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## ***Research credit mars Iowa grade for accountability***

- *Iowa better than most states in job standards for subsidies*
- *Even good standards no guarantee that subsidy makes sense*

IOWA CITY, Iowa (Dec. 14, 2011) — Iowa does better than most states but still has room for improvement in setting job-creation and job-quality standards with its economic development subsidy programs, according to a new national report that gives the state a B-minus.

Dragging down the state's grade is the costliest of the four Iowa programs examined: the Research Activities Credit (RAC), which not only reduces companies' income taxes, but actually pays cash refunds to companies, effectively giving them a negative tax rate.

Iowa's RAC scored only 10 points on a scale of 100 on the report card released Wednesday by the national nonpartisan organization Good Jobs First, which found states spend billions each year on tax credits and other subsidies that often attach little if any job creation and wage and benefit standards to their subsidies.

"There are many ways the RAC should be reformed, but this report adds job-quality standards to the list," said Peter Fisher, research director of the nonpartisan Iowa Policy Project and an author of reports on corporate tax issues for the Iowa Fiscal Partnership.

"This report does a good job of showing stipulations for job creation and job quality that should be part of any subsidy offered in the name of 'economic development.' But even job standards are no guarantee that a subsidy creates jobs. They only guard against an incentive to reduce or downgrade employment. "

The report, "Money for Something," is available at [www.GoodJobsFirst.org](http://www.GoodJobsFirst.org).

"With unemployment still so high, taxpayers have a right to expect that economic development investments create significant numbers of quality jobs," said Good Jobs First Executive Director Greg LeRoy. "The days of 'no strings attached' are largely gone, but the fine print in many states is still full of gaps and loopholes."

The report ranked Iowa fourth nationally — though with a B-minus — behind leaders Nevada, North Carolina and Vermont in applying job standards to major subsidy programs. The District of Columbia, Alaska and Wyoming rated worst.

The report recommends that every subsidy should have job creation, retention or training requirements. It urges provisions to assure that existing jobs are not merely shifted among locations — as Coralville is doing with subsidies to lure Von Maur from Iowa City — and will stay for a minimum period.

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The authors also recommend that every job in a subsidized facility should be covered by a wage standard, preferably tied to labor market averages to encourage pay above market levels, and should offer health coverage with the employer contributing to the cost of the premium. Wage standards should apply to part-time, temporary and contract workers in addition to permanent full-time employees.

“If subsidies do not result in real public benefits, they are no better than corporate giveaways,” said the report’s principal author, Philip Mattera of Good Jobs First. “States should be using these programs to reduce unemployment and raise living standards, not simply to increase corporate profits.”

The report found most states have more than one program with job-creation or job-quality standards, but that some — including Iowa — are “quite erratic,” varying in scores by over 90 points on a 125-point scale (100 plus up to 25 “extra credit”) for standards in subsidy programs. Overall, Iowa scored 70.

Iowa’s Research Activities Credit (RAC) scored very low, 10, on the Good Jobs First scale. According to the Iowa scorecard, the first difference between the RAC and the other major economic development programs is that the RAC has no job creation requirements, its only performance standard being an investment or “qualified expenditure” requirement.

Most state job creation programs have job retention or training requirements, and receive the maximum score of 35 for performance requirements, compared to the 10 points for the RAC. The other Iowa programs gain points for wage requirements, and the enterprise zone and high-quality jobs programs get credit for health-care requirements, which raised their scores significantly.

“This study shows Iowa lawmakers have done better in setting wage and employment standards for economic development programs than lawmakers in many other states,” said Charles Bruner, executive director of the Child & Family Policy Center in Des Moines.

“Setting standards, however, does not mean the programs themselves actually stimulate any economic activity. This is not an endorsement of programs that achieve higher scores on standards, in terms of their public benefit in creating jobs or economic activity. To do so would require a different type of analysis than provided in this report.” Indeed, the Good Jobs First study states explicitly that it is neither a cost-benefit analysis nor a fiscal break-even study.

In terms of costs to taxpayers, the RAC was twice as expensive as any of the other three, costing \$45.2 million in 2010 — with \$43 million of that paid in direct subsidy checks to companies that paid no income tax. The other three programs each cost between \$20.8 million to \$22.5 million.

The report is one of several — by the Iowa Fiscal Partnership as well as the state Department of Revenue and a special tax-credit review panel in 2009 — that have raised serious questions about Iowa’s Research Activities Credit, which permits companies not only to escape tax, but to receive tax-credit refund checks from the state as well.

Last week, Citizens for Tax Justice and the Institute on Taxation and Economic Policy reported a large number of U.S. corporations avoid state taxes by various means, despite billions in profits.

In Iowa, the RAC is one way that companies can do this, as the credit not only erases tax liability, but provides checks for the unused value of the credit. In 2010, the Iowa Department of Revenue has reported, Rockwell Collins, Deere and Co., and DuPont together received over \$30 million in RAC checks while paying no income tax.

The Iowa Fiscal Partnership ([www.iowafiscal.org](http://www.iowafiscal.org)) is an initiative of two nonpartisan, Iowa-based groups, the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines.