

Iowa Legislative Report
87th General Assembly, 2018 Session
Iowa Talented and Gifted Association
Week 14: April 9th - April 13th, 2018
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The 14th week of session consisted of very limited floor debate accompanied by long hour of closed-door deliberations over the various **tax reform plans** of the House, Senate, and Governor Reynolds. There currently isn't agreement between the House, Senate, and the governor's office on one tax reform plan, so negotiations will continue to resolve differences over eliminating federal deductibility, corporate and individual income tax rates, and the taxation of certain industries in Iowa. Legislative per diems end next week, but with the budget bills not out yet, legislators are likely going to need the rest of April to finish the session, even if the House and Senate reach an agreement on a tax bill next week.

Toward the end of the week the logjam started to break loose and the House spent most of the day in Ways & Means and caucus working on their tax cut bill [HF2489](#). The Ways & Means Committee stripped out the original proposal from Governor Reynolds and made the bill into its own tax cut proposal. The House plan will cut individual income taxes by about **\$1.3 billion by 2020 (tax cuts over five years)**. The House plan is expected to increase sales tax revenues by \$100 million by expanding covered sales to include internet and other kinds of sales, including ride sharing sales. These are some of the important changes in this bill:

- Increases the **standard deduction (\$3,000 indiv/ \$7500 families)**
- Expands 529 education plans to include k-12 tuition
- Increases section 179 expensing limit (one-time depreciation for farmers and business) to \$100,00 in tax year 2018 and increases it to \$250,000 in tax year 2020
- Makes a number of federal tax coupling changes but **does not change federal deductibility (which will increase tax for the average taxpayer) or corporate income tax**
- When fully implemented in 2020, the Iowa Department of Revenue projects the average Iowan will see state income taxes reduced by almost **9%**; also, **90% of middle income Iowans will see a lower state tax burden.**
- Applies sales tax to online sellers like Amazon, Zappos, etc.
- Applies sales tax to 3rd party sellers using online market places like Amazon or eBay.
- Applies sales tax to products that have existed for decades, but now are delivered in digital format.

The bill is expected to reach the House floor next week for debate.

The Senate also made progress late Thursday although the new Senate File has not been released. Allegedly, the Senate bill, during the same five -year time period the

House uses would **decrease individual and corporate** taxes by **\$2 billion**. It allegedly calls for **8%** across the board cuts individual income taxes the first year and the rest of the cuts would be phased in over five years. The Senate bills would allegedly reduce corporate tax rates to **7%** in 2024 (they are now 12%). It is also said to contain triggers to prevent the cuts from taking effect until state revenue met specified growth targets. Coupling with federal taxes would occur for corporate and individual taxpayers and the **standard deduction would be \$12,000/\$4,000**. The **pension exemption would be doubled** and **federal deductibility would be eliminated** and the **alternative minimum tax would be abolished**.

The Senate bill also allegedly included a sales-tax exemption on grain bins, a streamlining of financial institutions taxes, an expanded sales-tax exemption for farmers, a student loan repayment tax exemption, a sales-tax exemption on rental equipment, tax credit adjustments, tax simplification and sales tax modernization by more aggressively trying to collect state taxes for online retail sales.

Once an agreement is reached on the tax bill, the budget bills will be filed. The Legislature will need to take into account the effects of a tax cut bill when the budget subcommittees begin to move the appropriations bill forward. For example, if the House proposal is approved by the Legislature, would cut about \$100 million out of the upcoming budget.

Finally, one of the very few bills debated last week was [HF 2481](#) **SAVE FUND PURPOSES** which contains multiple provisions regarding the Secure an Advanced Vision for Education (**SAVE**) and Property Tax Equity Relief (**PTER**) Fund. The Bill provides for the extension of the one-cent sales tax that is distributed to school districts for the following uses:

- Reduction of bond levies.
- Reduction of regular and voted physical, plant, and equipment levies (PPEL).
- Reduction of the public educational and recreation levy (PERL).
- Authorized infrastructure projects.
- Payment of principal and interest on bonds issued under the School Infrastructure Local Option (SILO) sales tax or SAVE.

The Bill extends the sunset of SAVE to **January 1, 2050**, and adjusts the amount of funds being directed into the PTER Fund. For fiscal years in which the growth of SAVE is more than 2.0% over the previous fiscal year, the amount directed into the PTER Fund will increase by 1.0% until it reaches a cap of 12.0% of the funds generated by SAVE. **Under the Bill, one-third of the increase in funds each year will flow into a newly created Foundation Base Percentage Fund (FBPF) within the PTER Fund, which will function to increase the State cost per pupil foundation level.** The current foundation level is set in Iowa Code section [257.1\(2\)\(b\)](#) as 87.5% of the State cost per pupil.

The Bill also creates a fund for career academies, which will receive an annual distribution from the SAVE Fund. The Department of Education is directed to adopt rules for the distribution of these funds in the form of competitive grants that may be awarded to schools for use on career academy infrastructure and equipment. If the growth of SAVE is more than 2.50% over the previous fiscal year, the amount allocated

to the career academies fund is to increase by 0.5% of the amount of SAVE Funds available after the distribution to the PTER Fund and the FBPF, to a maximum of \$5.0 million.

The Bill also makes changes to requirements for revenue purpose statements under SAVE and requirements for the issuance of bonds under SAVE. Changes include requiring the completion of a cost-benefit analysis of remodeling or repairing existing buildings and requiring that **if a school district proposes an athletic infrastructure project using SAVE funds, the district must hold a public hearing on the proposed use of the funds.** After the public hearing on a proposed sports or athletic facility, if a vote is successfully petitioned for, the district must hold a vote on the use of the funds. All bonds sales must receive public notice and are subject to a petitioned vote.

A fiscal note issued on [House File 2482](#) requires the Department of Management (DOM) to establish a searchable online school district budget database. This database is required to be updated by the school district quarterly and is required to contain the following information regarding the school district's spending:

- The school district's certified budget under Iowa Code chapter [24](#).¹
- Any state audit or other report.
- Quarterly financial statements and other financial information including accounts payable check registers and credit, debit, and purchase card statements.

It is unclear whether "other financial information" includes teacher and staff salary. The Bill states that the creation of the database does not require or authorize the inclusion of information that is protected from public disclosure under State or federal law.

The Bill requires that the DOM have the database Internet site available beginning January 1, 2020. School districts are required to provide the selected data to the DOM. The Bill requires that the site be updated no less than quarterly beginning on July 1, 2020 (FY2021). The Bill does not include penalties for a school district that fails to comply with the requirements of the Bill. The Bill also requires the DOM to conduct a study on the development, implementation, compliance, and use of the searchable site. The Department is required to submit a report to the General Assembly on the study on or before January 1, 2025.

That is a wrap for this week. Hopefully next week we will have some budget targets. Have a nice weekend and please call if you have questions.