
The Iowa Policy Project

318 2nd Ave. N • Mount Vernon, IA 52314

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CONTACT: Mike Owen (319) 643-3628
ipp@netins.net

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STUDY: WEALTHY IOWANS FARE BEST IN STATE TAX POLICY, GROWTH

MOUNT VERNON, Iowa – Wealthy Iowans made the biggest income gains while capturing the net benefits of changes in tax policy in the 1990s, according to a report released Tuesday by the Iowa Policy Project.

“The same people who made all the money in the 1990s also got the tax breaks. Why would anybody call this fair?” IPP executive director David Osterberg said.

In their report, researchers Peter S. Fisher of the University of Iowa for the IPP and Charles Bruner of the Child & Family Policy Center in Des Moines cited trends toward regressivity in Iowa’s tax system, with a higher sales tax and reductions in income tax. Nevertheless, they suggest the tax most likely to be raised at a difficult financial time for the state is the sales tax, if any.

“It is important that any such increase should be accompanied by measures to reduce the regressivity of the sales tax and reverse the trend of the 1990s,” they wrote.

Among their findings:

- The wealthiest one-fifth of Iowa families received three-fifths of the gains in average income from 1988-90 to 1998-2000. The top 40 percent accounted for 80 percent of the gains in average income.

- Tax changes in the latter 1990s increased the importance of the regressive sales tax relative to the progressive individual income tax.

- The approximate effect of two major changes – an increase in the sales tax from 4 percent to 5 percent, and a 10 percent across-the-board cut in income taxes – was a net increase in taxes to four out of five families, the bottom 80 percent of the population.

The report, “Tax Policy and Economic Growth in Iowa: Who Gained in the 1990s?” is a joint project of the IPP and the CFPC, both Iowa-based nonprofit organizations.

The Iowa Policy Project, a nonprofit, nonpartisan organization, was founded in 2000 to produce and disseminate research on a broad set of issues of importance to Iowans. The IPP engages scholars at Iowa’s public and private colleges and universities to produce sound, independent research. Its reports are on the web at www.iowapolicyproject.org.

The Child & Family Policy Center was established in 1989 “to better link research and policy on issues vital to children and families.” CFPC publications are on the web at www.cfpciowa.org.