Iowa Tax Credit Tracking and Analysis Program

Angela Gullickson
And
Mike Lipsman

Presentation Outline

- Program History
  - Legislative Proposal
  - Program Purpose
  - Program Structure

- Program Implementation
  - Tax Credit Schedule
  - Tax Credit Tracking and Analysis System
  - Tax Credit Claim Processing
  - Analysis and Reports

- Future Direction
# Purposes for the Tax Credits Program

- To provide better information on the impact of tax credits on General Fund revenues
- To provide a better understanding of the amount of awarded tax credits that get claimed and when they get claimed
- To better understand the impact of tax credits on the State’s economy

# Legislative History and Proposal

- “Budgeting for Results”
- Tax Credit Program Proposal
  - Improved Accountability
  - Inter-Departmental Collaboration
  - Comprehensive Credit Awards and Claims Database
  - Credit Tracking Procedures
- Program Kick-off KAIZEN Event
Number of Iowa Tax Credits

KAIZEN Event Recommendations

- Need for tracking tax credit transfers
- Need to match tax credit awards with tax credit claims for pass-through entities
- Need to identify tax credit claims by tax type
- Need to establish measures of tax credit program outcomes
Tax Credit Program Working Groups

- Database Design and Development
- Forms Design and Development
- Transfers and Pass-Through Entities
- Prototype Report Development
- Evaluation Methodologies

Implementation of TCTAP

- The IA 148 Tax Credits Schedule
  - Certificate Numbers
- Tax Credit Tracking and Analysis System
  - File Transfer Protocols
  - Tax Credit Transfers
  - Pass-Through Entities
- Reports
  - Contingent Liabilities Reports
  - Evaluation Studies
The IA 148 Tax Credits Schedule

- Determine what information needed to be obtained from taxpayers
  - Type of tax credit being claimed
  - Origin of an awarded tax credit
  - Details of the tax credit claim
  - Information about pass-through entities

---

Tax Credit Codes for Administrative Tax Credits

- Nonrefundable

<table>
<thead>
<tr>
<th>Tax Credit Code</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>04</td>
<td>Franchise Tax Credit</td>
</tr>
<tr>
<td>09</td>
<td>Minimum Tax Credit</td>
</tr>
<tr>
<td>11</td>
<td>S-Corporation Apportionment Tax Credit</td>
</tr>
</tbody>
</table>

- Refundable

<table>
<thead>
<tr>
<th>Tax Credit Code</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>53</td>
<td>Claim of Right Tax Credit</td>
</tr>
</tbody>
</table>
### Tax Credit Codes for Credits Awarded by Dept. of Econ. Dev.

#### Nonrefundable

<table>
<thead>
<tr>
<th>Tax Credit Code</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>02</td>
<td>Economic Development Region Revolving Fund Tax Credit</td>
</tr>
<tr>
<td>03</td>
<td>Endow Iowa Tax Credit</td>
</tr>
<tr>
<td>06</td>
<td>Housing Investment Tax Credit</td>
</tr>
<tr>
<td>07</td>
<td>Investment Tax Credit</td>
</tr>
<tr>
<td>13</td>
<td>Venture Capital Tax Credit – Fund of Funds</td>
</tr>
<tr>
<td>14</td>
<td>Venture Capital Tax Credit – Qualified Business or Seed Capital</td>
</tr>
<tr>
<td>15</td>
<td>Venture Capital Tax Credit – Venture Capital Funds</td>
</tr>
<tr>
<td>18</td>
<td>Film Expenditure Tax Credit</td>
</tr>
<tr>
<td>19</td>
<td>Film Investment Tax Credit</td>
</tr>
</tbody>
</table>

#### Refundable

<table>
<thead>
<tr>
<th>Tax Credit Code</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>51</td>
<td>Assistive Device Tax Credit</td>
</tr>
<tr>
<td>57</td>
<td>Refundable Investment Tax Credit</td>
</tr>
<tr>
<td>59</td>
<td>Supplemental Research Activities Tax Credit</td>
</tr>
<tr>
<td>62</td>
<td>Third-Party Sales Tax Credit</td>
</tr>
</tbody>
</table>
## Tax Credit Codes for Energy Tax Credits

- **Nonrefundable**
<table>
<thead>
<tr>
<th>Tax Credit Code</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Renewable Energy Tax Credit</td>
</tr>
<tr>
<td>16</td>
<td>Wind Energy Production Tax Credit</td>
</tr>
</tbody>
</table>

- **Refundable**
<table>
<thead>
<tr>
<th>Tax Credit Code</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>52</td>
<td>Biodiesel Blended Fuel Tax Credit</td>
</tr>
<tr>
<td>54</td>
<td>Ethanol Blended Gasoline Tax Credit</td>
</tr>
<tr>
<td>55</td>
<td>E85 Gasoline Promotion Tax Credit</td>
</tr>
</tbody>
</table>

## Tax Credit Codes for Miscellaneous Tax Credits

- **Nonrefundable**
<table>
<thead>
<tr>
<th>Tax Credit Code</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>08</td>
<td>Iowa New Jobs (260E) Tax Credit</td>
</tr>
<tr>
<td>12</td>
<td>School Tuition Organization Tax Credit</td>
</tr>
<tr>
<td>17</td>
<td>Agricultural Assets Transfer Tax Credit</td>
</tr>
</tbody>
</table>

- **Refundable**
<table>
<thead>
<tr>
<th>Tax Credit Code</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>56</td>
<td>Historic Preservation and CED Tax Credit</td>
</tr>
<tr>
<td>58</td>
<td>Research Activities Tax Credit</td>
</tr>
<tr>
<td>61</td>
<td>Soy-Based Transformer Fluid Tax Credit</td>
</tr>
<tr>
<td>63</td>
<td>Wage-Benefit Tax Credit</td>
</tr>
</tbody>
</table>
Certificate Numbers

- Ties tax credit award with tax credit claim
- Information is embedded in the certificate number
  - Tax credit program
  - Fiscal year award was made
  - Sequential award number
  - Transfer indicator
- Numbering system allows for some flexibility

Standard Certificate Number Layout

74 2006 0012 00

Program Code
Fiscal Year
Sequential Number
Transfer Indicator
STO Certificate Number Layout

74 2006 01 0012

Program Code
Fiscal Year
STO Indicator
Sequential Number

Sections of the IA 148

- Part I – Nonrefundable Tax Credits
  - Two Digit Tax Credit Code
  - Certificate Number
  - Amount Carried Forward from Prior Tax Years
  - Current Year Amount
  - Total Credit Available (C+D = E)
  - Amount Applied Current Year
  - Expired Credit Amount
  - Amount Carried Forward to Future Tax Years (E-F-G = H)
Sections of the IA 148 (cont.)

- Part II – Refundable Tax Credits
  - Two Digit Tax Credit Code
  - Certificate Number
  - Current Year Amount
- Part III – Total Tax Credits
- Part IV – Pass-Through Entity Schedule
  - Pass-Through Entity Name
  - Federal ID Number
  - Taxpayer’s Percentage of Ownership

The IA 148 and E-filing

- Software developers had to be considered
  - Prefer portrait to landscape
- 2007 Iowa E-filing & Tax Credit Claim Statistics
  - Just over 1% of all taxpayers claimed tax credits
  - Nearly 72% of taxpayers filed electronically
    - Of the 72%, 0.83% of taxpayers claimed “Other” credits compared to 1.49% of taxpayers filing paper returns
Tax Credit Tracking and Analysis System (TCTAS)

- **TRANSFER** process to enter new Transfer Certificate ID
- **CLAIM** process to enter claim against the credits
- **ENTITY TABLE**
  - Entity ID
- **CLAIM TABLE**
  - Claim ID
  - Claim_Entity ID
- **AWARD TABLE**
  - Award ID
  - Award_Entity ID
- **AWARD** process to import Agency Award Information
- **CLAIM** process to enter claim against the credits

Transferring Data to the TCTAS

- **Methods**
  - **HTTPS**
    - Agency logs in to secure site to drop off file
  - **Web Services**
    - File transmission is automated to happen on a scheduled basis
  - **Hand Delivery**

- **File Specifications**
  - Comma-separated values (CSV) format
  - File name should meet established naming conventions
Processing of a Tax Credit Claim

- Electronically Filed Returns
  - IA 148 data is parsed from the rest of the return
  - If no IA 148, no action is taken at this time
- Paper Filed Returns
  - Returns with “Other” credit claims are identified
  - Schedules are then tagged
  - IA 148 data is captured by data entry operators
  - If no IA 148, an attempt is made to create a schedule for the return
- IA 148 data is then imported into TCTAS Claim Table

Cleaning the Data

- Claim-Verify Table
  - Verification Status
- Steps
  - Review claims of credits with no awards
  - Verify tax credit code matches type of award indicated by certificate number
  - Add certificate numbers to valid tax credit claims
  - Verify “Carry Forward” and “Current Year” total “Available Credit”
  - Verify credits not allowing carry forward
  - Verify sum of nonrefundable and refundable claims equals Part I and Part II totals
2006 Individual Income Tax Credit Claim Statistics

- **15,386 Nonrefundable Tax Credit Claims**
  - $64.6 million in total claims
  - $47.0 million in administrative claims (67.8%)
  - 17.6% of claims were Investment Tax Credit claims
  - Average claim per tax credit was $4,201

- **1,953 Refundable Tax Credit Claims**
  - $5.8 million in total claims
  - 39.8% of claims were Research Activities Tax Credits

2006 Corporate Income, Franchise, and Insurance Premium Tax Credit Claim Statistics

- **Corporate Income Tax**
  - Not yet available

- **Franchise Tax**
  - 17 claims totaling just over $700,000
  - 77.5% of claims were Historic Preservation Tax Credits

- **Insurance Premium Tax**
  - 13 claims totaling nearly $3.3 million
  - 83.6% of claims were Enterprise Zone - Housing Investment Tax Credits
Reports

- Status Reports
  - Detail the awarding and usage of credits by tax type
  - Issued upon request
- Contingent Liabilities Reports
  - Projects the future usage of credits as well as historical claim data
  - Issued quarterly to Revenue Estimating Conference

Reports (cont.)

- Evaluation Studies
  - Assess the effectiveness of existing tax credit programs
- Similar Components
  - What are other states doing?
  - Statistics on awards and claims
  - Policy Alternatives
- Advisory Committee
- Present to legislature
- Completed Studies
  - Earned Income Tax Credit
  - Research Activities Tax Credit
Future Projects

- Evaluation studies of the Historic Preservation Tax Credit and biofuels tax credits are underway
- Work with the Compliance Division
- Further develop and improve evaluation study methodologies

Contact Information

- Angela Gullickson
  - Angela.gullickson@iowa.gov
  - 515-281-7037
- Mike Lipsman
  - Michael.lipsman@iowa.gov
  - 515-281-4359
- Iowa Tax Credit Website
  - http://www.state.ia.us/tax/taxlaw/creditstudy.html
Questions?