Iowa Fiscal Partnership

FOR IMMEDIATE RELEASE APRIL 11, 2006
CONTACT: MIKE OWEN (319) 338-0773

Revitalizing Iowa's Corporate Income Tax
A Challenge and an Opportunity for State Policy Makers

DES MOINES, Iowa (April 11, 2006) — Iowa legislators looking for answers to tight budget challenges could find at least a partial answer right in front of them, according to a new analysis of Iowa's declining corporate income tax revenues.

"Iowa has watched as corporate income-tax revenue has fallen by more than half in two decades," said Peter Fisher, research director of the Iowa Policy Project. "Some of the reduction is due to tax breaks whose effectiveness is questionable. The largest factor, however, has been the failure of policy makers to close tax loopholes."

"Many Iowa corporations pay no income tax. There are things Iowa could do to recoup in excess of $50 million in corporate tax revenue and at the same time make our system more fair and accountable."

In Fisher's new analysis for the Iowa Fiscal Partnership (IFP), he notes:

- Average corporate income-tax revenue has fallen from $272 million to $126 million (in 2004 dollars) — a 54 percent decline — from the early 1980s to the early 2000s.
- Tax credits enacted since 1984 have caused about one-fourth of the $146 million decline.
- Aggressive tax-avoidance strategies by corporations has been identified as a major cause of state revenue drop-offs nationally. In Iowa, these practices are estimated to produce annual revenue losses in excess of $50 million.
- Each year from 1995 through 2003, about 4,650 multistate corporations with gross receipts over $1 million paid no Iowa corporate income tax.

"We know that a major overhaul of Iowa's tax system is not going to happen in these final days of the 2006 Legislature," Fisher said. "But these trends have been building and they should not be ignored either by policy makers or the public in understanding the choices we have.

"There are features of Iowa's tax law that make the state susceptible to tax avoidance by corporations, and they are taking advantage of this."

— m o r e —

The Iowa Policy Project
318 2nd Ave. N
Mount Vernon, IA 52314
(319) 338-0773 • www.iowapolicyproject.org

Child & Family Policy Center
1021 Fleming Building • 218 Sixth Ave.
Des Moines, IA 50309
(515) 280-9027 • www.cfpciowa.org

Among solutions offered by the paper are adoption of so-called “combined reporting,” a method used in 17 states to restrict corporations’ ability to shift profits to no-tax or lower-tax states.

Fisher’s paper also recommends that the Iowa Department of Revenue and Finance be given the resources to make an annual public report on methods used to avoid taxes, and to estimate the revenues lost.

The new report for the IFP is available on the Iowa Fiscal Central website <http://www.iowafiscal.org>.

The Iowa Fiscal Partnership is a joint tax and budget analysis initiative of the Iowa Policy Project in Mount Vernon and the Child & Family Policy Center in Des Moines, two nonprofit, nonpartisan organizations.

# # # # #