

IOWA TAXPAYERS

ASSOCIATION

*Iowa's Leading Business Tax Policy
Resource Since 1935*



**2011
STATEMENT OF
POLICIES AND INITIATIVES**

“Since its formation in 1935, the Iowa Taxpayers Association’s mission has been to educate and inform Iowan’s 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 and corporate taxes.”

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FROM THE CHAIRMAN

January 1, 2011

To: Iowa Policymakers and the Iowa Taxpayer:

Thank you for reading and considering the 2011 Iowa Taxpayers Association (ITA) Statement of Policies and Legislative Initiatives. The ITA is beginning its 76th year as a leading business tax policy resource dedicated to improving Iowa's business tax climate. Our membership organization is well positioned to assist and educate policymakers at all levels of government, including efforts to explore best practices, streamline and gain efficiencies, and improve Iowa's economic development initiatives.

Although hope springs eternal from encouraging signs of an improving economy, we will all be challenged to recover from the devastation of a number of Iowa's natural disasters and the significant decline of the state's financial stamina over the past few years. In good and bad times, continuing to apply ITA's core principles will sustain sound and successful tax policy over the years. The 2011 policy initiatives are grounded on our longstanding principles of Equity, Neutrality, Promotion of Growth, Revenue Adequacy, Simplicity, Stability, Transparency, Accountability, Efficiency, and Taxpayer Involvement.

Tax policy contributes to the attractiveness of our business climate and opportunities for future growth. We beseech Governor Branstad and the 84th General Assembly to work together and create opportunities within the state through business prosperity and tax policy designed to encourage growth. Iowa government must become more flexible and nimble by adjusting expenditures in accordance with stable revenue sources. All state expenditures should be open for review and justification. Taxes should support both good government and economic growth.

The ITA, through its member company representatives, looks forward to the opportunity of teaming and working together with government to improve Iowa's business tax and regulatory climate, which ultimately will allow our great state to grow jobs and improve the lives of its citizens. I appreciate and look forward to the occasion of serving each of you as the 2011 Chairman of the ITA Board of Directors.

Sincerely,

Richard H. Wireman, II

Iowa's hope for growth and prosperity for all its citizens depends on an attractive business climate where jobs are created, tax revenues are expanded, and services to all Iowans are maintained. Meeting the challenges of difficult economic times is never easy, whether those challenges come to a family, a business, or a government agency. We encourage policymakers, this session and beyond, to do all that they can within state government to contain spending. Controlling spending, not increasing tax burdens for citizens is the answer to balancing budgets. We feel this principle is the bedrock on which Iowa's government must base its actions in this coming legislative session.

We believe that a state tax structure should include the following elements:

EQUITY

Equity means that a tax imposes equal liabilities for equally situated taxpayers.

NEUTRALITY

A tax is judged to be neutral if the degree to which its imposition does not affect decisions regarding earning or spending of income and wealth. A tax is a cost, and as such, one criterion for any tax should be that it not be levied to the extent that it causes negative economic decisions.

PROMOTION OF GROWTH

A tax should not interfere with economic growth. The overall tax structure should support the state's economic principles and goals.

REVENUE ADEQUACY

Revenues must be predictable and stable. While there is considerable debate over what constitutes adequate revenue, we acknowledge that government must have money to operate relying principally on sales/use, income, and property taxes.

SIMPLICITY

The tax structure should be as uncomplicated as possible. Taxpayers should be able to easily understand the tax and the administrative rules so as to comply with them properly.

STABILITY

A tax structure should provide stability and predictability; it should not continuously change. A stable tax structure will create a climate of consistency.

TRANSPARENCY

Taxpayers should be able to visibly identify who and what is being taxed. *We entrust our governments with the responsibility for spending our tax dollars, for which there must be accountability, efficiency, and taxpayer involvement.*

ACCOUNTABILITY

Government agencies and officials must be accountable and accessible to their employers --- the taxpayers. Responsible fiscal policymakers should employ the standards and criteria necessary to produce sustainable budgets that Iowa taxpayers can rely on year after year.

EFFICIENCY

Businesses have learned that successful competition requires economically prudent and efficient operations. The same principles of management should be applied to government. State agencies must implement sound business practices such as strategic planning, service management, and performance review to measure progress that is made towards more responsible and justifiable spending habits by government.

ITA supports a performance-based budgeting process which encourages a full review of all state programs and promotes funding of those programs that achieve measurable results.

TAXPAYER INVOLVEMENT

We believe that in all instances, those representing us in government are well intentioned and constructive in their objectives. Even so, taxpayers cannot afford to save their opinions on government spending for Election Day. The involvement of taxpayers in the regulatory and legislative development process will lead to better and more thoughtful tax policy. One has little standing to protest if he or she does not participate in the shaping of spending and administrative decisions as they are being made by those we hold responsible.

COMMITTEE ON ACCOUNTABLE GOVERNMENT AND SOUND BUDGETING PRINCIPLES

A sound budget development process does the following:

- avoids the use of one-time or time-limited sources 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.

ITA supports the development and use of responsible standards and criteria by fiscal policymakers to produce accountable, sustainable budgets that Iowa taxpayers can rely on year after year.

Through its committee on accountable government, established in 2001, the ITA complements and reinforces the goals of the Accountable Government Act. By focusing on what ITA believes are sound budgeting and financial practices, the Office of the Governor and members of the General Assembly are offered tools by this Committee through which they can provide more accountability in the practice of government.

The ITA Committee on Accountable Government reviews budget proposals and final budget action at several specific points-in-time each year, making public its findings. A list of criteria has been developed to analyze the State budget development process. Through continued encouragement of and feedback to those involved with the budget process, the hope is that --- over time --- taxpayers will arrive at a comfortable level of faith and assurance that each year’s budget is sustainable in the future. The expectation is that the use of these accountable budgeting practices will foster long-term fiscal stability and sound tax policy in Iowa.

The eight sound budgeting principles highlighted above are incorporated into our annual analysis.

The goal of this annual review is to encourage the key fiscal policy developers and lawmakers of Iowa to continue their consideration of these criteria as the budgeting process moves forward each fiscal year. Though the primary focus of this Committee is not to suggest, develop, or endorse legislative proposals, ITA does hope to effectively complement the significant standards set forth in the Accountable Government Act and assist Legislators and the Governor in their work to make Iowa government accountable to its citizens and taxpayers.

CORPORATE INCOME TAX POSITIONS

SINGLE FACTOR APPORTIONMENT FORMULA

ITA supports 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. In recent years, other states have recognized the success Iowa has had with the single factor formula and are moving to adopt similar statutes to compete in today's global economy.

RESEARCH AND DEVELOPMENT TAX CREDIT

ITA supports continuation of the research activities tax credit as significant stimulus for economic development and innovation encouraging the attraction or retention of high quality jobs in Iowa. This refundable tax credit must be maintained and strongly promoted in the state's effort to attract, finance, and grow new and existing business. We oppose any limitation of the credit or modification from its current form.

FEDERAL DEDUCTIBILITY

ITA believes it is appropriate to maintain federal deductibility for all taxpayers.

The corresponding high tax rates associated with federal deductibility however, discourages economic development. Therefore, ITA supports the elimination of federal deductibility from Iowa's income tax system if the following could be ensured:

- 1) Federal deductibility is eliminated for all Iowa taxpayers with a corresponding income tax rate reduction;
- 2) The Iowa income tax rate reduction is revenue neutral by tax bracket;
- 3) Elimination of federal deductibility must not be used as a revenue enhancement vehicle for the state

COMBINED CORPORATE REPORTING

ITA supports the currently fair and reasonable Iowa separate entity reporting structure and 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. The consequences of such a change add complexity to an already complex Iowa tax system. Now more than ever in Iowa's history there is a need for tax stability and predictability.

ITA believes that policymakers should focus their attention on an Iowa economy supported by a stable tax environment that is fair, equitable, and predictable.

CORPORATE INCOME TAX POSITIONS

GROSS RECEIPTS

ITA opposes any 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. Generally, such taxes should not be imposed on business considering the negative impact on economic development.

COUPLING WITH INTERNAL REVENUE CODE CHANGES

ITA supports legislation for fully automatic coupling of the Iowa Code with the Internal Revenue Code.

“Coupling” is a common practice where tax changes at the federal level are included at the state level. Coupling will allow businesses to better predict the tax impact of federal law changes in estimating Iowa tax liability.

PENALTY PROVISION CONSISTENCY WITHIN TAX CODES

ITA believes in consistency where possible between the federal and state tax codes. A ten percent penalty is assessed under current Iowa Code subsection 421.27(5), in cases where a taxpayer has filed an extension but fails to pay 90% of their obligation by the original due date. Under federal law, the penalty is 0.5% per month. The Iowa approach often leads to unduly harsh results on taxpayers unable to make a 90% payment or to determine the amount of a 90% payment by the original due date. ITA supports changing Iowa code subsection 421.27(5) to conform to the federal provision.



PROPERTY TAX REFORM

ITA believes that it is time for the legislature to provide us with a predictable picture of our property tax climate allowing taxpayers to reasonably predict and make future decisions regarding their potential future burden. Iowa's property tax system should be transparent to all taxpayers. We should have a system that is fair, equitable, and predictable. Taxpayers recognize the importance of ensuring local government has the necessary taxing authority to adequately deliver a reasonable level of constituent services.

Local government must be held accountable to the taxpayer for the amount and use of property tax revenue. Once taxpayers know exactly what basic services are provided in the overall tax system, they can then decide through voter participation if other services should be added or funded.

Once basic services are established, it will allow for the next step in reform. This will include a review of classifications, how many classifications there should be, and what should be included within each classification such as exempt property, manufactured housing, platted land, apartments, condos, etc.

Iowa needs to take immediate action to provide a transparent view of property tax spending by government to the taxpayer.

ITA supports reform resulting in control of property taxes with minimal shifting of the burden between classes of property. This must be accomplished through limiting revenue growth and defining in detail the services that can be funded through the property tax system.

Property tax reform will require several steps to be taken by the legislature. First, there must be a clear definition of what is to be funded by the property tax system.

Property taxes are designed to pay for services directly related to schools, fire protection, public safety, and road maintenance. Funding of other types of services will cause the system to shift the burden of property taxation among other classes of taxpayers.

Once these priorities for basic services are set, local government has the flexibility to provide or discontinue services not included in the legislative priority list. Local government, based on revenue, will then have the following options:

- Eliminate additional services or expenditures that the priorities do not cover.
- Share with other local governments to reduce their costs.
- Maintain programs and expenditures by increasing revenues by a vote of the people.
- Establish a base budget with the following considerations.
 - Tie any increase to new revenue that has been generated.
 - Increases beyond the base budget would have to receive voter approval.

PROPERTY TAXATION

PROPERTY TAX INCREMENT FINANCING (TIF)

ITA supports Property Tax Increment Financing (TIF) as a mechanism for economic development by taxing entities. ITA also supports TIF reform that provides reasonable limits and greater accountability. Any proposed reform to this tool should keep in mind the following:

- TIF should be granted only to property tax-producing properties. Properties should not benefit from a TIF when such property will not be subject to future property taxation; i.e.: fire houses, 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 for a time-period not to exceed 20 years; the entity providing the TIF should not be able to alter the boundaries during the set timeframe.
- 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 as against the value of all assessed property within that taxing authority.”

PROPERTY TAX EXEMPTION ON M&E

ITA believes that the property tax exemption on machinery, equipment, and computers has dramatically strengthened Iowa’s efforts to compete in business growth and development by encouraging companies to expand and make significant capital investments in our state.

FEE-BASED TAXATION

Local governments are often exploring ways to increase their revenues through taxation of business, including the imposition of franchise fees, service and maintenance fees, right of way fees, and use taxes. While ITA understands and supports the concept and application of home rule, we believe that such a principle does not include the authority to establish what are essentially new taxes. An increase in these fees and alternative revenue sources is a tax increase, and as such, does not adhere to the basic principles of good tax policy

STATEWIDE PROPERTY ASSESSMENT APPEALS BOARD

ITA supports the Statewide Property Assessment Appeals Board and the work that they do providing a vital service to all taxpayers. ITA is opposed to any attempt to eliminate the Statewide Assessment Appeals Board.

SALES AND USE TAX SIMPLIFICATION

ITA agrees that simplifying the nation's sales and use tax laws is good public policy.

Active participation in the SSTP by the Iowa legislature, tax administrators, and business is necessary to advocate for a system that does not increase the tax burden and is easy to administer by participating businesses and taxing authorities. Iowa must also ensure that the 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 utilize compliance and remittance technologies that are readily accessible and affordable to all levels of business and commerce.

SALES AND USE TAX EXEPTION AND REFORM CLARIFICATION

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

ITA supports clarifying the definition of replacement parts eligible for the sales and use tax exemption for machinery and equipment. ITA supports the study of Iowa's industrial processing exemptions by the State Industrial Processing Study Committee that would resolve a number of issues. The State Industrial Processing Study Committee should clearly and succinctly spell out where clarification challenges exist and propose solutions that clarify the existing processing exemptions.

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 progressive and competitive tax climate.

GENERAL ISSUES

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

TAX EXPENDITURE STUDIES

Any responsible study that portends 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 it must also include an analysis of growth and expansion in Iowa's economy that resulted from their use. This means looking at the sort of new businesses that were attracted to the state along with those established companies that decided to stay and expand; the new jobs that were generated and existing jobs retained; the growth of attendant or complementary business and commerce; the expansion of property tax base; and, the added opportunities for workforce development collaboration between employers, high schools, community colleges, and universities.

UNPREDICTABLE REVENUE SOURCES

The state should avoid over-reliance on unpredictable revenue sources. Taxes on some products and services present a particular dilemma in that they often are raised with the expressed hope of discouraging consumption. It does not make sense to try and balance a budget or fund new programs with a tax on something whose consumption is being discouraged.

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

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

OTHER TAX POLICY

GOVERNMENT COMPETITION WITH THE PRIVATE SECTOR

It is not in the best interests of either state government or the people of Iowa for state agencies and local government subdivisions to compete with taxpaying businesses in providing goods and services. Iowa is best served when government is restricted to those things which 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 we believe that the overwhelming majority of businesses strive to comply with the tax laws. In order to encourage compliance and to present a positive image for economic development, fair and predictable administration is a must.

ITA understands the need for responsible enforcement of state tax laws and regulations, and we have supported many legislative proposals that enhance the authority of the Iowa Department of Revenue. The Department has the responsibility to not abuse the power it has been given nor violate the trust placed in it by going beyond the intent of the law in attempting to maximize revenues. Regulatory interpretation that thwarts legislative intent is a hindrance to business growth and competition.



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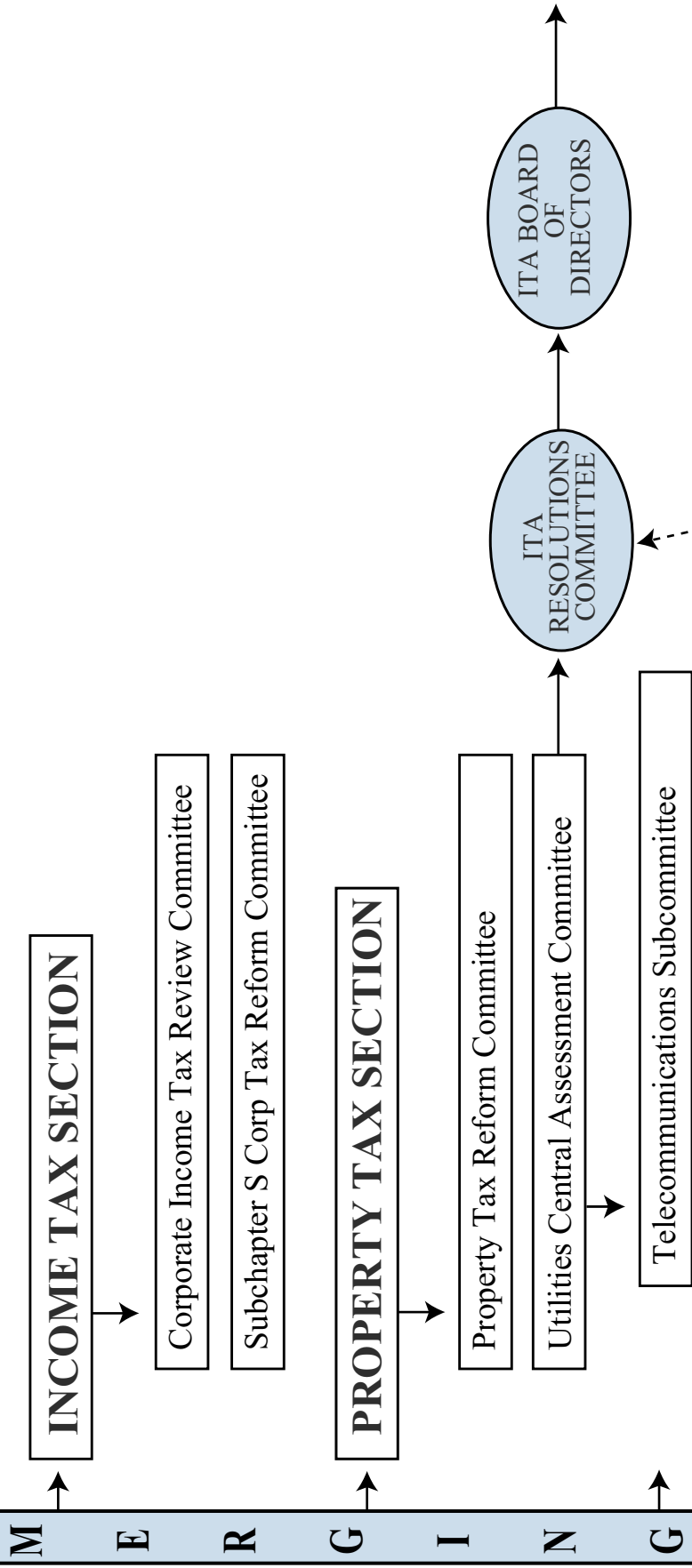
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ITA Decision Making Process



G O V E R N

E M E R G I N G

SALES & USE TAX SECTION

Sales & Use Tax Review Committee

Machinery, Equipment, & Industrial Processing Exemption Committee

Streamlined Sales Tax Project Review Committee

TAX POLICY SECTION

Committee on Accountable Government

Tax Policy & Reform Committee

Local Government Committee

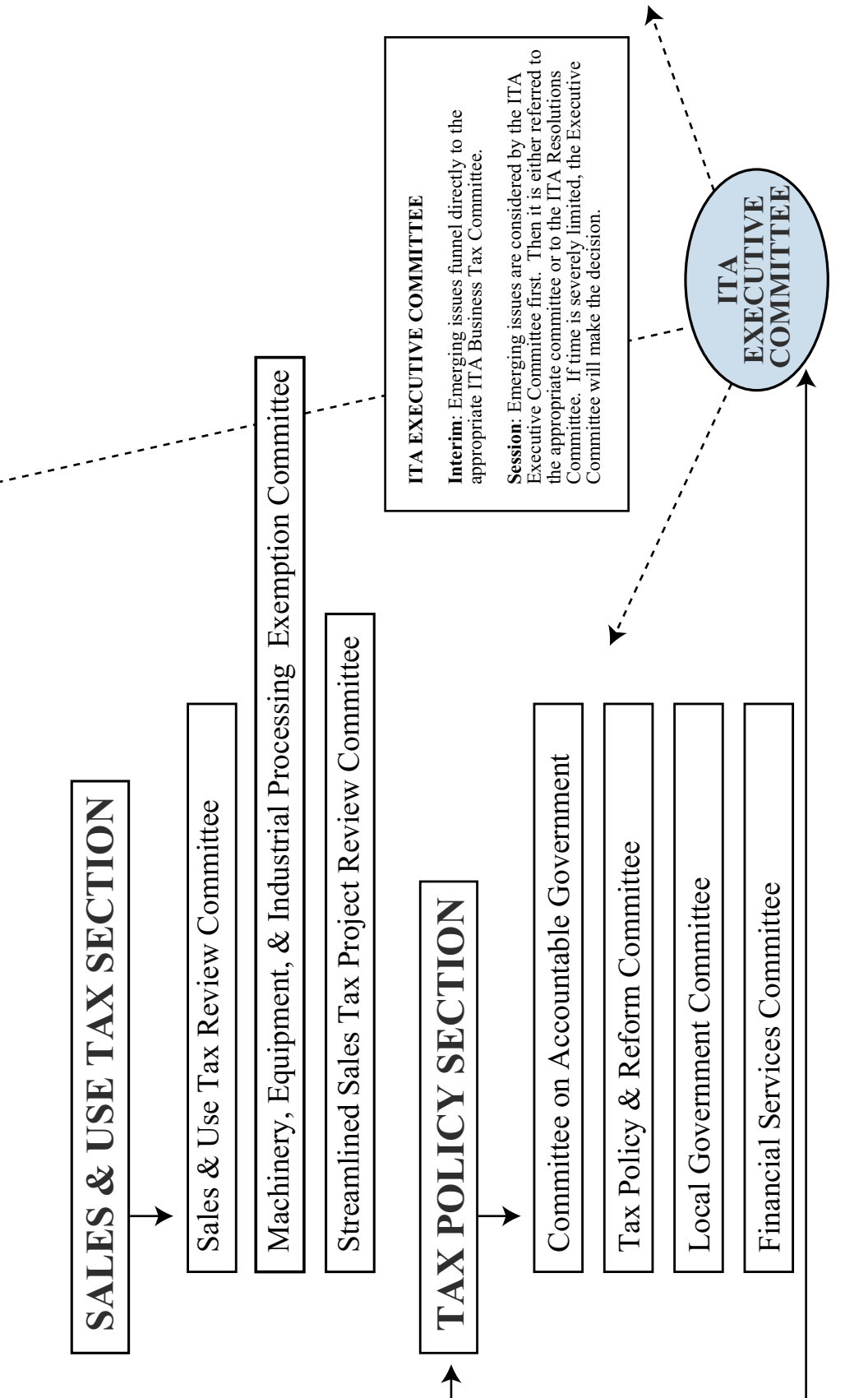
Financial Services Committee

ITA EXECUTIVE COMMITTEE

Interim: Emerging issues funnel directly to the appropriate ITA Business Tax Committee.

Session: Emerging issues are considered by the ITA Executive Committee first. Then it is either referred to the appropriate committee or to the ITA Resolutions Committee. If time is severely limited, the Executive Committee will make the decision.

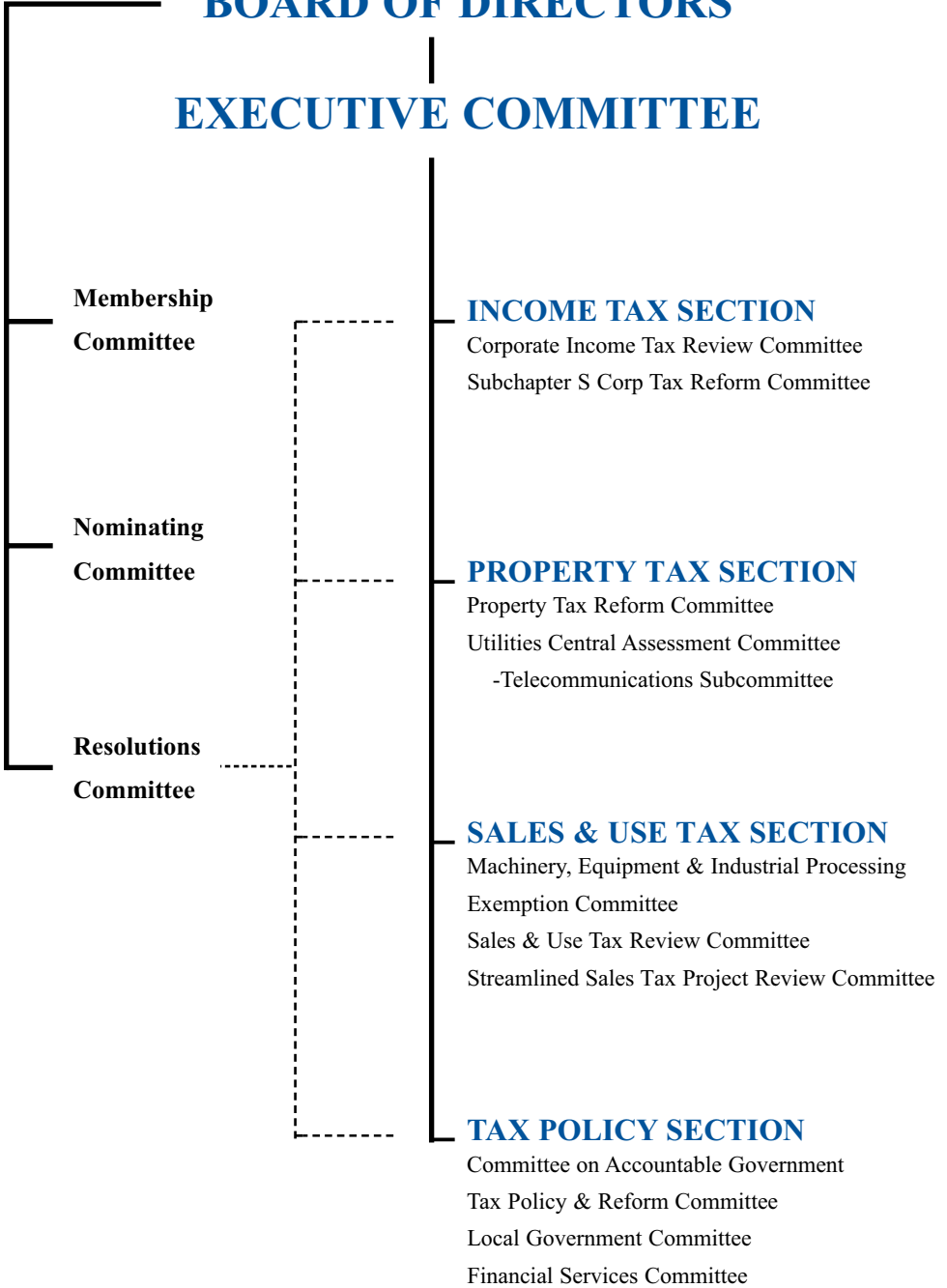
ITA EXECUTIVE COMMITTEE



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BOARD OF DIRECTORS

EXECUTIVE COMMITTEE



NOTE: Broken line indicates communications exchange and cooperation between committees/sections.



Iowa's Leading Business Tax Policy Since 1935

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