Common Good Iowa
Bold Policy for Families & Communities

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Tax cuts: What's at stake for Iowans

The income tax is a way Iowans come together to lay strong foundations that create opportunity and help people thrive. Governor Reynolds and legislative leaders want to eliminate Iowa's personal income tax — a virtual promise to decimate the services that make Iowa a better place to live, work and raise a family.

Here are important facts to help you make sense of the coming debate, along with an alternative agenda that rejects forced austerity in favor of sensible investments to meet our common needs and aspirations.

Six cautions about eliminating the personal income tax:

1

We haven't yet felt budget pain from the last round of income tax cuts — but it's coming

In 2022, Iowa lawmakers passed a large package of individual and corporate income-tax cuts that are just starting to phase in. Their effects are negligible now, but by 2028, they will cause a $1.9 billion annual revenue cut, shrinking the state budget, relative to 2022, by about 20%.[1]

Iowa's total tax-rate cuts through 2028 will cost over $5 billion — putting Iowa fifth among tax-cutting states in the race to the bottom (behind North Carolina, West Virginia, Arizona and Arkansas).[2]

The 2022 cuts combined with cuts approved in 2021 aren't far from the scope of those passed in Kansas a decade ago.[3] Kansas lawmakers slashed K-12 and higher ed funding, drained emergency funds, then faced bond rating downgrades and massive public backlash. They reversed most of the cuts, but it took years to recover from the damage.[4]

2

Eliminating the personal income tax would blow an even bigger hole in the state budget

The personal income tax generates half the state general fund. Unless majority lawmakers raise other revenues (something they've indicated no interest in doing), eliminating it would cut state revenues by half, virtually guaranteeing school closures, cuts to public health and safety, worker protection, outdoor recreation and more — things that help Iowans get ahead, raise their children and love where they live.

3

Eliminating the personal income tax would overwhelmingly benefit the wealthiest Iowans

Nearly two-thirds of the tax cuts would go to people in the top 20% of incomes. People in the top 1% — making an average of $1.5 million — would get an average annual cut of about $60,000, or $5,000 a month.[5] People in the lowest 20% — struggling to get by on an average of $17,000 a year — would see an average cut of just $45, or less than $4 a month.[6]

Low-income Iowans already pay a higher share of their incomes in total state and local taxes (income, property and sales) than their higher-income neighbors.[7] Income-tax cuts make that imbalance even worse — and worsen racial disparities baked into our tax system.

Due to long-standing discrimination in housing, employment and education, Iowans of color are disproportionately situated at the lower end of the income distribution, where tax cuts are tiny, while white people are disproportionately at the top, where cuts are generous.[8]

4

Most folks would lose far more in services from eliminating the income tax than they would gain from resulting modest tax cuts

Tax cuts are choices, and choices require tradeoffs. Under the elimination plan, a middle-income Iowan making $73,000 a year would see relatively modest cuts, paying about $1,500 — $120 a month — less in taxes.[9] But what do they get in exchange? Bigger class sizes and fewer options in their kids' schools. Bigger college tuition bills. Loss of health services for family members and neighbors with disabilities. More local traffic deaths as fewer state troopers patrol our highways. Fewer state parks to visit. Those aren't great tradeoffs.

5

Proponents will deny the inevitable budget cuts their tax cuts will force — and get away with it until cuts are fully phased in

The state has accrued big surpluses in recent years for two main reasons: first, strong economic activity boosted by federal pandemic aid, and, second, because lawmakers have held down state investments in services like schools.[10] Surpluses make it easy to obfuscate the true impact of tax cuts, at least for a while.

After filling rainy day funds (if not already full), the surplus from one fiscal year flows into the so-called Taxpayer Relief Fund (TRF). Dollars above what's allowed to be deposited in the TRF in a given year then flow into the next year's surplus.

If lawmakers choose this session to use the TRF to eliminate the income tax — the strategy key legislators pitched last year — those one-time dollars can help fill in the budget hole in the short term. But relying on surpluses to justify permanent tax cuts is a dangerous game. Surpluses are one-time dollars the state can't count on in the future. When they're gone, they're gone.

6

There is overwhelming evidence that tax cuts don't deliver on proponents' promises

Taxes have minimal effect on people's decisions to move from state to state,[11] and cutting the income tax doesn't generate enough economic activity to makes up for its revenue losses.[12] The handful of states without income taxes often get revenues from taxes connected to natural resources (think oil in Alaska) or tourism (think Florida or South Dakota), or focus more heavily on regressive sales taxes or property taxes to bring in significant revenue.[13] Iowa does not have oil reserves, sunny beaches or mountains with presidents' faces carved into them.

Three steps lawmakers should take to meet our common needs:

1

Pass no additional tax cuts that will make our tax system more unfair and force radical service cuts.

When you've dug yourself into a hole, the first thing to do is to stop digging. Stop, take a breath, assess the impacts of already passed cuts and be ready to undo as needed.

2

Use one-time dollars in the Taxpayer Relief Fund *not* for permanent tax cuts, but for sensible one-time tax initiatives that offer broad benefit to Iowans:

- **Pilot a state Child Tax Credit** — similar to the federal CTC that was temporarily expanded in 2021 and boosted opportunities for hardworking families, reduced child poverty and strengthened local economies.[14] One-time dollars can help families pay for essentials like food, utilities and diapers as we study the credit's long-term impacts on families and the economy.

- **Temporarily double the Earned Income Tax Credit** to from 15% to 30% of the federal EITC to support low-wage working families who can't make ends meet on earnings alone. The well-documented benefits of the EITC include reducing poverty and improving health.[15]
- **Institute a five-year phaseout of all business tax credits**, using the TRF dollars to pay for them through the phaseout. Dollars now funding the credits would immediately become available for General Fund investments that help all Iowans thrive. By sunsetting the credits — which in some cases subsidize the state's most profitable corporations for work they would do anyway — we can force a credit-by-credit assessment of whether their benefits are worth their cost.

Visit **www.commongoodiowa.org** or contact deputy director Mike Owen at mowen@commongoodiowa.org to learn more.

3

When setting next year's budget, use all available dollars, including the projected $2 billion surplus,[16] to meet our common needs:

- **Make meaningful increases PK-12 and higher education funding** to start undoing of years of underinvestment and assure a great public education for every Iowan.
- **Invest in health services** to address unmet mental and maternal health needs and ensure essential services in all corners of the state.
- **Ensure Iowans can tap emergency supports** in times of crisis and put food on the table.
- **Promote economic opportunity** by strengthening enforcement of worker protections and boosting child care assistance — essential to family stability and a strong economy.
- **Expand efforts to ensure clean water and robust green energy** that contribute to a healthy and prosperous future for all.

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7 ITEP, "Who pays? 6th Edition," Iowa data at https://itep.org/whopays/iowa/

8 Common Good Iowa, "Iowa tax proposals would worsen existing racial inequities," February 2022, https://www.commongoodiowa.org/media/documents/220209_Fact_sheet__Tax_cuts_worsen__7AC7BC63B6420.pdf

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11 Michael Mazerov, "State Taxes Have a Minimal Impact on People's Interstate Moves," CBPP, August 9, 2023, https://www.cbpp.org/research/state-budget-and-tax/state-taxes-have-a-minimal-impact-on-peoples-interstate-moves. Peter Fisher, "Why tax cuts won't change seniors' decisions to move or stay," Common Good Iowa, February 16, 2022, https://www.commongoodiowa.org/media/documents/220216_Fact_sheet_Seniortaxesmigrat_87CA401CB3007.pdf.

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15 Centers for Disease Control and Prevention, "Earned Income Tax Credits: Interventions Addressing the Social Determinants of Health," https://www.cdc.gov/policy/hi5/taxcredits/index.html

16 Note: Budget surplus dollars are distinct from the state's two "rainy day funds." When necessary, surpluses are used to fill those funds, with most of the rest going to Taxpayer Relief Fund, or passed on to the next fiscal year. The rainy day funds are projected to be at their maximum this year and next.