



GUEST OPINION

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Last-minute tax deal could put state services at risk

By Peter Fisher

Over the long term, the late-session deals reached by the Iowa Legislature may force lower expectations in Iowa for critical services.

Forward steps were clear:

- The Medicaid expansion will address needs and protect state revenues.
- The Earned Income Tax Credit expansion is an important but small nod to a more equitable income-tax structure.

The property-tax reform package, however, will be costly and will challenge cities, counties and schools to deliver what Iowans have come to expect. It offers big breaks to business property owners — while costing significant sums in local services at a time of continually improving state revenues.

As we have maintained, the argument for property-tax reductions has been politically inspired, rather than an economic necessity. Business tax cuts have become standard operating procedure at the Statehouse.

In fact, it is quite likely that next session we will see calls for a new round of business tax cuts, this time through the income-tax code, which already barely touches big business. All this comes despite the fact that Iowa already is very competitive in its business tax environment.

The greatest impact of the property-tax share of the legislation will be ultimately to reduce services — or increase taxes on individuals — because of these latest giveaways to business. It is ironic to see cities, counties and schools taking a hit when state revenues are coming in so strongly.

While some of the local revenue losses will be tempered by state reimbursements, there is a projected net loss to local services of \$741 million over 10 years beginning in Fiscal 2015 — about three-quarters of a billion dollars.

The legislation ties the hands of local officials whom taxpayers elect to provide the level of services they need and want. It further sends a message that local governments can be expected to need to cut services the next time we head toward a recession. Iowa's legacy over the last decade-plus has been to scale back, in good times or bad.

One important and positive step offered by the legislation was a provision to expand Iowa's Earned Income Tax Credit, which is both good fiscal policy as it eases the tendency of Iowa's income tax system to overly tax low-wage workers, and good economic policy as it encourages work and puts money into the local economy.

While that piece of the bill — which is projected to cost \$30 million next year — addresses a real issue in Iowa's tax structure, the so-called "Taxpayer Trust Fund Tax Credit" that has been added does not, and is more costly.

The credit next year is projected to cost almost three times the EITC increase (\$88 million), but is not necessary.

Many issues with budget impacts are covered by the major deals struck at the end of the session. These will require further examination in the coming weeks and months to understand their effects.

Peter Fisher is research director of the Iowa Policy Project in Iowa City.

Note: This piece also ran as an Iowa Fiscal Partnership statement, May 23, 2013:

<http://www.iowafiscal.org/2013releases/130523-IFP-statement.html>