

The Real Story *of Iowa's Budget Shortfall*

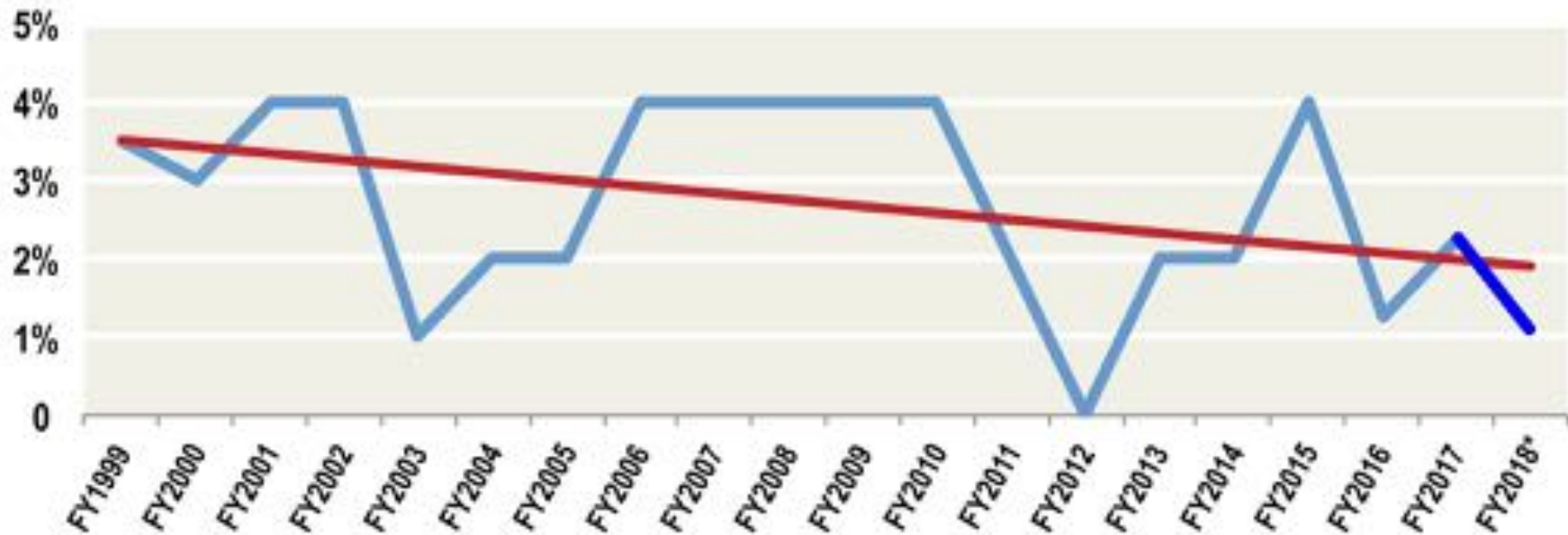
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The Iowa Policy Project

Iowa's budget shortfalls have many sources. Spending through the tax code, on autopilot, outside the budget process with very little oversight, is one important cause.

While Iowa cannot solve revenue shortfalls solely with reform of rampant spending on tax credits and other tax breaks for business, it cannot solve them without it.

TRENDS IN BUDGET CHOICES

School Funding: Iowa's 20-Year Downhill Slide
*Per Pupil Growth (Supplemental State Aid), 1999-2018**

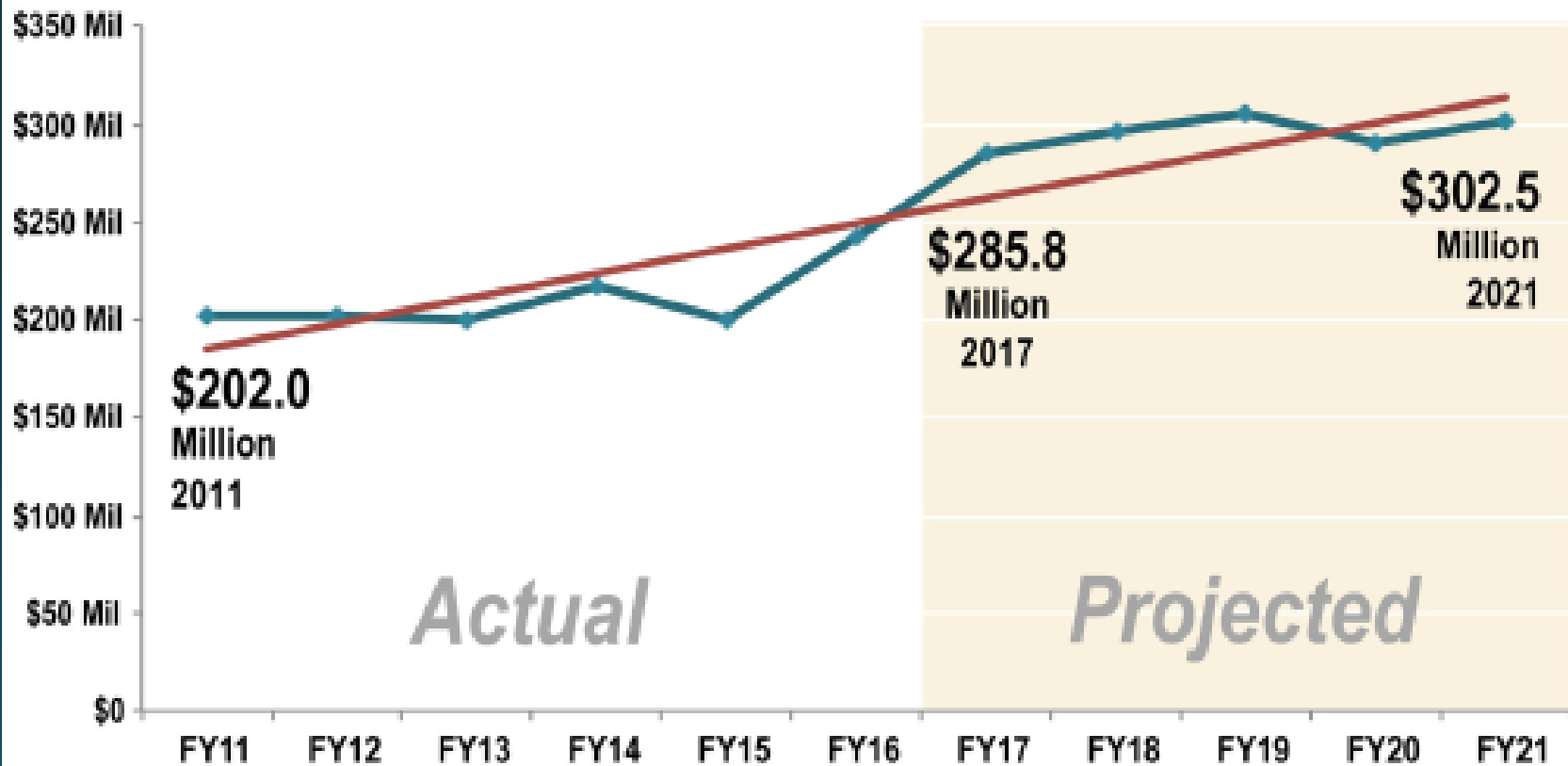


*FY2018 as passed in Senate

BUSINESS TAX CREDITS

Diverting revenues from public services to private pockets

The Growth of Business Tax Credits, 2011-2021



Iowa Fiscal Partnership

Source: Iowa Department of Revenue, Contingent Liabilities Reports.
Table 9: March 2017 and previous years

RESEARCH TAX CREDIT PAY NO TAX, GET BIG STATE CHECKS

Table 1. Most of Corporate RAC and Supplemental RAC is Paid in Checks — Not to Reduce Taxes

	Amount of Corporate Claims						
	2016	2015	2014	2013	2012	2011	2010
RAC	\$43,209,559	\$44,236,451	\$44,850,110	\$38,017,792	\$35,640,422	\$31,245,684	\$29,318,232
Sup. RAC	\$5,883,134	\$5,875,992	\$6,133,393	\$15,300,561	\$10,414,774	\$16,327,031	\$15,907,882
Total	\$49,092,693	\$50,112,443	\$50,983,503	\$53,318,353	\$46,055,196	\$47,572,715	\$45,226,114
	RAC Paid as Checks						
RAC	\$35,274,585	\$36,757,248	\$29,539,705	\$27,082,724	\$27,541,506	\$28,607,498	\$27,308,295
Sup. RAC	\$5,117,399	\$5,321,363	\$5,255,931	\$9,178,957	\$4,973,634	\$16,275,682	\$15,724,359
Total	\$40,391,984	\$42,078,611	\$34,795,636	\$36,261,681	\$32,515,140	\$44,883,180	\$43,032,654
	Percent of RAC Paid as Checks						
Checks	82.3%	84.0%	68.2%	68.0%	70.6%	94.3%	95.2%

Source: Iowa Department of Revenue, Research Activities Tax Credit Annual Reports

4 companies
had over
\$5
million in
2016 claims

Top RAC Recipients Largely Constant Over Last Seven Years — Research Credit Claims 2010-16

	2016	2015	2014	2013	2012	2011	2010	7-Year Total
Rockwell-Collins	\$ 12,255,474	\$ 12,062,912	\$ 11,701,722	\$ 11,771,749	\$ 13,848,248	\$ 14,313,898	\$ 14,213,205	\$ 90,167,208
Deere & Co.	\$ 8,018,652	\$ 7,489,778	\$ 9,409,743	\$ 13,795,781	\$ 11,901,351	\$ 11,762,241	\$ 12,797,819	\$ 75,175,165
Golden Grain Energy	\$ 5,151,709							\$ 5,151,709
Dupont	\$ 5,099,050	\$ 7,544,772	\$ 6,856,050	\$ 8,625,513	\$ 8,539,712	\$ 7,762,928	\$ 5,949,495	\$ 50,377,520
John Deere Const.	\$ 2,615,263	\$ 2,657,234	\$ 3,234,277	\$ 4,799,201	\$ 3,360,694	\$ 2,162,782	\$ 2,198,830	\$ 21,028,281
Carleton Life Support	\$ 1,468,415	\$ 1,014,971	\$ 807,543	\$ 616,462				\$ 3,907,391
Skyworks	\$ 1,230,336	\$ 957,779	\$ 659,791	\$ 538,998	\$ 571,457	\$ 667,515	\$ 896,127	\$ 5,522,003
Monsanto	\$ 1,034,358	\$ 1,756,325	\$ 1,493,410	\$ 973,534	\$ 1,743,342	\$ 1,305,188	\$ 1,848,480	\$ 10,154,637
Vermeer	\$ 1,028,751	\$ 1,184,328	\$ 1,172,872	\$ 1,103,152	\$ 775,020	\$ 622,650	\$ 862,725	\$ 6,749,498
HNI Corp.	\$ 948,907	\$ 1,508,476	\$ 1,257,660	\$ 692,024				\$ 4,407,067
Horizon Ethanol / Poet	\$ 924,688							\$ 924,688
Kemin Industries Inc.	\$ 903,715	\$ 876,115		\$ 630,381	\$ 615,147			\$ 3,025,358
CJ Bio America	\$ 877,521	\$ 974,738						\$ 1,852,259
AMVC Production LLC	\$ 825,092	\$ 863,013						\$ 1,688,105
Interstate Power	\$ 645,296	\$ 868,529	\$ 605,701	\$ 526,947			\$ 576,438	\$ 3,222,911
Syngenta Seeds	\$ 634,401		\$ 540,466					\$ 1,174,867
Intermec Tech.	\$ 619,684	\$ 682,061						\$ 1,301,745
Dieomatic		\$ 692,411	\$ 612,053					\$ 1,304,464
Winnebago Corp		\$ 610,922						\$ 610,922
Whirlpool		\$ 549,706	\$ 511,482					\$ 1,061,188
Polaris Industries Inc		\$ 528,895						\$ 528,895
CNH America LLC		\$ 524,717	\$ 1,287,836	\$ 2,082,634	\$ 703,842			\$ 4,599,029
Boehringer Ing. Vetmed.		\$ 516,584	\$ 506,133					\$ 1,022,717
Bridgestone Americas			\$ 1,489,544					\$ 1,489,544
Pfizer							\$ 942,184	\$ 942,184
Total 500K Claimants	\$ 44,281,312	\$ 43,864,266	\$ 42,146,283	\$ 46,156,376	\$ 42,058,813	\$ 38,597,202	\$ 40,285,103	\$ 297,389,355
Total Taxes Erased by RAC — All Corps	\$ 8,700,709	\$ 8,033,832	\$ 16,187,867	\$ 17,056,672	\$ 13,540,056	\$ 2,689,535	\$ 2,193,460	\$ 68,402,131
Min. Total Checks to Top Corporations	\$ 35,580,603	\$ 35,830,434	\$ 25,958,416	\$ 29,099,704	\$ 28,518,757	\$ 35,907,667	\$ 38,091,643	\$ 228,987,224

Note: Minimum Total Checks means the minimum amount that the corporations with over \$500,000 in claims received as a subsidy after all corporate income tax owed was eliminated. Claims include both the regular RAC and Supplemental RAC.

RAC Claims

2016

Rockwell-Collins	\$	12,255,474	\$
Deere & Co.	\$	8,018,652	\$
Golden Grain Energy	\$	5,151,709	
Dupont	\$	5,099,050	\$
John Deere Const.	\$	2,615,263	\$
Corleton Life Support	\$	1,469,415	\$

Top RAC Recipients Largely Constant Over Last Seven Years — Research Credit Claims 2010-16

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3
companies'
claims are
over
\$50
million
in 7 years

RESEARCH
 ACTIVITIES CREDIT

Big players, year after year: 2010-16

- Rockwell Collins: \$90.2 million
- Deere & Co.: \$75.2 million
- Du Pont: \$50.4 million
- John Deere Const: \$21.0 million
- Monsanto: \$10.2 million

Companies claiming over \$500K
doubled in 10 years — 20 in 2015
(17 in 2016)

FOR THE COMING DEBATE WATCH OUT FOR BIG SPIN

- FALSE EQUIVALENCY of tax credits generally vs. business tax credits
- MORE UNSUSTAINABLE TRADEOFFS pitting low-income vs. wealthy lowans
- DON'T FORGET ... Iowa already is a low-tax, low-wage state

FALSE EQUIVALENCY

Some say to put everything on the table in tax-credit reform, including EITC. ***BUT ...***

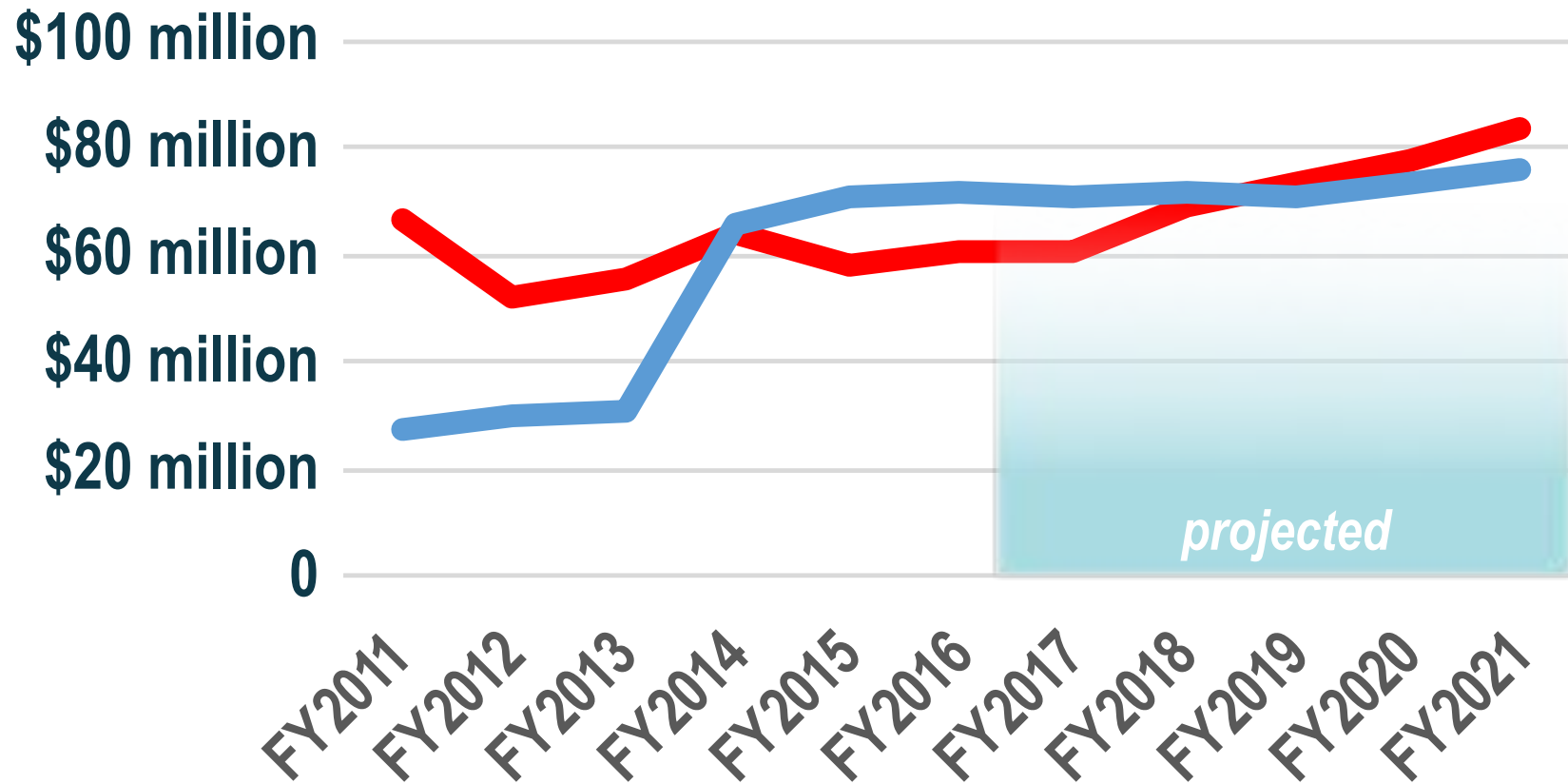
- ***EITC was reviewed four years ago and lawmakers expressly expanded it***
- ***Despite interim review process, basic Research Credit has not changed even though Dept of Revenue analysis shows little if any public benefit from it.***

FALSE EQUIVALENCY

PLUS ... RAC and EITC serve very different populations. New reviews in 2016 showed:

- EITC serves 220,000, half below poverty line — together, **U.S. and Iowa EITCs lift Iowans out of poverty**
- **RAC benefit is very generous, with little impact** — **3¢-4¢ per \$1 in research spending** — for few, very profitable firms

EITC vs. RAC — FY2011-2021



Source: Iowa Dept of Revenue, Contingent Liabilities Reports

UNSUSTAINABLE TRADEOFFS

- **WE'VE SEEN THIS MOVIE BEFORE**

EITC expansion **in 2013** came with very expensive concessions **to the business lobby — the massive** property tax cuts **that were skewed to** benefit big firms **and will prove to be** unsustainable.

NO EXCUSE FOR NEW BREAKS

- **AGAIN, WE'VE SEEN THIS MOVIE BEFORE**

FAMILIAR PATTERN ...

Focus on one tax ...

Claim new break is needed ...

Achieve the break ...

Go on to the next one.

& REPEAT

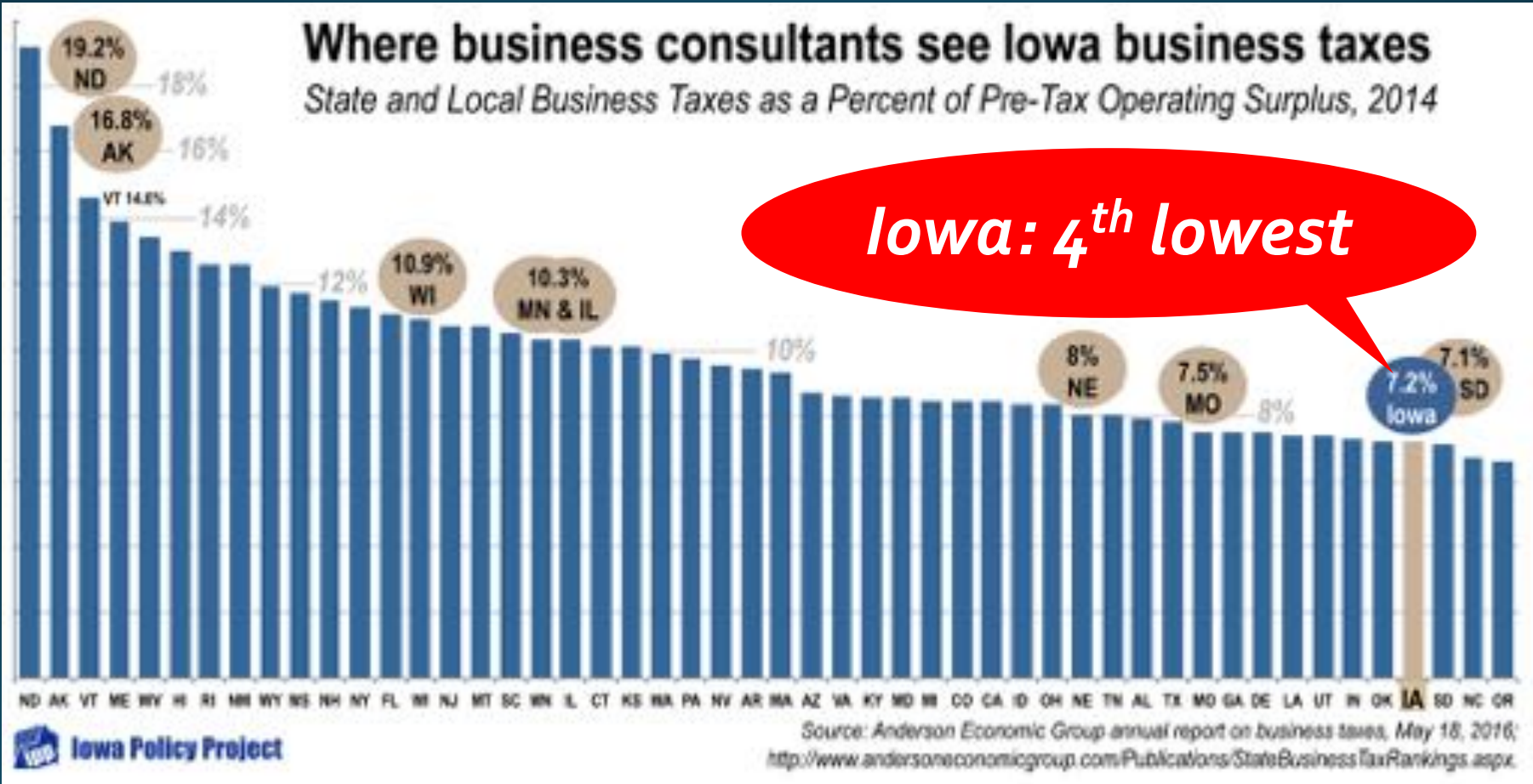
BUSINESS TAXES are LOW in IOWA

THIS DEFIES ALL YOU HEAR from LOBBY

**BUT IT IS EVIDENCE that the STRATEGY
HAS WORKED**

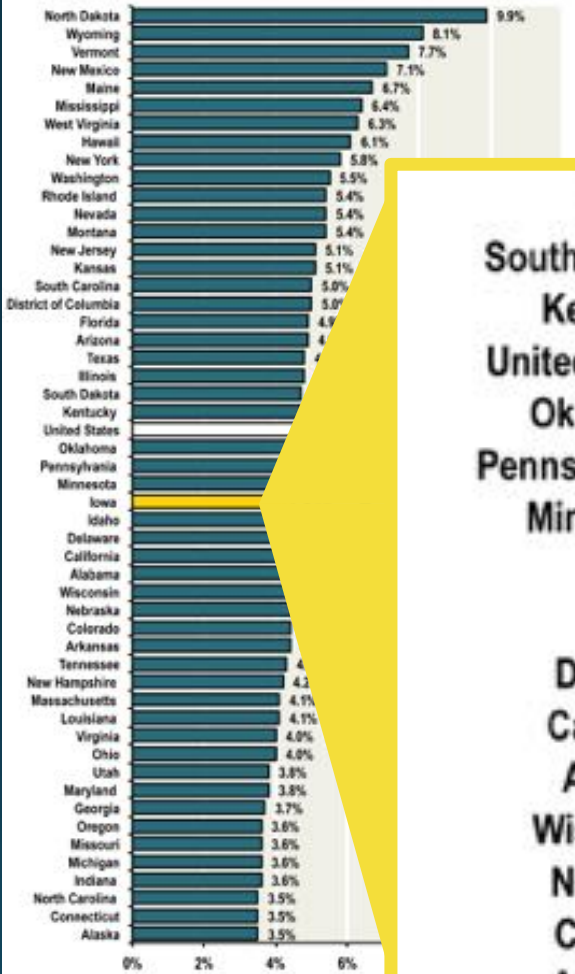
BUSINESS TAXES

Where business consultants see low business taxes
State and Local Business Taxes as a Percent of Pre-Tax Operating Surplus, 2014

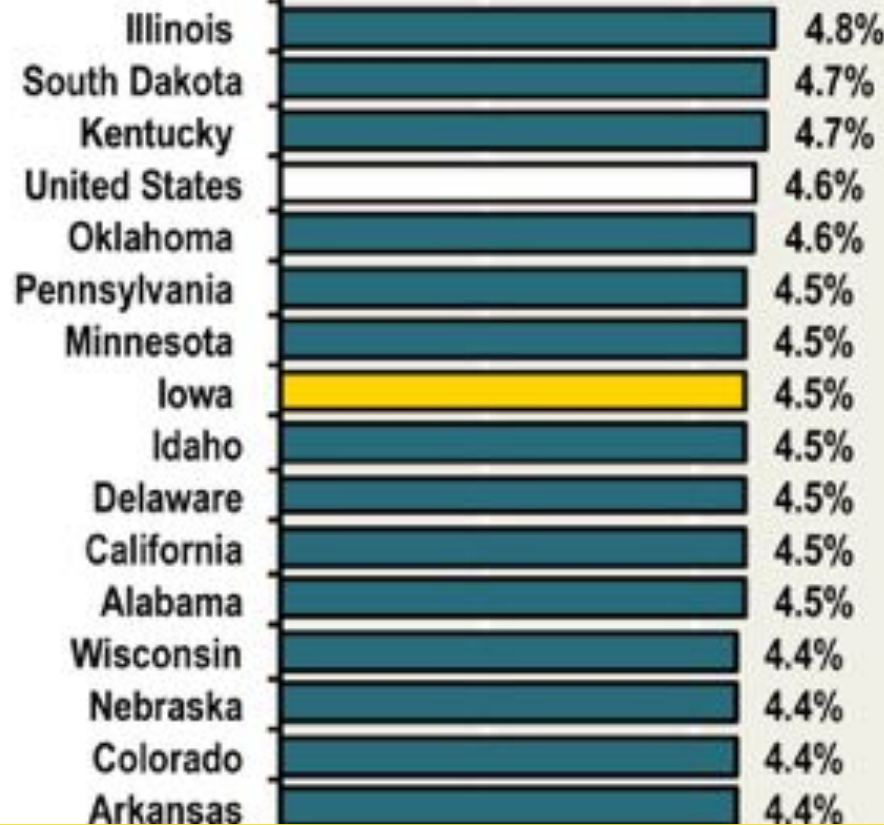


Iowa: 4th lowest

Iowa Ranks Below U.S. Average on State & Local Business Taxes
 State and Local Business Taxes As Percent of Private Sector GDP, FY2015



BUSINESS TAXES

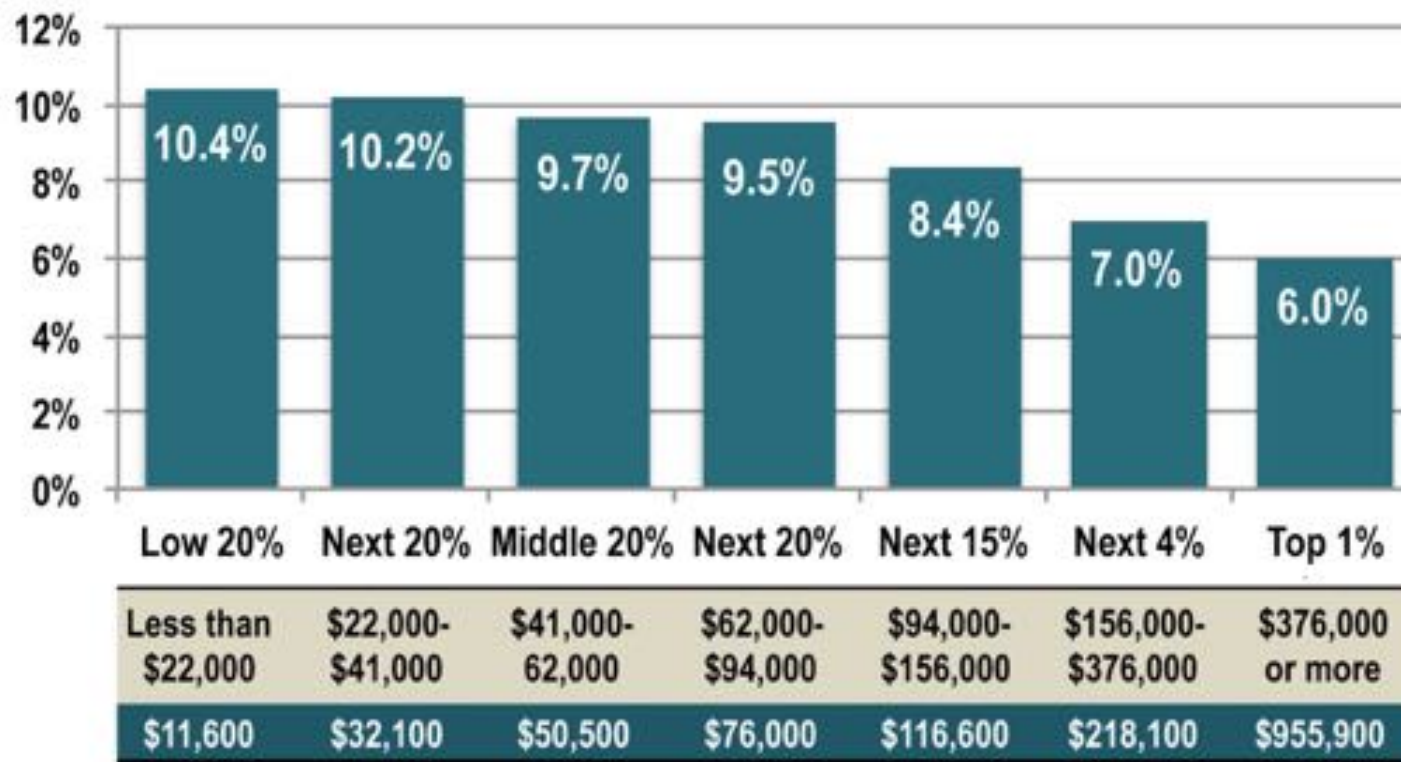


Iowa —
 Middle of the
 Pack in the
 Middle
 on Business Taxes

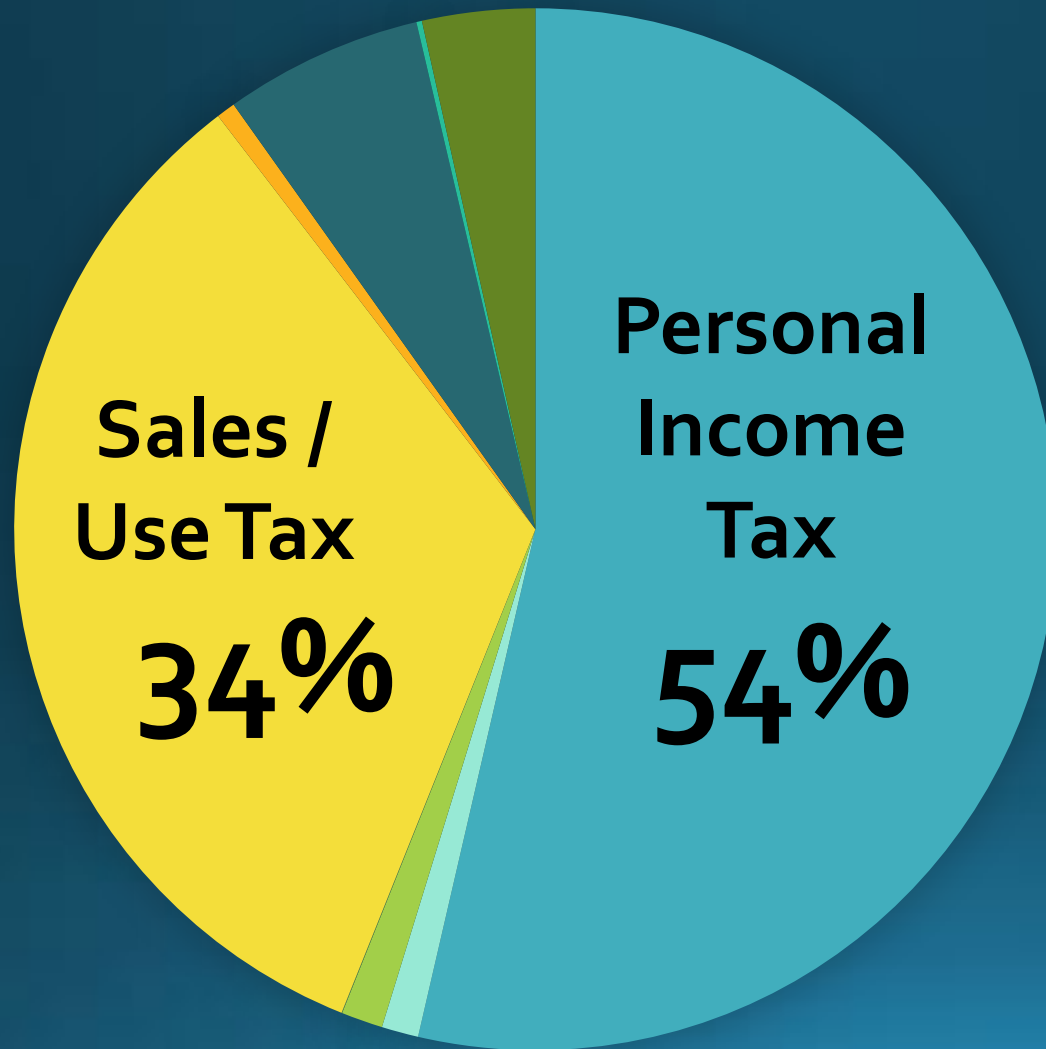
INDIVIDUAL TAXES — REGRESSIVE

Iowa Taxes: Lowest at the Top

Overall Effective Rate of State and Local Tax at Various Incomes



FY16 General Fund Receipts



- Personal Income Tax
- Inheritance Tax 1%
- Insurance Premium Tax 1%
- Miscellaneous Tax 0%
- Sales/Use Tax
- Franchise Tax 1%
- Corporate Income Tax 6%
- Beer Tax 0%
- Other Receipts 3%

NEVER on the TABLE

- **Expanding** the pie
- **Shifting** greater share of taxes to the wealthy and highly profitable businesses

*So, what will a legislative examination of tax credits produce **THIS TIME?***

Food for thought moving forward

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