

Iowa Tax Credit Review Panel

December 15th, 2009

My name is Amy Logsdon. I am the political director of the Iowa Citizen Action Network. ICAN is a coalition of rural, environmental, senior, labor, community of color, and faith organizations committed to improving the lives of Iowans with a 30 year history of nonpartisan consumer protection advocacy. We believe that a budget is a moral document and that our state's budget expresses our state's values. This is why we have a long-standing concern about tax credits that might give favored status to corporations and therefore leave everyday Iowans behind.

From our perspective, Iowa is not so much suffering from a budget crisis at this time as a crisis of meeting our people's needs. Spending cuts alone cannot solve Iowa's budget problem without creating greater problems in the future. Therefore the solution requires a multi-faceted approach that includes revenue.

We must ask ourselves: Are we going to lay off social workers and teachers and cut programs that protect children from child abuse in order to preserve millions of dollars in tax credits to wealthy corporations? As we plan to address Iowa's budget shortfall, everything should be on the table, including business tax credits

State agencies and lawmakers need access to more information and analysis to determine if the public money we invest in Iowa's tax credit program is wisely invested. Business tax credits are an expenditure of taxpayer money as much are appropriations. While appropriations spending is reviewed every year by numerous legislative committees, and the dollars spent must be approved by both houses of

the legislature and by the Governor. Tax credits do not get the same scrutiny. Once business tax credit programs are initiated there is little oversight over whether or not each program is meeting the goals they were intended to meet. Additionally, much of the information about these credits (who gets them, how much do they get, their total cost, the jobs created and what they pay) are not readily available to the public.

In flush budget years, when our state coffers are overflowing, we may be able bury our head in the sand. But Tax credits are growing far faster than general fund revenue and our budget situation means we all have to sit up and take notice. From 2006-2011 revenues have remained basically flat, while tax credits have increased by 350% (from \$144 million to \$497 million) Iowa just can't afford to pay companies this much and still pay for our children's education, roads, and other crucial programs.

Take for Example the Research Activities Credit:

- According to the Department of Revenue In state fiscal year 2009 research activities credits cost the state \$45.5 million. It is estimated to cost \$52.6 million in 2011, and rise to \$67 million in 2014.
- Because the research activities credit is a “refundable” credit, companies who owe less in taxes than the amount of the credit get a check from the state general fund for the difference.
- In fiscal year 2009 about \$41.8 million was paid from the state general fund as secret “refund” checks to companies that did not owe any income tax. Iowans need to know if this expenditure of general fund dollars is helping new, innovative startups get off the ground, or are we just throwing money to large, profitable already-established companies?

- It wouldn't make sense for Iowa's huge companies to be getting millions of dollars in credits for things they do routinely as a part of simply doing business. It's time to limit tax credits so they reward start-ups and spur job growth. Large companies that must routinely do research to remain competitive in their field should not be eligible for the research activities credit.
- We need increased transparency. In 2009, the legislature decided to require public reporting of all research credits over \$500,000, including the name of the company and amount of credit each company received. This is a good first step – but it must be expanded. If public dollars are going to a private company, the public has a right to know how much and to whom it is going.
- We need to evaluate the effectiveness of this expensive program. In its study of the research activities credit – comparing Iowa to neighboring states -- the Iowa Department of Revenue found no evidence that this tax credit in Iowa causes businesses to change their behavior regarding research activities, and in turn benefit the Iowa economy.

Two of the most obvious problems with Iowa's tax credit policies are illustrated by this example:

Some of the most expensive business tax credits, like the research activity credit are totally secret because they are administered through the income tax.

Credits like the research activities credits are self-renewing and aren't even part of the budget debates. Iowans wouldn't stand for the state allowing a \$45 million dollar (and growing) expenditure to be self-renewing, and they shouldn't stand for forfeiting the same amount of money with no discussion.

ICAN advocates the following measures to improve the fairness and effectiveness of our tax policy – and to address the challenge of meeting the needs of everyday Iowans in light of our budget shortfall:

Iowa should establish a comprehensive, on-going process of annually reviewing and evaluating the effectiveness of tax expenditures.

We support recommendations to establish a new Joint Appropriation Subcommittee to review all tax credit expenditures and economic development incentive programs on an annual basis.

And we believe that Iowans need an enforceable method (a clawback mechanism) to recoup tax credits and other incentives from companies that do not attain agreed to goals

I want to be clear that ICAN does not oppose all tax credits (some like the earned income tax credit are proven winners all around) but we believe that the legislature should evaluate them on how they meet several principles. Including whether or not they have a desirable social value and provide a benefit to society; and whether or not they give us our money's worth and provide a demonstrable economic benefit. We need to take a fresh look at what our state budget is saying about our values and how it is protecting the interests of all Iowans.

Thank you for the opportunity to testify here today.