Fiscal Note

Fiscal Services Division

[HF 87](#) – Homeownership Development Tax Credit (LSB1340YH)
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Fiscal Note Version – New

Description

House File 87 creates a new Homeownership Development Tax Credit. Taxpayers who make a charitable contribution to an eligible housing developer will receive an Iowa tax credit equal to 50.0% of the contribution. The tax credit is available for individual, corporate, franchise (bank), insurance premium, and credit union tax payers. The program will be administered by the Department of Revenue (DOR) and the Economic Development Authority (IEDA).

The tax credit is nontransferable and nonrefundable, but tax credits in excess of tax liability may be carried forward up to five tax years. The tax credit may not be claimed on any contribution for which a taxpayer claims an Iowa itemized deduction.

Total awards made under the program are capped at $7.0 million per calendar year. At least 20.0% of the annual cap must be reserved for contributions to eligible rural housing developers. A taxpayer's annual tax credit is capped at $250,000 ($300,000 if certain rural housing developer requirements are met). Tax credits are awarded on a first-come, first-served basis and once the limit for a calendar year is reached, a wait list for credits under the next calendar year's cap is required.

An eligible housing developer is defined to include an Iowa nonprofit, tax-exempt organization that has been developing Iowa single-family housing for low-income households for at least three years. Additionally, an eligible rural housing developer must operate in Iowa counties with a population of 50,000 or less.

The new tax credit is available beginning January 1, 2019, and applies to charitable contributions made on or after that date.

Assumptions

- Tax credit and low-income housing construction demand is sufficient to fully utilize the annual $7.0 million tax credit allocation, including the first-year allocation (calendar year 2019).
- Eighty-three percent ($5.8 million) of the annual allocation will be awarded to individual income tax payers, and the remaining 17.0% ($1.2 million) will be awarded to corporate income tax payers.
- The tax credits are not refundable or transferable, but unused credits may be carried forward. Corporate tax credits are assumed to be redeemed 100.0% in the calendar year of award, while individual income tax credits are assumed to be redeemed on the following schedule:
  - Year 1 = 70.0%
  - Year 2 = 20.0%
  - Year 3 = 6.0%
  - Expiring unredeemed = 4.0%

- Contributions eligible for the tax credit cannot be also claimed as itemized deductions or corporate expenses for Iowa tax purposes. It is assumed that 50.0% of all contributions represent contributions or expenses that would otherwise have been Iowa income tax deductions.
- For all years, the average marginal individual income tax rate is assumed to be 6.9% and the average marginal income tax rate for corporate taxpayers is assumed to be 7.7%.
- The average individual income surtax rate is assumed to be 2.9% for all years.

Fiscal Impact

The new Homeownership Development Tax Credit is projected to reduce net General Fund revenue by $4.8 million in FY 2020, $5.9 million in FY 2021, and $6.3 million in FY 2022 and future fiscal years. Additionally, the credit will reduce the amount of revenue raised by the local option income surtax for schools by $0.1 million in FY 2020 and FY 2021, and $0.2 million in future fiscal years.

The Department of Revenue reports that the projected one-time staff and programming expenses associated with implementing the new tax credit will equal an estimated $240,000.

Source

Department of Revenue

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