



GUEST OPINION

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Iowa View: No proof state benefits from business giveaway

By Mike Owen

It's time for a little accountability.

Carrie Norris' guest column ("Development initiatives have strengthened economy," March 27) echoes business lobby cheerleading for Iowa's research activities credit (RAC). Norris, president of the Homebuilders Association of Greater Des Moines, attempts to tie job creation and business growth to the research activities credit.

If homebuilders were to build on such weak foundations, there would be trouble.

Repeatedly, reports by state agencies, state observers and nonpartisan researchers have shown the research activities credit to be predominantly an extremely generous benefit to big companies, rather than an example of "what can be accomplished" for Iowa's economy.

In fact, the research activities credit is noteworthy for its excessive cost — more than \$45 million each of the past three years — and the lack of any demonstration of a public benefit. This giveaway is so loosely managed that companies are not even required to disclose how many jobs are related to the taxpayer cost, let alone demonstrate that the jobs would go away without the subsidy.

As the claims keep coming, the jobs have not necessarily followed. Rockwell Collins last year announced layoffs, even though the state reported in February that the company had \$13.8 million in research activities credit claims in 2012.

Furthermore, the research activities credit, passed in the mid-1980s as an incentive for small startup firms, an entrepreneurial support, has been dominated by very large companies.

State disclosure reports required since 2009 from the Iowa Department of Revenue and Finance show that the same five companies — in this order — have had the largest claims and the vast majority of claims in each of the past three years: Rockwell Collins, Deere & Co., DuPont, John Deere Construction and Monsanto.

Some noteworthy details:

- None of these are a startup firm.
- The total amount of claims by those five: \$39.4 million in 2012, \$37.3 million in 2011 and \$37 million in 2010.
- Ninety-one percent of the credit was claimed in 2012 by companies with large claims (\$500,000 and above).

Besides the state's misfire on who benefits from the credit, it also is important to understand that most of the research activities credit is not used to reduce taxes, the way one might expect of a "tax credit." Instead, \$33 million of it in 2012 — 71 percent of all claims — was paid out as checks to companies that pay nothing in state income tax.

That share was even higher the previous two years: 95 percent of claims were paid as checks, not as a tax

reduction. Again, the biggest beneficiaries all three years were large companies. A special tax-credit review panel recommended in 2010 that the state end those giveaways for big companies that pay no income tax. The Legislature has not acted.

Finally, those big companies that dominate the use of the research activities credit are extremely profitable and hardly in need of a subsidy from Iowa to keep the doors open, and they would not exist without doing research. They don't need the state of Iowa to encourage them to do it.

Far from the positive example of economic development as suggested by Norris, the research activities credit is a poster child for reform. Any program that writes checks to companies must demonstrate that the state gets a return on its taxpayer dollars. No one has shown any return on investment to Iowa taxpayers.

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