



Will Business Tax Relief Come to Pass in Iowa?

by Amy K. Frantz

There has been much discussion of, if not action on, of reducing the property tax burden on businesses in Iowa. Earlier this year Governor Culver’s Commercial Property Tax Commission made some limited recommendations, and an Iowa House of Representatives bipartisan study group is reviewing those recommendations and seeking further input on the issue. While working on a solution to the property tax burden on Iowa businesses, those involved should also take a look at the overall tax burden on businesses in the U.S. and in Iowa.

Ernst & Young, in conjunction with the Council On State Taxation, has published its fifth annual report¹ providing an estimate of the state and local taxes paid by businesses in fiscal year 2006. The report looks at the total tax burden on businesses, which include “business property taxes, sales and excise taxes paid by businesses on their input purchases, gross receipts taxes, corporate income and franchise taxes, business and corporate license taxes, unemployment payroll taxes, the individual income taxes paid by owners of non-corporate (pass through) businesses, and other state and local taxes that are the statutory liability of business taxpayers.”² The report notes that they follow the classification of business taxes established by the U.S. Census Bureau.

Nationwide, the report finds that businesses paid \$554 billion in state and local taxes in fiscal year 2006. Taxes paid by businesses accounted for 45 percent of all taxes paid to state and local governments. A little more than one-third (37 percent) of the taxes paid by businesses are property taxes on business property. Property taxes paid to state and local governments nationwide totaled \$205 billion in fiscal year 2006.

The authors of the report also look at state and local businesses taxes going back to 1980. That year, businesses paid \$105 billion in taxes to state and local governments. The tax burden on businesses is more than five times higher today than it was in 1980.

Total State and Local Business Taxes, 1980 - 2006 (Billions of dollars) ³				
	1980	1990	2000	2006
Total business taxes	\$105.0	\$230.0	\$383.2	\$553.7
Individual income taxes	\$40.3	\$98.9	\$196.2	\$242.7
Other non-business taxes	\$78.1	\$185.1	\$313.8	\$438.1

The report also demonstrates that while the tax burden on businesses had grown dramatically, the overall portion of state and local taxes paid by businesses nationwide has not varied greatly, meaning

that the tax burden has risen not just on businesses, but on all taxpayers. The piece of the tax “pie” that businesses must pay has only varied from 42 to 47 percent since 1980, but the overall tax “pie” has grown much larger.

Composition of Total State and Local Business Taxes, 1980 - 2006⁴

	1980	1990	2000	2006
Total business taxes	47.0%	44.8%	42.9%	44.9%
Individual income taxes	18.1%	19.2%	22.0%	19.7%
Other non-business taxes	35.0%	36.0%	35.1%	35.5%

In Iowa, the report calculates that businesses paid \$4.6 billion in taxes to state and local governments in FY 2006. The largest portion of those taxes, \$2.6 billion, was property taxes. The remaining \$2 billion in taxes was spread out over the other types of business taxes included in the report. The next highest amount of business tax by type in Iowa was \$700 million in sales taxes on business inputs.

When looking at Iowa’s state and local tax “pie,” businesses in our state paid 31.3 percent of all state taxes and 66.8 percent of all local taxes in FY 2006. When state and local tax burdens are combined, Iowa businesses paid 46.6 percent of all taxes paid to state and local governments. When the percent of taxes paid are ranked highest to lowest, Iowa comes in at 22 when looking at overall state and local taxes paid by businesses. However, when looking at local taxes only, Iowa ranks 10th out of the fifty states in the tax burden placed on businesses.

The report demonstrates the large burden placed on businesses in Iowa by the property tax. There has been much discussion of how to reduce this burden; however, unless the discussion includes the spending side of the issue, the tax burden will simply be shifted rather than alleviated. For example, the proposal by the Governor’s Commission to use state funds to reduce commercial property taxes may help reduce the property tax burden, but the state funds necessary to implement the plan are also tax dollars. Will the state increase business taxes to provide funds for commercial property tax relief? If so, the burden will remain the same, but paid to a different entity. If not, are individuals and other taxpayers such as farm owners willing to pay more taxes in order to help Iowa businesses survive and thrive? These questions will have to be answered before business tax reform will come to Iowa.

Endnotes:

¹ Robert Cline, Tom Neubig, and Andrew Phillips, Ernst & Young LLP, “Total State and Local Business Taxes: 50-State Estimates for Fiscal Year 2006,” Prepared in conjunction with the Council On State Taxation, February 2007.

² Ibid., p. 1.

³ Ibid., p. 15. Note: “Total business taxes” includes individual income taxes on pass-through business income.

⁴ Ibid.

Amy K. Frantz is Senior Research Analyst with Public Interest Institute, Mt. Pleasant, Iowa.

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