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Risky Precedent in Racetrack Tax Deal

By Elaine Ditsler

U.S. Motorsports is planning to break ground on a \$70 million racetrack and museum in Newton, Iowa, this spring. The project would be a major new attraction in Iowa, and its developers are receiving a new form of public assistance. As any business might like to do, U.S. Motorsports wants to keep the first \$12.5 million in sales taxes that it collects. Most legislators and the governor are granting the wish.

This is a classic case of good intentions leading to bad policy. Even after passage, legislators should carefully consider the consequences of this bill.

First of all, the bill is almost certain to trigger a flood of similar requests that would drain the treasury of needed funds and further complicate the tax code. Tax expert Mike Lipsman, of the Iowa Department of Revenue and Finance, has warned that tax incentives of this sort are almost always expanded, so as to cost much more than the original pricetag. For example, in 1994, the Legislature passed a similar bill that created new incentives just for the IPSCO steel plant in Muscatine. Within two years, these “special” incentives had become statewide policy, and — to this day — continue to drain state and local government revenues. The precedent here is just too risky.

Second, the bill fails on the most basic principle of tax policy: fairness. The track is being given an unfair advantage over its competitors (i.e. sporting events, movies, restaurants, other tracks, etc.), and all other businesses that collect sales taxes. Furthermore, all the rest of us would have to pay a little more in taxes to compensate for the \$12.5 million not collected from racetrack sales.

Finally, the Legislature should simply not use the tax code to transfer \$12.5 million from the public to U.S. Motorsports. The appropriate channel for U.S.

Motorsports to receive direct, cash assistance from the government is via the Department of Economic Development. Iowa's legislators already have enough investment decisions to make about how to allocate Iowa's tax dollars for real public purposes, such as schools, law enforcement, human services and roads (and not enough resources to meet these needs).

Incredibly, many in the Legislature seemed bent on granting this tax concession despite the fact that it is unnecessary. U.S. Motorsports has publicly admitted that the project would go forward without it. Here's an idea: Let developments go forward without special tax deals that undermine fairness and public accountability for public dollars. Isn't that the only sensible and fiscally responsible thing to do?

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