

# Iowa Fiscal Partnership *news release*

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## Iowans Pay Taxes, Fund Corporate Secret Checks Biggest Firms Benefit, With Little Accountability to Taxpayers

DES MOINES, Iowa (April 16, 2008) — While Iowans are busy paying their taxes this week, a new report shows how household-name companies such as Rockwell Collins, Deere and Whirlpool have been getting big checks at their expense.

“It’s Tax Week, and that means Iowans filing their tax returns this week are helping to pay for secret checks to corporations,” said Victor Elias, senior associate at the nonpartisan Child & Family Policy Center.

Elias authored a new Iowa Fiscal Partnership (IFP) report, “Perks for the Most Profitable,” which provides new detail about the use of the Research Activities Credit, or RAC. Unlike in most states, the Iowa credit is “refundable,” which means that if a company can claim credits greater than its tax liability, it receives a check from the state treasury — not a “refund” of taxes paid, but simply a state subsidy.

Most such payments are secret because of their connection to corporations’ income taxes, which are private, although supplemental RACs issued through the Iowa Department of Economic Development (IDED) are public information. That publicly available information about the supplemental credits enables a limited view into the size of such subsidies provided to large corporations, including Rockwell Collins and Whirlpool.

“Iowa’s largest corporations are receiving huge checks at the same time legislators are making hard choices about funding essential services,” Elias said. “These corporations benefit from these services. We have to ask if this makes sense when some families don’t even make enough money to pay federal taxes but have to pay state income taxes. It’s a question of equity.”

IFP has reported previously, using state Department of Revenue information, that the RAC cost the state \$37.1 million in 2005. Almost \$30 million of that was in the form of subsidies, after all taxes had been forgiven, to the top 10 largest claimers.

The IDED information showed that from July 2003 through June 2007 supplemental RAC awards have included up to \$20.7 million to Rockwell Collins, \$6.5 million to Deere, \$4 million to HNI Corp. and \$1.5 million each to Whirlpool, Sauer-Danfoss and Wells Dairy. Collectively, these corporations had after-tax earnings of \$3.2 billion in 2007.

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“One issue Iowa legislators should consider before leaving for the year is that Iowans are paying these bills — and legislators can’t even tell them what they’re getting for the money,” Elias said. “It’s important to understand that the companies are only doing what the state allows. But that is the policy question for Iowa: Is this a good use of taxpayers’ money?”

The report does not call for ending the RAC program — only for capping the subsidy checks. It notes a \$100,000 limit per company per year on the regular RAC subsidy checks, and a \$100,000 annual limit on supplemental RAC subsidy checks, would save the state \$15 million to \$20 million. That still would keep the program available for the start-up ventures for which RAC promoters say the refundability part of the program is necessary.

The IFP report also notes that since 2000, Iowa has adopted over 20 new tax credits costing Iowa's treasury hundreds of millions of dollars and potentially eroding the state's ability to fund essential services.

“This shortage could become evident in an extended economic downturn,” said David Osterberg, executive director of the nonpartisan Iowa Policy Project (IPP), which also is part of the IFP. “That’s one reason this is such an important report. Not only do we need to be sure we’re getting our money’s worth, we have to be sure we’re putting our money where it’s needed. One has to question whether these secret checks are a good use of public money.”

The new report noted that reform of such tax expenditures could provide funds needed to pay for an expansion of the Earned Income Tax Credit, which helps about 110,000 low-income working families.

The Iowa Fiscal Partnership (IFP) is a tax and budget policy analysis initiative of two nonpartisan, Iowa-based organizations — the IPP in Iowa City/Mount Vernon and CFPC in Des Moines. IFP reports are available at <<http://www.iowafiscal.org>>.

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