

Issue Brief

Average by Any Measure: State and Local Taxes in Iowa

By Peter S. Fisher

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Tax Issue Brief: Average by Any Measure State and Local Taxes in Iowa – An Update

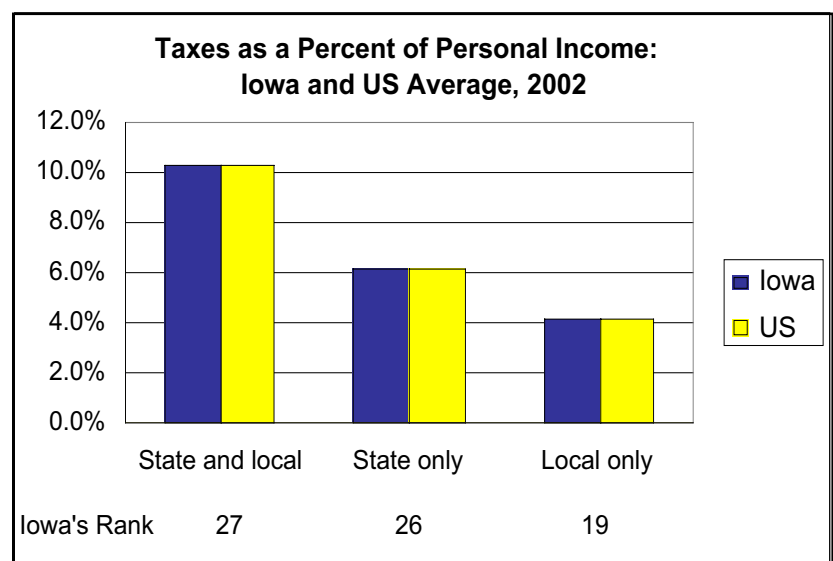
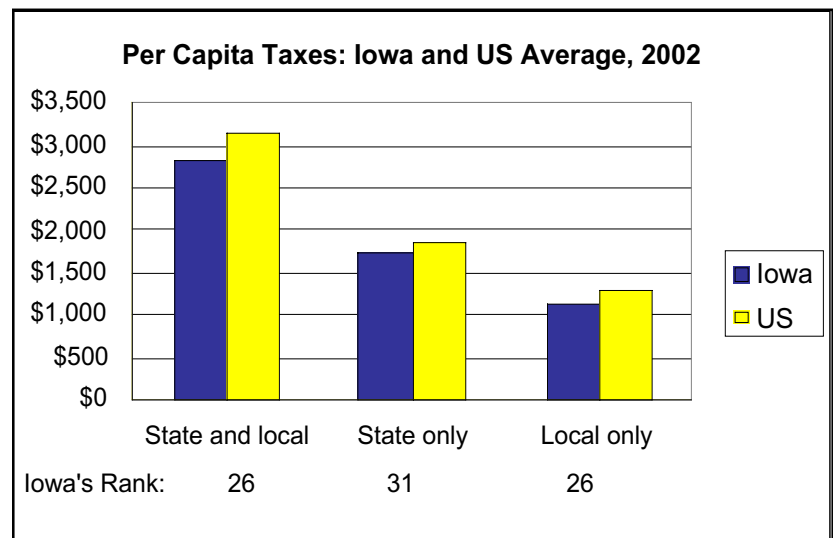
By Peter S. Fisher

No matter how you look at it, Iowa is about an average state in terms of the financial burden that state and local government places on its residents.¹ This was the conclusion of an issue brief, published by the Iowa Policy Project in February of 2003, that covered state and local taxes in fiscal year 1999-2000. That conclusion is confirmed by the latest census data on state and local finances for 2001-02, released in August of 2004.

The burden of taxes and the cost of the government are typically measured in two ways: on a per capita basis, and as a percent of personal income earned in the state. This allows meaningful comparisons with other states and with averages for the United States as a whole.²

If we look at all kinds of taxes together, we find that the per capita tax burden in Iowa is below the U.S. average. This is true of state taxes considered separately, and of local taxes, as can be seen in the chart at right. Iowa ranks a little below the middle of all states on this measure, 26th in terms of the total state-local tax burden.

If we measure the burden in terms of the percentage taxes take out of personal income, we find that Iowa is exactly average in terms of the total state-local tax burden, and ranks 27th. We are slightly above average for state taxes, slightly below for local taxes, on this measure, though we rank 19th for local tax burden.³

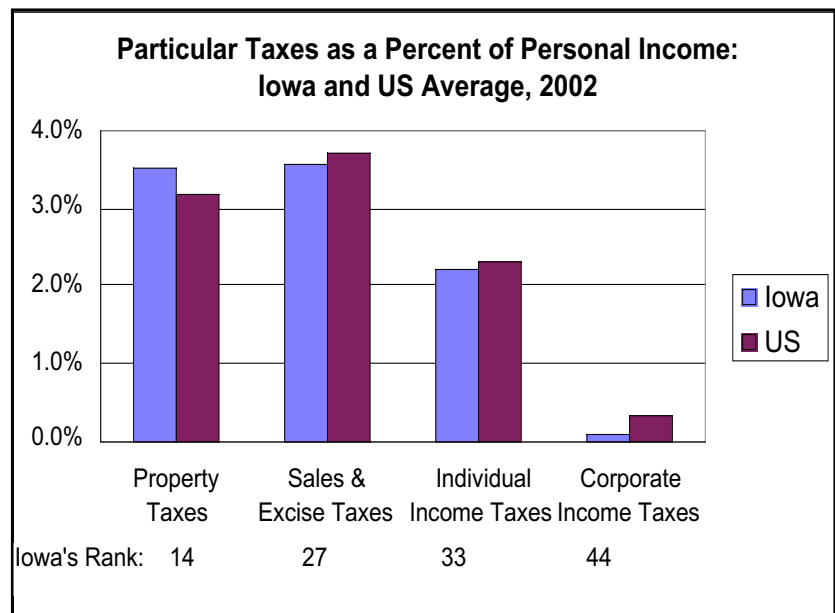
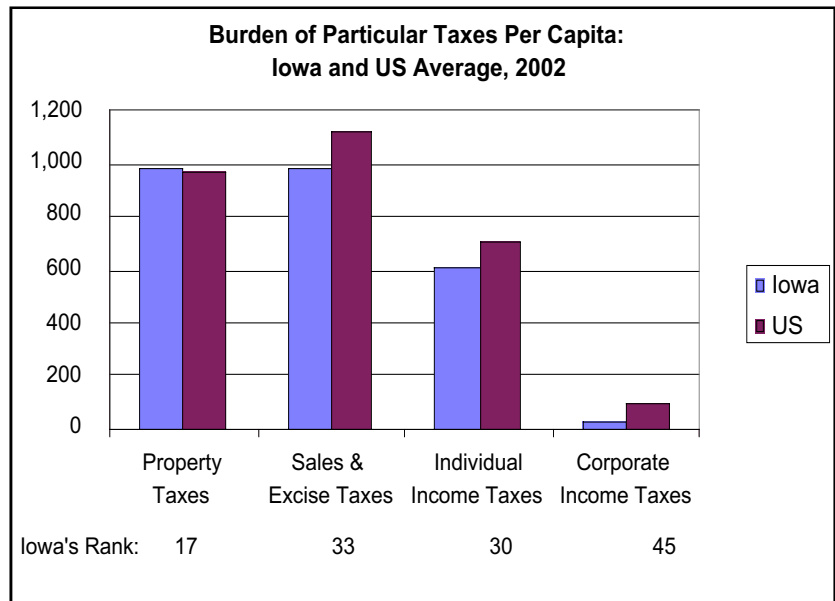


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We have more recent data, but only for state tax collections, not for local taxes. Data for 2003 show that on a per capita basis Iowa's state taxes actually fell slightly relative to the national average (from 91.7 to 91.2 percent of the average), though we still ranked 31st (table, p.3).

How does Iowa compare with the surrounding states on these measures? Minnesota, Wisconsin and Nebraska have higher state and local tax burdens than Iowa on both measures, while Missouri and South Dakota have lower taxes. Illinois has slightly higher taxes per capita but slightly lower taxes as a percent of personal income than Iowa, and Kansas taxes are nearly identical to Iowa's on both measures. (See the chart on page 4 for tax burdens as a percent of personal income by state.) In other words, in the region, Iowa is about average: lower than three states, higher than two, about the same as two.

Does the picture change if we look at particular taxes? Only a little. The per capita property tax burden is just \$11 higher than the national average (\$980 vs. \$969), and Iowa ranks 17th. Property taxes represented 3.5% of personal income in Iowa, 3.2% in the nation as a whole, and on that measure we ranked 14th.⁴



¹ This statement is conservative. This report is based on 2002 data. Over the last two years Iowa is not average in how it has responded to the state fiscal crisis. While other states have increased taxes or fees, Iowa has done the opposite. Iowa is the only state to cut taxes by 1 percent or more over this period. See the Iowa Fiscal Partnership report, "The State Fiscal Crisis from 2001 through 2004: Iowa's Response Compared to Other States."

² The averages we present here are total taxes collected by all state and local governments in the U.S. divided by the U.S. population or U.S. personal income. All average measures of tax burden should be used with caution; they do not necessarily represent the burden on a typical taxpayer, since averages are skewed upwards by the presence of a small proportion of high income taxpayers.

³ The Tax Foundation reports that Iowa ranks 21st in state and local taxes as a percent of personal income for 2002. We do not view their statistics as reliable for a variety of reasons: they are based on forecasts of national sales and property tax collections and then estimates of how these collections are distributed among the states, whereas the census uses actual collections in each state.

Summary

Iowa is not a high tax state, compared to other states in the region or compared to the United States as a whole. It is, in fact, a very average state. While property tax burdens are at or a little above the average, and the state ranks 14th or 17th (depending on the measure) in terms of this tax, other taxes are lower than average. Sales, excise, and individual income taxes are near or below the U.S. average, and among the 50 states we rank below the middle on all of these taxes on either measure. Corporate income taxes are lowest of all; Iowa ranks 44th or 45th.

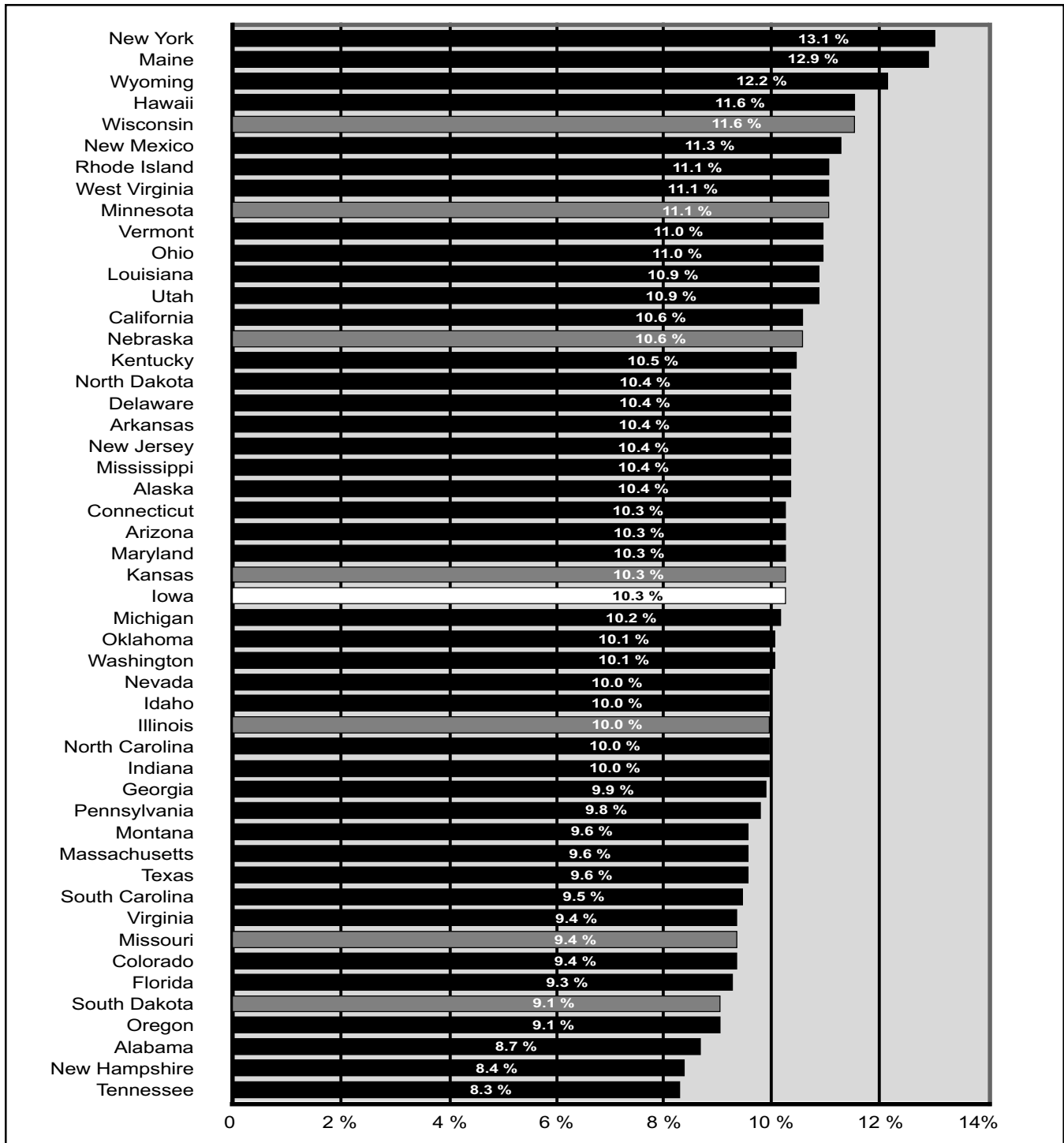
State and Local Taxes Per Capita in the 50 States, 2002

	Iowa	U.S. Average	Iowa's State Rank
For 2001-02			
All Taxes			
State and Local			
Per capita	\$ 2,837	\$ 3,143	26
Percent of personal income	10.3 %	10.3 %	27
State only			
Per capita	\$ 1,705	\$ 1,859	31
Percent of personal income	6.2 %	6.1 %	26
Local only			
Per capita	\$ 1,132	\$ 1,284	26
Percent of personal income	4.1 %	4.2 %	19
Specific Taxes: State & Local			
Property Taxes			
Per capita	\$ 980	\$ 969	17
Percent of personal income	3.5 %	3.18 %	14
Sales & Excise Taxes			
Per capita	\$ 983	\$ 1,125	33
Percent of personal income	3.56 %	3.70 %	27
Individual Income Taxes			
Per capita	\$ 618	\$ 704	30
Percent of personal income	2.24 %	2.31 %	33
Corporate Income Taxes			
Per capita	\$ 30	\$ 98	45
Percent of personal income	0.11 %	0.32 %	44
Other Taxes			
Per capita	\$ 226	\$ 246	26
Percent of personal income	0.82 %	0.81 %	24
State Taxes Only, 2003			
Per capita	\$ 1,719	\$ 1,884	31

Sources: Tax revenues from the U.S. Bureau of the Census, Census of Governments. Per capita figures based on July 1, 2002, census population estimates. Personal income percentages based on state personal income for each state's fiscal year, as calculated by the Center on Budget and Policy Priorities.

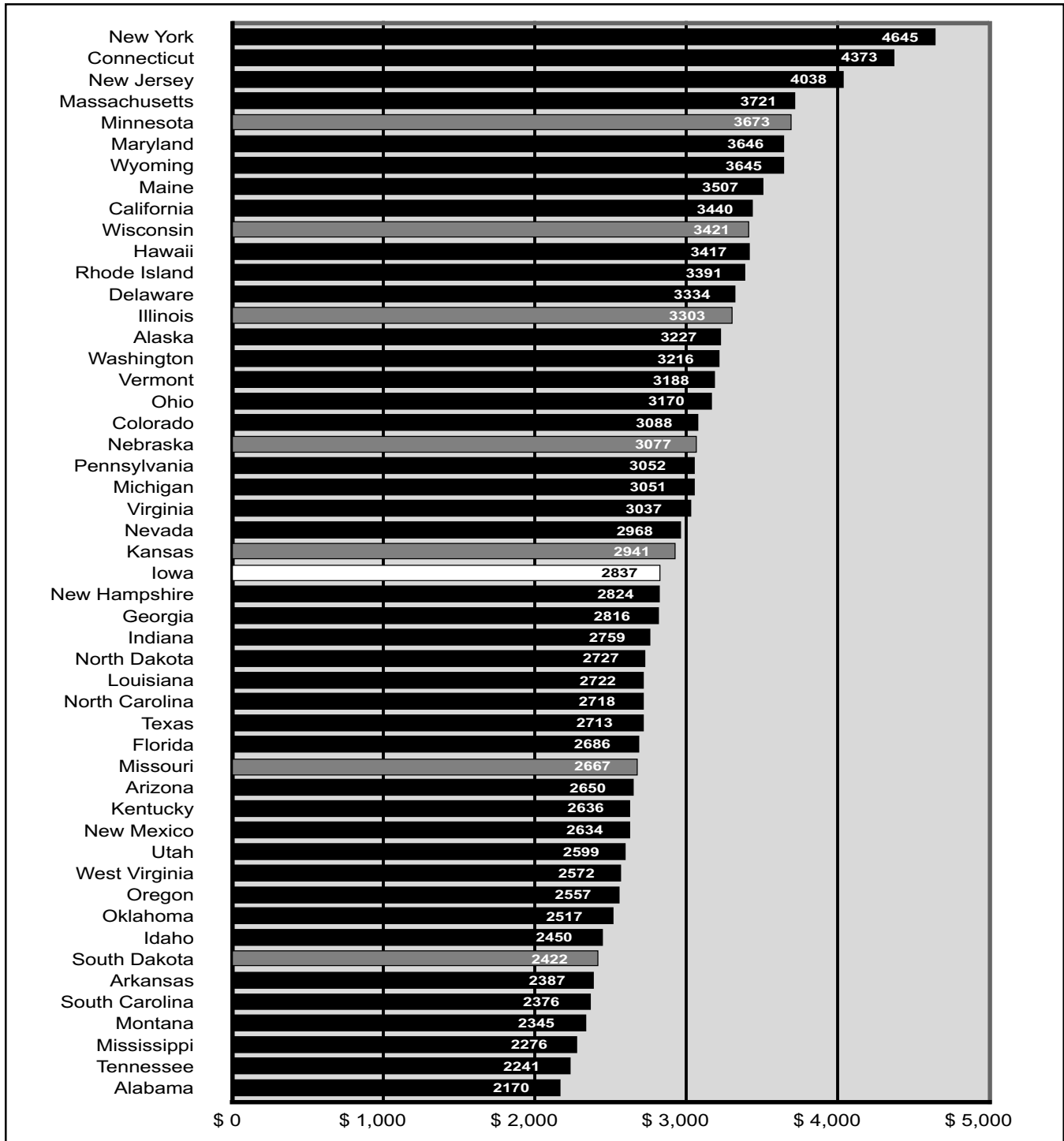
⁴ All measures of the burden of particular taxes reported here are for state and local taxes combined. State sales taxes are combined with local option sales tax collections, for example, and in those states that collect a small amount of state property tax, those collections are added to local property tax collections. This gives the clearest picture of comparative tax burdens because no taxes are omitted from the comparison.

State and Local Taxes as a Percent of Personal Income in the 50 States, 2002



Sources, graphs on pp. 4-5: U.S. Bureau of the Census, Census of Governments; Center on Budget and Policy Priorities.

State and Local Taxes Per Capita in the 50 States, 2002



Iowa Fiscal Partnership

The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans. IFP reports are available on the web at <http://www.iowafiscal.org>.