



POLICY

WISE

in
Iowa

Iowa's tax catastrophe in the making



**“Taxes are what we pay for
civilized society.”**

Oliver Wendell Holmes Jr.
U.S. Supreme Court justice

Investments in civilized society

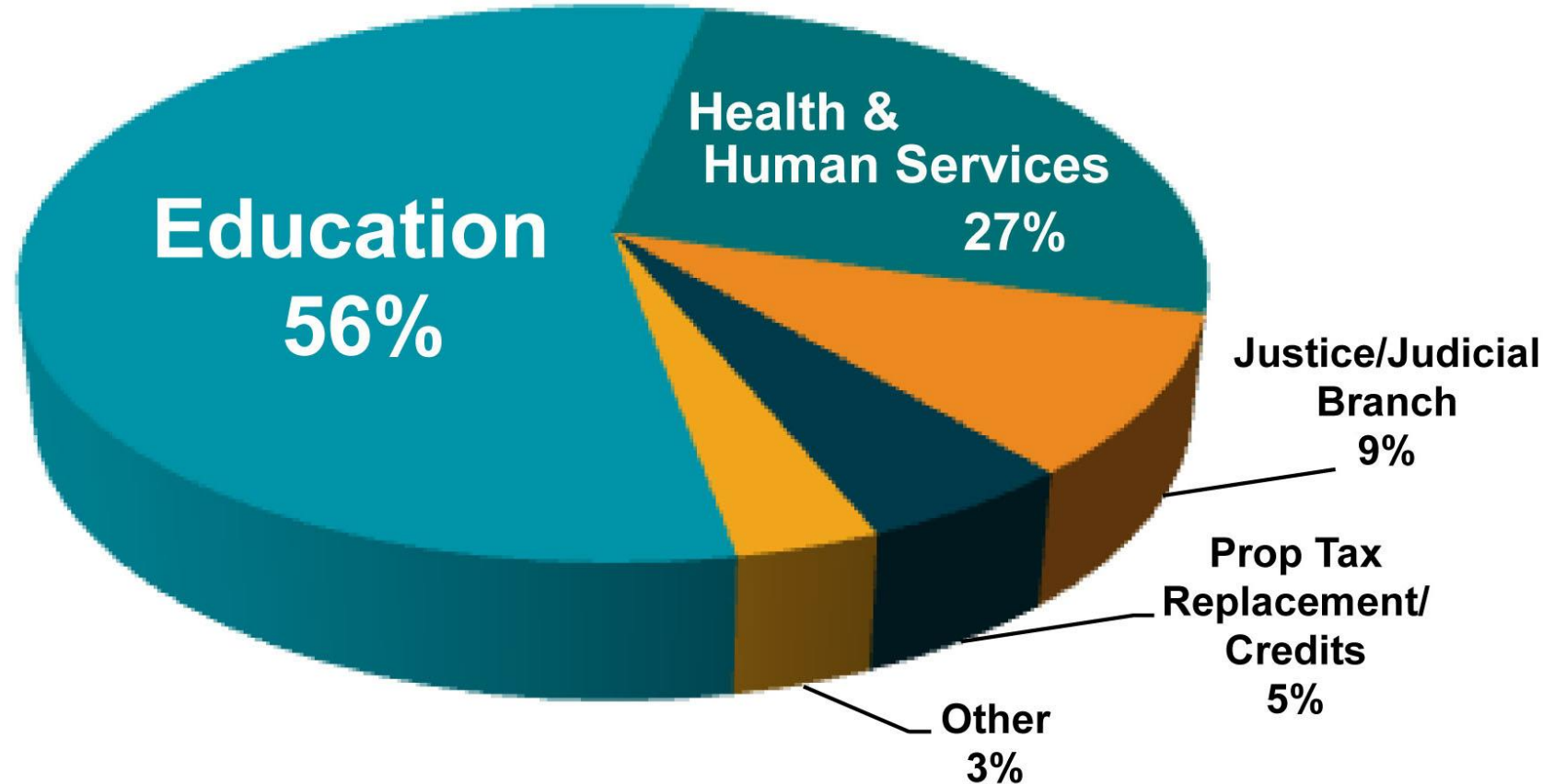
**Governor's
FY 2023
General Fund
Budget**

**\$8.2
Billion**

Source: Governor's Budget,
Iowa Dept. of Management

General Fund Services

FY 2023 Est.



Investments in civilized society

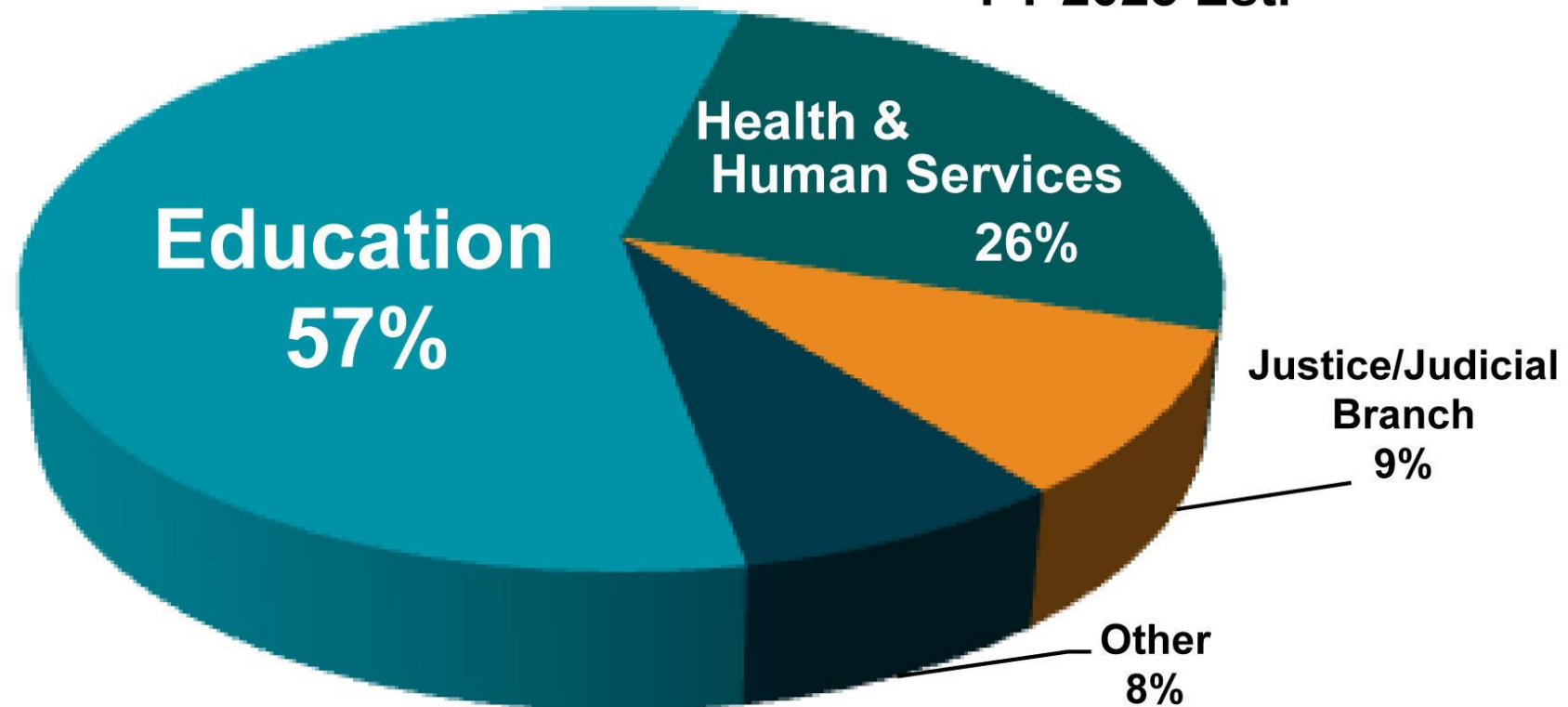
**Governor's
FY 2025
General Fund
Budget**

**\$8.9
Billion**

Source: Governor's Budget,
Iowa Dept. of Management

General Fund Services

FY 2025 Est.



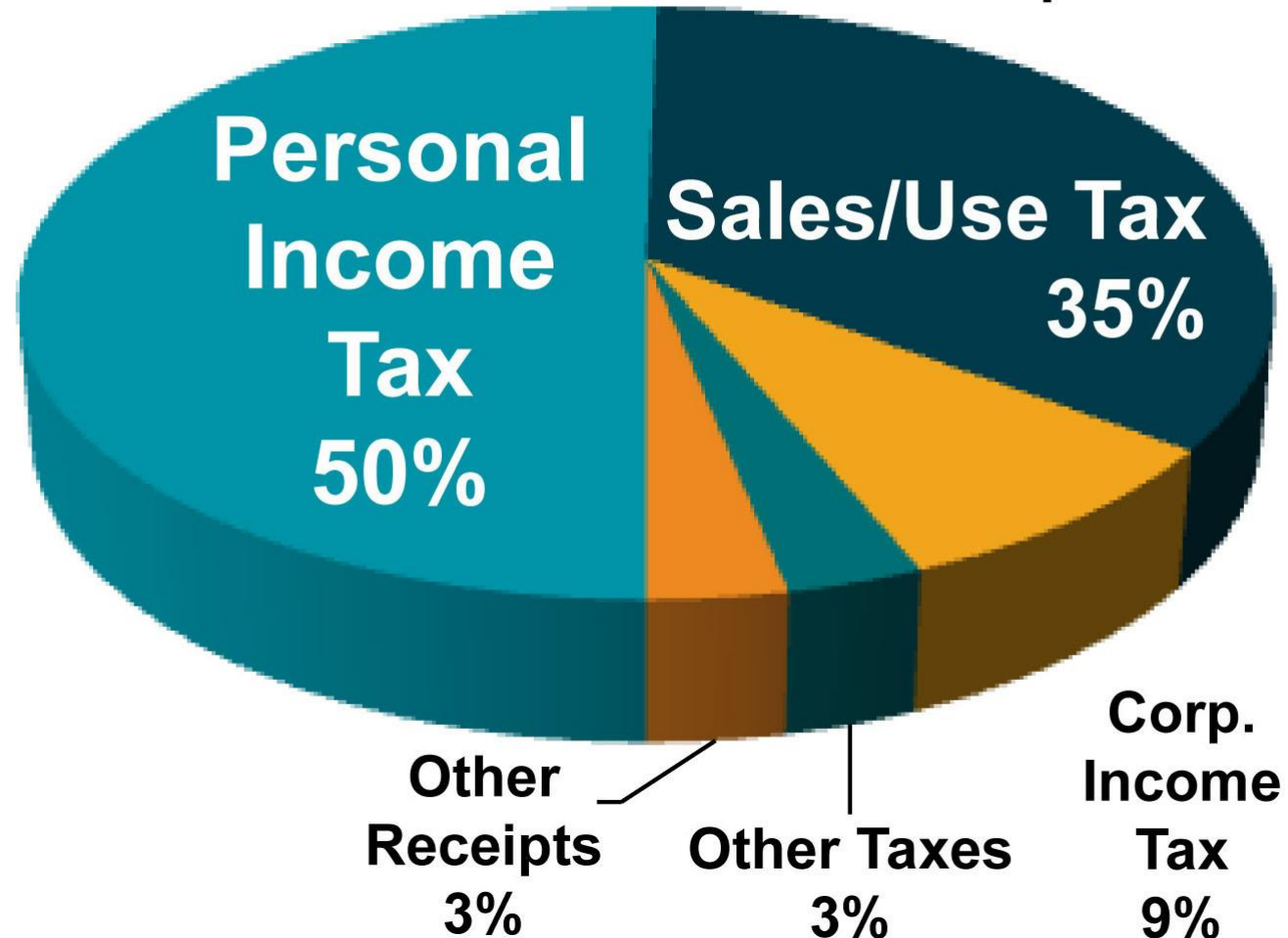
Where we get the money

**Estimated
FY 2023
General Fund
Revenues**

**\$10.9
Billion**

Source: Governor's Budget,
Dept. of Management

**General Fund Revenue Sources
FY 2023 Proposed**



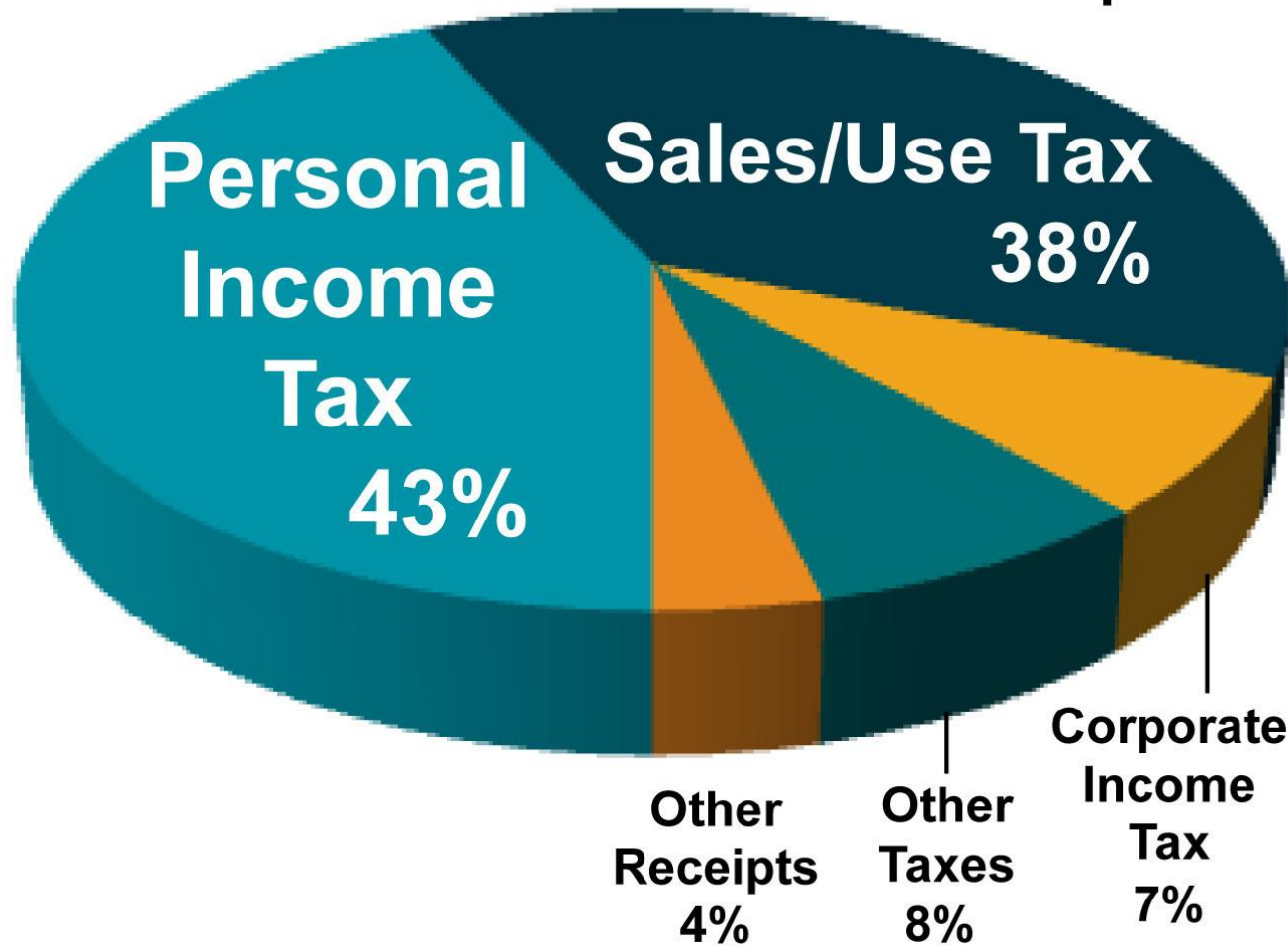
Where we get the money

**Estimated
FY 2025
General Fund
Revenues**

**\$11.5
Billion**

Source: Governor's Budget,
Dept. of Management

**General Fund Revenue Sources
FY 2025 Proposed**

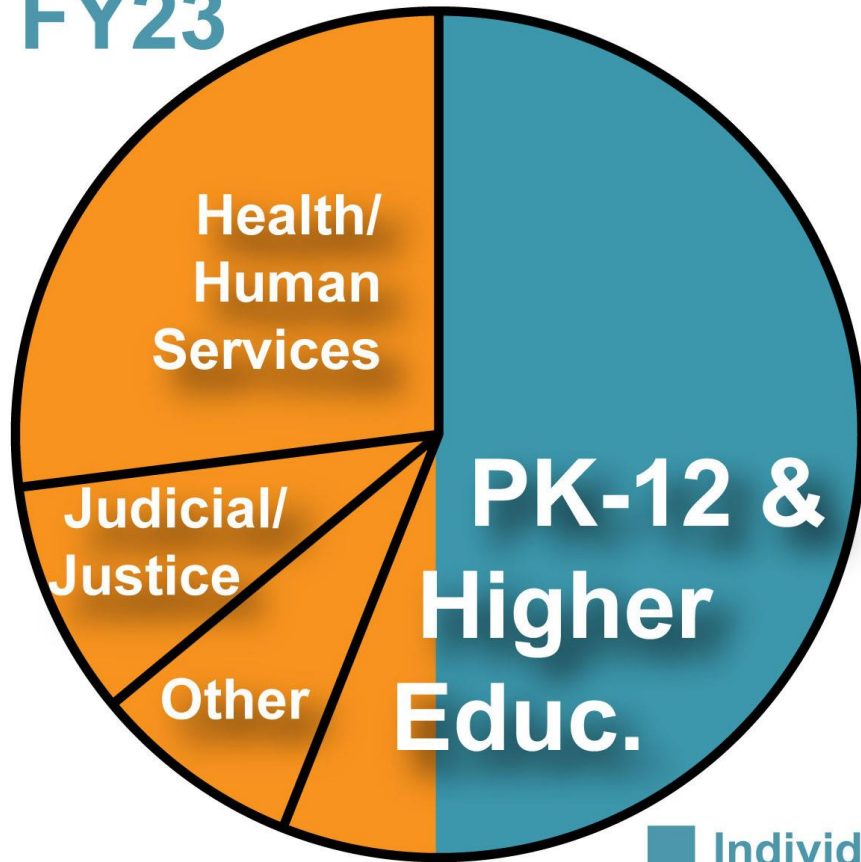


But what happens to revenues when:

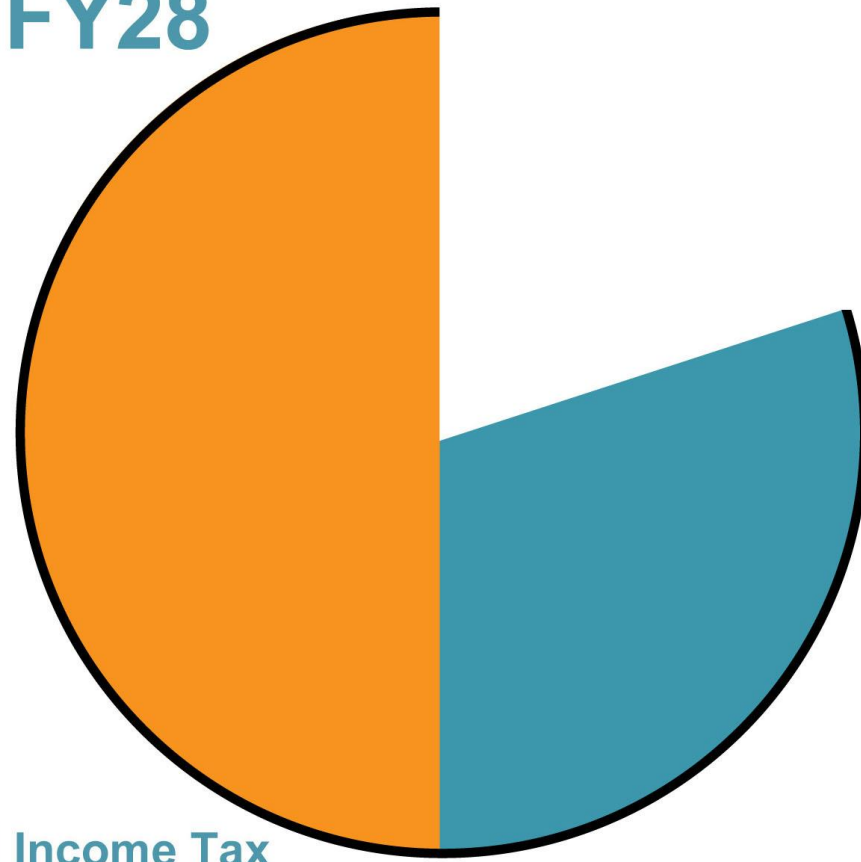
- **Federal support expires?**
- **Tax cuts are implemented, taking bigger and bigger chunks each year?**

How will Iowa budget choices change when tax cuts reduce revenue 20%?

FY23



FY28



■ Individual Income Tax
■ Other General Fund Revenue

A Brief History

How we got to this place: Rhetoric and record

Iowa's quarter century of tax cuts

1997: Passes 10% across-the-board rate cuts

Also in that era: **increased pension exclusion** and **inheritance tax repeal** for linear descendants

2018: Cuts income-tax rates and **sets revenue triggers** to cut them further in 2023.

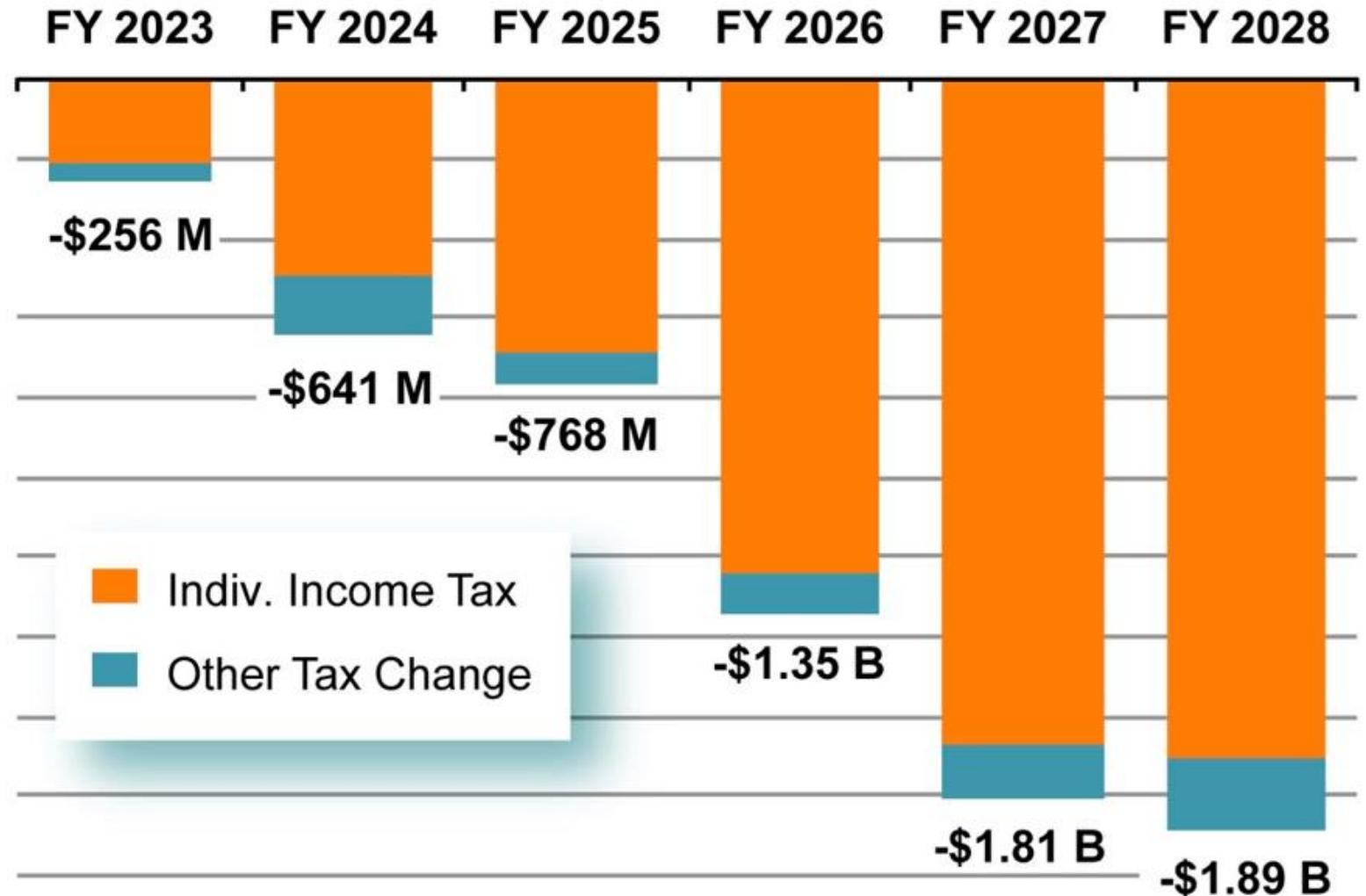
2021: Scraps 'triggers' and cuts tax rates regardless of revenues, repeals federal deductibility, phases out remaining inheritance tax.

2022: Passes huge tax cuts to **phase in 'flat rate tax'** in 2026; **retirement income exclusion** in 2023

Cuts in services will be enormous

\$1.9 billion
by FY 2028:
Voters don't
see impacts
for years

Governor's
bill speeds
this up

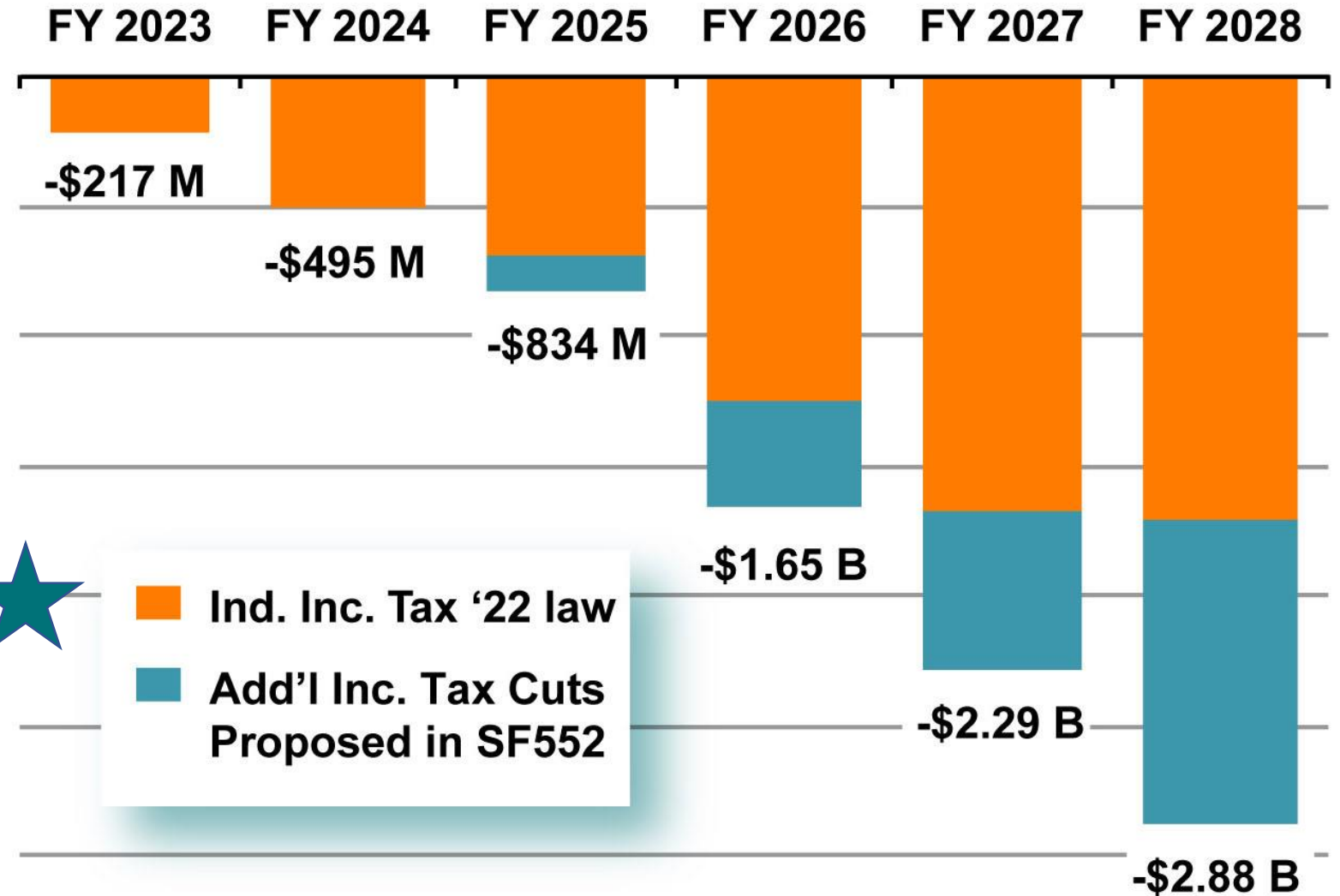


SF552: 'Hold our beer'

**\$2.9 billion
by FY 2028:**

**Rate cuts to
accelerate**

**Flat rate of
2.5% by
2028, sets up
elimination**



- Ind. Inc. Tax '22 law
- Add'l Inc. Tax Cuts Proposed in SF552

**“We see revenues grow,
so it works.”**

Gov. Kim Reynolds

Speaking to out-of-state conservative group

But we don't, and it doesn't.

Already, income-tax revenues are down.

“During the 12-month period ending Dec. 31, 2023 ...

“Individual income tax revenue has declined in 14 of the past 15 months when compared to the same month the previous year, and **growth is now negative over the past 12 months.** Beginning January 1, 2023, Iowa **decreased individual income tax rates** and reduced the income tax base through a **full exemption for retirement income.”**

Iowa Legislative Services Agency, Jan. 15, 2023

Twelve-month tax memo to Iowa legislators

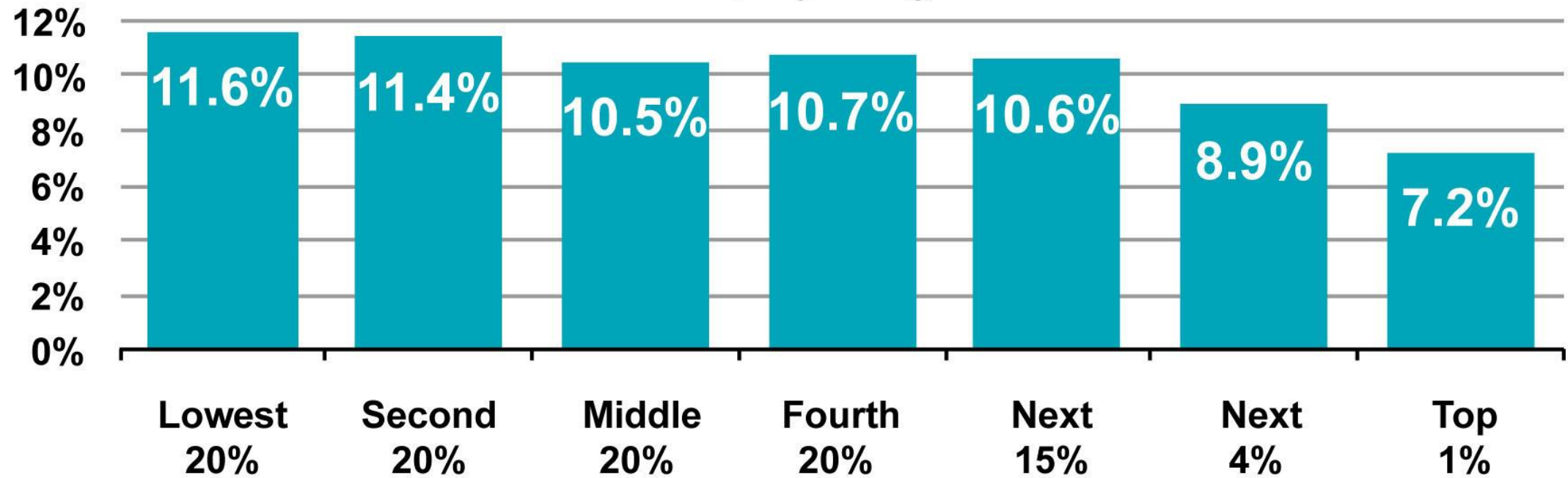
Who Pays (and who doesn't)

Already, equity fails in economic and racial measures

Iowa already was upside-down

Who pays taxes in Iowa?

Lower-Income Iowans pay largest share of income



Avg Income	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
	\$14,000	\$39,000	\$67,400	\$111,800	\$171,200	\$342,700	\$1.371 M

Progressive income tax helps

Who pays taxes in Iowa?

Breakdown
by type of tax

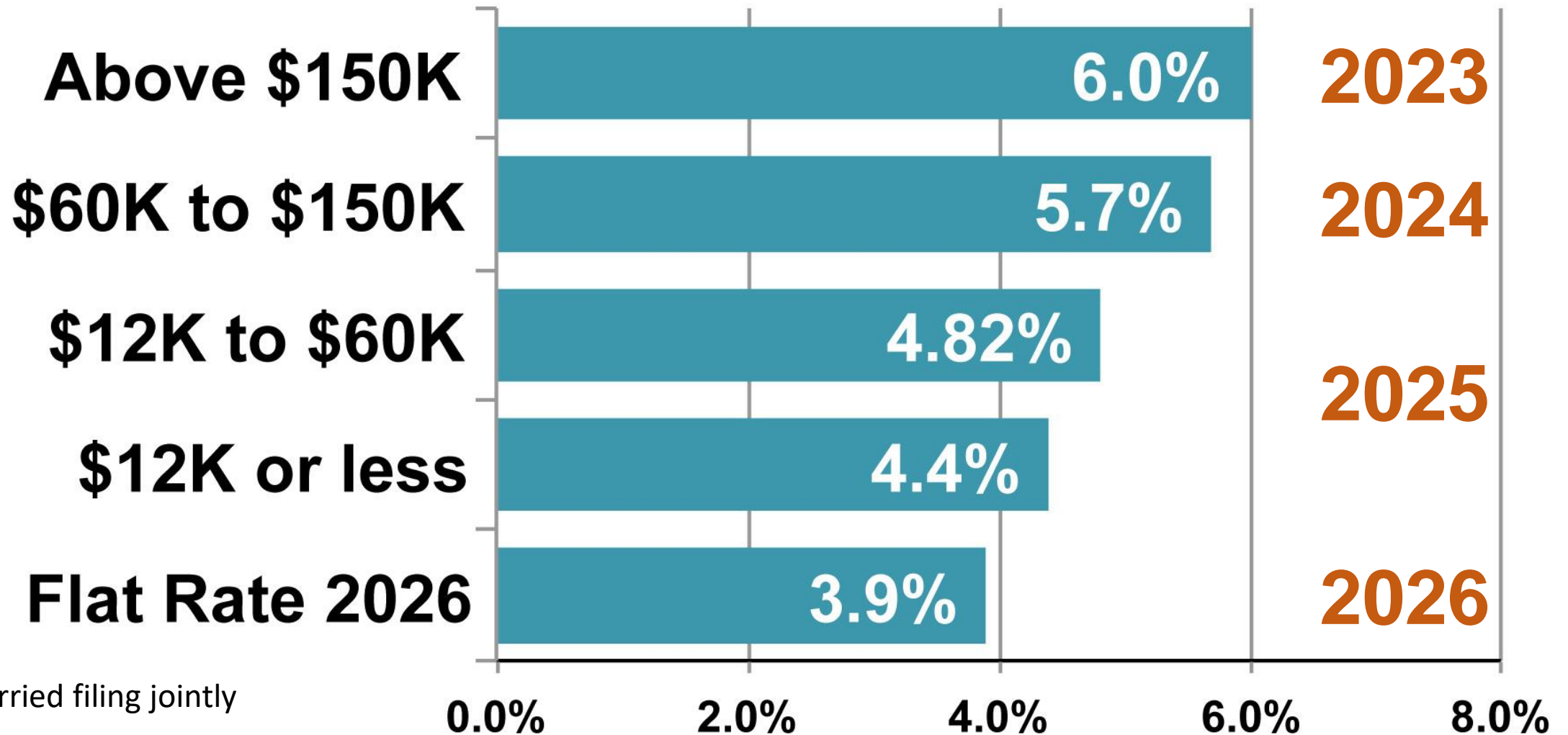


Who pays the income tax?

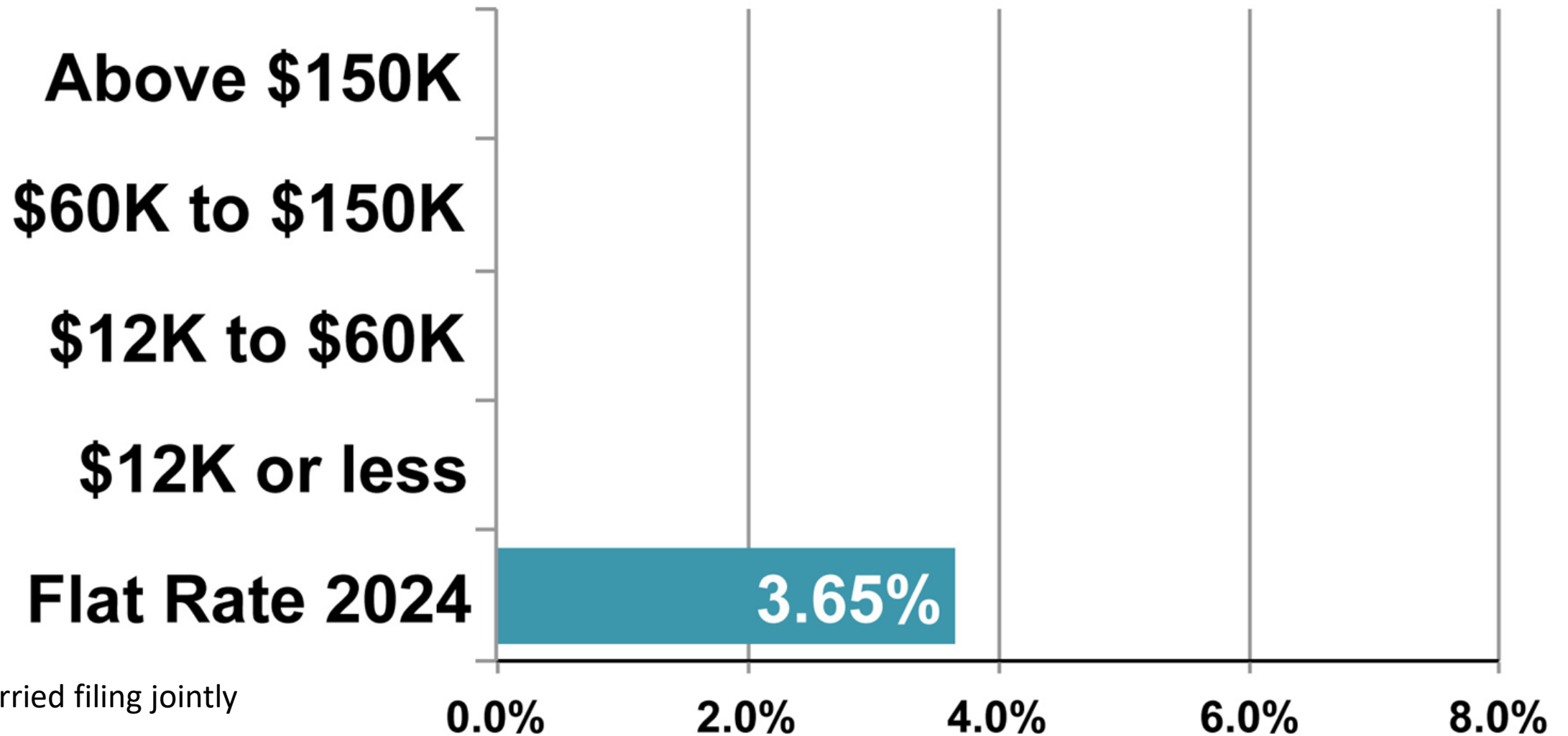
The income tax has been “progressive.”

- Largest share of tax liability in the **\$100K to \$250K group**: **\$1.55B** of **\$4.4B** raised in 2021.
- **80%** of tax liability below **\$75,000 AGI**
- **32%** of taxable income at top rate (**8.53**)
- **First \$25K or more of net income** not taxed in '21 for taxpayers filing married jointly or as head of household with two children

Lowering top rate helps high earners first

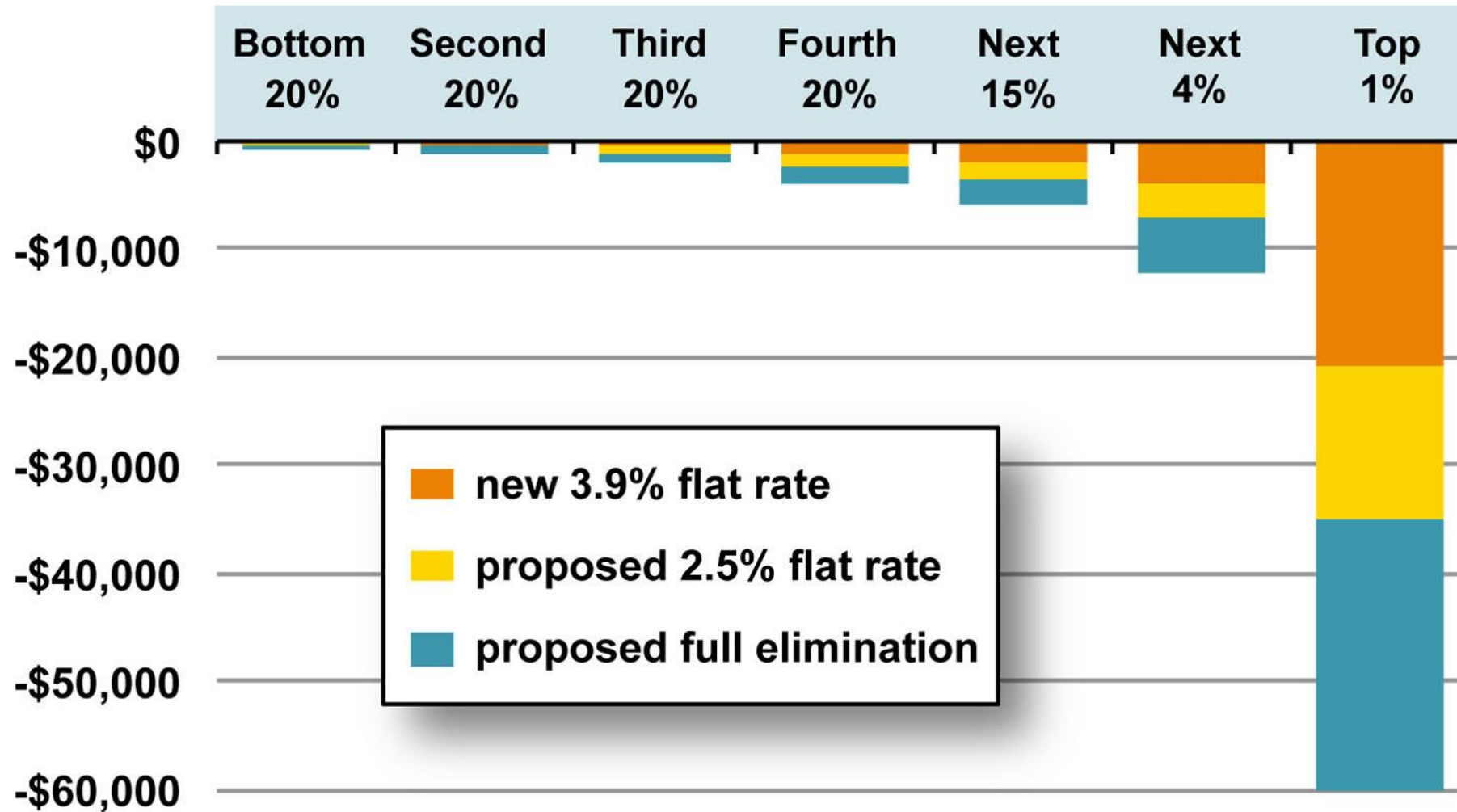


Governor: Cut quicker and deeper



* Married filing jointly

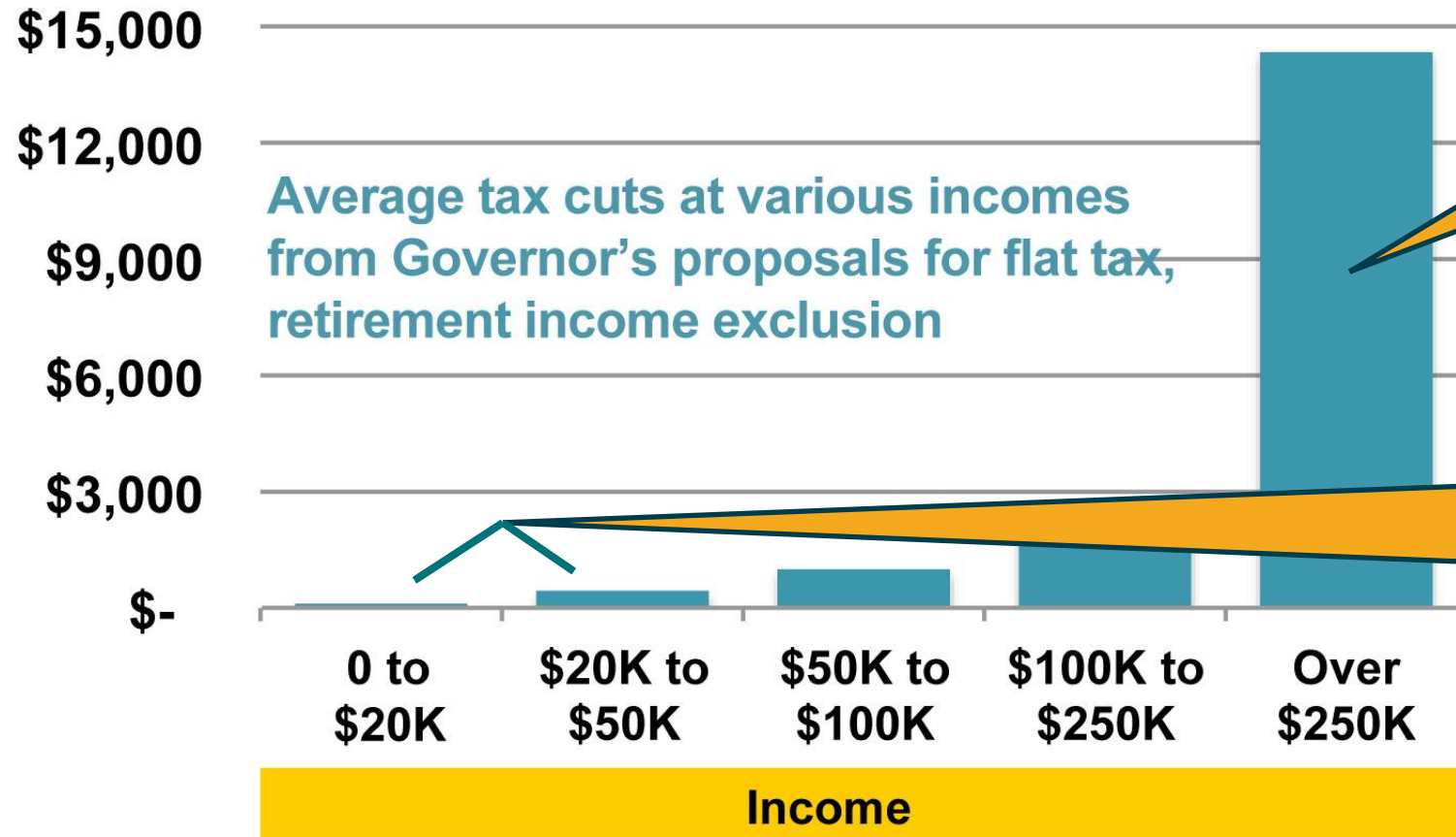
Add income-tax elimination to the mix?



Source: Institute on Taxation and Economic Policy,
all Iowa residents, 2023 incomes

Income taxes: ability to pay

Major tax cuts targeted to Iowa's wealthy

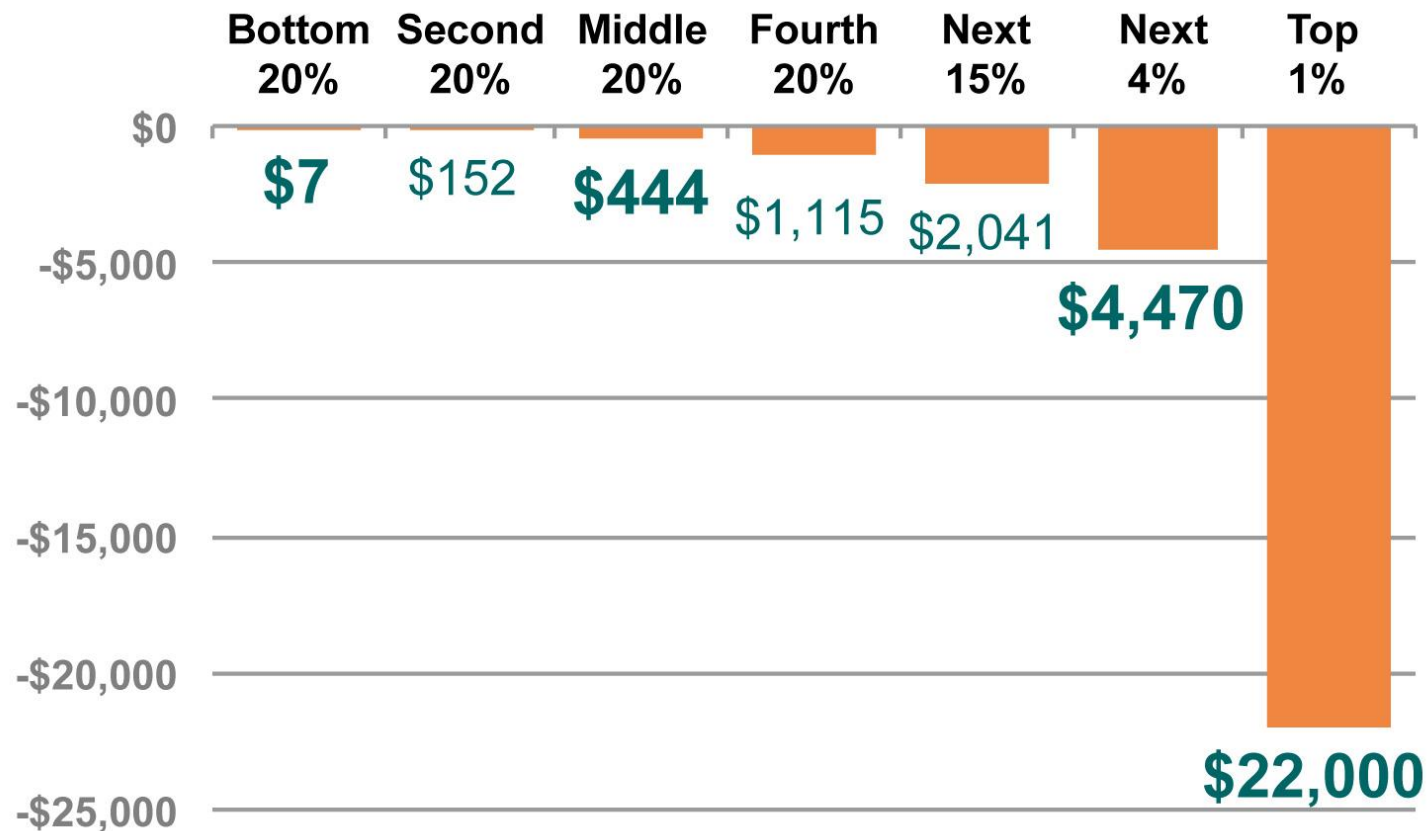


36% of benefits to 2% of filers

12% of benefits to 67% of filers

Gov's new plan: more of same

Who wins in Governor's plan? Higher incomes — biggest average breaks

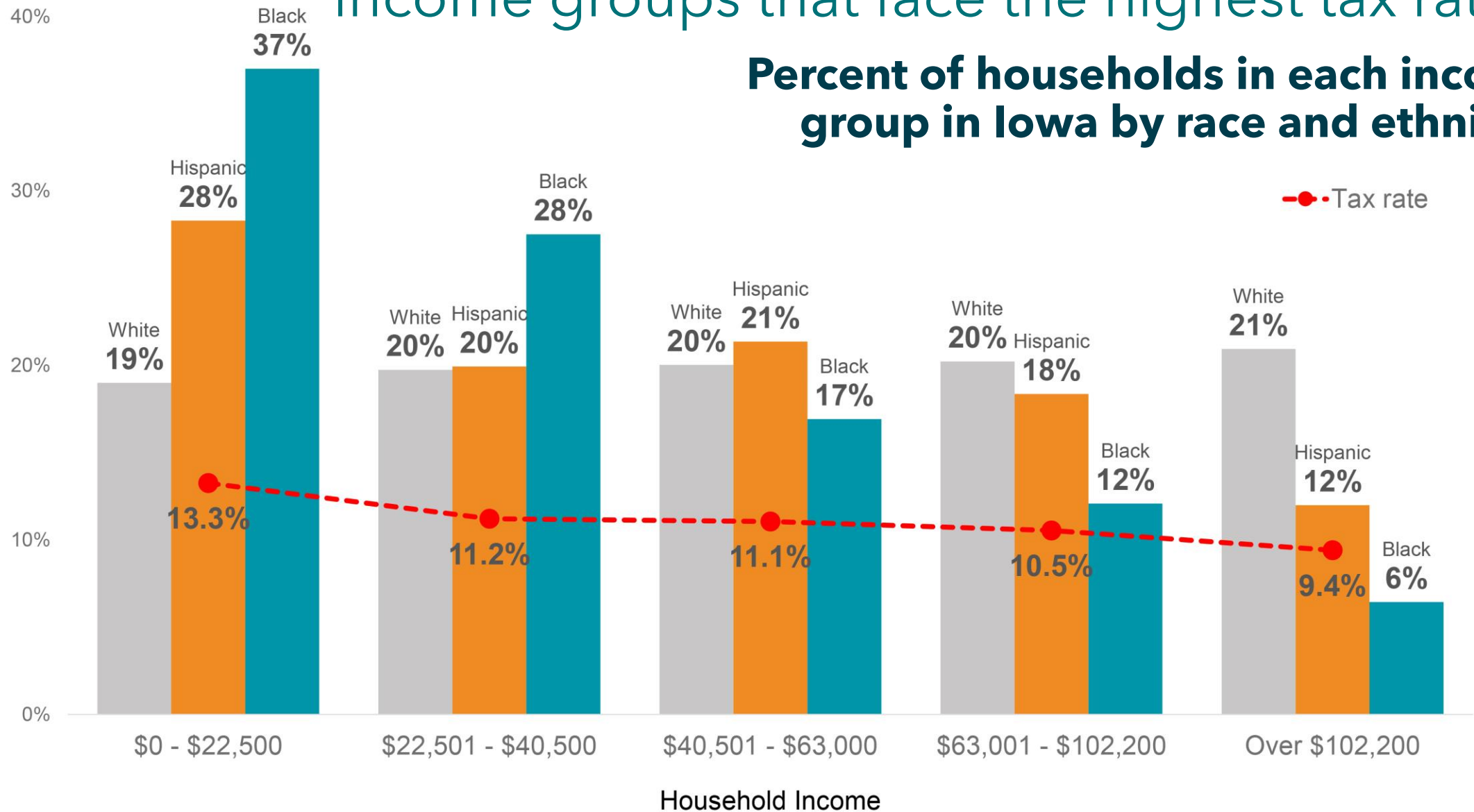


2/3
of total
benefits to
20%
of filers

Impact of 3.65% flat rate in 2024

People of color are overrepresented in the lowest income groups that face the highest tax rates

Percent of households in each income group in Iowa by race and ethnicity

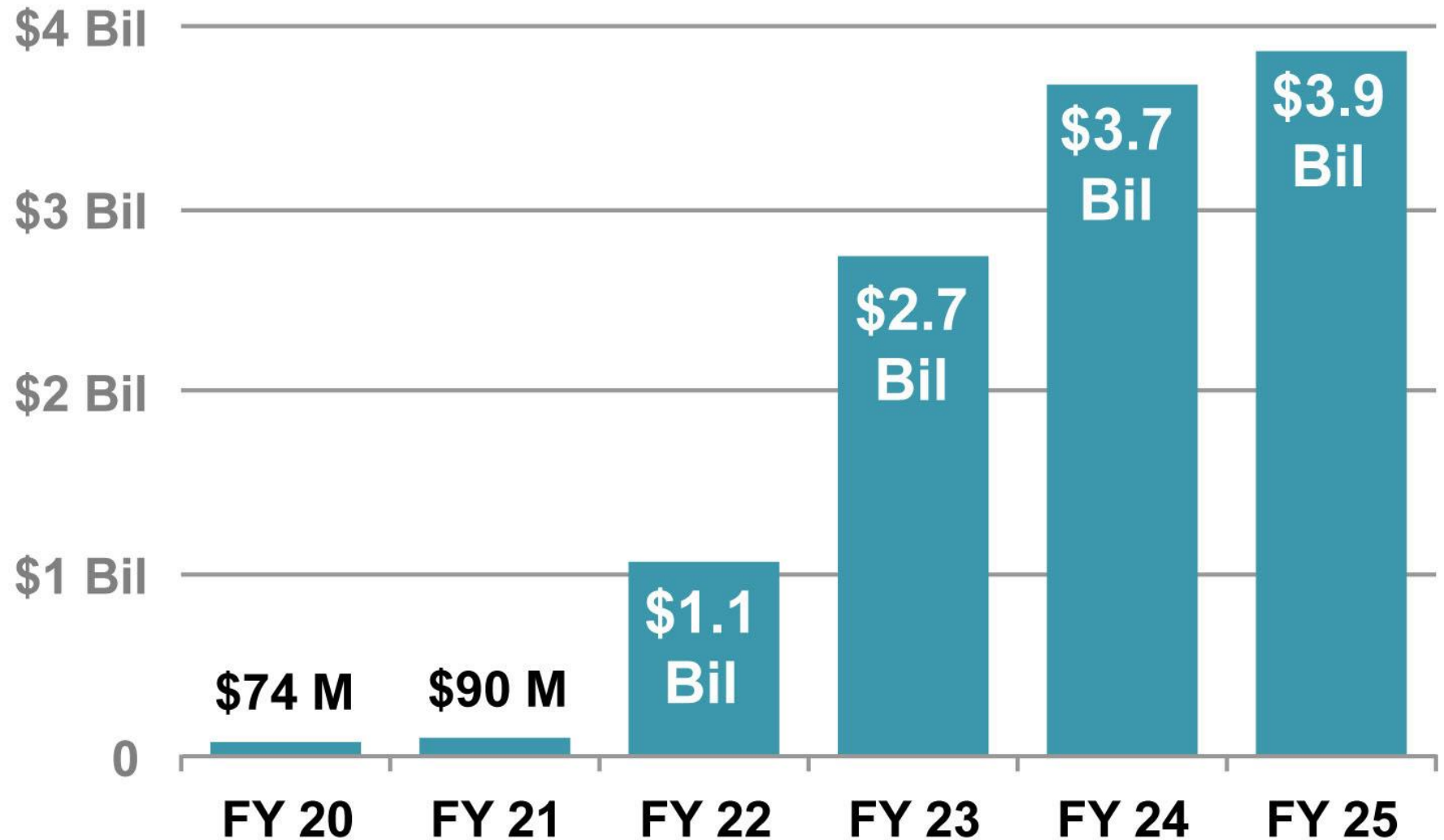




Budgeting for Surpluses ... and for Tax Cuts

**Deliberate
surpluses
produce
inflated
tax-cut
slush fund**

Fast growth of Taxpayer Relief Fund



Budgeting for general tax cuts

Violates stated principles:

“(U)sing one-time funding for ongoing operations creates a structural gap in the budget. It is important that one-time funds be identified and used only for one-time purposes.”

- Governor's budget book, page 48

Instead:

Better target use of surpluses, one-time \$

First, make sure ongoing needs are met in the budget properly. Then ...

Surpluses:

- **Fund one-time environmental projects since I-WILL is not being funded?**
- **How about addressing Iowa's lead-pipe problem?**
- **Other infrastructure needs?**

Instead:

Better target use of surpluses, one-time \$

Taxpayer Relief Fund

Better uses than general tax cuts:

- **Double EITC 90% to bottom 40%**
- **EITC to childless workers 98% to bottom 20%**
- **Pilot program for a state Child Tax Credit**
\$100-600 per qual. child under 18; 90% to low 80%
- **Set up sunset and potential phaseout of wasteful tax credits**

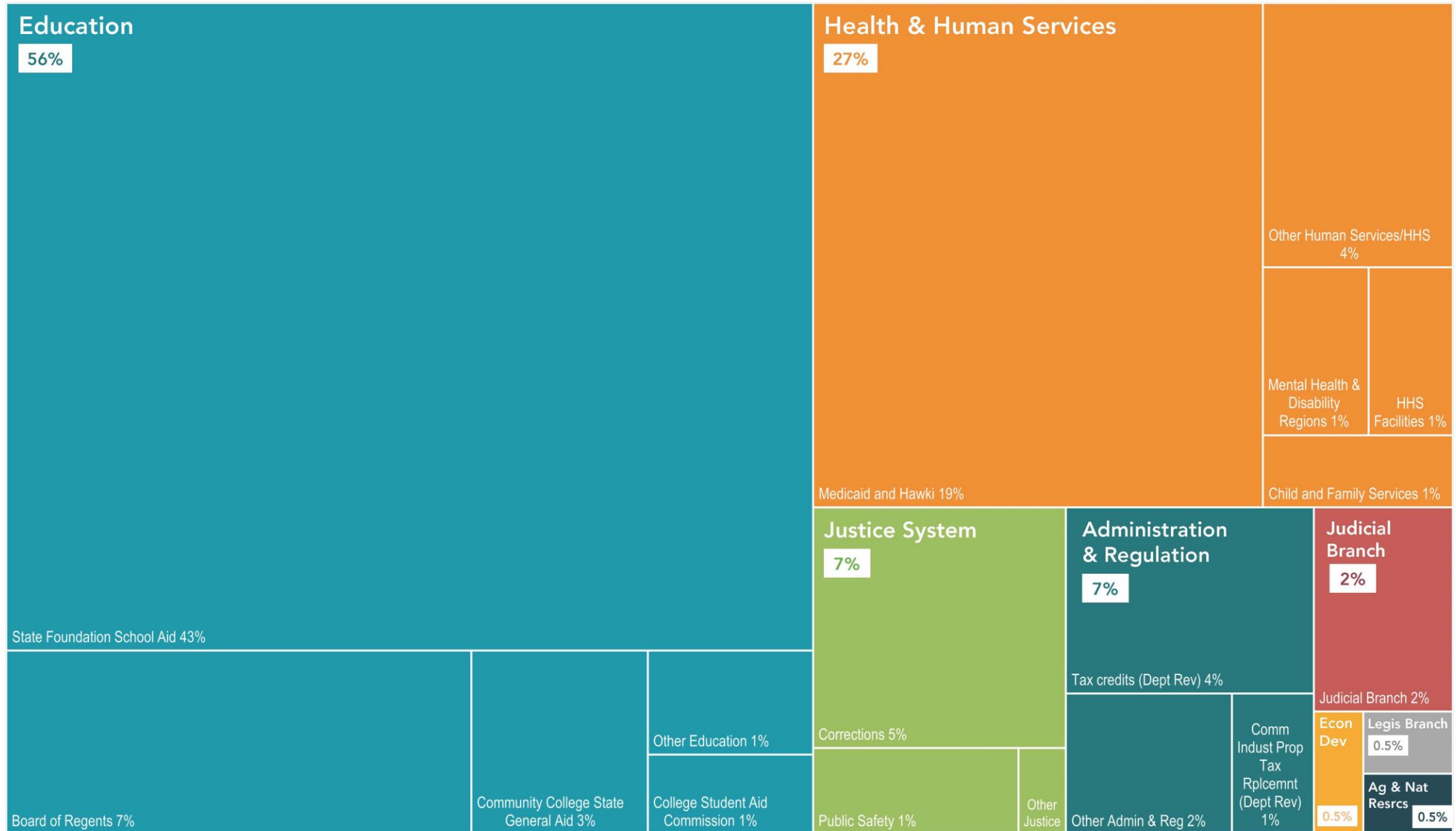
So, where do you see the threats?

On the next page, choose where you would expect lawmakers to cut 20% of the budget - or half of the budget if the income tax is eliminated.

(Note, the graphic uses the budget proposed in 2022 as a baseline to compare to the cuts that have happened, or are scheduled in the tax bill passed that year.)

Iowa General Fund Appropriations

Services as a percent of total \$8.2 billion General Fund FY 2023



Source: Iowa Budget Report FY 2024, General Fund Appropriation Detail by Function, Iowa Department of Management