

Iowa Corporate Income Tax

Where Did All the Money Come From
and When Will It Stop?

By

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Corporate Income Tax Filers, 2005

Home State	Apportion Income	Number	Net Income (\$Million)	Average Income
Iowa	All Iowa	20,963	\$328.7	\$15,679
Other	All Iowa	1,918	\$1,996.8	\$1,041,084
Iowa	Apportion	2,299	\$29,243.2	\$12,719,965
Other	Apportion	9,043	\$415,881.3	\$45,989,302
Other	Reports Losses	3,313	-\$142,272.5	-\$42,943,692
Totals		37,536	\$305,277.5	\$8,132,526

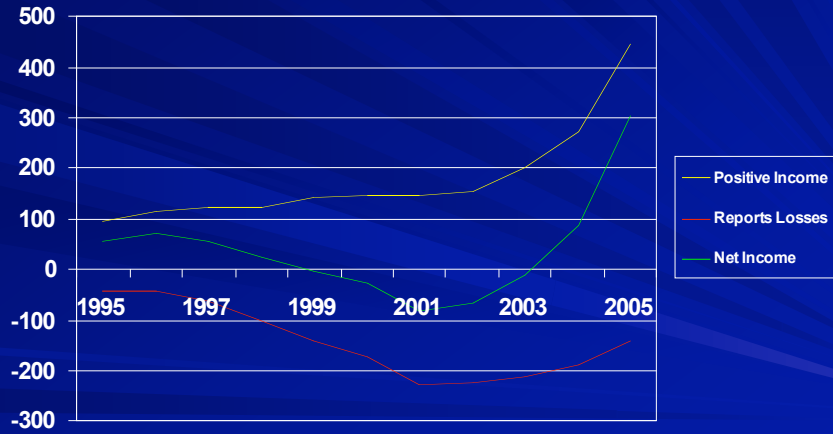
Factor Influencing Corporate Income Tax

- Law change to allow S-Corps to apportion income
- Acquisition of Iowa companies by out-of-state corporations
- More aggressive tax planning
- Growth of business tax credit programs

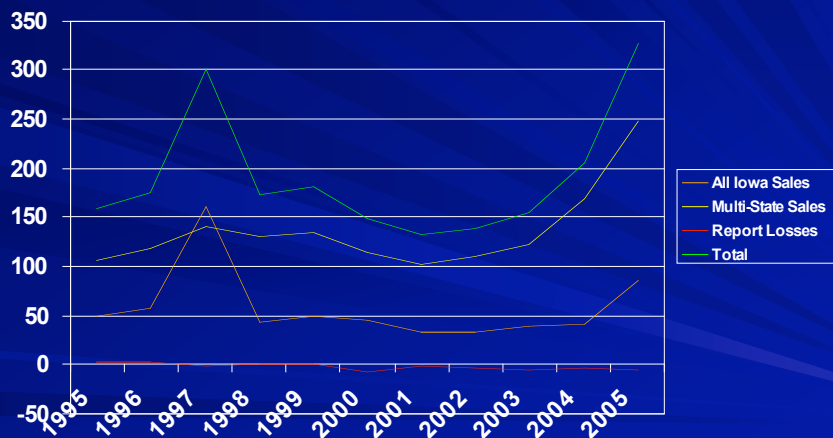
Change in Number of Corporate Taxpayers, 1995 - 2005

Home State	Apportion Iowa	Number 1995	Number 2005	Change	% Change
Iowa	All Iowa	24,998	20,963	-4,035	-16.14%
Other	All Iowa	1,758	1,918	160	9.10%
Iowa	Apportion	2,428	2,299	-129	-5.31%
Other	Apportion	5,719	9,043	3,324	58.12%
Other	Reports Loss	2,099	3,313	1,214	57.84%
Totals		37,002	37,536	534	1.44%

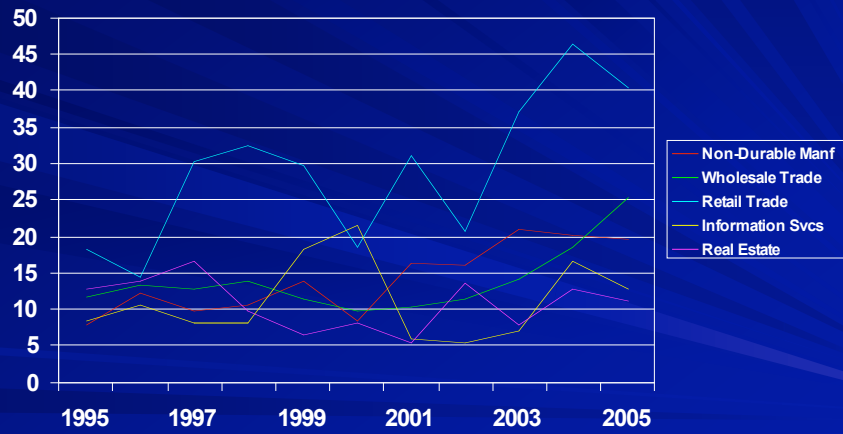
Net Income of C-Corporations, 1995-2005 (\$ Billion)



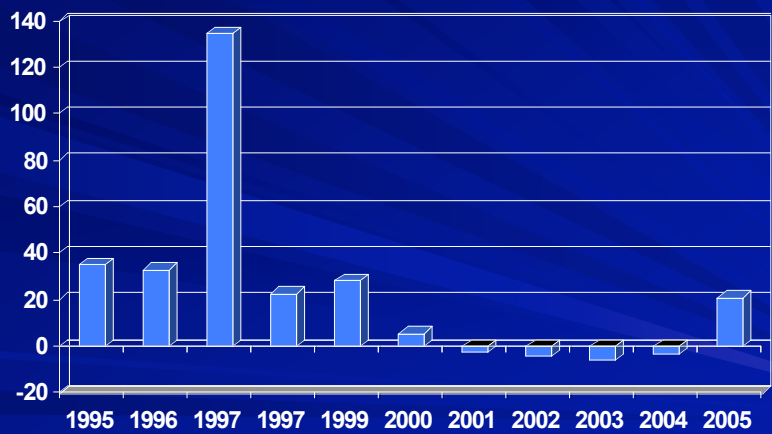
C-Corporation Tax Liability, 1995-2005 (\$ Million)



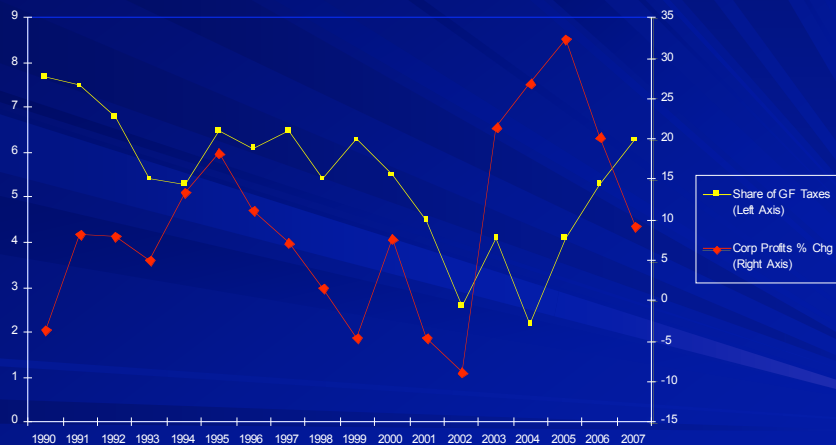
Tax Liability for Selected Sectors, 1995-2005 (\$ Million)



Tax Liability for Durable Goods Manufacturing Sector, 1995-2005 (\$ Million)



Iowa Corporate Tax as Share of General Fund Taxes and Year-to-Year Change in Corporate Profits (Percent)



Case Study Findings for TV Broadcast Companies

- Some only reported revenue from in-state ad sales
- Some corporate parents made large loans to Iowa operating entities without obvious business purpose other than to increase interest expense
- Some corporations ran dividend income through Iowa operating entities to reduce apportionment factor
- Several corporations consistently showed losses on Iowa operations

Overall Fiscal Impact of Combined Reporting

Filing Basis	Tax Year Iowa Liability (\$ million)				
	2000	2001	2002	2003	Average
Filing Status 2					
Number of Returns	1,584	1,699	2,068	2,016	1,842
Tax Liability under Combined Reporting	\$39.2	\$56.2	\$108.2	\$79.5	\$70.8
Tax Liability under Separate Reporting	\$20.1	\$13.9	\$46.4	\$47.8	\$32.0
Difference	\$19.2	\$42.2	\$61.8	\$31.7	\$38.7
Filing Status 3					
Number of Returns	933	897	962	869	915
Tax Liability under Combined Reporting	\$194.6	\$315.6	\$74.0	\$65.1	\$162.3
Tax Liability under Separate Reporting	\$34.3	\$35.4	\$36.3	\$35.2	\$35.3
Difference	\$160.3	\$280.2	\$37.7	\$29.9	\$127.0
Both Filing Statuses					
Number of Returns	2,517	2,596	3,030	2,885	2,757
Tax Liability under Combined Reporting	\$233.8	\$371.8	\$182.1	\$144.6	\$233.1
Tax Liability under Separate Reporting	\$54.3	\$49.3	\$82.7	\$83.0	\$67.3
Difference	\$179.5	\$322.5	\$99.5	\$61.7	\$165.8
Total Tax Liability Under Current Law					
Percent Change	120.8%	243.1%	71.8%	39.8%	115.4%

Distributional Impact of Combined Reporting for Filing Status 2 Corporations

	Tax Year Iowa Liability (\$ million)				
	2000	2001	2002	2003	Average
Iowa Domiciled Corporations					
Number of Returns	200	215	194	142	188
Tax Liability under Combined Reporting	\$2.6	-\$4.5	\$8.5	\$7.8	\$3.6
Tax Liability under Separate Reporting	\$1.3	-\$3.9	\$7.1	\$7.5	\$3.0
Difference	\$1.3	-\$0.6	\$1.3	\$0.4	\$0.6
Non-Iowa Domiciled Corporations					
Number of Returns	1,384	1,484	1,874	1,874	1,654
Tax Liability under Combined Reporting	\$36.6	\$60.6	\$99.7	\$71.7	\$67.2
Tax Liability under Separate Reporting	\$18.8	\$17.8	\$39.2	\$40.3	\$29.0
Difference	\$17.9	\$42.8	\$60.5	\$31.3	\$38.1
All Filing Status 2 Corporations					
Number of Returns	1,584	1,699	2,068	2,016	1,842
Tax Liability under Combined Reporting	\$39.2	\$56.2	\$108.2	\$79.5	\$70.8
Tax Liability under Separate Reporting	\$20.1	\$13.9	\$46.4	\$47.8	\$32.0
Difference	\$19.2	\$42.2	\$61.8	\$31.7	\$38.7

Distributional Impact of Combined Reporting for Filing Status 3 Corporations

	Tax Year Iowa Liability (\$ million)				
	2000	2001	2002	2003	Average
Iowa Domiciled Corporations					
Number of Returns	519	476	474	444	478
Tax Liability under Combined Reporting	\$3.6	\$7.9	\$1.2	\$7.4	\$5.0
Tax Liability under Separate Reporting	\$10.3	\$13.0	\$11.9	\$10.5	\$11.4
Difference	-\$6.7	-\$5.1	-\$10.7	-\$3.1	-\$6.4
Non-Iowa Domiciled Corporations					
Number of Returns	438	440	501	438	454
Tax Liability under Combined Reporting	\$82.1	\$84.8	\$72.8	\$57.8	\$74.4
Tax Liability under Separate Reporting	\$25.3	\$19.5	\$24.4	\$24.5	\$23.4
Difference	\$56.8	\$65.3	\$48.4	\$33.3	\$50.9
All Filing Status 3 Corporations					
Number of Returns	957	916	975	882	932
Tax Liability under Combined Reporting	\$85.6	\$92.6	\$74.0	\$65.3	\$79.4
Tax Liability under Separate Reporting	\$35.6	\$32.5	\$36.3	\$35.1	\$34.9
Difference	\$50.0	\$60.2	\$37.7	\$30.2	\$44.5

Concluding Comments

- No decision has been made as yet whether the Governor will introduce combined reporting legislation in 2008
- The basic structure of Iowa's corporate income tax has not changed since 1934
- Significant economic changes make the Iowa tax inefficient and inequitable
- The existing tax is easy to avoid and an economic development liability