ABCs of Iowa Corporate Income Tax

Dispelling the Myths
How Much Does Iowa Collect from the Corporate Income Tax?

In 2010, Iowa corporate income tax contributed $223.5 million to state revenue.

Actual 2010 Net Iowa General Fund Receipts

Source: Governor’s Budget in Brief

- Sales: 43.1%
- Individual Income: 50.3%
- Corporate: 4.0%
- All Other: 2.6%

In 2010, Iowa corporate income tax contributed $223.5 million to state revenue.
How does Iowa Compare to Other States?

Iowa corporate income tax collections are lower than the U.S. average and most Midwest states.
How have Iowa Corporate Tax Collections Changed Over Time?

Iowa’s corporate income tax collections have declined absolutely and relative to other states.

State Corporate Income Tax as a Percent of Private-Sector GPD

Source: IPP analysis of data from U.S. Census, State Government Tax Collections; and the Bureau of Economic Analysis, Gross Domestic Product by State
Who *Doesn’t* Pay Iowa’s Corporate Income Taxes?

- **Large, multi-state corporations**
  - Iowa’s income tax structure encourages them to transfer profits from sales in Iowa to other states.
  - Many large corporations further reduce their tax obligations, and even receive rebate checks, through Research Activities Credits (RACs).

- **Small, independent businesses**
  - Most are able to become Chapter S corporations and file under personal income tax code instead.
Who *Does* Pay Iowa Corporate Income Taxes?

- Businesses with strong consumer markets in Iowa
  - i.e. financial, communications, retail firms making good profits from Iowa sales
- Businesses that do not transfer profits to subsidiaries in other states

These corporations do business in Iowa because they have a strong consumer market here, not because taxes are low.
Who **Does** Pay Iowa Corporate Income Taxes?

Iowa and Non-Iowa Corporate Income Tax Filers

<table>
<thead>
<tr>
<th>Number of Filers</th>
<th>Estimated Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Iowa</strong></td>
<td><strong>Non-Iowa</strong></td>
</tr>
<tr>
<td>25,812</td>
<td>11,018</td>
</tr>
<tr>
<td>$190.6 M</td>
<td>$56.9 M</td>
</tr>
</tbody>
</table>

Source: Iowa Dept. of Revenue, 2009 Tax Year

Out-of-state filers are a minority of all filers, but they generate most of the revenue.
Who **Benefits** from Cutting Corporate Income Tax Rates?

Gov. Branstad’s proposed flat 6% corporate tax primarily benefits:

- Out-of-state businesses making profits in Iowa
- Biggest and most profitable Iowa businesses
  - current top rate of 12% applies to profits over $250,000; corporations with profits of $25,000 or less won’t benefit
- **NOT** small business
Who **Benefits** from Adopting Bonus Depreciation?

SF 209’s provisions would largely help:

- Businesses with over $500,000 in new equipment purchases and profits of more than that amount
- Out-of-state corporations making ongoing, multi-million-dollar capital equipment purchases throughout the U.S., not in Iowa
- **NOT** small business
What Are the **Costs** of these Actions to Iowa’s 2012 Budget?

- Corporate income tax rate cut to 6%
  - $134 million ($200 million in 2013)
- Bonus depreciation
  - $120 million (Senate version)
  - $220 million (House revision)

These cuts will create a budget deficit and force cuts to essential Iowa services.
What Could Iowa Do Instead of Cut Corporate Taxes?

- $15 million Expand EITC
- $35 million Fully fund preschool
- $20 million Maintain aid to community colleges
- $64 million 2% growth in school aid

Total: $136 million

Corporate Tax Cut
How Can We Improve Iowa’s Corporate Income Tax?

- Limit the refundability of research activities credits and end corporate subsidies
- Adopt combined reporting to ensure that out-of-state businesses making profits in Iowa pay their fair share
- Find other ways to truly help small business
How Can Iowa Help Small Businesses and Working Iowans?

- Adequately fund essential services and ensure health, education and safety needs are met
- Change Iowa’s personal income tax for better balance and fairness
  - Increase the earned income tax credit
  - Increase personal credits
  - Make income tax rates more progressive
The **Moral** of the Story ...

- Iowa’s corporate income taxes are already **low**, and have declined in recent years.
- Proposed tax cuts will help **large, multistate corporations**, not Main Street businesses.
- Proposed **tax cuts will force budget cuts**, leading to job loss and reducing state investments in infrastructure, education, health and safety.
Next in the webinar series:

Nuts and Bolts of Iowa’s Research Activities Credit (RAC)

Friday, March 25, 1 p.m.

For more on the Iowa corporate income tax, visit www.iowafiscal.org