

## Caps on Incentive Programs

This IPRO report examines the caps placed on incentive programs in Iowa and surrounding states. Tax credits are the primary focus of the report, although other incentive programs are also discussed. Three areas receiving incentives are reviewed: biofuel production, historical preservation, and research activities.<sup>1</sup>

### Definitions

In this report, an incentive program is defined as a state program that offers taxpayers a monetary benefit for a preferred action. A tax credit is a specific type of monetary incentive in which a state decreases the amount of taxes owed by a taxpayer in exchange for performing a desired activity, such as renovating a historically notable building. Officials sometimes place monetary limits, or caps, on incentive programs. These caps are varied, ranging from limits on the overall program to the amount of money a taxpayer can receive.

There are two types of tax credits: refundable and non-refundable. A refundable tax credit is one in which a beneficiaries' taxes can be reduced below the amount they owe in taxes. In contrast, non-refundable tax credits cannot lower a taxpayer's liability below zero. This report focuses exclusively on refundable tax credits, due to the more pronounced impact they can have on a state's revenue stream.<sup>2</sup>

### Overview of Incentives

While states provide a myriad of programs that taxpayers can qualify for, the scope of this report is limited to those specifically designed to promote biofuel production, historical preservation, and research activities.

**Biofuel production incentive programs** provide incentives for producing ethanol or biodiesel blends of gasoline. The federal government offers the Volumetric Ethanol Excise Tax Credit (VEETC) which awards qualified producers a tax credit of \$.45 per gallon of ethanol. VEETC is set to expire December 31, 2010.<sup>3</sup> Half of the states in the U.S. have a publicly funded program to support biofuel producers. Of those 25 states, 17 have tax-credit programs.<sup>4</sup> Iowa does not offer such a tax credit or incentive program for producers.

**Historical preservation incentive programs** encourage private-sector restoration of historic sites. Twenty-nine states, including Iowa, currently have this tax credit.<sup>5</sup> The federal government offers a historical preservation tax credit, which awards taxpayers a credit of 20 percent of the costs for rehabilitating a certified historic structure. In addition, the program grants taxpayers a

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<sup>1</sup> Lipsman, Michael, Angela Gullickson, Amy Harris, and Zhong Jin. "Tax Credits Tracking and Analysis Program." *Iowa Department of Revenue*. Dec. 2007. 14 Sept. 2009. <<http://www.iowa.gov/tax/taxlaw/IDRTaxCreditReportDec2007.pdf>>.

<sup>2</sup> 1040.com. "Tax Credit Overview." 2008. 12 Sept. 2009.

<<http://www.1040.com/site/federaltaxes/taxcredits/tabid/80/default.aspx>>.

<sup>3</sup> American Coalition for Ethanol. "Volumetric Ethanol Excise Tax Credit (VEETC) - The 'Blender's Credit.'" 13 Sept. 2009. <<http://www.ethanol.org/index.php?id=78&parentid=26#Volumetric%20Ethanol%20Excise%20Tax%20Credit>>.

<sup>4</sup> Jin, Zhong and Brittany Teahen. "Iowa's Tax Incentives Used By Biofuel Producers." *Iowa Department of Revenue*. March 2009. 14 Sept. 2009. <<http://www.iowa.gov/tax/taxlaw/BiofuelProducersCreditsStudyMar2009.pdf>>.

<sup>5</sup> Jin, Zhong and Mike Lipsman. "Iowa's Historical Preservation and Cultural and Entertainment District Tax Credit Program Evaluation Study." *Iowa Department of Revenue*. March 2009. 15 Sept. 2009. <<http://www.iowa.gov/tax/taxlaw/HistoricPreservationCreditStudyMar09.pdf>>.

credit equal to 10 percent of the amount spent on refurbishing a non-historic building built before 1936.<sup>6</sup>

**Research incentive programs** support individuals conducting qualified research. Thirty-eight states, including Iowa, have a research tax credit, as do four of the six states surrounding Iowa. At least 31 states allow beneficiaries to carry the credit forward for various time frames. This means a taxpayer can receive an extension, precluding the tax credit's expiration until its monetary value has been exhausted.<sup>7</sup>

### State Actions

Below is a more in-depth elucidation of the different caps states place on the three tax credit and incentive programs discussed.

#### Iowa

**Biofuel production:** Iowa does not have a tax credit specifically for biofuel producers, but the state offers several tax incentive programs that such producers often use.

**Historic preservation:** Iowa's Historic Preservation and Cultural and Entertainment District (HPCED) Tax Credit offers taxpayers a tax credit equal to 25 percent of the rehabilitation project's costs, and the program covers both commercial and residential properties. The HPCED Tax Credit receives an annual \$20 million in funding from the state, an amount intended to remain static for the foreseeable future. The current funding figure is double what it was two years ago. The state caps the credits for eligible projects at \$100,000 per residential unit. There is no limit placed on commercial projects. Additional restrictions are placed on the program. For example, 10 percent of the tax credits awarded in a fiscal year must be given to projects with a price tag of less than \$500,000.<sup>8</sup>

**Research activities:** Iowa was one of the first states to enact a tax credit for research, doing so in 1985. Qualifying taxpayers in Iowa receive a tax credit equal to 6.5 percent of research expenses during the tax year. In addition, qualifying firms can receive the Supplemental Research Activities Credit from the state Department of Economic Development, which can as much as double the tax credit received. The state places no monetary cap on either tax credit. Iowa has a more generous research credit than many other states. It is one of just five states whose research tax credit is refundable, according to a 2008 Iowa Department of Revenue study. In 2006, Iowa's research credit claims per capita were double that of Minnesota and Wisconsin's nonrefundable credits.<sup>9</sup>

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<sup>6</sup> National Park Service. "Historic Preservation Tax Incentives." 2009. 18 Sept. 2009. <<http://www.nps.gov/history/hps/tps/tax/brochure1.htm#More>>.

<sup>7</sup> Gullickson, Angela and Amy Rehder Harris. "Iowa's Research Activities Tax Credit Tax Credits Program Evaluation Study." *Iowa Department of Revenue*. January 2008. 15 Sept. 2009. <<http://www.iowa.gov/tax/taxlaw/IDRTaxCreditEvalJan2008.pdf>>.

<sup>8</sup> Jin, Zhong and Mike Lipsman. "Iowa's Historical Preservation and Cultural and Entertainment District Tax Credit Program Evaluation Study." *Iowa Department of Revenue*. March 2009. 15 Sept. 2009. <<http://www.iowa.gov/tax/taxlaw/HistoricPreservationCreditStudyMar09.pdf>>.

<sup>9</sup> Gullickson, Angela and Amy Rehder Harris. "Iowa's Research Activities Tax Credit Tax Credits Program Evaluation Study." *Iowa Department of Revenue*. January 2008. 15 Sept. 2009. <<http://www.iowa.gov/tax/taxlaw/IDRTaxCreditEvalJan2008.pdf>>.

## Illinois

**Biofuel production:** Illinois offers both tax credits and a tax incentive program, all aimed at small producers of ethanol and biodiesel.<sup>10</sup>

- **Small Ethanol Producer Tax Credit:** Offers small production facilities a tax credit of \$.10 per gallon for up to 15 million gallons annually. There are no caps.
- **Biodiesel Tax Incentive:** Offers \$.01 per percentage point of biodiesel blended with petroleum diesel. There are no caps.
- **Small Biodiesel Producer Tax Credit:** Offers small agri-biodiesel producers \$.10 per gallon for up to 15 million gallons. The credit is capped at \$1.5 million per year per producer and at 60 million gallons annually.

**Historic preservation:** Illinois offers a tax incentive program to owners of certified historic residences who refurbish their homes. The program, called the Property Tax Assessment Freeze Program, freezes the assessed value of the property for eight years (beginning at the time of restoration) and gradually returns it to market price four years after the initial eight-year period. There are no caps on the program.<sup>11</sup>

**Research activities:** Illinois offers a 6.5 percent credit and allows a five-year carry-forward period. The credit is not capped.<sup>12</sup>

## Minnesota

**Biofuel production:** Minnesota offers a tax incentive program to producers of ethanol at the rate of \$.20 per gallon. It is capped at \$3 million per producer and at \$34 million state-wide.<sup>13</sup>

**Historic preservation:** Minnesota currently has no historic preservation tax credit or incentive program.<sup>14</sup>

**Research activities:** Minnesota offers a non-refundable, 5 percent credit on the first \$2 million of qualified research and 2.5 percent above that amount. There is also a 15 year carry-forward period. The credit is not capped.<sup>15</sup>

## Missouri

**Biofuel production:** Missouri has incentive programs for both ethanol and biodiesel producers.

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<sup>10</sup> Illinois Farm Bureau. "IFB Fact Sheet." 11 March 2009. 19 Sept. 2009.  
<<http://www.ilfb.org/viewdocument.asp?did=16598&r=0.1496698>>.

<sup>11</sup> National Conference of State Historic Preservation Officers. "State tax incentive information." 19 Sept. 2009.  
<<http://www.ncshpo.org/current/statetaxincentives.htm#illinois>>.

<sup>12</sup> Illinois Department of Regulations. "Research and Development Credit." 15 Sept. 2009.  
<<http://www.revenue.state.il.us/LegalInformation/regs/Part100/100-2160.pdf>>.

<sup>13</sup> Minnesota Department of Commerce. "Renewable Energy Production Incentives." 19 Sept. 2009.  
<<http://www.state.mn.us/portal/mn/jsp/content.do?id=-536881350&subchannel=-536881511&contentid=536885915&contenttype=EDITORIAL&programid=536885394&sp2=y&agency=Commerce>>.

<sup>14</sup> National Conference of State Historic Preservation Officers. "State tax incentive information." 19 Sept. 2009.  
<<http://www.ncshpo.org/current/statetaxincentives.htm#minnesota>>.

<sup>15</sup> Gullickson, Angela and Amy Rehder Harris. "Iowa's Research Activities Tax Credit Tax Credits Program Evaluation Study." *Iowa Department of Revenue*. January 2008. 15 Sept. 2009.  
<<http://www.iowa.gov/tax/taxlaw/IDRTaxCreditEvalJan2008.pdf>>.

The ethanol program pays qualified producers \$.20 per gallon for the first 12.5 million gallons and \$.05 for the second 12.5 million gallons by a single producer. Its biodiesel production incentive program pays \$.30 per gallon for the first 15 million gallons produced and \$.10 per gallon for the next 15 million gallons produced.<sup>16</sup> Qualified producers are eligible under both incentive programs for five years, unless insufficient program funds prevent beneficiaries from receiving payments. Under such circumstances, they are eligible for an additional two years, or until they have received the full amount from the original five-year period.<sup>17</sup>

**Historic preservation:** Missouri state provides an investment tax credit equal to 25 percent of rehabilitation costs.<sup>18</sup> The credit has a 10-year carry-forward period.<sup>19</sup> Credits may be transferred or sold to other taxpayers. Effective Jan. 1, 2010 the credit is subject to the following caps:<sup>20</sup>

- After Jan.1, 2010, single-family residential projects will be capped at \$25,000.
- Between Jan.1 and June 30, 2010, the program will be capped at \$70 million.
- After July 1, 2010, program will be capped annually at \$140 million.

**Research activities:** Missouri offered a research tax credit, but ended the program in 2004 after the state auditor questioned the efficacy of the program.<sup>21</sup> Currently there are no tax credits or incentive programs.

### Nebraska

**Biofuel production:** The Biodiesel Production Investment Tax Credit offers a credit to Nebraska facilities that produce B100. The rate is 30 percent of the investment and is capped at \$250,000 per facility.<sup>22</sup>

**Historic preservation:** Nebraska offers the Valuation Incentive Program, which places a temporary hold on property taxes of qualified historic buildings in the process of rehabilitation for eight years. The assessed property value then gradually increases to the actual level over the next four years.<sup>23</sup> There is no cap on the program.<sup>24</sup>

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<sup>16</sup> Jin, Zhong and Brittany Teahen. "Iowa's Tax Incentives Used By Biofuel Producers." *Iowa Department of Revenue*. March 2009. 14 Sept. 2009. <<http://www.iowa.gov/tax/taxlaw/BiofuelProducersCreditsStudyMar2009.pdf>>.

<sup>17</sup> State of Missouri. "Missouri Revised Statutes." 28 August 2008. 20 Sept. 2009. <<http://www.moga.mo.gov/statutes/c100-199/1420000028.htm>>.

<sup>18</sup> Missouri Historic Preservation Office. "Federal & Missouri State Tax Credits for the Rehabilitation of Historic Buildings." 15 Sept. 2009. <<http://www.dnr.mo.gov/shpo/taxcreditsidebyside.pdf>>.

<sup>19</sup> Schmidt, Brian. "Missouri Historic Preservation Tax Credit." *Truman School of Public Affairs at the University of Missouri*. July 2009. 15 Sept. 2009. <<http://truman.missouri.edu/uploads/Publications/09-2009%20Historic%20Tax%20Credit.pdf>>.

<sup>20</sup> Missouri Historic Preservation Office. "Federal & Missouri State Tax Credits for the Rehabilitation of Historic Buildings." 15 Sept. 2009. <<http://www.dnr.mo.gov/shpo/taxcreditsidebyside.pdf>>.

<sup>21</sup> Rashkin, Michael D. *Practical Guide to Research Development Tax Incentives*. 2007. 18 Sept. 2009. <<http://books.google.com/books?id=uKLPa7uo3GgC&lpg=PA411&ots=bmjdiopz&dq=missouri%20research%20and%20development%20tax%20credit%20repeal&pg=PR2#v=onepage&q=&f=true>>.

<sup>22</sup> Jin, Zhong and Brittany Teahen. "Iowa's Tax Incentives Used By Biofuel Producers." *Iowa Department of Revenue*. March 2009. 14 Sept. 2009. <<http://www.iowa.gov/tax/taxlaw/BiofuelProducersCreditsStudyMar2009.pdf>>.

<sup>23</sup> Nebraska State Historical Society. "Valuation Incentive." 18 Sept. 2009. <<http://www.nebraskahistory.org/histpres/publications/Valuation%20Incentive%20P%239AE68.pdf>>.

<sup>24</sup> Landreth, Grant. "Valuation Incentive Program inquiry." Message to the author. 30 Sept. 2009. E-mail.

**Research activities:** The Nebraska Research and Development Advantage offers qualified projects undertaken by a “business entity” a tax credit equal to 15 percent of the federal research credit.<sup>25</sup> The program is not capped.

### **South Dakota**

**Biofuel production:** South Dakota offers a \$.20 per gallon production incentive to ethanol producers for ethanol-blended gasoline that is fully distilled and produced in the state. Incentive payments for any facility are capped at \$1 million each year, and cumulative annual incentives may not exceed \$7 million.<sup>26</sup>

**Historic preservation:** South Dakota offers the State Historic Preservation Property Tax Moratorium, which provides an eight-year hold on property taxes for qualified buildings.<sup>27</sup> The state does not cap the number of properties under the program in a given year or the number of rehabilitation projects that can be undertaken by an individual or group.<sup>28</sup> The state also offers incentives through the Deadwood Fund program, which awards grants typically ranging from \$1,000 to \$25,000 for “projects that retain, restore, or rehabilitate historic buildings, structures, and archaeological sites in South Dakota for residential, commercial, or public purposes.”<sup>29</sup> The total program is capped at \$100,000 annually.<sup>30</sup>

**Research activities:** South Dakota does not currently have a research activities tax credit or incentive program.<sup>31</sup>

### **Wisconsin**

**Biofuel production:** Beginning in the 2012 tax year, claimants who produce more than 2.5 million gallons of biodiesel in the state will be eligible for a \$.10 per gallon tax credit. The beneficiary’s total credit will be capped at \$1 million.<sup>32</sup>

**Historic preservation:** Wisconsin offers the Supplemental Historic Preservation Credit, which provides an additional 5 percent of the cost of rehabilitation on top of the federal credit. It is not capped. Additionally, Wisconsin has the State Historic Rehabilitation Credit, which offers owners of historic properties a 25 percent tax credit for rehabilitation expenditures. Taxpayers’ expenditures must exceed \$10,000 to receive the credit. This program also places a \$10,000 credit limit for individual taxpayers and a \$5,000 cap on married persons who file separate tax returns.<sup>33</sup>

**Research activities:** Wisconsin offers a 5 percent credit, with a 15-year carry-forward period. Beginning in 2011, corporations will be able to collect a credit for increasing research

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<sup>25</sup> Nebraska Department of Economic Development. “Nebraska Advantage: Economic Development Incentives.” August 2009. 18 Sept. 2009. <[http://www.neded.org/files/advantage/NEAdvantage\\_August\\_09\\_web.pdf](http://www.neded.org/files/advantage/NEAdvantage_August_09_web.pdf)>.

<sup>26</sup> U.S. Department of Energy. “South Dakota Incentives and Laws.” 10 July 2009. 14 Sept. 2009. <[http://www.afdc.energy.gov/afdc/progs/view\\_all.php/SD/0](http://www.afdc.energy.gov/afdc/progs/view_all.php/SD/0)>.

<sup>27</sup> South Dakota Historical Society. “State Property Tax Moratorium.” 2009. 18 Sept. 2009. <[http://www.sdhistorical.org/HP/hp\\_txmor.html](http://www.sdhistorical.org/HP/hp_txmor.html)>.

<sup>28</sup> Nelson, Kate. “Property Tax Moratorium.” Message to the author. 18 Sept. 2009. E-mail.

<sup>29</sup> South Dakota State Historical Society. “Deadwood Grant Fund Information.” 21 Sept. 2009. <[http://www.sdhistorical.org/HP/hp\\_deadwfg.htm](http://www.sdhistorical.org/HP/hp_deadwfg.htm)>.

<sup>30</sup> Nelson, Chris. “Another question.” Message to the author. 21 Sept. 2009. E-mail.

<sup>31</sup> Gullickson, Angela and Amy Rehder Harris. “Iowa’s Research Activities Tax Credit Tax Credits Program Evaluation Study.” *Iowa Department of Revenue*. January 2008. 15 Sept. 2009. <<http://www.iowa.gov/tax/taxlaw/IDRTaxCreditEvalJan2008.pdf>>.

<sup>32</sup> State of Wisconsin. “Wisconsin Statutes.” 17 Aug. 2009. 19 Sept. 2009. <<http://www.legis.state.wi.us/statutes/Stat0071.pdf>>.

<sup>33</sup> Ibid.

expenditures. Called the Super Research Development Credit, it will be able to be carried forward for five years.<sup>34</sup> Neither credit has a cap placed on it.<sup>35</sup>

Table 1 presents information regarding tax credits and incentive programs in Iowa and surrounding states. The table also includes a selection of caps that states place on the tax credits and incentive programs previously outlined.

**Table 1- Midwestern States' Actions**

<b>State</b>	<b>Biofuel producers tax credit or incentive program</b>	<b>Historic preservation tax credit or incentive program</b>	<b>Research activities tax credit or incentive program</b>
Iowa	No tax credit or incentive program	Tax credit; capped at \$100,000 per residential unit and no cap for commercial units	Tax credit; no cap
Illinois	Tax credit and incentive programs; capped at \$1.5 million per producer	Incentive program; no cap	Tax credit; no cap
Minnesota	Incentive program; capped at \$3 million per producer and \$34 million state-wide	No tax credit or incentive program	Tax credit; no cap
Missouri	Incentive; five-year cap per producer	Tax credit; capped at \$140 million state-wide	No tax credit or incentive program
Nebraska	Tax credit; capped at \$250,000 per production facility	Incentive program; no cap	Tax credit; no cap
South Dakota	Incentive program; capped at \$1 million per facility and \$7 million state-wide	No tax credit or incentive program	No tax credit or incentive program
Wisconsin	Tax credit; capped at \$1 million per producer	Tax credit; capped at \$10,000 per project	Tax credit; no cap

<sup>34</sup> McNally, Sarah E. and James N. Phillips. "Wisconsin's Budget Bill Implements Several Tax Changes." *Godfrey & Kahn Attorneys at Law*. 20 July 2009. 19 Sept. 2009. <[http://www.gklaw.com/news.cfm?action=pub\\_detail&publication\\_id=881](http://www.gklaw.com/news.cfm?action=pub_detail&publication_id=881)>.

<sup>35</sup> State of Wisconsin. "Wisconsin Statutes." 17 Aug. 2009. 19 Sept. 2009. <<http://www.legis.state.wi.us/statutes/Stat0071.pdf>>.