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## Guest column: Making corporate taxes work for lowans, not the other way around

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In recent weeks we have heard a bad idea emerge in the governor's race: abolishing the state corporate income tax. When the state is cutting services and laying off hundreds of workers, adding to Iowa's unemployment and recession woes, it is irresponsible to write off a significant revenue source.

It's that whole baby-and-bathwater thing: We should be able to figure out what to throw out. It's not the corporate tax system. We need to save it, and throw out the wrinkles added through years of campaign contributions and intense lobbying.

The problem is not what corporations are paying. It's what they are not paying. When corporations don't pay their fair share of taxes that support their operations, other taxpayers must pick up the tab. That's already happening - disadvantaging small Iowa businesses and individual households. Our challenge is to restore corporate taxes to their rightful place in the mix of funding for public services.

What corporate tax opponents never tell you is that their position is decidedly anti-Main Street, and that Iowa's tax laws already favor large multi-state corporations.

About 460,000 Iowa businesses file tax returns in a given year. Over 90 percent are farms, mom-and-pop stores and other proprietorships, partnerships and what are known as "S corporations." These overwhelmingly smaller, Iowa based businesses all pay income taxes under the individual income tax; only so-called "C corporations" pay corporate income tax.

That means the vast majority of Main Street businesses would see no benefit from abolishing the corporate income tax. It would merely lower taxes further on their larger corporate competitors.

Those big corporations already benefit from Iowa's failure to plug loopholes that allow multi-state firms to transfer profits out of Iowa to avoid taxation - legally. Smaller Iowa firms that do all their business in the state don't have that option.

Eliminating the corporate tax altogether is not a pro-business measure; it is a pro-multi-state corporation measure, making it even easier for such companies to underprice the small Iowa businesses that have to compete with them.

The proposal is unfair on other grounds as well. Corporations doing business in Iowa benefit from investments by state government in education, infrastructure and public safety services.

Government is responsible for educating workers and the children of those workers, and for building, maintaining and policing the roads that businesses rely upon. Since a corporation's ability to generate profits from Iowa operations depends on public services, corporations should pay their share of the cost of providing those services. Shareholders, the majority of whom reside outside the state, should not get a free ride, earning more dividends because Iowa does not charge for the public costs of doing business in our state.

Those proposing to abolish corporate taxes rely on the mistaken notion that this would solve a problem. If big businesses aren't doing enough business in Iowa, it's not about taxes.

Iowa's corporate income tax is well below the

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national average, and ranked 38th among the states in 2007 (corporate income tax revenue as a percent of state personal income). Proposals to eliminate or even significantly reduce further Iowa's corporate income tax are, inevitably, a call for everyone else to pick up the slack, including the small businesses that must compete with the newly tax-free corporations.

Real reform of the corporate income tax would level the playing field for Iowa firms and provide a sustainable budget approach for all taxpayers, including the vast majority of Iowa businesses.

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