

Iowa Chamber Alliance to seek tax reform

Brianne Pfannenstiel

Des Moines Register
USA TODAY NETWORK

The Iowa Chamber Alliance will be pushing for tax reform during the coming legislative session, with an eye to eliminating federal deductibility and reducing both personal and corporate tax rates.

The Alliance, which represents Iowa's 16 largest chambers of commerce, on Wednesday discussed its legislative priorities at a press conference and during a meeting with the Des Moines Register's editorial board.

"We're not advocating for tax reform if the numbers don't let it add up for the budget," said Executive Director John Stinemman. "We have to be fiscally responsible in how we go about it. We do believe we can make changes and map out changes that would not break the bank. But you know, the reason why nobody's talking about transformational tax reform is because you'll always need money on the front end and we don't

have a whole lot of money sitting around."

Currently, Iowa's corporate tax rate of 12 percent is the highest in the nation. But effectively, it's much lower. That's because Iowa is one of only a few states that allow taxpayers to deduct what they paid in federal income taxes from their state tax liability.

Historically, eliminating that provision from Iowa's tax code has been politically unpopular; the provision is intended to prevent a "double taxation" on income and doing away with it would effectively create a tax increase for Iowans. But business advocates, including the Chamber Alliance, argue it dissuades investors and companies from doing business in Iowa.

"Sometimes we're eliminated from consideration (for a development project) because we're uncompetitive before we even have a chance to make a play," Siouxland Chamber of Commerce President Chris McGowan told the Register's editorial board.

But the Alliance also made clear that

it does not support eliminating federal deductibility alone — Stinemman said it would have to be paired with a "restructuring" of rates.

He said he'd like to see Iowa's corporate rate reduced to less than 9 percent, and "we don't have an expectation to be less than 5 (percent)."

But the Alliance said it also will work to protect state tax credits associated with workforce and economic development, despite the promise from some Republican legislators that tax reform will require are-evaluation of the state's tax credits. Those were intended to combat Iowa's higher tax rates, they say, and many could be eliminated or reduced in light of overall tax reform.

House Appropriations Committee Chairman Rep. Pat Grassley, R-New Hartford, has also questioned a process known as the "refundability" of tax credits. That allows companies who pay no income tax to receive the value of their tax credits as cash.

Stinemman said doing away with refundability "would not make any sense."

"There's a handful, a fraction of a percent of companies in the state of Iowa that actually are in that situation," he said. "And those companies are also spending millions in property taxes across the state. So the notion that they're not paying taxes doesn't wash."

The state's Research Activities Tax Credit is among those that has come un-

der closer scrutiny, and it's one that Stinemman said his organization would fight to protect. Among the others he considers to be critical economic development tools are the high-quality jobs credit, the historic preservation tax credit and angel investor tax credits.

At a legislative panel hosted by the Alliance, Senate Majority Leader Bill Dix, R-Shell Rock, praised South Dakota as a model for future tax reform. South Dakota has no corporate or personal income tax, and its state sales tax is 4 percent.

Dix said he hopes to see Iowa move toward real tax "relief," signaling significant cuts in rates, rather than "reform," which just reshuffles the burden.

Either way, Stinemman said much of the conversation will have to wait until Congress passes tax legislation.

That's in part because Iowa's system of federal deductibility creates an inverse relationship with federal taxes. When federal taxes decrease, Iowans make smaller deductions from their state income tax burden, and the amount they owe in state taxes goes up.

That could create an incentive for state leaders to act to avoid what amounts to a tax increase on Iowans at the state level, Stinemman said.

"We don't really know what the dollar amount that's available for reform is, and we won't know until the feds act," he said. "And that is going to be a challenge for the next session."