

## Off Target

### *Targeted Jobs credit proposal drifts from intent, increases state costs*

By Andrew Cannon

Expanding tax breaks and widening tax loopholes for big businesses would seem incongruous with the supposed need for a tighter, leaner budget. Yet the [Senate File 533](#) as it entered a House-Senate conference committee would do precisely that, if it were to become law. The plan would vastly expand spending on big businesses through the Targeted Jobs Withholding Tax Credit — at the same time the Legislature already plans to review whether the credit even works. The Targeted Jobs Withholding Tax Credit is scheduled for review in 2012 by the Legislative Tax Expenditure Committee. Why expand the credit without waiting for the findings of this review?

#### ***The Targeted Jobs Withholding Tax Credit***

The Targeted Jobs Tax Credit allows certain border Iowa cities (Sioux City, Council Bluffs, Burlington, Keokuk and Fort Madison) to enter into agreements with qualifying Iowa businesses to finance urban renewal projects directly related to the business.<sup>1</sup> To qualify, the businesses must either be new to the state or be an existing Iowa business that either creates 10 new jobs, the wages of which must be equal to or exceed the average county wage, or invests \$500,000 or more in an urban renewal area in the city. The agreement may last for up to 10 years.

On a quarterly basis, the business remits up to 3 percent of the gross wages of the employees under the agreement to the city. The funds are then used for an urban renewal project that is somehow related to the business. The business then receives a tax credit from the state for the amount it remits to the cities.

#### ***The Proposal***

The new proposal changes the language governing eligibility for the credit by adding businesses that simply *retain* 10 jobs in addition to the more stringent, current requirements of creating at least 10 new jobs.

The change, though subtle, has major implications. First, it vastly increases the number of businesses potentially eligible for the credit. That alone could mean millions of more state dollars flowing to private businesses.

Second, broadening the qualifications for the credit represents a serious drift from the original intent of the credit. Originally, the credit was designed to attract new businesses to Iowa or to retain those that are actively creating decent-paying, new jobs. Under the proposal, the credit would simply be a giveaway to businesses already invested and anchored in Iowa, who can keep a baseline of 10 decent jobs. It is difficult to imagine that the credit will not be abused; the law includes no criteria for determining a “retained” job, and thus leaves the state open to providing millions in tax credits to firms who simply threaten to leave, whether the threat is a serious one or not.

#### ***An Already Problematic Credit***

Even before this broad expansion of the credit, the Targeted Jobs Withholding Tax Credit was problematic. In 2010, the Tax Credit Review Panel commissioned by Governor Chet Culver in the wake of the film tax credit scandal, reviewed all state tax credits and issued recommendations.<sup>2</sup> The Targeted Jobs credit does not fall under a \$185 million “global” cap on certain credits. The panel recommended placing the Targeted Jobs credit within the global cap, along with all other credits not already in it.

The Targeted Jobs credit is overseen by the Iowa Department of Economic Development (IDED); each agreement between a city and a business must be approved by IDED. The Tax Credit Review Panel recommended removing IDED from the both the approval and oversight process, presumably leaving oversight to the Department of Revenue (IDR). IDED is actively involved in attempting to recruit and retain businesses in Iowa; giving IDR the oversight and approval authority would presumably make the approval and oversight process more objective.

Further, the credit allows for agreements between cities and businesses lasting for up to 10 years. The credit thus costs the state ever-increasing amounts of money. Between Fiscal Year 2008 and FY2014, the cost to Iowans of the Targeted Jobs credit is anticipated to inflate from \$350,472 to more than \$7.7 million.<sup>3</sup>

### **Expansion Before Review?**

The 2010 General Assembly responded to some of the Tax Credit Review Panel's recommendations in [Senate File 2380](#), which passed both legislative chambers and was signed by Culver. The bill creates a Legislative Tax Expenditure Committee, composed of five members from each chamber of the Legislature to evaluate and assess the "equity, simplicity, competitiveness, public purpose, adequacy, and extent of conformance with the original purposes" of each tax credit offered by the State of Iowa.<sup>4</sup> Additionally, the committee is to calculate the return to the state on the investment made by the tax credit — that is, determine whether the General Fund money spent on the credit brings any value to the state.

Under the law, the Targeted Jobs Withholding Tax Credit is scheduled for review in 2012. Expanding the credit is questionable prior to the review — particularly when the expansion drifts from the intent of the legislation that created the original credit. Iowans should know whether the credit in its present form is a wise use of their tax dollars before it is expanded.

### **Can Iowans Afford It?**

Since the start of the legislative session, lawmakers have suggested that Iowa cannot sustain providing the present level of public services. They have called for and proposed drastic cuts to programs that benefit the most vulnerable Iowans and create a productive, educated workforce. Still on the table in the waning days of the fiscal year are proposals to deeply cut preschool, K-12 and higher education, as well as funding for agencies that ensure safety in Iowa's long-term care facilities and nursing homes.<sup>5</sup>

Despite the persistent claims that Iowa lacks the funds to adequately fund these and other critical public services, Iowa's revenue situation in fact permits adequate funding of these public services.<sup>6</sup> However, lawmakers cannot adequately fund these services at the same time they create more tax loopholes and breaks for big businesses.<sup>7</sup> Expanding the Targeted Jobs Withholding Tax Credit would put Iowa taxpayers on the hook for millions of dollars in state subsidies to corporations. Furthermore, doing so before the credit has been fully evaluated is spending taxpayers' money while blindfolded.

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<sup>1</sup> 2011 Iowa Code, Section 403.19A.

<<http://search.legis.state.ia.us/NXT/gateway.dll/ic/1/13/13093/14008/14354/14374?f=templates&fn=default.htm>>.

<sup>2</sup> Tax Credit Study Review Report, Department of Management, State of Iowa. January 8, 2011.

<[http://www.dom.state.ia.us/tax\\_credit\\_review/files/TaxCreditStudyReviewReportFINAL1\\_8\\_2010.pdf](http://www.dom.state.ia.us/tax_credit_review/files/TaxCreditStudyReviewReportFINAL1_8_2010.pdf)>.

<sup>3</sup> Tax Credits Contingent Liabilities Report, Iowa Department of Revenue, March 28, 2011.

<<http://iowa.gov/tax/taxlaw/0311RECReport.pdf>>.

<sup>4</sup> 2011 Iowa Code, Section 2.48.

<<http://search.legis.state.ia.us/NXT/gateway.dll/ic/1/13/14/60/61/109?f=templates&fn=default.htm>>.

<sup>5</sup> IFP analysis of HF697 compared to FY11 funding levels.

<sup>6</sup> "Iowa Budget Update: What's in Store for the 2011 General Assembly," Iowa Fiscal Partnership, January 18, 2011.

<<http://www.iowafiscal.org/110118-budget.html>>. And Testimony of Peter Fisher, Research Director, Iowa Policy Project, on HF45, January 18, 2011. <<http://www.iowafiscal.org/2011docs/110118-HF45-IFP-Fisher.pdf>>.

<sup>7</sup> "Iowa Budget: Challenges Manageable, No Need for Severe Cuts," Iowa Fiscal Partnership, January 27, 2011.

<<http://www.iowafiscal.org/110127-statement.html>>.

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