



GUEST OPINION

The Des Moines Register
October 22, 2015
www.iowapolicyproject.org

Sales-tax change is gift — not an incentive

By Peter S. Fisher, Research Director

The massive property tax break for commercial and industrial policy enacted in 2013 has been touted as the largest tax cut in state history. You might think that the business community would take that and be satisfied for a while. You would be wrong.

This year Iowa businesses petitioned the Department of Revenue to make a rule change that would produce another huge tax savings for manufacturers, this time through the sales tax law. This measure failed to pass the Legislature in 2013, so they hoped to get what they wanted by administrative fiat.

They succeeded. The Iowa Department of Revenue issued a rule last month changing the definition of what qualifies for a sales tax exemption. The rule change comes with a price tag of \$40 million or more each year (they don't really know how much). Whether that includes gift wrapping was not clear.

Supporters defend the rule as a necessary clarification because the current rule is ambiguous and results in appeals and complaints. The obvious response by Revenue would have been to clarify the rule to codify the definitions as the department has applied them for the past decade or two. Cost to the state treasury? Zero.

Then, if legislators really wanted to expand the definition, they could do so with new law.

Instead, Revenue chose to "clarify" the rule by expanding definitions of exempt sales to include millions of dollars of expenditure that for years has been subject to sales tax. The result is a huge loss in annual revenue to the state treasury at a time when we have been told that the state "can't afford" funds for public education, or to keep community college and university tuition in check, or to fully fund natural resource programs.

Iowa does not need this tax break to be "competitive." Two recent studies by accounting firms find Iowa's total state and local taxes on business are either exactly average (Ernst and Young) or below average (Anderson Economic Group).

Besides, decades of research has shown that state and local taxes have little effect on business location decisions. This change will have no more effect than a "6 Percent Off Sale." And it's not even 6 percent on everything in the store, but more like 6 percent off on the stuff in Aisle 6, top shelf. No one would show up. Yet we are supposed to believe this is going to attract manufacturers to Iowa?

As for businesses already here, don't expect them to add jobs. The only reason a manufacturer hires more people is to produce and sell more products. Nothing in this tax break increases the demand for the products of Iowa manufacturers.

Then there is alarm about "double taxation." Some manufacturing inputs are taxed twice, first when purchased, and the second time when the finished product is sold. Is this really a big problem for the people of Iowa? To eliminate a tiny share of sales tax, should we cut school spending by millions of dollars? Let's get real.

This tax break is not an incentive; it is a gift to business. And Iowa's children will pay for it as we cut once again into revenues needed to support public education.

The most important thing a state can do to improve the long-run prospects for its residents is to increase investments in public education, from preschool through colleges and universities. This tax break is a choice to underfund that investment once again, threatening the prosperity of future generations.