



## Governor Culver Opens the Door to Spending Statewide Sales Tax Dollars on Teacher Salaries and Other Needs: Was There Ever Any Doubt?

**AFTER SPEAKING TO MEMBERS OF THE IOWA STATE EDUCATION ASSOCIATION, GOVERNOR AGREES DOLLARS COULD BE USED FOR SPENDING OTHER THAN JUST SCHOOL INFRASTRUCTURE:**

One of the reasons Iowans for Tax Relief has so strongly opposed legislation (House File 2066) to convert the current local option sales tax for school infrastructure to a permanent statewide sales tax is our belief state politicians cannot be trusted with these funds. We believe a \$400 million state infrastructure fund for school construction would be a tempting target for politicians looking to find resources for other state programs.

This Wednesday, Governor Chet Culver confirmed our fears during a question and answer session with reporters following a speech to members of the Iowa State Education Association (ISEA), he said the resources generated by the additional penny sales tax could be used to pay for teachers salaries or other competing ideas.

See the story from Radio Iowa's O.Kay Henderson at:  
<http://www.radioiowa.com/gestalt/go.cfm?objectid=38024083-D711-A10E-07911C04EC94E453> and  
<http://learfield.typepad.com/radioiowa/2008/02/culver-and-the.html>

The ISEA has repeatedly called for using at least half of the resources generated by the additional sales tax for spending on teachers salaries and other educational needs. Now, it appears, the Governor has opened the door to scooping these resources and redistributing them to other spending priorities.

**The simple fact is the attempt to replace the current local option sales tax for school infrastructure with a permanent statewide sales tax is perhaps the biggest attempted bait and switch in the state's history. Unfortunately, local school districts and local property taxpayers will be left holding the bag.**

Governor Culver was specifically asked the question on the proposed statewide additional penny of sales tax: "Would you support changing it from paying for facilities to paying for staff [meaning teachers' salaries]? This was the perfect opportunity for him to close the door on this issue and make a firm pledge to protect these dollars from future diversions.

He made no such statement. In fact, Governor Culver responded: **"I'm confident we can use this [the proposed statewide additional penny of sales tax] to address needs and that [meaning teachers' salaries] might be one of them."**

In fact, based on the Governor's past behavior, it is highly likely he will use these resources to balance his future budgets. Just this year the Governor is attempting to take \$90 million from the Rebuild Iowa Infrastructure Fund (RIIF) to balance his proposed budget. The RIIF was established using gambling proceeds to support vertical infrastructure projects and it was also supposed to be immune from the money grabs of state politicians. Not so.

How are we to believe the promises from politicians who assure us these school infrastructure dollars will never be diverted to other uses (thus, leaving our local school districts with fewer resources for school construction than they are already receiving under the current local option law)? We cannot and we will not.

While we have concerns beyond the prospect of potential revenue diversions from the fund, Iowans for Tax Relief has repeatedly called for supporters of the statewide sales tax for school infrastructure to link the effective date of this bill to the passage of a constitutional amendment that would specifically protect these funds from future diversions in the same way we do for a large portion of our state road fund.

# Legislative Leaders Appear Unwilling to Provide Iowa Businesses with the Benefit of Temporary Bonus Depreciation for Iowa Tax Purposes.

## FEDERAL STIMULUS PACKAGE INCLUDES BONUS DEPRECIATION TO ENCOURAGE BUSINESS INVESTMENT. IOWA MUST CHOOSE WHETHER OR NOT TO COUPLE WITH THE FEDERAL CHANGES:

The federal stimulus package recently adopted by Congress and signed by President Bush contains numerous methods for boosting economic activity and attempts to head off a national recession. Federal rebate checks to individuals and couples with earnings below certain income thresholds are, perhaps, the most notable components of the stimulus package.

A bipartisan group of Iowa Legislators are sponsoring legislation to ensure the rebate checks received by Iowans are not defined as taxable income for Iowa income tax purposes and, thus, are exempt from state income tax. Iowans for Tax Relief supports this effort and we believe it will be successful.

Not as public, but very important in regards to stimulating business investment, the new federal package includes provisions to allow businesses to claim temporary bonus depreciation. The new law provides qualifying taxpayers a 50% first-year bonus depreciation of the adjusted basis of qualifying property.

The property generally must be purchased and placed in service during 2008. Simply put, bonus depreciation creates a strong incentive for businesses considering additional investment in new equipment to make those purchases now, rather than later.

If recent history is any indicator, the depreciation bonus will have a significant impact on business purchasing.

According to a 2003 survey of the National Utility Contractors Association, 67% of the members who said they were aware of the depreciation bonus, used the bonus to accelerate the purchase of new equipment.

In addition, Bureau of Economic Analysis data shows that the second quarter of 2002, the quarter immediately following the enactment of the last temporary stimulus law, business purchasing reversed its negative trend, began to increase, and continued to do so for the rest of the year.

Now it is decision time for the Iowa Legislature. Normally, the Legislature attempts to couple state income tax changes to mirror the same changes at the federal level. However, Legislative leaders appear to be balking at coupling the bonus depreciation changes in the Iowa code. This will have two significant, and negative, effects on Iowa taxpayers:

1. It will create additional complexity in the Iowa Code and require businesses who choose to use bonus depreciation at the federal level to keep a separate set of depreciation schedules for state tax purposes.
2. It will cost Iowa taxpayers an additional \$30 million above the tax that would be owed should the state couple with the federal bonus depreciation changes.

Just this week the Legislature approved legislation to offer significant tax incentives to Microsoft in an attempt to land a Microsoft server farm in Iowa (similar legislation was approved last year and proved instrumental in bringing a Google server farm to the Council Bluffs area). Given the sorry state of our state's tax climate for business, it is a sad reality such incentives are necessary in certain circumstances. Now, it is time to help ALL Iowa businesses by coupling state law with the federal bonus depreciation rules.

**Iowans for Tax Relief SUPPORTS coupling federal bonus depreciation rules with the Iowa Code** so all Iowa businesses have the opportunity to use the incentives and benefits of the federal stimulus package. House Minority Leader Christopher Rants (R-Sioux City) will be offering an amendment (H-8039) to Senate File 2123 to accomplish full coupling and we support its adoption.

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The Watchdog is a weekly update of issues which are being considered by the Iowa Legislature.  
It is a service to members of Iowans for Tax Relief. Permission is granted to forward this to any interested individuals.

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