



[SF 364](#) – Paycheck Protection Program, Fiscal Filers (LSB2503SV.3)
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Fiscal Note Version – As amended by proposed amendment [H-1122](#)

Description

[Senate File 364](#) as amended by proposed amendment [H-1122](#):

- Expands an existing tax preference available for the income and deductions associated with a forgiven federal Paycheck Protection Program (PPP) loan to include taxpayers who received a PPP loan within the taxpayer's 2019 tax year (TY).
- Exempts the proceeds of grants received by a taxpayer from COVID-19 assistance programs administered by the Economic Development Authority (EDA), Iowa Finance Authority (IFA), and the Department of Agriculture and Land Stewardship (DALs) from the State corporate and individual income tax.
- Excludes unemployment insurance (UI) payments received through recent federal pandemic unemployment insurance programs from Iowa taxable income when computing income tax liability. The changes are retroactive to January 1, 2020, and apply to TY 2020. The federal programs included in the exemption are:
 - Federal Pandemic Unemployment Compensation (FPUC).
 - Pandemic Unemployment Assistance (PUA).
 - Pandemic Emergency Unemployment Compensation (PEUC).
 - Unemployment compensation approved by presidential declaration and known as Lost Wages Assistance (LWA).
- Transfers the following amounts from the [Taxpayer Relief Fund](#) to the State General Fund for the FY 2021 and FY 2022. The purpose of the transfers is to reimburse the State General Fund for a significant portion of the income tax reduction provided in the Bill.
 - FY 2021 = \$90.3 million.
 - FY 2022 = The lesser of \$12.8 million or the balance in the Taxpayer Relief Fund.

Background

Paycheck Protection Program — Existing Iowa law provides an income tax exemption and associated expense deduction for forgiven federal PPP loans for tax years beginning on or after January 1, 2020 (TY 2020). This change extends the same benefit to taxpayers whose tax year is not the calendar year and who received PPP income in TY 2019.

COVID-19 Grants — The exemption is expected to apply to 14 grant programs administered by the EDA and/or IFA and 5 grant programs administered by the DALs.

Pandemic Unemployment Insurance — Federal legislation enacted in 2020 created several special unemployment compensation programs to assist unemployed workers. The first payments were distributed in early March 2020, and continued for eligible unemployed persons through the end of calendar year (CY) 2020, and beyond. The proposed income tax exemption does not apply to unemployment compensation received under the regular program or under the extension of the regular program that occurred during the fall of 2020. The exemption also does not apply to payments received after the end of CY 2020.

Assumptions

Paycheck Protection Program — The Department of Revenue estimates that Iowa businesses that do not have a tax year that coincides with a calendar year have a total of \$107.8 million in net PPP income that could be subject to Iowa income tax under existing law. The net PPP income amounts, average marginal tax rates, and income tax reductions assumptions are shown in **Table 1**. It is assumed that the timing of tax return or amended tax return filing will result in 90.0% of the tax reduction occurring in FY 2021, and 10.0% occurring in FY 2022.

<u>Taxpayer Type</u>	<u>PPP Net Income</u>	<u>Marginal Tax Rate</u>	<u>Tax Reduction</u>
Nonprofits	\$ 19.7	0.0%	\$ 0.0
C Corporations	\$ 43.2	6.3%	\$ 2.7
S Corps & Partnerships	\$ 38.2	5.6%	\$ 2.1
Individuals	\$ 6.7	5.3%	\$ 0.4
	<u>\$ 107.8</u>		<u>\$ 5.2</u>

COVID-19 Grants — The Department of Revenue estimates that \$307.8 million in COVID-19 assistance grants has been distributed. Assumptions include:

- A total of \$114.9 million was distributed to tax-exempt entities, and a total of \$192.9 million was distributed to entities subject to the individual or corporate income tax.
- The average marginal income tax rate will be 5.3%.
- The timing of tax return or amended tax return filing will result in 90.0% of the tax reduction occurring in FY 2021, and 10.0% occurring in FY 2022.

Pandemic Unemployment Insurance — The Department of Workforce Development distributed \$2,122.7 million from the federal pandemic unemployment insurance programs to unemployed Iowans in CY 2020.

- The average marginal income tax rate will be 5.3%.
- The timing of tax return or amended tax return filing will result in 90.0% of the tax reduction occurring in FY 2021, and 10.0% occurring in FY 2022.
- The reduction in State income tax liability will result in a reduction in the amount owed for any local option income surtax for schools. The statewide average surtax rate is 3.0% of State income tax liability.

Fiscal Impact

The corporate and individual income tax exemptions included in the Bill as amended by proposed amendment [H-1122](#) are projected to reduce income taxes paid by the amounts shown in **Table 2**. There is no projected fiscal impact beyond FY 2022. The projected \$128.0 million income tax reduction will result in a \$103.1 million reduction in the balance in the Taxpayer Relief Fund and a \$24.9 million reduction in State General Fund revenue.

Table 2
Projected Income Tax Reduction and Impact on State Funds
 In Millions

	Paycheck Protection Program	COVID-19 Grants	Pandemic Unemployment Insurance	Total Income Tax Reduction	Taxpayer Relief Fund Transfer	General Fund Revenue Reduction
FY 2021	\$ 4.7	\$ 9.2	\$ 101.3	\$ 115.2	\$ -90.3	\$ -24.9
FY 2022	0.5	1.0	11.3	12.8	-12.8	0.0
	\$ 5.2	\$ 10.2	\$ 112.6	\$ 128.0	\$ -103.1	\$ -24.9

The statewide yield from the local option income surtax for schools will be reduced by a projected \$3.8 million across the two fiscal years.

The first filed tax returns for TY 2020 began to arrive in mid-February 2021. Exempting TY 2020 income from income tax will require changes to tax forms, instructions, and programs. It is likely that this change will result in a significant number of TY 2020 amended returns, which will increase the administration costs of the Department of Revenue.

In addition, exempting the federal pandemic payments lowans received as unemployment income will require a significant amount of administrative effort on the part of the Department of Revenue and the Department of Workforce Development. Approximately 200,000 taxpayers received unemployment payments during CY 2020, and most, if not all, received payments through both the regular unemployment program and the federal pandemic programs. The W-2 forms taxpayers received do not specify the portion of their unemployment income that came from the federal programs exempted by this Bill. A system will need to be established to assist taxpayers with identifying the amount of unemployment insurance that they individually received that is exempt under the provisions of this Bill.

Sources

Department of Revenue
 Department of Workforce Development

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
