
Iowa Fiscal Partnership

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Looking Behind the Curtain Report Unveils Problem of Iowa Tax Expenditures

DES MOINES, Iowa (December 19, 2006) — Iowa spends millions of dollars with virtually no accountability in an attempt to encourage economic development, according to a new report that calls for more public and legislative scrutiny.

The spending is through “tax expenditures,” provisions in tax law that give special preferences to certain activities and cause a loss of tax revenue.

“The problem is that it’s hard to tell how effective these tax breaks are in promoting new economic activity,” said Victor Elias, senior policy associate at the Child and Family Policy Center (CFPC) in Des Moines and co-author of the report for the nonpartisan Iowa Fiscal Partnership (IFP).

“These tax breaks have almost no reporting requirements and individual recipients remain unknown,” Elias said. “This is the public’s business, and no one is minding it.”

Elias and Charles Bruner, executive director of the CFPC, noted in the report, “Looking Behind the Curtain,” that the annual cost of tax expenditures in Iowa is unknown because they are not tracked and do not require annual appropriations by the Legislature.

“Once these breaks are on the books, they are rarely reviewed,” said Bruner, a former legislator. “There should be an annual review — just as there is for spending done by appropriations.”

Among economic development tax expenditures examined by the report is the research activities credit, which has a \$208.5 million price tag, or \$32 million annually over the last five years. It was estimated to cost considerably less when originally adopted by the Legislature.

Research Activities Credit Claimed on Corporate Returns

Fiscal Year of Claim	Number of Claims	Research Activity Credit Claimed
Pre FY1998	1,297	\$ 19,293,368
FY1998	118	2,869,120
FY1999	108	5,437,168
FY2000	128	8,584,568
FY2001	126	13,204,187
FY2002	125	13,642,257
FY2003	204	30,257,782
FY2004	248	50,655,606
FY2005	178	29,570,291
FY2006	189	34,975,937
Total	2,721	208,490,284

Source: Iowa Department of Revenue and Finance

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The report notes one unidentified firm received an \$11 million check from the state through that research and activities credit.

Elias and Bruner said the first step in restoring accountability is to assure adequate public disclosure.

“A number of states already make public the tax claims and benefits that are derived from specific tax expenditures,” Elias said. “If we had such a law, Iowans would have been able to identify which firm received the \$11 million check from the research activities credit.”

The report recommends:

- ***An annual Economic Development Tax Expenditure Report***, showing all such tax expenditures, shall be provided to the General Assembly within three months of the close of the state’s fiscal year.
- ***All data in the Economic Development Tax Expenditure Report and the state’s new tax credits tracking system shall be public record*** under Iowa’s Public Records law and made available online through a searchable data base.
- ***A searchable data base of economic development tax expenditures, by company***, shall be available to the public online within three months of the close of the state’s fiscal year.
- ***Sunset provisions for each economic development tax expenditure*** shall be included to force a review of its annual cost and to determine if it is accomplishing the intended public purpose.
- Provisions should assure the state’s ***ability and authority to recapture tax credits*** from businesses that do not accomplish stated goals.

The new report for the IFP is available on the Iowa Fiscal Central website <<http://www.iowafiscal.org>>.

The Iowa Fiscal Partnership is a joint tax and budget analysis initiative of the Iowa Policy Project in Mount Vernon and the Child & Family Policy Center in Des Moines, two nonprofit, nonpartisan organizations.

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Economic Development Tax Credit Programs in Iowa

Year	Program	Amount
FY2005	New Jobs and Income Program	\$ 45.5 million
FY2005	Iowa New Jobs Credit (under 260E)	2.4 million
FY2005	New Capital Investment Program	18.4 million
FY2003	Research Activities Credit	31.8 million
FY2005	Enterprise Zone Program	45.8 million
FY2005	Housing Enterprise Zone Program	10.5 million
FY2006	Venture Capital Credit — Investments in Qualifying Business and Seed Capital Funds	0.3 million
FY2006	Venture Capital Credit — Investments in Venture Capital Funds	0.2 million
FY2005	Venture Capital Credit — Investments in Iowa Fund of Funds	NA
Total		\$154.9 million
New Program	Wage-Benefit Tax Credit	10.0 million
New Program	Economic Development Region Revolving Fund Tax Credit	2.0 million
New Program	High Quality Job Creation Program	NA

Source: Legislative Services Agency, Fiscal Division, 2004 Fact Book