

March 11, 2007

The Honorable Joe Bolkcom  
Iowa State Senate  
Statehouse  
LOCAL

RE: Tax Credit Programs

Dear Senator Bolkcom:

This report is submitted in response to your request for the amounts of state tax credits awarded by the Department (IDED).

In an effort to be responsive to your request for *more transparency*, we have included:

A summary of each program sorted by those focused on job creation and for other uses.

For each program the amount of credits awarded and results pledged, by year, since inception of the program.

For the past two years ethanol and biodiesel plants have received a disproportionate share of tax credits so we broke out data on those projects.  
A page of highlights.

You should have already received a separate report, required by statute, on the Enterprise Zone program that lists every project that has received tax credits. Also, the Grow Iowa Values Fund report released in December 2006, listed every project that has received High Quality Jobs tax credits since the program was created in 2005 until December, 2006.

If you have questions or would like additional information do not hesitate to ask.

Sincerely,



Michael L. Tramontina  
Interim Director

Cc: Legislative Services Agency  
Dept. of Management  
Dept. of Revenue

## HIGHLIGHTS OF IDED TAX CREDIT PROGRAMS

- Since 1995, legislation has created nine (9) tax credit programs within IDED, covering business and housing development, community foundations, regional economic funds, urban renewal projects, and workplace assistive devices.
- IDED is also involved with two tax credit programs for job training (Sections 260E and 260F) administered by the Community Colleges, and three tax credit programs for venture capital (Section 15E), administered by the Iowa Capital Investment Board.
- From FY 1995 through FY 2006, IDED programs made an estimated total award of \$942 million in tax credits. Amounts awarded have steadily grown since FY 2003.
- The greatest part of this, \$849 million, (90.1% of the total) went to businesses in return for creating 22,700 jobs and making capital investments of \$8.48 billion in Iowa.
- Ethanol & biodiesel plants involve very large capital investments. Together they account for about two thirds of the capital investment, and tax credits awarded by IDED in recent years (FY 2004 onward). Tax credits amount to about 6.9% of capital investment.
- Nearly all Ethanol and Biodiesel plants are formed under limited liability companies (LLC's), so the tax credits flow through to investors.
- Another \$88 million in tax credits (9.4% of the total) were awarded for building or rehabilitating 5,804 housing units.
- Figures given show the estimated maximum tax credit liability of the State. There is no certainty on how much of the tax credits awarded will actually be claimed against Iowa taxes. Much of this depends on the Iowa tax liability of businesses and their owners.
- Until very recently, there has been no practical way to track tax credits used against the tax credits awarded. Starting in 2006, the Department of Revenue requires use of a new tax form which identifies the credit being claimed. For the first time, this will enable IDED and other agencies issuing tax credits to comprehensively track their use by recipients.
- Since the GIVF legislation in 2005, IDED has been able to negotiate tax credits awarded to amounts below the statutory program limits.

## **JOB-CREATION TAX CREDITS AWARDED BY IDED**

**Enterprise Zone Program-Job Creation Component:** This program encourages investment in Iowa's economically distressed areas by providing local and state tax credits, refunds, and exemptions to qualifying companies that expand or locate in designated Enterprise Zones. Section 15E.191.

**High Quality Job Creation Program:** This program provides tax benefits to eligible companies that create high-paying jobs and make capital investments. The program started in FY 2006 and replaced the New Jobs and Income Program (NJIP), and the New Capital Investment Program (NCIP). Section 15.326.

**New Capital Investment Program:** This program was replaced by the High Quality Job Creation Program, beginning in FY 2006. Section 15.385.

**New Jobs and Income Program:** This program was replaced by the High Quality Job Creation Program, beginning in FY 2006. Section 15.326.

## **OTHER TAX CREDITS AWARDED BY IDED**

**Assistive Device Credit:** This credit is awarded to taxpayers who make investments in assistive devices that allow for disability workplace accommodation. Section 422.11E. Total program credits are limited to \$500,000 per year, available on a first-come, first-served basis.

**Economic Development Region Revolving Fund Credit:** This credit is equal to 20 percent of the contribution made to an economic development regional revolving fund. Section 15E.232. Total program credits are limited to \$2 million per year, although unallocated amounts may be carried forward.

**Endow Iowa Tax Credit:** This credit is equal to 20 percent of a taxpayer's endowment gift (up to \$100,000) to a qualified community foundation. Section 15E.305. Total program credits are limited to \$2 million per year. The program currently ends in FY 2008.

**Enterprise Zone Program-Housing Component:** This program encourages investment in Iowa's economically distressed areas by providing local and state tax credits, refunds, and exemptions to qualifying companies that expand or locate in designated Enterprise Zones. Section 15E.191.

**Targeted Job Credit from Withholding:** This pilot program in four cities provides for a withholding credit equal to 3 percent of the gross wages paid by the employer to each employee under the withholding agreement. These funds are to be used by the pilot cities for an urban renewal project related to the employer. Section 403.19A.

## OTHER TAX CREDIT PROGRAMS WITH IDED INVOLVEMENT

The following credits are administered by Iowa's Community Colleges:

**Accelerated Career Education (ACE) Program:** This withholding credit provides credits for employers that sponsor training slots at community colleges. Section 260G. IDED allocates \$6 million per year to the 15 community colleges.

**Iowa New Jobs Training Program:** This program assists businesses that are creating new positions with new employee training. Participating companies divert withholding taxes to a community college to pay for training for company employees. Section 260E. IDED establishes the wage thresholds for the program. IDED and the Department of Education determine the indirect rate to be charged by the community colleges. IDED issues an annual report for the program that is required by the statute.

The following credits are administered by the Iowa Capital Investment Board (ICIB):

**Venture Capital Credit-Fund of Funds Contingent Credit:** This credit is allowed for investments made into the Iowa Fund of Funds. The credit is only allowed to the extent that the actual rate of return on these investments does not meet the rate of return guaranteed to investors. Section 15E.66.

**Venture Capital Credit-Qualified Business or Seed Capital Fund:** This credit is 20 percent of the equity investment made into a qualifying business or community-based seed capital fund. Section 15E.43

**Venture Capital Credit-Venture Capital Fund:** This credit is 6 percent of the equity investment made in a venture capital fund. Section 15E.51.

A total of \$10 million is available for the three tax credits above. About \$7 million has been awarded to date, leaving \$3 million to be awarded. IDED staff is an ex officio member of the Board. IDED encourages qualified companies to apply, and has helped set up seed funds to apply for the appropriate tax credits.

# IOWA DEPARTMENT OF ECONOMIC DEVELOPMENT TAX CREDIT PROGRAMS

## IDED TAX CREDIT PROGRAMS FOR JOB CREATION

Program	Enterprise Zone	High Quality Job Creation (HQJC)	New Capital and Income (NCIP) PROGRAM EXPIRED	New Jobs and Income (NJIP) PROGRAM EXPIRED
<b>Wage and Benefits Minimum Criteria</b>	90% of county or regional (1) average wage. Health and dental benefits also required.	Wages plus benefits must exceed 130% of average county wage.	100% of average county wage.	130% of average county wage; floor of \$13.35 per hour.
<b>Tax Benefits Conferred</b>	<ul style="list-style-type: none"> <li>- Sales tax refund (Refundable)</li> <li>- Investment tax credit (Portion may be refundable, subject to cap)</li> <li>- Doubled research activities credit (Refundable)</li> <li>- Local property tax exemption</li> <li>- Supplemental new jobs (2) credit, <u>or</u></li> <li>- Housing assistance credit (3)</li> </ul>	<ul style="list-style-type: none"> <li>- Sales tax refund (Refundable)</li> <li>- Investment tax credit (Portion may be refundable, subject to cap)</li> <li>- Doubled research activities credit (Refundable)</li> <li>- Local property tax exemption</li> </ul>	<ul style="list-style-type: none"> <li>- Sales tax refund (Refundable)</li> <li>- Investment tax credit (Portion may be refundable, subject to cap)</li> <li>- Doubled research activities credit (Refundable)</li> </ul>	<ul style="list-style-type: none"> <li>- Sales tax refund (Refundable)</li> <li>- Investment tax credit (Portion may be refundable, subject to cap)</li> <li>- Doubled research activities credit (Refundable)</li> <li>- Local property tax exemption</li> <li>- Supplemental new jobs credit</li> </ul>
<b>Cap on Total Investment Tax Credits Refunded</b>	A portion of unused investment tax credits may be refunded for value-added agricultural businesses or businesses using biotechnology-related processes. The total that may be refunded across all programs is \$4 million per year, allocated on a pro-rated basis. In 2006, this amount yielded 17 cents per dollar of request among companies eligible for refundable credits.			
<b>Jobs and/or Capital Investment Requirements</b>	Minimum 10 jobs and \$500,000 capital investment.	Maximum benefits based on number of employees and qualifying investment.	Minimum \$1 million capital investment; Investment tax credit (ITC) up to 5% based on number of jobs.	Minimum 50 jobs and \$12 million capital investment.
<b>Transferability of Tax Credits</b>	Tax Credits may not be sold or transferred under any of the job creation programs.			
<b>Other comments</b>	Started in FY 1998. Must be in designated enterprise zones in eligible counties and cities.	Replaced New Capital & Income and New Jobs and Income programs in FY 2006.	Started in FY 2004; replaced by High Quality Job Creation program in 2006.	Started in FY 1995; replaced by High Quality Job Creation program in 2006.

(1) "Regional" means the county and plus all adjacent counties.

(2) Supplemental new jobs credit is for additional training through community colleges.

(3) Housing assistance credits may be used to offer employee housing subsidies. This option is rarely used.

# IOWA DEPARTMENT OF ECONOMIC DEVELOPMENT TAX CREDIT PROGRAMS

<b>IDED TAX CREDIT PROGRAMS OTHER THAN FOR JOB CREATION</b>					
<b>Program</b>	<b>Assistive Device Tax Credit</b>	<b>Economic Development Region Revolving Fund Tax Credit</b>	<b>Endow Iowa Tax Credit</b>	<b>Enterprise Zone – Housing Component</b>	<b>Targeted Job Credit from Withholding</b>
<b>Program Benefits</b>	Workplace modifications for workers with disabilities	Encourage private contributions to regional economic development funds.	Encourage private contributions to community foundations	Construction or rehabilitation of housing	Provide benefits to urban renewal areas in 4 pilot cities.
<b>Tax Benefits Conferred</b>	Income tax credit of 50% of the first \$5,000 cost of workplace modification	Income tax credit of 20% of contributions to regional funds.	Income tax credit of 20% of contribution to community foundation	Tax credit of 10% of investment, plus refund of sales, service & use taxes for construction costs.	3% of employee wages for designated businesses.
<b>Caps on Total Credits Awarded</b>	Program cap is \$500,000 per year.	Program cap is \$2 million per year	Program cap is \$2 million per year		
<b>Key requirements</b>	No more than 14 employees, <u>or</u> \$3 million in gross receipts.	Economic development region must be approved by IDED	Contributions up to \$100,000 and are to permanent endowment funds of qualified community foundations	At least 4 single-family units, or 3 multifamily housing units	Proceeds to be spent on designated projects within urban renewal areas.
<b>Transferability of Tax Credits</b>	Tax Credits may not be sold or transferred under any of these programs.			Tax credits may be sold if project involves federal Low Income Housing Tax Credits, or are in Blighted or Brownfield areas. (1)	Tax Credits may not be sold or transferred.
<b>Other comments</b>		Unused credits may be carried forward	Expires at end of FY 2008.	Tax credits may be transferable under certain conditions.	Pilot cities are Burlington, Council Bluffs, Keokuk, and Sioux City

(1) Total credits that can be sold or transferred in Blighted or Brownfield areas is limited to \$3 million per year.

**TAX CREDIT AWARD ESTIMATES FOR IDED PROGRAMS**

FY	1995	1996	1997	1998	1999	2000	2001
<b>JOB CREATION PROGRAMS</b>							
Enterprise Zone*				\$1,886,500	\$3,884,065	\$24,360,274	\$21,799,195
High Quality Job Creation							
New Capital and Income							
New Jobs and Income*	\$133,685,452	\$0	\$83,906,048	\$34,974,884	\$21,031,155	\$11,388,403	\$39,714,446
subtotal job creation programs	\$133,685,452	\$0	\$83,906,048	\$36,861,384	\$24,915,220	\$35,748,677	\$61,513,641
<b>OTHER IDED PROGRAMS</b>							
Assistive Device							\$0
Econ. Devel. Region Fund							
Endow Iowa							
Enterprise Zone - Housing**				\$1,301,086	\$2,986,359	\$3,342,931	\$7,428,328
Targeted Job Credit Withholding							
subtotal other programs	\$0	\$0	\$0	\$1,301,086	\$2,986,359	\$3,342,931	\$7,428,328
<b>TOTAL ALL PROGRAMS</b>	<b>\$133,685,452</b>	<b>\$0</b>	<b>\$83,906,048</b>	<b>\$38,162,470</b>	<b>\$27,901,579</b>	<b>\$39,091,608</b>	<b>\$68,941,969</b>

FY	2002	2003	2004	2005	2006	2007***	TOTAL
<b>JOB CREATION PROGRAMS</b>							
Enterprise Zone*	\$68,865,745	\$13,282,669	\$20,739,986	\$45,021,409	\$82,471,747	\$100,970,524	\$383,282,114
High Quality Job Creation					\$44,735,648	\$191,654,732	\$236,390,380
New Capital and Income			\$20,139,033	\$18,362,971			\$38,502,004
New Jobs and Income*	\$24,995,065	\$47,523,776	\$40,433,473	\$45,518,278			\$483,170,980
subtotal job creation programs	\$93,860,810	\$60,806,445	\$81,312,492	\$108,902,658	\$127,207,395	\$292,625,256	\$1,141,345,478
<b>OTHER IDED PROGRAMS</b>							
Assistive Device	\$2,500	\$0	\$0	\$0	\$0	n/a	\$2,500
Econ. Devel. Region Fund							\$0
Endow Iowa			\$1,003,773	\$2,000,000	\$2,000,000	n/a	\$5,003,773
Enterprise Zone - Housing**	\$9,871,966	\$4,744,197	\$16,460,721	\$16,546,536	\$25,387,544	n/a	\$88,069,668
Targeted Job Credit Withholding							\$0
subtotal other programs	\$9,874,466	\$4,744,197	\$17,464,494	\$18,546,536	\$27,387,544	n/a	\$93,075,941
<b>TOTAL ALL PROGRAMS</b>	<b>\$103,735,276</b>	<b>\$65,550,642</b>	<b>\$98,776,986</b>	<b>\$127,449,194</b>	<b>\$154,594,939</b>	<b>\$292,625,256</b>	<b>\$1,234,421,419</b>

\* Tax credit estimates for years prior to FY 2004 based on 12.5% of capital investment.

\*\* Tax credit estimates for all years based on 12.5% of investment.

\*\*\* Partial FY; July 2006 - February 2007

Note: Companies are often not able to claim all tax credits awarded to them. Until the 2006 tax year, IDR was not able to comprehensively track tax credits actually used against tax credits awarded.

**JOB CREATION - IDED TAX CREDIT JOB CREATION PROGRAMS**

	Enterprise Zone	High Quality Job Creation	New Capital Investment	New Jobs and Income	TOTAL
1995				641	641
1996				0	0
1997				1,159	1,159
1998	82			489	571
1999	464			430	894
2000	1,598			1,068	2,666
2001	1,389			345	1,734
2002	1,528			696	2,224
2003	481			672	1,153
2004	503		1,676	537	2,716
2005	2,643		1,402	200	4,245
2006	3,173	1,560			4,733
2007**	1,359	2,377			
TOTAL	13,220	3,937	3,078	6,237	26,472

**CAPITAL INVESTMENT - IDED TAX CREDIT JOB CREATION PROGRAMS**

	Enterprise Zone	High Quality Job Creation	New Capital Investment	New Jobs and Income	TOTAL
1995				\$1,069,483,612	\$1,069,483,612
1996				\$0	\$0
1997				\$671,248,386	\$671,248,386
1998	\$15,092,000			\$279,799,072	\$294,891,072
1999	\$31,072,520			\$168,249,238	\$199,321,758
2000	\$194,882,190			\$91,107,226	\$285,989,416
2001	\$174,393,562			\$317,715,564	\$492,109,126
2002	\$691,634,112			\$199,960,520	\$891,594,632
2003	\$105,190,606			\$684,908,000	\$790,098,606
2004	\$205,574,756		\$277,139,033	\$316,554,000	\$799,267,789
2005	\$424,043,354		\$359,719,004	\$411,829,464	\$1,195,591,822
2006	\$945,367,429	\$765,877,491			\$1,711,244,920
2007**	\$1,166,487,951	\$3,404,627,614			
TOTAL	\$3,953,738,480	\$4,170,505,105	\$636,858,037	\$4,210,855,082	\$12,971,956,704

**ESTIMATED MAXIMUM TAX CREDITS - IDED TAX CREDIT JOB CREATION PROGRAMS**

	Enterprise Zone	High Quality Job Creation	New Capital Investment	New Jobs and Income	TOTAL
1995				\$133,685,452 *	\$133,685,452
1996				\$0	\$0
1997				\$83,906,048 *	\$83,906,048
1998	\$1,886,500 *			\$34,974,884 *	\$36,861,384
1999	\$3,884,065 *			\$21,031,155 *	\$24,915,220
2000	\$24,360,274 *			\$11,388,403 *	\$35,748,677
2001	\$21,799,195 *			\$39,714,446 *	\$61,513,641
2002	\$68,865,745 *			\$24,995,065 *	\$93,860,810
2003	\$13,282,669 *			\$47,523,776 *	\$60,806,445
2004	\$20,739,986		\$20,139,033	\$40,433,473	\$81,312,492
2005	\$45,021,409		\$18,362,971	\$45,518,278	\$108,902,658
2006	\$82,471,747	\$44,735,648			\$127,207,395
2007**	\$100,970,524	\$191,654,732			
TOTAL	\$383,282,114	\$236,390,380	\$38,502,004	\$483,170,980	\$1,141,345,478

\* No estimate for tax credits in all or some of project files for this year. This estimate was made by multiplying the capital investment by 12.5% (10% for ITC, plus 1/2 of capital investment times 5% for sales and use tax credit).

\*\* FY 2007 to date; July 2006 - February 2007

Note: Companies are often not able to claim all tax credits awarded to them. Until the 2006 tax year, IDR was not able to comprehensively track tax credits actually used against tax credits awarded.

## ENTERPRISE ZONE - HOUSING COMPONENT

Estimated units, investment, and maximum tax credits awarded

	units	investment	investment per unit	estimated tax credit	tax credit per unit
1998	119	\$10,408,686	\$87,468	\$1,301,086	\$10,933
1999	317	\$23,890,870	\$75,366	\$2,986,359	\$9,421
2000	301	\$26,743,447	\$88,849	\$3,342,931	\$11,106
2001	571	\$59,426,624	\$104,075	\$7,428,328	\$13,009
2002	843	\$78,975,724	\$93,684	\$9,871,966	\$11,711
2003	369	\$37,953,577	\$102,855	\$4,744,197	\$12,857
2004	881	\$131,685,766	\$149,473	\$16,460,721	\$18,684
2005	1026	\$132,372,290	\$129,018	\$16,546,536	\$16,127
2006	1377	\$203,100,353	\$147,495	\$25,387,544	\$18,437
TOTAL	5804	\$704,557,337	\$121,392	\$88,069,667	\$15,174

Tax credits estimated at 10% tax credit for investment amount, plus 5% of 1/2 investment amount for sales and use taxes

Note: Companies are often not able to claim all tax credits awarded to them. Until the 2006 tax year, IDR was not able to comprehensively track tax credits actually used against tax credits awarded.

**ETHANOL, BIODIESEL, and OTHER PROJECT AWARDS JULY 2003 - FEBRUARY 2007**

All IDED Business Job Creation Programs

	projects	jobs	Capital investment	direct awards	tax credits	total awards	% of all tax credits awarded	% of all capital investment	tax credits as % of capital investment
Ethanol	45	1,795	\$5,467,853,125	\$5,620,000	\$367,957,813	\$373,577,813	59.5%	60.3%	6.73%
Biodiesel	19	475	\$633,223,810	\$7,400,000	\$55,105,151	\$62,505,151	8.9%	7.0%	8.70%
Other	351	29,704	\$2,971,253,325	\$131,722,400	\$194,997,947	\$326,720,347	31.5%	32.8%	6.56%
Total	415	31,974	\$9,072,330,260	\$144,742,400	\$618,060,911	\$762,803,311	100.0%	100.0%	6.81%

Note: Companies are often not able to claim all tax credits awarded to them. Until the 2006 tax year, IDR was not able to comprehensively track tax credits actually used against tax credits awarded.