

January 3, 2022

Clara Wulfsen
Iowa Department of Revenue
Hoover State Office Building
Des Moines, IA 50319

Dear Clara,

This note presents a fiscal estimate for a proposal that would change the tax rate of the top income bracket for Iowa corporation income taxpayers starting in 2023.

Estimate for Corporation Income Tax Changes

Current Law. Under current law, corporation income tax rates will be as indicated in Table A.

Table A. Corporation Income Tax Rates Under Current Law

Tax Brackets	Current Law
\$1 - \$25,000	5.5%
\$25,001 - \$100,000	5.5%
\$100,001 - \$250,000	9.0%
\$250,001 and Above	9.8%

Proposed Changes. Under the proposal, corporation income tax rates would be imposed as under current law, except that rates would be subject to a phased-in reduction. The reduction of corporation income tax rates would be subject to actual net corporation income tax receipts (i.e., receipts net refunds). The reduction would be effective beginning tax year 2023 based on FY2022 revenues. The reduction would operate as follows:

1. For every fiscal year in which net corporation income tax receipts exceed \$700 million, at the close of any fiscal year, the top corporation income tax rate is reduced in the tax year that begins following the close of that fiscal year; the top rate is reduced by the percentage of \$700 million represented by the amount by which net receipts exceed \$700 million. For example, assume that after the close of fiscal year 2022 net corporation income tax receipts are \$820 million and thus exceed \$700 million by \$120 million. Because \$120 million is equal to 17.1 percent of \$700 million, under this proposal, the top corporation income tax rate of 9.8 percent would be reduced by 17.1 percent in tax year 2023. That is, the top tax rate would be reduced by 17.1 percent of 9.8 percent. This equates to 1.7 percentage point. Thus, in this example, the top rate would be reduced to (9.8% - 1.7%=) 8.1 percent.
2. It is assumed that the top corporation income tax rate would be reduced by the method described above until it reached 5.5 percent, but not lower.

Assumptions:

Tax impacts from reducing the top rate are mostly realized in the fiscal year after the tax year when the top rate is reduced based on historic relationships between tax liabilities and State fiscal year receipts and refunds.

Based on the revenue forecasts made by the Department for the December REC, under current law, the estimated net corporation income tax receipts are as follows:

Table B. Estimated Net Corporation Income Tax Receipts Under Current Law

FY	Estimated Net Corporation Income Tax Receipts (\$ Million)	Estimated Revenue in Excess of \$700 Million (\$ Million)
2022	\$723.2	\$23.2
2023	\$747.5	\$47.5
2024	\$733.9	\$33.9
2025	\$752.3	\$52.3
2026	\$797.3	\$97.3
2027	\$777.6	\$77.6

Under the proposal, the top marginal corporation income tax rates are shown in Table C.

Table C. Corporation Income Tax Rates Under the Proposal

Tax Brackets	Tax Rates Under Proposal			
	TY 2021 - 2022	TY 2023	TY 2024 - 2026	TY 2027 and Later
\$1 - \$25,000	5.5%	5.5%	5.5%	5.5%
\$25,001 - \$100,000	5.5%	5.5%	5.5%	5.5%
\$100,001 - \$250,000	9.0%	9.0%	8.9%	8.8%
\$250,001 and Above	9.8%	9.5%	8.9%	8.8%

Corporation Income Tax Micro Model

This analysis employs the IDR corporation income tax model using tax returns filed for form years 1990 through 2019 as prepared for the 2022 Legislative session. Tax liability for each return is forecasted for future years using economic growth projections for income, adjustments, and tax credits. The growth forecasts are based on external economic models using data primarily from Moody's Analytics. Projections do not assume any specific unusual growth or recessionary periods. The model uses the historic relationships between tax liabilities and State fiscal year

receipts and refunds to translate form year tax liability changes into State fiscal year revenue changes.

The estimated fiscal impacts of the tax rate reduction are presented in Table 1. It is estimated to reduce corporation income tax revenue by \$28.1 million in TY 2023, \$85.3 million in TY 2024, \$87.4 million in TY 2025, \$89.7 million in TY 2026, and \$102.3 million in TY 2027.

Based on the revenue forecasts made by the Department for the December REC, under the proposal, the estimated net corporation income tax receipts are as follows:

Table D. Estimated Net Corporation Income Tax Receipts Under the Proposal

FY	Estimated Net Corporation Income Tax Receipts (\$ Million)	Estimated Revenue in Excess of \$700 Million (\$ Million)
2022	\$723.2	\$23.2
2023	\$740.9	\$40.9
2024	\$695.7	\$0.0
2025	\$672.3	\$0.0
2026	\$709.1	\$9.1
2027	\$688.2	\$0.0

General Fund Fiscal Impacts

The fiscal estimate of the proposal on the General Fund is presented in Table 2. It is estimated to reduce General Fund by \$6.5 million in FY 2023, \$38.2 million in FY 2024, \$80.0 million in FY 2025, \$88.2 million in FY 2026, and \$89.4 million in FY 2027.

If you have any questions regarding this estimate, please contact me at 314-7007 or Tony Girardi at 240-8417.

Sincerely,

Zhong Jin
Senior Fiscal & Policy Analyst

cc: Robin Anderson, Tony Girardi

Table 1. Estimated Fiscal Impacts for Corporation Income Tax

Proposal includes a new tax rate table.

Tax Liability Compared to Current Law					
Form Year	Change	Percentage Change			
2023	-\$28,077,516	-3.16%			
2024	-\$85,330,435	-9.52%			
2025	-\$87,441,248	-9.53%			
2026	-\$89,688,677	-9.55%			
2027	-\$102,311,622	-10.64%			

Changes from Current Law					
State Fiscal Year	Payments	Refunds	Net Cash Change	Percentage Change	Change to Credits Carried Forward
2023	-\$6,545,159	-\$24,857	-\$6,520,301	-0.74%	-\$1,836,652
2024	-\$38,903,451	-\$737,181	-\$38,166,270	-4.25%	-\$10,917,339
2025	-\$84,323,927	-\$4,364,485	-\$79,959,442	-8.89%	-\$23,664,472
2026	-\$99,413,181	-\$11,167,456	-\$88,245,725	-9.61%	-\$27,899,178
2027	-\$105,690,180	-\$16,310,188	-\$89,379,992	-9.50%	-\$29,661,211

Analysis using data from form years 1990-2019, available as of December 2021.

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The model uses relationships between tax liability and State fiscal year receipts and refunds to translate form year liability changes into State fiscal revenue changes.

Table 2. Estimated Fiscal Impacts on General Fund

FY	Impact on the General Fund (\$ Million)
2023	-\$6.5
2024	-\$38.2
2025	-\$80.0
2026	-\$88.2
2027	-\$89.4