



# The Iowa Policy Project

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## Iowa Cannot Afford another Wasteful Business Tax Break

Statement by Peter Fisher, Research Director, The Iowa Policy Project  
before the Administrative Rules Review Committee  
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The administration's proposal to create new sales tax exemptions for Iowa businesses is unnecessary, expensive and counterproductive. The state can ill afford another tax break that will harm essential state services while producing little or no economic benefit.

### ***Iowa business taxes are already quite competitive***

- The most recent study of state and local taxes on business as a percent of state GDP by Ernst and Young and the Council on State Taxation shows that Iowa taxes business at 4.7 percent of GDP, exactly the same as the national average. Iowa ranks right in the middle of the pack.
- A study by Anderson Economic Group in 2015 calculated state and local taxes on business as a percent of pre-tax profits and found Iowa's effective tax rate to be 8.7 percent, which placed it 32<sup>nd</sup> among the states, below the national average.

### ***State and local taxes have little effect on business location decisions***

- State and local taxes are less than two percent of total costs for the average corporation. As a result, even large cuts in state taxes are unlikely to have an effect on the investment and location decisions of businesses, which are driven by more significant factors such as labor, transportation, and energy costs, and access to markets and suppliers.

### ***Enacting a subsidy through administrative rules guarantees complete absence of evaluation and accountability***

- While the sales tax break has been promoted as an economic development incentive, creating it by administrative rule eliminates even the minimal level of accountability established by the Legislature for the periodic review of tax credits. There will be no review, no evaluation of its effectiveness, not even an annual accounting of its cost.

### ***Tax breaks erode support for public investments in our future***

- The proliferation of tax incentives and business tax cuts over the past two decades has resulted in several hundred million dollars each year cut from the state budget. This has undermined the state's ability to support quality education, from pre-school through public colleges and universities, which in the long run will have serious consequences for state economic growth and prosperity.