

Growing cost, lax oversight of Iowa business tax credits

Iowa shovels millions out the door before the budget process even starts

Rule 1: Iowa tax giveaways are growing very fast

credits as estimated by the Department of Revenue for Iowa's Revenue Estimating Conference show business tax-credit costs have grown from about \$200 million in Fiscal Year 2011 to almost \$300 million (estimated) for this budget year — a 50 percent increase. However, property-tax changes in 2013 add significantly more to that estimate, with the business-tax credit share of that legislation bringing the overall cost of business tax credits to more than \$400 million. In other words, **business tax credits in total have doubled in only five years.** (See graph.)

Tax credits have the same impact on the state's bottom line as any other spending,

with one significant difference: This spending is outside the normal budget process in which legislators consider various proposals by departments, advocates and constituents and make specific appropriations that are voted up or down, on the record. Tax credits, with few exceptions, are spending that is on the books before any of those decisions are made. **By contrast, spending on PK-12 schools** — a larger share of the budget — has been held to about 1.8 percent average annual growth in the per-pupil budget cost from FY2011-18, with only 1 percent approved for FY2019. The Center on Budget and Policy Priorities, using Census data, has estimated actual yearly Iowa per-pupil spending growth at seven-tenths of 1 percent per year from 2008-15.¹ The Governor misstates this figure,² as do some legislators.

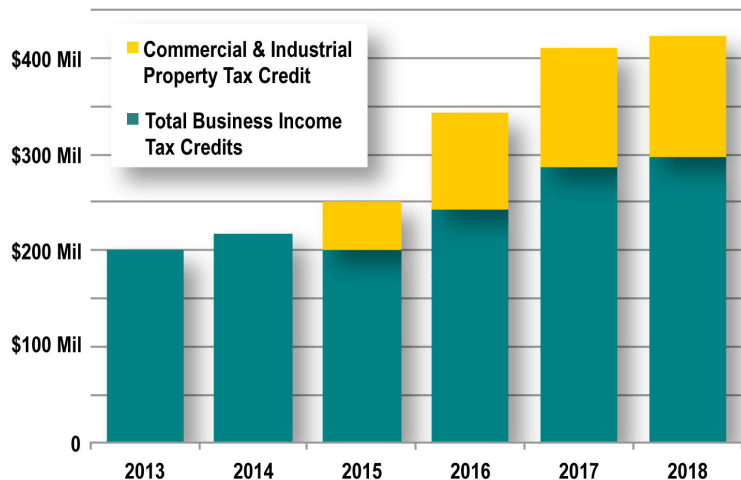
Rule 2: Big companies receive millions to do research they would do anyway

It has become a familiar story: Tax breaks and tax expenditures that obscure the competitive nature of Iowa's business tax structure are growing at a pace that spending on traditional state priorities cannot match.

Costs of tax

Cost of Iowa Business Tax Credits Doubles in Five Years

Combined Cost: Business Credits, New State-Funded Property Tax Credits



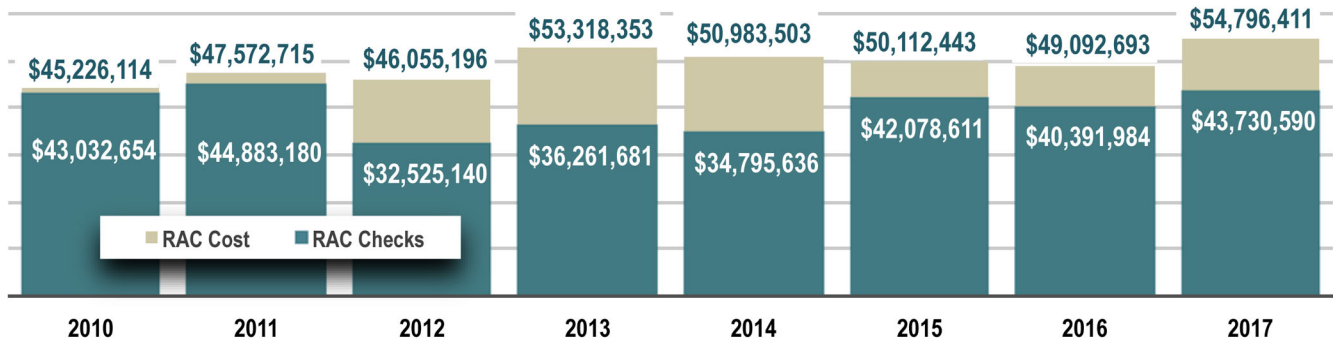
Source: Iowa Department of Revenue, Contingent Liabilities Reports, Table 9: March 2017 and previous years; Summary of FY2018 and FY2019 Budget and Governor's Recommendations, LSA Fiscal Services, Jan. 14, 2017, p. 218

 Iowa Fiscal Partnership

The Research Activities Credit (RAC): Perks for the profitable

Iowa's largest tax-credit program is a credit and related supplemental credit for "research activities" in Iowa. For FY2019, these credits are projected to cost, under current law, about \$72.3 million, rising to \$87.6 million in FY22.³ Official annual reports for the RAC show the vast majority of this subsidy is not made as a typical tax credit, to erase taxes. Rather, most credits are paid as subsidy checks. (See bar graph below.⁴)

Checks to No-Tax Companies Largest Share of Iowa's Research Activities Tax Credit, 2010-17



Checks may be provided because this credit is “refundable”: A company with more credits available than taxes owed receives a state check for the difference. While this may make sense to assist small start-up companies that owe no tax in their early years, the official annual reports from the Department of Revenue show this subsidy is used most by very large and profitable companies that would do research even without the subsidy. This undermines its value as an “incentive.” From 2010 through 2017, those reports have shown Rockwell Collins, Deere & Co., Dupont and Monsanto among the biggest beneficiaries. In 2017, three companies had over \$5 million in claims; the table at right shows the 12 companies with at least \$1 million in 2017 claims.⁵ Iowa Fiscal Partnership analysis has determined companies with over \$500,000 in claims received at least 88 percent of the refund checks without paying any income tax.⁶ A special tax credit review panel in 2010 recommended elimination of “refundability” for this credit, among other reforms. The recent Senate-passed tax bill would make some adjustments to this credit, but does not remove refundability or significantly reduce its cost.

	2017
Rockwell-Collins	\$ 13,918,092
Deere & Co.	\$ 7,561,108
Green Plains Inc	\$ 5,346,500
John Deere Const.	\$ 3,926,540
Dupont	\$ 2,601,440
Poet DSM Project Liberty LLC	\$ 1,982,098
Homeland Energy Solutions	\$ 1,528,269
Dieomatic	\$ 1,454,435
Vermeer	\$ 1,388,043
HNI Corp.	\$ 1,292,304
HNI Services LLC	\$ 1,172,304
Carleton Life Support	\$ 1,005,050

Rule 3: Plugging tax loopholes could save up to \$100 million a year

Combined reporting: Plugging corporate tax loopholes

Iowa corporate income tax is based upon profit from sales within the state. If a company can shift profits to other states or tax havens, it reduces taxes paid to Iowa. **The Iowa Department of Revenue in the past has estimated this to be a cost of \$60-\$100 million a year.** Twenty-five states (including several Iowa neighbors) have addressed this problem with a law called “combined reporting,” which requires more accurate reporting of a company’s taxable profits. Despite some efforts to establish this in Iowa, floor votes have been avoided.

¹ Center on Budget and Policy Priorities, *A Punishing Decade for School Funding*, Nov. 29, 2017. <https://www.cbpp.org/research/state-budget-and-tax/a-punishing-decade-for-school-funding>

² Iowa Fiscal Partnership, *Iowa’s increasingly shaky foundation of school funding*, Jan. 8, 2018. <http://www.iowafiscal.org/get-facts-on-school-funding/>

³ Iowa Department of Revenue, *Tax Credits Contingent Liabilities Report*, March 2018. Table 9.

<https://tax.iowa.gov/sites/files/idr/ContingentLiabilitiesReport0318.pdf>

⁴ Table compiled from Iowa Department of Revenue annual reports on the Research Activities Credit (RAC). Figures shown are for tax years, not fiscal years, and indicate both corporate claims and checks as part of those claims on both the RAC and the supplemental RAC. Figures do not include claims filed on individual returns. Including those figures, the overall cost of the programs in tax year 2017 was about \$66 million.

<https://tax.iowa.gov/report/Reports?combine=Research+Activities>

⁵ Iowa Department of Revenue, *Research Activities Tax Credit Annual Report for 2017*, revised Feb. 26, 2018.

<https://tax.iowa.gov/sites/files/idr/RAC%20Annual%20Report%20R2017.pdf>

⁶ Iowa Fiscal Partnership, Feb. 15, 2018. <http://www.iowafiscal.org/wp/wp-content/uploads/2018/02/180215-IFP-RAC-release.pdf>