

Business Property Tax Credit Conversion to Business Property Tax Partial Rollback

Iowa League of Cities
January 2023



BPTC Conversion to Business Property Tax Partial Rollback Reduction

HF 2552
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 has been created. Legislative Services Agency (LSA) estimates say that by FY2030, the \$125M amount will not be sufficient to cover the total cost of the program. 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.

Iowa League of Cities' Research Page

<https://iowaleague.org/resources/research/>

*The LSA Fiscal Note can be found here.

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- Replaced BPTC to a permanent & partial property tax rollback reduction on business properties
- The first \$150,000 taxable value of eligible business properties to be taxed at residential rollback rate
 - 56.4919% for FY24*
- Remaining taxable value of business properties over \$150,000 taxed at 90%*

*The LSA Fiscal Note can be found here.

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- State appropriation of up to \$125M annually to “backfill” this revenue reduction to local governments.
- If \$125M appropriation is insufficient to cover reductions, local government revenues are reduced.
- LSA estimated FY2029 as a ballpark for when this gap may begin to occur*

*The LSA Fiscal Note can be found here.

BPTC Conversion to Business Property Tax Partial Rollback Reduction

- How might we estimate this? A couple of ideas....
- Check with your county to see if they have a 'composite' business property rollback rate calculated. If so, verify that it is not an average, but a composite and that it controls for other changes.

BPTC Conversion to Business Property Tax

Partial Rollback Reduction

- Take your valuations (from the county) for assessed value of commercial, industrial, and rail property. Total these and multiply by 0.90.
- Find your taxable value for the same property classes. Consider any “noise” that is not due to this change.*
- Subtract the difference of the above.

*Note that some of you may have differences due to TIF

**Use DOM tool to simplify this...

Department of Management

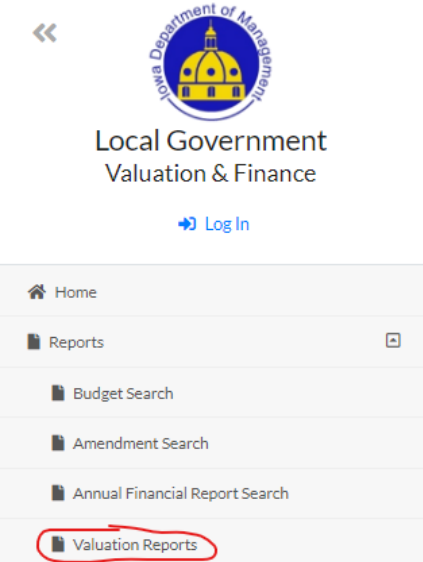
BPTC Estimation Tool

Due to the amount of questions and uncertainty about what to enter into the budget, the Department of Management (DOM) has created a tool that can be used to be budget estimate for FY 2023-2024

This tool was emailed out on Friday, January 13

If you have not received this emailed tool and would like a copy, please email Ted Nellesen at DOM – ted.nellesen@iowa.gov

Department of Management BPTC Estimation Tool



The screenshot shows the navigation menu of the Iowa Department of Management's Local Government Valuation & Finance website. At the top is the department's logo and the text "Local Government Valuation & Finance" with a "Log In" button. Below is a list of menu items: Home, Reports, Budget Search, Amendment Search, Annual Financial Report Search, and Valuation Reports. The "Valuation Reports" item is circled in red.

To use the tool, download the “100% Assessed Valuation by Class by Levy Authority” and “Taxable Valuation by Class by Levy Authority” for your city from the DOM website at <https://dom-localgov.iowa.gov/saved-reports>

100% Valuations by Class by Levy Authority



Taxable Valuations by Class by Levy Authority



Department of Management

BPTC Estimation Tool

The commercial and industrial value from each report is entered on the corresponding lines in the BPTC Estimation Tool.

| Year | County Number | | Commercial | Industrial |
|---------------|---------------|---------|-------------------|------------------|
| 2022 | ASSESSED | Non-TIF | 10,000,000 | 2,500,000 |
| 2022 | ASSESSED | TIF | 0 | 0 |
| 2022 ASSESSED | | | 10,000,000 | 2,500,000 |
| 2022 TAXABLE | | | | |
| 2022 | TAXABLE | Non-TIF | 8,500,000 | 2,125,000 |
| 2022 | TAXABLE | TIF | 0 | 0 |
| 2022 TAXABLE | | | 8,500,000 | 2,125,000 |

Department of Management

BPTC Estimation Tool

| Code | Dollar | Purpose | Rate |
|--|----------|--|-------------------|
| Sec. | Limit | | |
| 384.1 | 8.10000 | Regular General Levy | 8.10000 |
| (384) | | Non-Voted Other Permissible Levies | |
| 12(8) | 0.67500 | Contract for use of Bridge | |
| 12(10) | 0.95000 | Opr & Maint publicly owned Transit | |
| 12(11) | Amt Nec | Rent, Ins. Maint of Civic Center | |
| 12(12) | 0.13500 | Opr & Maint of City owned Civic Center | |
| 12(13) | 0.06750 | Planning a Sanitary Disposal Project | |
| 12(14) | 0.27000 | Aviation Authority (under sec.330A.15) | |
| 12(15) | 0.06750 | Levee Impr. fund in special charter city | |
| 12(17) | Amt Nec | Liability, property & self insurance costs | |
| 12(21) | Amt Nec | Support of a Local Emerg.Mgmt.Comm. | |
| (384) | | Voted Other Permissible Levies | |
| 12(1) | 0.13500 | Instrumental/Vocal Music Groups | |
| 12(2) | 0.81000 | Memorial Building | |
| 12(3) | 0.13500 | Symphony Orchestra | |
| 12(4) | 0.27000 | Cultural & Scientific Facilities | |
| 12(5) | As Voter | County Bridge | |
| 12(6) | 1.35000 | Missi or Missouri River Bridge Const. | |
| 12(9) | 0.03375 | Aid to a Transit Company | |
| 12(16) | 0.20500 | Maintain Institution received by gift/devise | |
| 12(18) | 1.00000 | City Emergency Medical District | |
| 12(20) | 0.27000 | Support Public Library | |
| 29E.22 | 1.50000 | Unified Law Enforcement | |
| Total General Fund Regular Levies (5 thru 24) | | | |
| 384.1 | 3.00375 | Ag Land | |
| Total General Fund Tax Levies (25 + 26) | | | Do Not Add |
| Special Revenue Levies | | | |
| 384.8 | 0.27000 | Emergency (if general fund at levy limit) | 0.27000 |
| Amt | | | |
| 384.6 | Nec | Police & Fire Retirement | |
| Amt | | | |
| Nec | | FICA & IPERS (if general fund at levy limit) | 1.00000 |
| Amt | | | |
| Rules | Nec | Other Employee Benefits | 1.00000 |
| Total Employee Benefit Levies (29,30,31) | | | 2.00000 |
| Sub Total Special Revenue Levies (28+32) | | | |
| 384.4 | Amt Nec | Debt Service Levy 76.10(6) | 2.00000 |
| 384.7 | 0.67500 | Capital Projects (Capital Improv. Reserve) | |
| Total Property Taxes (27+39+40+41) | | | 12.37000 |

After entering the assessed and taxable values have been entered, the proposed property tax rates of the city should be entered on the PropertyTax tab of the BPTC Estimation Tool.

Department of Management

BPTC Estimation Tool

| | |
|------------------------------------|----------------|
| General Fund BPTC | \$5,063 |
| Special Revenue BPTC | \$1,419 |
| Debt Fund BPTC | \$1,250 |
| Capital Projects Fund BPTC | \$0 |
| Total Revenue Moved to BPTC | \$7,732 |

Once the value figures and the proposed property tax rates are entered, estimates of BPTC to be received by fund are calculated at the bottom of the BPTC_Estimator tab. These amounts should be entered on line 18 – Other State Grants and Reimbursements – of the Revenue page of the budget.

BPTC Conversion to Business Property Tax Partial Rollback Reduction

How would I calculate impact by individual business property/unit?

Taxable value (with \$150,000 max) * .564919 * (city rate/1,000) = _____
PLUS Remainder of taxable value (over \$150,000) * .9 * (city rate/1,000)
= _____

And subtract from total taxable value * .90* (city rate/1,000)

*A general rule of thumb is around \$400-\$700 per eligible property/unit of at least \$150,000 taxable value (depending upon the average tax rate method used)

BPTC Conversion to Business Property Tax Partial Rollback Reduction

Here is an example:

An eligible property has a taxable value of \$250,000.

\$150,000 of taxable value is taxed at a rollback rate of 56.4919%, and the city tax rate is \$13.00

The math: $\$150,000 * .564919 * (\$13/1,000) = \$1,101.59$

The remaining \$100,000 of value is taxed at 90% rollback rate:

The math: $\$100,000 * .9 * (\$13/1,000) = \$1,170$

Sum $\$1,101.59 + \$1,170 = \$2,271.59$

Before this change, the entire taxable value would be taxed at 90% rollback rate. The math: $\$250,000 * .9 * (\$13/1,000) = \$2,925$

The total difference: $\$2,925 - \$2,271.59 = \$653.41$

BPTC Conversion to Business Property Tax Partial Rollback Reduction

Other Questions?

Thank you!

Erin Mullenix

erinmullenix@iowaleague.org