

Voter Views:

Voter Survey on the Iowa Budget Crisis

Part Two

November 2009

Iowa Voters Find Selective Tax Increases Acceptable To Avoid Further Budget Cuts

Iowa voters show high levels of acceptance for a number of tax changes to protect against further cutbacks to public programs. Topping the list of acceptable ways to raise revenue are those that would close tax loopholes and tax preferences that generally benefit wealthier Iowans. These include refundable or transferable credits to businesses for film production and research activities. At the same time, Iowa voters are strongly opposed to across-the-board increases in either the income tax or property tax.

These findings in a survey commissioned by the Iowa Fiscal Partnership may help Iowa policy makers find sound solutions in keeping with Iowans' priorities.

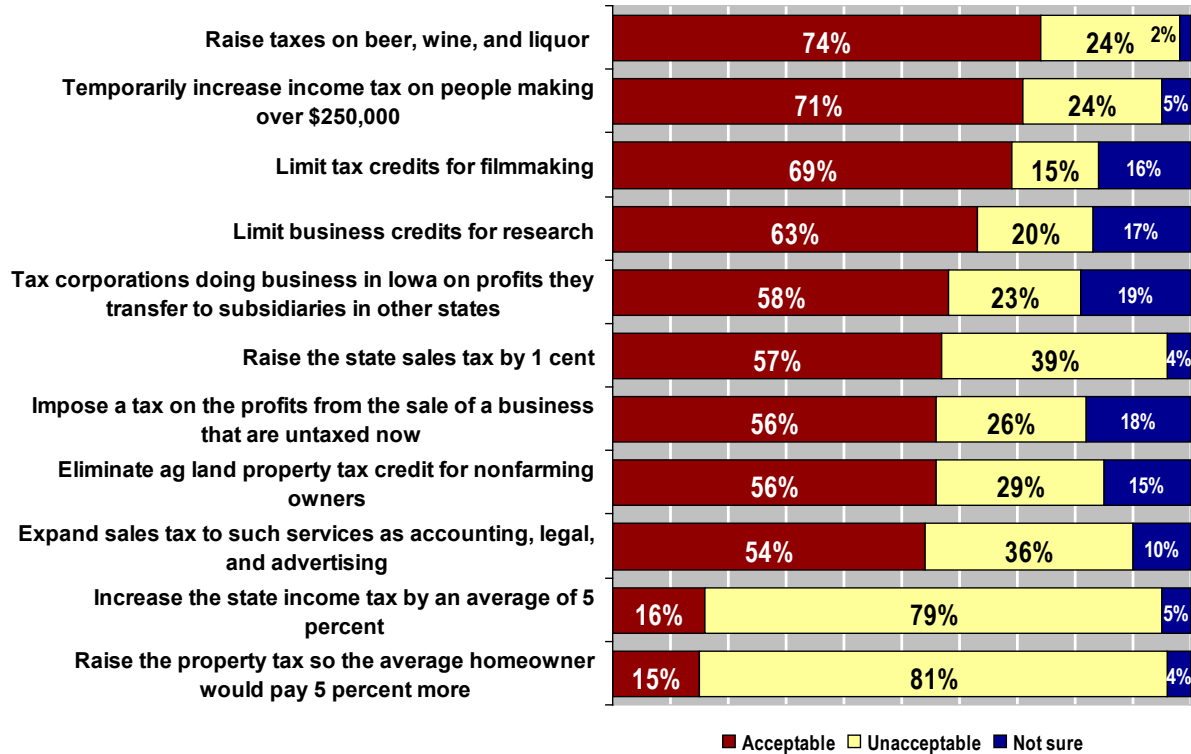


**A joint budget analysis initiative
of the Child & Family Policy Center
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2 | Voter Survey on the Iowa Budget Crisis - Part Two

Question: Regardless of whether you favor or oppose raising taxes generally, please tell me for each of the following if you consider this an acceptable or unacceptable way to raise revenue to avoid or minimize further cutbacks in services. [Ranked in order of acceptability]



- Iowa voters favor a number of specific tax measures to avoid or minimize further service cuts.
- A substantial number of tax provisions are ones with which many Iowa voters were not familiar and did not feel comfortable expressing an opinion, although these provisions have substantial costs to the state. Better transparency of Iowa tax expenditures can improve public awareness.

A significant number of the tax provisions were ones with which Iowa voters are likely to have limited familiarity (more than 15 percent said “not sure”), although all are favored by at least a 2-to-1 margin among voters as an acceptable way to raise revenue to avoid or minimize cuts in services. These are described below, with a table on Page 4 showing their revenue implications to the state.

Limit tax credits for people who make films in Iowa to no more than the taxes they owe. Current Iowa law allows filmmakers to receive tax credits for half the costs of filmmaking that occur in Iowa. It also makes these credits transferable to other taxpayers. Since filmmakers generally make very few profits in Iowa, they owe almost no income tax, and the transferable tax credit essentially is a direct subsidy for filmmaking. Studies in other states have estimated that the cost to the state for such subsidies is likely to be five to 10 times the amount of any increased state tax revenue that results from the activity.

Limit business tax credits for research to no more than the amount of taxes they owe. Currently, Iowa law provides a refundable research and activities credit in order to encourage research, particularly for start-up companies that have not yet established a profit. Analysis by the Iowa Department of Revenue shows that most of the benefit goes to large and profitable Iowa corporations that owe little state corporate income tax and receive refund checks that can be in the millions of dollars.

Tax corporations that do business in Iowa on profits they transfer to subsidiaries in other states. Large multistate corporations have used corporate tax loopholes that exist in many states to transfer profits they make in the state to subsidiaries in other states, particularly Delaware and Nevada, where such profits are not taxed. A number of states require “combined reporting” that closes this loophole by treating subsidiaries as a part of the main business for income tax purposes. Combined reporting also creates a more level playing field between local businesses and their multistate competitors.

Impose a tax on the profits from the sale of a business that are untaxed now. Unlike federal law, Iowa law allows a tax filer who has sold a business in which the tax filer has “materially participated” for 10 years to exempt any profit from the sale. Iowa is one of a handful of states with such an exclusion of all capital gains income from state taxation.

4 | Voter Survey on the Iowa Budget Crisis - Part Two

Many of the tax expenditures identified by Iowa voters as acceptable ways to raise revenue to avoid future cuts could help substantially to balance Iowa's budget, as the table below shows.

Current Estimates of Impacts on Iowa Budget of Selective Tax Provisions	
Film Credit – eliminate refundability	\$50+ million
Research Activities Credit – eliminate refundability	\$40+ million
Require corporate combined reporting	\$50 to 100+ million
Capital Gains treatment like earned income	\$40+ million

About the Survey

The Iowa Fiscal Partnership commissioned a poll of 500 registered Iowa voters to determine public opinion on Iowa's budget crisis and explore voter views on how to resolve it. The poll was conducted by Selzer & Company from November 11 - 15. The poll has a margin of error of 4.4 percent.