

FOR IMMEDIATE RELEASE MONDAY, JULY 26, 2004

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Christmas in July: Another Suspect Tax Break Analysts Question Value, Wisdom of Tax Break in Values Fund Talks

MOUNT VERNON, Iowa (July 26, 2004) – Independent policy analysts are questioning the value of a business tax break being promoted in negotiations for a special legislative session to restore the Grow Iowa Values Fund.

Virtually all of the value of the “bonus depreciation” – which allows businesses to delay paying current income taxes – will reward purchasing decisions that businesses have already made, according to an analysis from the Iowa Policy Project (IPP) and Child & Family Policy Center (CFPC).

“It will not stimulate new purchasing activity,” said Charles Bruner, CFPC executive director and co-author of the report with Peter Fisher, research director of the IPP.

The proposal would provide a state tax break that is offered on federal taxes but is scheduled to expire at the end of this year. It would allow an immediate tax write-off of up to half the cost for purchases made after Sept. 10, 2001, thus delaying tax liability.

“This is Christmas in July – businesses would get a break they didn’t need to make a purchasing decision, and individual taxpayers pay the bill,” Fisher said. “It’s disappointing that this kind of a proposal comes after difficult budgeting decisions already have been made and services are being threatened.”

The nonpartisan, nonprofit groups cooperate on independent tax policy analysis in Iowa. Their work is available on the IPP website, www.iowapolicyproject.org <<http://www.iowapolicyproject.org>>.

Bruner noted that the groups produced a guide to tax loopholes earlier in the year, and this is another example of a “tax expenditure” that typically receives less scrutiny than an appropriation, but has the same impact on the state budget.

“It’s interesting that we didn’t hear a drumbeat for this idea during the regular legislative session, but it is now seen as something to save the Values Fund,” Bruner said. “We should wonder what’s behind this proposal coming up at this time.”

David Osterberg, executive director of the IPP, questioned the combination of the two proposals. “Is this for a special session, or a ‘special-interest’ session? What’s being discussed is giving away millions of dollars to business just so we can give away more millions more quickly through the Values Fund, which has its own serious, separate accountability problems,” Osterberg said.

“While this break will do nothing to stimulate the Iowa economy, it’s also bad public policy. We have for many months evaluated tax policy proposals based on such principles as public benefit, accountability, competitiveness, revenue adequacy, fairness, simplicity and predictability. This latest proposal offers nothing to meet any of those criteria,” Osterberg said.

The Child & Family Policy Center is on the web at www.cfpciowa.org. The Iowa Policy Project is on the web at www.iowapolicyproject.org.