



BILL SUMMARY

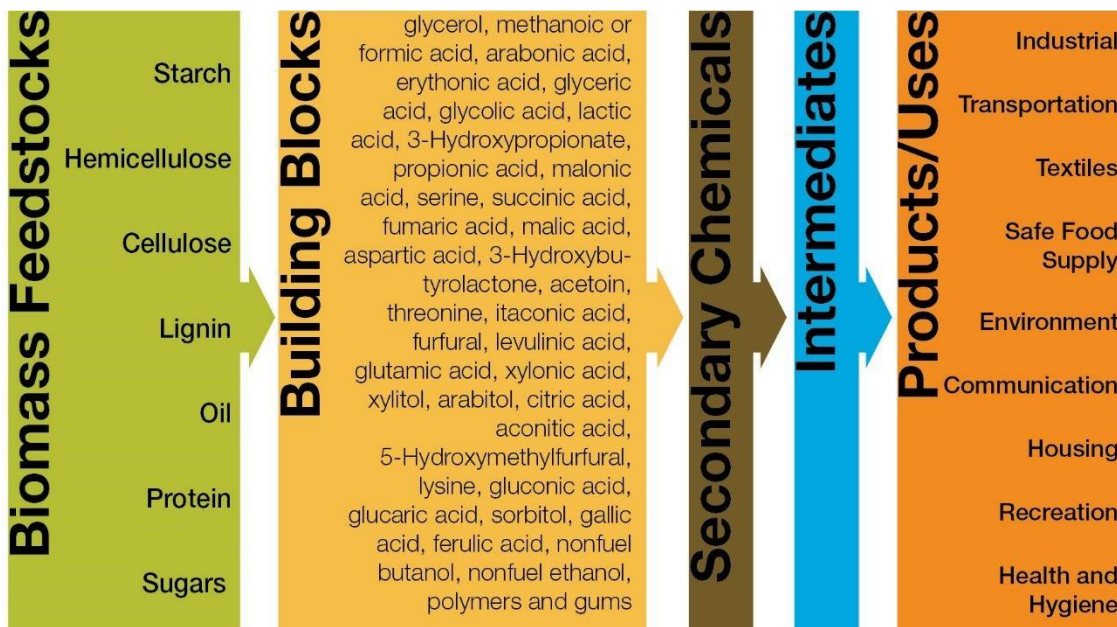
**Renewable Chemical
Production Tax Credit
HF 2438**

Status of Bill: House Floor
 Committees: Eco Growth (20-0), Ways and Means (24-0)
 Lead Democrats: Rep. Helen Miller; Rep. McConkey
 Floor Manager: Rep. Hanusa
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Renewable Chemical Production Tax Credit

Iowa industrial facilities producing food and fuel products from corn, soybeans, and other renewable products also produce byproducts that can be refined into higher value building block chemicals that can then be processed into products such as plastics, paints, textiles and pharmaceuticals. The Iowa Economic Development Authority (IEDA) is proposing incentivizing the production of these building block chemicals from the biomass feedstock that results from some industrial production.



Currently, co-products being produced are being underutilized. Under HF 2438, IEDA will incentivize industries to turn these byproducts into building block chemicals. The goal is not to produce end product items such as textiles, plastics or pharmaceuticals. The goal is to produce chemicals that are essential in the creation of these products.

Tax Credit

In order to incentivize production of high value building block chemicals, IEDA is proposing utilizing \$10 million of their \$170 million tax credit cap for the renewable chemical production tax credit. The program is designed to incentivize companies to begin converting biomass feedstock to building block chemicals. As such, eligible businesses may not receive more than five credits under the program. After five years they should no longer need capital infusions.

Because IEDA is proposing making the tax credit refundable, there will be a fiscal impact. If tax credit demand exceeds availability, the excess applications are awarded the first tax credits the next year. While the tax credit is available for ten years of production, awards may be issued until 2030 to address the tax credit backlog.

Changes to the Tax Structure in this years legislation: The major difference from last years (HF 656) proposal and this years is how they structure the tax credit.

In the new legislation, the credit is available for chemicals produced after January 1, 2017 but the tax credit cannot be redeemed until 2018. The amount of the tax credit cap being utilized has been reduced from \$15 to \$10 million annually. In order to limit the fiscal impact of the proposal, EDA is reducing the amount of their High Quality Jobs tax credit by \$25 million annually for five years (FY 17-FY 23). If renewable tax credits awarded on or after July 1, 2019 but before July 1, 2021 equals or exceeds \$27 million, IEDA will reduce the High Quality Jobs Program allocation by another \$25 million in FY 22.

There is a pre-eligibility production threshold. This means that if a company produces 100,000 pounds of a chemical is produced the year before the request for tax credits, 100,000 is the companies floor. Incentives will be available for production OVER 100,000 pounds in this case.

As a result of the changes, the net impact on the general fund is projected to be \$0. The breakdown is as follows:

General Fund Impact in Millions

Fiscal Year	Biochem Tax Credits	HQJ Tax Credits	Net Impact
2017	\$0	0	\$0
2018	\$0.	\$0.6	\$0.6
2019	-\$0.6	\$2.9	\$2.3
2020	-\$3.6	\$4.4	\$0.8
2021	-\$6.0	\$5.9	-\$0.1
2022	-\$7.8	\$8.4	\$0.6
2023	-\$9.8	\$10.5	\$0.7
2024	-\$10	\$9.5	-\$0.5
2025	-\$10	\$8.8	-\$1.2
2026	-\$10	\$7.9	-\$2.1
2027	-\$10	\$6.8	-\$3.2
2028	-\$10	\$5.5	-\$4.5
2029	-\$9.3	\$5.4	-\$3.9
2030	-\$5.0	\$5.0	\$0
2031	-\$0.5	\$3.9	\$3.4
2032	0	\$3.5	\$3.5
2033	0	\$3.5	\$3.5
TOTAL	-\$92.5	92.5	0

Additional tax credit details:

- The tax credit is refundable but not transferable.
- The credit is available for chemicals produced between Jan 1, 2017 and December 31, 2026.
- Tax credits cannot be redeemed until Sept. 1, 2018.
- Eligible businesses operating in the state for five years or less are eligible for awards up to \$1 million.
- Eligible businesses operating for more than five years are eligible for awards up to \$500,000.
- The credit is not available for the production of ethanol, biodiesel, or animal feed.
- The incentive is based on weight: \$0.05 per pound produced up to the applicable limits.
- Businesses apply for the credit following the calendar year in which the renewable chemicals are produced.
- Renewable Chemical Tax Credits have been added to the Legislative Tax Expenditure Committee review schedule to be reviewed in 2022.
- EDA will report to the general assembly in 2021 the aggregate amount of renewable chemical tax credits between July 1, 2018 and July 1, 2021.
- The tax credits are issued on a first come, first served basis. Eligible applicants who did not receive awards will be placed on a waiting list for the next year.
- No tax credits will be given for building block chemicals produced prior to the effective date.

Eligibility

In order to be eligible for the tax credit, a business must be physically located in the state and operated for profit. Additionally, the business must have been organized, expanded or located in the state on or after effective date of the legislation (the bill becomes effective upon enactment).