

## Clear Problems with New Bonus Depreciation Breaks

Iowa lawmakers are considering proposals that would have the state tag along, or “couple,” with a federal tax break for business. The break is called “bonus depreciation,” which permits businesses to delay paying a share of current income taxes. In some cases they may avoid those taxes altogether. There is no economic rationale for Iowa to adopt this break, for several reasons. Chief among them:

- ***The change would provide no incentive to invest in Iowa; the investment can take place anywhere, and Iowa taxpayers pay for the subsidy.***

Three-quarters of Iowa corporate income taxes are paid by non-Iowa corporations making profits from sales in Iowa; the benefits that go to them will be mostly from capital investments made outside Iowa.

- ***There is no benefit to small business.***

While there often is concern expressed about small businesses, this proposal does nothing for them. Assuming adoption of noncontroversial changes to conform to IRS provisions, small businesses already will be able to fully depreciate the first \$500,000 in capital purchases annually. Thus to benefit from the added bonus depreciation change, they would have to have capital purchases in excess of \$500,000 — and they would have to have profits above that amount as well.

- ***The retroactive portion of the legislation is, by definition, not an incentive to do anything, but simply a cash payment to firms for investments they already made without an incentive.***

This does nothing to stimulate the economy, and no new breaks in Iowa’s corporate income tax are necessary. Iowa’s corporate income tax already is low in relation to other states. Research from both the Iowa Fiscal Partnership and the Tax Foundation, using different approaches, found Iowa ranks 36<sup>th</sup>.

- ***Not only is it bad tax policy, but Iowa cannot afford these bonus depreciation breaks.***

The estimated cost to the Iowa treasury for coupling with bonus depreciation (going retroactively) is \$224 million for 2011 and 2012. It is noteworthy that neither Governor Branstad nor the Department of Revenue had recommended adopting the new federal bonus breaks in Iowa’s corporate income tax. Furthermore, very few other states have coupled with federal bonus depreciation breaks in the past, and almost none are expected to do so this year.

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*The Iowa Fiscal Partnership is a joint budget and tax policy analysis initiative of two nonpartisan, Iowa-based organizations, the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines. Find IFP at [www.iowafiscal.org](http://www.iowafiscal.org).*

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