

Iowa Department of Revenue  
**Revenue Estimating Conference**  
**Tax Credits Contingent Liabilities Brief**  
October 3, 2007

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, which was funded during the 2005 legislative session. The goal of the system is to provide a repository for information concerning the awarding, usage and effectiveness of tax credits.

The system eventually will create three types of reports:

1. Status reports will provide information on the award and usage of tax credits.
2. Evaluation reports will measure the effectiveness of tax credits at meeting their stated purpose.
3. Contingent liabilities reports will provide information on the impact tax credits have on General Fund revenues, historically, at present, and into future years.

Overall, this report presents five different types of data:

1. Tax Credit Awards in State Fiscal Years 2001 through 2008.
2. Tax Credit Claims in Tax Years 2000 through 2006.
3. Withholding Tax Credit Claims by Quarter Since January 2005.
4. Forecasts of the Contingent Liabilities Due to Tax Credits through 2012.
5. New Tax Credits Data from Data Entry Project.

All of the data presented points to an increase in the impact of tax credits on General Fund revenues. The number of tax credits is increasing as the Legislature creates additional tax credit programs. The amount of credits claimed for individual tax credit programs is often increasing as more taxpayers learn about the credits. Overall, the data points 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 \$110 million; in fiscal year 2007, over \$500 million in tax credits were awarded.
- The potential liability of tax credits has also continued to increase. In FY 2005, almost \$130 million in tax credits were claimed against Iowa taxes. This amount is expected to increase to just over \$400 million by FY 2011, which is an increase of over 300%. 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.
- 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 is also going to be seen in the upcoming fiscal year.
- Some changes have been made with regard to the methodology of forecasting the contingent liability of some of the tax credits in the upcoming years. These changes were made possible by increased data availability which helps indicate which taxes credits are claimed against and the timing of claims.

## ***Tax Credit Awards***

In general, Iowa has two types of tax credits: automatic and awarded. Automatic credits are not capped and may be claimed by any eligible taxpayer. Awarded credits require application and a specific award in order for a taxpayer to claim the credit and may be capped or uncapped. More information about Iowa's tax credit programs may be found in the Appendix.

The amount of tax credits awarded has substantially increased between FY 2001 and FY 2007. The data for FY 2007 may still change slightly due to the Agricultural Assets Transfer Tax Credit which will not have final award numbers until after the fall 2007 harvest.

The increase is due to increasing utilization of existing programs but also due to new tax credit programs being added. The amount of tax credits awarded in FY 2007 was over twice the amount of tax credits awarded the previous year. The greatest growth was seen in the High Quality Job Creation Program with growth of almost 675% over the previous year. The only credits that did not experience any growth and actually decreased in FY 2007 were the Venture Capital Tax Credit – Venture Capital Funds and the Housing Component of the Enterprise Zone Program. Table 1 summarizes the growth in awarded tax credits.

## ***Tax Credit Claims***

Data on tax credit claims is also available. However, this data is limited because credits are aggregated on individual and corporate tax forms. This prevents reporting on all credits individually. Table 2 reports the tax credit claims data that is currently available. Tax credits claimed against individual income tax doubled between 2000 and 2006. Although there was a slight decrease in the amount of tax credit claims in 2006 compared to claims made in 2005. The data for tax credit claims against corporate income tax is not yet complete for 2005 or 2006, although all 2005 returns should be filed shortly.

More specific data regarding tax credit claims should be available in the near future. The data entry project is nearly complete and analysis of the data collected will be started once all the data has been captured and loaded into the TCTAS database.

## ***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 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 credits 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. Table 3 compares the amount of 260E credits awarded, the payments received by the community colleges and the amount of 260E claims correctly filed through the Department of Revenue. It appears that there may be a lag between when credits are awarded and claimed. The discrepancy could also be caused by taxpayers not filing their tax credit claims correctly.

Table 4 shows withholding tax credit claims since March 2005. This was the first quarter of the E-File and Pay system, which allows taxpayers to file withholding tax returns on a secure Internet website. Table 4 shows an increase in withholding tax credits over time. Figure 1 depicts this graphically. It appears that there may be a decrease in the remaining two quarters of the 2007 calendar year (September 2007 returns are not due until October 31), but the decrease may be due to seasonality as claims were higher during the third and fourth

quarters of 2006. It is apparent that total withholding credits is strongly driven by the Iowa Industrial New Jobs Tax Credit (260E).

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

Table 5 provides forecasts of the potential liability facing General Fund revenues due to tax credits. The amounts of contingent liability were estimated using a number of methods. These methods are listed in the footnotes. Some of the methods have been updated since the last report which explains any changes in estimates. The methods were changed due to the availability of more data with regard to when claims are made and against which taxes. The Appendix includes descriptions of each of the tax credit programs, including its citation in the Code of Iowa.

Overall, total contingent liability due to tax credits in Iowa is growing and is expected to continue to grow into the future, as shown in Table 5 and Figure 2. While it appears that the contingent liability of tax credits will decrease in FY 2011 and FY 2012, it must be noted that projections are not made for future awards of uncapped tax credits that are awarded by the Department of Economic Development. As more tax credit awards are made throughout FY 2008, the contingent liability for FY 2010 and beyond will increase. As with tax credit awards, the overall increase in contingent liability is due to increasing amounts for individual programs and an increase in the number of tax credit programs.

### ***Tax Credits Data from Data Entry Project***

Another data entry project is almost completed. Last year corporate and individual returns with tax credits claimed in tax years 2002 through 2004 were pulled and the data was entered for three schedules. These schedules were the IA 128 and IA 128A for the Research Activities Tax Credit, the IA 3468 for the Investment Tax Credit and the IA 6478 for the Ethanol Blended Gasoline Tax Credit.

This fall, once again, individual and corporate tax returns were pulled for the 2005 and 2006 tax years, as well as any returns from 2002 through 2004 that we determined may have been missed last year. In addition to entering the data from the same schedules that were included in last year's project, data was also entered from the new IA 148 Tax Credits Schedule. This will allow for better analysis of when awarded tax credits are claimed and also how much of tax credits are being carried forward or are expiring. While the project is not quite completed at this point, it is hopeful that some of the results of this data will be able to be used for the next publication of this report.

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

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008*
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	\$0
Agricultural Assets Transfer Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	n/a	\$975,884	\$0
Assistive Device Tax Credit	\$0	\$2,500	\$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
Endow Iowa Tax Credit <sup>†</sup>	n/a	n/a	n/a	\$1,003,773	\$2,000,000	\$2,000,000	\$2,000,000	\$257,310
Enterprise Zone Program	\$21,799,195	\$68,865,745	\$13,282,669	\$20,739,986	\$45,021,409	\$82,471,747	\$116,536,018	\$5,967,400
Enterprise Zone Program - Housing Component	\$7,428,328	\$9,871,966	\$4,744,197	\$16,460,721	\$16,546,536	\$25,387,544	\$1,684,049	\$2,462,840
Film Expenditure Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$200,000
Film Investment Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$0
High Quality Job Creation Program	n/a	n/a	n/a	n/a	n/a	\$44,735,648	\$301,779,131	\$47,119,673
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
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	\$61,448,000	?
New Capital Investment Program	n/a	n/a	n/a	\$20,139,033	\$18,362,971	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
Renewable Energy Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	\$0	\$0	\$0
School Tuition Organization Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	n/a	\$2,500,000	?
Soy-Based Transformer Fluid Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	n/a	\$17,062	\$0
Targeted Jobs Credit from Withholding	n/a	n/a	n/a	n/a	n/a	n/a	\$445,000	\$0
Venture Capital Tax Credit - Fund of Funds <sup>†</sup>	n/a	n/a	n/a	n/a	\$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	\$2,137,276	\$3,404,713	\$0
Venture Capital Tax Credit - Venture Capital Fund <sup>†</sup>	n/a	n/a	\$200,448	\$384,600	\$185,625	\$742,740	\$580,223	\$0
Wage Benefit Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	n/a	\$10,000,000	\$182,377
Wind Energy Production Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	\$0	\$0	\$0
<b>Total Credits Awarded Each Fiscal Year</b>	<b>\$110,593,528</b>	<b>\$145,385,578</b>	<b>\$98,131,261</b>	<b>\$132,928,493</b>	<b>\$197,303,176</b>	<b>\$204,734,955</b>	<b>\$513,770,081</b>	<b>\$66,189,600</b>

<sup>1</sup> Final award numbers will not be available until the end of 2007 due to some of the awards being based on crop sharing agreements, therefore final award amounts are not determined until after the crops are harvested.

Source: Awarding Agencies

n/a = program not yet created, or discontinued

?=amount not yet determined or unknown

\*=incomplete data for tax year

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

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

	2000	2001	2002	2003	2004	2005	2006*
Total Individual Income Tax Credits	\$48,279,743	\$51,410,455	\$72,705,744	\$81,418,844	\$84,959,270	\$105,116,138	\$100,293,700
Child & Dependent Care Tax Credit	\$6,396,628	\$6,236,660	\$6,160,402	\$8,354,236	\$8,120,963	\$8,241,622	\$8,407,143
Early Childhood Development Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	\$477,808
Earned Income Tax Credit	\$6,142,575	\$6,504,698	\$8,304,908	\$8,534,392	\$8,902,719	\$9,800,348	\$10,570,367
Tuition and Textbook Tax Credit	\$11,453,646	\$12,379,883	\$13,138,193	\$13,772,790	\$14,267,756	\$15,235,560	\$14,559,923
Other Nonrefundable Tax Credits	\$23,228,165	\$24,668,908	\$42,394,881	\$46,272,542	\$49,359,183	\$65,243,453	\$60,974,269
Other Refundable Tax Credits	\$1,058,729	\$1,620,306	\$2,707,360	\$4,484,884	\$4,308,649	\$6,595,155	\$5,304,190

	2000	2001	2002	2003	2004	2005*	2006*
Total Corporate Income Tax Credits	\$36,621,515	\$31,575,851	\$32,429,847	\$35,710,475	\$38,192,933	\$36,364,259	\$2,713,785
Other Credits	\$9,375,401	\$4,271,688	\$2,739,988	\$2,904,040	\$3,538,720	\$3,576,598	\$821,604
Iowa Industrial New Jobs Income Tax Credit (260E)	\$1,833,421	\$1,875,798	\$2,163,943	\$2,344,672	\$1,517,117	\$4,885,830	\$605,556
Research Activities Credit	\$25,412,693	\$25,428,365	\$27,525,916	\$30,461,763	\$33,137,096	\$27,901,831	\$1,286,625

Source: IDR data

\*=incomplete data for tax year

**Table 3: 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	\$30,945,498
FY 2007	\$61,448,000	\$46,110,828	\$41,721,229

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

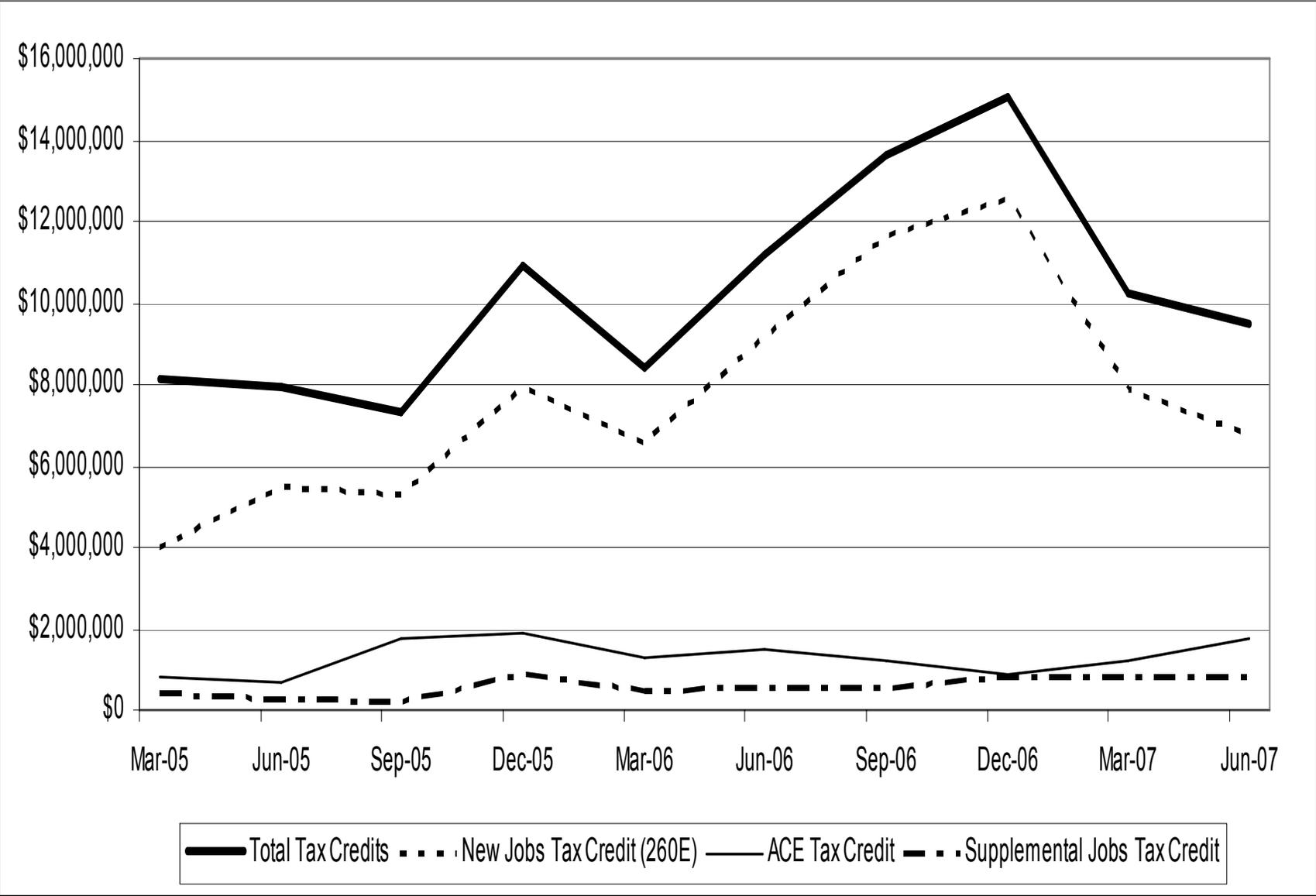
**Table 4: Withholding Tax Credits Claimed by Quarter**

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	477	\$8,152,450	\$4,005,229	\$397,413	\$0	\$809,486	\$0	\$700	\$2,938,700
6/30/2005	558	\$7,916,211	\$5,503,349	\$249,585	\$0	\$682,368	\$0	\$700	\$1,480,211
9/30/2005	606	\$7,342,287	\$5,286,053	\$217,950	\$0	\$1,736,431	\$0	\$700	\$101,155
12/31/2005	745	\$10,891,666	\$7,936,542	\$849,006	\$0	\$1,913,263	\$0	\$61,158	\$131,699
3/31/2006	643	\$8,434,562	\$6,562,295	\$452,192	\$0	\$1,307,077	\$0	\$13,052	\$99,948
6/30/2006	712	\$11,216,192	\$9,131,704	\$509,756	\$0	\$1,480,339	\$0	\$89,887	\$4,507
9/30/2006	798	\$13,633,103	\$11,663,005	\$520,930	\$0	\$1,191,169	\$0	\$230,746	\$27,254
12/31/2006	901	\$15,018,970	\$12,528,920	\$782,816	\$0	\$877,997	\$0	\$823,690	\$5,548
3/31/2007	741	\$10,215,187	\$7,858,121	\$790,180	\$1,864	\$1,219,302	\$0	\$331,557	\$12,409
6/30/2007	641	\$9,509,304	\$6,783,455	\$793,802	\$5,926	\$1,792,942	\$0	\$129,682	\$3,719
9/30/2007*	2	\$15,506	\$4,766	\$4,740	\$0	\$6,000	\$0	\$0	\$0
FY 2006	2706	\$37,884,707	\$28,916,594	\$2,028,904	\$0	\$6,437,110	\$0	\$164,797	\$337,309
FY 2007	3081	\$48,376,564	\$38,833,501	\$2,887,728	\$7,790	\$5,081,410	\$0	\$1,515,675	\$48,930
YTD FY 2008	2	\$15,506	\$4,766	\$4,740	\$0	\$6,000	\$0	\$0	\$0
CY 2005	2386	\$34,302,614	\$22,731,173	\$1,713,954	\$0	\$5,141,548	\$0	\$63,258	\$4,651,765
CY 2006	3054	\$48,302,827	\$39,885,924	\$2,265,694	\$0	\$4,856,582	\$0	\$1,157,375	\$137,257
YTD CY 2007	1384	\$19,739,997	\$14,646,342	\$1,588,722	\$7,790	\$3,018,244	\$0	\$461,239	\$16,128

\*=incomplete tax period

Source: IDR data

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



**Table 5: 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
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
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
Economic Development Region Revolving Fund Tax Credit	\$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	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Historic Preservation and Cultural and Entertainment District Tax Credit <sup>2</sup>	\$2,232,371	\$1,783,916	\$5,147,653	\$4,980,629	\$10,135,978	\$13,580,481	\$15,951,654	\$15,504,494
Renewable Energy Tax Credit <sup>3</sup>	\$0	\$0	\$0	\$4,400,000	\$5,400,000	\$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
Soy-Based Transformer Fluid Tax Credit <sup>4</sup>	\$0	\$0	\$17,062	\$102,938	\$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
Venture Capital Tax Credit - Qualified Business or Community-Based Seed Capital Fund <sup>5</sup>	\$0	\$374,419	\$719,535	\$824,872	\$2,137,276	\$3,404,713	\$1,753,233	\$785,952
Venture Capital Tax Credit - Venture Capital Funds <sup>5</sup>	\$0	\$200,448	\$384,600	\$185,625	\$742,740	\$580,223	\$418,727	\$418,727
Wage-Benefit Tax Credit	\$0	\$0	\$0	\$10,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000
Wind Energy Production Tax Credit <sup>6</sup>	\$0	\$0	\$0	\$12,505,000	\$14,069,000	\$14,069,000	\$14,069,000	\$14,069,000
<b>TOTAL OF CAPPED PROGRAMS</b>	<b>\$11,817,198</b>	<b>\$12,129,125</b>	<b>\$18,768,850</b>	<b>\$49,999,065</b>	<b>\$55,984,994</b>	<b>\$80,634,418</b>	<b>\$81,192,614</b>	<b>\$79,778,174</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 full utilization of capacity limits set within the legislation of SF 390, 2005 Legislative Session. No applications were received in FY 2007.

<sup>4</sup> Estimates are based on the aggregate cap of the program and awards already issued.

<sup>5</sup> Once the award has been issued to the taxpayer, the taxpayer is required to wait three years before claiming the credit.

<sup>6</sup> Estimates are based on full utilization of eligible wind-generation capacity, which is capped. No applications were received in FY 2007.

**Table 5 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
Agricultural Assets Transfer Tax Credit <sup>7</sup>	\$0	\$0	\$0	\$396,000	\$883,948	\$1,273,077	\$1,568,674	\$1,932,906
Assistive Device Tax Credit <sup>8</sup>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Biodiesel Blended Fuel Tax Credit <sup>9</sup>	\$0	\$0	\$540,000	\$1,450,000	\$3,080,000	\$3,790,000	\$4,550,000	\$5,150,000
Child & Dependent Care Tax Credit <sup>10</sup>	\$8,120,963	\$8,241,622	\$8,407,143	\$9,575,683	\$9,445,766	\$9,377,545	\$9,246,753	\$9,054,057
E85 Gasoline Promotion Tax Credit <sup>9</sup>	\$0	\$0	\$200,000	\$1,700,000	\$5,000,000	\$7,400,000	\$11,200,000	\$8,600,000
Early Childhood Development Tax Credit <sup>11</sup>	\$0	\$0	\$477,808	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Earned Income Tax Credit <sup>10</sup>	\$8,902,719	\$9,800,348	\$10,570,367	\$21,028,540	\$21,733,404	\$21,849,168	\$21,553,681	\$19,936,632
Enterprise Zone Program <sup>12</sup>	\$25,198,420	\$32,638,561	\$44,952,150	\$60,678,504	\$68,574,975	\$66,655,650	\$59,215,509	\$46,901,920
Ethanol Blended Gasoline Tax Credit <sup>13</sup>	\$1,122,805	\$1,506,628	\$1,146,513	\$1,283,895	\$1,437,740	\$0	\$0	\$0
Ethanol Promotion Tax Credit <sup>9</sup>	\$0	\$0	\$0	\$0	\$0	\$9,300,000	\$10,200,000	\$11,400,000
Film, Television, and Video Project Promotion Program <sup>14</sup>	\$0	\$0	\$0	\$122,000	\$455,000	\$702,000	\$718,848	\$736,100
High Quality Job Creation Program <sup>12</sup>	\$0	\$0	\$0	\$8,947,130	\$69,302,956	\$78,726,890	\$78,726,890	\$78,726,890
Iowa Industrial New Job Training Program (260E) <sup>15</sup>	NA	\$30,945,498	\$41,721,229	\$43,505,368	\$45,365,804	\$47,305,797	\$49,328,751	\$51,438,214
New Capital and Income Program <sup>16</sup>	\$0	\$4,027,807	\$7,700,401	\$7,700,401	\$7,700,401	\$7,700,401	\$3,672,594	\$0
New Jobs and Income Program <sup>16</sup>	\$22,446,657	\$30,533,352	\$39,637,008	\$31,694,118	\$26,695,105	\$17,190,350	\$9,103,656	\$0
Research Activities Tax Credit <sup>17</sup>	\$38,011,486	\$32,978,531	\$34,461,636	\$37,402,895	\$40,634,216	\$44,183,753	\$48,082,394	\$52,364,030
Soy-Based Cutting Tool Oil Tax Credit <sup>18</sup>	\$0	\$0	\$60,000	\$60,000	\$0	\$0	\$0	\$0
Targeted Jobs Tax Credit from Withholding <sup>19</sup>	\$0	\$0	\$7,790	\$1,206,000	\$1,910,000	\$2,690,000	\$2,771,000	\$2,854,000
Tuition and Textbook Tax Credit <sup>10</sup>	\$14,267,756	\$15,235,560	\$14,559,923	\$15,935,791	\$16,302,360	\$16,725,109	\$17,192,234	\$17,644,064
<b>TOTAL OF UNCAPPED PROGRAMS</b>	<b>\$118,070,807</b>	<b>\$165,907,907</b>	<b>\$204,441,968</b>	<b>\$243,186,325</b>	<b>\$319,021,674</b>	<b>\$335,369,741</b>	<b>\$327,630,984</b>	<b>\$307,238,813</b>
<b>TOTAL OF ALL PROGRAMS</b>	<b>\$129,888,005</b>	<b>\$178,037,032</b>	<b>\$223,210,818</b>	<b>\$293,185,390</b>	<b>\$375,006,668</b>	<b>\$416,004,159</b>	<b>\$408,823,598</b>	<b>\$387,016,986</b>

<sup>7</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>8</sup> Only one award has been made under this program since its inception.

<sup>9</sup> Estimates are based on the Fiscal Note for HF 2754, 2006 Legislative Session.

<sup>10</sup> Estimates are based on the IDR individual income tax model simulation.

<sup>11</sup> Estimates are based on 2007 tax year claims and the expectation of little to zero growth in claims of this credit.

<sup>12</sup> Estimates are based on information from the awarding agency and include only the potential claims of awards made as of 9/25/07. No attempt is made to project future awards.

<sup>13</sup> Estimates are based on the compound annual growth rate (CAGR) of claims captured from the IA 6478 schedule by the data entry project.

<sup>14</sup> Estimates are based on the Fiscal Note for HF 892, 2007 Legislative Session less the amount estimated by IDR for the income exclusion provision of the bill.

<sup>15</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.

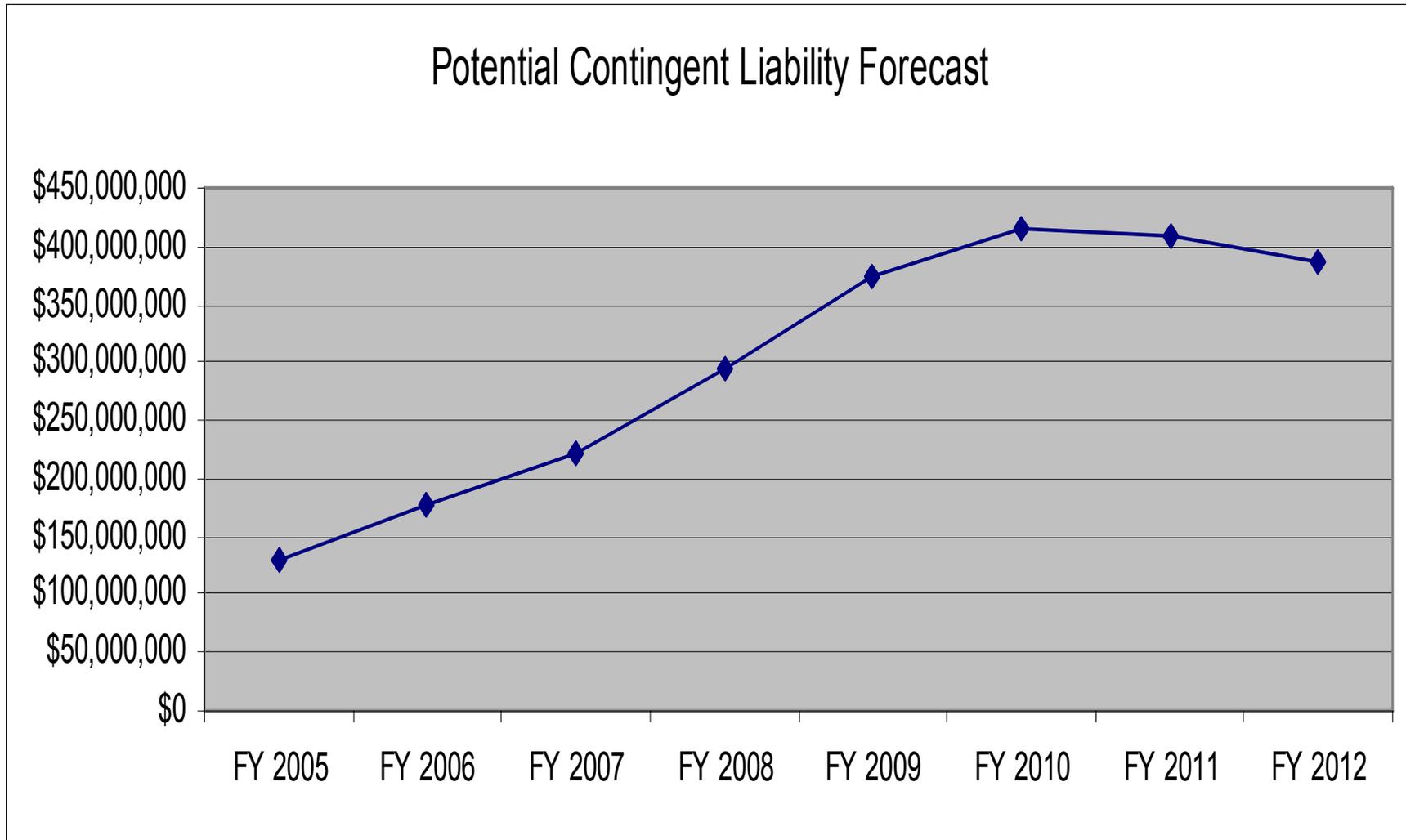
<sup>16</sup> Estimates are based on information from the awarding agency. This program ended 7/1/05 and it is expected that all awards will be claimed before FY 2012.

<sup>17</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>18</sup> Estimates are based on the Fiscal Note for SF 389, 2005 Legislative Session.

<sup>19</sup> Estimates are based on the Fiscal note for HF 2731, 2006 Legislative Session

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



**Table 6: Tax Credits Data from Data Entry Project**

		2002		2003		2004		2005*		2006*	
		Number of Claims	Dollars Claimed								
Research Activities Tax Credit	Individual	355	\$3,953,665	536	\$5,716,984	475	\$5,930,426	548	\$3,479,651	278	\$3,438,956
	Corporate	63	\$5,697,888	116	\$6,669,589	114	\$13,685,744	118	\$4,630,290	17	\$314,554
	Total	418	\$9,651,553	652	\$12,386,573	589	\$19,616,170	666	\$8,109,941	295	\$3,753,510
Alt. Research Activities Tax Credit	Individual	2	\$8,522	7	\$47,235	18	\$288,766	10	\$245,998	12	\$363,938
	Corporate	11	\$451,775	13	\$9,591,639	18	\$15,528,381	11	\$5,169,691	1	\$33,868
	Total	13	\$460,297	20	\$9,638,874	36	\$15,817,147	21	\$5,415,689	13	\$397,806
Total Research Activities Tax Credit	Individual	357	\$3,962,187	543	\$5,764,219	493	\$6,219,192	558	\$3,725,649	290	\$3,802,894
	Corporate	74	\$6,149,663	129	\$16,261,228	132	\$29,214,125	129	\$9,799,981	18	\$348,422
	Total	431	\$10,111,850	672	\$22,025,447	625	\$35,433,317	687	\$13,525,630	308	\$4,151,316
Ethanol Blended Gasoline Tax Credit	Total	335	\$729,082	478	\$1,073,740	392	\$1,122,805	444	\$1,506,628	365	\$1,146,513
Investment Tax Credit	Total	862	\$1,464,093	726	\$2,304,997	667	\$2,985,425	75	\$1,447,431	601	\$23,293,301
	Carryforward		\$31,493,384		\$38,694,129		\$20,302,700		\$14,964,271		\$120,551,946

\* 2005 and 2006 corporate tax years are not yet complete

Source: IDR data as of 9/26/07

## ***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.

**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 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.

**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). 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 is approved as eligible by the local board of supervisors and the IUB. Section 476B, Code of Iowa.