Iowa’s Tax Credit Tracking and Analysis Program:
The History, the Purpose, and the Implementation

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Introduction

In FY 2006 the Iowa Department of Revenue established the Tax Credit Tracking and Analysis Program. This program responded to a need to provide revenue estimators with better information on how tax credits were impacting the State budget. In addition, the program responded to the desire by legislators and other policy-makers to improve the accountability of tax credit programs and to gain a better understanding of the benefits derived from these programs. This paper will discuss the history, purpose and implementation of the program.

The History

During the summer of 2004, the State of Iowa initiated a new way of developing the Governor's budget based on research done by David Osborne and Peter Hutchinson, which they presented in *The Price of Government*. Former Governor Thomas Vilsack designated the new process "Budgeting for Results." Key to the process was the establishment of separate "buying" teams of analysts drawn from throughout State government. The teams were organized to review budget requests related to seven different policy areas, such as education, economic growth, natural resources, etc. The new budget-making process emphasized improved accountability and responsiveness to the public through the establishment of measurable objectives for each policy area and the creation of competition for funding.

The new budget process required State government departments to compete for funding by preparing offers for each of their existing areas of responsibility and for any new functions or programs they desired to have included in the Governor's budget request to the Legislature. Based on the nature of the requests, each offer was assigned to one of the seven buying teams for review and ranking. The new budget process strongly encouraged departments to be innovative and it encouraged cooperation among departments of State government.

During the review process the departments presented and defended their offers. Feedback from the buying teams often included recommendations to make the offers more responsive to the objectives of the Governor's seven policy priorities. In many cases the size of offers was reduced. In other cases, where offers from different departments addressed similar objectives, the buying teams urged those making the offers to repackage their proposals on a collaborative basis. In the end many budget offers were not recommended for funding.

Program Proposal

The Tax Credit Tracking and Analysis Program (TCTAP) budget offer incorporated a number of features unique among Iowa State government programs at the time. Foremost it addressed the objective of accountability through measurable results and the analysis of impacts on the State's economy. Second, it recognized the need for collaboration among numerous departments of State government. Third, it identified the need for a comprehensive database that would contain information on both tax credit awards and claims. Finally, it proposed the development of a means for tracking tax credit transfers and tax credit claims made by the owners of pass-through entities (i.e., S-corporations, limited liability companies (LLC), and partnerships).

The Purpose

The primary rationale for making the budget offer for the tax credits program was the recognition of a trend toward funding an increasing array of state initiatives through tax credits rather than through appropriations. Prior to 1980, Iowa offered only one tax credit. Between 1980 and 1989 two more tax credits were created. In the next decade, seven more tax credits were added and since 2000, twenty-nine more tax credits have been enacted.

In tax year 2005, there were twenty-two tax credits that could be taken against the individual income tax in the State of Iowa. These included nonrefundable and refundable investment tax credits that were awarded under four tax credit programs. These also included four tax credits that are considered administrative tax credits because they make state tax law fair to all taxpayers and are not in place to induce any particular behavior.

Of the twenty-two tax credits, only five credits, such as the Earned Income Tax Credit (EITC), were individual line items on the return. This meant that there were seventeen tax credits that could be claimed, but no detail was available about those claims. The only detail available was a sum of eleven “other nonrefundable credits” (including three administrative tax credits) and a sum of six “other refundable credits” (including one administrative tax credit). For the 2005 tax year, the total claims of “other nonrefundable credits” were over $65 million and the “other refundable credits” claims totaled almost $6.6 million dollars.

In addition to individual income tax, many of these tax credits could be claimed against corporate income tax, franchise tax, insurance premium tax, moneys and credits tax, or any other tax type. Although there was some information available about the $45 million of corporate tax credit claims, there were many holes in the available data. There was little to no information on tax credit claims against the other tax types in the State of Iowa.

Along with the number of tax credits, the potential fiscal impact of tax credits has similarly exploded since 2000. From FY 2001 to FY 2007 the amount of tax credit awards increased from $107.7 million to $470.4 million. In FY 2007 if all awarded tax credits could have been immediately claimed they would have equaled over nine percent of Iowa’s General Fund budget.

The Governor recommended and the Legislature approved funding for the Tax Credits Tracking and Analysis Program beginning with FY 2006. The establishment of TCTAP would better identify the impact of tax credit programs on the State's budget and evaluate the effectiveness of these programs in achieving the objectives for which they were created. The budget offer was developed by the Iowa Department of Revenue's Tax Research and Program Analysis Section and most of the administrative responsibilities associated with the program have been assigned to this Section.

Implementation of the Tax Credit Tracking and Analysis Program

Although the appropriation that created the Tax Credits Tracking and Analysis Program designated the Iowa Department of Revenue (IDR) as the lead agency, it was recognized from the beginning that cooperation from many other departments would be required to make the program successful. To facilitate this cooperation an inter-departmental steering committee was established. IDR was represented not only because it was the lead agency, but because it awarded and processed tax credits. Four other State government agencies that awarded tax credits including the Iowa Department of Cultural Affairs, Community Colleges, Iowa Department of Economic Development, and the Iowa Department of Commerce-Utilities Board also comprised part of the committee. The Iowa Department of Commerce-Insurance Division was also included because of its responsibility for approving and processing tax credit claims made on insurance premium tax returns. In addition, the Iowa Department of Education and Iowa Workforce Development were invited to participate due to their control of data that would be useful in evaluating tax credit programs. Since that time, a representative from the Iowa Agricultural Development Authority has been added as the result of a new tax credit program being created.

A facilitated Kaizen event was staged during the fall of 2005 in order to develop a plan for the program, identify existing information and process deficiencies, and better define the roles of the different departments. One major outcome that resulted was the identification of three types of information the program should strive to provide:

- Better information to the members of the State's Revenue Estimating Conference on potential future claims against General Fund revenues that may result from tax credits
- A better understanding of the timing between a tax credit award and its subsequent claim and what amount of awarded tax credits are never claimed
- The impact of tax credits on the State's economy

Other needs identified during the Kaizen include:

- The need to be able to track transferable tax credits
- The need to be able to associate tax credit claims made by individuals back to awards made to pass-through type business entities
- The need to be able to separately identify each tax credit claim, by taxpayer, across all tax types
- The need to establish measures and methods of analysis that will be viewed as appropriate and objective by policy-makers and stakeholders

In order to address these needs, five working groups were created to develop implementation plans. The five working groups included not only members of the steering committee but also other staff from the participating departments with special knowledge essential to creating solutions for the identified needs. The five working groups are:

- Database Design and Development
- Forms Design and Development
- Transfers and Pass-Throughs Tracking
- Prototype Report Development
- Evaluation Methodologies

It was determined that several major technical features would need to be implemented in order to track, analyze and report on future tax credit claims in more detail. These technical features included:

- A Tax Credits Schedule, known as form IA 148
- A Tax Credit Database, known as the Tax Credit Tracking and Analysis System
- Contingent Liabilities Reports
- Evaluation Studies

The tax credit schedule would be attached to all filed tax returns claiming any of the "other" credits and would also contain a certificate number for tax credits that had been awarded. The database would allow for the storage and analysis of the tax credit claim data. Protocols for transferring data between the awarding agency and IDR for the database would also have to be established. It was also going to be necessary to establish not only a way to track awards that had been transferred or issued to a pass-through entity, but also a framework for completing evaluation studies of the various tax credits once data on claims was collected.

The IA 148 Tax Credits Schedule

When developing the IA 148 Tax Credits Schedule it was necessary to start by determining what information regarding tax credit claims needed to be captured in order to fully understand and analyze these tax credit claims. Because over sixty percent of Iowa individual income taxpayers file tax returns electronically, when designing the form it was also necessary to consider the requirements of the software developers who develop tax preparation programs, such as Turbo Tax.

Tax Credit Codes

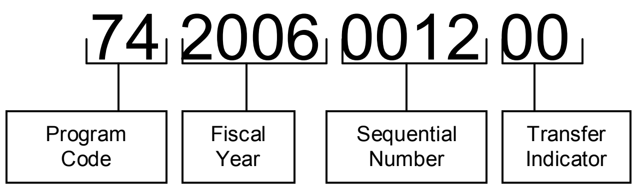
The first piece of information needed about a tax credit claim is the type of tax credit. Therefore a two digit tax credit code was assigned to each tax credit. In the first year, the numbers were assigned by separating the credits into refundable and nonrefundable and then the credits were put in alphabetical order. The two digit code for nonrefundable credits started at "02" and went through "16". The refundable tax credit codes started and "51" and went through "63". In subsequent years, new credits are added to the end of each list and given the next sequential number. If a credit is discontinued, it was decided that the tax credit code would be discontinued as well instead of reassigning that tax credit code to a different tax credit.

The current list of tax credit codes is in the instructions of the IA 148 Tax Credits Schedule which can be found in the appendix. More detail on each of the tax credits can also be found in the Tax Credits User's Manual which is available on the IDR Website at: http://www.state.ia.us/tax/taxlaw/IDRTaxCreditsUsersManual.pdf.

Certificate Numbers

Of the 34 tax credits available on the 2006 individual income tax return, nineteen were credits that are awarded by various agencies to the taxpayer. In order to evaluate the difference between the amount of tax credits awarded and the amount of tax credits claimed, it was also determined that there would need to be a way to tie a tax credit that was awarded to a tax credit that was claimed. For this reason a tax credit certificate numbering system was established. All agencies that award tax credits need to provide the taxpayer with a tax credit certificate (which should be attached to the tax return) that has a certificate number meeting the established certificate number guidelines.

The certificate number is a twelve digit number that contains information about the tax credit program under which the credit was awarded (a program, such as Enterprise Zone, may contain a number of different tax credit types), the fiscal year the award was made, a sequential number, and information about whether the tax credit has been transferred. The certificate number varies slightly for the School Tuition Organization Tax Credit, due to special circumstances which will be discussed later.



As shown above, the first two digits of the certificate number indicate the tax credit program. These numbers are not necessarily the same as the tax credit types specified for claims on the IA 148. Some awarded tax credits are not actually in a program, but those tax credits were issued a program code for the purpose of the certificate number. The second four digits of the twelve digit number are the fiscal year that the award was made. The next four digits are a sequential number, which allows for up to 9,999 tax credits under one program in any fiscal year to be awarded and still have unique certificate numbers. The final two digits will be “00” unless the tax credit has been transferred.

When the last two digits of the certificate number are not “00” it indicates that the tax credit has been transferred. There are currently seven tax credits in the State of Iowa that can be transferred. The transfer of a tax credit typically happens when the taxpayer holding the tax credit feels that they do not have enough tax liability to fully utilize the tax credit before it expires and so they will sell the tax credit to another taxpayer for a cash value that is usually less than the face value of the tax credit. Each time a tax credit is transferred, the last two numbers of the certificate number will increase sequentially starting at “01”.

A taxpayer can sell part of the credit and retain the balance available. In this case, the original certificate number ending in “00” is canceled and two new certificate numbers are issued ending in “01” and “02” with one of the certificates going to the original recipient and the second certificate going to the purchaser. Because the original tax credit certificate must be surrendered when requesting a transfer, all tax credit certificates issued to taxpayers should total the amount of the original tax credit award. It should be noted that a tax credit that is being "passed-through" to an entity's shareholder is not considered a tax credit transfer and that all shareholders should use the same certificate number to claim their portion of the tax credit.

One of the first legislative recommendations made via the TCTAP was to centralize the transfer of tax credits. As a result, during the 2006 legislative session, legislation was passed that centralized the transfer of tax credits within the Department of Revenue. Prior to the legislation, transfers were being handled by the agency that originally awarded the tax credit. By centralizing the transfer process, it ensures that all transfers are processed the same and that proper certificate numbers are issued reflecting the transfer.

The same certificate numbering system is used across almost all awarding agencies. It was necessary to develop a different certificate numbering method for the School Tuition Organization (STO) Tax Credit because the certificate numbers are not issued by a single agency. The STO program is a capped tax credit program and the allocation of credits to each School Tuition Organization is based on student enrollment the previous year. It is then the responsibility of each individual organization to issue their allotment of tax credits to the taxpayers.

It was unrealistic to expect the STOs to stay in constant communication with each other to prevent duplicate certificate numbers from being issued. Therefore, the first six digits of the certificate number are still the two digit tax credit code and the fiscal year of the award, but the next two digits indicate which School Tuition Organization issued the credit. The last four digits are a sequential number, which allows an organization to issue up to 9,999 awards each fiscal year. The revised numbering system was possible because this tax credit cannot be transferred to another taxpayer. The accommodation of the School Tuition Organization Tax Credit illustrates the need for flexibility in devising a tracking system.

IA 148 Sections

During the design of the IA 148 form (see Appendix) we determined that it was necessary to have four sections on the form. One section tracks the nonrefundable tax credit claims and another section tracks the refundable tax credit claims. The third section sums the credit claims from the first two sections, which is necessary for the business taxes because the primary reporting forms for these taxes do not distinguish between refundable and nonrefundable tax credits. A fourth section tracks pass-through information, when applicable.

Excluding withholding tax credits, all but seven of the tax credits can be taken against more than one type of tax. Therefore, it was necessary to develop a form that could be used with all of the different tax types. Of the seven tax credits that can only be taken against one tax type, all of them can only be claimed against the individual income tax.

Part I of the IA 148 needs to be completed in order to claim a nonrefundable tax credit. The information required for each tax credit claim is:

- The two digit tax credit code
- The certificate number for awarded tax credits
- The amount of tax credit that is being carried forward from prior years
- The amount of the current tax year tax credit
- The total tax credit available for this tax year
- The amount of tax credit applied to this tax year
- The amount of tax credit that expires this tax year
- The amount of tax credit being carried forward to the next tax year

For all tax types other than franchise tax and insurance premium tax, the Part I total of all nonrefundable tax credits being claimed is then entered on the corresponding tax return's line for nonrefundable credits, such as line 53 of the 2007 IA 1040 for individual income tax. Requiring all of these details about the claims will allow for a thorough evaluation of tax credits and will eventually be used in helping to determine contingent liabilities.

Part II of the form needs to be completed in order to claim a refundable tax credit. The tax type code, certificate number for awarded tax credits and the amount of the tax credit claim need to be provided. As with the nonrefundable credits, the Part II total of refundable tax credit claims is entered on the corresponding line of all types of tax returns except franchise and insurance premium tax returns.

There is a Part III on the IA 148, which is a total of Parts I and II. This total is entered on the "Other Credits" line of the franchise tax return, the "Credits" line of the corporate income tax return and the "Miscellaneous Credits" line of the insurance premium tax return.

Part IV of the IA 148 requires the taxpayer to provide information about where the tax credit came from if the credit came from a pass-through entity. The information requested in this part includes the name and the FEIN of the entity in addition to the taxpayer's percentage of ownership in the business.

The IA 148 and E-filing

While designing the form it was also necessary to consider the needs of developers of tax preparation software. Most developers are reluctant to add additional forms to their packages unless the forms will be used by a significant number of taxpayers. A consideration that needed to be made was that it was more likely for developers to include a form if it was formatted as a portrait document instead of a landscape format.

In Tax Year 2007, about half of the tax preparation software developers included the IA 148 Tax Credit Schedule in their software packages. In that same year, nearly 72 percent of taxpayers filed their returns electronically and of that 72 percent, 0.83 percent claimed “Other” tax credits compared to 1.49 percent of taxpayers filing paper returns.

Tax Credit Tracking and Analysis System

An integral part of the Tax Credit Tracking and Analysis Program is the Tax Credit Tracking and Analysis System (TCTAS) which is the database used to track tax credit awards made by state agencies and tax credits claimed by taxpayers. In an effort to avoid duplicating information at numerous places within the database, it was decided that three main tables would comprise the backbone of the database (see Figure 1). These tables are the award table, the claim table, and the entity table.

Entity Table

The entity table’s primary key is an entity ID, which is assigned by the Department of Revenue and is based on the taxpayer’s social security number (SSN) or federal employer identification number (FEIN) with a three digit suffix. If an SSN or FEIN is not available then the tax credit certificate number is used instead. The remainder of the fields are the names and addresses of either the individual taxpayer or the contacts associated with a business tax credit award. The geographical location of the project associated with the tax credit is also contained in this table when it differs from the taxpayer contact address. This table exists so that the large fields of taxpayer name and address do not need to be carried on the award and claim data tables.

Award Table

For the award table, each award is assigned a unique identifier referred to as the award ID, which is the primary key. The table includes an award entity ID which ties the record to the information about the taxpayer receiving the award in the entity table. The award table also includes:

- Information about which agency awarded the credit
- The certificate number of the award
- The fiscal year the award was made
- The amount of the tax credit award
- The program under which the award was made
- The type of the tax credit awarded
- The location of the project for which the award was made

The data come from awarding agencies across state government.

In the award table it was necessary to allow for more than one type of tax credit award under a single certificate number as some programs have more than one type of tax credit available. For example, the Enterprise Zone Program has an investment tax credit, a local property tax exemption, a supplemental New Jobs (260E) Tax Credit, which can be taken against withholding taxes, a Housing Assistance Tax Credit, a sales tax refund, a supplemental Research Activities Tax Credit, as well as a refundable investment tax credit for value-added agricultural or biotechnology projects. Keeping track of all components of an award will allow for better analysis of the overall program.

Claim Table

For the claim table, each tax credit claim is assigned a unique identifier referred to as the claim ID, which is the primary key. There is also a claim entity ID which establishes a relationship with the entity table. Also included in the claim table is information about which tax type the credit was claimed against and in which tax year. The taxpayer's SSN or FEIN and the source of the record, either from a paper filed return entered by data entry or from an e-filed return, are also included in the table. The data come from the IA 148 Tax Credits Schedule attached to tax returns filed with IDR.

All the information from the Tax Credits Schedule is also found in the claim table. For nonrefundable tax credits this includes:

- The two digit tax credit code
- The certificate number for awarded tax credits, if applicable
- The amount of tax credit that is being carried forward from prior years
- The amount of the current tax year tax credit
- The total tax credit available for this tax year
- The amount of tax credit applied to this tax year
- The amount of tax credit that expires this tax year
- The amount of tax credit being carried forward to the next tax year

For refundable credits the tax credit type, certificate number, if applicable, and amount of the claim are included in the claim table. The information regarding pass-through entities from Part IV is also included in the table.

Transferring Data to TCTAS

The next challenge was establishing a way for awarding agencies to transfer their award information to the Iowa Department of Revenue (IDR) in a secure manner. This was accomplished with the help of the Technology and Information Management (TIM) Division of the IDR in conjunction with the technology contacts at award issuing agencies.

Each tax credit awarding agency generates an extract file of tax credit awards on a recurring basis. The frequency of the file generation depends on the agency. Most agencies use an HTTPS process to upload their file, which requires the agency to log in to a secure Website in order to transfer their file. IDR also set up a Web service that allows agencies, such as the Iowa Department of Economic Development (DED), to establish an automated file transmission process that transfers their file on a monthly basis. There is also one agency that only has an updated file once a year and so they bring their updated file to the IDR office on a flash drive to be uploaded into the database.

The specifications for the file transfers include:

- Extract files should arrive at IDR in a comma-separated values (CSV) format
- File name should meet established naming conventions so the file can be identified by TIM when it is received by IDR

When the file is imported into the database it will add any new records and make changes to existing awards. If an award is removed from the awarding agency's file, it will continue to exist in the TCTAS so that the record is available for historical evaluation and analysis. A decision has not yet been made to determine if or when records will be purged from the TCTAS.

Processing of a Tax Credit Claim

Starting in tax year 2006, it became a requirement to attach the IA 148 Tax Credit Schedule to a tax return in order to claim any of the "Other Refundable" or "Other Nonrefundable" tax credits. Individual income taxpayers have the option to file their returns either on paper or electronically. All other types of returns using the IA 148 are currently filed on paper. If an individual or corporate income tax return claiming any of these credits is filed on paper, the IA 148 claim information is not captured when the return comes in, but the main tax return information is captured. The capturing of the IA 148 data happens through a different process which will be explained later.

Electronically Filed Returns

Nearly 68 percent of individual income taxpayers filed electronically in 2006 and that percent increased to almost 72 percent in 2007. If a return is filed electronically then the tax credit claim data is automatically captured when the return is filed along with all other tax data. It is necessary for the TIM division to parse the IA 148 data from the rest of the return in order to import the records into the TCTAS Claim Table.

In Tax Years 2006 and 2007 about one percent of taxpayers who claimed "other" tax credits and filed electronically did not file a tax credit schedule. Of that one percent, nearly 70 percent in 2006 and almost 80 percent in 2007 had tax preparers.

Paper Filed Returns

In order to capture the IA 148 data from paper filed returns it is necessary to coordinate the project with the IDR data entry operation manager. Data entry tends to have a lighter work load during July and August, so this is when the majority of the data entry of the IA 148 usually takes place. Individual and corporate income tax returns that have claimed "Other Refundable" or "Other Nonrefundable" tax credits are identified through queries of previously captured tax return data on the IDR system.

These returns are reviewed and the IA 148 schedule is tagged by data entry staff in preparation for entering each of the records on the IA 148. In addition to entering the data from the IA 148, data entry also tags and captures the data from the IA 128 and IA 128A schedules for Research Activities Tax Credit claims, the IA 3468 schedule for Investment Tax Credit claims, and the IA

6478 for Ethanol Blended Gasoline Tax Credit claims. The data from these additional schedules has been gathered to assist in the analysis of these particular tax credits, although an analysis of the Investment Tax Credit has not yet been undertaken.

In order to capture data from the new tax credits schedule, it was necessary to develop a data entry application that would function similarly to the other applications used by the data entry operators and would capture all of the data required for the claim table. Prior to the summer of 2007, TIM worked with data entry staff to develop and test this application for the IA 148 data entry project.

After the initial rounds of data entry in the summer of 2007 (a smaller batch of returns were processed in October 2007) queries were run to determine which paper returns had tax credit claims but no matching IA 148. These returns were reviewed by hand, an IA 148 was created, and the available data was entered into a spreadsheet by the Tax Research Section. The data was imported into the TCTAS database using Excel spreadsheets saved as CSV files. If an electronically filed return is missing an IA 148, there is no action taken at this time.

For the returns that had tax credit claims for which a tax credit type could not be determined, the tax credit code was left empty and these credits are reported as “Unknown.” In going through these returns, tax credit claims were found that were claimed incorrectly, i.e. claiming a valid deduction as an incorrect credit. For these claims, a tax credit code was assigned for “Invalid Claim.” There were also some instances where small claim amounts were incorrectly entered into the IDR system that the taxpayer did not actually claim. These claims were assigned a tax credit code that was designated “Incorrect Claim.”

As mentioned earlier, it is necessary for the IA 148 data to be parsed from the rest of the return data when a return is received electronically. The parsed data from e-filed returns, the data captured from the IA 148 by data entry, and data captured in follow-up work by Tax Research are imported into the claim table in the TCTAS database.

Cleaning the Data

In order to be able to clean the data, it was necessary to create a table that could be edited. This separate table was created so that the original data could be kept and would always be backed up. The claim-verify table started as an exact replica of the claim table, with the exception of an additional verification status field. As the table entries are edited, the empty verification status field is updated with a one, two or three; where one represents a correct original claim, two represents an incorrect original claim, and three represents a corrected claim.

Many steps were taken to clean the IA 148 data. The first step was to review tax credit claims for awarded tax credit programs that have not awarded any credits yet. For example, no tax credits had been awarded for the Renewable Energy Tax Credit for Tax Year 2006, yet some taxpayers claimed the credit. In most cases, the claims had a tax credit certificate number that indicated that the tax credit was actually an Investment Tax Credit awarded by DED under one of the economic development programs to one of the ethanol production facilities in the State of Iowa. In this case, a corrected record was created using the proper tax credit code.

The next step was to verify that the tax credit certificate number matched the type of tax credit that was being claimed. It was assumed that if a valid tax credit certificate number was given, the credit indicated by the certificate number should be the tax credit being claimed. For example, if a valid tax credit certificate number started with “23” (Endow Iowa Tax Credit) and the taxpayer reported on the IA 148 that the credit was a tax credit code “02” (Economic Development Region Revolving Fund Tax Credit), a corrected record would be created using the valid certificate number and changing the tax credit code to “03” (Endow Iowa Tax Credit).

Another step taken was to fill in missing tax credit certificate numbers for tax credit claims. This was done in cases where taxpayers provided additional information about their tax credit claim. In some cases, a taxpayer would claim a School Tuition Organization Tax Credit using the tax credit code, but not include the certificate number. In this situation it was possible to obtain the tax credit certificate number from the award table using the taxpayer’s SSN. In other cases, the taxpayer would provide information about the pass-through entity and if only one award was made to that entity, the certificate number of that award would be entered into a corrected record.

For the nonrefundable tax credits, the data was cleaned further by making sure that the sum of a tax credit that was carried forward and the current year award totaled the amount in the “Total Credit Available” field of the IA 148. A check was also done to make sure that the sum of the credit claimed, the credit expired and the credit carried forward to the next tax year also equaled the “Total Credit Available.” In cases where the numbers did not match, it was necessary to determine the cause for the discrepancy, which was often a number being transposed or accidentally being double entered in one of the fields.

Another step of cleaning the data that pertained only to the nonrefundable tax credits was to determine which of the tax credits did not allow credit carry forward and then to make sure taxpayers were following those rules. This applied to only the Franchise Tax Credit and the S-Corporation Apportionment Tax Credit. If taxpayers had included credit carry forward in the “Total Amount Available” for the current tax year, the amount carried forward was subtracted from the amount available. If a taxpayer carried forward any unused credit, that carry forward was zeroed out on the corrected record.

The last step of cleaning done was to sum up the nonrefundable tax credit claims for each taxpayer and make sure that the sum was equal to the total nonrefundable claims on Part I of the IA 148. The same was done for refundable credits, making sure that they summed to equal the Part II total. In some cases, the reason the sum of claims did not match the total claimed was because the taxpayer had filed an amended return and their IA 148 data had been entered twice. If this was the situation, the IA 148 attached to the amended return was kept in the data set and the original record was set to a verification status of "2."

2006 Individual Income Tax Credit Claim Statistics

In Tax Year 2006, there were 16,101 nonrefundable tax credit claims totaling $89.6 million made by individual income tax filers. Claims were made using eleven different tax credit types. Nearly $62 million, or 69.2 percent, of the total tax credit claims were claiming one of the three nonrefundable administrative tax credits offered in the State of Iowa. Of the eight remaining tax credit types against which tax credit were claimed, the two most claimed tax credits are the Investment Tax Credit, which was 22.6 percent of total claims, and the School Tuition Organization Tax Credit at 2.4 percent of total tax credit claims.

The minimum claim for taxpayers with nonrefundable tax credits was $0, in cases where a taxpayer had credits but no tax liability to apply the credit against. The maximum claim for a single tax credit was $5.9 million. The average claim per tax credit was $5,564. The most nonrefundable tax credits claimed by one taxpayer was $6.7 million.

In the same tax year, there were 2,214 refundable tax credit claims made against the individual income tax; those claims totaled $7.3 million. These claims were made using ten different tax credit types. The largest percentage of dollars claimed were Research Activities Tax Credits (RAC) with 41.3 percent. Close behind with 32.1 percent of individual refundable tax credit claims were Ethanol Blended Gasoline Tax Credits (EBGC). While the total amount of claims was higher for the RAC, almost 40 more taxpayers claimed the EBGC.

2006 Corporate, Franchise and Insurance Premium Tax Claim Statistics

The tax credit claim data for the 2006 corporate income tax year is still incomplete. This is because the filing of these returns can be delayed as long as 21 months following the end of a calendar year depending on which month the corporation chooses to begin their fiscal year and whether or not they take advantage of the automatic six month filing extension. Therefore, those tax credit claims will not be reported here. Due to the delay of being able to get the data entered from the IA 148, it will likely be the summer of 2009 before the complete 2006 corporate income tax credit claim information is available.

In 2006, there were 17 tax credit claims made against the franchise tax, a tax paid by banks located in the State of Iowa. These claims totaled just over $700,000. These claims were made using four different tax credit programs. 77.5 percent of the claims were made using the Historic Preservation Tax Credit, which is a transferable tax credit. The average claim was almost $42,200 with the largest individual claim being $270,000 and the smallest claim being $94. The most tax credits claimed by a single taxpayer totaled $398,000.

In the same year, there were 13 tax credit claims, totaling nearly $3.3 million, made against the insurance premium tax, a tax imposed on the premiums of every insurance company except fraternal beneficiary associations. These claims were made using six different types of tax credits. The majority of the claims against this tax type, 83.6 percent, were claimed using the Enterprise Zone – Housing Investment Tax Credit. The smallest claim made by an insurance company was $113 and the largest individual claim made was just over $750,000. The most tax credits claimed by one taxpayer was almost $2 million.

Excluding corporate income tax claims, 95.7 percent of tax credit dollars were claimed against individual income tax in tax year 2006. Insurance premium tax accounted for 3.5 percent and franchise tax accounted for nearly one percent of total tax credit claims in 2006.

Reports

As part of the TCTAP, it was determined that status reports, contingent liability reports and evaluation studies would be generated. Status reports would detail the awarding and usage of tax credits, by tax credit type. Initially these reports will have to be generated by IDR, but it is hoped that in time, the awarding agencies will be able to create their own reports. These reports are being issued upon request by the awarding agency.

Contingent Liability Reports

Contingent liabilities reports are provided to the Revenue Estimating Conference, the three-person panel responsible for state revenue forecasts, to help project the usage of tax credits as well as provide historical data on tax credit claims. This report has been issued quarterly since December 2006. Each report that has been released can be found on the IDR Website at http://www.state.ia.us/tax/taxlaw/creditstudy.html#Con.

Evaluation Studies

The purpose of evaluation studies is to assess the effectiveness of existing tax credit programs and to attempt to determine if a tax credit is achieving its intended purpose. Each evaluation study is comprised of some similar components. The first of these components is an assessment of what other states are doing with regard to the same type of tax credits. A literature review of existing research on the topic is also a part of each study. If the information is available, statistics regarding the amount of tax credits awarded and claimed is included as well. In addition, policy alternatives are presented with the estimated fiscal impact of each of the alternatives.

To ensure that the evaluation studies cover all relevant issues, are objective, and use appropriate methods of analysis, an advisory committee is established for each study. The committee is comprised of individuals from outside IDR that have knowledge of the topic being evaluated. The advisory committee also makes sure that the results of the study are presented clearly.

Once an evaluation study is completed, the results are presented to members of the Iowa Legislature. Depending on the topic of the evaluation study, the report may be presented to several different committees of the House and Senate. To date, two evaluation studies have been completed. These evaluations looked at the Earned Income Tax Credit and the Research Activities Tax Credit. Both of the evaluation studies can be found on the IDR Website at http://www.state.ia.us/tax/taxlaw/creditstudy.html#Evaluation.

The EITC evaluation study was presented during the 2007 legislative session. As a result of information provided by the study, the legislature elected to increase the percentage of the credit in the State of Iowa from 6.5 percent of the federal EITC to 7.0 percent and the credit was also changed from a nonrefundable credit to a refundable credit in order to further benefit low income taxpayers.

Another result of the EITC evaluation study is that the Iowa Department of Revenue has been working with the Iowa Department of Human Services to determine the amount of EITC claims made by families receiving assistance from the Family Investment Program (FIP), which is the Iowa version of Temporary Assistance to Needy Families (TANF). This information is used as documentation for part of Iowa's federal maintenance of effort requirement.

During the 2008 legislative session, the evaluation study of the RAC was presented. The study generated much discussion about alternative ways to encourage research and development in the State at a reduced fiscal impact to the budget. While no changes were made to the tax credit during the session, the topic will likely be brought up again in future sessions.

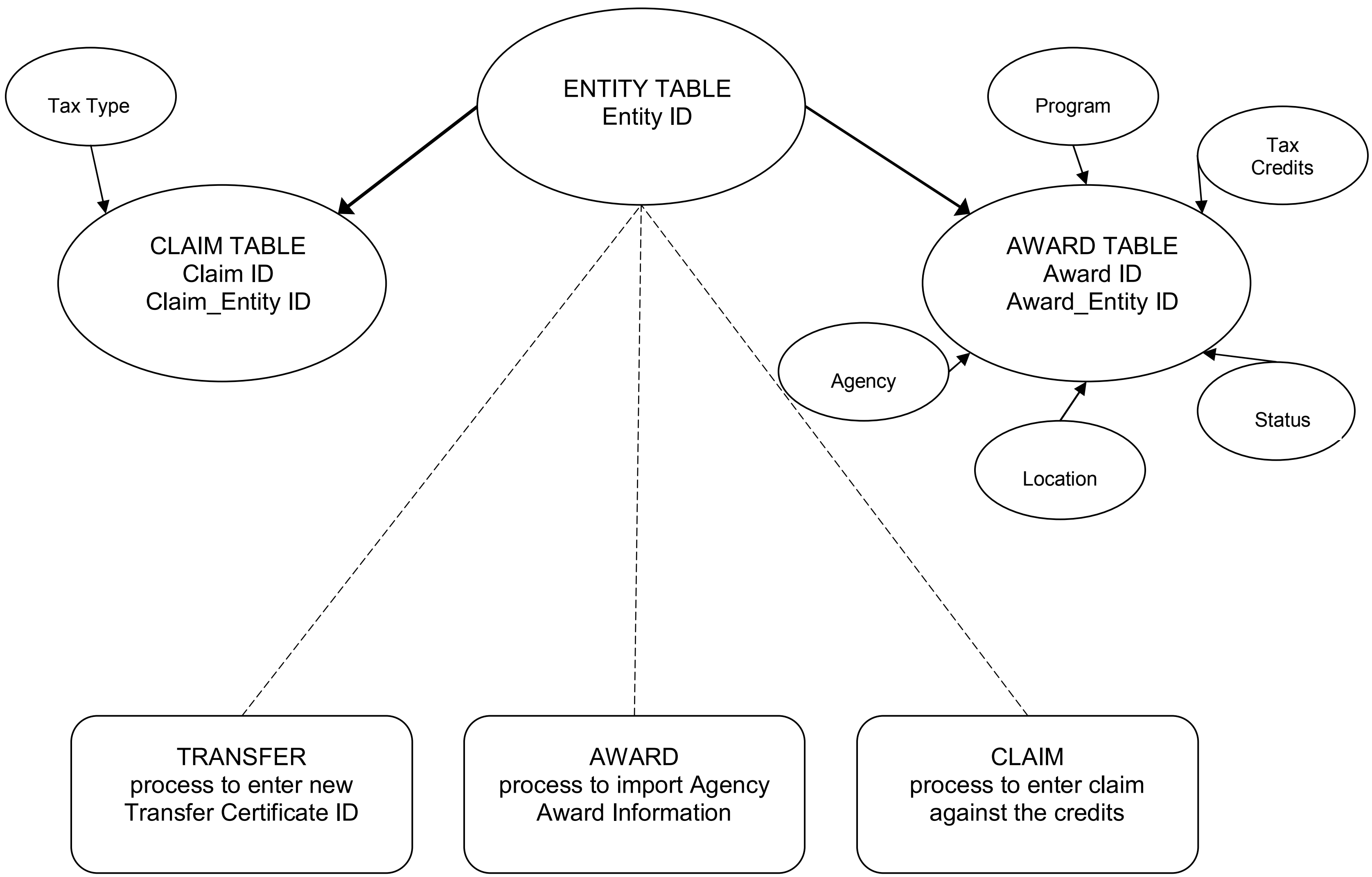
Evaluation studies of the Historic Preservation and Cultural and Entertainment District Tax Credit and various biofuels tax credits for both producers and retailers are currently underway. It is hoped that these evaluations will be completed before the end of the upcoming legislative session.

Future Projects

In the future, it is expected that the data collected from the IA 148 will be used by the Compliance Division in an effort to recover tax credits that were incorrectly claimed by taxpayers. While it is difficult to determine the exact impact of using this data, there was over $52,000 of nonrefundable tax credit claims and nearly $16,000 of refundable tax credit claims that were determined to be invalid for the 2006 tax year. While this isn't an extremely large amount of dollars, the number of tax credit claims and programs grows each year which increases the likelihood of errors made by taxpayers.

In addition to working with the Compliance Division, it is hoped that the evaluation methodologies for completing the evaluation studies will be further developed and improved upon. This will happen through the working group, mentioned earlier, that was established to assess the evaluation methodologies being used in the evaluation studies. Methodologies will also likely improve as more research is done on different tax credit programs.

Figure 1: Database Relationship Diagram



Iowa Department of Revenue
www.state.ia.us/tax

2008 IA 148 Tax Credits Schedule

Name(s)	Taxpayer Identification Number (SSN or FEIN)

Part I — Nonrefundable Credits

	A Tax Credit Code (see instr.)	B Certificate Number (if applicable)	C Amount Carried Forward From Prior Years	D Current Year Amount (earned by taxpayer or received from pass-through entity)	E Total Credit Available (C+D=E)	F Amount Applied Current Year (may not exceed total tax liability)	G Expired Credit Amount	H Amount Carried Forward to Future Years (E-F-G=H)
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

Part I Total (Sum of column F; enter amount on line 53 of IA 1040, line 10 of IA 1040C, or line 2 of schedule C1 of IA 1120 or line 13 of IA 1120A)

Part II — Refundable Credits

	I Tax Credit Code (see instr.)	J Certificate Number (if applicable)	K Current Year Amount (earned by taxpayer or received from pass-through entity)
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Part II Total (Sum of column K; enter amount on line 66 of IA 1040, line 14 of IA 1040C, or line 3 of schedule C1 of IA 1120 or line 14 of IA 1120A)

Part III — Total Credits

(Does not apply to individual income tax)

(Sum of Totals Part I and Part II; enter amount on line 17 of IA 1120F, line 30 of IA 1041, or the miscellaneous line of the Iowa Insurance Premium Tax Return)

Part IV — Pass -Through Entity Schedule

L Line Number from Part I or Part II Above	M Pass-Through Entity Name	N Pass-Through Entity Federal ID Number	O Taxpayer's Percentage Share of Credit Earned by Pass-Through Entity

Instructions for IA 148 Tax Credits Schedule

Attach the Tax Credits Schedule to the tax return on which tax credits are being claimed. The Tax Credits Schedule is used to claim tax credits against individual income tax, fiduciary income tax, corporation income tax, franchise tax, and insurance premium tax liabilities. Each credit should be entered on a separate line. Also, a separate line should be used for each unique tax credit certificate number.

Part I: Nonrefundable Tax Credits

Column A: Enter the tax credit code from the table below for the credit claimed on each line.

- 02 Economic Development Region Revolving Fund Credit
- 03 Endow Iowa Credit
- 04 Franchise Tax Credit (refer to worksheet IA 147)
- 06 Housing Investment Tax Credit
- 07 Investment Tax Credit (attach form IA 3468)
- 08 Iowa New Jobs Credit (attach form IA 133)
- 09 Minimum Tax Credit (attach form IA 8801 to IA 1040 and IA 1041; or form IA 8827 to IA 1120)
- 10 Renewable Energy Credit (476C)
- 11 S Corporation Apportionment Credit (attach form IA 134)
- 12 School Tuition Organization Credit
- 13 Venture Capital Credit-Fund of Funds
- 14 Venture Capital Credit-Qualified Business or Seed Capital Fund
- 15 Venture Capital Credit-Venture Capital Funds
- 16 Wind Energy Production Credit (476B)
- 17 Agricultural Assets Transfer Credit
- 18 Film Expenditure Tax Credit
- 19 Film Investment Tax Credit
- 20 Charitable Conservation Contribution Tax Credit

Column B: Enter the tax credit certificate number received from the agency or organization that awarded the tax credit. Tax credits awarded before July 2006 may not have a certificate number. Several credits do not require the award of a tax credit certificate and/or number from an agency or organization. The following nonrefundable credits do not require a certificate number: charitable conservation contribution, franchise tax credit, minimum tax credit, and S corporation apportionment credit. If the tax credit certificate does not have a certificate number, leave blank. For non-awarded credits, leave blank.

Column C: Enter any amount carried forward from previous tax years for each of the credits being claimed.

Column D: Enter the total amount of credit you earned directly or received from a pass-through entity (see definition of pass-through entity in instructions for Part IV) during the current tax year. The instructions for column A indicate if a credit requires a separate form. If the credit you are claiming lists a form number, please attach that form to your tax return. If a credit is received from a pass-through entity, Part IV must also be completed for the credit.

Column E: Add column C to column D and enter total in column E.

Column F: Enter the amount of each credit being applied to the current tax year. If credits available (the sum of column F) exceed total liability (line 52 of the IA 1040 for individual income tax), credits are to be claimed in the order provided in Iowa Administrative Rule 701-42.23 for individual income tax and fiduciary income tax and Iowa Administrative Rule 701-52.12 for corporation income tax, franchise tax, and insurance premiums tax. (To view the text of these rules, go to www.legis.state.ia.us/ACO/IAChtml/701.htm and scroll down to 42.23 or 52.12). The total of column F may not exceed total tax liability.

Column G: If the entire credit is not claimed by the end of the carryforward period, the remaining credit expires. Enter the amount of any credit that has expired.

Column H: Enter the amount from column E less any amount from column F and/or column G.

Part II: Refundable Tax Credits.

Column I: Enter the tax credit code from the table below for the credit claimed on each line.

- 51 Assistive Device Credit
- 52 Biodiesel Blended Fuel Credit (attach form IA 8864)
- 53 Claim of Right Credit
- 54 Ethanol Blended Gasoline Credit (attach form IA 6478)
- 55 E85 Gasoline Promotion Credit (attach form IA 135)
- 56 Historic Preservation Credit
- 57 Refundable Investment Tax Credit (attach form IA 3468)
- 58 Research Activities Credit (attach form IA 128 or Form IA 128A)
- 59 Supplemental Research Activities Credit (attach form IA 128 or form IA 128A)
- 61 Soy-Based Transformer Fluid Credit
- 62 Third Party Sales Tax Credit
- 63 Wage-Benefit Credit
- 64 Ethanol Promotion Credit (attach form IA 137)

Column J: Enter the tax credit certificate number received from the agency or organization that awarded the tax credit. Tax credits awarded before July 2006 may not have a certificate number. Several credits do not require the award of a tax credit certificate and/or number from an agency or organization. The following refundable credits do not require a certificate number: biodiesel blended fuel credit, claim of right credit, E85 gasoline promotion credit, ethanol blended gasoline credit, ethanol promotion credit, and research activities credit (if not doubled under an Iowa Department of Economic Development program). If the tax credit certificate does not have a number, leave blank. For non-awarded credits, leave blank.

Column K: Enter the total amount of credit you earned directly or received from a pass-through entity (see definition of pass-through entity in instructions for Part IV) during the current tax year. The instructions for column I indicate if a credit requires a separate form. If the credit you are claiming lists a form number, please attach that form to your tax return. If a credit is received from a pass-through entity, Part IV must also be completed for the credit.

Part III: Total Credits

Enter the sum of the total boxes for Part I and Part II. This total is entered on line 17 of IA 1120F, line 30 of IA 1041 or the miscellaneous line of the Iowa Insurance Premium Tax Return.

Part IV: Pass-Through Entity Schedule

Businesses that are organized as pass-through entities (such as partnerships, limited liability companies, cooperatives, S corporations, etc.) earn tax credits at the business level, but the credits are claimed by individuals and businesses that are members of the ownership group. For each line in Part I or Part II with a credit received from a pass-through entity, complete a corresponding line in Part IV to indicate the source of the credits. Part IV does not have to be completed for individuals claiming the S corporation apportionment credit.

Column L: Enter the line number from Part I or Part II that includes credits received from a pass-through entity. This includes any carryforward (column C) claimed from credits received in prior years from a pass-through entity.

Column M: Enter the name of the pass-through entity from which credits were received.

Column N: Enter the Federal Employer Identification Number (FEIN) of the pass-through entity from which credits were received. This FEIN should be the same number provided to the awarding agency or organization. It also should be the same FEIN used to complete any required information returns (such as form IA 1065 and Schedule K-1 for partnerships).

Column O: Enter the percentage share of credits earned by the pass-through entity that you are claiming. Enter the percentage with one decimal place.

Special Instructions

Related to Individual Income and Fiduciary Tax:

Individuals using filing status 3 (married filing separately on this combined return) must complete a separate form IA 148 for each spouse with credits to claim.

The list of credits included in the instructions for column A and column I include tax credits for all types of taxpayers. In 2008, individuals are allowed to claim all credits except the third party sales tax credit. All credits except the third party sales tax credit may also be claimed on fiduciary tax returns.

Related to Corporate Income Tax:

The list of credits included in the instructions for column A and column I include tax credits for all types of taxpayers. All of the credits except the claim of right credit, S corporation apportionment credit, and school tuition organization credit are allowed to be claimed on corporate income tax returns.

Related to Franchise Tax:

The list of credits included in the instructions for column A and column I include tax credits for all types of taxpayers. The following nonrefundable credits may be claimed against the franchise tax: economic development region revolving fund credit, endow Iowa credit, housing investment tax credit, investment tax credit, renewable energy credit, venture capital credit-fund of funds, venture capital credit-qualified business or seed capital fund, venture capital credit-venture capital funds, wind energy production credit, film production tax credit, and film investment tax credit. The following refundable credits may be claimed against the franchise tax: historic preservation credit, refundable investment tax credit, third party sales tax credit, and wage-benefit tax credit. The minimum tax credit is reported on line 16 of the IA 1120F and will not appear on the IA 148.

Related to Insurance Premium Tax:

The list of credits included in the instructions for column A and column I include tax credits for all types of taxpayers. The following nonrefundable credits may be claimed against the insurance premium tax: economic development region revolving fund credit, endow Iowa credit, housing investment tax credit, investment tax credit, renewable energy credit, venture capital credit-fund of funds, venture capital credit-qualified business or seed capital fund, venture capital credit-venture capital funds, wind energy production credit, film production tax credit, and film investment tax credit. The following refundable credits may be claimed against the insurance premium tax: historic preservation credit, refundable investment tax credit, third party sales tax credit, and wage-benefit tax credit.