

Ideology differences carry over to Culver, Branstad tax plans

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Low earners pay higher percentage of income in taxes

Moderate- and low-income lowans in 2007 paid a higher percentage of their income in state and local taxes than wealthier lowans did, according to a study released last year. Elimination of corporate taxes would widen the gap, advocates of working families say.

Portion of income tax filers	Family income	Percentage of family's income to state and local taxes	State collections	
			Total income tax paid	Percentage of all taxes
20%	Less than \$20,000	11.0%	\$242.5 million	4.1%
20%	\$20,000 to \$37,000	10.6%	\$655.2 million	11.0%
20%	\$37,000 to \$56,000	9.6%	\$926.9 million	15.5%
20%	\$56,000 to \$86,000	9.3%	\$1.36 billion	22.7%
15%	\$86,000 to \$146,000	8.7%	\$1.47 billion	24.6%
4%	\$146,000 to \$365,000	8.0%	\$709.3 million	11.9%
1%	\$365,000 or more	6.0%	\$613.3 million	10.3%

Source: Institute on Taxation and Economic Policy



Written by

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Here's what other groups are saying about state tax cuts.

IOWA CHILD & FAMILY POLICY CENTER: It questions the premise of proposing state tax cuts, saying state government cannot further reduce revenues without harming vital services, such as K-12 education and children's health care.

IOWA ASSOCIATION OF BUSINESS AND INDUSTRY: Most of its members believe a comprehensive tax overhaul is needed to sort out inequities in the state's tax laws. One recommendation is to further define what property taxes should pay for.

REPUBLICAN PARTY LEADERS: House Minority Leader Kraig Paulsen, R-Hiawatha,

believes the House Republican caucus is more interested in broad-based tax relief, rather than a focus on business.

When the taxes are paid off

Tax Freedom Day is the date when residents have earned enough money to pay off their total tax bill for the year. Dates earlier in the year indicate the residents of the state have a lesser tax burden.



Iowa's corporate income tax collections

Iowa's corporate tax structure consists of four brackets with a top rate of 12 percent, kicking in at an income level of \$250,000.

Corporate income tax collected, after deducting refunds or various tax breaks:

For fiscal years, in millions



Fiscal year ends June 30

Source: Iowa Department of Revenue

High rate but in the middle on a per capita basis

Iowa's top rate is the highest in the nation. But when factored cumulatively from 2004 to 2008 and per capita, the cost of Iowa's corporate taxes is less than the national average.

	Per capita cost and rank nationally		State and local taxes**
	Corporate taxes*		
Illinois	\$243 (10th)		\$4,346 (40th)
Iowa	\$116 (36th)		\$3,589 (31st)
Minnesota	\$100 (11th)		\$4,688 (12th)
Missouri	\$65 (46th)		\$3,508 (32nd)
Nebraska	\$131 (28th)		\$3,983 (17th)
South Dakota	\$87 (42nd)		\$3,079 (45th)
Wisconsin	\$154 (19th)		\$4,194 (9th)
Nation	\$167		\$4,283

*Wyoming, Nevada and South Dakota have no corporate or individual income tax; Alaska has no individual income or state-level sales tax; Florida has no individual income tax; and New Hampshire, Delaware, Oregon and Montana have no sales tax. Figuring the cost per capita, as done above, is the typical method of conveying the significance of tax collections from a particular source.

**During the past 20 years, Iowa's state and local tax burden has fallen from 10.6 percent of income (ranked ninth-highest in the nation) to 9.3 percent in 2008. Iowa ranked 31st nationally, below the national average of 9.7 percent.

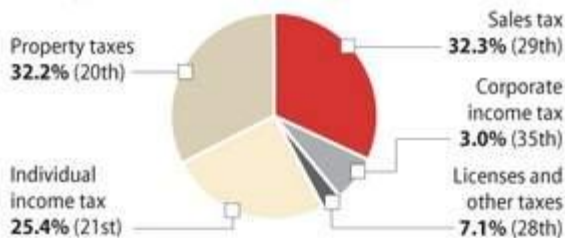
Source: The Tax Foundation

THE REGISTER

Where Iowa governments get money

Iowa's state and local governments combined rely most heavily on property taxes, sales taxes and individual income taxes for their revenue. Reliance on each tax ranks in the middle range among the states.

Iowa's government revenue comes from:



Source: A 2010 report from the Tax Foundation, a nonpartisan education organization based in Washington, D.C. The report is based upon U.S. Census data on government revenue for the fiscal year that ended June 30, 2008.

THE REGISTER



Cutting business taxes will help: Bob Wersen moved Interpower Corp. from California to Oskaloosa in 1993 largely because the cost of doing business in Iowa was less expensive. The business, a supplier of power system components such as power cords, has about 90 employees. While he considers commercial property taxes high — the company pays about \$250,000 a year in property taxes in Ames, Lamoni and Oskaloosa — he also thinks Iowa's work force is dedicated. Wersen generally agrees with Branstad's plan for cutting business taxes to encourage economic expansion. However, a property tax reduction could offer major savings, he said. Those savings might not mean extra employees, but they likely would mean further investment in the company, he said. "If we want to grow business, we have to find a way to stop shifting costs to commercial property," Wersen said. / JOHN GAPS III/THE



Little impact from tax cuts: Ritual Café, a coffee shop on 13th Street between Grand Avenue and Locust Street in downtown Des Moines, is organized as a limited liability corporation. It does not pay corporate income taxes. Co-owner Linda Foster said she does not believe the business, which leases its space, would directly benefit from Terry Branstad's plans to cut corporate income taxes and commercial property taxes. "When we're just getting through the day-to-day operations, taxes are a big part of our expenses," said Foster, a former Maytag worker who opened the business in 2005. "We don't have deep pockets to just reach in and pay taxes at any time, but yet they [corporations] do, and they're the ones getting the breaks. In some respects, it's a little hard to swallow, especially knowing that everybody else, all the other little people, are going to pick that up for them to have that break." / JOHN GAPS III/THE REGISTER

Of all the taxes Iowans pay, which do you think is the fairest, and which is the least fair?

BRANSTAD: Iowa's sales tax is the least objectionable, because we exempt food, prescription drugs and residential utilities, and our rates are competitive. The property tax is the most onerous and is too high. It greatly impacts individuals on fixed incomes.

CULVER: The fairest tax that Iowans pay is the cigarette tax because it is a user fee and starting smoking is a choice. The cigarette tax helps discourage people, especially kids, from smoking. Since Iowa raised the cigarette tax, the percentage of Iowans who smoke has dropped by 22 percent. The least fair tax is the sales tax because it affects everyday Iowans struggling to get by. Terry Branstad raised the sales tax twice even after promising not to do so. Altogether he raised taxes over 60 times.

Gov. Chet Culver's plan to cut income taxes would help people earning less than \$100,000 but not higher earners.

Terry Branstad's plan to cut corporate taxes would benefit corporations but wouldn't lower taxes for small businesses.

Both Culver, a Democrat, and Branstad, a Republican, agree that commercial property taxes are too high. But Culver, after campaigning on cutting commercial property taxes in 2006 but failing to make headway, isn't pushing a cut this year. Branstad proposes reducing commercial taxes by 35 percent to 40 percent.

Both candidates' plans have drawn some skepticism, even within their own parties.

Branstad supporter Kevin McLaughlin said Branstad's tax plans set up Iowa for choosing winners and losers, with big business the perceived winner. McLaughlin, a Des Moines stockbroker and president of Iowans for Discounted Taxes, favors reducing nearly all taxes by the same percentage so that every resident or business could share in an immediate benefit.

Charles Bruner, co-director of the Iowa Fiscal Partnership, called Culver's plan appropriate but said his group would prefer to focus tax breaks more tightly on working families with children, which he says are hit harder with taxes than other groups.

Bruner's group has not endorsed a candidate. He worries that both candidates' plans could siphon revenue from services that help low- and moderate- income families.

David Swenson, an economist at Iowa State University, said the difference between the plans rests largely on ideology and politics. Branstad wants to aim assistance at businesses, while Culver wants to direct help to middle- and low-income families, he said.

"It's who your primary support comes from, and, basically, what are their talking points and what motivates that group," Swenson said.

Culver plan: Cut taxes for the middle class

THE PLAN: Iowans who make less than \$100,000 would receive a tax break of about \$90 on their income taxes. Joint filers who make less than \$200,000 would receive \$180. Iowans would claim the credit when they file their taxes each year.

WHO BENEFITS? About 980,000 tax filers would qualify for the credit.

WHO DOESN'T? Anyone earning more than the income limits and those who earn so little they don't pay taxes also would not qualify for the tax credit.

LOST REVENUE: About \$120 million.

THE ARGUMENTS: Culver made his proposal last week, saying Iowa's economy had recovered enough to allow the state to rebate taxes. Tax relief should be aimed at middle-class Iowans, he said.

Culver wants the Legislature to pass the tax break in 2011 and wants it to take effect for calendar year 2011. The tax break would be ongoing from year to year.

Branstad ridiculed the idea.

"This is a last-minute political thing he has come up with," he said.

Ed Failor Jr., president of Iowans for Tax Relief, faulted the plan for discriminating against higher-income Iowans. Wealthier families should not be penalized for their success, he said. The Republican-leaning group's political action committee has endorsed Branstad.

Swenson said Culver's plan would have minimal benefit for many families or the state economy. The \$180 for a family is the equivalent of a large pizza per month, he said.

The bigger question, Swenson said, is whether the tax cut will come at the cost of cuts to services most used by middle- and lower-income families, such as education.

Branstad plan: Cut corporate income taxes

THE PLAN: Branstad proposes to cut the state's top rate of income taxes on corporations, now 12 percent, by half.

WHO BENEFITS? Corporations, typically larger businesses with 75 or more shareholders. Such corporations file taxes as C-corporations and pay state corporate income tax. Roughly 28,500 C-corporations do business in Iowa, according to the Iowa Department of Revenue.

WHO DOESN'T? Thousands of small businesses, many of them set up as S-corporations or as limited liability corporations. These businesses generally do not pay corporate taxes. Instead, the businesses pay income taxes through their owners' personal tax filings. More than 62,000 LLCs are registered to do business in Iowa, according to the Iowa secretary of state's office. The state doesn't track the number of S-corporations, but officials said there are thousands. John Gilliland of the Iowa Association of Business and Industry said that for many smaller businesses to see a tax break, the state's personal income tax rates would also need to be reduced. Branstad does have a separate plan to forgive all income tax on startup businesses for their first three years.

LOST REVENUE: Iowa collected almost \$189.2 million in corporate income taxes last year, after factoring in various refunds. Each major corporation is so different that it's difficult to calculate the impact of a rate reduction in any given year, said Mike Lipsman of the Department of Revenue. Plus, a cut in the corporate tax is expected to prompt some businesses to reorganize to file their taxes as corporations, taking advantage of the break. Culver has cited lost revenue of

\$100 million. Branstad and Lipsman both say the cost is difficult to project and have generally refrained from attaching a number to it.

THE ARGUMENTS: Iowa's top corporate tax rate — 12 percent — is the highest in the nation.

"These rating groups look at that (the 12 percent tax rate) and say, 'Iowa is very uncompetitive,' " Branstad said.

Branstad's proposed cut, unveiled in January, is one of several proposals that he says will encourage business expansion and help fulfill his campaign promise to create 200,000 jobs in five years. Branstad sees lowering the cost of doing business in Iowa as key to business expansion.

However, some groups that have examined the issue show Iowa as already below average in the cost of doing business. In 2007, for example, the Milken Institute Cost-of-Doing-Business Index ranked Iowa as having the second-lowest cost, behind South Dakota.

Lipsman, of the revenue department, argues that the effective top tax rate is actually below 6 percent because of breaks that exempt corporations from paying the full rate.

Swenson, the Iowa State economist, said there is no evidence that Iowa's corporate tax is unfair, despite having the nation's highest top rate. He noted that Iowa's corporate tax applies only to sales made in Iowa and that other tax breaks make corporate taxes a minor overall cost of doing business.

Branstad acknowledged that the cut might not save corporations a lot of money, but he said the lower rate would be a strong marketing tool for the state. The cut could also lead to a less complicated tax system by allowing elimination of tax breaks used to compensate for the high rate, he said.

Bruner, co-director of the Iowa Fiscal Partnership, believes corporate tax cuts could further increase the disparity between Iowa's rich and poor.

His group completed a review of Iowa's taxes last year that showed low- and middle-income Iowans pay a bigger percentage of their income on sales and property taxes than wealthier Iowans do.

Through the past few decades, Iowa's tax structure has become more regressive, Bruner said.

Iowa's richest 1 percent of families pays roughly 6 percent of their income on state and local taxes, according to a 2007 study by the Institute on Taxation and Economic Policy. The poorest 20 percent of residents pay 11 percent, or almost twice the rate of the richest Iowans.

A per-capita evaluation from the Tax Foundation, a research group in Washington, D.C., ranked Iowa No. 36 in per-capita cost of corporate taxes, less than half the per-capita cost of Illinois.

Branstad plan: Cut commercial property taxes

THE PLAN: Reduce property taxes on commercial properties by 35 percent to 40 percent over a five-year period. That would lower commercial property taxes in Iowa below the Midwest average, Branstad said. Now, commercial property owners pay more than twice the amount that homeowners do on similarly priced properties because of a formula known as the rollback, which discounts residential taxes.

WHO BENEFITS? Owners of commercial property.

WHO DOESN'T? Owners of other types of property, such as homeowners. Branstad says other property owners won't pay more under his plan. Culver disagrees. "Someone is going to pay more. That's just the reality," Culver said.

LOST REVENUE: Property taxes are collected by local governments, not the state. Cities, counties, school districts and other local governments would lose an estimated \$427 million in revenue, according to the Legislative Services Agency. Branstad has said the state would funnel money to local governments to make up for commercial property tax losses.

"We're going to have to be able to hold them harmless by providing resources for them," Branstad said of local governments.

He has not explained where he would get the money for that from the state budget.

THE ARGUMENTS: Branstad says cutting commercial property taxes will cut businesses' costs, allowing them to create more jobs. It will also reduce inequities between the taxes paid by residential and commercial property owners, he said.

Debate has long simmered about whether tax cuts truly create jobs that offset revenue lost by governments.

Earlier this year, Chris Edwards, director of tax policy studies at the Cato Institute, a research group in Washington, said Branstad's idea to cut corporate taxes is "like putting up a neon sign that says 'we're open for business.' "

The group, which is officially nonpartisan, has roots in the nation's conservative movement.

But Matthew Gardner, executive director of the Institute on Taxation and Economic Policy, another nonpartisan research group in Washington, said there is no obvious link between the level of different taxes and economic development.

Swenson, the Iowa State economist, said states want to be similar to other states in tax policies to remain competitive. He noted that some states might have what looks like an excessive rate in one area but not in another. Often, the total averages out to be similar to surrounding states, he said.

Generally, investments in human capital, such as education, pay the largest dividends in attracting further economic activity, Swenson said.

Branstad said his plan isn't about picking winners and losers. It's about addressing an existing disparity, he said.

"All of those classes have some sort of tax break, but we're still taxing commercial at 100 percent of market value," Branstad said.

However, many businesses do not pay the full rate, because local governments provide property tax breaks, such as tax abatement, as incentives to recruit and retain businesses.

Iowa ranked as having the highest commercial property taxes in the Midwest in a 2009 study released by the National Taxpayers Conference, a nonpartisan network of state-level taxpayer organizations. The group based its findings on property taxes on commercial buildings with an assessed value of \$500,000 in a state's largest city.

Culver, during his campaign for governor in 2006, voiced some of the same concerns about tax inequities as Branstad. He advocated cutting commercial property taxes because "we're just killing businesses."

Soon after he took office, he formed a bipartisan task force to study the issue. The group recommended an immediate injection of cash — \$25 million — from the state treasury to commercial property owners as well as further study as groundwork for long-range changes.

The recommendations went nowhere, however.

"You have very powerful special interests that don't want to change the current system because there's no such thing as revenue neutral," Culver said in an interview.

Debi Durham, a Republican and president of the Siouxland Chamber of Commerce, served on the task force. She agreed with Culver about the power of special interests to block meaningful reform.

Groups from homeowners to industrial manufacturers unite to resist any tax changes that could, even indirectly, cost them more, she said.

"I think we all knew at the end of the day the things that should be done, but what we lacked was the political will," Durham said.

"That's not a slam on one party or the governor. It will take bipartisan support to solve property tax issues, and there doesn't seem to be — on either side — a real political will to get that done," she said.