151	\$445,126	\$4,037,918	\$0	\$1,010,619	\$282,721

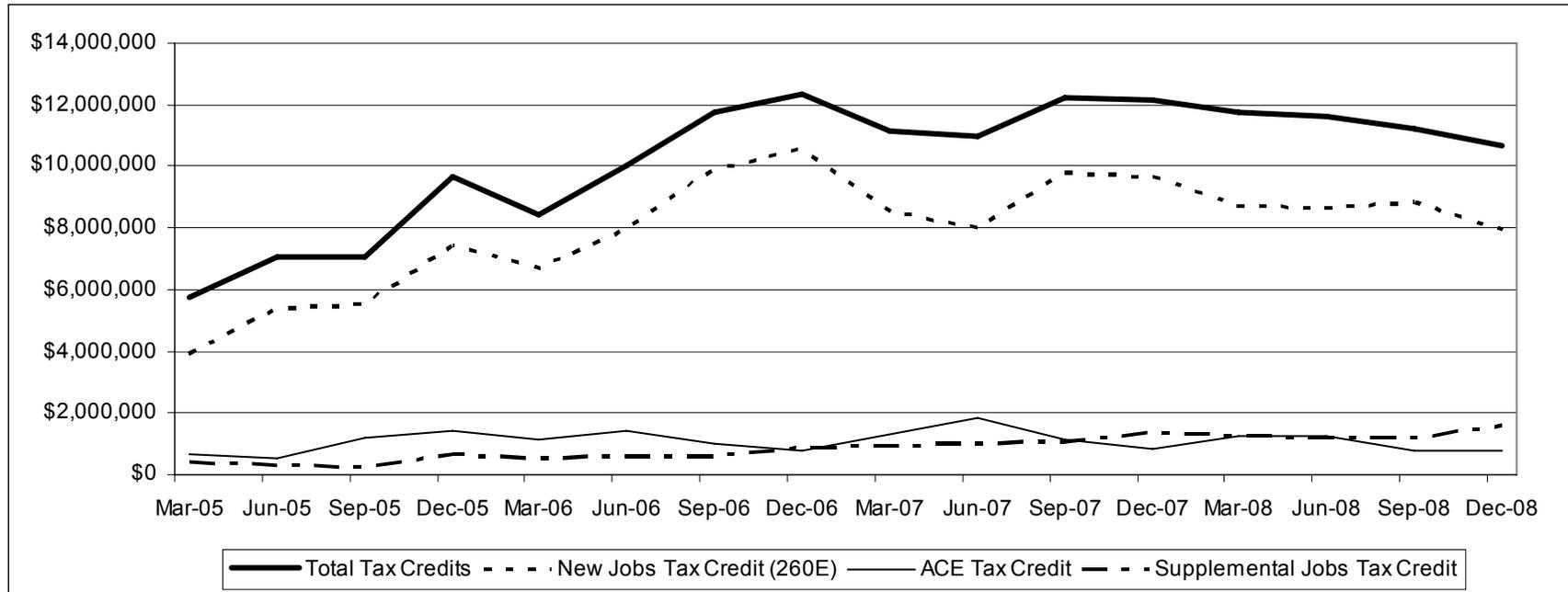
Source: IDR data

**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	\$29,572,774
FY 2007	\$66,418,000	\$46,110,828	\$40,490,398
FY 2008	\$68,299,000	\$43,088,634	\$41,732,253
YTD FY 2009	\$10,012,000	\$24,947,649	\$19,621,435

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

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



**Table 8: 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	\$6,314,756	\$10,067,610	\$16,182,526	\$14,846,835	\$14,702,132	\$15,926,389
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	\$1,492,898	\$2,107,818	\$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	\$764,411	\$618,154	\$55,410	\$130,760	\$334,201
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	\$0	\$0	\$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>\$33,835,691</b>	<b>\$39,691,545</b>	<b>\$85,204,394</b>	<b>\$81,301,378</b>	<b>\$78,951,893</b>	<b>\$76,379,591</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 amounts reported for fiscal years 2008 and 2009 are the dollar amounts of applications approved to date.

<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. As of March 10, 2009, there have been no awards issued, therefore it is assumed there will be no credit claim in FY 2009.

**Table 8 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	\$1,431,000	\$2,021,004	\$2,143,587	\$2,950,132	\$3,573,921
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	\$1,660,028	\$3,046,403	\$3,906,711	\$4,480,759	\$4,823,539	\$5,260,039	\$2,665,231
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	\$8,957,814	\$7,780,154	\$7,659,210	\$7,247,548	\$7,039,901	\$6,824,074
E85 Gasoline Promotion Tax Credit <sup>10</sup>	\$0	\$19,678	\$310,987	\$652,784	\$1,098,971	\$1,551,954	\$1,833,772	\$1,921,332	\$1,586,328
Early Childhood Development Tax Credit <sup>13</sup>	\$0	\$0	\$457,802	\$515,302	\$580,024	\$652,875	\$734,876	\$827,177	\$931,070
Earned Income Tax Credit <sup>12</sup>	\$8,902,719	\$9,800,348	\$10,667,288	\$24,018,691	\$23,678,384	\$26,584,844	\$26,212,121	\$22,449,340	\$21,561,590
Enterprise Zone Program <sup>14</sup>	\$23,423,782	\$28,319,243	\$38,766,028	\$51,783,591	\$56,949,918	\$63,776,488	\$63,856,227	\$53,409,443	\$35,444,526
Ethanol Blended Gasoline Tax Credit <sup>15</sup>	\$3,636,880	\$5,499,516	\$5,825,084	\$7,351,631	\$8,766,619	\$5,404,849	\$2,799,720	\$21,652	\$0
Ethanol Promotion Tax Credit <sup>16</sup>	\$0	\$0	\$0	\$0	\$0	\$2,841,870	\$6,362,181	\$5,972,582	\$5,483,140
Film, Television, and Video Project Promotion Program <sup>17</sup>	\$0	\$0	\$0	\$590,332	\$19,726,475	\$26,301,966	\$26,880,609	\$27,418,222	\$27,911,749
High Quality Job Creation Program <sup>14</sup>	\$0	\$0	\$0	\$7,813,605	\$48,509,371	\$73,910,685	\$77,239,894	\$77,239,894	\$69,426,288
Iowa Industrial New Job Training Program (260E) <sup>18</sup>	NA	\$29,572,774	\$40,490,398	\$41,732,253	\$42,340,024	\$42,956,647	\$43,582,250	\$44,216,963	\$44,860,921
New Capital and Income Program <sup>19</sup>	\$0	\$4,321,336	\$7,574,830	\$7,574,830	\$7,574,830	\$7,574,830	\$3,253,494	\$0	\$0
New Jobs and Income Program <sup>19</sup>	\$22,446,657	\$26,412,704	\$38,224,783	\$30,281,894	\$25,282,881	\$15,778,125	\$11,812,079	\$0	\$0
Research Activities Tax Credit <sup>20</sup>	\$30,569,495	\$33,935,183	\$38,821,864	\$44,048,879	\$47,567,128	\$51,011,931	\$53,683,882	\$57,524,879	\$64,152,967
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	\$350,068	\$851,040	\$1,522,407	\$1,897,407	\$1,897,407	\$1,897,407
Tuition and Textbook Tax Credit <sup>12</sup>	\$14,267,756	\$15,235,560	\$15,054,930	\$15,525,122	\$14,797,936	\$15,286,201	\$15,835,597	\$16,334,797	\$16,919,221
<b>TOTAL OF UNCAPPED PROGRAMS</b>	<b>\$111,368,252</b>	<b>\$161,477,787</b>	<b>\$206,839,867</b>	<b>\$244,821,600</b>	<b>\$311,141,466</b>	<b>\$349,816,645</b>	<b>\$350,998,784</b>	<b>\$325,583,759</b>	<b>\$304,638,434</b>
<b>TOTAL OF ALL PROGRAMS</b>	<b>\$123,268,438</b>	<b>\$174,430,051</b>	<b>\$225,832,355</b>	<b>\$278,657,291</b>	<b>\$350,833,011</b>	<b>\$435,021,039</b>	<b>\$432,300,162</b>	<b>\$404,535,652</b>	<b>\$381,018,025</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 data from the Annual Fuel Retailers Report for FY08.

<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 7.

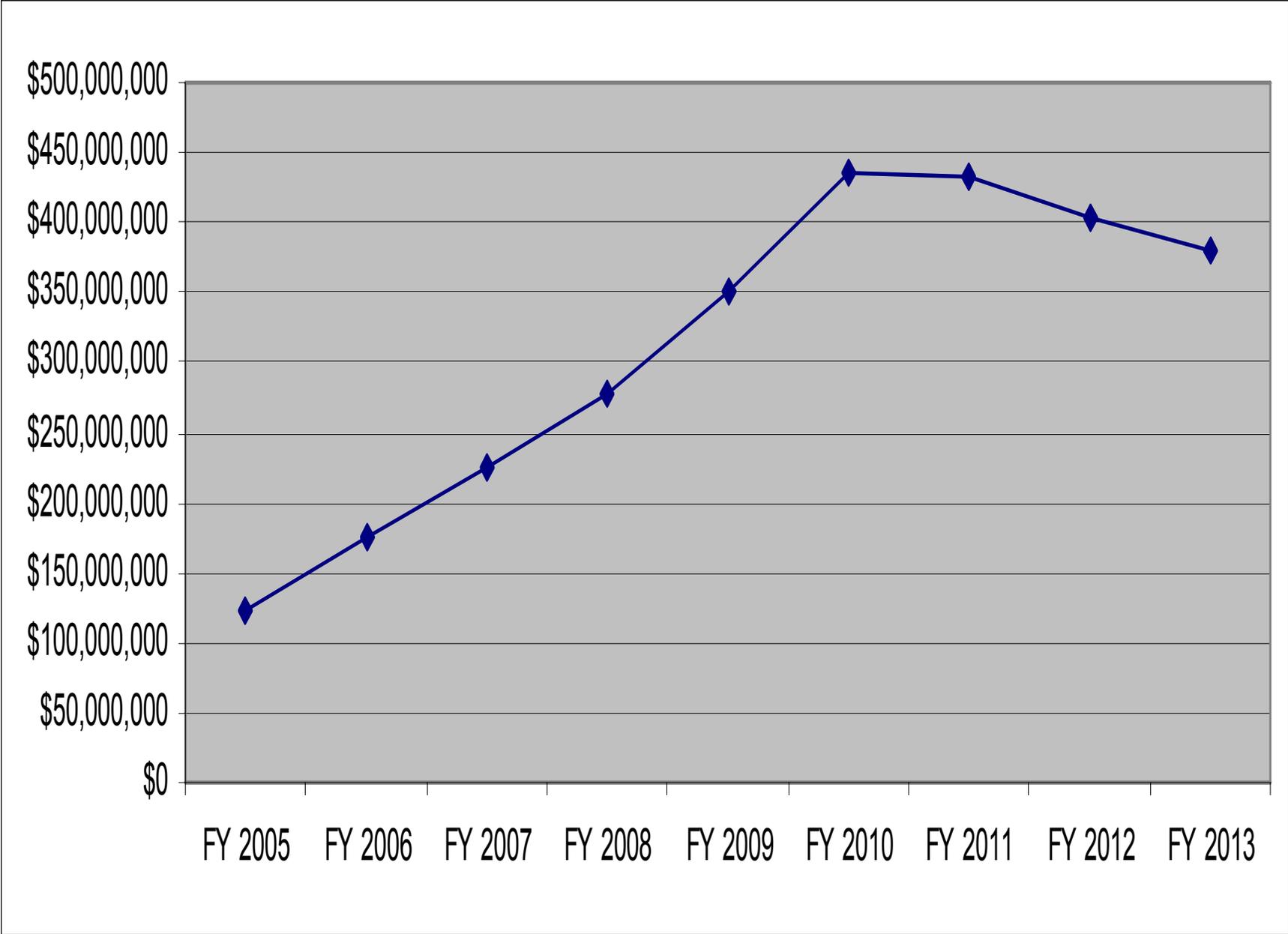
<sup>19</sup> Estimates are based on information from the awarding agency. This program ended 7/1/05 and it is expected that all awards will be claimed before FY 2012.

<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 the amount of fiscal year awards having no growth over fiscal year 2008 and the program's scheduled end of FY 2010.

**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.