



# Iowa Policy Project

## ROADMAP for OPPORTUNITY

### What real Iowa tax reform would look like

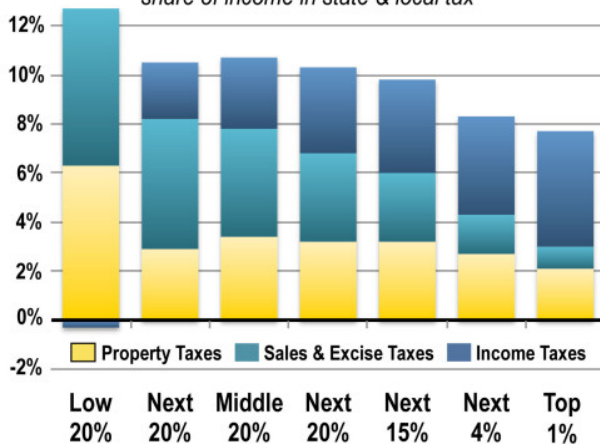
Iowa is an average-tax state. Even before expensive tax cuts passed in 2018 to benefit the wealthiest, Iowans paid about 2.5 percent of their income toward income taxes, 2.4 percent for sales taxes, which earns us a rank of 20<sup>th</sup> and 21<sup>st</sup>, respectively, among the 50 states.<sup>1</sup> Business taxes in Iowa are actually below average according to recent studies by two accounting firms: one placed Iowa 31<sup>st</sup>, the other 36<sup>th</sup>.<sup>2</sup>

**Destination:**  
**A tax system that raises revenue fairly and adequately to meet critical public service needs that benefit all**

But our tax system already failed the fairness test before those new tax cuts. The highest income Iowans pay a smaller share of their

#### Iowa's upside down tax system

Low state income taxes mean richest Iowans pay lowest share of income in state & local tax



income to state and local taxes than lower and middle-income Iowans — our tax system is regressive. Those in the bottom fifth of Iowa households by income pay 12.4 percent of their income in state and local taxes, while those with incomes in the top 1 percent pay just 7.7 percent.<sup>3</sup> And hundreds of millions in tax revenue are lost every year to corporate loopholes and business tax credits that produce little or no public benefit. At the same time, the state struggles every year to adequately fund education, public safety, health care and other priorities.

**Real tax reform, then, would mean three things:** (1) ensuring adequate revenue, (2) reducing the regressivity of our tax system, and (3) reining in corporate tax credits and loopholes.

Iowa Fiscal Partnership

Source: Institute on Taxation and Economic Policy, [www.itep.org](http://www.itep.org)

### Iowa's 2018 tax law fails the test, cutting back on both fairness and revenues

The legislation signed into law in 2018 does none of these things. It cuts revenue, makes the tax system more regressive by concentrating tax cuts on the rich, and fails to reform credits or loopholes.<sup>4</sup> The package had one true benefit: modernizing the sales tax to include online purchases and level the playing field for local and state-based businesses.

#### Little for the middle class: Tax bill benefits the wealthiest

Average tax cuts, percent of total cuts, by income, Iowa residents, 2021

Adjusted Gross Income	Percent of Taxpayers	Average Tax Cut	Percent Reduction	Percent of Total Tax Cut	Tax Cut: Percent of Income
Under \$30,000	39.6%	\$ (21)	-17.2%	2.8%	-0.23%
\$30,000 to \$60,000	25.5%	\$ (121)	-8.4%	10.3%	-0.28%
\$60,000 to \$100,000	17.1%	\$ (232)	-7.5%	13.2%	-0.30%
\$100,000 to \$250,000	15.4%	\$ (534)	-8.2%	27.3%	-0.38%
\$250,000 to \$1 million	2.3%	\$ (4,014)	-17.5%	30.4%	-1.00%
\$1 million or more	0.2%	\$ (24,636)	-19.4%	16.1%	-1.01%
Total	100%	\$ (300)	-11.1%	100.0%	-0.48%

Source: Iowa Department of Revenue, Memo to Legislative Services Agency, May 2, 2018, Table 9A

Under this legislation, however, the income tax savings to a middle-class family by 2021 amount to just \$5 to \$10 a week and much of that will be taken back by the sales-tax increase. Millionaires, on the other hand, will see on average a \$24,636 cut for the year. Almost half of the tax cuts will go to the richest 2.5 percent of Iowa taxpayers, those making \$250,000 or more.

The 2018 tax bill also piles \$40 million in corporate tax cuts on top of commercial property tax cuts enacted several years ago that have cost local governments millions of dollars. A new special tax break for business owners who receive “pass-through” income will cost in excess of \$65 million a year, with 60 percent of the benefit going to the top 2 percent of taxpayers.

Overall, the bill will take \$300 to \$400 million a year out of the budget that could have gone to adequately fund education or public safety or mental health care. Those revenue cuts will happen regardless of the state of the Iowa economy or the budget; no safeguards will prevent it, despite the bill’s much touted “triggers.”<sup>5</sup>

To add insult to injury, the tax bill is far more likely to hurt the Iowa economy than to help it. The tax cutting experiment in Kansas was a failure, harming the state economy rather than helping it.<sup>6</sup> And Iowa’s own experience with massive tax cutting, in the late 1990s, not only failed to stimulate growth, but likely contributed to the subsequent slowing of the state’s economy.<sup>7</sup>

### ***Policy Alternatives: The elements of real reform***

- **Ensure adequate funding for our schools**, which have been underfunded for years, revenue failing to keep pace with costs. End cuts to state funding of Iowa’s public universities and community colleges, forcing higher tuition, and leaving students and families with rising debt.
- **Plug corporate tax loopholes** that cost Iowa an estimated \$200 million a year,<sup>8</sup> and rein in business tax credits that grew from \$200 million to \$423 million in six years.<sup>9</sup>
- **Make our tax system fairer**, and better based on ability to pay. This should be done by providing enhanced recognition of the cost of raising a family by expanding the child tax credit and the child and dependent care credit, as well as the Earned Income Tax Credit. Less reliance on the sales tax, which has doubled since 1983 and is poised for another potential increase, or offsets to these increases can enhance opportunities for low- and moderate-income families now put at a disadvantage.

**Rebalancing the tax code** would reduce its current regressive nature, which imposes higher taxes as a share of income on lower- and middle-income Iowans than on the wealthy.

---

<sup>1</sup> Taxes as a percent of state personal income for the most recent five years available, 2013-2017, from the U.S. Census, Census of Government Finances.

<sup>2</sup> Iowa ranks 31<sup>st</sup> in business taxes as a percent of GSP according to Ernst & Young LLP, *Total state and local business taxes*, October 2019. Table 4, page 12. <https://www.cost.org/globalassets/cost/stri/studies-and-reports/FY16-State-And-Local-Business-Tax-Burden-Study.pdf.pdf>; Iowa ranks 36<sup>th</sup> (with #1 being the highest tax rate) in business taxes as a share of business pre-tax operating surplus by Anderson Economic Group LLC, June 2018. *2018 State Business Tax Burden Rankings*, Exhibit I, page 17. [https://www.andersoneconomicgroup.com/wp-content/uploads/AEGBusinessTaxBurdenStudy\\_2018\\_FINAL.pdf](https://www.andersoneconomicgroup.com/wp-content/uploads/AEGBusinessTaxBurdenStudy_2018_FINAL.pdf)

<sup>3</sup> Institute on Taxation and Economic Policy. *Who Pays?* Sixth Edition. <https://itep.org/whopays-map/>

<sup>4</sup> See Charles Bruner and Peter Fisher, “Tax plan facts vs. spin.” Iowa Fiscal Partnership, May 5, 2018. <http://www.iowafiscal.org/tax-plan-facts-vs-spin/>

<sup>5</sup> All the triggers would do is save us from an even larger budget disaster in 2023 and beyond. The triggers are revenue targets; if the targets are not achieved, the last round of cuts will not take place as scheduled for tax year 2023.

<sup>6</sup> Michael Mazerov. “Kansas Provides Compelling Evidence of Failure of ‘Supply-Side’ Tax Cuts.” Center on Budget and Policy Priorities, January 22, 2018. <https://www.cbpp.org/research/state-budget-and-tax/kansas-provides-compelling-evidence-of-failure-of-supply-side-tax-cuts>

<sup>7</sup> Peter Fisher. “Tax cuts: Already tried, failed.” Iowa Policy Points, April 23, 2018. <https://iowapolicypoints.org/2018/04/23/tax-cuts-already-tried-failed/>

<sup>8</sup> Iowa Policy Project analysis of Iowa Department of Revenue estimates.

<sup>9</sup> “Growing cost, lax oversight of Iowa business tax credits.” Iowa Fiscal Partnership, March 16, 2018. <http://www.iowafiscal.org/wp/wp-content/uploads/2018/03/180319-IFP-taxcredit-bgd.pdf>