Written by Lynn Campbell
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Iowa business leaders on January 17 urged lawmakers to be bold and reduce commercial property taxes so the state can be more competitive, while local-government officials warned the loss of revenue would increase tax rates for homeowners.

“This problem we all acknowledge exists,” said longtime Des Moines developer and property manager Jim Conlin, founder and CEO of Conlin Properties – which manages 7,000 residential units and 250,000 square feet of commercial, retail, and industrial space.

“I respect and appreciate your wrestling with it, but we’ve been wrestling with it for 35 years. It’s time to make a decision,” Conlin said. “I think we need a bold approach to create jobs, to move the state forward.”

Iowa’s commercial property taxes are among the highest in the nation. Conlin said the high taxes affect about 80 percent of the population, including people who rent and those who work inside commercial buildings.

But Scott Sanders, finance director for the City of Des Moines, pleaded with lawmakers to make up for the anticipated $415-million-a-year drop in revenue that local governments would experience from commercial-property-tax reform.

“There’s something missing – an alternative revenue, a second option to shift those costs,” Sanders said. “It’s not like any local governments ... have any surpluses. It’s not a matter of ‘There’s extra money; who should the tax break go to?’ This is truly eroding the base year after year for 14 years.”

The public got one of its first chances Tuesday to weigh in on a plan to reform Iowa’s property taxes.

House Study Bill 500 , introduced by House Republicans, would cut property taxes for smaller businesses immediately and phase in the cut for larger businesses over the next 14 years.

Businesses would get a 20-percent tax exemption on the first $100,000 of property value in the first year. That would ramp up each year until it applies to $1 million of property value in the seventh year. After that, the tax exemption would increase to 40 percent and would apply first to properties worth up to $500,000, and eventually apply to all properties in the 14th year.

Sanders said the move will lead to higher taxes for homeowners.

“What you’re really doing is a tax break,” Sanders said. “It’s saying, ‘Look, we feel like commercial properties are paying too much in taxes.’ ... However, simply giving commercial-property taxpayers a break ... takes away part of the tax base and it puts more pressure, then, on local governments to actually raise rates.”

Sanders said the plan puts at risk local governments’ ability to provide services. Already, he said, the City of Des Moines is looking at $4.2 million in cuts to next year’s budget while raising property taxes about 2 percent. He argued that the plan to reduce commercial and industrial property taxes would make things worse.

A slow-moving, 14-year reduction in Iowa’s commercial and industrial property taxes “is not very exciting” to businesses that would like to see tax relief now, business leaders told lawmakers Tuesday.

“They certainly would like to see a much more aggressive approach,” said John Gilliland, senior vice president for government relations for the Iowa Association of Business & Industry, the state’s largest business trade group, representing 1,400 Iowa businesses employing more than 300,000 Iowans.

Gilliland said businesses also recognize that lawmaking is “the art of the compromise.” Republicans hold the governor’s office and a majority in the Iowa House, while Democrats hold a narrow majority in the Iowa Senate.

State Representative Chuck Isenhart (D-Dubuque) questioned business leaders about whether savings seen from lower property taxes would create new jobs and increase wages.

“Absolutely,” Gilliland said. “That’s what these people do.”

But Conlin wasn’t as quick to promise adding to his payroll of 85 workers, or lowering rent to his tenants. Instead, he talked about a mix of expenses, saying he has paid more taxes each year of his life.

He said it has cost him $150,000 a year to heat-treat bed-bug-infested residential units and eradicate the bugs. “I don’t have a crystal ball,” he said.

The House Republican plan includes relief to residential-property taxpayers by increasing the state’s share of payments for schools. The price tag for the House Republican plan is $400 million to $480 million a year to state government when fully implemented, depending on the level of growth in per-pupil spending.

Governor Terry Branstad has proposed a more aggressive approach to property-tax reform that calls for rolling back commercial and industrial property taxes from 100 percent to 60 percent of valuation over eight years.

Under the governor's plan, the state would reimburse a portion of the tax revenue lost by local governments – $50 million the first year, then $100 million, then $150 million. The House Republican plan contains no reimbursement for local governments, but it's expected to have less of a dramatic impact because it's phased in over 14 years.

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