2020 Iowa Tax Expenditures Study

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Tax Research Bureau
Iowa Department of Revenue

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Executive Summary

The 2020 Iowa Tax Expenditure Study provides information on the impact of tax credits, deductions, exemptions, and income exclusions on the revenue-raising capacity of the State's three major General Fund taxes. The taxes considered in the report with an effect on the General Fund are the individual income tax, the corporate income tax, and the sales and use tax. In most years these three taxes account for at least 90 percent of net General Fund tax receipts. In addition, property tax expenditures are considered, but they do not affect the General Fund, as funds are distributed to local governments.

Most tax expenditures provided in this report are estimated for calendar year 2020, and are based on the most recent year for which complete tax information is available, which in most cases is 2018. For individual income tax and corporate income tax expenditures, calendar year corresponds to tax year. For sales and use tax expenditures, tax year (TY) normally corresponds to fiscal year (FY). For this study, however, sales and use tax expenditure estimates have been adjusted to a calendar year basis. Property tax expenditures, on the other hand, are based on taxes due in fiscal year 2020, and were estimated based on property assessments as of January 1, 2018. For this reason, for property tax revenue and expenditures cited in this study, tax year is equivalent to fiscal year, and will be hereafter referred to as "tax year."

For tax year 2020 Iowa collected $4,071.3 million in individual income taxes, $693.7 million in corporate income taxes, and $3,193.1 million in sales and use taxes. Other taxes, totaling $286.0 million, include inheritance, insurance, franchise, and miscellaneous tax types. Property tax generated $6,002.5 million for local governments.

Net Tax Revenue by Tax Type, Tax Year 2020

Tax Type Payable to General Fund and Local Governments	Net Revenue ($ Millions)
Individual Income Tax	$ 4,071.3
Corporate Income Tax	$ 693.7
Sales and Use Tax	$ 3,193.1
Other Tax	$ 286.0
Total Revenue Payable to General Fund	$ 8,244.1
Property Tax Revenue Payable to Local Governments	$ 6,002.5

Sources: State of Iowa Tax Receipts and Refunds (General Fund) and Property Taxes by Class of Property (Local Governments)

In preparing this report, 357 separate tax law provisions were identified as meeting the definition of tax expenditures for tax year 2020, as applicable to the General Fund. The report quantifies the impact of 246 of these provisions, including 31 where the impact was determined to be minimal (under $100,000) or the impact could not be estimated separately and was incorporated under another provision. For 111 General Fund expenditures, the impact could not be determined due to the lack of adequate or timely data. All provisions for which estimates are provided had an estimated General Fund impact of -$15,966.7 million in tax year 2020 (see table, below). Estimated expenditures for each tax type are detailed in the attached tables (see Tables 3 through 6). Expenditures that were not estimated are listed in Table 8, attached.

An additional 56 provisions were quantified in terms of the impact on property taxes, which impact local government tax revenue. Property tax expenditure estimates are included in the attached tables in Table 7. The total impact of property tax expenditures is estimated to be -$9,377.4 million for tax year 2020, affecting local government funds (see table, below). Seven property tax expenditures were not able to be estimated and are included in Table 8, attached.

The impacts by tax type are as follows:

Estimated Tax Expenditures by Tax Type, Tax Year 2020

Expenditure Tax Type	Expenditure Count	Impact ($ Millions)
Individual Income Tax	58	$ (4,068.7)
Corporate Income Tax	8	$ (69.3)
Tax Credits (Multiple tax types)	42	$ (437.2)
Sales and Use Tax	138	$ (11,391.5)
Total Impact to General Fund	246	$ (15,966.7)
Property Tax (Impact to Local Governments)	56	$ (9,377.4)

Source: Iowa Department of Revenue (IDR) estimated expenditures by tax type, derived from internal models, federal data, and historical IDR data.

Introduction

The 2020 Iowa Tax Expenditure Study provides information on the revenue impact of tax credits, exemptions, deductions, nontaxable transactions, or other deviations from the operation or collection of a tax in Iowa. This release presents tax expenditures related to corporation income tax, individual income tax, the State's sales and use tax, and property tax levied at the local level. (To the extent other tax types, such as insurance premium, and moneys and credit, are affected, their impact is usually minimal and is combined with the predominant tax type impacted by the expenditure being measured.) The Department has completed similar studies for 2000, 2005, 2010, and 2015.

This Study is designed to provide expenditure information in a manner that is consistent with the definitions used in Iowa Code Section 2.48 (2021).[1] In preparing this report, 420 separate types of transactions impacting either the General Fund or local government were identified as tax expenditures for 2020. This release quantifies the impact of 302 of these tax expenditures. The estimated amounts are attached in Tables 3 through 7. For 118 other tax expenditures, lack of timely data precluded estimation. These are listed in Table 8, attached. Note that not all items that are defined as tax expenditures under Iowa Code Section 2.48 are considered tax expenditures under a normal tax structure. For example, items purchased for resale and many business inputs are exempt from sales tax consistent with the generally accepted principle that sales tax should apply only to final purchases by consumers. Nevertheless, these items are included in this study as tax expenditures.

Purpose of the Tax Expenditure Study

Government programs funded through direct appropriations are subject to periodic review as part of the state budget process. Programs funded through special features or omissions of the tax code, such as nontaxable events, tax exemptions, tax credits, tax deductions, and income tax exclusions, generally escape such examination. Therefore, this study is intended to provide more information about these features of the Iowa tax statutes and to improve government accountability.

The estimates presented in this study are for taxable events occurring in calendar year 2020 and are based upon the most recent data available, adjusted to reflect the levels of activity in 2020, if necessary. For income tax and sales and use tax, the estimates are based only upon the impact on receipts of the State of Iowa and only upon receipts going into the General Fund. Impacts on local option income surtaxes or local option sales taxes are not estimated.

Definition of Tax Expenditure

[1] From Iowa Code Section 2.48 (2021): "For purposes of this section, "tax expenditure" means an exclusion from the operation or collection of a tax imposed in this state. Tax expenditures include tax credits, exemptions, deductions, and rebates. Tax expenditures also include sales tax refunds issued pursuant to section 423.3 or section 423.4."

A tax expenditure is any exemption, credit, deduction, or exclusion from the tax base that is tied to a specific provision in tax law (with the exception of certain sales and use tax expenditures which are considered exempt by omission from taxation under Iowa Code).[2] A tax expenditure is generally understood to be a preferential provision in the tax law that produces a reduction in tax from that which would be imposed without the provision. In addition, tax expenditures are generally targeted to a limited group of taxpayers. The basis of this study is to identify provisions in Iowa law and estimate the impact to the General Fund of each of the provisions that satisfy the definition of a tax expenditure.

Tax expenditures are, in general, not appropriations, but can be viewed as an alternative to direct government appropriations. However, some property tax expenditures are directly funded by State of Iowa appropriations. The funding may be distributed to local governments or to individuals. Although tax expenditures allocate resources for specific public purposes like appropriations, they achieve policy goals indirectly by changing the cost of a particular action.

In general, tax changes that alter the timing of when revenues or expenses are realized for tax purposes, such as depreciation and amortization of assets, are not treated as tax expenditures in this study (see Appendix I). Additionally, new tax expenditures that took effect with legislation passed in the 2020-2021 Iowa legislative session are not included in this study. In particular, exclusions, exemptions, and tax credits related to Covid-19 pandemic relief are not included as separate expenditures, but may impact other expenditures to the extent they decrease taxable income or other sources of revenue (see Appendix II).

How the Tax Expenditures Have Been Estimated

Two primary assumptions have been used for the Iowa tax expenditure study that are generally consistent with the assumptions used for calculating tax expenditures in other states and by the federal government. The first of these assumptions is that economic behavior is not altered. By definition, tax expenditures are sometimes created in order to bring about an expected result or to encourage a particular behavior. Estimates in this study are done assuming that the elimination of the tax expenditure will not otherwise change behavior. This assumption avoids the necessity for making subjective assumptions about behavior and the possibility of inconsistency in methods and outcomes. Such analysis is beyond the scope of this study.

The second assumption used in this study is that tax expenditures are independent of other tax provisions. In practice, however, the fiscal impact of one tax provision can affect the fiscal impact of another tax provision. For example, under the individual income tax, eliminating a nonrefundable credit such as the personal credit could result in taxpayers being able to utilize more of other nonrefundable credits; but for purposes of this study,

[2] Examples of sales and use tax expenditures that are not tied to specific provisions in tax law are dental services and self-pay washer/dryer use.

the estimate of the tax expenditure value for each credit assumes all other credits are unaffected.

Another important issue to note is that tax expenditure estimates are not the same as budgetary fiscal estimates. Although the provided estimates of tax expenditures indicate the magnitude of the revenue impact from the application of specific provisions, actual budgetary fiscal impacts of legislative changes may produce different results. The primary reason for this variance is the use of different basic economic assumptions or time periods when compiling the estimates. Another reason for possible differences is the assumption of independence when calculating tax expenditures, as contrasted with budgetary fiscal estimates that are often considered in the context of other changes.

In calculating each tax expenditure, preference was given to internal data when available. If unavailable, the 2017 Economic Census published by the US Census Bureau was frequently used. Other data sources include industry data identified on the internet or gathered through phone calls and emails, the Agricultural Census published by the US Department of Agriculture, other federal data, or comparable data from other states. Although data sources often are consistent across studies, large changes in estimates over time may reflect a change in data source. See References table at the end of this document.

The General Fund estimates for sales and use tax in this study relate to expenditures estimated for the 2020 calendar year. For corporate and individual income tax, the estimates are based on 2020 tax year where available, and 2020 fiscal year if not. For property tax, the estimates relate to property valuations or assessments for calendar year 2018 that would correspond to tax bills payable in fiscal year 2020. Note, property tax expenditures do not affect the General Fund since funds are distributed to local governments. Also, property tax expenditures are estimated in two ways: (1) reductions in collectible property tax revenue (through credits and exemptions, for example), and (2) reductions in property assessment values for purposes of taxation. For some tax items, only one or the other method is practicable to use for estimation. In other cases, both methods can be used. The method applied will be indicated in the property tax expenditure tables.

Data Presentation

This study is a comprehensive tax expenditure study by the Iowa Department of Revenue for 2020. The total estimated expenditures by expenditure category (described below) are presented in Tables 1a and 1b (below and attached). Table 2 (below and attached) lists the top five expenditures by tax type. This is provided to give a quick overview of how each tax type is impacted by tax expenditures, and is followed by a description of historical rates and other information about the tax types covered in this study.

Full details of expenditures by tax type are found in Tables 3 through 7, attached. In the individual and corporate income tax types (Tables 3 and 4), the Iowa Code Citation column may include an “IRC” citation. This designation means that the tax expenditure is tied to federal law under the Internal Revenue Code (IRC). The total impact of federal conformity cannot always be quantified, however, and the federal citation is not meant to imply capture of all revenue impacts that result from conformity with the IRC. For purposes of this study the impact of federal conformity is not addressed.

A description of the fields presented in Tables 3 through 8 (see attached) is provided below and is reproduced for reference in the attached tables as well.

Tax Expenditure Tables Data Fields

Expenditure name (and tax type): Name of the tax expenditure. If multiple tax types are involved, the applicable tax base is cited. This pertains to the Tax Credit expenditures table (Table 5).

Expenditure Category: Broad group of expenditure purpose. See full list, below.

Expenditure Type: Means by which the tax expenditure is applied against the estimated item: Exclusion, Exemption, Partial Exemption, Credit, Deduction, Indexation, and Refund.

Iowa Code Citation: Chapter and section from Iowa Code containing the expenditure. Iowa Code citations are from the 2021 Code, unless otherwise specified. If IRS conformity is a factor in the expenditure, then the Internal Revenue Code (IRC) chapter is also listed.[3]

Iowa Administrative Code Citation: Chapter and section from Iowa Administrative Code containing the rules used to administer the expenditure. Iowa Administrative Code citations are from the 2021 Code, unless otherwise specified.

Description: Details about the expenditure, as taken from Iowa Code.

Data Source: Primary source of data for estimating the expenditure. Sources cited include "Internal," meaning the estimates are based on Iowa Department of Revenue (IDR) data; "Model," meaning estimates are based on a combination of IDR data and other sources such as Federal data or industry data; and "JCT Tax Expenditure," where estimates are based on data from the Joint Committee on Taxation, a legislative body of the US Congress. Other sources may be "Industry Data," "Comparative State Data," and federal data such as the economic census from the US Census Bureau, and data from the US Department of Agriculture (USDA). In cases where the expenditure could not be separately estimated and is included in the estimate for another expenditure, that is indicated in the source column as "See Description."

Tax Expenditure Value: Estimated reduction in General Fund (or local government, in the case of property taxes) tax revenue as a result of the exemption, credit, or deduction; rounded to the nearest one hundred thousand. Entry is listed as "Minimal" if significantly under $100,000.

[3] IRC references are shown for information only. The impact of conformity with the IRC is not factored into the tax expenditure estimates.

Reduction in Taxable Property Value (For Property Tax Only): Estimated change in the assessment of property values as a result of an exemption or credit, rounded to the nearest $100,000.

Categories of Tax Expenditures

The tax expenditure report categorizes each expenditure by the intent of the provision. Some exemptions are in place for an administrative purpose, such as to avoid double taxation, while others reflect conscious policy decisions to pursue a certain social, economic, or environmental goal.

The estimated expenditure total for each of these tax expense categories is found in the explanation of each expenditure category below, and is summarized in Table 1a for General Fund impact and in Table 1b for local governments impact, below and attached. The highest expenditure in each category is also discussed below, and is displayed in Tables 1a and 1b.

Administrative: This category contains expenditures that are nontaxable or exempt because taxability would result in double taxation or the taxation of an incidental transfer. They are generally not implemented to pursue policy goals. Examples include the exemption for interstate sales or prepaid merchandise cards as well as the nontaxable status of property transferred in corporate mergers. Total administrative tax expenditures are $5,703.2 million. The single highest expenditure in this category is the tax exemption on resale of tangible personal property under the sales and use tax type, at $3,342.4 million. (See Table 1a.)

Agricultural Input: This category exempts most personal property used by farmers to produce, or an input which becomes food or fuel including items that are depleted in the creation of food or fuel. Examples include grain dryers, commercial fertilizer and lime, and agricultural feed. Total expenditures under this category are $560.8 million. Exemptions in this category apply mostly to sales and use tax, with the highest impact attributable to sales of agricultural feed, which are exempt from sales tax totaling $241.3 million. (See Table 1a.)

Agriculture Support: This category applies to expenditures made by farmers in the course of operation. Examples include agricultural assets transfer, acquisition of breeding stock, aerial spraying of fields, capital gains on agricultural assets, and laboratory tests on animals. Exemptions and deductions in this category apply to corporate and personal income tax, and to sales and use tax, with the latter having the largest impact to the General Fund. It also makes up the majority of expenditures in property tax, with the impact going against local government revenue. Total expenditures in this category going against the General Fund are $39.5 million, with the highest impact attributable to sales of agricultural drainage tile (see Table 1a). The highest impact in property tax expenditures attributable to agriculture support is due to the reduced assessment of agricultural real estate, which is based on productivity rather than market value. The total impact is estimated at $4,025 million in foregone property tax revenue due to this expenditure (see Table 1b).

Business - inputs for Manufacturing: This category exempts items used in a business's production process to avoid levying taxes at each link in a supply chain. Examples include inert gases used in manufacturing, and packaging containers. The main tax type applicable to this category is sales and use, with the highest expenditure at $253 million for exempt sales tax on products used in processing. Total expenditures in this category are $1,229.1 million. (See Table 1a).

Business Incentive: This category provides benefits to businesses in the interest of facilitating economic and/or employment growth. Examples include the reduced tax rate on construction equipment, the High Quality Job Program Sales Tax Refund, and the Workforce Housing Tax Incentive Sales Tax Refund. There are multiple tax types that are applicable to exemptions and deductions in this category, including corporate income, property tax, withholding, and sales and use tax. Sales and use tax make up the majority of the estimated expenditures, with the highest single expenditure due to sales tax exemption on gambling boat games and admissions, at $574.0 million. Total expenditures in this category are $1,596.3 million. (See Table 1a.)

Charitable Organization Support: This category exempts certain items sold by or sold to certain nonprofits generally engaging in activities in the public interest, or for items sold to support educational, religious, or charitable activities. Examples include exemptions for sales to nonprofit hospice facilities, Community Action Agencies, or private art centers. The main tax advantages in this category apply to individual income, property, and sales and use taxes, with the majority of expenditures attributable to sales and use tax exemptions. Total General Fund expenditures in this category are $369.6 million, with the highest item being the exemption of sales tax to non-profit hospitals at $152.4 million (see Table 1a). The highest local government expenditure in this category is due to property tax exemptions on religious, literary, and charitable societies' property, totaling $356.3 million (see Table 1b).

Community Development Support: This category exempts taxes for qualified expenses associated with economic or cultural development in a community. Examples include speculative shell buildings, historic preservation, cultural and entertainment district development. It applies to multiple tax types in the form of tax credits. Total expenditures are $24.5 million. The highest expenditure associated with this category is the historic preservation tax credit, estimated at $24.5 million. (See Table 1a.)

Consumer Benefit: This category exempts taxes or reduces the tax rate for items commonly purchased by consumers, often items considered necessities. Examples include food sales for human consumption, medical services, and residential utilities. Expenditures in this category mainly apply to sales and use taxes. Total General Fund expenditures are $3,631.7 million (see Table 1a), and local government expenditures are $2,723.4 million (see Table 1b). The highest General Fund expenditure in this category is attributable to the sales tax exemption on medical services, at $693.3 million (see Table 1a), while the top local government expenditure is $2,493.9 million for residential classification valuation rollback (see Table 1b).

Education Support: This category exempts, or provides an income deduction or exclusion of, certain expenses associated with education. Examples include educator expense, contributions to a 529 plan, employee assistance for education expense, and early childhood development expenses. Individual income tax is the main focus for this category. Expenditures in this category total $41.0 million. The largest expenditure in this category is the tuition and textbook tax credit, which is applied against individual income tax, and is estimated at $14.8 million in tax year 2020. (See Table 1a).

Environmental Support: This category exempts, or provides an income deduction or exclusion of, certain expenses associated with environmental benefit. Examples include solar, geothermal, and wind energy systems, and property used for pollution control and recycling. General Fund expenditures total $1.6 million, with the largest item in this category being the geothermal heat pump income tax credit at $1.1 million (see Table 1a). Local government expenditures in this category total $116.3 million, with the largest expenditure attributable to a partial property tax exemption for wind energy conversion property, estimated at $103.2 million (see Table 1b).

Family Support: This category exempts taxation of items or income benefits associated with family care. Examples include the Earned Income Tax Credit, child and dependent care, dependent income tax exemption, employee child care benefit, and public assistance payments. Individual income tax is the focus for this category. The largest expenditure in this category is the Earned Income Tax Credit, which is applied against individual income tax. The estimate for this credit is $72.3 million. Total expenditures in this category are estimated at $111.8 million. (See Table 1a.)

Government: This category exempts items or property sold to, sold by, or owned by any level of local, state, or the federal government. Examples include sales by the Legislative Services Agency or the Department of Cultural Affairs as well as refunds for materials used in the construction of government buildings. These expenditures can be applied to various tax types, including corporate and individual income tax, property tax, and sales and use tax, with the latter contributing most of the expenditures total. The largest General Fund estimated expenditure in this category is a sales tax exemption on sales to tax levying or certifying bodies in Iowa, at $311.8 million (see Table 1a). Tax expenditures total $438.5 million for General Fund (see Table 1a) and $255.8 million for local governments (see Table 1b). The largest expenditure item impacting local governments is municipal and military property at $210.5 million (see Table 1b).

Individual Benefit: This category exempts taxation on certain expenses incurred by, or benefits accruing to, individuals. Examples include victim compensation awards, unskilled in-home health care service, standard income deduction, and life insurance death benefits. Individual income taxes are the most affected tax type by expenditures in this category. The largest item in this category is an itemized deduction for interest paid on qualifying items. The deduction is applied against individual income, and is estimated at $128 million in tax year 2020. Total General Fund expenditures are estimated at $718.1 million. (See Table 1a.)

Inputs for Transportation: This category exempts sales and use taxation on items used for inputs to transportation, such as aircraft repair and replacement parts, ships and barges, and railroad rolling stock. The largest expenditure in this category is $5.4 million in sales tax exemption for sales associated with railroad rolling stock. Total expenditures are estimated at $6.7 million. (See Table 1a.)

Low-Income Support: This category exempts taxation on income in support of low-income persons. No expenditures were estimated in this category for tax year 2020.

Military/Veterans' Support: This category exempts taxation on income accruing to military veterans or active duty military. Examples include military active duty pay and benefits, veterans education benefits, military disability pensions, and Veterans Trust fund distributions. Individual income taxes are the most affected tax type. The highest expenditure in this category is $23.2 million for exclusion of military disability pensions from individual taxable income (see Table 1a). Total expenditures in the category are $51.5 million for General Fund (see Table 1a) and $1.8 million for local governments (see Table 1b). The highest expenditure item for the latter is a property tax exemption and credit for Military Service (see Table 1b).

Natural Resources Support: This category exempts or reduces the tax rate for sales or property that promotes the health of wildlife, reduces pollution, or facilitates the transition to renewable energy. Examples include the sales and property tax exemption for solar energy equipment, the exemption of pollution control and recycling property, and the property tax exemption for native prairie and wetlands. The main tax type affected by these expenditures is property tax, impacting local government revenue. The top expenditure in this category is $22.2 million in property tax exemption for forest and fruit-tree reservations, which is applied against local government revenue (see Table 1b). Total expenditures in the category are $0.6 million for General Fund (see Table 1a) and $23.8 million for local governments (see Table 1b). The highest expenditure item for the latter is the Charitable Conservation Contribution Tax Credit at $0.6 million (see Table 1a).

Retirement Support: This category exempts certain income and benefits paid to retired individuals. Examples include: IRA and 401k contributions, and social security and pension distributions. Individual income taxes are the most effected tax type. The highest expenditure in this category is the exclusion from taxable income of pension contributions and earnings in 401(k) plans. The estimate for this expenditure is $649.4 million. Total estimated expenditures for retirement support is $1,442.2 million (see Table 1a), and impacts General Fund revenue only.

Table 1a. Tax Expenditure Estimates by Category
General Fund Impact Only*

Tax Expenditures Category	Expenditure Estimate ($ millions)	Ranking	Top Tax Expenditure Item**	Expenditure Estimate ($ millions)
Administrative	$5,703.2	1	Resale of Tangible Personal Property[1]	$3,342.4
Agricultural Input	$560.8	7	Agricultural Feed[1]	$241.3
Agriculture Support	$39.5	13	Agricultural Drainage Tile[1]	$9.3
Business - Inputs for Manufacturing	$1,229.1	5	Products Used in Processing[1]	$253.0
Business Incentive	$1,596.3	3	Gambling Boat Games and Admissions [1]	$574.0
Charitable Organization Support	$369.6	9	Nonprofit Hospitals[1]	$152.4
Community Development Support	$24.5	14	Historic Preservation Tax Credit[2]	$24.5
Consumer Benefit	$3,631.7	2	Medical Services[1]	$693.3
Education Support	$41.0	12	Tuition and Textbook Tax Credit[2]	$14.8
Environmental Support	$1.6	16	Geothermal Heat Pump Tax Credit[2]	$1.1
Family Support	$111.8	10	Earned Income Tax Credit[2]	$72.3
Government	$438.5	8	Tax Levying or Certifying Bodies In Iowa[1]	$311.8
Individual Benefit	$718.1	6	Itemized Deduction for Interest Paid[2]	$128.0
Inputs for Transportation	$6.7	15	Railroad Rolling Stock[1]	$5.4
Low-Income Support	$0.0	18	---	$0.0
Military/Veterans' Support	$51.5	11	Military Disability Pensions[2]	$23.2
Natural Resources Support	$0.6	17	Charitable Conservation Contribution Tax Credit[3]	$0.6
Retirement Support	$1,442.2	4	Pension Contributions and Earnings in Employer Plans[2]	$525.4
Total	$15,966.7		Total	$6,372.8

* General Fund estimates generally pertain to tax year 2020.
**Tax type:
1 Sales and Use
2 Individual Income Tax
3 Individual and Corporate Income Tax

Table 1b. Tax Expenditure Estimates by Category
Local Governments Impact Only*

Tax Expenditures Category	Expenditure Estimate ($ millions)	Ranking	Top Tax Expenditure Item**	Expenditure Estimate ($ millions)
Agriculture Support	$5,196.1	1	Agricultural Classification Valuation	$4,025.0
Business Incentive	$671.7	3	Commercial and Industrial Property Tax Rollback	$187.7
Charitable Organization Support	$388.5	4	Religious, Literary, and Charitable Societies' Property	$356.3
Consumer Benefit	$2,723.4	2	Residential Classification Valuation Rollback	$2,493.9
Environmental Support	$116.3	6	Wind Energy Conversion Property	$103.2
Government	$255.8	5	Municipal and Military Property	$210.5
Military/Veterans' Support	$1.8	8	Military Service Exemption and Credit	$1.8
Natural Resources Support	$23.8	7	Forest and Fruit-Tree Reservations	$22.2
Total	$9,377.4		Total	$7,400.6

*Local government estimates pertain to 2018 property assessments, with expenditures realized in fiscal year 2020.
**Tax type is property tax.

Top Five Tax Expenditures by Tax Type

Table 2 presents the top five expenditures by tax type. This is provided to give a quick overview of how each tax type is impacted by tax expenditures, relative to other tax types. The top expenditure category estimate will be covered briefly in the discussion of each tax type below.

Table 2. Top Five Tax Expenditures by Tax Type*

Expenditure Name	Expenditure Category	Estimated Amount ($ Millions)
Individual Income Tax		
Federal Deductibility	Administrative	$821.6
Pension Contributions and Earnings in 401(k) Plans	Retirement Support	$649.4
Indexation of the Tax Brackets	Administrative	$565.0
Pension Contributions and Earnings in Employer Plans	Retirement Support	$525.4
Capital Gain-Home Sales Exclusion	Individual Benefit	$145.2
		$2,706.6
Corporate Income Tax		
Fifty Percent Deduction of Federal Tax	Administrative	$38.0
Foreign Dividends	Administrative	$27.7
Tax Free Like-Kind of Exchanges	Business Incentive	$2.2
Alternative Minimum Tax Exemption	Administrative	$0.6
Corporate Charitable Contributions	Charitable Organization Support	$0.5
		$69.0
Tax Credits		
Research Activities Tax Credit	Business Incentive	$77.4
Earned Income Tax Credit	Family Support	$72.3
S-Corporation Apportionment Tax Credit	Administrative	$50.9
Historic Preservation and Cultural and Entertainment District Tax Credit	Community Development Support	$24.5
Iowa Industrial New Jobs (260E) Withholding Tax Credit	Business Incentive	$23.9
		$249.0
Sales and Use Taxes		
Resale of Tangible Personal Property	Administrative	$3,342.4
Medical Services	Consumer Benefit	$693.3
Gambling Boat Games and Admissions	Business Incentive	$574.0
Construction Services	Business Incentive	$492.2
Food Sales for Human Consumption	Consumer Benefit	$477.3
		$5,579.2
Property Taxes		
Agricultural Classification Valuation	Agriculture Support	$4,025.0
Residential Classification Valuation Rollback	Consumer Benefit	$2,493.9
Agricultural Classification Valuation Rollback	Agriculture Support	$680.4
Agricultural Produce	Agriculture Support	$461.6
Religious, Literary, and Charitable Societies' Property	Charitable Organization Support	$356.3
		$8,017.2

* Estimates generally pertain to tax year 2020. Tax Credits may be applicable to more than one tax type.

Tax Base Descriptions and History

A general description of the current tax base and rates and a short history are provided below. These descriptions cover the taxes considered in this study. Detailed tax expenditure estimates for each tax type are found in Tables 3 through 7 (attached).

Individual Income Tax

The Iowa individual income tax was enacted in 1934 and is imposed on Iowa net income of individuals, estates, and trusts. Individuals may also be subject to a minimum tax and a tax on lump-sum distributions from qualified retirement plans.

For the Iowa individual income tax, adjusted gross income is calculated in much the same way as for federal income tax purposes. This means that Iowa net income generally conforms to federal definitions of sources included in income as well as adjustments to gross income. The history of individual income tax rates and tax brackets is presented in the table below.

History of Iowa Individual Income Tax Rates and Brackets

Tax Year	Rates and Income Tax Bracket
1934	Graduated rates imposed ranging from 1.0% to 5.0% over 5 taxable income brackets with a top bracket of $4,000
1953	Rates lowered to range from 0.75% to 3.75% over 5 taxable income brackets with top bracket raised to $5,000
1955	Rates increased to range from 0.8% to 4.0% over 5 taxable income brackets with the top bracket lowered to $4,000
1957	Rates lowered to range from 0.75% to 3.75% over the same taxable income brackets
1965	Rate changed to range from 0.75% to 4.5% over 6 taxable income brackets with the top bracket of $9,000
1967	Additional bracket and new top 5.25% rate introduced.
1971	Rates increased on all brackets except lowest two, rates ranging from 0.75% to 7.0%
1975	Rates ranging from 0.5% to 13.0% over 13 taxable income brackets with the top bracket of $75,000
1979	One-time indexation of brackets, raising top bracket to $76,725

Tax Year	Rates and Income Tax Bracket
1987	Rates changed to 0.4% to 9.98% over 9 taxable income brackets with the top bracket of $45,000
1996	Annual indexation of brackets instituted
1999	All tax rates cut 10% with a range of 0.36% through 8.98% over 9 taxable income brackets with the top bracket of $51,660
2019	All tax rates cut with a range of 0.33% through 8.53% over 9 taxable income brackets with a top bracket of $73,710 (indexed annually)

Features that distinguish Iowa's individual income tax from federal individual income tax include:

- The ability of married taxpayers to file separately on the same return, which eliminates the "marriage penalty" that would otherwise be encountered by many married taxpayers;

- Personal and dependent credits, where the impact on tax liability is equal regardless of taxpayers' income, instead of personal exemptions, where the impact on tax liability varies with the taxpayers' marginal tax rate;

- For Iowa residents, only single individuals with Iowa net income over $9,000, and other filers with Iowa net income over $13,500, are required to file tax returns. For nonresidents, Iowa returns only have to be filed by those with over $1,000 Iowa net income. For single taxpayers aged 65 or older, the filing threshold is $24,000 and for married taxpayers with one spouse aged 65 or older, the filing threshold is $32,000;

- A 100 percent deduction for federal income tax payments, reduced by federal refunds of prior federal payments received during the tax year.

Individual Income Tax Results

In tax year 2019, the latest year for which most returns are available, 1.64 million Iowa individual income tax returns were filed. The total tax liability reported on returns was $3.63 billion, with nearly 94 percent attributable to residents.[4]

Estimated tax expenditures for individual income in tax year 2020 are found in Table 3. Total estimated individual income tax expenditures are $4,068.7 million. This includes $318 million in tax credits claimed on a separate line on the IA 1040. (Tax credits that are

[4] 2019 Individual Income Tax Statistical Report, Table 4.

claimed in the IA 148 form are accounted for separately in the "Tax Credits" section of this report and in Table 5, attached.) The largest individual income tax expenditure was deductibility of federal income tax, estimated at $821.6 million. This is considered an administrative expenditure.

Corporation Income Tax

The Iowa corporation income tax was enacted in 1934 and generally uses federal definitions of business income and deductions. The history of corporate income tax rates and tax brackets is presented in the table below.

History of Iowa Corporation Income Tax Rates and Brackets

Tax Year	Rate and Income Tax Bracket
1934	Flat rate of 2.0%
1955	Rate increased to 3.0%
1957	Rate lowered to 2.0%
1959	Rate increased to 3.0%
1965	Rate increased to 4.0%
1967	Additional rates increased with 3 taxable income brackets: Up to $25,000 – 4.0% $25,000 to $100,000 – 6.0% Over $100,000 – 8.0%
1971	Up to $25,000 – 6.0% $25,000 to $100,000 – 8.0% Over $100,000 – 10.0%
1981 - 2020	Up to $25,000 – 6.0% $25,000 to $100,000 – 8.0% $100,000 to $250,000 – 10.0% Over $250,000 – 12.0%

The starting point for the determination of tax liability for Iowa corporate income tax is net income from the federal return. Corporations that have sales both within Iowa and outside the State only owe tax on a portion of income based on the ratio of sales within Iowa to total sales nationally. Basing Iowa's apportionment formula exclusively on sales is believed to provide a competitive advantage in attracting new business to the state, particularly manufacturers.

Other significant features of Iowa's corporation income tax include:

- No nationwide combined reporting,
- A deduction for 50 percent of federal tax payments less refunds received,
- Allowing operating losses to be carried forward 20 years, and
- Excluding foreign dividends from taxable income.

Corporate Income Tax Results

In tax year 2018, the latest year for which these data are available, 20,410 C-corporations filed Iowa corporation tax returns; 13,616 (66.7%) of these corporations were domiciled within Iowa, and accounted for $135.1 million of total tax liability, or about 28 percent. The remaining 6,794 corporate filers were domiciled outside the state, and accounted for $351.3 million of the tax liability. The total tax liability of C-corporations for tax year 2018 was estimated at $486.3 million.[5]

Estimated tax expenditures for corporate income are found in Table 4, attached. Total estimated corporate income tax expenditures for tax year 2020 are $69.3 million. The largest expenditure was for the fifty percent deduction of federal tax, estimated at $38.0 million, an administrative expenditure. Three of the top five corporate income tax expenditures are administrative in nature.

Tax Credits

A tax credit is an amount deducted from a taxpayer's liability to decrease the amount of tax owed to the State. Iowa has two types of tax credits, nonrefundable and refundable. If a nonrefundable tax credit exceeds a taxpayer's tax liability, the amount of tax allowed is limited to tax liability and the balance of the credit either expires or can be carried forward to the next tax year. Refundable tax credits can be claimed for the full amount regardless of tax liability; any amount that exceeds tax liability will be paid to the taxpayer as a refund. Tax credits may be applied towards individual income, corporate income, insurance premium, fiduciary, franchise, sales & use, replacement, moneys & credits, and withholding taxes depending on the tax credit type.

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[5] Source: IDR Corporation Income Tax Report 2018, Table 4.

Only the Iowa Legislature can enact or repeal tax credits, although some credits have established sunset dates upon enactment. The very first tax credit was the Motor Vehicle Fuel Tax Credit which was enacted in 1973. Since then there have been many tax credits that have been enacted, although some of those tax credits have subsequently been repealed. In tax year 2006, there were 26 nonrefundable and refundable tax credits that could be claimed on the IA 148. That increased to 30 tax credits in tax year 2010, and to at least 42 credits in tax year 2020. (Some credits have been repealed, but are available on a carry-forward basis from prior years' claims.)

The Tax Credit Award, Claim, and Transfer Tracking System (CACTAS) was established in 2005. Prior to the establishment of CACTAS, the Department of Revenue (IDR) did not track the specific tax credits claimed on tax returns. Starting in tax year 2006, IDR required the IA 148 Tax Credits Schedule to be filed by all taxpayers claiming "other nonrefundable" and/or "other refundable" tax credits on their returns. This allows IDR to verify tax credit claims and to accurately report claim information. Every tax credit claim reported on the IA 148 is examined and corrections are made when errors are identified.

Tax Credits Results

The tax credits represented in this study include all credits that were eligible to be claimed during the 2020 tax year using the IA 148 Tax Credits Schedule or on the quarterly withholding return. Estimated tax expenditures for these tax credits are found in Table 5, attached. Total tax expenditures estimated for tax credits claimed in TY 2020 is $437.2 million. The largest expenditure due to tax credits was for the research activities tax credit, estimated at $77.4 million. This credit can be applied to either individual or corporate income, and is a business incentive expenditure. Tax credit expenditures items are detailed in Table 5, attached.

Sales and Use Taxes

Both the Iowa sales tax and the use tax were enacted in 1934. Sales tax is imposed on the gross receipts from the sale of tangible personal property sold at retail and of enumerated services. The use tax is meant to complement the Iowa sales tax. The general rule is that a transaction is subject to Iowa use tax when it is completed outside the State but involves tangible personal property sold for use in Iowa. The principle also applies to the sale of taxable services purchased outside of Iowa for use in Iowa. Any transaction where sales tax has been paid, at a rate equal to or higher than the Iowa sales tax rate, is exempt from use tax.

Whereas tangible personal property is considered subject to sales tax unless otherwise exempted, all services are considered nontaxable unless explicitly listed as taxable in the Iowa Code. Iowa taxes more services than some states, but many business services, such as accounting, engineering, and legal services, remain nontaxable.

The sales and use tax rate in 2020 equaled six percent and was applied to most purchases of goods and a select group of services. One percentage point of the Iowa sales and use tax is appropriated to school infrastructure and property tax relief.

Additionally, a local option sales tax may apply with a maximum rate of one percent for a maximum State and local sales tax rate of seven percent. The local option sales tax is a local government tax and is not taken into consideration in the estimates presented. The history of the Iowa sales and use tax rate is presented in the table below.

History of Iowa Sales and Use Tax Rates

Date of Change	Tax Rate
April 1, 1934	2.00%
July 1, 1955	2.50%
July 1, 1957	2.00%
October 1, 1967	3.00%
March 1, 1983	4.00%
July 1, 1992	5.00%
July 1, 2008	6.00%

Sales and Use Tax Results

During FY 2020, sales tax, retailers use tax, and consumers use tax receipts reported through tax returns totaled $3,142.6 million.[6] In comparison, total sales and use tax expenditures estimated for FY 2020 are $11,391.5 million, which include exemptions attributable to sales that are not required to be included on tax returns. The largest expenditure attributable to sales and use tax in TY 2020 was $3,342.4 million, for the exemption of taxes on the resale of tangible personal property, an administrative tax expenditure. All estimated sales and use tax expenditures are presented in Table 6, attached.

Property Tax

In Iowa, the property tax is used only by local government entities that are permitted by State statute to impose the tax. The property tax is levied on the taxable value of real property. The consolidated tax rate differs in each locality and is a composite of county, city, school district, and special levy authorities. Some estimates in this study are presented only in terms of the reduction in taxable property values due to tax exemptions or other special treatment. Other estimates are presented as the estimated change in tax revenue as a result of the exempted values or tax credits. Where feasible, both estimates are presented.

Assessment

Real property is placed in one of five classes: agricultural, residential, multiresidential, commercial, or industrial. Commercial property formerly included buildings containing three or more separate residences, except condominiums, multiple housing cooperatives, and certain non-profit housing. Effective assessment year 2015, however, multiresidential was introduced as a fifth property class, and included some property formerly classified

[6] For Sales and Use tax revenue details, see IDR FY 2020 Annual Report

as commercial. Multiresidential is classified as property that is a mobile home park, manufactured home community, land-leased community, assisted living facility, or that is property primarily used or intended for human habitation containing three or more separate dwelling units.[7] Effective assessment year 2021, the multiresidential property class has been eliminated, and was reclassified as residential. Because this study pertains to valuations for assessment year 2018, however, tax expenditures related to the multiresidential property class will be estimated separately, apart from either commercial or residential.

Most real property is assessed locally by either the county or city assessor. The assessment year starts on January 1 of each calendar year. Every two years in the odd-numbered year, local assessors are required to revalue all real property in their jurisdictions. Also, every two years in the odd-numbered years, the Department of Revenue issues equalization orders. In this process, the Department of Revenue reviews the level of assessment of property within each class of property, excluding industrial. If the aggregate assessed valuation of that class of property is at least five percent above or below the actual valuation of that class of property as determined by the Director as set out in the abstract of assessment, the Department of Revenue orders the equalization of the levels of assessment of that class of property.

Tax base assessment for taxable real property is one hundred percent of market value, except for agricultural property where the tax base is productivity value rather than market value. This difference in valuation is used as one of the measures to estimate the tax expenditure attributable to the agricultural classification valuation method.

Central Assessment

All lands, buildings, machinery, and equipment belonging to electric companies (including rural cooperatives), gas companies (including pipelines), railway companies, and telephone/telegraph companies are assessed by the Department of Revenue and subject to property taxation by local governments.

For assessment years beginning January 1, 1999 and after, central assessment of entities involved in the production, delivery, and transmission of electricity and natural gas was replaced with an excise tax on their production, delivery, and transmission. The excise tax rates vary annually by service area. An annual statewide property tax is also imposed, at a rate of three cents per $1,000 of assessed value, on all property subject to the excise tax.

Equalization

In order to prevent wide variations between assessments statewide of real property in any one class, the equalization process takes place in each odd-numbered year. As the first step of the process, which is carried out in its entirety by the Department of Revenue, the Department conducts a statewide review of the level of assessment of property within each class, except industrial, for every jurisdiction. If the aggregate assessed valuation

[7] Iowa Code section 441.21, subsection 13

of a class of property within a jurisdiction is at least five percent above or below the market value of that class of property as established through statistical analysis and abstract of assessment submissions, equalization of that class of property is required. Equalization is accomplished by increasing or decreasing the aggregate valuations of certain classes of property within jurisdictions by a percentage necessary to adjust the level of assessment to actual value. Equalization orders are restricted to equalizing the aggregate valuations of entire classes of property and may not adjust the valuations of individual properties. Equalization is not considered a tax expenditure but rather an establishment of a tax base.

Rollback

The taxable value of property may be a percentage of the assessed value as a result of statewide limitations on annual growth in assessed value. The statewide limitation on growth is three percent annually (eight percent annually for utilities). Increases in the assessment of residential and agricultural property are tied to each other. The annual increase in each class of property is limited to the smaller of the two increases in either class of property. In November of each year, the Director of Revenue certifies the limitation percentages to county auditors. The rollback percentage is multiplied by the assessed value to obtain the taxable value of the property less any exemptions or partial exemptions. The reduction in taxable value of the property due to the annual rollback is used to estimate the value of certain tax expenditures in Table 7, and the rollback rates are presented below.

Tax Base and Rates

Tax levy rates are expressed in dollars and cents per $1,000 of assessed valuation. The property tax due and payable in a fiscal year is determined by multiplying the consolidated levy rate by the taxable value of the property. The assessed value of the property is that determined as of January 1 of the year preceding the year in which the fiscal year begins, i.e., 18 months prior, adjusted by the applicable rollback. The consolidated levy rate is the total levy rates of all levy-authority jurisdictions in which the property is located.

The levy rates and rollback rates applicable to Assessment Year 2018 are listed below. The total rates are based on the average of all property classifications' rollback percentage and tax levy per $1,000 of taxable valuation.

Assessment Year 2018 Property Tax Rollback Percentage and Tax Levy per $1000

Property Classification	Rollback %	2018 tax levy per $1000
Agricultural Land And Structures	56.1324%	$24.97030
Ag Dwelling Realty	56.9180%	$34.45441
Residential Realty	56.9180%	$34.45441
Commercial Realty	90.0000%	$37.23209
Industrial Realty	90.0000%	$31.28531
Multiresidential Realty	75.0000%	$37.90968
	63.1389%	$32.15060

Property Tax Expenditures Results

Estimated tax expenditures for property due to exemptions and assessment rollbacks are found in Table 7, attached. Total property tax expenditures for TY 2020 are estimated at \$9,377.4 million. The largest expenditure was agricultural classification valuation, estimated at \$4,025 million. In all, three of the top five property tax expenditures are in the agriculture support category.

Table 7 also displays the estimated changes in property assessment value due to the application of lower assessment rates, compared to other property in the same (or similar) classification. Estimated differences in property valuation totaled \$291.5 billion in TY 2020. The largest difference in valuation as a result of applying a lower valuation rate was attributable to agricultural classification valuation, which was \$160.7 billion, or over half of the total \$291.5 billion in valuation reduction.

Conclusion

The impact of tax expenditures on General Fund revenue varies by tax type and expenditure category. In terms of tax expenditures categories, the highest amount of expenditures is attributable to administrative tax expenditures, at \$5,703.2 million, followed by consumer benefit tax expenditures at \$3,631.7 million (see Table 1a).

As shown in Table 2, the tax type with the highest impact to the General Fund is sales and use taxes, with the top five expenditures in excess of \$5,579.2 million, most of which is attributable to the exemption of sales tax from the resale of tangible personal property, with a total of \$3,342.4 million. The next highest impact to the General Fund is attributable to individual income tax expenditures, with federal tax deductibility constituting the single highest expenditure at \$821.6 million. Results for all individual income tax expenditures are displayed in Table 3, while corporate income, tax credits, and sales and use tax expenditures are enumerated in Tables 4, 5, and 6, respectively.

Also shown in Table 2 is the property tax top five tax expenditures total of \$8,017.2 million, where the impact is to local governments rather than the General Fund. The single highest property tax expenditure is agricultural classification valuation at \$4,025 million. This is due to the tax rate being assessed on the productivity value of farmland rather than the market value. Residential classification valuation rollback is next highest at \$2,493.9 million. Results for all property tax expenditures are found in Table 7.

In all, the impact to the General Fund was estimated at \$15,966.7 million, and impact to local governments was estimated at \$9,377.4 million for tax year 2020.

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Appendix I

Tax Features that Alter the Timing of When Revenues or Expenses Are Realized

(Not Treated as Tax Expenditures in this Study)

Firms are allowed to deduct the costs of doing business when determining taxable income. These business expenses often include the purchase of long-lived assets such as buildings or machinery. Because these assets have value to the firm in more than one tax period, tax law requires that the costs of these assets be deducted over the life of the asset. For certain types of assets, tax policies are often changed to speed the deduction of expenses, therefore redistributing taxes, across periods. For example, allowing certain assets to be expensed in the year of purchase creates a large deduction in the first year, but higher taxes are paid in subsequent years because no further deduction is available. Such policies theoretically do not reduce lifetime tax receipts related to the firm's purchase of an asset; rather, they only reduce revenues to the State through the opportunity cost of when those tax revenues are received. These policies are not treated as tax expenditures for this study.

Examples of policies that alter the timing of when expenses are deducted from taxable income and thus move tax receipts across tax periods are:

- 50% bonus depreciation
- amortization of start-up costs
- corporate farm exceptions to accrual
- accelerated depreciation on buildings
- accelerated depreciation on machinery and equipment
- expensing of certain agricultural capital outlays
- expensing of multi-year agricultural costs
- expensing of multi-year timber costs
- expensing of small capital investments
- expensing of soil and water conservation
- increased Section 179 expensing
- rapid amortization for reforestation
- speculative shell building depreciation.

Likewise, tax policies that alter the timing of when revenues are realized as income are also not treated as tax expenditures. Examples of such policies are:

- corporate farm exceptions to accrual
- installment sales income deferral.

Appendix II

2020-2021 Legislative Updates Excluded from Tax Expenditures Estimates

Several laws pertaining to tax expenditures were enacted in the 2020-2021 Iowa legislative session that were made retroactive to income or expenses relating to tax year 2020 or earlier. Such expenditures were not included in this study.

Examples include:

- Iowa COVID-19 Grant Income Tax Exclusion (retroactive to tax year 2019 and 2020 returns). Includes 24 Qualifying COVID-19 Grant Programs.

- Payroll Protection Program (PPP) (retroactive to 2019).

- Broadband Grant Exemption. The Act took effect June 29, 2020, and applies retroactively to tax years beginning on or after January 1, 2019.

- Iowa Income Exclusion — Stimulus Checks (tax years beginning in the 2020 calendar year).

List of Tables