

GUEST OPINION: APRIL 8, 2005

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## Income Taxes: Fairest of Them All

By Elaine Ditsler

It's income tax season and we will surely hear calls for great reforms – such as the idea that everyone should pay the same percentage of their income in taxes.

Taxpayers beware! Before buying into tax reform ideas, examine them closely to see if the “reform” actually achieves what it claims. Case in point: the “flat” income tax.

In Iowa, when you look at all taxes (sales tax, income tax, property tax, gasoline and other excise taxes), you see that the lowest-paid Iowans actually pay a larger percentage of their income in state and local taxes than do the highest-paid Iowans.

The wealthiest 1 percent of Iowans pay less than 6 percent of their income in taxes, while the poorest 20 percent of Iowans pay above 10 percent. Put another way, the wealthiest Iowans work only three weeks to pay off their taxes, while the poorest Iowans have to work almost twice as long.

Let's go over that again. Iowa's tax policy says that a family making \$300,000 a year must devote only about three weeks' work to fulfill their responsibility to the public good whereas the low-income family earning \$14,000 a year has to work almost twice as long to do the same.

How could this be? The cost of basic needs—transportation, decent housing, and other items — simply do not vary nearly as dramatically as income. Low-wage earners have to spend almost all of their income on these needs, thereby paying a much larger share of their income in sales and other taxes.

Iowa's income tax is the only part of our tax system that is based on ability to pay. Individuals with higher incomes and smaller families pay at a higher rate than persons with lower incomes and larger families. The problem is that the state and local tax system as a whole takes more from those at the low end of the pay scale than those at the top.

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Thus, to have a flat tax system, *which actually achieves the principle that everyone pays the same percentage of their income in taxes*, the income tax would actually have to be raised for the wealthiest Iowans, lowered for middle and low-income Iowans, or some combination of both.

Recent federal tax “reform” efforts have actually been in the opposite direction. Successful businessman Warren Buffet disparaged federal income tax cuts that will cause his secretary to pay a larger portion of her earnings in taxes than he pays of his.

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