



GUEST OPINION

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Getting to the truth of Iowa's tax facts

By Peter S. Fisher

Iowans are taxed more lightly than the national average, and at a lower rate than most surrounding states. The corporate income tax collected by the state is much below the national average.

Both points have been made many times in the past decade by the Iowa Policy Project, and are reinforced in a recent report by the Tax Foundation, released jointly with the Iowa Taxpayers Association and the Future of Iowa Foundation.

Yet the headline in the Gazette, above an article covering that report, read: "Report ranks Iowa tax climate among worst." (July 30) That was the message the organizations wanted to convey in arguing for even lower taxes than businesses pay now. Apparently it didn't matter that the groups' own report contradicts this conclusion.

So where does this "terrible tax climate" notion come from? The basis for it is a Rube Goldberg contraption built by the Tax Foundation called the State Business Tax Climate Index. It is a mish-mash of 118 tax features, selected to emphasize progressivity. These various measures are weighted arbitrarily and combined into a single number for the index.

This number has no real meaning. It produces wacky results because it gives great weight to some minor tax features (such as the number of tax brackets) while leaving out completely two things that have a huge impact on corporate income taxes in Iowa: single sales factor, and federal deductibility.

Only by ignoring the important factors can the authors conclude that Iowa's corporate income tax ranks 49th. Supposedly only one state has a worse tax. Yet the Iowa corporate tax per capita amounts to only half what it does in the average state, and the tax actually paid by business is among the lowest in the country. The authors' own charts show that corporations are taxed quite lightly here.

That the index has little to do with actual business tax levels or business climate is clear when one stacks it up against meaningful measures. Of the 10 states with the best score, only one was among the 10 states with the lowest actual effective business tax rates according to the Council on State Taxation.

And a recent study by the Anderson Economic Group showed Iowa's taxes on business were tied for 11th lowest among the 50 states.

It is appalling that the Iowa business organizations noted in The Gazette story plan to push for even lower taxes in the next session of the Iowa Legislature. After all, they won a huge victory in 2013 with the passage of a massive property tax cut, mostly for businesses. Cities are beginning to feel the effects of this measure that reduced assessments of commercial and industrial property. The result? Cuts in services or increases in taxes on residents. And on top of this, the tax incentive game goes on unabated.

*Peter S. Fisher is Research Director of the nonpartisan Iowa Policy Project in Iowa City, www.iowapolicyproject.org. He is the author of *Grading Places: What Do the Business Climate Rankings Really Tell Us?* published in 2005 by the Economic Policy Institute and in 2013 by Good Jobs First. Contact: pfisher@iowapolicyproject.org.*