

Business Property Tax Credit Conversion to Business Property Tax Partial Rollback Reduction

Legislative History



SF 295 made several significant changes to the property tax system in Iowa.



One component included the creation of Business Property Tax Credit (BPTC).



Any commercial, industrial or railway property owner to request a credit to their property taxes on a portion of their assessed valuation (typically toward taxes due on up to the first \$224,000 of valuation per eligible property).



This functioned like the Homestead Credit in that if the state were to not fully fund the credit, or the state appropriation was insufficient to provide all applicants the full benefit, their credit was pro-rated. In those instances, business owners still received a credit, but less than the full amount. Local Government budgets were not impacted.



HF 2552, passed during the 2022 Legislative Session, converted the previous BPTC into a permanent and automatic rollback reduction on the first \$150,000 of property tax valuation for all commercial, industrial and rail property owners. The legislation also removed the application process to request a credit and it will now be applied automatically to all eligible properties.

What does the rollback mean?

The rollback is the percentage of assessed property valuation that tax is applied on. In other words, the total assessed value multiplied by the rollback percentage will yield the taxable value.



The reduced rollback rate on this portion of value will match that of residential property each year (currently 54.13% for FY2023). The remainder of value of eligible properties will be taxed at the current rate for their classification (currently fixed at 90% for the eligible property classes).



Independently, this rollback would result in a fiscal impact on local government budgets by reducing revenues or shifting the tax burden to residential properties.



To make up for this loss, a standing appropriation of up to \$125M annually was created. Original Legislative Services Agency (LSA) estimates indicated this amount would be sufficient to cover the change through FY2030.

However, in early 2024, the League was advised that the appropriation would not be sufficient beginning with FY2025. See page 2 for more information.

If the state fails to increase the standing appropriation, or does not maintain the appropriation, the result will be a loss of revenue or shift of the tax burden to residential properties.



Future growth in the number of eligible properties, and the unknown number of properties that do not currently apply for the BPTC are variables in this calculation. The result will be reductions to local revenues and likely shifts to residential taxpayers.

*The LSA Fiscal Note can be found here.

A shortfall in the reimbursement to local governments is expected, beginning in fiscal year 2025 (FY2025).



Why?

Before the BPTC was converted into a 2-tier business property rollback structure, the “break” offered to businesses was prorated if not fully funded. This functioned in a similar way as the Homestead Credit. When it was restructured to a 2-tier rollback structure, the intent was to make local governments whole by making the \$125M appropriation available to “reimburse” losses to local governments while offering the full reduction to business property owners.

The \$125M state appropriation was originally expected to “reimburse” the full amount of losses until FY2030, according to LSA analysis at the time. However, valuation trends, business growth, new businesses, and significant market changes and their impact on rollback rates for the first up-to \$150,000 in value made the gap bigger and earlier than anticipated.

In January 2024, the state provided cities with a tool to help them estimate the reimbursement as they finalize their FY25 budgets.



This tool estimated that cities would receive approximately 71% of the amount that would have been necessary to reimburse the difference created by this change.

If this estimate held, this would be a loss of about \$50M to local governments (combined) for FY2025. The state and the League advise that these are estimates only; however, the League advises cities to be prepared for a reduction beginning in FY25.

Note: the state reimbursement (or backfill) related to this issue is different than the backfill that is being phased out that related to prior legislative change for taxation of business type properties.