

# More Accountability and Transparency for Tax Credits

In an effort to improve accountability and transparency, the House Ways and Means Committee will review state corporate tax credits next session.

The intent of these credits is to grow the economy and create jobs. Some are targeted to encourage development of certain types of businesses, such as biotech, manufacturing, renewable energy, etc.

However, recent abuse of state tax credits by out-of-state film companies has led to more questions about the value and accountability of some credits. The Ways and Means Committee will focus on the following questions.

## ***Is it legitimate for government to try to influence development?***

Some argue that state incentives are less efficient than the market and will hurt the economy over the long run. Others say that encouraging certain activities results in better paying jobs in the long run.

Most believe that in an ideal world no state would offer special incentives, but as long as other states play this game, Iowa must respond or be left behind in the competition for good paying jobs.

## ***Are Incentives Fairly Distributed?***

Many fear that incentives will primarily go to the well connected or to larger companies with the resources to keep track of what is available, prepare applications, and make fancy presentations. Others say incentives are inherently biased toward luring out-of-state companies, ignoring existing Iowa businesses that want to expand in Iowa.

## ***Do Incentives Actually Accomplish What They Were Intended?***

Unlike annual appropriations, tax incentives are less visible and rarely reexamined. The state must establish a procedure to regularly evaluate them to see if they still produce their intended results and to ensure that taxpayers are getting their moneys worth.

Critics say that incentives mostly waste taxpayers' money since it is never clear whether a business would have located or expanded in Iowa anyway, if the incentive didn't exist. Many believe the state should ask more in exchange for awarding incentives, such as higher wages, better benefits, less pollution, etc.

## ***Does the Public Have a Right to Know Who Gets Tax Incentives?***

Incentives awarded by state agencies are open records for basic information, such as the name of the company and the amount awarded. However, eligible businesses claim many tax incentives on their income tax returns but few details are public, since most tax information is considered confidential.

Therefore, legislation was enacted last year to require the Iowa Department of Revenue to report the name of each business getting a Research Activities Credit of more than \$500,000 and the amount they received. This applies to credits issued after July 1, 2009.

Many want to require similar, if not more detailed, disclosure regarding all business development incentives.

The Ways and Means Committee will discuss greater disclosure of incentives awarded by state agencies, such as the Department of Economic Development.