

Most tax incentives awarded to wealthy companies

More than \$809 million in Iowa tax breaks went to 50 companies in seven years

By **LEE ROOD**

State leaders gave the lion's share of Iowa's economic development tax breaks from 2003 to 2010 to some of the most profitable businesses in the country, awarding 50 companies more than \$809 million in seven years.

The three companies that received the most in incentives from the state are all linked to Iowa's biofuels industry. They're followed on the list by Swedish steelmaker SSAB, which has operations in Muscatine County; Rockwell Collins in Cedar Rapids; and Deere & Co., which has plants in the Quad Cities, Waterloo, Ankeny and elsewhere in Iowa.

In total, biofuels companies qualified for \$450 million in incentives during the seven-year period, while other companies in the top 50 qualified for about \$351.1 million in that span.

The incentives awarded to the top 50 companies, equivalent to about \$267 for each person in the state, dwarfed the \$143.3 million in tax breaks given to low-income working Iowans during the same period, according to a Des Moines Register analysis of seven years' worth of data obtained from the state under Iowa's open records law.

The scope of the aid given to wealthy companies — several of which pay no corporate income taxes and receive tax refunds, according to state research — raises questions for Gov. Terry Branstad and legislative leaders as they wrestle this session over how best to increase jobs and continue the state's economic recovery.

Iowa's poverty level is rising faster than that in other states, and demand for tax relief for working families is at a new high, according to researchers at Iowa State University and in state government.

While employers say incentives are key to new job creation, several studies by state researchers and policy tanks have raised questions about the benefits of existing credits for research and development and job creation. Meanwhile, the earned-income tax credit has shown a direct impact in lifting working families out of poverty.

"The question is whether (businesses) really need that level of incentive," said Peter Fisher, research director at the nonpartisan Iowa Policy Project. "What you are also finding is that we are not funneling as much money to new firms or startups or small businesses, which can be very important for job creation and economic growth."

Branstad, in his Condition of the State address last week, outlined a plan to give an additional \$25 million in direct aid annually to businesses that help jump-start high-quality jobs — tax dollars shifted from two other economic development incentive programs that are being phased out.

But the governor is making no promises about expanding the earned-income tax credit for poor working families — and he vetoed a bill last year that would have benefited 240,000 Iowa families that earn \$45,000 or less.

Branstad said in an interview with the Register that he's willing to look at an increase in that credit, if he and legislators are able to come to an agreement on tax reform.

Incentives awarded to Fortune 500 firms

Rockwell Collins, Deere and Co., Wells Fargo Home Mortgage, Nationwide, Pioneer Hi-Bred, Monsanto, Archer Daniels Midland, Aviva, Cargill — all Fortune 500 companies — were among the top 20 recipients of economic development aid doled out by the Iowa Department of Economic Development from 2003 to 2010.

Rockwell, the aerospace and defense giant with more than 10,000 employees in Iowa, posted \$561 million in profits in 2010, according to CNN Money. Deere and Co., posted profits of \$1.87 billion in 2010, DuPont \$3 billion, Wells Fargo \$12.4 billion, Nationwide \$959 million.

Pam Tvrdy, who heads media relations for Rockwell, said the bulk of state aid to her company has been in the form of tax credits for research and development. With the credit, Rockwell has developed new technology for the new Boeing 787 Dreamliner, an avionics system called Pro Line Fusion and touch-screen displays for flight decks.

More important for state leaders: The company has sustained about 4,500 workers in Iowa tied to engineering and technology with an average salary of \$90,000.

The research and activities tax credit — one of the most generous in the country, according to reports by the Iowa Department of Revenue — has been instrumental in Rockwell's decision to conduct the bulk of its research activity in Iowa to the tune of \$905 million a year, Tvrdy said.

When asked if Rockwell would leave if the credit weren't available, she said: "That's a possibility. We're a global company located all around the world."

Conservative economists and budget analysts typically advocate easing states' regulatory environments and lowering corporate tax rates over time to jump-start jobs and the economy, while more liberal economists favor using incentives, especially to jump-start emerging industries or bolster small companies and startups.

Tad DeHaven, a budget analyst at the conservative Cato Institute in Washington, D.C., argues "corporate welfare" is inherently unfair and less effective than sound tax and regulatory policy in stimulating states' economies. And after working in state government, he's convinced an onslaught of incentive use nationally has more to do with short-term politics than long-term solutions.

"It's a bipartisan affliction," said DeHaven, who was deputy director of Indiana's Department of Management and Budget for two years under Gov. Mitch Daniels, a Republican.

DeHaven said state leaders take money out of the pockets of taxpayers — including businesses — to hand out incentives to mostly large businesses favored by government. In his view, one positive from the recession and a series of high-profile subsidy scandals, including one dogging the governor of Missouri, is that such credits are facing greater scrutiny.

"More people need to be looking at this," he said, noting that most companies actually choose to stay in a state because of factors such as skilled workers, natural resources and tax climate.

Durham pledges restraint, caution

The Register's analysis of economic development aid examined a mix of credits for job creation, research and development, building or expanding in depressed economic areas, and loans to companies over a period in which two Democrats, Tom Vilsack and Chet Culver, were governor.

Last year, after Branstad was elected, direct aid was increased to \$35 million, compared with \$24.4 million awarded in 2010 and \$20.4 million in 2009.

The \$25 million in new incentives Branstad is seeking this year would be used as upfront aid, often in low-interest loans, rather than tax breaks.

Debi Durham, who heads the economic development authority retooled last year by Branstad, has said the state agency is just beginning to reach out to 600 businesses in Iowa with the most growth potential. But she said the bulk of state tax breaks and other incentives awarded by the agency go to smaller companies with 50 to 100 employees, and she said she doesn't see that changing.

Durham is trying to help Branstad fulfill a campaign pledge to create 200,000 new jobs and raise family incomes by 25 percent. One year into Branstad's term, Iowa had added 12,000 jobs, according to the state Workforce Development Office.

Durham said that while the state wants to be competitive, it does not want to be irresponsible. That's why it is using the Iowa Innovation Corporation the governor established last year to tap private — not public — money for seed funding for startups. Durham and Branstad also hope to scale back aid as companies become established in the state.

Durham said the authority is trying to be more discerning when awarding free money, like forgivable loans.

"We are trying to be a deal-closer," she said. "We want to lure jobs that are sustainable that will pay high wages over a long period of time."

Gronstal: State must help families, too

Senate Democratic Majority Leader Mike Gronstal said that Democrats hope to work with the governor on tax reform, but that slashing taxes alone won't do it.

"It hasn't exactly made South Dakota a giant economic powerhouse in the region," he said, referring to the state with the lowest taxes in the nation, according to the U.S. Census. "I don't recall them picking up a congressional district."

Gronstal said Democrats also want to lower commercial property taxes, but concentrate the savings on small and medium-sized businesses, which don't get as many tax breaks as large businesses.

Pointing to the earned-income tax credit that Branstad vetoed twice last year, Gronstal said he and other Democrats want to provide more relief for working families. That credit for families would have cost the state about \$28.5 million over two years.

"We think it's pretty outrageous that after all that, he couldn't find \$13 million for the poorest working Iowans," Gronstal said.

Branstad has said he wants to lower commercial property taxes and cut corporate income taxes over time.

Corporate taxes account for roughly \$257.8 million in revenue — or about 5 percent of the state’s general fund receipts, according to the revenue department.

This year, the governor wants to pass new tax incentives to supply-chain companies that sell goods and services to larger employers in the state. Currently, those companies are taxed at 100 percent of their revenues, he said.

“You need to have some kind of direct assistance because all states do,” he said.

The Des Moines Register’s Iowa Poll in December found 90 percent of respondents believed corporate taxes should be lowered as an incentive to create jobs.

But 87 percent of those surveyed also said tax loopholes should be closed so that every U.S. business pays some taxes.