Iowa Fiscal Partnership

NEWS RELEASE

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Iowa Budget Belt-Tightening: Focus on the Largest Waists

DES MOINES, Iowa (Feb. 23, 2009) — Iowa can get a handle on a fast-growing area of state spending by capping business tax credits and requiring public disclosure of all business tax expenditures, Iowa Fiscal Partnership analysts report.

"Belt-tightening in Iowa's budget needs to focus first on those with the largest waists," said Charles Bruner, executive director of the Child & Family Policy Center (CFPC). "This report offers four ways to do that, targeting the biggest area of spending growth: tax credits and other tax expenditures."

"To hear much of the budget discussion to date, many Iowans might not realize that general fund spending has actually declined in Iowa as a share of the economy. But some spending has spiked — particularly business tax credits, which have grown at more than three times the rate of economic growth, and have been almost unchecked and without scrutiny."

David Osterberg, executive director of the Iowa Policy Project (IPP) in Iowa City, agreed.

"Business tax credits are on autopilot. We cannot afford this, and the current budget crisis offers a good time to address it," Osterberg said.

The report, Iowa Budget Belt Tightening: Focusing on the Largest Waists, is available on the website of the Iowa Fiscal Partnership (IFP), www.iowafiscal.org. IFP is a joint budget analysis initiative of the nonpartisan groups headed by Bruner and Osterberg.

The report noted Governor Culver has recommended a cap on business tax expenditures and a limit on the magnitude of the Research Activities Credit, which offers secret checks to companies for the amount that their credit exceeds their tax liability.

"The General Assembly should build upon the Governor's recommendations when trimming excessive spending from the state tax code," the report suggests.

Specifically, the report recommends that the Legislature:

- Establish a cap on business tax credits;
- Establish a cap on the size of individual Research Activities Credits;
- Establish a cap on the amount of capital gains that is totally excluded from income for state income tax purposes; and
- Establish transparency (required disclosure) for all business tax expenditures.

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“An overall cap on business tax credits is a first step in establishing some control over their unbounded use,” Bruner stated. “One business tax expenditure in particular, the RAC, demands immediate attention, as we have noted in several reports.

“Iowa has the most expansive and open-ended research activities credit in the nation. Yet, there is no evidence that is producing a public benefit for Iowa because there is no accountability. In addition, it was designed to help start-up businesses, and one thing we have been able to understand is that the lion’s share of the credit goes to a handful of large, multistate corporations whose success relies on investing in research.”

Culver’s proposal regarding the RAC is to eliminate an added benefit to the credit — the authority of the Iowa Department of Economic Development to double the size of the credit when used with other so-called “incentives.” This is estimated to produce savings of $13 million in fiscal year 2010.

“That’s a start, but the General Assembly could do much better,” Osterberg said. “Limiting the size of the regular credit would be in keeping with the intent of the original legislation, would only affect a handful of big companies, and save the state over $30 million a year. Recognizing that the companies affected already are paying no corporate income tax, this would not increase taxes for anyone but would help to balance the state budget.”

The report also noted the capital gains issue, as Iowa ‹ unlike the partial exemption offered by the federal government ‹ totally excludes certain capital gains income from Iowa tax.

“Iowans should understand the implications of this in the context of the whole Iowa tax system,” Bruner said. “It means someone can make million-dollar capital gains profit but pay no state income tax on it, while a family of four making $30,000 per year pays state income taxes on all their earned income.

“We can fix this, make our tax policy more fair and at the same time — with a cap of $100,000 on the amount of gains receiving the current exclusion — save the state $20 million a year.”

Bruner and Osterberg also noted that an increasing number of states have adopted transparency legislation requiring public disclosure of business tax expenditures and the amounts received by certain businesses.

“This is a good way for Iowa policy makers and their constituents to see whether companies are using taxpayers’ dollars in a way that benefits our state,” Osterberg said.

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