

Iowa's Tax Credit Tracking and Analysis Program

FTA Revenue Estimation and Tax Research Conference
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Iowa Department of Revenue

Program Objectives

- To Provide Revenue Estimators with Information on the Impact of Tax Credits
- To Provide Agencies that Award Tax Credits with Information on their Claims History
- To Evaluate the Effectiveness of Tax Credit Programs in Achieving their Intended Purposes

Tax Expenditure Studies

- Studies Covered Only Major Taxes
- 2000 Tax Expenditure Study
 - 280 (218) Exemptions, Deductions, Exclusions, and Credits
 - \$3,850 million Tax Expenditures
 - \$4,194 million Tax Revenues
- 2005 Tax Expenditure Study
 - 276 (191) Exemptions, Deductions, Exclusions, and Credits
 - \$7,170 million Tax Expenditures
 - \$4,941 million Tax Revenues
- Studies Did Not Address Benefits, Only Costs

Budgeting for Results Process

- Implemented for Fiscal Year 2006
- Based on The Price of Government by David Osborne and Peter Hutchinson
- Agencies were encouraged to propose ideas that would improve government efficiency and effectiveness, but they also had to compete for budget dollars, even for existing programs and functions

Types of Tax Credit Program Reports

- Contingent Liabilities Reports
- Tax Credit Claims Statistical Reports
- Program Evaluation Studies

Contingent Liabilities Reports

- Cover Potential Tax Credit Claims Against General Fund
- Cover 35 Types of Tax Credits
- Potential Claims Forecasts 5 Years into the Future
- Used as Basis for Adjustments to Revenue Forecasts

Evaluation Study Contents

- Review of Federal and Other States' Programs
- Review of Related Research
- Summary of Tax Credit Claims
- Economic Impact Evaluation
- Fiscal Impact Evaluation
- Evaluation of Program Alternatives

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7

Focus of Evaluation Studies

- Make Comparisons to Other States' Programs
- Provide Understanding of Who Programs Benefit
- Provide Information on the Magnitude of Program Benefits and Costs
- Provide Direction for How to Modify Tax Credit Programs to Make Them More Effective and Efficient

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8

Completed Evaluation Studies

- Earned Income Tax Credit
- Research Activities Tax Credit
- Biofuels Retailers Tax Credits
- Tax Credits Available to Biofuels Producers
- Historic Preservation Tax Credits

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9

Lessons Learned

- Individual Tax Credit Programs Often Interact with Other Programs
- The Impacts of Tax Credit Programs Vary Among Beneficiaries
- The Benefits of Tax Credit Programs are Not Uniform Across the State
- Even Clear Findings Do Not Necessarily Lead to (Immediate) Legislative Action

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10

Major Tax Credit Evaluation Program Impacts

- Has Increased the Attention Paid to Tax Credits During the Budgeting Process
- Resulted in Certain Credits Being Capped
- Influenced Changes Made to The Iowa Earned Income Tax Credit
- Stimulated Discussion Regarding the Generosity of the Research Activity Credit and Whether it is Helping the Types of Companies for which it was Created

Limitations of Existing Studies

- Not Yet Able to Answer the Question “What would have happened if the tax credits did not exist?”
- Not Yet Able to Distinguish the Marginal Benefit of the Last Project Assisted by a Particular Tax Credit Program
- Not Yet Able to Determine Whether Tax Credits Awarded to New Ventures Harm Existing Businesses
- Not Yet Able to Answer the Question “When is a tax credit program no longer needed?”

Contact and Web Site Information

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Tax Credits Program Information
<http://www.iowa.gov/tax/taxlaw/creditstudy.html>