Iowa Franchise
Tax Credit
Tax Credits Program Evaluation Study

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By
Karen Tigges

Research and Policy Division
Iowa Department of Revenue

Preface

During the 2005 Legislative Session the Iowa Department of Revenue received an appropriation to establish the Tax Credits Tracking and Analysis Program to track tax credit awards and claims. In addition, the Department was directed to perform periodic evaluations of tax credit programs. This is the first evaluation study completed for this tax credit. Much of the information was obtained from the Iowa Tax Credits Users' Manual.

This study and other evaluations of Iowa tax credits can be found on the Tax Credits Tracking and Analysis Program web page on the Iowa Department of Revenue website.

Table of Contents

I. Introduction

The Iowa Franchise Tax Credit was introduced in tax year 1997 in response to a federal tax change regarding financial institutions.[1] Federal law was changed effective with the 1997 tax year to allow financial institutions to be organized as S corporations for the first time. Previously, financial institutions had to be organized as C corporations. This change allowed shareholders to report income from the financial institution on their federal individual income tax returns, instead of the financial institution being subject directly to federal corporate income tax. In 1997, $8.8 million of Iowa franchise tax revenue was distributed to cities and counties, and there was concern that franchise tax revenues would drop substantially if a large number of Iowa financial institutions reorganized as S corporations for Iowa tax purposes. The Iowa Legislature adopted the Franchise Tax Credit and required all financial institutions to still remit the Iowa franchise tax. Since the shareholders of financial institutions also have to report their share of the income on their individual tax returns, the Franchise Tax Credit prevents double taxation for these shareholders. Those shareholders qualify for a Franchise Tax Credit equal to the shareholder's pro rata share of the Iowa franchise tax paid by the financial institution. The tax credit can be claimed against individual income, estates and trusts, and corporate income taxes.

The main goal of this evaluation study, which is presented in the third section, is to provide information about the Franchise Tax Credit, including how much of the credits are claimed, how much expires, and who is claiming the credits. Data are only available beginning in tax year 2006 when the IA 148 Tax Credit Schedule was introduced to collect specific data on "Other Nonrefundable" and "Other Refundable" tax credit claims.[2] The history of claims from 2006 to present will be presented in Tables 2 through 4, with more recent data presented for trend analysis in Tables 5, 6, and 7. First, however, immediately below is information provided on how other states tax their financial institutions.

II. How Other States Tax Financial Institutions

A. Iowa Franchise Tax Compared to Other States with Financial Institution Taxes

The rates and methods of taxation vary greatly from state to state (see Table 1). In many cases, both the franchise tax and corporate income tax are based on a percentage of net or taxable income. Some states have a flat tax rate and others have a graduated tax rate. Still others use a different base altogether, e.g., apportioned taxable margin, a percent of monthly deposits, or net taxable capital.

Out of the fifty states only Wyoming does not impose a tax on financial institutions (or any other corporation). At least 23 states, including Iowa, levy some form of a tax specifically on financial institutions (generally referred to as a franchise or financial institutions tax in Table 1). The remaining 26 states, plus the District of Columbia, tax their banks using the same tax system

[1] Financial institutions are defined in Section 581 of the Internal Revenue Code.

[2] Starting in tax year 2006, all corporate tax credits other than the Motor Vehicle Fuel Tax Credit are claimed on the IA 1120 as either refundable or non-refundable, similar to the IA 1040 for individual income taxpayers. Corporations and individuals now provide details about credit claims by completing the IA 148 Tax Credits Schedule, introduced in tax year 2006 to track all Iowa tax credit claims.

other corporations are required to use (generally referred to as corporate income tax in Table 1).

Iowa taxes financial institutions using a franchise tax.[3] The franchise tax was first levied in 1970 and is equal to five percent of net income.[4] Prior to 1970, banks were taxed on the value of their capital stock and all surplus profits were taxed as moneys and credits. The revenue was divided between the State General Fund, cities, and counties.[5] When the franchise tax was enacted, the tax was imposed separately on financial institutions so that cities and counties would not lose this revenue stream. The first $8.8 million of franchise tax revenues were distributed to the cities and counties where the financial institutions were located, and the rest of the revenues went to the General Fund. Starting with fiscal year 2005, however, all franchise tax revenues went into the General Fund. Initially, $7 million of franchise tax revenues was directed annually to the Community Attraction and Tourism Fund, but that diversion was repealed during the 2011 Legislative Session. Since 2011, all franchise tax revenues remain in the General Fund. On average, Iowa now collects around $41.2 million in net franchise tax revenue each fiscal year, based on the most recent eight fiscal years (see Table 2).

B. Neighboring States' Financial Institution Taxes and Tax Credits

All of Iowa's neighboring states tax financial institutions in some manner. A summary of the manner of taxation at the corporate and individual level is below.[6]

- Illinois Corporate Income Tax:
    - All Corporations:
        - 0.1 percent of net worth, scheduled to be phased out by 2024.
    - C corporations:
        - 7 percent income.
        - 2.5 percent property tax replacement income tax.
    - Partnerships, trusts, and S corporations:
        - 1.5 percent property tax replacement income tax.
        - Shareholders taxed on pass-through income.
- Minnesota Corporate Franchise Tax:
    - All corporations:
        - Flat corporation income tax of 9.8 percent.
    - C corporations:
        - 5.8 percent Alternative Minimum Tax.
    - S corporations:
        - Minimum fee based on 3-factor value.

[3] Financial institutions are defined (in Iowa Code Section 422.61) as state banks, national banking associations, trust companies, federally and state-chartered savings and loan associations, financial institutions chartered by the Federal Home Loan Bank Board and production credit associations.

[4] Net income equals income of the financial institution less business deductions, but includes interest and dividends from federal securities and securities issued by other government agencies. Income from the sales of obligations of the state and its political subdivisions and interest and dividend income from these obligations are exempt in cases where the law authorizing the obligations specifically exempts the income from the state franchise tax. Federal taxes paid are not deductible.

[5] It should be noted that credit unions continue to be subject to the moneys and credits tax with the money distributed between the General Fund, cities and counties. Credit unions remain exempt from federal income tax, while financial institutions have always been subject to federal income tax.

[6] Information for neighboring states' corporate and franchise tax information was obtained from a variety of sources, including https://www.nolo.com/legal-encyclopedia/50-state-guide-business-income-tax.html and state revenue websites.

        - Shareholders taxed on pass-through income.
- Missouri Financial Institutions Tax:
    - S corporations and C corporations taxed at same rate.
    - 4.48 percent of net income.
    - Tax credit available to shareholders on pass-through income.
- Nebraska Financial Institution Tax:
    - S corporations and C corporations taxed at same rate.
    - $0.47 per $1,000 of average deposits (calculated quarterly), limited to 3.81 percent of the institution's net financial income.
    - Tax credit available to shareholders on pass-through income.
- South Dakota Bank Franchise Tax:
    - S corporations and C corporations taxed at same rate.
    - Graduated tax rate of 6 percent net income to 0.25 percent.
    - Shareholders not taxed on pass-through income (no state individual income tax).
- Wisconsin Corporate Income Tax:
    - S corporations and C corporations taxed at same rate.
    - Flat corporation income tax of 7.9 percent.
    - Shareholders may exclude income on pass-through income.

Of Iowa's neighboring states, only Nebraska and Missouri provide a tax credit to shareholders of financial institution taxes like Iowa's, while Wisconsin allows shareholders to exclude pass-through income from their individual tax returns altogether if the corporation elects to pay tax at the entity level. Illinois taxes individual income from financial institutions the same as other income, even for S Corporation income, and offers no tax credit. South Dakota taxes financial entities only at the corporate level; individual income taxes are not imposed, and so no tax credit is necessary.

C. States with Administrative Tax Credits

In addition to differences in taxation of financial institutions, states differ in crediting taxes paid by shareholders (see Table 1). This tax treatment is included in Table 1 to illustrate which states offer tax credits or other tax relief to shareholders of pass-through entities, including financial institutions. The number of states offering a credit has grown recently, partly in response to the federal Tax Cut and Jobs Act (TCJA) of 2017 (effective tax year 2018). That Act capped individual State and Local Tax (SALT) deductions at $10,000 per tax year. The cap applies only to individuals since taxes paid by entities are still fully deductible at the federal level and are not subject to the SALT cap.[7] To relieve the possible increased tax burden that would accrue to shareholders with SALT amounts greater than $10,000, some states implemented a PTE (pass-through entity) option, whereby S corporations may elect to pay income taxes at the entity level, which in turn would allow shareholders proportionate deductibility of these taxes on their federal and state (if applicable) income tax returns.

The IRS has issued Notice 2020-75, affirming that "[s]tate and local income taxes imposed on and paid by a partnership or an S corporation on its income are allowed as a deduction by the partnership or S corporation."[8] By extension, only shareholders of S corporations that file pass-

[7] For discussion of federal tax treatment of pass-through entities and shareholders, see https://www.hodgsonruss.com/blogs-Noonans-Notes-Blog,pass-through-entity-level-taxes-where-are.

[8] See IRS Notice 2020-75 at https://www.irs.gov/pub/irs-drop/n-20-75.pdf.

through tax returns with the IRS would be able to take advantage of the tax credit or income exclusion available under IRS guidance. Therefore, it's necessary for states to give S corporations the option (or require them) to file pass-through returns in order for shareholders to be able to exclude income or deduct taxes paid by the entity. Shareholders of S corporations that file composite returns or withhold taxes on behalf of shareholders would not be able to take advantage of the tax credit or income exclusion available under IRS guidance. In other words, the SALT deduction limit would still apply for those shareholders.[9]

In general, two provisions exist for implementing the PTE election by the various states. The state may allow either a tax credit or income exclusion by shareholders for their proportionate share of the entity's earnings. As its name implies, the PTE option may be elected by the S corporation, usually through a vote by the majority of shareholders. In Connecticut, however, the PTE tax treatment is mandatory, whereby S corporations are required to be taxed at the entity level and shareholders are allowed to take a tax credit on their tax returns. Of the states currently offering the PTE option, about half offer a tax credit to shareholders and half exclude income.[10]

There are also varying rules regarding carry-forward. In New Jersey, for example, an S corporation making the election will pay taxes at the entity level, and a refundable tax credit may be claimed by individuals in the taxable year only. For corporate shareholders, however, excess credit may be carried forward up to 20 periods. In Louisiana, on the other hand, shareholders simply exclude the pass-through income from their tax returns and there is no carry-forward provision. Oklahoma S corporations are required to pay tax at the entity level and may carry back and forward operating losses, but may not pass credits to shareholders. Shareholders in Oklahoma use the income exclusion method in order not to pay taxes on S corporation income.[11]

III. Iowa Franchise Tax Revenues and Franchise Tax Credit Claims

On average, Iowa collects $36.6 million in net franchise tax revenues each fiscal year (see Table 2). Because Franchise Tax Credit claims are made on individual and corporate income tax returns, it is difficult to match the tax credit claims directly to the corresponding franchise tax paid; therefore net fiscal year franchise tax revenues are compared to tax year Franchise Tax Credit claims. On average, 49.5 percent ($18.1 million) of net franchise tax revenues are later claimed as Franchise Tax Credits by shareholders of financial institutions organized as S corporations.

The Franchise Tax Credit can be claimed on individual (including estates and trusts) and corporate income tax returns (see Table 3). The effect of the Franchise Tax Credit on corporate

[9] For a full discussion of IRS guidance and states that have enacted the PTE option, see articles by Wipfli Financial Advisors LLC and Fox Rothschild LLP.
[10] PTE option states, as of May, 2021: Connecticut, Maryland, New Jersey, New York, and Rhode Island offer tax credit to shareholders; states with income exclusion are Alabama, Arkansas (effective 1/1/22), Georgia, Louisiana, Oklahoma, and Wisconsin.
[11] For a summary of state rules regarding the PTE option carry-forward rules, see https://www.thetaxadviser.com/issues/2020/may/state-entity-level-elections-passthrough-tax-reform.html

income tax receipts is minimal with an average of only six claims per year from 2006 to 2020, averaging less than $12,000 in total claims each year. The reduction in individual income tax receipts is much greater at an average of $18.1 million in total claims each tax year claimed by nearly 2,500 taxpayers per year.

The Franchise Tax Credit is nonrefundable and cannot be carried forward to subsequent tax years. If the credits are not fully used to reduce or eliminate tax liability in the tax year they are passed-through, the unused credits expire. On average, 6.4 percent, or $1.2 million, of available credits expire each tax year (see Table 4).

The Franchise Tax Credit can be claimed by both resident and nonresident households. Over all tax years for which data are available (2006 to 2020), nonresidents account for an average of 20 percent of the number of Franchise Tax Credit claims and 24 percent of the dollars claimed using the Franchise Tax Credit (see Table 5). Residents claim more of the available credits than nonresidents as, on average, 4 percent of residents' credits expire while 13 percent of nonresidents' available credits expire. The average claim amount for nonresidents, however, is greater than that of residents, at nearly $10,000 per household, compared to $9,000 for residents.

Note that the number of claims presented in Tables 5, 6, and 7 differ from the number of claims shown in Tables 3 and 4 by year. The reason for the difference is that Tables 3 and 4 reflect claims by individual taxpayers regardless of filing status. In Tables 5 and 6, the data are presented as household claims. Therefore if a married couple filed their Iowa taxes using the married filing separate status and each spouse claimed a Franchise Tax Credit, in Tables 3 and 4 those claims are counted as two claims by individual taxpayers, but in later tables those claims are aggregated as one claim by one household.

The Franchise Tax Credit is claimed by taxpayers across the income distribution. In order to compare adjusted gross income (AGI) levels and tax credit amounts across years, the AGI and credit amounts in both Figure 1 and Table 6 were adjusted by the Consumer Price Index to the base year of 2020.[12] As shown in Figure 1, total and average claims increase with AGI, but are widely variable year over year. In tax years from 2013 and 2020 the largest number of claims is made by households with AGI between $250,000 and $499,999 (see Table 6). The average number of households claiming the credit for that income group is 451, with average claims per household over $5,000. The income group with the greatest total amount of claims is households with $1 million or more of adjusted gross income, with an average claim of nearly $59,000 by 242 households per year (see Table 6).

IV. Conclusion

The Franchise Tax Credit was created to eliminate double taxation of shareholders in financial institutions that are organized as S corporations and thereby distribute taxable income to those shareholders. As an administrative credit, the Franchise Tax Credit is not intended to change behavior or encourage economic activity like many other State tax credits.

[12] Source: Historical Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, all items, by month.

Several other states have adopted a Pass-Through Entity (PTE) treatment of S Corporation taxes, whereby income passed to shareholders would be eligible for tax credits or income exclusion by individual taxpayers. This is in response to the federal Tax Cut and Jobs Act (TCJA) of 2017 (effective tax year 2018).

The Franchise Tax Credit effectively offsets 50 percent, or $18.1 million, of net franchise tax revenues each year. Based on credit claims, it appears that the majority of shareholders in Iowa banks are residents of the state. Nonresident households that own shares in financial institutions, however, appear to hold more shares than the average resident household. But while the average credit passed through to a nonresident household is greater, they generally have less state tax liability than residents and therefore 13 percent of their credits end up expiring each year, compared to 4 percent for residents. Because the nonrefundable credits cannot be carried forward, an average of $1.2 million of available credits expire each tax year.

The distribution of Franchise Tax Credit amounts is skewed toward higher income ranges, especially at $250,000 to $499,999, where the number of claims is the highest, and at $1,000,000 and over, where the average claim is over $58,000. Overall, average claims are under $10,000 per household. The average dollar amount of claims generally increase with AGI.

Iowa's Franchise Tax Credit
Tax Credits Program Evaluation Study

Tables and Figures

Table 1. Financial Entity and S Corporation Taxes by State

	FINANCIAL ENTITY TAX[1]	S CORP TAX TREATMENT[2]	
STATE	**Name of Tax and Rate (percent of income)**	**Corporate Level**	**Shareholder Level**
ALABAMA	Financial Institution Excise Tax 6.5%	5% under PTE tax option[3]	income excluded under PTE option[3]
ALASKA	Corporate Income Tax 2%-9.4%	not taxed	not taxed
ARIZONA	Corporate Income Tax 4.9% $50 min	taxed on excess net passive income, capital gains tax, or built-in gains tax	indiv income tax
ARKANSAS	Corporate Income Tax 1%-6.2% + franchise tax @ 0.3% corp stock value ($150 min)	current: 0.3% stock value; as of 1/1/2022: PTE tax option @5.9% income[3]	current: indiv income tax; income excluded under PTE option as of 1/1/22[3]
CALIFORNIA	Bank and Financial Institution Tax 8.84% corp tax + 2% bank tax	current: 3.5% net capital gain, $800 min; PTE tax option proposed[3]	indiv income tax (PTE option proposed)[3]
COLORADO	Corporate Income Tax 4.55% income or gross receipts tax	exempt	indiv income tax
CONNECTICUT	Corporate Income Tax greater of 7.5% income or 0.26% cap stock & surplus or $250 min	PTE tax state (mandatory)[3] + biennial business entity tax of $250	tax credit available under PTE @ 87.5%[3]
DELAWARE	Bank Franchise Tax 8.7%-1.7% over 4 income brackets (S&L flat 8.7%)	taxed same as C Corp by bus. classification	indiv income tax
DIST. OF COLUMBIA	Corporate Income Tax 8.25% $250 min	taxed same as C Corp[4]	indiv income tax[4]
FLORIDA	Corporate Income Tax 4.458% after $50,000 exemption; 5.5% effective 1/1/22	not taxed if exempt from federal income tax	not taxed
GEORGIA	Corporate Income Tax 5.75% + net worth tax $0-$5000	net worth tax $0-$5000 or 5.75% PTE tax option[3]	indiv income tax; income excluded under PTE option[3]
HAWAII	Franchise Tax 7.92%	exempt	indiv income tax

Table 1. Financial Entity and S Corporation Taxes by State, Continued

	FINANCIAL ENTITY TAX[1]	S CORP TAX TREATMENT[2]	
STATE	Name of Tax and Rate (percent of income)	Corporate Level	Shareholder Level
IDAHO	Corporate Income Tax 6.925% $20 min or 1% gross sales<$100,000	$20 min tax + addit tax on excess net passive income, capital gains and built-in gains	indiv income tax
ILLINOIS	Corporate Income Tax 7% + 2.5% property tax replacement tax + annual franchise tax @0.1% net worth (phased-out in 2024)	1.5% property tax replacement tax + annual franchise tax @0.1% net worth (phased-out in 2024)	indiv income tax
INDIANA	Financial Institutions Tax 5.5% to 12/31/21 5.0% 1/1/22 4.9% 1/1/23	exempt	indiv income tax
IOWA	Franchise Tax 5.0%	taxed same as C Corp Financial Inst	tax credit available on Franchise Tax passed through to shareholders
KANSAS	Financial Institution Privilege Tax 2.25% +2.125% over $25,000	taxed same as C Corp by bus. classification	income excluded
KENTUCKY	Corporate Income Tax 5% + limited liability entity tax min=$175	limited liability entity tax min=$175 on gross rcpts<$3M	indiv income tax
LOUISIANA	Corporate Income Tax 4.0%-8.0% + graduated franchise tax	PTE tax option:[3] 2%-6% over 3 income brackets	income excluded under PTE option[3]
MAINE	Franchise Tax 1.0% income+ .008% assets or .039% assets only	taxed same as C Corp by bus. classification[4]	indiv income tax[4]
MARYLAND	Corporate Income Tax 8.25%	PTE tax option:[3] 8% indiv; 8.25% entities	tax credit available under PTE option[3]

Table 1. Financial Entity and S Corporation Taxes by State, Continued

	FINANCIAL ENTITY TAX[1]	S CORP TAX TREATMENT[2]	
STATE	**Name of Tax and Rate (percent of income)**	**Corporate Level**	**Shareholder Level**
MASSACHUSETTS	Financial Institution Excise Tax 9.0% $456 min.	0%<$6M rev 2.67% $6M-$9M 4%>$9M	indiv income tax
MICHIGAN	Business Tax for Financial Institutions .29% of net capital	taxed same as C Corp by bus. classification	indiv income tax
MINNESOTA	C Corp: Corporate Franchise Tax @ 9.8% + 5.8% AMT	current: taxed same as C Corp plus minimum fee; PTE tax option proposed[3]	indiv income tax (PTE option proposed)[3]
MISSISSIPPI	Corporate Income Tax 3.0%-5.0% + franchise tax @ $1.75 per $1,000 of capital, phased out in 2028	franchise tax @ $1.75 per $1,000 of capital, phased out in 2028	indiv income tax
MISSOURI	Financial Institutions Tax 4.48%	taxed same as C Corp by bus. classification	tax credit available on Financial Institution Tax
MONTANA	Corporate License Tax 6.75% ($50 min) or 0.5% gross sales<$100,000	exempt	indiv income tax
NEBRASKA	Financial Institution Tax $0.47 per $1000 of avg deposits, capped at 3.81% of net financial income	taxed same as C Corp by bus. classification	tax credit available on Financial Institution Tax
NEVADA	Modified Business Tax for Financial Institutions 1.853% on gross wages less employee health care benefits	taxed same as C Corp by bus. classification	not taxed
NEW HAMPSHIRE	Business Profits Tax 7.7% + 0.6% Business Enterprise Tax	taxed same as C Corp[4]	indiv income tax[4]
NEW JERSEY	Corporation Business Tax 6.5%-9% on total income +2.5% surtax on income > $1 million; $500-$2000 min tax based on gross receipts	PTE tax option:[3] 5.675% to 10.9% based on share value	tax credit available under PTE option[3]
NEW MEXICO	Corporate Income Tax 4.8%-5.9% or alternate tax of 0.75% gross receipts + $75 franchise fee	$50 franchise tax	indiv income tax

Table 1. Financial Entity and S Corporation Taxes by State, Continued

	FINANCIAL ENTITY TAX[1]	S CORP TAX TREATMENT[2]	
STATE	**Name of Tax and Rate (percent of income)**	**Corporate Level**	**Shareholder Level**
NEW YORK	Banking Corporation Tax 6.5% or fixed min. tax based on receipts	PTE tax option:[3] 6.5%-10.9% over 4 income brackets	tax credit available under PTE option[3]
NORTH CAROLINA	Corporate Income Tax 2.5%+$200 min. +$1.50 per $1000 net worth	current: $200 franchise tax on first $1M+$1.50 per $1000 net worth; PTE tax option proposed[3]	indiv income tax (PTE option proposed)[3]
NORTH DAKOTA	Corporate Income Tax 1.41%-4.31%	exempt	indiv income tax
OHIO	Financial Institutions Tax graduated tax on equity $1,000 min.	taxed same as C Corp by bus. classification	indiv income tax
OKLAHOMA	Bank Privilege Tax 6% income + $1.25 per $1000 capital ($250 min; $20,000 max)	PTE tax option:[3] 5% indiv, 6% corp	income excluded under PTE option[3]
OREGON	Corporate Excise Tax 6.6%-7.6% +Corporate Activity Tax [CAT] of $250 + 0.57% of activity in excess of $1 million	$150 min excise tax plus tax on built-in gains or excess net passive income subject to federal tax	indiv income tax
PENNSYLVANIA	Bank and Trust Company Shares Tax 0.95% equity	subject to the 9.99 percent corporate net income tax only to the extent of built-in-gains	indiv income tax
RHODE ISLAND	Banking Institution Excise Tax 9% ($100 min)	PTE tax option:[3] 5.99% net income	tax credit available under PTE option[3]
SOUTH CAROLINA	Bank Tax 4.5% banks; 6% saving & loan	corporate license fee @ $1.00 per $1000 capital stock or surplus; $25 min	indiv income tax
SOUTH DAKOTA	Bank Franchise Tax 6%-0.25% income; $200 min per location	taxed same as C Corp Bank Franchise tax	not taxed
TENNESSEE	Franchise and Excise Tax 6.5% of income + franchise tax on net worth or property: min. $100	taxed same as C Corp[4]	indiv income tax[4]
TEXAS	Franchise Tax 0.75% or 0.331% EZ rate	taxed same as C Corp by bus. classification	not taxed

Table 1. Financial Entity and S Corporation Taxes by State, Continued

	FINANCIAL ENTITY TAX[1]	S CORP TAX TREATMENT[2]	
STATE	**Name of Tax and Rate (percent of income)**	**Corporate Level**	**Shareholder Level**
UTAH	Corporation Franchise or Income Tax 4.95% $100 min	exempt	indiv income tax
VERMONT	Bank Franchise Tax 0.0096% of the average monthly deposit	taxed same as C Corp by bus. classification[4]	indiv income tax[4]
VIRGINIA	Bank Franchise Tax 1% net capital	taxed same as C Corp by bus. classification[4]	indiv income tax[4]
WASHINGTON	Gross Receipts Business Tax 1.5% gross receipts + surtax 0.3% to 1.2% on financial inst	taxed same as C Corp by bus. classification	not taxed
WEST VIRGINIA	Corporate Income Tax 6.5%	exempt	indiv income tax
WISCONSIN	Corporate Income Tax 7.9%	PTE tax option:[3] 7.9% income	income excluded under PTE option[3]
WYOMING	not taxed	not taxed	not taxed

Table 1 footnotes:

[1]Out of the fifty states only Wyoming does not impose a tax on financial institutions (or any other corporation). Twenty-three states, including Iowa, levy some form of a tax specifically on financial institutions (generally referred to as a franchise or financial institutions tax). The remaining 26 states, plus the District of Columbia, tax their banks using the same tax system other corporations are required to use (generally referred to as corporate income tax).

[2]Primary source for S Corp tax treatment by state:https://www.nolo.com/legal-encyclopedia/50-state-guide-business-income-tax.html, accessed May, 2021. Unless specifically excluded in state statutes, S Corporation tax treatment was assumed to apply equally to financial entities and other S Corporations.

[3]PTE (Pass-through entity) tax option states offer S Corporations the option (mandatory in Connecticut) of filing taxes at the entity level, with a tax credit or income exclusion available to shareholders. Under this arrangement, the S corporation would pay tax at the entity level, and would be able to claim a federal tax deduction for the entity-level tax (per IRS Notice 2020-75). States with this option allow shareholders to take a tax credit or income exclusion on state tax returns, creating a work-around to the Tax Cut and Jobs Act limitation on individual State and Local Tax deductions of $10,000. Tax rates shown apply at the entity-level if the PTE option is invoked. If the PTE option is not elected, S corporations would be exempt from taxes and shareholders would owe taxes on their share of income at the regular individual or corporate rate. As of May, 2021, eleven states have passed tax laws implementing this option, and several more have proposed it. Sources: state statutes and

https://www.withum.com/resources/the-rapidly-changing-landscape-of-state-and-local-pass-through-entity-pte-taxes/.

[4]Washington, D.C., Maine, New Hampshire, Vermont and Virginia do not have Subchapter S banks (as of May 1, 2019), per CUNA Compilation Of State Information On Subchapter S Banks (2019), so S corporations are assumed to be taxed the same as C corporations regardless of business classification.

Table 2. Net Franchise Tax Revenues by Fiscal Year and Franchise Tax Credit Claims by Tax Year, 2006-2020 (Nominal dollars)

Fiscal Year	Net Franchise Tax Revenues ($ Millions)	Tax Year	Franchise Tax Credit Claims ($ Millions)	Percent of Revenues Claimed as Credits
2007	$31.9	2006	$11.3	35.4%
2008	$33.7	2007	$12.3	36.3%
2009	$28.2	2008	$11.7	41.4%
2010	$26.9	2009	$12.1	44.9%
2011	$31.5	2010	$15.8	50.3%
2012	$29.7	2011	$16.7	56.1%
2013	$37.5	2012	$20.5	54.7%
2014	$32.2	2013	$17.1	53.1%
2015	$36.2	2014	$20.0	55.3%
2016	$46.0	2015	$21.1	45.8%
2017	$35.4	2016	$22.1	62.4%
2018	$26.0	2017	$20.7	79.6%
2019	$37.3	2018	$25.4	68.2%
2020	$66.5	2019	$24.9	37.5%
2021	$50.4	2020*	$20.4	40.5%
Average	**$36.6**		**$18.1**	**49.5%**

*Incomplete Tax Year
Source: State revenue and refund accounts and Tax Credit Award, Claim & Transfer Administration System (CACTAS)

Table 3. Franchise Tax Credit Claims by Tax Year and Tax Type, 2006-2020 (Nominal dollars)

	Corporation Income Tax		Individual Income Tax		Total	
Tax Year	Number of Claims	Total Claims	Number of Claims	Total Claims	Number of Claims	Total Claims
2006	17	$24,834	2,052	$11,293,701	2,069	$11,318,535
2007	17	$18,646	2,319	$12,237,602	2,336	$12,256,248
2008	4	$8,760	2,406	$11,672,138	2,410	$11,680,898
2009	5	$9,970	2,454	$12,077,757	2,459	$12,087,727
2010	4	$8,252	2,455	$15,819,972	2,459	$15,828,224
2011	3	$7,706	2,493	$16,670,079	2,496	$16,677,785
2012	3	$11,118	2,555	$20,512,792	2,558	$20,523,910
2013	4	$9,974	2,687	$17,098,451	2,691	$17,108,425
2014	4	$9,165	2,546	$20,001,135	2,550	$20,010,300
2015	5	$19,899	2,632	$21,068,024	2,637	$21,087,923
2016	3	$10,049	2,693	$22,094,025	2,696	$22,104,074
2017	5	$7,823	2,631	$20,704,414	2,636	$20,712,237
2018	6	$8,132	2,645	$25,405,460	2,651	$25,413,592
2019	4	$12,652	2,650	$24,895,607	2,654	$24,908,259
2020*			2,149	$20,416,694	2,149	$20,416,694
Average	6	$11,927	2,491	$18,131,190	2,497	$18,142,322

*Incomplete Tax Year
Source: State revenue and refund accounts and Tax Credit Award, Claim & Transfer Administration System (CACTAS)

Table 4. Franchise Tax Credits Available, Claimed, and Expired by Tax Year, 2006-2020 (Nominal dollars)

	Franchise Tax Credits Available		Franchise Tax Credit Claims		Franchise Tax Credit Claims Expired		
Tax Year	Number of Taxpayers	$ Credits Available	Number of Taxpayers	$ Credits Claimed	Number of Taxpayers	$ Credits Expired	Percent Expired
2006	2,069	$12,725,865	2,029	$11,318,535	401	$1,416,164	11.1%
2007	2,336	$13,683,322	2,286	$12,256,248	468	$1,443,881	10.6%
2008	2,410	$13,863,280	2,341	$11,680,898	550	$2,183,644	15.8%
2009	2,459	$13,717,053	2,345	$12,087,727	542	$1,632,000	11.9%
2010	2,459	$17,213,606	2,379	$15,828,224	494	$1,391,288	8.1%
2011	2,496	$18,474,941	2,414	$16,677,785	536	$1,808,582	9.8%
2012	2,558	$21,777,624	2,527	$20,523,910	395	$1,258,795	5.8%
2013	2,691	$18,526,769	2,651	$17,108,425	527	$1,419,733	7.7%
2014	2,550	$20,832,649	2,548	$20,010,300	313	$834,410	4.0%
2015	2,637	$21,569,767	2,633	$21,087,923	349	$507,242	2.4%
2016	2,696	$22,700,829	2,694	$22,104,074	331	$631,873	2.8%
2017	2,636	$21,108,349	2,632	$20,712,237	318	$631,912	3.0%
2018	2,651	$25,578,058	2,645	$25,413,592	264	$633,142	2.5%
2019	2,654	$25,664,544	2,651	$24,908,259	367	$923,130	3.6%
2020*	2,152	$22,124,677	2,149	$20,418,485	251	$1,874,188	8.5%
Average	2,497	$19,304,089	2,462	$18,142,441	407	$1,239,332	6.4%

*Incomplete Tax Year
Source: State revenue and refund accounts and Tax Credit Award, Claim & Transfer Administration System (CACTAS)

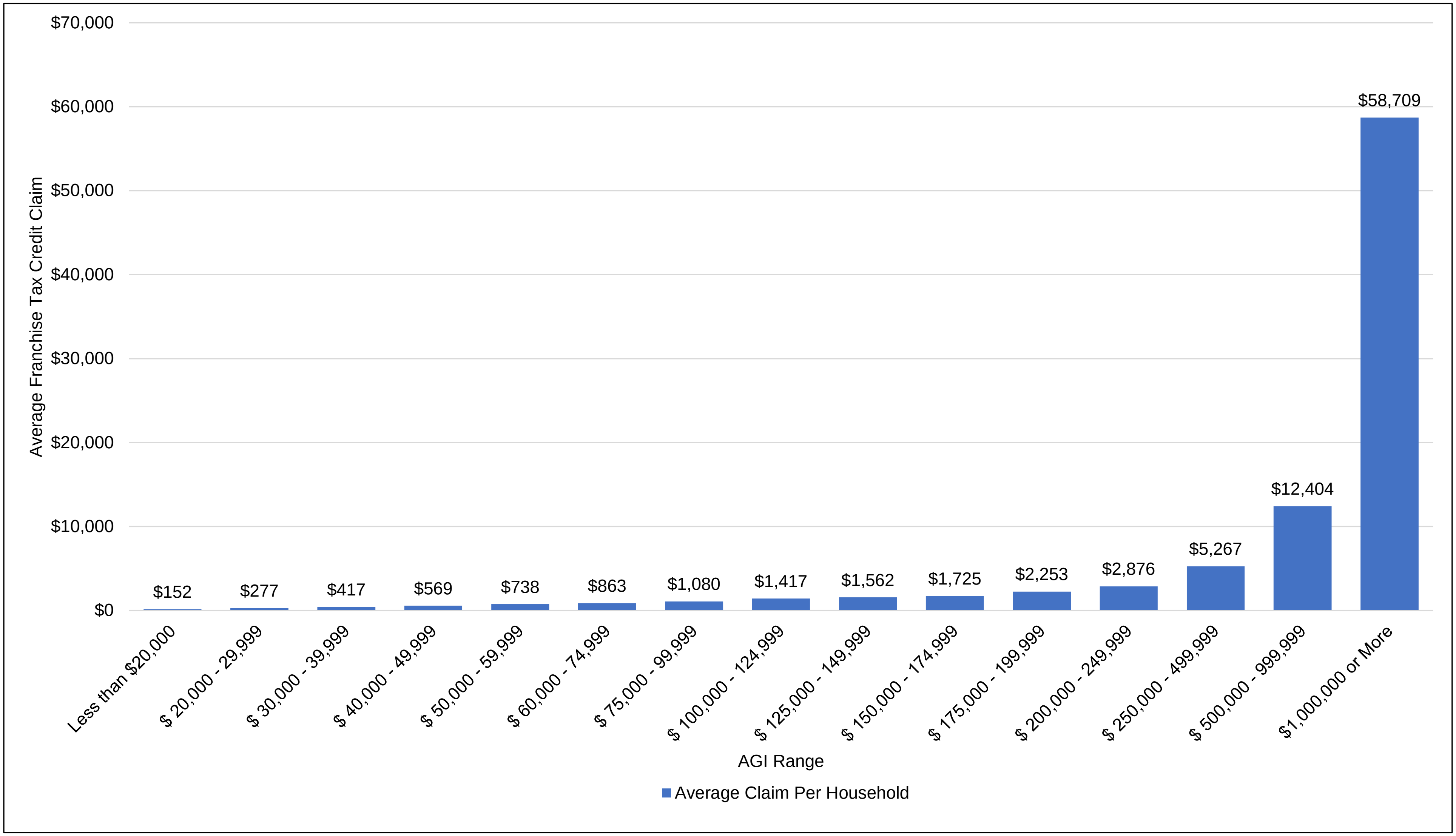
Note to Table 4: The number of claims is based on individual taxpayers. In particular, a married couple filing separately and both claiming the tax credit are counted as two claims. Taxpayers are found to have a tendency not to report expired credits.
Table 4 excludes claims made on fiduciary and corporation returns, which lowers the number of taxpayers in this table relative to Table 3.

Table 5. Franchise Tax Credit Claims by Resident Status and Tax Year, 2013-2020 (Nominal dollars)

	Resident						Non-Resident					
Tax Year	Number of Households	Amount of Claims	Average Claim Amount	Share of Claimants	Share of Claim Dollars	Percent Expired of Total Available Amount	Number of Households	Amount of Claims	Average Claim Amount	Share of Claimants	Share of Claim Dollars	Percent Expired of Total Available Amount
2013	1,856	$13,199,588	$7,112	80%	77%	4%	473	$3,256,926	$6,886	20%	23%	20%
2014	1,731	$14,797,598	$8,549	80%	76%	2%	442	$4,274,590	$9,671	20%	24%	9%
2015	1,806	$15,825,391	$8,763	80%	78%	3%	464	$4,201,810	$9,056	20%	22%	9%
2016	1,876	$16,952,110	$9,036	80%	78%	3%	465	$4,432,762	$9,533	20%	22%	9%
2017	1,815	$15,794,580	$8,702	79%	77%	2%	473	$4,425,585	$9,356	21%	23%	7%
2018	1,807	$18,219,905	$10,083	79%	74%	3%	479	$6,138,064	$12,814	21%	26%	7%
2019	1,843	$18,219,483	$9,886	79%	74%	4%	480	$6,129,541	$12,770	21%	26%	10%
2020*	1,411	$14,843,726	$10,520	83%	77%	12%	292	$2,752,966	$9,428	17%	23%	39%
Average	1,768	$15,981,548	$9,081	80%	76%	4%	446	$4,451,531	$9,939	20%	24%	13%

*Incomplete Tax Year

Figure 1. Average Franchise Tax Credit Claim Amount per Household by Adjusted Gross Income Ranges Tax Years 2013-2020 (Adjusted to 2020 dollars)



Source: Iowa Individual income tax returns and Tax Credit Award, Claim & Transfer Administration System (CACTAS)

Table 6. Average Franchise Tax Credit Claims by Adjusted Gross Income, All Tax Years 2013-2020 (Adjusted to 2020 dollars)

Adjusted Gross Income (AGI)	Average Count of Households	% of Total Count	Average of Total Claims per Year	% of Total Claims	Average Claim per Household
Less than $20,000	34	2%	$5,215	0%	$152
$ 20,000 - 29,999	49	2%	$13,488	0%	$277
$ 30,000 - 39,999	61	3%	$25,307	0%	$417
$ 40,000 - 49,999	58	3%	$32,917	0%	$569
$ 50,000 - 59,999	71	3%	$52,224	0%	$738
$ 60,000 - 74,999	113	5%	$97,202	0%	$863
$ 75,000 - 99,999	181	8%	$195,764	1%	$1,080
$ 100,000 - 124,999	171	8%	$242,867	1%	$1,417
$ 125,000 - 149,999	146	7%	$227,814	1%	$1,562
$ 150,000 - 174,999	131	6%	$226,595	1%	$1,725
$ 175,000 - 199,999	113	5%	$254,907	1%	$2,253
$ 200,000 - 249,999	185	8%	$533,098	2%	$2,876
$ 250,000 - 499,999	451	20%	$2,377,250	11%	$5,267
$ 500,000 - 999,999	238	11%	$2,952,266	14%	$12,404
$1,000,000 or More	242	11%	$14,178,288	66%	$58,709
Total	2,244		$21,415,201		$9,543

Source: Iowa Individual income tax returns and Tax Credit Award, Claim & Transfer Administration System (CACTAS)