

Business Property Tax Credit

This past Spring the Iowa legislature passed, and the Governor signed, into law Senate File 295. This law involved a number of changes to the property tax system, especially for commercial and industrial property. This includes: a business property tax credit, rollbacks for commercial, industrial, and railroad property, a new multi-residential classification, changes the allowable growth between agricultural and residential from 4% to 3%, provides a telecommunications company partial exemption, and makes changes to the Property Assessment Appeal Board and the appeal process.

What I wish to inform you about today is the Business Property Tax Credit and the rollback for commercial, industrial, and railroad property. I will touch on the new multi-residential classification, however, only as it relates to the new credit and rollback.

The Business Property Tax Credit is a credit against taxes based on valuation for commercial, industrial, and railroad classed property units. It will be deducted from the property taxes owed and shown on the property tax statement. The credit will first be available for the 2013 valuations, for which taxes will be payable in September 2014 and March 2015.

The deadline for filing will be January 15, 2014.

An application must be filed with the Assessor's office to receive this credit. Applications are available at the Assessor's office, the County web site, and the Iowa Department of Revenue web site. **Any applications received after January 15, 2014, will be considered applications for the next year. The deadline for filing for the next year will be March 15, 2015 for taxes payable in September 2015 and March 2016.**

A person may claim and receive one credit for each eligible parcel unless the parcel is a part of a property unit for which a credit is claimed. Property unit is defined in the law as "contiguous parcels all of which are located within the same county, with the same property tax classification, are owned by the same person, and operated by that person for a common use and purpose." Contiguous parcels are also defined as "a – parcels that share a common boundary, b – parcels within the same building regardless whether the parcels share a common boundary, and c – permanent improvements to the land that are situated on one or more parcels of land that are assessed and taxed separately from the permanent improvements if the parcels of land upon which the permanent improvements are situated share a common boundary." Eligible parcels, or property units, must be classified and taxed as commercial, industrial, or railroad property to qualify for the credit.

However, there are some properties that are specifically excluded by the law for the credit. These are some properties currently classed as commercial, but will be reclassified to

the new multi-residential classification in 2015. These are: mobile home parks, manufactured home communities, land-leased communities, assisted living facilities (as defined in section 441.21, subsection 13, enacted in this law), and any property primarily used or intended for human habitation containing three or more separate dwelling units. This includes apartment buildings and dwellings converted to 3 or more apartments. Section 42 Housing is also excluded. Residential and agricultural properties that may have home businesses are excluded. Residential and agricultural rental properties are excluded.

Once a claim has been filed and the credit allowed, there will be no need to re-file the claim as long the property continues to qualify for the credit. **If the property ceases to qualify, the owner is required to provide written notice to the Assessor by March 15th. If a property or a portion of the property changes ownership, the new owner must file a new application. If the previous owner keeps a portion of the property, he must also file a new application.**

Once the application deadline is passed, the Assessor will submit the applications to the Auditor for Board of Supervisors approval. After approval, a list of all allowed parcels with valuation will be sent to the Iowa Department of Revenue. The Department of Revenue will calculate statewide the amount of credit for each unit, and parcel. The calculation will be dependent on the number and valuation of applications statewide, the levy rates per each parcel, and the difference in commercial/industrial rollback to residential rollback.

The first calculation will be the determination of “an initial amount of actual value for use in determining the amount of the credit for each such parcel or property unit so as to provide the maximum possible credit according to the credit formula.” This means that there will be a maximum value amount that the credit will be applied against. The current estimate of this “initial amount of value” is \$33,000. The “initial amount of value” will be compared with the property’s 100% Department of Management actual value. Whichever value is less will be used to calculate the credit.

A simple example of how an individual credit could be estimated follows. I’ll use the estimate of \$33,000 as the initial value. The property is valued at \$150,000. The lesser amount (\$33,000) is then used for the credit calculation. If the property is valued at \$25,000, you would use the \$25,000. The basic formula is: value multiplied by the difference in rollbacks of commercial and residential property, this is then divided by one thousand, and then multiplied by the corresponding levy rate. If the property unit involves more than one taxing district, an average levy rate will be used. It would look something like the following;

$$(((\text{value} \times (\text{commercial rollback} - \text{residential rollback})) / \$1,000) \times \text{levy rate}) = \text{credit amount}$$

Back to our example, the value is \$33,000. The commercial rollback for 2013 valuations will be 0.95. The residential rollback is not known yet, so I will use the current rollback of

0.528166. The levy rates for the 2013 valuations are also not known yet, so I'll use Tipton's current rate of \$33.25001 per thousand. Inserting these numbers into the formula, I get the following: $((\$33,000 \times (0.95 - 0.528166)) / \$1,000) \times \$33.25001 = \text{credit}$

$((\$33,000 \times 0.421834) / \$1,000) \times \$33.25001 = \text{credit}$

$(\$13,920.52 / \$1,000) \times \$33.25001 = \text{credit}$

$(\$13.92052 \times \$33.25001) = \$462.86$

Remember, this is an example. There are a number of variables not yet known. The only known item is the total amount of funds available for the credit, which is 98% of \$50,000,000 for the fiscal year 2014-2015 which uses 2013 valuations. The "initial amount of value" can only be determined by the calculation process once all of the applications are returned and the list of approved properties and valuation are sent to the Department of Revenue. An iterative process will be used by the Department of Revenue to determine "initial amount of value" and the individual credits.

Before ending, I do want to touch on the new commercial and industrial rollback. Residential property has received a rollback for a number of years, which is currently 52.8166%. Commercial, industrial, and railroad property usually did not receive a rollback. Therefore, a residential property valued at \$100,000 would pay taxes on \$52,816. A commercial property valued at \$100,000 would pay taxes on \$100,000. The new law establishes a 95% rollback for the 2013 valuations, then a 90% rollback for following years. For 2013 valuations, a commercial, industrial, or railroad property valued at \$100,000 will pay taxes on \$95,000 for 2013, then \$90,000 for 2014.

The implementation of the rollback for the commercial and industrial property and the new business property tax credit are the main components of the commercial property tax reform passed by the legislators.

Penalty for False Claims

A person who makes a false claim for the purpose of obtaining a credit or who knowingly receives the credit without being legally entitled to it is guilty of a fraudulent practice.