



NEWS RELEASE
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Responding to the Economic Crisis

A Pro-Iowa Strategy: Close Loopholes, Cut Spending on Tax Breaks

DES MOINES, Iowa (Dec. 10, 2008) – New budget cuts by the governor and Friday’s official revenue forecast renew the need for Iowa policy makers to find revenue by closing wasteful tax loopholes and cut spending on tax breaks to corporations that don’t pay Iowa taxes, analysts said Wednesday.

“Iowa’s budget faces both long-term challenges and short-term challenges, as we saw yesterday with the governor’s budget cuts,” said Charles Bruner, executive director of the nonpartisan Child & Family Policy Center.

“This really shows why the Legislature needs to make a full head-to-toe examination of the Iowa budget situation. This means all spending, including wasteful spending through the tax code, needs to be examined.”

The Revenue Estimating Conference, which meets December 12, will provide an official picture of the state’s finances heading into the 2009 legislative session. A deficit in excess of \$500 million is expected for FY2009-10. This deficit could approach or even exceed 10 percent of the new state budget.

Bruner and other authors of an Iowa Fiscal Partnership public briefing paper released today suggest that instead of tax increases, Iowa can first find revenue by seriously examining tax loopholes and tax credits that have allowed Iowa’s revenues to wane. These ideas, which include closing those loopholes and restricting tax credits, as well as freezing some tax spending as the governor is doing with some state spending, could save as much as \$165 million in normal economic times.

“The first place to look for revenue to close the state’s budget shortfall, especially looking ahead to the next budget year, is the state’s tax code and its various tax expenditures and breaks,” said Peter Fisher, research director of the Iowa Policy Project and a co-author of the report.

Coupled with potential federal assistance through the coming economic recovery package, this would go a long way to balancing the budget without cutting essential public services, the report notes.

Tax credits – unlike state appropriations, which receive annual scrutiny by the General Assembly – are not reviewed annually once they are enacted, and simply stay on the books. But they often grow in size over time as tax accountants and attorneys find new ways to use them – or find other seams in the tax code that allow their clients to avoid Iowa tax.

IFP reports have identified several tax credits and tax provisions needing reform. These areas should be at the top of the list for budget work in 2009 to address what has become a chronic revenue problem for the state:

- *Close Loopholes.* Require multistate corporations to provide unified reporting, known as “combined reporting,” of their income for tax purposes to prevent their use of tax loopholes to avoid paying Iowa income taxes (yields as much as \$80 million in revenue in normal economic times and eliminates an unfair advantage for multistate corporations over local businesses).
- *Research Activities Credit.* Limit the credit amount any one corporation can claim to \$250,000 per year (yields \$30 million in reduced state expenditures to large Iowa corporations, which already benefit by having their Iowa corporate income tax liability eliminated by the credit);
- *Capital gains total exclusion.* Limit the Iowa capital gains total exclusion to up to \$100,000 in preferential treatment (yields \$25 million in revenue); and
- *Senior Social Security tax exemption.* Freeze the total phase-out of the Social Security tax exemption and restructure these provisions to provide equity of tax treatment of higher-income (\$80,000 plus income) seniors and working families while providing additional relief to low- and fixed-income seniors (yields \$15-20 million in revenue).

In addition to these reforms, the High Quality Job Creation Program, the Enterprise Zone Program, and the Iowa Industrial New Jobs Training Program all deserve detailed scrutiny and review.

The Iowa Fiscal Partnership is a joint policy analysis initiative of two nonpartisan, nonprofit Iowa-based organizations, the Child & Family Policy Center in Des Moines and the Iowa Policy Project in Iowa City/Mount Vernon. IFP reports are on the web at www.iowafiscal.org.

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