



NEWS RELEASE

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New Estimates Show Iowa's Revenue Holes

IOWA CITY, Iowa (Dec. 12, 2008) — Newly revised state revenue estimates are pointing not just to the national recession hitting Iowa, but to holes in Iowa's revenue structure, Iowa Fiscal Partnership analysts said today.

“We inherited a leaky boat and we're not patching the holes yet,” said Peter Fisher, research director for the nonpartisan Iowa Policy Project.

“We can all agree on a need for belt-tightening, but that discussion should include a total examination of business tax credits, which remain the state's most unaccountable and fastest-growing major category of spending.”

The Iowa Fiscal Partnership (IFP) — a joint initiative of the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines — this week put out a briefing paper noting several problems in Iowa's revenue structure.

“We are writing checks to profitable companies to the tune of millions -- and some of those companies aren't paying income tax,” Fisher added. “Should that be off the table while we talk about cuts to essential services? Why should they be exempted from discussions about balancing the budget?”

“The big companies that really need our educated students should step up to the plate and do their part to keep our high-quality education system funded the way it needs to be.”

Iowa's Revenue Estimating Conference has steadily scaled back its revenue estimates and today projected a deficit for the current budget year. The decline is only partly attributable to the recession, as the IFP paper this week pointed out. That three-page IFP paper is on the web at www.iowafiscal.org. It recommended:

- Closing corporate tax loopholes with combined corporate income tax reporting. This would prevent corporations from shifting profits that should be taxed in Iowa to shell corporations in other states. This move would capture as much as \$80 million a year. It also would remove a competitive advantage for large multistate companies over their Iowa-based competitors who primarily do business within the state.

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■ Restricting the research activities credit, which enables some large companies to not only erase all their Iowa income tax liability, but to receive large, secret checks from the state as well. The Iowa Department of Revenue has estimated this break cost the state over \$30 million in 2005.

Those two changes, along with cutting back on the state's capital gains exclusion and freezing the phaseout of taxes on previously untaxed Social Security income for wealthy retirees, would be expected to save as much as \$165 million a year.

Fisher said there are sensible alternatives to cutting services for Iowans who will be most hard-hit by the recession, or cutting investments in education that will be needed to carry the state beyond this economic crisis.

"We need to look at the whole picture, and that means spending that is done through the tax code, out of view of most Iowans and even most legislators," Fisher said.

The report noted that state revenues have declined as a share of the state's economy over the last 15 years, due largely to "aggressive tax cutting in the late 1990s, and continued tax cuts through the recession of 2001 and the subsequent recovery." Sales taxes, meanwhile, do not apply to many services and only on a spotty basis to purchases made over the internet, and corporate taxes have dropped substantially with a vast expansion of tax credits.

"If the revenue picture does not change," Fisher said, "it is inevitable that the state's current priorities of health-care and education investments will be affected."

The full report is available at www.iowafiscal.org/2008docs/081201-aging.pdf.

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