

FINAL REPORT

**NONBUSINESS TAXATION
STUDY COMMITTEE**

Presented to the Legislative Council
and the Iowa General Assembly
January 1995

Prepared by the Legislative Service Bureau



Legislative
Service
Bureau

FINAL REPORT

NONBUSINESS TAXATION STUDY COMMITTEE

January 1996

MEMBERS

Senator William D. Palmer,
Co-chairperson
Senator Wayne Bennett
Senator Emil J. Husak
Senator John W. Jensen
Senator Patty Judge

Representative Roger A. Halvorson,
Co-chairperson
Representative Bill Bernau
Representative Gary Blodgett
Representative John M. Greig
Representative Keith Weigel

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Staff Contacts

Susan E. Crowley, Legal Counsel
(515) 281-3430

Michael J. Goedert, Senior Legal Counsel,
(515) 281-3922

AUTHORIZATION AND APPOINTMENT

The Nonbusiness Taxation Study Committee was established by the Legislative Council and directed to review nonbusiness state taxation, including property, income, sales and use, and inheritance taxes. The review was to be an analysis of tax equity, taxation incentives and disincentives for economic development, and the long-term objectives of nonbusiness taxation. The Study Committee was granted three meeting days. The meetings were held October 12, November 3, and November 28.



Nonbusiness Taxation Study Committee

1. Committee Proceedings.

a. October 12 Meeting.

The first meeting of the Nonbusiness Taxation Study Committee was held jointly with the Business Taxation Study Committee. The charge to the latter study committee was to review taxation of all businesses in Iowa, including sole proprietorships, partnerships, limited liability companies, Subchapter S corporations, and C corporations. The review was to be an analysis of tax equity, taxation incentives and disincentives for economic development, and the long-term objectives of business taxation.

◆ **Machinery & Equipment (M&E) Taxes.** Mr. David Lyons, Director of the Department of Economic Development, presented issues relating to the status of property taxation of industrial machinery, equipment, and computers in light of the enactment of Senate File 69 during the 1995 legislative session. Mr. Lyons expressed concerns pertaining to the effect of the reduction in machinery and equipment taxable value on the incremental valuation in a tax increment financing district and to the method used in determining the amount of state replacement of lost taxes as a result of the reduction in machinery and equipment taxable value. Mr. Lyons indicated that language is being developed by interested parties to address these concerns.

◆ **Rollback of Property Values.** Mr. Gene Eich, Department of Revenue and Finance, and Mayor Ed Stachovic, Mayor of Cedar Falls, discussed the property tax rollback.

◆ **Federal Budget and Tax Law.** Mr. Lorin Knapp of the Department of Revenue and Finance stated that spending authority is likely to be enacted through an Reconciliation Bill. The Tax Simplification Act of 1995 is likely to be combined with the Revenue Reconciliation Act of 1995 and the Taxpayer Bill of Rights 2 as part of the omnibus reconciliation package. Some of the provisions of the two tax bills include: allowing for medical savings account deductions; corporation use of "excess" pension balances for limited purposes subject to an excise tax; restrictions on earned income tax credit; simplification of Subchapter S corporation and partnership classification; simplification of pension plan requirements or restrictions; and extension of certain expiring tax credits or deductions.

◆ **Property Tax Credits and Exemptions.** Mr. Will Ament, President, Iowa State Assessors Association, described a survey conducted on assessors' views relating to property tax credits and exemptions. Mr. Marvin Diemer identified property tax exemptions for nonprofit retirement homes which house high-income retirees as unfair.

◆ **Tax Policy.** Both Mr. James Wengert, President, Iowa Federation of Labor, AFL-CIO; and Mr. Bill Smith, Iowa Tax Reform Action Coalition, stated that Iowa's tax policy is unfair because it is a regressive tax system. They identified changes that have been made which did not make the overall taxes less regressive and changes that have been proposed that would result in less progressivity.

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b. November 3 Meeting.

◆ **Status of Federal Tax Changes.** Mr. Lorin Knapp, Department of Revenue and Finance, reviewed the status of pending federal tax and budget legislation. Mr. Knapp also provided a handout which details some of the tax provisions most likely to be contained in the final version of the Federal Omnibus Reconciliation Act.

◆ **Senate File 69 MH/DD Vetoes.** Ms. Gretchen Tegeler, Department of Management, and Mr. John Easter, Iowa State Association of Counties, made separate presentations on the Governor's vetoes of certain provisions of the MH/DD division of Senate File 69. Ms. Tegeler stated that the two principles guiding the Governor in his review of the legislation were that cost containment be achieved throughout the MH/DD delivery system; and that discernible property tax relief be realized as a result of the State's increased funding of MH/DD services. Mr. Easter outlined the concerns of county officials raised by the vetoes, particularly the veto of the inflation growth factor and the veto of the language limiting a county's liability to provide MH/DD services if money in the MH/DD fund is fully expended.

◆ **Polk/Des Moines Taxpayers Association.** Ms. Christine Van Meter, President, highlighted the Association's more pressing legislative priorities, including achieving equity in the tax assessment of property, reimbursing local governments for the costs of some state-mandated programs, and allowing tax base sharing between local governments. Ms. Van Meter, as chair of the state's County Finance Committee, also discussed the use of 1994 MH/DD expenditures as the base year amount limiting the amount of property tax dollars that may be collected for MH/DD services and suggested consideration be given to moving to a FY 1996 levy amount as the base year.

◆ **Tax Exempt Property.** Ms. Christine Hensley, Des Moines City Council member and Mr. Jim Maloney, Des Moines City Assessor, made a presentation on the property tax inequities created by the large amount of tax-exempt property concentrated in the central city area of older urban communities. Ms. Vicky Atkins, Blackhawk County Assessor, also made a presentation on tax-exempt property. Ms. Atkins stated that the rule of law, i.e., that there is a presumption against exemption, has been lost among the growing complexity in the environment of tax-exempt organizations. The current situation has given rise to tax inequities between taxing jurisdictions and among taxpayers in the same jurisdiction.

◆ **Assessors' Property Tax Study.** Mr. Will Ament, Allamakee County Assessor, and Mr. Dave Ellis, Calhoun County Deputy Assessor, presented to the Committee the initial results of its survey of assessors concerning property tax credits and exemptions.

◆ **Inheritance Tax.** Mr. Carl Castelda, Department of Revenue and Finance, reviewed elements of the State's inheritance tax, including computation of the tax, valuation of property in an estate, and exemptions from the tax. He also presented a summary of the objectives and status of a study of inheritance tax returns recently filed with the State. Preliminary findings from the study indicate that 30



Nonbusiness Taxation Study Committee

percent to 35 percent of inheritance tax paid to the State is paid by out-of-state beneficiaries; and that approximately 32 percent of net estate value is attributable to real estate.

Value-added Tax Credit. Dr. John Lawrence, Iowa State University Economist, presented an analysis of a value-added tax credit for livestock based on corn feeding rates. The Committee invited Dr. Lawrence back to present a more in-depth analysis at the November 28 meeting.

c. November 28 Meeting.

◆ **Value-added Tax Credit.** Dr. John Lawrence, Iowa State University Economist, presented an expanded analysis of the value-added tax credit for livestock production based on corn feeding rates which, he stated, would increase both livestock production and in-state corn utilization. The tax credit was first discussed at the November 3rd meeting.

◆ **Property Tax Credits and Exemptions for Veterans of Military Service.** Mr. Hugh Griffin of the Federal Department of Veterans Affairs, and a member of the Governor's Task Force on Veterans Issues in the State of Iowa, discussed real estate tax issues being studied by a Task Force subcommittee in an effort to curb the loss of veterans from the state. The subcommittee is currently examining three proposals for providing an incentive for veterans to remain in Iowa, or to return if they have previously relocated. The subcommittee is also investigating the question of whether Iowa's income tax is a primary contributor to veteran relocation to other states.

◆ **Agricultural Land Productivity Formula.** Mr. Richard Stradley of the Department of Revenue and Finance presented an overview of the agricultural land productivity value calculated over a five period. Mr. Stradley provided a sample agricultural assessment formula calculation, and noted that agricultural assessments based on productivity result in greater stability when compared with market value assessments.

2. Recommendations.

The following recommendations were approved by the Committee:

◆ **LSB 3271IC.** Representative Halvorson proposed for recommendation a bill establishing a sales and use tax exemption for packaging materials used in agricultural, livestock, or dairy production. The exemption would also apply to commercial greenhouses. The bill was submitted to the General Assembly as House Study Bill 501 and Senate Study Bill 2051. A copy of HSB 501 is attached.

◆ **LSB 3240IC.** Senator Palmer proposed for recommendation a bill providing a maximum livestock production tax credit of \$5,000 per livestock operation based upon the amount of corn or corn equivalents used by hog, livestock and dairy, and poultry operations. The bill would also repeal both the agricultural land and the family farm property tax credit. The bill was submitted to the General Assembly as

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Senate Study Bill 2052 and House Study Bill 500. A copy of SSB 2052 is attached.

3. Written Materials on File with the Legislative Service Bureau.

- a. Procedural rules adopted by each Committee.
- b. Memorandum submitted by Mr. Mike Ralston, Iowa Taxpayers Association.
- c. Fact Sheet submitted by Mr. Kent Sovern, Greater Des Moines Chamber of Commerce.
- d. Handouts submitted by the following persons who provided testimony at the meetings:
 - ◇ Mr. David Lyons - Machinery and Equipment Exemption Recommendations
 - ◇ Mr. Lorin Knapp - Status of Federal Tax Legislation
 - ◇ Mr. Gene Eich - Property Tax Rollback
 - ◇ Mayor Stachovic and the Iowa League of Cities - Written Testimony and Figures on Property Tax Rollback
 - ◇ Mr. Marvin Diemer - Tax Exempt Property Articles
 - ◇ Mr. Jim Wengert - Written Testimony
 - ◇ Mr. John Sorensen - Written Testimony and Figures on Taxation of Financial Institutions
 - ◇ Mr. Bill Smith - Written Testimony
- e. League of Iowa Cities' memoranda on tax-exempt property and the residential rollback.
- f. Governor's veto message for Senate File 69.
- g. ISAC letter on MH/DD vetoes in Senate File 69.
- h. 1995 Annual Report - Polk/Des Moines Taxpayers Association.
- i. Illustrations regarding exempt property in Des Moines.
- j. Written testimony of Ms. Christine Hensley.
- k. Written testimony of Ms. Vicky Atkins.
- l. Assessors property tax study documents, including memoranda on homestead property tax credit, family farm tax credit, and tax abatement.
- m. Outline of inheritance tax features prepared by the Department of Revenue and Finance.
- n. Memorandum on federal tax changes prepared by Mr. Lorin Knapp, Department of Revenue and Finance.



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o. Value-added tax credit outline and related documents submitted by Dr. John D. Lawrence, Extension Livestock Economist, Iowa State University.

p. Governor's Task Force on Veterans Issues, real estate tax issue summary, and related documents submitted by Mr. Hugh E. Griffin, Federal Department of Veterans Affairs.

q. Agricultural equalization valuation material submitted by Mr. Richard Stradley, Department of Revenue and Finance.

r. Proposed Bills:

- ◇ Sales and Use Tax Exemption (LSB 3271HH).
- ◇ Federal Income Tax Deductibility (LSB 3239XS).
- ◇ Livestock Production Tax Credit (LSB 3240XS).
- ◇ Tax Repeal and Reform (LSB 3235YH).
- ◇ Homestead Property Tax Credit (LSB 3238XS).

s. Memorandum on the estimated cost of phasing out the homestead tax credit submitted by Mr. Jon Muller, Legislative Fiscal Bureau.

t. Written testimony regarding state and local taxation of nonprofit organizations, submitted by Ms. Sue Boesen Copple, Iowa Association and Homes and Services for the Aging.

u. Written comments relating to the Iowa State Association of Counties presentation from the second meeting, November 3, 1995, submitted by Mr. John Easter, Senior Public Policy Analyst, Iowa State Association of Counties.

SENATE/HOUSE FILE _____
BY (RECOMMENDED BY NONBUSINESS
TAXATION STUDY COMMITTEE)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act providing a sales, services, and use tax exemption on
2 certain packaging materials used in agricultural, livestock,
3 or dairy production.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 422.45, Code Supplement 1995, is
2 amended by adding the following new subsection:

3 NEW SUBSECTION. 50. The gross receipts from the sale of
4 property which is a container, label, carton, pallet, packing
5 case, wrapping, bailing wire, twine, bag, bottle, shipping
6 case, or other similar article or receptacle sold for use in
7 agricultural, livestock, or dairy production.

8 Sec. 2. APPLICABILITY. This Act applies to sales
9 occurring on or after July 1, 1996.

10 EXPLANATION

11 The bill establishes a sales and use tax exemption for
12 packaging materials such as twine, wrapping, bailing wire, and
13 containers used in agricultural, livestock, or dairy
14 production. The exemption would also apply to producers of
15 ornamental, flowering, or vegetable plants in commercial
16 greenhouses or other places which are for sale in the ordinary
17 course of business since that activity is considered
18 agricultural production as a result of enactment during the
19 1995 Session. The bill applies to sales occurring on or after
20 July 1, 1996.

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SSB-2052
Ways & Means

SENATE/HOUSE FILE _____
BY (RECOMMENDED BY NONBUSINESS
STATE TAXATION STUDY
COMMITTEE)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act providing a livestock production credit for state income
2 tax purposes, repealing the agricultural land and family farm
3 property tax credits, and providing applicability dates.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. NEW SECTION. 422.11 LIVESTOCK PRODUCTION TAX
2 CREDIT.

3 1. a. The taxes imposed under this division, less the
4 credits allowed under this division, shall be reduced by a
5 state tax credit for livestock production operations located
6 in the state. The amount of the credit equals ten cents for
7 each bushel of corn or corn equivalents consumed by the
8 livestock in the production operation as specified under this
9 section.

10 b. Corn equivalents are as follows:

- 11 (1) Each bushel of corn equals one corn equivalent.
- 12 (2) Each ton of silage equals nine corn equivalents.
- 13 (3) Each ton of hay equals thirty corn equivalents.
- 14 (4) Each acre of pasture equals fifteen corn equivalents.

15 2. The amount of the credit per operation is determined by
16 adding together for each head of livestock in the operation
17 the product of ten cents times the number of corn equivalents
18 consumed by that head of livestock. The amount of credit per
19 operation shall not exceed five thousand dollars.

20 The maximum amount of corn equivalents for a head of
21 livestock in a production operation is the following:

22 a. Hog operations:	Corn equivalents:
23 (1) Farrow to finish	13.0
24 (2) Farrow to feeder pig	2.6
25 (3) Finishing feeder pigs	10.4
26 b. Poultry operations:	
27 (1) Layers	0.88
28 (2) Turkeys	1.5
29 (3) Broilers	0.15
30 c. Beef operations:	
31 (1) Cow-calf	101.5
32 (2) Stocker	41.5
33 (3) Feedlot	75.0
34 (4) Dairy	350.0

35 3. If the livestock operation is carried on partly within

1 and partly without the state, the portion of the operation
2 attributable to this state shall be determined pursuant to
3 rules adopted by the department. The department may adjust
4 the allocation upon request of the taxpayer in order to
5 reflect the actual livestock operation carried on within this
6 state.

7 4. An individual may claim the livestock production tax
8 credit allowed a partnership, subchapter S corporation, or
9 estate or trust electing to have the income taxed directly to
10 the individual. The amount claimed by the individual shall be
11 based upon the pro rata share of the individual's earning of
12 the partnership, subchapter S corporation, or estate or trust.
13 Any credit in excess of the tax liability shall be refunded.

14 5. The amount of the livestock production credit per
15 taxpayer per tax year shall not exceed five thousand dollars.

16 Sec. 2. Section 422.33, Code Supplement 1995, is amended
17 by adding the following new subsection:

18 NEW SUBSECTION. 9. a. The taxes imposed under this
19 division shall be reduced by a state tax credit for livestock
20 production operations located in the state. The amount of the
21 credit equals ten cents for each bushel of corn or corn
22 equivalents consumed by the livestock in the production
23 operation as specified under this section.

24 b. Corn equivalents are as follows:

- 25 (1) Each bushel of corn equals one corn equivalent.
26 (2) Each ton of silage equals nine corn equivalents.
27 (3) Each ton of hay equals thirty corn equivalents.
28 (4) Each acre of pasture equals fifteen corn equivalents.

29 c. The amount of the credit per operation is determined by
30 adding together for each head of livestock in the operation
31 the product of ten cents times the number of corn equivalents
32 consumed by that head of livestock. The amount of credit per
33 operation shall not exceed five thousand dollars.

34 The maximum amount of corn equivalents for a head of
35 livestock in a production operation is the following:

		Corn equivalents:
1	(1) Hog operations:	
2	(a) Farrow to finish	13.0
3	(b) Farrow to feeder pig	2.6
4	(c) Finishing feeder pigs	10.4
5	(2) Poultry operations:	
6	(a) Layers	0.88
7	(b) Turkeys	1.5
8	(c) Broilers	0.15
9	(3) Beef operations:	
10	(a) Cow-calf	101.5
11	(b) Stocker	41.5
12	(c) Feedlot	75.0
13	(d) Dairy	350.0

14 d. If the livestock operation is carried on partly within
 15 and partly without the state, the portion of the operation
 16 attributable to this state shall be determined pursuant to
 17 rules adopted by the department. The department may adjust
 18 the computation upon request of the taxpayer in order to
 19 reflect the actual livestock operation carried on within this
 20 state.

21 e. Any credit in excess of the tax liability shall be
 22 refunded.

23 f. The amount of the livestock production credit per
 24 taxpayer per tax year shall not exceed five thousand dollars.

25 Sec. 3. Chapters 425A and 426, Code 1995, are repealed.

26 Sec. 4. APPLICABILITY. Section 3 of this Act, being
 27 deemed of immediate importance, takes effect upon enactment
 28 for family farm tax credit claims and agricultural land tax
 29 credit claims for property taxes due and payable in fiscal
 30 years beginning on or after July 1, 1996.

31 Sec. 5. RETROACTIVE APPLICABILITY. Sections 1 and 2 of
 32 this Act apply retroactively to January 1, 1996, for tax years
 33 beginning on or after that date.

34 EXPLANATION

35 This bill provides a livestock production tax credit not to

1 exceed \$5,000 per livestock operation. The credit is based
2 upon the amount of corn or corn equivalents used by hog
3 operations, beef (including dairy) operations, and poultry
4 operations. The amount of the credit is computed by
5 multiplying 10 cents times the amount of corn or corn
6 equivalents consumed by the livestock in the production
7 operation. In addition, a taxpayer may only receive for a tax
8 year \$5,000 in total credits under the bill.

9 The bill also repeals the agricultural land tax credit and
10 the family farm tax credit applicable to property taxes due
11 and payable in fiscal years beginning on or after July 1,
12 1996.

13 The sections of the bill relating to the livestock
14 production tax credit apply retroactively to January 1, 1996,
15 for income tax years beginning on or after that date.

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