
The Iowa Policy Project Child & Family Policy Center

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Budget Savings Seen in Tax Preferences Report Suggests Six Places to Close Loopholes

DES MOINES, Iowa (April 21, 2003) – Iowa researchers today identified six areas where the state could save up to \$200 million by closing tax loopholes under seven tax principles, including the combined corporate income reporting and Internet sales tax options proposed by Gov. Tom Vilsack.

“These constitute only a start in reviewing tax preferences,” said Charles Bruner, executive director of the Child & Family Policy Center in Des Moines. “All tax preferences and tax expenditures should be examined by a non-partisan blue-ribbon panel.”

A six-page report by Bruner and Peter S. Fisher, research director of the Iowa Policy Project, examines the six tax preferences and outlines seven principles under which all tax policies and proposals should be evaluated. The Iowa General Assembly and Gov. Vilsack currently are looking at several options to reform tax policy in the state.

“Tax fairness should be at the heart of tax deliberations,” Fisher said, noting fairness is one of the seven principles identified to evaluate Iowa taxes. The other six principles: competitiveness, public benefit and economic efficiency, revenue adequacy, stability and predictability, simplicity, and accountability. The researchers said any one tax should be evaluated as part of the overall tax system.

The Iowa Department of Revenue has compiled a list of 280 tax expenditures. The Bruner-Fisher report, “How to Balance the Budget by Cutting Tax Preferences,” examines how legislators could begin to address the state's budget shortfall with the following six ideas to close loopholes:

- Require “combined reporting” of corporate income, to prevent shifting of a corporation’s profits to an affiliate based in a state where it is taxed lightly, or not at all. Iowa revenue officials estimate that closing this loophole would save \$30 million in fiscal 2004 and \$40 million in 2005.

- Implement a “throwback” rule, joining 24 states that, in apportioning income for tax purposes, count sales to states where they are not taxed at all. For tax purposes, this “throws back” such sales to the state where the product originates.

- Place an income ceiling on eligibility for the state income-tax deduction for deposits to an Iowa college savings account. This would more accurately target the help to those for whom it could make a real difference in funding a child’s education.

- Reduce exclusion for capital gains income; to avoid the forced liquidation of assets from a family farm or family business that continues in family operation, gains could be deferred until a future sale.

- Decouple from federal exemptions on estate taxes. This would capture revenue on appreciations in value that have never been taxed, and, where business property is involved, could be designed to defer tax obligations until the business no longer was being run by the family.

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■ Collect sales tax on Internet sales. While these taxes are not being collected, sales taxes on identical products sold in Iowa establishments are collected. Customers on the Internet tend to have higher incomes than customers at retail establishments generally, meaning an Internet sales tax is more proportional to ability to pay than a sales tax on goods and products generally.

The full report and a two-page summary are available on the web at www.iowapolicyproject.org.

The Iowa Policy Project is a non-profit, non-partisan research organization that engages scholars at Iowa's public and private colleges and universities to research issues of importance to the citizens of Iowa. IPP reports are on the web at www.iowapolicyproject.org.

The Child & Family Policy Center was established in 1989 "to better link research and policy on issues vital to children and families." CFPC publications are on the web at www.cfpciowa.org.

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