

Voter Views:

Voter Survey on the Iowa Budget Crisis

Part One

November 2009

Iowa Voters: Budget Crisis Response Should Include Raising Revenue and Improving Tax Fairness

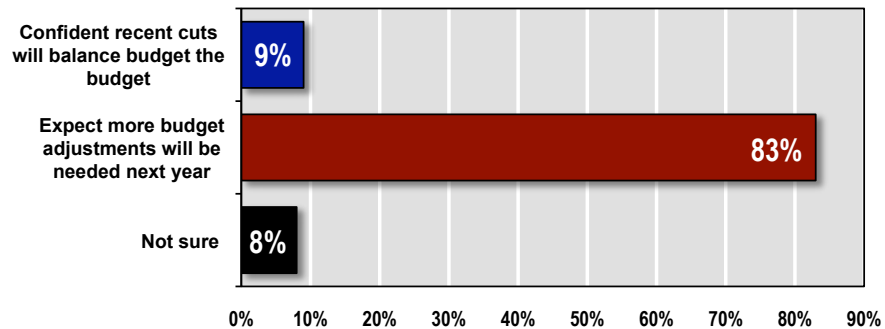
Iowa voters believe further revisions will be needed to balance Iowa's budget. Moreover, voters want lawmakers to find solutions that include selective tax and revenue increases and believe the current Iowa tax system favors the wealthy and large corporations. Voters overwhelmingly favor greater public disclosure and transparency of business tax credits and support state income-tax reform. These findings in a survey commissioned by the Iowa Fiscal Partnership may help Iowa policy makers find sound solutions in keeping with Iowans' priorities.



**A joint budget analysis initiative
of the Child & Family Policy Center
and the Iowa Policy Project**

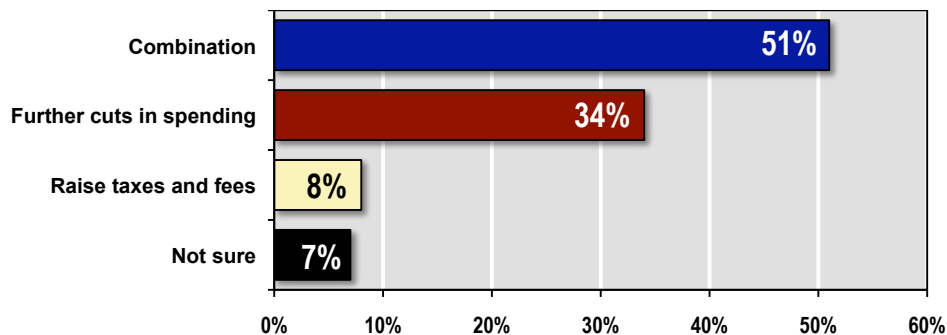
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Question: The Governor recently ordered a 10 percent cut in state expenditures because state revenues are forecasted to decline. Are you confident these cuts to governmental expenditures will be sufficient to balance the budget, or do you expect more adjustments will have to be made next year?



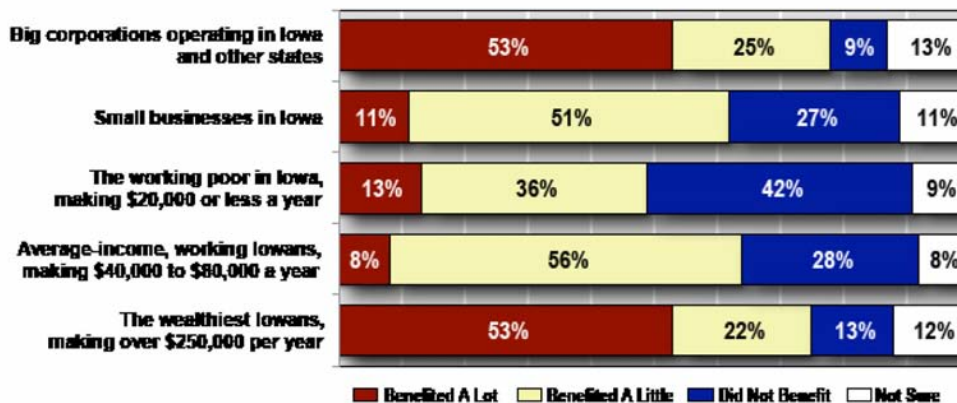
- By a ratio of 9-to-1, Iowa voters do not believe the 10 percent across-the-board budget cut has balanced Iowa's budget.
- Iowa voter views are consistent with current state revenue projections, which indicate the shortfall in next year's budget exceeds \$1 billion, which could be an additional 10 percent of current state expenditures and commitments.

Question: If state revenues continue to fall, the State Legislature will need to decide whether to make further cuts in spending, raise taxes and fees to increase revenue, or some combination. Which do you think is the best approach?



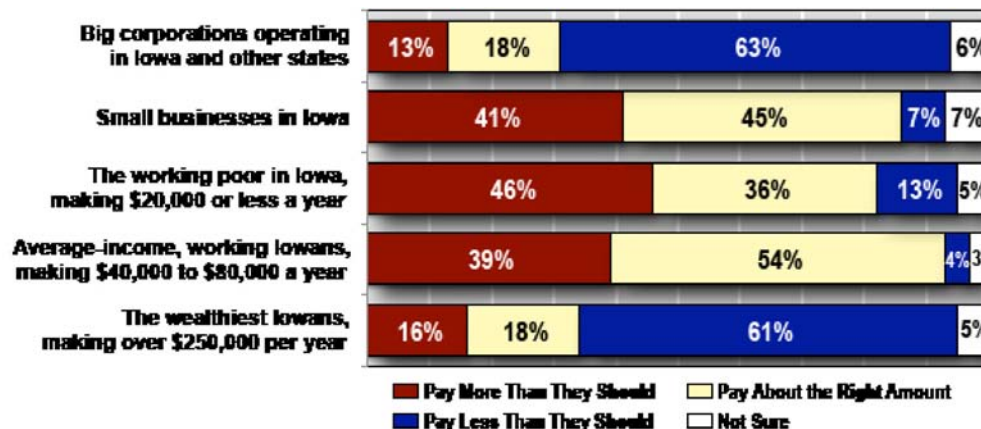
- Overall, Iowans favor a balanced approach to addressing further budget problems, with 6 in 10 favoring some increase in taxes and fees rather than cuts alone.
- National research shows cutting state spending is more likely to deepen and prolong a recession than raising selective taxes, particularly those affecting more affluent taxpayers and businesses.

Question: Over the last 20 years, Iowa has enacted a number of tax cuts for individuals and business including income taxes, sales taxes, and property taxes. Please state whether you think the each of these groups benefited a lot from the tax reductions, benefited a little, or did not benefit at all.



- Iowa voters generally believe the greatest benefits from recent tax cuts have gone to the wealthiest Iowans and to big corporations.
- In fact, the largest beneficiaries of tax cuts over the past 20 years have been the wealthiest Iowans, whose incomes also have grown the most over this period.

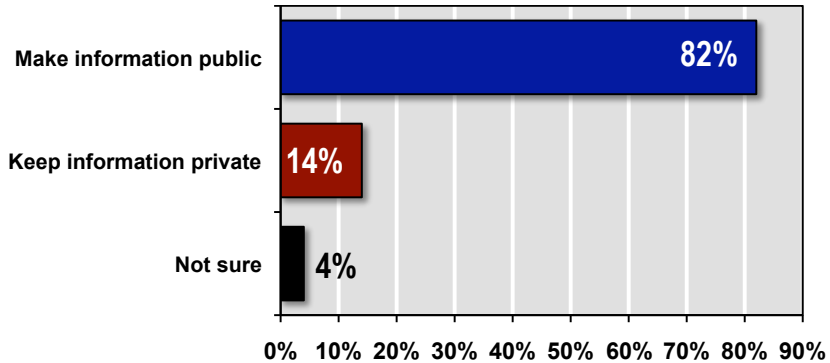
Question: Which of these groups do you think pay more taxes than they should, pay about the right amount, pay less than they should, or pay less than they should?



- More than 6 in 10 Iowa voters believe the wealthiest Iowans and large corporations do not pay their fair share in Iowa.

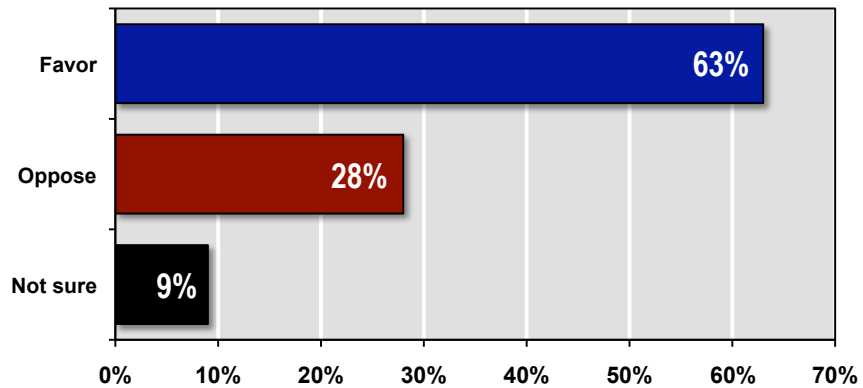
About this survey: The Iowa Fiscal Partnership commissioned a survey of 500 registered Iowa voters about Iowa's budget crisis and potential solutions. Selzer & Co. conducted the survey from Nov. 11-15. The margin of error is plus or minus 4.4 percentage points.

Question: Currently, the state does not make public the amount of tax credits businesses are awarded through targeted programs. Should the state make public the names of businesses and the amount they receive because the public should know how these credits are used, or should it be kept private because it would discourage businesses from using the credits by providing information to their competitors?



- By a very wide margin, Iowa voters believe there should be transparency when it comes to business tax credits.
- A growing number of states have enacted transparency legislation to make public such information, with no evidence this compromises those businesses' trade secrets.

Question: Last session, the Iowa Legislature considered changing Iowa's income tax to lower tax rates, increase some deductions, and end the ability to deduct federal income taxes when calculating state income. The result would have been that approximately three-quarters of Iowans would pay less state income tax and people with taxable incomes above \$150,000 would generally pay more. Would you favor or oppose these changes?



- By a 2-1 majority, Iowa voters favor tax reform that makes Iowa's tax system more progressive through lowering rates and eliminating federal deductibility.
- Iowa voter response is consistent with their voters of how Iowa's tax system can be changed to be more fair for taxpayers at different income levels. (See Part Two)

Voter Views:

Voter Survey on the Iowa Budget Crisis

Part Two

November 2009

Iowa Voters Find Selective Tax Increases Acceptable To Avoid Further Budget Cuts

Iowa voters show high levels of acceptance for a number of tax changes to protect against further cutbacks to public programs. Topping the list of acceptable ways to raise revenue are those that would close tax loopholes and tax preferences that generally benefit wealthier Iowans. These include refundable or transferable credits to businesses for film production and research activities. At the same time, Iowa voters are strongly opposed to across-the-board increases in either the income tax or property tax.

These findings in a survey commissioned by the Iowa Fiscal Partnership may help Iowa policy makers find sound solutions in keeping with Iowans' priorities.

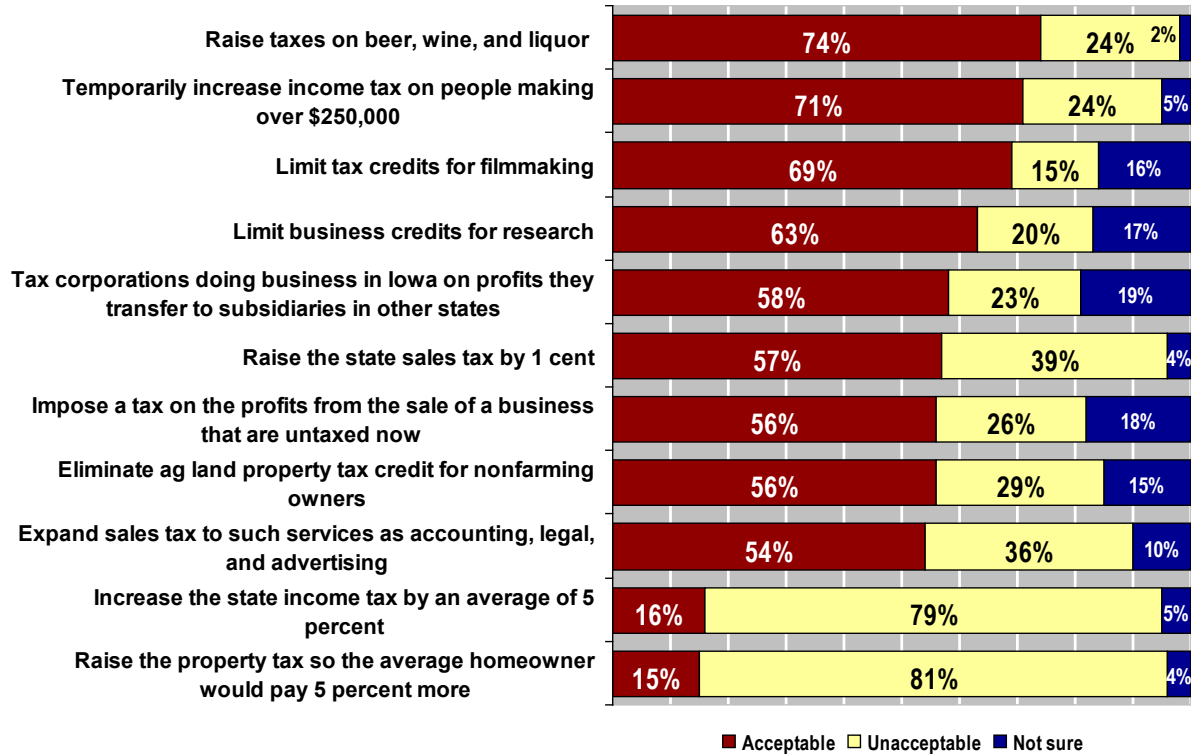


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Question: Regardless of whether you favor or oppose raising taxes generally, please tell me for each of the following if you consider this an acceptable or unacceptable way to raise revenue to avoid or minimize further cutbacks in services. [Ranked in order of acceptability]



- Iowa voters favor a number of specific tax measures to avoid or minimize further service cuts.
- A substantial number of tax provisions are ones with which many Iowa voters were not familiar and did not feel comfortable expressing an opinion, although these provisions have substantial costs to the state. Better transparency of Iowa tax expenditures can improve public awareness.

A significant number of the tax provisions were ones with which Iowa voters are likely to have limited familiarity (more than 15 percent said “not sure”), although all are favored by at least a 2-to-1 margin among voters as an acceptable way to raise revenue to avoid or minimize cuts in services. These are described below, with a table on Page 4 showing their revenue implications to the state.

Limit tax credits for people who make films in Iowa to no more than the taxes they owe. Current Iowa law allows filmmakers to receive tax credits for half the costs of filmmaking that occur in Iowa. It also makes these credits transferable to other taxpayers. Since filmmakers generally make very few profits in Iowa, they owe almost no income tax, and the transferable tax credit essentially is a direct subsidy for filmmaking. Studies in other states have estimated that the cost to the state for such subsidies is likely to be five to 10 times the amount of any increased state tax revenue that results from the activity.

Limit business tax credits for research to no more than the amount of taxes they owe. Currently, Iowa law provides a refundable research and activities credit in order to encourage research, particularly for start-up companies that have not yet established a profit. Analysis by the Iowa Department of Revenue shows that most of the benefit goes to large and profitable Iowa corporations that owe little state corporate income tax and receive refund checks that can be in the millions of dollars.

Tax corporations that do business in Iowa on profits they transfer to subsidiaries in other states. Large multistate corporations have used corporate tax loopholes that exist in many states to transfer profits they make in the state to subsidiaries in other states, particularly Delaware and Nevada, where such profits are not taxed. A number of states require “combined reporting” that closes this loophole by treating subsidiaries as a part of the main business for income tax purposes. Combined reporting also creates a more level playing field between local businesses and their multistate competitors.

Impose a tax on the profits from the sale of a business that are untaxed now. Unlike federal law, Iowa law allows a tax filer who has sold a business in which the tax filer has “materially participated” for 10 years to exempt any profit from the sale. Iowa is one of a handful of states with such an exclusion of all capital gains income from state taxation.

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Many of the tax expenditures identified by Iowa voters as acceptable ways to raise revenue to avoid future cuts could help substantially to balance Iowa's budget, as the table below shows.

Current Estimates of Impacts on Iowa Budget of Selective Tax Provisions	
Film Credit – eliminate refundability	\$50+ million
Research Activities Credit – eliminate refundability	\$40+ million
Require corporate combined reporting	\$50 to 100+ million
Capital Gains treatment like earned income	\$40+ million

About the Survey

The Iowa Fiscal Partnership commissioned a poll of 500 registered Iowa voters to determine public opinion on Iowa's budget crisis and explore voter views on how to resolve it. The poll was conducted by Selzer & Company from November 11 - 15. The poll has a margin of error of 4.4 percent.