



Professional Developers of Iowa

**Vision • Action • Growth**

**2018 PDI Legislative Priorities Talking Points**

### **Corporate and Individual Income Tax**

The 2018 Legislative Session offers a unique opportunity for the Iowa Legislature to meaningfully enhance Iowa's corporate and individual tax code. Professional Developers of Iowa, along with our partners at Iowa Chamber Alliance, have proposed the following set of principles to guide the Legislature as they determine how to best work toward meaningful corporate and individual tax reform.

*Competitiveness:* Tax reform should make Iowa more competitive. This should include fewer brackets, limited exemptions, effective credits, and lower rates for both personal and corporate income taxes.

*Growth:* Programs, credits, and incentives should be focused on creating economic growth across diverse industry sectors. Iowa's financial assistance programs have a demonstrated return on investment and need to be encouraged and assessed with this positive return in mind.

*Simplicity:* Iowa's tax code is overly complex and simplification must be a key tenet of any reform proposal. The tax code must be understandable to taxpayers and spur outside investment.

*Permanence, Predictability, and Certainty:* A well-crafted tax policy will have permanence, avoid short-term changes, and ensure the predictability and certainty businesses need to make long-term commitments and investments in Iowa. Any reform should require minimal interpretation by the Department of Revenue, which will provide much needed clarity and certainty.

*Fairness and Responsibility:* Tax policy should be equitable and should not favor one sector of business over another. It is also critical tax reform does not undermine Iowa's fiscal health.

*Transition Path:* The transition from the current tax code to the tax code of the future will gauge the success of the reform as a whole.

## **Federal Deductibility**

Federal deductibility needs to be eliminated from the Iowa tax code. It is duplicative and can adversely affect individual's income tax liability, as we recently saw with federal income tax reform, as a decrease in the federal income tax actually equates to an increase in state income taxes due to the impact of federal deductibility. The elimination of federal deductibility for corporate income taxes coupled with lower brackets could accomplish a tax reduction greater than what federal deductibility currently offers.

- This is also an important option to serve as a potential pay-for to finance individual and corporate income tax relief.
- Iowa is one of three states that allows federal deductibility, and it is yet another complicating factor as we work to recruit, retain, and expand our businesses.

## **State Economic Development Resources**

Changes to Iowa's economic development financial assistance programs can only be discussed in the context of comprehensive corporate income tax reform. These programs have a proven return on investment and have positively affected our communities (give examples).

## **Tax Increment Financing**

Local governments rely on the flexibility of TIF to address community growth challenges, from workforce and housing shortages to aging infrastructure to redevelopment to partnering with the States. PDI supports TIF and opposes any efforts to weaken this important and flexible local economic development tool. New TIF reporting requirements adopted by the Legislature in 2012 provide the public sufficient information about local use of TIF.

- PDI members should name local companies and projects that have benefitted from TIF
- TIF has been an exceptionally useful tool to help communities grow and prosper.
- No revenue is lost when an urban renewal agreement is reached, as it only applies to the incremental growth in value of the subjected property.
- Without TIF, many communities would have been unable to help existing businesses grow, attract new business development, provide new housing stock, and revitalize neighborhoods, main streets, and downtowns.

## **Workforce Recruitment and Retention**

Workforce is the single biggest issue to employers throughout Iowa. The productivity and work ethic of the Iowa workforce has traditionally been a competitive advantage in business retention, attraction and growth. We need to pair this with real solutions to address the problems at hand.

- The recommendations of the [Future Ready Iowa Alliance](#) should be supported and funded at the requested appropriation.

- In CNBC's 2017 Top States for Business, Iowa ranks 42<sup>nd</sup> for workforce. Forbes ranks Iowa 37<sup>th</sup> for workforce in their 2017 Best States for Business.
- According to estimates from the State of Iowa, in 2024 there will be 1.9 million jobs in Iowa and just 1.2 million workers age 18-64 to fill them.
- The shortage of available workers in the state in recent years has become an impediment to economic growth, as in-state companies struggle to fill vacant positions and out-of-state companies hesitate to locate operations in Iowa due to workforce concerns.
- Iowa Economic Development Authority and Iowa Workforce Development have introduced a collaborative marketing effort to draw new workers to the state.
- Quality of Life/Place plays a factor as well. People want to live and work in an area where attractive amenities, parks, trails, and other recreational/entertainment/cultural opportunities are readily available. This is why we have continually supported the increased funding of [Enhance Iowa](#), which was created several years ago, but has yet to be funded by the Legislature.
- Housing also plays a role in workforce development. Housing of all types and transitional and young professional housing needs to be available and affordable to attain and retain individuals of all ages and income levels throughout the state. The [Workforce Housing Tax Credit](#) can directly assist qualifying housing projects to help Iowa meet its workforce housing needs.
- In a recent survey conducted by Area Development magazine, site selectors and corporate real estate professionals identified "Availability of Skilled Labor" as the most important site location factor, ahead of other considerations such as corporate tax rates, highway infrastructure, energy availability, access to markets, and labor cost.

### **Workforce/Housing/Workforce Housing**

Workforce Housing Tax Credit – The amount of credits available annually should be raised to \$40 million and the credits should no longer count against the state's business tax credit limit.

Consideration should also be given to enacting a component of the program specifically assisting rural communities and excusing them from the obligation to conduct expensive housing market needs analyses prior to greenfield development.

- The availability of quality, affordable housing directly affects the Iowa workforce.
- Employers across industries have voiced concern about the lack of housing in rural communities.
- The Workforce Housing Tax Credit, coupled with recent property tax reductions for multifamily residential property, is sparking development. The tax credit supported 129

projects totaling 4,963 units in its first three years. There are another 47 projects totaling 1,415 units scheduled to receive benefits in FY 2018.

- Iowa's business tax credit allocation was already severely limited in comparison to some competing states before the workforce housing tax credit further impeded supply. By separating the two, we can continue the housing momentum while still ensuring sufficient financial incentives are available to make Iowa an attractive business destination.
- Eliminating the needs analysis requirement empowers rural communities that have severe housing shortages but fewer financial resources to capitalize on these tax credits.

### **Water Quality**

Last week, the Legislature passed [Senate File 512](#), which is a good start to addressing the pressing water quality issues our state is facing, but more assistance is needed. Additional assistance needs to be provided to businesses, which are included in the Nutrient Reduction Strategy, as well as the providing of grants to assist with the upfront costs of water and wastewater projects, and having analysis and assistance to be done and provided on a watershed basis, which allows the water quality issue to be addressed on a much larger and impactful scale.

This is a \$4-\$6 billion issue (around \$1.5 billion of which falls on municipalities over ten years), and additional resources will need to be made available to adequately address the problem, as [Senate File 512](#) provides \$282 million over 12 years.

### **School Funding**

PDI understands the heavy burden school funding puts on the state budget; however, annual delays in setting allowable funding increases are damaging to schools and the entire education system. Policy makers are urged to resolve the funding debate early in the 2018 Session to provide school districts the certainly they need as they set their budgets.

### **Small Business & Entrepreneurship Support**

Direct technical assistance to entrepreneurs and start-up companies is a key component to growing Iowa's economy. The Legislature should provide adequate funding for small business development and economic gardening programs to foster entrepreneurial endeavors.

### **Rural Economic and Community Development**

The Governor has proposed a plan to facilitate investment in Iowa's rural communities to assist in their economic and community development efforts. Lieutenant Governor Gregg is leading the initiative and PDI will assist with this venture moving forward. The Rural Development Task Force will assess mechanisms to promote investment to rural parts of the state to increase economic and community vitality and find ways to expand broadband service throughout rural Iowa, all things PDI and our partner organizations have supported in recent years.

Visit PDI's website at: [www.pdiowa.com](http://www.pdiowa.com)

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The Professional Developers of Iowa (PDI) is a statewide non-profit organization of more than 320 practicing economic development professionals dedicated to expanding the economy of the State of Iowa. For the past 43 years, PDI has successfully represented the collective economic development interests of both the private and public sectors by providing leadership in defining and promoting statewide economic development initiatives. Iowa is competing every day against every state in the Union, and increasingly, against every country in the world. PDI believes that in order for Iowa to be successful with its economic development initiatives, we must create a business climate that builds on Iowa's strengths, expands the state's tax base, creates and retains high-paying jobs, and builds the industries of the future.

Professional Developers of Iowa - growing Iowa and creating economic opportunity.

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