
Iowa Fiscal Partnership

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Iowans Pay Less Than Average for Services New Report Confirms Trend: Iowans' Tax Bill Lighter

DES MOINES, Iowa (February 22, 2007) — Iowans pay less than the national average for state services, according to new Census information that provides the latest evidence of Iowa's competitive standing.

"Iowa's ranking keeps falling – Iowans are paying less for state services compared with the national average and residents of most states," said Peter Fisher, research director of the Iowa Policy Project and author of a report examining the data for the nonpartisan Iowa Fiscal Partnership (IFP).

In his report, "Falling Below Average," Fisher notes that the latest data show Iowa taxes overall remain competitive vs. other states. He also examines questions about taxes on business, particularly the drive to cut commercial property tax.

"The most eye-opening comparison is the one that shows how Iowans' state taxes have changed in the decade after 1995," Fisher said. "Both in terms of taxes paid per person and as a percent of personal income, Iowa is now in the bottom third of all states."

By those measures, the new data show:

- Iowa state taxes per capita, or per person, were about \$1,952 in fiscal year 2005, well below the average of \$2,197 for all states. By contrast, Iowa state taxes in 1995 were \$1,986 per capita (in 2005 inflation-adjusted dollars), just above the national average of \$1,951.
- Iowa's U.S. ranking on per-capita taxes fell from 18th in 1995 to 34th in 2005.
- As a percentage of personal income, Iowa taxes were 6.2 percent in 2005, compared to a U.S. average of 6.5 percent. In 1995, Iowa state taxes were 7.5 percent of income, compared with a U.S. average of 6.6 percent.
- Iowa's U.S. ranking in taxes as a percent of personal income fell from 17th in 1995 to 36th in 2005.

Fisher noted the changes in Iowa's tax position should not be surprising, as an IFP report in 2004 showed that between 1995 and 2004, taxes fell by 2.3 percent across all states – but by 10.9 percent in Iowa.

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“The result of all this tax-cutting is that by 2005, Iowa was actually collecting less per person, in inflation-adjusted dollars, than it did a decade earlier,” Fisher said. “It’s also not surprising, then, that state revenues are not keeping up with growth in the economy.”

Fisher said there are some important lessons for policy makers in Iowa as they fashion a new budget and discuss changes in commercial property tax.

“We’ve seen time and time again that people say they want to make Iowa competitive. The fact is, we are already competitive,” Fisher said. “It’s not sensible to pick out one tax and say we’re not competitive, and ignore everything else about how we pay for public services.”

“Any discussion of commercial property taxes, a big issue these days, and of any other tax, must be viewed in the light of the overall tax situation in Iowa,” he added.

Fisher said that for business, it’s also important to consider other tax policies that affect businesses. One is corporate income tax, where Iowa ranks well below average, and another is personal income tax, which is about average. In addition, Fisher said it’s important to note that for commercial property tax, there are tax abatements and other incentives such as tax-increment financing that can lessen property taxes on businesses.

“All of these should be considered in the mix,” Fisher said.

The new report for the IFP is available at <<http://www.iowafiscal.org>>.

The Iowa Fiscal Partnership is a joint tax and budget analysis initiative of the Iowa Policy Project in Mount Vernon and the Child & Family Policy Center in Des Moines, two nonprofit, nonpartisan organizations.

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