



[HF 717](#) – Property Tax, Section 42 Property (LSB1059HV)
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Fiscal Note Version – New

Description

[House File 717](#) relates to the taxable valuation of property that is rented or leased to low-income individuals and families as authorized by Section 42 of the Internal Revenue Code. The Bill allows Section 42 housing property that is composed of one or two dwelling units to be classified as residential property. Under Iowa Code section [441.21\(14\)\(c\)](#), Section 42 property is classified as commercial property. The Bill takes effect upon enactment, and applies retroactively to assessment year (AY) 2023 and after.

Background

Section 42 refers to that section of the federal Internal Revenue Service tax code, which provides tax credits to investors who build qualified housing. Investors receive a reduction in their federal tax liability for a period of 10 years in return for providing housing to persons with lower incomes.

Under current law, effective with AY 2022, Section 42 housing may not be classified as residential property and is classed as commercial property. Also, under current law, the assessed value of commercial property up to \$150,000 is subject to an assessment limitation factor (rollback) equivalent to that of residential property and values above this threshold are subject to the commercial rollback.

Under the Bill, Section 42 property containing two or fewer dwelling units would be classified as residential and subject to the residential rollback for the entire assessed value of the property. Such property includes single-family dwellings, duplexes, and condominium property. The Bill would allow certain Section 42 property to be classified as residential property, when such property would otherwise be classified as commercial.

Assumptions

- The Department of Revenue reports that the total assessed value of Section 42 housing in Iowa that is composed of one or two dwelling units is \$105.3 million. The Department estimates that this value represents 604 properties statewide.
- As commercial property, the first \$150,000 of assessed value is subject to the residential rollback (54.6501% for AY 2022) and the remaining assessed value is subject to the 90.0000% commercial rollback. As residential property, the entire assessed value will be subject to the residential rollback.
- The FY 2023 statewide average residential property tax rate is \$33.65 per \$1,000 of taxed value, and the school finance basic levy comprises \$5.40 of that rate.

Fiscal Impact

Changing the property classification for one- and two-dwelling unit Section 42 housing is projected to reduce property taxes owed by Section 42 property owners by \$175,000 per year beginning in FY 2025. Of that amount, \$28,000 will be replaced by the State General Fund

appropriation for school aid and the remaining \$147,000 is a projected decrease in annual local government property tax revenue.

Source

Department of Revenue

/s/ Jennifer Acton

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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.

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