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[HF 2420](#) – Workforce Housing Tax Credits (LSB5966HV)  
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Fiscal Note Version – New

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## **Description**

[House File 2420](#) increases the maximum annual limit of the [Workforce Housing Tax Credit](#) from \$35.0 million to \$50.0 million and increases the annual credits allocated to qualified housing projects in small cities from \$17.0 million to \$25.0 million.

## **Background**

2021 Iowa Acts, [Senate File 619](#) (Taxation and Other Provisions Act), increased the maximum annual limits of Workforce Housing Tax Credits from \$25.0 million to \$40.0 million for FY 2022 and to \$35.0 million beginning in FY 2023. Additionally, the Bill increased the small-city set-aside in the 88 least populous Iowa counties, and in cities or towns with a population less than or equal to 2,500 in the 11 most populous Iowa counties, from \$10.0 million to \$12.0 million for FY 2022 and to \$17.5 million for FY 2023 and after. In FY 2023, \$7.4 million in Workforce Housing Tax Credit claims were redeemed, according to the [December 2023 Tax Credits Contingent Liabilities Report](#) published by the Iowa Department of Revenue (IDR).

The Iowa Economic Development Authority (IEDA) reviews applications and awards tax credits. The program provides tax benefits to developers to provide housing in Iowa cities and towns, focusing on projects using abandoned, empty, or dilapidated properties. The program is limited to \$1.0 million per project. Tax credits under the program are sales tax refunds and transferable investment tax credits, pursuant to Iowa Code section [15.355](#).

## **Assumptions**

- There are no new full-time equivalent (FTE) positions needed by the IEDA to administer the application review and awarding of the tax credit.
- The full amount of the \$50.0 million aggregated annual cap will be awarded each year.
- 78.9% of awards will be investment tax credits and 21.1% will be sales and use tax refunds, based on program history.
- Investment tax credits will begin to be awarded for tax year (TY) 2024, 20.0% of which are claimed against the individual income tax, 20.0% against the corporate income tax, and 60.0% against the insurance premium tax.
- The initial fiscal impact for claims under the Bill will occur in FY 2025.
- The investment tax credit is nonrefundable. Any tax credit in excess of the tax liability may be carried forward for up to seven years.
- According to the IDR, it is assumed that 75.0% of the investment tax credits will be claimed, with the timing of claims indicated below:
  - Year 0 — 19.1%
  - Year 1 — 35.5%
  - Year 2 — 17.6%
  - Year 3 — 2.6%
  - Year 4 — 0.1%
  - Year 5 — 0.1%

- Year 6 — 0.0%
- According to the IDR, it is assumed that 97.9% of sales and use tax refunds will be claimed, with the timing of claims indicated below:
  - Year 0 — 68.6%
  - Year 1 — 29.3%
  - Year 2 — 0.0%
- The [income surtax for schools](#) is a local option tax that is based on a taxpayer's Iowa income tax liability. Law changes that lower Iowa income tax liability also lower the amount of income surtax owed by any taxpayer subject to the surtax. For this **Fiscal Note**, the surtax is assumed to equal 2.5% of State individual income tax liability.

### **Fiscal Impact**

The proposed increase in the maximum amount of the Workforce Housing Tax Credit is projected to decrease net General Fund revenue by the following amounts:

- FY 2025 = \$4.4 million
- FY 2026 = \$9.5 million
- FY 2027 = \$11.6 million
- FY 2028 = \$11.9 million
- FY 2029 = \$11.9 million

The increase in investment tax credits is projected to decrease the statewide local option income surtax for schools by the following amounts:

- FY 2025 = \$10,000
- FY 2026 = \$32,000
- FY 2027 = \$43,000
- FY 2028 = \$44,000
- FY 2029 = \$44,000

### **Sources**

Iowa Department of Revenue  
Iowa Economic Development Authority  
Legislative Services Agency analysis

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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