

# IOWA Department of REVENUE

## Tax Credits Contingent Liabilities Report

October 7, 2009

The Tax Credits Contingent Liabilities Report 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 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. **The forecasts presented in this report reflect potential liabilities at amounts equal to the maximums made available by law to qualifying taxpayers. History indicates the actual liabilities in any fiscal year may be less as it is likely less than the maximum allowed by law will be made available under some programs.**

This report presents five types of data:

1. Tax Credit Awards in State Fiscal Years 2001 through 2010
2. Tax Credit Claims in Tax Years 2000 through 2008
3. Sales and Use Tax Refunds by Tax Credit Program for State Fiscal Years 2000 through 2010
4. Withholding Tax Credit Claims by Quarter since January 2005
5. Forecasts of the Contingent Liabilities due to Tax Credits for FY 2010 through 2014

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 has increased over the past several years. The amount of credits claimed under each tax credit program often increases as more taxpayers learn about the credits. More tax credits have also been made refundable or transferable which leads to increased claims of those tax credits. Overall, the data point to tax credits as an increasingly important factor for which adjustments must be made to state revenue estimates.

### Summary

- There has been tremendous growth in the amount of credits awarded since FY 2001, although awards have dropped in the last two years. In FY 2001, the amount of awarded credits was just over \$100 million; in FY 2007, nearly \$400 million in tax credits were awarded. In FY 2008, there was a decrease in awards from FY 2007 with nearly \$240 million in tax credits awarded. The amount of awards decreased again from the previous year in FY 2009 to just over \$160 million. The recent decrease in tax credit awards is attributed to the recession and the depressed market for biofuels.
- The potential liability of tax credits has also continued to increase. In FY 2007, \$219 million in tax credits were claimed against Iowa taxes. The potential amount is expected to increase to over \$566 million by FY 2011, which is an increase of over 150%.
- Now that more data is available from the IA 148 Tax Credits Schedule, that data is being used to forecast the claims against most tax credits. The new estimation methods may result in changes to the estimates from previous Contingent Liabilities Reports for some tax credits.
- The programs that appear to be having the greatest amount of impact on contingent liabilities are the Film, Television, and Video Project Promotion Program, High Quality Jobs Program, Enterprise Zone Program, Research Activities Tax Credit, and the Iowa Industrial New Jobs Training Program (260E). A recent cap placed on certain Economic Development programs should limit the impact of these tax credits, however, the cap did not go into effect until July, 2009.
- The estimate for the Earned Income Tax Credit has been revised up from previous reports due to a temporary federal expansion of the credit and changing economic factors, which will likely result in more households being eligible for the credit.

## ***Tax Credit Awards***

Iowa has two categories 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 each of Iowa's tax credit programs may be found in the Appendix at the end of this report and in the Tax Credit User's Manual which can be found at: <http://www.iowa.gov/tax/taxlaw/IDRTaxCreditsUsersManual.pdf>.

The amount of awarded tax credits substantially increased between FY 2001 and FY 2007, but has since declined and in FY 2009 was at its lowest level since FY 2004 (see Table 1). The increase was due to higher utilization and the rising caps for some of the existing programs as well as new tax credit programs being added. The big increase during FY 2007 was largely due to awards made to biofuel producers. Information on the amount of the awards was received from the agencies issuing the tax credits. For the Accelerated Career Education (ACE) Program and the Historic Preservation and Cultural and Entertainment District Tax Credit it is assumed that the full amount of the tax credit cap will be awarded during the current fiscal year.

In FY 2009, the total amount of awards decreased by just over 30 percent. The Enterprise Zone Program, the High Quality Jobs Program, the Soy-Based Transformer Fluid Tax Credit and the Venture Capital – Qualified Business or Community-Based Seed Capital Tax Credit all experienced a decrease in the amount of awards made that was greater than fifty percent. The reason for the decrease for the Enterprise Zone Program and the High Quality Jobs Program is likely due to the economic slowdown. The Soy-Based Transformer Fluid Tax Credit decreased because of a lack of demand for the tax credits, this tax credit expired on June 30, 2009. The Venture Capital – Qualified Business or Community-Based Seed Capital Tax Credit decreased because the credit reached its lifetime program cap in FY 2008 and therefore had no additional funds to award in FY 2009. The greatest growth in awards was seen in the Film Investment and Film Expenditure Tax Credits.

## ***Tax Credit Claims***

Some new data on the amount of tax credits claimed against certain tax types is now 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. 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>.

After consistent growth in individual tax credit claims since 2000, in 2007 there was some leveling off (see Table 2). In fact, total individual tax credit claims decreased nearly two percent in 2007. While Earned Income Tax Credit claims increased by nearly \$14 million due to a change in legislation, the amount of "Other Nonrefundable Tax Credits" decreased by nearly \$20 million. "Other Refundable Tax Credit" claims increased by almost \$3 million, but all other claims remained relatively stable. The 2008 tax year is still incomplete as many claims will likely be made on returns filed with six month extensions in October 2009.

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 historically accounted 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, almost 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, with almost 90 percent of those claims being made against corporate income tax (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 Jobs 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 in FY 2009 over \$7.3 million in refunds were 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 was available under the Enterprise Zone Program, but was rescinded effective July 1, 2009 as the program was never utilized. The Accelerated Career Education (ACE) credit allows employers to sponsor training slots at community colleges. The Targeted Jobs Tax Credit is a withholding tax credit 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 web site. An increase can be seen in withholding tax credits over this time period. It is apparent that total withholding credits are 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 reporting their withholding tax credit claims correctly. The 260E program is under review and recommendations have been made by the Department of Revenue to improve the tracking of the payments currently made to the community colleges by businesses participating in the program.

## ***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 for the next few years, but may be leveling off thereafter (see Table 8). The amounts of contingent liability were estimated using a number of methods. These methods are listed in the footnotes.

The Contingent Liabilities Projection table is based in large part on claim data that has been collected from the IA 148 Tax Credits Schedule. Because of this newly available data, most of the historical numbers provided are actual claims made against each of the tax credits on the IA 148. The information collected from the IA 148 is now used to estimate the timing of when awards are likely to be claimed. Due to the nature of this data it is likely that credit forecasts will vary between reports as the timing may change as more data is received.

The film tax credit program is currently on hold and being reviewed by State officials. Due to the uncertainty regarding some of the film tax credits, the forecast for this program has been divided into two parts. The first part is for the tax credits that have already been issued tax credit certificates (from Table 1). The second part accounts for tax credit awards that were approved before the implementation of the tax credit cap, as well as the \$50 million cap for each fiscal year. It is assumed that half of the tax credits awarded before the cap will be issued in FY 2010 and the other half will be issued in FY 2011.

Overall, the total contingent liability due to tax credits in Iowa is expected to continue to grow through FY 2011 and then level off (see Figure 2). The sharp increase from FY 2009 to FY 2010 can be explained by assumptions surrounding a few different programs, some of which suggest the full increase may not be realized. The first is the liabilities for the Economic Development Region Revolving Fund Tax Credit and the Venture Capital Tax Credit – Fund of Funds. Those liabilities are listed at amounts equal to the legislated caps for awards, which is necessary for a projection of total potential liabilities even though it is likely no awards will be made under these programs. The next is the implementation of a new tax credit cap for some DED projects. In the past, future awards for these DED programs were not forecasted, but with the cap in place, it is assumed that awards totaling that cap will be made and are thus included in forecasts for future years. The final explanation of the increase is the growth of the Film Tax Credits. Because there were a number of projects that were awarded potential credits at the end of fiscal year 2009, those credits are included as contingent liabilities until it is determined that the projects will no longer move forward or that credits will not be issued.

**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	FY 2010*
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	\$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	\$2,876,213
Assistive Device Tax Credit	\$0	\$2,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Disaster Recovery Housing Project Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$0
Economic Development Region Revolving Fund Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	\$0	\$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	\$1,490,283	\$148,600
Enterprise Zone Program <sup>†</sup>	\$21,799,195	\$68,865,745	\$13,282,669	\$16,983,376	\$41,301,760	\$75,089,337	\$85,228,592	\$31,981,069	\$15,049,605	\$3,024,202
Enterprise Zone Program - Housing Component <sup>†</sup>	\$2,937,569	\$4,453,528	\$5,780,202	\$7,493,932	\$10,932,164	\$14,735,244	\$7,111,724	\$10,326,175	\$14,344,304	\$1,555,489
Film Expenditure Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$383,934	\$15,372,554	\$3,826,560
Film Investment Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$206,397	\$8,557,107	\$3,621,091
High Quality Job Program <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	\$39,068,026	\$202,563,829	\$90,272,257	\$17,757,756	\$627,931
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	\$50,000,000
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	\$69,039,000	\$45,055,000	\$2,775,000
New Capital Investment Program	n/a	n/a	n/a	\$21,606,680	\$16,267,471	n/a	n/a	n/a	n/a	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	n/a
Redevelopment Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$0	\$0
Renewable Energy Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	\$0	\$0	\$1,492,898	\$2,107,818	\$0
School Tuition Organization Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	n/a	\$2,500,000	\$4,886,880	\$6,200,378	\$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	n/a
Targeted Jobs Tax Credit from Withholding	n/a	n/a	n/a	n/a	n/a	n/a	\$845,700	\$5,918,588	\$8,014,000	\$0
Venture Capital Tax Credit - Fund of Funds <sup>†</sup>	n/a	n/a	n/a	n/a	\$0	\$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	\$0
Venture Capital Tax Credit - Venture Capital Fund <sup>†</sup>	n/a	n/a	\$200,448	\$384,600	\$185,625	\$764,411	\$620,404	\$59,760	\$140,856	\$180,120
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	\$4,000,000
Wind Energy Production Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	\$0	\$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	\$393,490,025	\$239,783,688	\$161,306,000	\$86,135,206

<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	\$132,191,874	\$129,470,230	\$110,566,440
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	\$8,203,594
Early Childhood Development Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	\$457,802	\$515,302	\$515,921
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	\$24,997,821
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	\$14,787,046
Other Nonrefundable Tax Credits	\$23,228,165	\$24,668,908	\$42,394,881	\$46,272,542	\$49,359,183	\$65,243,453	\$89,849,995	\$69,951,972	\$54,793,023
Other Refundable Tax Credits	\$1,058,729	\$1,620,306	\$2,707,360	\$4,484,884	\$4,308,649	\$6,595,155	\$7,243,804	\$10,501,329	\$7,269,035

	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	\$71,637,376	\$91,177,559	\$11,723,581
Other Credits	\$8,626,270	\$3,169,334	\$2,333,210	\$2,438,500	\$3,433,238	\$2,610,613	\$28,621,514	#	#
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	\$2,069,249	#	#
Research Activities Credit	\$25,336,056	\$25,428,365	\$27,453,582	\$29,766,149	\$33,037,351	\$37,194,442	\$40,946,613	#	#

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	\$18,842,759
Franchise Tax	\$717,319
Individual Income Tax	\$89,849,995
Insurance Premium Tax	\$3,278,104
<b>Total</b>	<b>\$112,688,177</b>

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

Tax Type	TY 2006
Corporate Income Tax	\$55,784,382
Franchise Tax	\$0
Individual Income Tax	\$7,243,804
Insurance Premium Tax	\$0
<b>Total</b>	<b>\$63,028,186</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	\$3,251,774	\$1,589,434	\$0	\$0	\$2,545,584	\$7,386,792
FY 2010*	\$439,370	\$107,195	\$0	\$0	\$177,967	\$724,532

Source: IDR data

\*=partial year

**Table 6: 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	457	\$5,750,798	\$3,925,733	\$423,557	\$0	\$664,511	\$0	\$700	\$736,298
6/30/2005	546	\$7,057,125	\$5,378,569	\$277,818	\$0	\$534,135	\$0	\$700	\$865,905
9/30/2005	602	\$7,085,659	\$5,537,774	\$259,229	\$0	\$1,181,479	\$0	\$3,553	\$103,626
12/31/2005	716	\$9,674,093	\$7,413,327	\$649,907	\$0	\$1,419,595	\$0	\$63,461	\$127,805
3/31/2006	653	\$8,629,074	\$6,865,664	\$528,401	\$0	\$1,114,214	\$0	\$18,012	\$102,783
6/30/2006	712	\$10,237,662	\$8,115,867	\$586,506	\$0	\$1,436,115	\$0	\$94,666	\$4,508
9/30/2006	804	\$11,961,186	\$10,054,762	\$615,251	\$0	\$1,004,534	\$0	\$236,465	\$50,174
12/31/2006	891	\$12,607,074	\$10,824,172	\$898,852	\$0	\$759,043	\$0	\$107,791	\$17,217
3/31/2007	810	\$11,403,487	\$8,820,993	\$978,783	\$1,864	\$1,287,368	\$0	\$297,848	\$16,633
6/30/2007	800	\$11,272,572	\$8,233,020	\$1,058,817	\$6,085	\$1,838,466	\$0	\$124,095	\$12,089
9/30/2007	820	\$12,542,914	\$10,073,928	\$1,132,069	\$63,101	\$1,134,442	\$0	\$129,607	\$9,767
12/31/2007	884	\$12,426,933	\$9,920,387	\$1,378,562	\$100,322	\$822,681	\$0	\$183,968	\$21,013
3/31/2008	806	\$12,720,853	\$9,673,141	\$1,277,678	\$99,217	\$1,238,707	\$0	\$424,804	\$7,306
6/30/2008	796	\$12,093,023	\$9,102,733	\$1,208,047	\$87,832	\$1,245,495	\$0	\$201,420	\$247,497
9/30/2008	765	\$11,706,424	\$9,262,118	\$1,312,382	\$121,179	\$775,416	\$0	\$233,280	\$2,049
12/31/2008	881	\$12,241,919	\$9,213,534	\$1,783,288	\$166,873	\$876,051	\$0	\$162,497	\$39,676
3/31/2009	721	\$11,079,977	\$8,968,286	\$1,110,497	\$128,448	\$731,590	\$0	\$135,913	\$3,545
6/30/2009	787	\$10,744,844	\$8,070,936	\$953,253	\$135,908	\$1,339,480	\$0	\$242,502	\$2,765
FY 2006	2683	\$35,626,488	\$27,932,632	\$2,024,043	\$0	\$5,151,403	\$0	\$179,692	\$338,722
FY 2007	3305	\$47,244,319	\$37,932,947	\$3,551,703	\$7,949	\$4,889,411	\$0	\$766,199	\$96,113
FY 2008	3306	\$49,783,723	\$38,770,189	\$4,996,356	\$350,472	\$4,441,325	\$0	\$939,799	\$285,583
FY 2009	3154	\$45,773,164	\$35,514,874	\$5,159,420	\$552,408	\$3,722,537	\$0	\$774,192	\$48,035
CY 2005	2321	\$29,567,675	\$22,255,403	\$1,610,511	\$0	\$3,799,720	\$0	\$68,414	\$1,833,634
CY 2006	3060	\$43,434,996	\$35,860,465	\$2,629,010	\$0	\$4,313,906	\$0	\$456,934	\$174,682
CY 2007	3314	\$47,645,906	\$37,048,328	\$4,548,231	\$171,372	\$5,082,957	\$0	\$735,518	\$59,502
CY 2008	3248	\$48,762,219	\$37,251,526	\$5,581,395	\$475,101	\$4,135,669	\$0	\$1,022,001	\$296,528
YTD CY 2009	1508	\$21,824,821	\$17,039,222	\$2,063,750	\$264,356	\$2,071,070	\$0	\$378,415	\$6,310

Source: IDR data

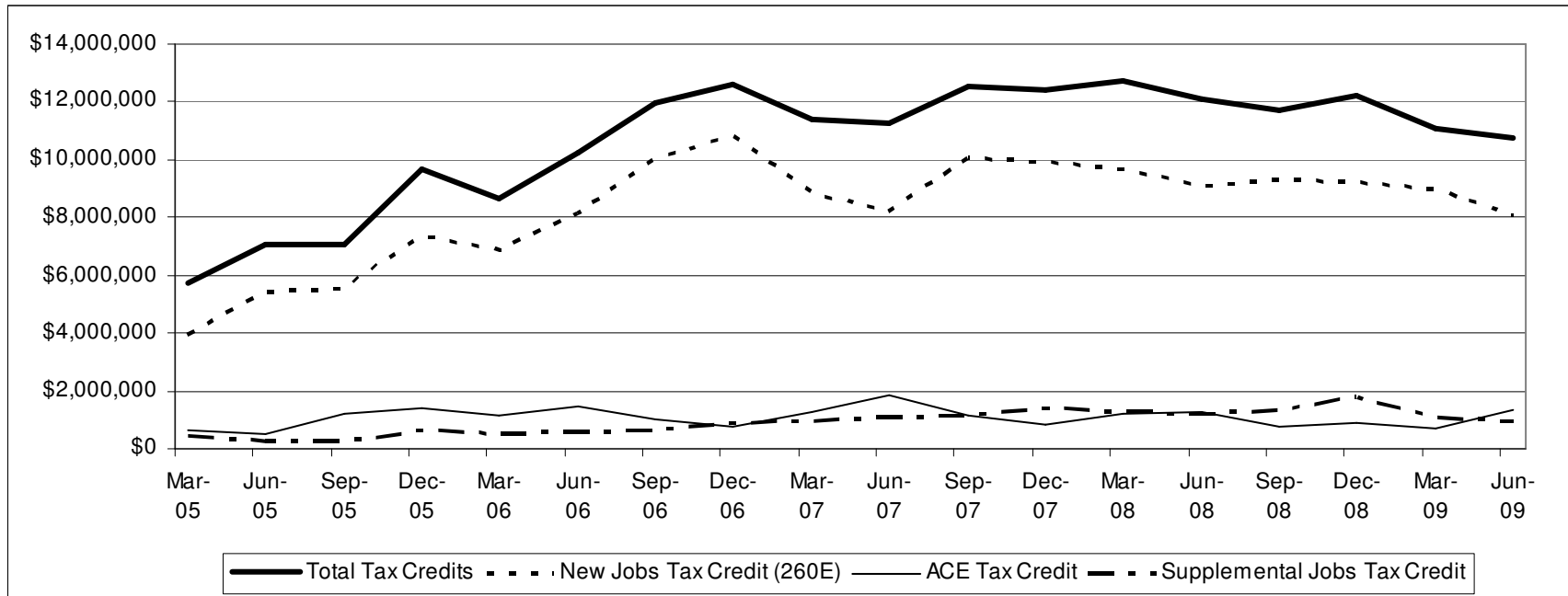


**Table 7: Iowa Industrial New Jobs Training Program (260E) Award and Claim Information**

	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	\$29,956,675
FY 2007	\$66,418,000	\$46,110,828	\$41,484,650
FY 2008	\$69,039,000	\$43,088,634	\$43,766,545
FY 2009	\$4,505,500	\$52,783,363	\$40,674,294

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 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Accelerated Career Education Tax Credit	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000
Assistive Device Tax Credit <sup>2</sup>	\$0	\$520	\$1,577	\$0	\$0	\$0	\$0	\$0
Cow-Calf Tax Credit	\$2,000,000	\$2,000,000	\$2,000,000	\$0	\$0	\$0	\$0	\$0
Disaster Recovery Housing Project Tax Credit <sup>3</sup>	\$0	\$0	\$0	\$0	\$1,500,000	\$2,760,000	\$2,760,000	\$2,760,000
Economic Development Region Revolving Fund Tax Credit	\$156	\$0	\$7,747	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Endow Iowa Tax Credit <sup>4</sup>	\$1,151,987	\$1,484,026	\$1,502,551	\$2,256,408	\$2,677,088	\$3,013,653	\$3,057,602	\$3,100,557
Enterprise Zone Program <sup>5</sup>	\$38,766,028	\$51,783,591	\$55,587,800	\$60,236,675	\$61,219,995	\$63,952,677	\$59,167,229	\$53,878,633
Film, Television, and Video Project Promotion Program - Awarded <sup>6</sup>	\$0	\$288,797	\$3,974,715	\$12,441,127	\$6,999,958	\$2,426,993	\$1,598,062	\$379,313
Film, Television, and Video Project Promotion Program - Under Review <sup>6</sup>	\$0	\$0	\$0	\$73,433,734	\$145,816,166	\$117,965,160	\$73,599,330	\$64,548,298
High Quality Job Program <sup>5</sup>	\$0	\$7,813,605	\$48,326,371	\$66,380,822	\$69,932,374	\$83,752,906	\$89,759,834	\$63,067,600
Historic Preservation and Cultural and Entertainment District Tax Credit <sup>4</sup>	\$1,002,945	\$8,325,425	\$7,221,566	\$28,309,842	\$34,915,313	\$38,570,876	\$41,941,999	\$44,891,907
Redevelopment Tax Credit <sup>7</sup>	\$0	\$0	\$0	\$550,000	\$200,000	\$50,000	\$50,000	\$50,000
Renewable Energy Tax Credit <sup>4</sup>	\$10,148	\$264,797	\$1,273,084	\$3,222,862	\$8,259,013	\$9,579,166	\$9,579,166	\$9,579,166
School Tuition Organization Tax Credit <sup>4</sup>	\$1,894,293	\$3,922,261	\$5,249,691	\$6,692,235	\$7,020,512	\$7,098,020	\$7,129,972	\$7,129,972
Soy-Based Transformer Fluid Tax Credit	\$0	\$23,648	\$14,348	\$0	\$0	\$0	\$0	\$0
Venture Capital Tax Credit - Iowa Fund of Funds	\$0	\$0	\$0	\$20,000,000	\$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>4</sup>	\$345,711	\$453,540	\$409,303	\$1,299,785	\$2,270,828	\$3,013,469	\$1,205,388	\$482,155
Venture Capital Tax Credit - Venture Capital Funds <sup>4</sup>	\$347,814	\$187,305	\$95,700	\$458,647	\$372,243	\$379,963	\$151,985	\$60,794
Wage-Benefits Tax Credit <sup>4</sup>	\$217,959	\$4,696,102	\$6,164,203	\$5,430,947	\$3,800,000	\$3,561,814	\$543,774	\$0
Wind Energy Production Tax Credit <sup>8</sup>	\$0	\$9,572	\$0	\$0	\$777,476	\$3,678,923	\$4,455,184	\$4,455,184
<b>TOTAL OF CAPPED PROGRAMS</b>	<b>\$51,737,041</b>	<b>\$87,253,190</b>	<b>\$137,828,656</b>	<b>\$288,713,083</b>	<b>\$373,760,965</b>	<b>\$367,803,620</b>	<b>\$322,999,524</b>	<b>\$282,383,579</b>

<sup>2</sup> Only one award has been made under this program since its inception. This program is included in the \$185 million DED tax credit cap.

<sup>3</sup> Estimates are based on information from the Fiscal Note for SF 457, 2009 Legislative Session, and the \$3 million annual cap in the legislation.

<sup>4</sup> Estimates are based on claim information collected from the IA 148 and estimated future awards.

<sup>5</sup> Estimates are based on information from the awarding agency. This program is included in the \$185 million DED tax credit cap. Historical claims are estimated based on amount of awards issued.

<sup>6</sup> Estimates are based on claim information collected from the IA 148 and estimated future awards. This program is included in the \$185 million DED tax credit cap.

<sup>7</sup> Estimates are based on information from the Fiscal Note for HF 2687, 2008 Legislative Session, and the \$1 million cap in the legislation.

<sup>8</sup> Estimates are based on claim information for the Renewable Energy Tax Credit collected from the IA 148 and estimated future awards of the Wind Energy Production Tax Credit.

**Table 8 Continued: Tax Credit Contingent Liabilities Projection**

Uncapped Programs	History			Forecast				
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Agricultural Assets Transfer Tax Credit <sup>4</sup>	\$0	\$598,234	\$1,138,188	\$1,751,604	\$2,079,350	\$2,525,588	\$3,082,979	\$3,780,579
Biodiesel Blended Fuel Tax Credit <sup>9</sup>	\$669,910	\$2,782,895	\$4,190,387	\$4,185,921	\$4,438,562	\$4,826,081	\$4,183,869	\$41,043
Charitable Conservation Contribution Tax Credit <sup>10</sup>	\$0	\$0	\$22,426	\$57,826	\$112,531	\$184,840	\$273,201	\$353,773
Child & Dependent Care Tax Credit <sup>11</sup>	\$8,918,055	\$8,957,814	\$8,203,594	\$10,830,886	\$9,869,048	\$6,655,678	\$6,007,114	\$5,566,110
E85 Gasoline Promotion Tax Credit <sup>9</sup>	\$271,333	\$524,030	\$712,576	\$1,670,280	\$2,241,772	\$2,386,753	\$1,910,901	\$2,151,093
Early Childhood Development Tax Credit <sup>12</sup>	\$457,802	\$515,302	\$515,921	\$468,112	\$475,594	\$487,610	\$428,677	\$393,389
Earned Income Tax Credit <sup>11</sup>	\$10,667,288	\$24,018,691	\$24,997,821	\$37,001,522	\$34,708,032	\$28,951,391	\$27,545,390	\$26,693,525
Ethanol Blended Gasoline Tax Credit <sup>9</sup>	\$6,382,463	\$5,887,459	\$5,480,655	\$6,170,452	\$93,234	\$53,456	\$0	\$0
Ethanol Promotion Tax Credit <sup>13</sup>	\$0	\$0	\$0	\$1,987,689	\$6,188,500	\$5,816,425	\$5,131,312	\$4,837,897
Iowa Industrial New Job Training Program (260E) <sup>14</sup>	\$41,484,650	\$43,766,545	\$44,403,943	\$45,050,623	\$45,706,722	\$46,372,376	\$47,047,724	\$47,732,907
New Capital and Income Program <sup>15</sup>	\$7,574,830	\$7,574,830	\$7,574,830	\$7,574,830	\$3,253,494	\$0	\$0	\$0
New Jobs and Income Program <sup>15</sup>	\$38,224,783	\$30,281,894	\$25,282,881	\$15,778,125	\$11,812,079	\$0	\$0	\$0
Research Activities Tax Credit <sup>16</sup>	\$37,653,450	\$41,814,172	\$46,133,896	\$49,721,562	\$52,562,576	\$55,494,366	\$60,213,561	\$67,129,424
Soy-Based Cutting Tool Oil Tax Credit	\$4,659	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Targeted Jobs Tax Credit from Withholding <sup>17</sup>	\$7,949	\$350,472	\$681,977	\$1,945,892	\$3,020,892	\$4,295,892	\$5,770,892	\$6,770,892
Tuition and Textbook Tax Credit <sup>11</sup>	\$15,054,930	\$15,525,122	\$14,787,046	\$15,672,486	\$16,018,805	\$16,335,283	\$16,662,791	\$16,988,943
<b>TOTAL OF UNCAPPED PROGRAMS</b>	<b>\$167,372,101</b>	<b>\$182,597,460</b>	<b>\$184,126,141</b>	<b>\$199,867,811</b>	<b>\$192,581,193</b>	<b>\$174,385,739</b>	<b>\$178,258,410</b>	<b>\$182,439,576</b>
<b>TOTAL OF ALL PROGRAMS</b>	<b>\$219,109,142</b>	<b>\$269,850,649</b>	<b>\$321,954,797</b>	<b>\$488,580,894</b>	<b>\$566,342,157</b>	<b>\$542,189,359</b>	<b>\$501,257,934</b>	<b>\$464,823,155</b>

<sup>9</sup> Estimates are based on claim information collected from the IA 148 and future awards forecasts based on data from the Annual Fuel Retailers Report for 2008.

<sup>10</sup> Estimates are based on claim information collected from the IA 148 and future awards forecasts based on data from the Fiscal Note for HF 2080, 2008 Legislative Session.

<sup>11</sup> Estimates are based on the IDR individual income tax model simulation.

<sup>12</sup> Estimates are based on the growth between the 2006 through 2008 tax year claims.

<sup>13</sup> Estimates are based on claim information for the Ethanol Blended Gasoline Tax Credit collected from the IA 148 and forecasted future awards based on data from the Annual Fuel Retailers Report for 2008.

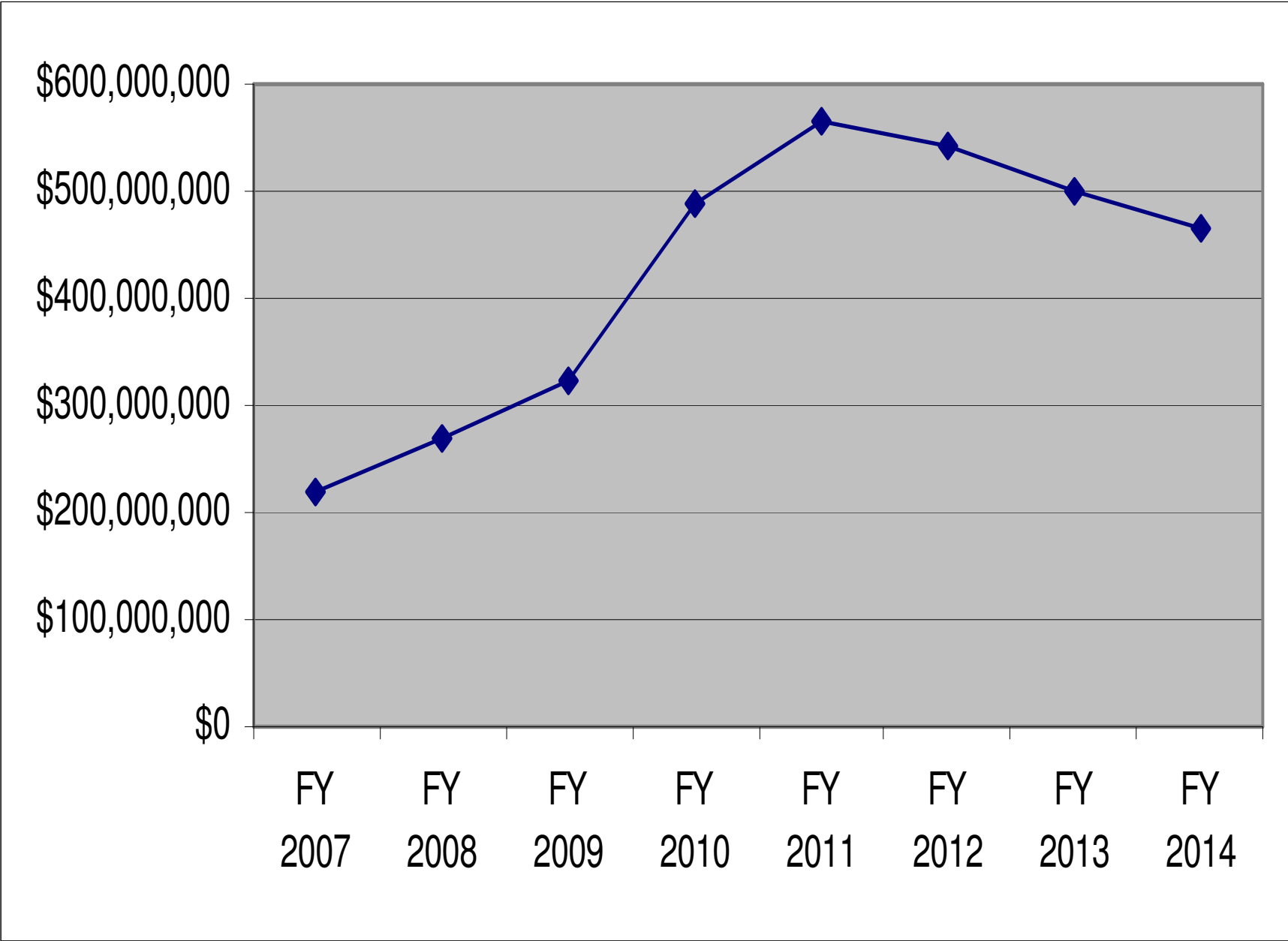
<sup>14</sup> Estimates are based on credits claimed multiplied by the compound annual growth rate (CAGR) of the amount paid to the community colleges which is reported in Table 7.

<sup>15</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>16</sup> Estimates are based on claim information collected from the IA 148 and forecasted future awards based on CAGR from past claims and accounting for the economic slowdown in FY 2008 through FY 2010

<sup>17</sup> Estimates are based on the amount of fiscal year awards increasing by \$2 million each year and the program's scheduled end of FY 2013.

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. This credit was repealed effective for any claims made on or after November 1, 2008. Section 422.120, Code of Iowa.

**Disaster Recovery Housing Project Tax Credit:** The credit is available to taxpayers investing in a qualifying disaster recovery housing project. The amount of the credit is equal to 75 percent of the qualifying investment. Section 16.191 through 16.192, 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 was replaced in 2009 by the Ethanol Promotion Tax Credit. Section 422.11C (2), Code of Iowa.

**Ethanol Promotion Tax Credit:** This credit replaced the ethanol blended gasoline credit beginning in 2009. It is 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 and a 25 percent tax credit for qualified expenditures in film projects produced in the State of Iowa. Section 15.391 through 15.393, Code of Iowa.

**High Quality Jobs Program (HQJP):** 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. This program was repealed effective December 31, 2006. 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. This program was repealed effective December 31, 2008. 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.