

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.