



# The Watchdog

A Legislative Update from Iowans for Tax Relief



Friday, April 20, 2007

15th Week of Session

## House Ways and Means Committee Strips New Tax on Personal Digital Downloads from Department of Revenue Legislation

### HOUSE STUDY BILL 106 WOULD HAVE CREATED NEW STATE TAX ON I-TUNES, RINGTONES, AND OTHER PERSONAL DIGITAL DOWNLOADS:

Annually, the Iowa Department of Revenue (the Department) proposes legislation to 1) update the Iowa tax code to match relevant changes in the federal tax code, 2) make technical corrections to the Iowa tax code not considered to be controversial, and 3) to propose policy changes that may or may not be controversial or have a revenue impact.

House Study Bill 106 is a proposed bill by the Department to make both technical changes and substantive policy changes to the Iowa tax code.

Contained in HSB 106 was proposed language to create a new state sales and use tax on digital downloads for personal use. Specifically, the bill imposes a five percent tax "upon the sales price of audiovisual works, audio works, books, computer software, or ring tones that are sold as digital products and that are sold by subscription, digital code, or in some other manner and delivered electronically for temporary or permanent retention when sold to an individual for the individual's own use and consumption."

In real terms, HSB 106 would tax downloaded ring tones, software, music, books, and other such products that are now readily available through the internet and other electronic services. **The anticipated new revenue to the state from this tax increase is in excess of four million dollars.**

HSB 106 did not impose this new digital download tax on business to business transactions.

Iowans for Tax Relief OPPOSES this brand new state tax on personal digital downloads.

Earlier this decade, the Department of Revenue proposed, through its rule making authority, to tax digital downloads used for both personal and business uses. Iowans for Tax Relief and a variety of other business organizations objected to these new taxes.

Then Chairman of the House Ways and Means Committee, Rep. Jamie Van Fossen, negotiated a deal with the Department and the Governor to prohibit any state taxes on digital downloads in return for his support of legislation to give Iowa a full membership seat on the Board of the Streamlined Sales Tax Project (a group that ultimately developed the Streamlined Sales Tax Compact amongst 33 states to simplify sales tax collections and devise a means to tax purchases of tangible personal property through the internet).

Rep. Tyler Olson (D-Cedar Rapids) offered an amendment to HSB 106 during debate in the House Ways and Means Committee to strip the new digital download tax from the bill and was successful on a 21-3 vote.

Thus, when this bill is placed on the House Debate Calendar (with a new number as a House File), it will NOT contain the new tax.

However, a companion bill in the Iowa Senate which contains the new tax language was



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## **DIGITAL DOWNLOADS, continued...**

approved by the Iowa Senate last night on a 29-20 vote and will now move to the House (Senate File 596).

Iowans for Tax Relief SUPPORTS the version of this bill as passed by the House Ways and Means Committee and OPPOSES SF 596 as it passed the Iowa Senate.

## **BILL PROPOSED TO REPEAL MOST IOWA PROPERTY TAXES BY 2011 AND CREATE A NEW COMMISSION TO DEVELOP A NEW BLUEPRINT FOR LOCAL GOVERNMENT FINANCE:**

Rep. Philip Wise (D-Keokuk) this week introduced House File 905, a bill that, if enacted, could lead to a complete overhaul of the local government finance system in Iowa.

HF 905 proposes a number of immediate changes in the Iowa tax code (primarily dealing with commercial property taxes) and sets a deadline for the creation of a new system of local finance (with the penalty for failure being the complete elimination of most local property taxes by the year 2011).

Specifically, HF 905:

1) Creates an income tax credit for those who own commercial property valued at \$300,000 or less.

The credit is set at \$320 and is intended to help offset the cost of the commercial property tax paid by that business. This program is projected to cut state income tax collections by \$25 million annually.

2) Limits the annual growth in commercial property tax assessments to one percent. Current law limits commercial property tax assessments to no more than four percent annual growth.

3) In order to help local governments offset the revenue loss from the new limit on commercial property tax assessment growth, the Hotel / Motel tax is increased from a maximum rate of seven percent to a maximum rate of nine percent.

4) Eliminates the authority of cities, counties, school districts, and townships to impose most property taxes by Fiscal Year 2011.

This section is designed to force a future Legislature to develop a new system of local government finance to replace the current reliance on property taxes.

5) Creates a Legislative Property Tax Study Committee that is tasked with developing a new plan for local government finance in time to submit it to the General Assembly prior to January 5, 2009.

The Committee will be comprised of 10 voting members (five from the House and five from the Senate) and a host of non voting members from local government associations, taxpayer associations, and various departments of state government.

The Committee is authorized to hire outside consultants to aid their work over the course of the next two years.

Iowans for Tax Relief is closely monitoring work on HF 905 and will keep you informed on its progress this Session.

**The Watchdog** is a weekly update of issues which are being considered by the Iowa Legislature.

It is a service to members of Iowans for Tax Relief. Permission is granted to forward this to any interested individuals.

Comments or questions concerning **The Watchdog** should be directed to:

Jamie Hopkins, Iowans for Tax Relief, 2610 Park Avenue, Muscatine, IA 52761. Phone: (877) 913-3600 Fax: (563) 264-2413

E-Mail: [itr@taxrelief.org](mailto:itr@taxrelief.org) Website: [www.taxrelief.org](http://www.taxrelief.org)