

Iowa  
Taxpayers  
Association

**ITA**



**2021**  
STATEMENT OF

**POLICIES  
& INITIATIVES**

IOWA'S LEADING BUSINESS TAX POLICY RESOURCE SINCE 1935

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Since the Iowa Taxpayers Association was formed in 1935, its mission has been to educate and inform Iowans about sound fiscal policy; provide state policymakers with objective, nonpartisan research about the impact of specific tax and spending policies; and advocate for the adoption of rational public fiscal policy as it relates to business taxes.

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# A MESSAGE FROM THE BOARD CHAIR

January 2021

To Iowa Policymakers and the Iowa Taxpayer:

The Iowa Taxpayers Association is a business-sponsored tax policy organization founded in 1935. Our mission is to educate and inform Iowans about sound fiscal policy; provide state policymakers with objective, nonpartisan research about the impact of specific tax and spending policies; and advocate for the adoption of rational public fiscal policy as it relates to business taxes.

In the following pages, we have outlined the Association's basic principles, which are offered to the governor and General Assembly for consideration to help ensure more accountability in the practice of government. The Association's Committee on Accountable Government has established criteria to determine if these principles are being met, and that information is made available following the state legislative session. ITA's goal in adopting these responsible standards is to help produce sustainable budgets supported by predictable revenue that Iowa taxpayers can rely upon year after year. The pages of the booklet also outline the Association's position on key tax issues that may be considered by the Legislature during the upcoming legislative session.

The members of the Iowa Taxpayers Association include Iowa's best tax experts and government relations personnel, who stand ready to lend their expertise to policymakers as they consider important tax policy that will help our state to grow and prosper.

Sincerely,

*Kevin Gaede*

# GUIDING PRINCIPLES OF SOUND TAX POLICY

The Iowa Taxpayers Association believes the best way to encourage organic, private sector economic growth that can support predictable revenue for government services is a sound business tax climate.

ITA has established these guiding principles of sound tax policy to assist legislators and regulators in undertaking tax reform or in making changes to tax law:

## NEUTRAL

The tax system should exert minimal impact on the spending and decision-making of businesses and individuals.

## COMPETITIVE

A sound tax structure should support our state's economic growth initiatives and help create a good business climate.

## FAIR

The tax code should be fair and equitable. Horizontal equity is achieved when similarly situated taxpayers are treated the same.

## SIMPLE

Tax law should clearly and plainly define what taxpayers must pay and when. Statutes and regulations should be transparent and encompass ease in understanding, compliance and administration.

## CONSISTENT

Iowans deserve consistency, certainty and predictability in the tax code. A stable, diversified tax structure helps achieve a more predictable revenue flow.

# SOUND BUDGETING PRINCIPLES

The ITA Committee on Accountable Government reviews budget proposals and final budget action at several specific points each year and makes its findings public. The eight sound budgeting principles below are incorporated into ITA's annual analysis. The goal of the annual review is to encourage public officials, fiscal policy developers and legislators to develop fiscally stable, sustainable, balanced and affordable budgets each year.

A sound budget development process does the following:

**AVOIDS** the use of one-time or time-limited revenue for ongoing expenses.

**AVOIDS** implementing new programs for a partial fiscal year.

**AVOIDS** multi-year accelerating commitments.

**AVOIDS** new automatic, or "standing," appropriations.

**ACCURATELY** determines revenue and expenses.

**ALIGNS** expenses and revenue in the same fiscal year.

**AVOIDS** shifting program funding to property taxes or fees.

**AVOIDS** diversion of funds statutorily authorized for a specific objective to other purposes.

# BASIC PRINCIPLES

Growth and prosperity depend on an attractive business climate to support creating jobs, expanding tax revenues and maintaining services for all Iowa citizens. Policymakers are encouraged to do all they can within state government to control spending and avoid unnecessarily increasing the tax burden of Iowans.

Fiscal responsibility can be accomplished by the following basic principles:

## ACCOUNTABILITY

Government agencies and officials must be accountable and accessible to their employers—the taxpayers.

## EFFICIENCY

ITA supports a performance-based budgeting process encouraging a full review of all state programs to promote funding of those programs necessary to achieve measurable results.

## EQUITY

Equity requires comparable tax policies and principles for similarly situated taxpayers.

## PROMOTION OF GROWTH

Tax policy must support the state's economic growth initiatives and goals.

## SIMPLICITY

Tax law and administrative rules must be clear and concise to allow for cost-effective compliance by taxpayers.

## STABILITY

Iowa's tax structure must be predictable and stable for both taxpayers and governments.

## TAXPAYER INVOLVEMENT

Taxpayer involvement in the regulatory and legislative development process will lead to better and more thoughtful tax policy.

# INCOME TAX

## SINGLE-FACTOR APPORTIONMENT FORMULA

ITA supports the preservation of the single-factor apportionment formula as applied to regular corporations and pass-through entities. The business activity ratio, or single-factor formula, has been a pillar of economic development for the state since 1934. Other states have recognized Iowa's success with the single-factor formula and have enacted similar statutes to be more competitive in today's global economy.

## TAX CREDITS

ITA recognizes that Iowa's historically high corporate and individual income tax rates have resulted in numerous tax credits being offered by the state. These tax credits allow Iowa to effectively compete among states regarding policies directly impacting the decisions made by businesses to invest in human resources and physical infrastructure. However, taxpayers that are not eligible for the credits are burdened with a higher effective tax rate. Any incentive to Iowa's tax system should have a demonstrable economic gain so all Iowans benefit. ITA supports the review of business tax credits in conjunction with the overall review of tax rates. ITA will continue to work with lawmakers to improve Iowa's overall tax climate, which includes simplifying taxes and lowering rates to help grow Iowa's workforce.

## FEDERAL DEDUCTIBILITY

ITA continues to support the elimination of federal deductibility, where it still exists. This elimination of federal deductibility must not be used as a revenue enhancement vehicle

## COMBINED REPORTING

ITA opposes the consideration or adoption of a mandatory combined corporate income tax reporting methodology. Moving from separate entity reporting to combined unitary reporting is a major structural tax change without a predictable income tax result. The consequences of such a change add complexity to an already complex Iowa tax system and could discourage business growth in Iowa. Now more than ever in Iowa's history there is a need for tax stability and predictability. ITA believes policymakers should focus their attention on an Iowa economy supported by a stable tax environment that is fair, equitable and predictable.

## GROSS RECEIPTS

ITA opposes a legislative consideration of a gross receipts tax. Gross receipts taxes are widely acknowledged to violate the tax policy principles of transparency, fairness, economic neutrality and competitiveness.

## CONFORMING WITH INTERNAL REVENUE CODE

ITA supports "rolling" automatic conformity of Iowa's tax code to the Internal Revenue Code. Conformity generally allows businesses to better predict the tax impact of federal law changes in estimating Iowa tax liability. However, Iowa lawmakers should review all federal changes to determine if Iowa should decouple from provisions that violate Iowa's constitution, contradict ITA's Guiding Principles of Sound Tax Policy, or negatively impact Iowa's business climate.

# PROPERTY TAX

## GENERAL ISSUES

Iowa businesses continue to have one of the highest tax burdens among the 50 states. Recognizing Iowa's 2013 property tax legislation was an important first step to reduce the tax burden, but there is more work to be done. Additional rate reductions will encourage increased economic development and growth. The Legislature will be encouraged to treat all classes of property equitably. As they prepare their budgets, local governments are encouraged to look for ways to increase efficiency and maximize outcomes to assure property taxes are not automatically raised.

Tax policies should:

- Encourage growth and development through more competitive property taxes on commercial and industrial property.
- Use actual value and use of property as the basis for taxation.
- Avoid systematic increases in property taxes.
- Make property tax transparent and easier to understand.
- Be predictable and sustainable for local governments and taxpayers.
- Prioritize critical needs.

## PROPERTY TAX INCREMENT FINANCING

ITA supports property tax increment financing (TIF) as a mechanism for economic development by taxing entities. ITA also supports TIF reform providing reasonable limits and greater accountability.

Any proposed reform to this tool should keep in mind the following:

TIF revenues should be granted only to property tax-producing properties. Tax revenue generated from the increment of a TIF district should not be used to construct public buildings, such as but not limited to firehouses, libraries, courthouses, college dormitories, etc.

TIF policy should be developed by all government entities impacted. Policies should include projects to be funded with TIF dollars, the number of jobs to be created and the amount of capital investment a project should provide.

Each TIF area should be limited to a time period not to exceed 20 years. The entity providing the TIF should not be able to alter the boundaries during the set time frame.

The definition of blighted areas should reflect actual slums and blighted areas. Blighted areas should not include real property assessed as agricultural property for purposes of property taxation.



# PROPERTY TAX

The Legislature should consider setting a reasonable limit of total property valuations allowed for TIF purposes within a city district. This limit could be shown as a percentage reflecting the total of all TIF projects in the taxing authority compared to the value of all assessed property within such taxing authority.

## PROPERTY TAX EXEMPTION ON MACHINERY AND EQUIPMENT

ITA believes the property tax exemption on machinery, equipment and computers has dramatically strengthened Iowa's efforts to compete in business growth and development. This encourages companies to expand and make significant capital investments in the state. ITA believes it is appropriate for all taxpayers to receive this exemption by promoting a uniform and equitable taxing system.

## IOWA PROPERTY ASSESSMENT APPEALS BOARD

ITA supported the establishment and the continuation of the Iowa Property Assessment Appeals Board.

# SALES & USE TAX

ITA is generally supportive of current sales and use tax provisions and opposes an increase in rates, expansion of the base or reduction of exemptions unless there is a true overall fundamental tax reform addressing expenditures as well as revenues. ITA supports modernizing the sales and use tax to better reflect present and foreseeable future business transactions.

## SALES AND USE TAX SIMPLIFICATION

ITA agrees simplifying the nation's sales and use tax laws is good public policy. Active participation in the Streamlined Sales Tax Agreement (SSTA) by the Iowa Legislature, tax administrators and business is necessary. There must be advocacy for an easy-to-administer tax system that does not increase the tax burden. Iowa must also ensure streamlined sales tax protects tax policy unique to Iowa and guards against unintended elimination of tax benefits already established in the law. Furthermore, the system must use compliance and remittance technologies that are readily accessible and affordable to all levels of business and commerce.

## SALES AND USE TAX EXEMPTION AND REFORM CLARIFICATION

The machinery, equipment, computer and processing sales and use tax exemptions, in conjunction with the machinery and equipment property tax exemption, allow Iowa to effectively compete among states with regard to policies directly impacting the decisions made by a business to invest in human resources and physical infrastructure.

ITA continues to support simplification and clarification of sales and use tax exemptions statutorily provided to Iowa taxpayers.

## SALES TAX INCREMENT FINANCING

ITA urges no further expansion of sales tax increment financing districts. Iowa's focus should remain on attracting and expanding all business sectors through a competitive tax climate.

# OTHER TAX POLICIES

## GENERAL ISSUES

While ITA is a business association focused on business tax issues, we realize individual tax issues impact key business decisions. Individual and business taxes are often interrelated. Members of the General Assembly are urged to keep this in mind when debating issues including income, long-term capital gains, inheritance, sales, use and property taxes. Keeping Iowa competitive in these areas is important. ITA in general supports thoughtful changes to enhance Iowa's tax climate, thus supporting long-term growth.

## FRANCHISE UTILITY FEE AND OTHER ALTERNATIVE REVENUE SOURCES

Local governments often explore ways to increase revenues through taxation of business, including the imposition of franchise utility, service and maintenance, right of way and user fees. While ITA understands and supports the concept and application of home rule, such a rule is not believed to include the authority to establish what are essentially new taxes. An increase in these fees and alternative revenue sources is a tax increase, does not adhere to the basic principles of good tax policy and hurts economic growth in Iowa.

## TAX STUDIES

Any responsible study pretending to estimate the annual fiscal impact of incentives afforded businesses and individuals in the state tax code should not be limited to a perfunctory listing of those incentives and what they "cost" the state. Rather, an analysis of growth and expansion in Iowa's economy resulting from their use must be included.

This means looking at:

- The sort of new businesses attracted to the state along with those established companies deciding to stay and expand.
- New jobs generated. Existing jobs retained.
- Growth of attendant or complementary business and commerce.
- The expansion of property tax base.
- Added opportunities for workforce development collaboration between employers, high schools, community colleges and universities.
- Tax incentives should complement not replace the tax code. The foundation of tax law should be based on principles that are neutral, competitive, fair, simple and consistent.
- Economic gain must be realized in a reasonable amount of time using a cost-benefit analysis and/or economic impact analysis.

# OTHER TAX POLICIES

## UNPREDICTABLE REVENUE SOURCES

The state should avoid overreliance on unpredictable revenue sources. Taxes raised on some products and services with the expressed hope of discouraging consumption present a particular dilemma. Balancing a budget or funding new programs with a tax on something whose consumption is being discouraged makes no sense.

## BOND ISSUES

Officials in Iowa have traditionally recognized the potential hazards of debt financing. ITA urges them to continue exercising caution when considering state bonding projects.

ITA recognizes that from time to time concerted efforts have been initiated to lower the referendum passage rate requirement for general obligation bond issues to a simple majority. ITA supports maintaining the 60% passage rate for referenda.

ITA believes it is time for the Legislature to establish a mechanism to systematically review and prioritize the physical infrastructure needs of the state. ITA contends that with such a process in place, citizens will be more likely to approve bond issues if they know other options have been examined.

## TRANSPORTATION INFRASTRUCTURE FUNDING

ITA supports increased funding for Iowa's transportation infrastructure from constitutionally protected sources of revenue with consideration given to being competitive with other states.

## GOVERNMENT COMPETITION WITH THE PRIVATE SECTOR

The best interest of neither state government nor the people of Iowa is achieved when state agencies and local government subdivisions compete with taxpaying businesses in providing goods and services. Iowa is best served when government is restricted to those things that private entities cannot do, thus allowing growth by those who pay taxes, not by those who consume taxes.

## TAX ADMINISTRATION

The best tax policies can be undermined by poor implementation. Business taxation can be very complex, and the overwhelming majority of businesses are believed to strive toward compliance with the tax laws. Fair and predictable administration is a must to encourage compliance and to present a positive image for economic development.

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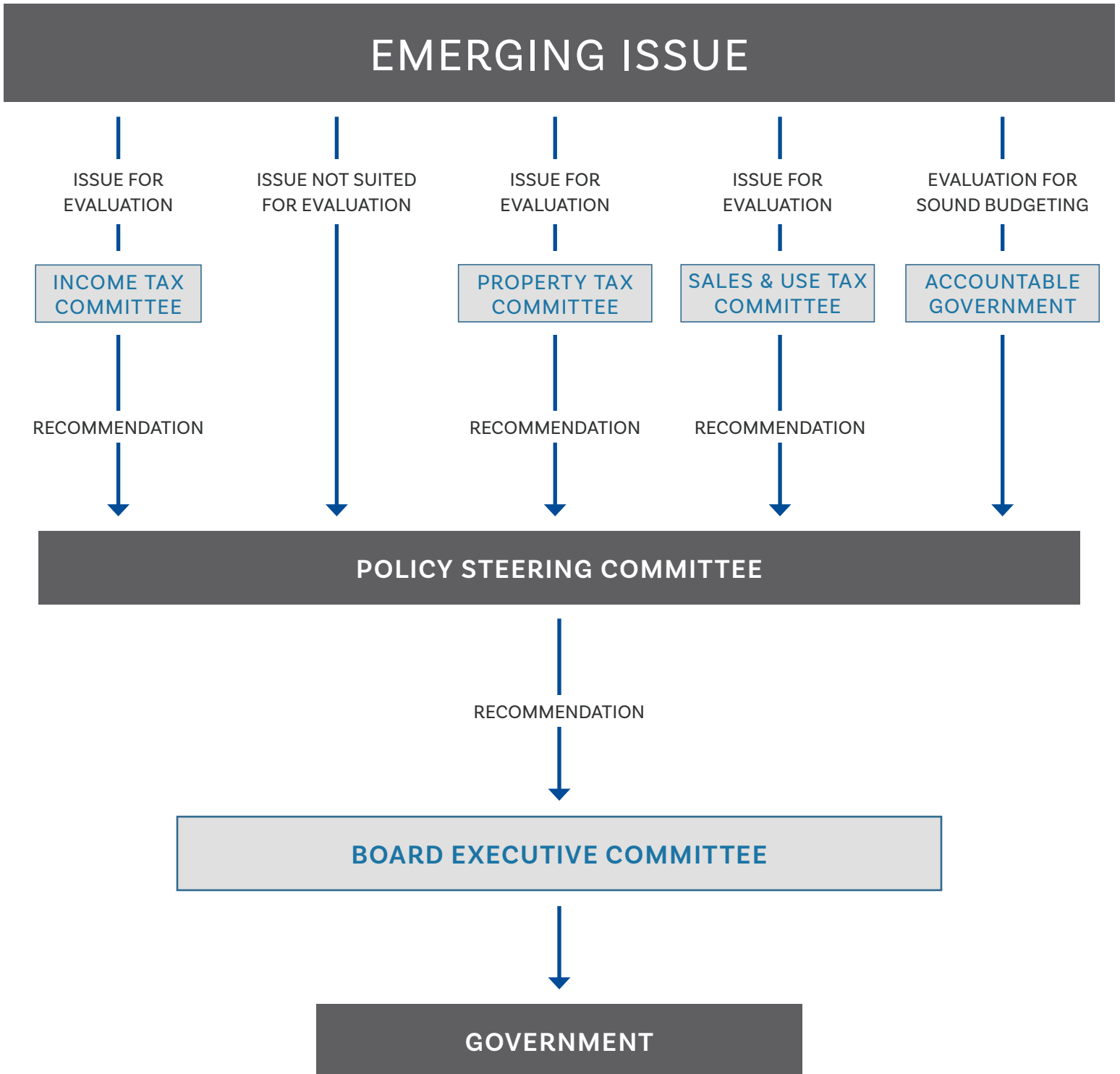
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