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The Senate

State of Iowa
Eighty-fifth General Assembly
STATEHOUSE
Des Moines, IA 50319

COMMITTEES

Commerce, Ranking Member
Labor and Business Relations
State Government

Transportation, Infrastructure, and Capitals
Appropriations Subcommittee

The Anderson Report

Thank you for the honor of representing you in the Iowa Senate. Please feel free to contact me with your questions, comments and ideas. You can reach me at **712-898-2505** or email to **bill.anderson@legis.iowa.gov**.

Earlier this week the Senate Democrats proposed and passed SF 295, their business property tax credit bill. The proposed credit is similar to the Homestead Property Tax Credit which was last fully funded in fiscal year 2001. The question remains: Will the Senate Democrat property tax credit be fully funded or will it be another roller coaster ride for property owners?

Business Property Tax Credit

The bill sets up a new business property tax credit for commercial, industrial and railroad property.

The credit is similar to the concept used for Iowa Homestead Property Tax Credit. The property owner is required to file for the tax credit. Once they file, unless there is a change, they would not have to file for the credit again.

An on-going appropriation to the fund to provide the tax credit is made at \$50 million for FY 2015. The appropriation is intended to increase in increments of \$50 million if the state's revenue estimating conference certifies a set of revenue growth of 4% compared to the previous year. Once the appropriation is increased, it will remain at the higher level unless it is increased again the following year. The maximum appropriation to the fund would be \$250 million per year.

The fact is that this is nothing more than reform in name only! The legislation provides no real reform and creates more uncertainty for property owners. As you will read below the legislature has not fully funded tax credits since FY 2001. The 4% trigger would not have been met in FY 2014 as growth is projected to be 3.5%. Additionally, this bill does not reduce property taxes for all classes of property. I am hopeful these issues will be resolved in conference committee and that the finished product provides tax relief and reform which stimulates growth in Iowa.

Homestead Tax Credit

The Homestead Tax Credit was originally adopted in 1937 to provide property tax relief to homeowners and to encourage home ownership. The original law provided for a credit equal to 25 mills on the first \$2,500 of assessed valuation of the homestead with a maximum credit of \$62.50. In 1977 the credit was made equal to the taxes due on the first \$4,500 of taxable value. The tax credit is now equal to taxes due on \$4,850 of value and remains at this level which was changed prior to 1984.

To be eligible for the credit an individual must own and occupy the property as a homestead on July 1 of each year, declare residency in Iowa for income tax purposes and occupy the property for at least six months each year. Persons in the military or nursing homes who do not occupy the home are also eligible. The claim for the credit must be filed on or before July 1. Claim is allowed for successive years without further filing as long as eligible.

The last time the Homestead Credit was fully funded was FY 2001. Since the appropriated amount is less than the amount claimed, local governments are allowed under the Iowa Code to shift any shortfall in state reimbursements back onto the taxpayers as a reduced credit. The House and Senate Republicans support fully funding the Homestead Tax Credit for FY 2014 at a cost of approximately \$138 million.

History of Funding Homestead Credit

Fiscal Year	% paid
Estimated FY 14	100% (the House will fully fund at approximately \$138 million)
Est. FY 13	78%
FY 12	63%
FY 11	64%
FY 10	69%
FY 09	72%
FY 08	73%
FY 07	77%
FY 06	78%
FY 05	81%
FY 04	79%
FY 03	88%
FY 02	98%
FY 01	100%
FY 00	100%