

LOOKING BEFORE WE LEAP **The Commercial Property Tax Task Force Recommendations** **and Iowa's Overall Tax System**

The Commercial Property Tax Task Force has issued its report to Governor Chet Culver, making several recommendations:

- A two-year study of Iowa's tax system through a 21st Century Tax System Task Force that starts with a detailed study of Iowa's current tax system from a qualified and well-respected tax-specialty firm;
- Some immediate commercial property tax reduction through a property-tax refund on income-tax forms; and
- Changes to the school-aid formula to increase the state share of the foundation formula and the uniform school levy.

The Task Force acknowledged that Iowa's tax system is complex and that commercial property taxes could not be addressed in isolation but had to be part of a larger assessment of Iowa's tax system.

TWO-YEAR STUDY

The Iowa Fiscal Partnership agrees on the need for a comprehensive review of Iowa's overall tax system and the suggested two-year time frame. The Partnership also believes this review should:

- Set a framework to examine the tax system based upon recognized overall tax principles (fairness, competitiveness, public benefit and economic efficiency, revenue adequacy, stability and predictability, simplicity, and accountability)
- Focus upon commercial property taxes, on property taxes generally, and on the overall state and local financing system (at least including property, sales and income taxes), including:
 - An examination of commercial property taxes in the context of overall taxes paid by owners of commercial property and by different types of commercial establishments;
 - An examination of overall property taxes in the context of different types of property and with an examination of the impacts of rollbacks, the agricultural land productivity formula, tax increment financing district effects, and the elimination of personal property to the property tax base;
 - An examination of overall taxes in the context both of the appropriate share of overall state and local financing that property, sales and income taxes should assume, and of their impact upon different types of taxpayers (individuals, commercial businesses, industries, agricultural establishments, retirees, etc.); and
 - An examination of tax expenditures and exemptions for all taxes regarding their public purpose and actual impact.

Tax transparency legislation can help to ensure that the study and the resulting work is informed by information that is as complete as possible on the current impacts of Iowa's tax policies.

The Fiscal Partnership finds the two other recommendations by the Task Force much more problematic.

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IMMEDIATE COMMERCIAL PROPERTY TAX REDUCTION

The Task Force recommended refunding, through the income tax, a portion of commercial property taxes paid “to stop the bleeding.” Task force meetings included substantial discussion about providing \$25 million this legislative session through a \$250 refund per taxpayer for commercial property owners.

This new credit would appear to apply to commercial property owners, regardless of whether their property taxes had increased substantially or whether they faced financial hardships as a result. It also could end up providing benefits to commercial property owners who already receive substantial TIF benefits, in effect refunding, in some cases, taxes that the owner has not really paid (because they were refunded after being collected). Its size is unlikely to be sufficient to sustain a commercial business whose “bleeding” has put it in jeopardy.

Further, it also would result in another piece of “tinkering and adjusting” that has occurred over the years that Task Force members themselves indicated has created some of the problems in Iowa’s tax code today. Establishing such a provision, even if designed to be temporary, could add at least one additional complication, both substantive and political, to the task of reforming Iowa’s tax system. It starts with a tax cut when Iowa still faces long-term challenges in balancing its budget, and when tax restructuring may be the more appropriate approach than simply cutting taxes. Clearly, there are many other issues that also deserve consideration.

CHANGES TO THE SCHOOL AID FORMULA TO INCREASE THE STATE FUNDING SHARE

These recommendations of the Task Force would reduce the reliance upon property taxes generally for the funding of K-12 education. These recommendations are worth examining, but represent a very major policy decision before a tax study has determined a need to reduce reliance upon property taxes in overall state and local funding – or to make some shift in the overall property tax responsibility. Again, this will hardly “stop the bleeding” for commercial property taxes – the Task Force report indicates that \$25 to \$30 million in such a change in the first year would provide roughly \$7.5 million in cuts to commercial property taxes, constituting less than a 1 percent reduction in overall commercial property taxes paid.

These proposals regarding state aid to schools clearly are ones that the tax study should consider, but only in the context of (1) a possible restructuring of the overall property tax system and (2) the mix of all state and local taxes.

EXAMINING ALL TAX INEQUITIES

Commercial property taxes have been set out as a major Iowa tax inequity; in comparison with other states, commercial property taxes in Iowa are relatively high, just as Iowa corporate income taxes are low. There clearly is a need for a comprehensive review of Iowa’s commercial property taxes as well as other business taxes and their impacts – to determine where there are inequities and where commercial property owners face particular challenges in being competitive and viable, as a result of those taxes.

Still, commercial property taxes are not the only taxes in Iowa that deserve such scrutiny. The Iowa Fiscal Partnership has produced a number of reports that show Iowa’s personal income tax should be made more fair for working families with children. A family of four earning \$30,000 in Iowa, for instance, pays \$1,300 in state income taxes, where a retired individual or couple has no income tax obligation. A family of four starts paying income taxes in Iowa when its income exceeds \$18,300 (below the poverty level), while that same family does not have any federal tax liability until its income exceeds \$41,000 (twice the federal poverty level). If there is a need for an immediate \$25 million effort to “stop the bleeding,” it clearly applies to low- and moderate-income working Iowa families. Providing \$25 million through a state EITC expansion makes more sense than providing an undifferentiated tax break of that amount to all commercial property owners, many of whom do not even reside in Iowa.