



GUEST OPINION

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Fisher: Heightened concern about business tax incentives

By Peter Fisher

Headlines in last weekend's editions of *The Gazette* say so much:

- "State leaders didn't do their homework" (Feb. 16 column by Jennifer Hemmingsen).
- "State's business lures don't measure the net catch" (Feb. 17 *Gazette* Editorial Board editorial).
- "Incentive cash down the drain?" (Feb. 17 front-page news story).

This trifecta is all the more disturbing when you realize the three stories focused on different issues with Iowa's economic development programs.

The first was a glaring lack of "due diligence" by state officials in offering the biggest subsidy package in state history to the Egyptian company Orascom that, it turns out, has an affiliated firm under the cloud of fraud accusations by the U.S. government.

The others refer to the need to better establish what taxpayers are getting in return for their generosity to corporations, and to an investigation showing weaknesses in the state's ability to recover subsidies from companies that don't hold up their end of a development deal.

When you add in a fourth issue — the disclosure about more than \$40 million in annual state giveaways to giant companies under the guise of stimulating research — you can see we have problems with accountability in Iowa.

The Research Activities Credit is an example of a business spending program crying out for reform. Designed in the 1980s to spark small startup operations, its primary beneficiaries are very large and profitable companies.

For each of the last three years, the Department of Revenue reports that Rockwell Collins, Deere & Co., Dupont, John Deere Construction and Monsanto have been the top recipients of the "credit." In those three years, the state has sent more than \$120 million to corporations in direct taxpayer subsidies, above the elimination of any corporate taxes the beneficiary corporations would have owed, at the expense of other taxpayers.

To this list could be added the film tax credit scandal in 2010 and the Iowa Fund of Funds debacle last fall. Unfortunately, Iowans are left without much critical information needed to understand these tax provisions, who benefits from them and what Iowans receive as a result. If lawmakers are going to continue these tax provisions or enact new ones, they need to put in place much more transparency and accountability than we have currently.

We expect and receive that information from any public agency that spends state money. If we had that information on tax expenditures, we could make reasonable evaluations of whether the public was getting a return, whether dollars were spent with a public purpose, whether it was creating new economic activity. Instead of calls for reform from the Branstad administration and the General Assembly, we see new proposals floated for fewer restrictions on corporate tax credits. Gov. Terry Branstad has proposed raising the cap that limits a select group of business tax credits from \$120 million to \$185 million a year.

Rather than finding more ways to give money away, the first order of business in the General Assembly should be to ensure that existing tax credits achieve the public goals for which they are intended. Lawmakers need to be stewards of the state treasury, and this includes tax expenditures every bit as much as appropriations of funds.

Peter S. Fisher is research director of the Iowa Policy Project and co-director of the Iowa Fiscal Partnership. Reports on the Research Activities Credit and other corporate tax subsidy programs are available at www.iowafiscal.org. Comments: iowapolicy@gmail.com