



Guest opinion — as published in *The Des Moines Register* — September 26, 2012

Iowa View: Why is Iowa's pro-business tax climate ignored?

By Peter Fisher

Every year thousands of new jobs are created in Iowa businesses that expand or build new plants, most without state incentives.

Yet to read Buena Vista University Professor Jeremy Horpedahl's Sept. 13 Iowa View, "Corporate tax rate undermines Iowa," you would have to wonder why we have any firms left. But we do. In fact, the Iowa economy has been recovering at a better rate than most states since the Great Recession ended.

Complaints about Iowa's business tax system are puzzling, because businesses get a really good deal here.

First, as the Iowa Fiscal Partnership has shown, Iowa's overall state and local taxes on business are lower than average. Only nine states take a smaller share of private-sector output in corporate income taxes.

Next, Professor Horpedahl repeats a myth that is an old favorite among politicians — but makes no sense — that Iowa's high top corporate tax rate drove Gateway to South Dakota. Consider:

- While it remained an "S corporation" the company paid no corporate income tax in Iowa. The corporate rate did not affect Gateway at that time.
- Becoming a public corporation, or "C corporation," would keep the tax largely irrelevant, because it would apply to so little of the profits of a company like Gateway.

Here's why: Iowa taxes companies only on the profits from sales to Iowans. Gateway shipped computers worldwide. So even if it were taxed at Iowa's top rate, that rate would apply only to the tiny share of the corporation's profits from sales inside Iowa.

To make matters even more attractive, every corporation gets to deduct half of its federal taxes from business profits. Only four other states allow this perk, which reduces the effective rate dramatically even for firms that sell only within Iowa.

And that's not all. Iowa allows multistate companies to transfer profits out of the state — a loophole that Iowa lawmakers have refused to plug — lowering Iowa taxes further.

Finally, how did the professor miss the fact that Gateway later left no-tax South Dakota with its poor public services and relocated to high-tax California? Could it be that the Silicon Valley was a better fit for that company?

We go through this every few years. Business lobbyists complain about Iowa's corporate tax rates, but ignore the way they are applied. Iowa's effective tax rate on businesses makes our state highly competitive with our neighbors. It's Iowa's great secret.

The problem with Iowa corporate taxes is that there are so many loopholes and special deals made for select companies. Many companies get away with paying no income tax and instead demand subsidy checks for many thousands and even millions of dollars.

Research consistently has disproved the myth that tax rates have a big impact on decisions by companies on where to locate. More important considerations are the availability and quality of the labor force, the proximity to materials and markets, transportation and other infrastructure, and the quality of life and the quality of the educational system to attract and retain a workforce.

We need strong and sustainable revenues to assure that Iowa can provide the critical public services upon which Iowans depend and to keep businesses competitive. Educating our young people and retraining those at mid-career is good for individuals and for business.

We need to be more aware of our messages to businesses with serious leaders who are looking to the future. When K-12 funding is stagnant and higher-education funding is dropping like a rock in Iowa, what is that message? Let's turn our efforts to promoting the strengths that make Iowa a good place to live and to grow a business.

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