

CLOSING TAX LOOPHOLES

Good Move for Economic Development and Fair Competition

It's no surprise that special-interest groups are fussing about a proposal to close unfair tax loopholes in Iowa. Closing loopholes by adopting combined reporting in Iowa would prevent multistate corporations from shifting their Iowa profits out of state to avoid paying taxes. But the lobby's claims that combined reporting would harm Iowa's economic development are simply wrong.

STATES WITH COMBINED REPORTING ARE DOING WELL ECONOMICALLY

Special interests that oppose plugging Iowa's tax loopholes threaten that businesses won't invest in Iowa if we follow the lead of 21 other states in instituting combined reporting. This claim ignores the facts:

- A majority of the 17 states with positive manufacturing job growth between 1979 and 2000 were combined-reporting states, including four out of the top five job-growth states.
- Only 10 states with corporate income tax have had net gains in manufacturing employment since 1990, and nine of those 10 states have combined reporting.
- Business investment in states with combined reporting has been strong. During the same period that it has been one of the most aggressive states in enforcing combined reporting, California has grown into the high-tech capital of the country.

Opponents of closing tax loopholes also claim combined reporting will drive businesses out of Iowa. This hasn't happened in the 21 other states, including the majority of Iowa's neighbors — Minnesota, Nebraska, Kansas and Illinois — that have already had combined reporting legislation in place for years.

Many major corporations complaining about combined reporting already file on a combined basis in other states. The idea that Wal-Mart will pack up and leave Iowa because of a legal tool already adopted by 21 other states doesn't measure up.

TAX LOOPHOLES PUT IOWA'S SMALL BUSINESSES AT A DISADVANTAGE

Main Street businesses in Iowa do their part and pay taxes as expected while competing with big corporations that have found holes in Iowa's tax code. It's not a problem just in Iowa. Large corporations have hired teams of tax experts to help them legally avoid state taxes. In October, *The Wall Street Journal* revealed how Wal-Mart hired Ernst & Young to help it with tax-cutting strategies, resulting in a set of 27 different options. It isn't certain whether Wal-Mart used the ideas, and, if so, where. But in Iowa, the Iowa Department of Revenue has identified millions of dollars in revenues lost to aggressive tax-planning strategies by companies generally. Small businesses and other taxpayers get stuck with the bill when multistate companies are allowed to pursue such tax-avoidance practices.

Combined reporting is the key to leveling the playing field so that Iowa's small businesses can compete and all firms contribute to economic development in the state and their communities.

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