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## HOUSE REPUBLICAN STAFF ANALYSIS

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Bill: Senate File 209  
Committee: Appropriations / Ways and Means  
Date: February 28, 2011  
Staff: Lon Anderson (1-5184) and Dustin Blythe (1-3452)

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### Coupling / Supplementals for FY 2011

Senate File 209 is a combination bill that includes coupling with the federal tax code and supplemental appropriations for FY 2011. The coupling reduces state revenue by \$256 million over three fiscal years and provides for \$45.7 million of supplemental appropriations for Fiscal Year 2011.

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### Division-by-Division Analysis

**Division I. Internal Revenue Code References.** Conforms (couples) Iowa tax law to incorporate federal changes enacted between January 1, 2008, and January 1, 2011.

- The revisions do not apply to the 2008 and 2009 tax years.
- Incorporates changes made by Congress in 2008-2010. Changes include the repeal of the limitation of itemized deductions, expands the earned income tax credit, child and dependent care credit, maintains student loan interest deduction, and increases limits on Section 179 expensing.

**Division II. Research Activities Credit.** Updates Iowa Code references relating to the State Research Activities Tax Credit to incorporate recent changes to the federal research tax credit.

- Removes references to the alternative incremental research activities credit. The incremental tax credit was repealed for federal tax purposes and is no longer available. Replaces it with the alternate simplified credit.

**Division III. Bonus Depreciation.** Updates Iowa tax law to incorporate enhanced business depreciation schedules allowed under federal law beginning in tax year 2011.

- The depreciation schedules are for Section 179 expensing and bonus depreciation

*Note: Bonus depreciation allows a business to claim an enhanced or bonus tax deduction for depreciation on the cost of new equipment purchases, rather than depreciating the full cost gradually.*

**Division IV. Earned Income Tax Credit.** The earned income tax credit is increased from the current level of 7% of the federal credit, to 10% of the federal credit.

- Applies retroactively to January 1, 2011, for tax years beginning on or after that date.

<b><u>Fiscal Impact of SF 209.</u></b> <i>(In millions)</i>	FY11 (47.7)	FY12 (152.1)	FY13 (56.7)	3-Year Total (\$256.5 million)
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**Division V. Supplemental Appropriations for FY 2011.** The division provides for four supplemental appropriations for a total of \$45.7 million as follows:

- \$5.9 million for the community colleges to restore Governor Culver’s cut
- \$14.2 million for the Department of Corrections (prisons, CBCs and central office) to restore Governor Culver’s cut
- \$18.6 million for public defender and indigent defense to make up for the underfunding used by the Democrats to balance the budget in FY 2011
- \$2.96 million for the Department of Public Safety to restore Governor Culver’s cuts with \$2 million going to the Iowa State Patrol, the rest going to administration, Narcotics Enforcement, DCI and the State Fire Marshal’s Office
- \$1.2 million for the Department of Public Health to restore Governor Culver’s cuts to addictive disorders, community capacity, healthy aging, healthy children & families and infectious diseases
- \$2.64 million to the Department of Human Services to restore Governor Culver’s cuts to the mental health institutions
- Allows the Department of Revenue to use previously appropriated funds for tax processing

*Note: this division does not contain any funding for the mental health waiting lists.*

**Division VI. Corrective Provision to a Prior Appropriation.** This corrects the appropriation for Terrace Hill. *(This was originally in HF 45.)*

**Division VII. Iowa Communications Network Grant.** This division allows the ICN to obtain a \$16 million grant from the federal government. This will make the network more attractive in a potential sale or lease option, which is contained in HF 45.

## **H-1093 -- Ways and Means Committee Amendment Analysis**

Operations 1 & 2 Allows individuals to couple with the federal tax code starting in for 2010.

Operations 3 & 4 Allows corporations to couple with the federal tax code starting in 2010.

Operation 5 Leaves the Earned Income Tax Credit at 7% (not the 10 percent SF 209 proposed.)

### **Fiscal Impact of SF 209 – including Ways and Means Committee Amendment:**

FY11 (103.4)	FY12 (179.4)	FY13 (28.4)	3-Year Total (\$311.2 million)
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## **H-1097 -- Appropriations Committee Amendment Analysis**

Committee Amendment – Appropriations Committee amendment adds the following items from HF 45:

- Creation of the Tax Relief Fund to capture the surplus from the ending balance
- Establishment of a minimum health insurance premium of \$100 for all state employees
- Requires the Revenue Estimating Conference to set a growth rate for FY 2013 at next meeting
- Prohibits DNR from purchasing land through the end of FY 2011, cuts REAP by same amount
- Appropriates \$25 million for mental health and repeals the current system as of July 1, 2012