



## **GUEST OPINION**

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[http://www.press-citizen.com/article/20130301/OPINION02/303010005/Commercial-property-taxes-reform-first?nclick\\_check=1](http://www.press-citizen.com/article/20130301/OPINION02/303010005/Commercial-property-taxes-reform-first?nclick_check=1)

### **Fisher: Commercial property taxes — reform first**

**By Peter Fisher**

The annual debate about commercial property taxes in Iowa is under way, and once again the discussion ignores the larger picture — that overall business taxes in Iowa are below average among states — and fails to consider reforms that should be addressed first.

It has become routine practice throughout Iowa, for example, to grant large property tax rebates to new commercial properties through Tax Increment Financing (TIF). Millions of dollars per year flow back to commercial projects, sometimes eliminating nearly all property taxes for 15 or 20 years — which can be to the disadvantage of an existing commercial project not in the TIF.

At the same time, some of Iowa's largest and most profitable companies are paying no state corporate income tax due to the generosity of Iowa's business tax credit programs. And many large multistate companies continue to exploit loopholes in Iowa's corporate tax system to shift profits out of state and avoid paying their share of Iowa's corporate tax, while instate business competitors cannot.

Rockwell-Collins has not paid any state corporate income tax for at least the last three years, and in fact, received state subsidy payments of as much as \$13.8 million last year through the Research Activities Credit, yet it would benefit substantially from the property tax rollbacks and credits being discussed in the Legislature.

At the same time, local services could suffer from the loss of revenue, at least under some proposals. Similarly, Wal-Mart and its stores throughout Iowa, which exist because they are profitable, would receive a reduction on the \$12 million in property taxes they currently pay to support state and local services.

Other national companies that use tax loopholes to escape Iowa income taxes would benefit as well. Nearly identical companies doing business in Iowa may have dramatically different property taxes based upon whether they are part of a TIF district, with TIFs often eroding local property taxes and playing one Iowa community off against another.

That violates a primary tax principle of fairness — that taxes should be based on ability to pay, and that those of similar standing and with similar ability to pay should have similar tax responsibilities.

Is Iowa really not competitive for new commercial investment, as some claim, given the ability of cities to reduce their property taxes to almost nothing? Should corporations not paying their share of the corporate income tax benefit from further state largesse in the form of property tax cuts?

TIF reform, caps on the refundability of tax credits, and measures to close the loopholes in Iowa's corporate tax system (which could be corrected by combined reporting, as is done in the majority of states with corporate income taxes) should be undertaken before any further reduction in business taxes at a cost of cuts to local services.

*Recent legislative proposals:* In fiscal year 2009, property taxes levied amounted to \$4,023 billion, with 31.2 percent, or \$1.254 billion, coming from commercial and industrial property. During the 2012 session, the Iowa House and Senate passed different versions of commercial and industrial property tax rollbacks — either of which could significantly affect the ability of both state and local governments to address health, education, and safety needs of Iowans (which make up 80 percent of the Iowa budget).

The House version, when fully phased in by FY2022, would have resulted in \$486 million less in property tax collections and \$237 million less in funding available to local governments, provided the state honored new commitments for \$249 million in property tax replacement from state sources. The Senate version, when fully phased in by FY2022, would have resulted in \$419 million less in property tax collections and \$91 million less in funding available to local governments, provided the state honored new commitments of \$328 million in property tax replacement funds from state sources. Since they did not reach agreement, neither version was enacted into law, but these issues are again before the General Assembly.

*Iowa's business taxes already are low.* When one considers the whole range of state and local taxes that fall on businesses, Iowa is a low-tax state. In a report on overall taxes, including property taxes, paid by businesses, the nationally recognized accounting firm of Ernst and Young recently showed that only 15 states taxed businesses at a lower rate than Iowa as a percent of private-sector GDP.

*Commercial property tax break will spur little or no growth.* A state or local government's tax rate — be it corporate income or commercial property or the combination of all taxes on business — is a tiny portion of a business' overall costs. Taken together, state and local taxes on business are, on average, only about 1.8 percent of total business costs. The commercial property tax by itself would be an even tinier fraction of a business' overall costs. The notion that cutting commercial property taxes further by reducing assessments will bring in new economic activity and new revenue is a pipe dream.

If Iowa is to make changes in its property tax treatment of commercial and industrial property, the first thing it should do is look to finance the cost of these changes through closing existing tax loopholes and subsidies. There are many provisions within Iowa's tax code that are designed to stimulate economic activity but also substantially erode overall tax collections, often to the benefit of very narrow business interests. Because these credits are part of the tax code, they are not subject to annual appropriation or review. Before lawmakers consider changes to commercial and industrial property taxes or to corporate or individual income taxes, they need to review and consider reforms to and eliminations of special business tax exemptions and credits.

*Peter Fisher is research director of the Iowa Policy Project, part of the Iowa Fiscal Partnership, a joint public policy research and analysis initiative of IPP in Iowa City and another nonpartisan, nonprofit organization, the Child & Family Policy Center in Des Moines.*