

Gov. Terry Branstad's proposal to pay for a \$200 million corporate income tax cut with an increase in the gaming tax blunts one political argument while sharpening another.

Branstad, in the budget he presented Thursday, plans to cut the corporate income tax roughly in half. He says he'll pay for that by returning the tax on casinos to 36 percent, up from the 22 or 24 percent

they pay under current law.

The tactic will help him counter one of the better arguments that Democrats have raised against Branstad's proposed budget cuts for programs like preschool: He's only doing it to pay for business tax cuts. By paying for the tax cut, dollar for dollar, from revenue increases, he can more plausibly deny he's rewarding corporations at the cost of kids.

But Branstad will face some political pushback from members of his own party to the idea of raising a tax - any tax - even for the purpose of cutting another tax. The governor skirts the charge that he's violating his own no-tax-increase promise by saying he's just restoring the gaming tax to the rate casinos originally agreed to pay back in the 1990s.

One of the reasons casinos were allowed at all was to create jobs and help the economy, he said. "We see this as one of the best ways to create jobs, is to reduce the tax on small businesses," he said. He doesn't expect the casino industry to grow, but he does see small business tax cuts as a job-creation engine.

By approving Branstad's plan, lawmakers would immediately forfeit their ability to claim they didn't raise taxes. There are plenty of new lawmakers, and quite a few old ones, who have pledged to oppose any and all tax hikes.

Branstad said he thinks lawmakers will see the plan as a fair way to cut taxes and create jobs. "I think we're going to be able to sell it," he said.

The problem is complicated by the fact that gambling debates in the Legislature are usually

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contentious and wildly capricious. A bill dealing with the tax rates could attract all kinds of other changes, any one of which could erode support for the bill. Gambling support and opposition cuts across party lines.

The gaming lobby is powerful and well-funded. Branstad acknowledged he's going up against an "army" of lobbyists. They won't give up more tax dollars without lots of sweeteners, probably in the form of looser regulation. Branstad says he's willing to talk to them, but he won't jeopardize the state's integrity.

Senate President Jack Kibbie of Emmetsburg said Thursday that raising taxes on his hometown casino could make it unprofitable. Branstad says that kind of talk is "crying wolf." But even if Republicans can muster a majority for the tax increase in the House, it faces problems in the Senate.

Branstad has clearly made the calculation that he'd rather fight battles over a casino tax increase and gambling regulation than explain why he has to cut popular programs to pay for tax cuts. It's probably the better choice to appeal to moderates and independents.

Some conservatives who look coldly at tax increases might make an exception for casinos. Others may be persuaded by the fact that about 40 percent of casino revenue comes from out-of-staters.

Branstad won't entirely avoid the charge that he's slashing spending to pay for tax cuts. After all, he could go ahead and raise the gaming tax, leave corporate income taxes alone and avoid the most draconian cuts that will come from the loss of federal stimulus dollars.

There is some middle ground. Democrats might be willing to try raising the gaming tax in exchange for a smaller corporate income-tax cut and restoration of some of Branstad's spending cuts. If I were a betting woman, that's where I'd put my money.

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