

FOR RELEASE FRIDAY, JUNE 13, 2003, 11:30 A.M. -- NOTE EMBARGO
CONTACT: Mike Owen (319) 643-3628 ipp@Lcom.net

Proposed Iowa Tax Cuts Geared to Wealthiest Freezing Utility Tax Phaseout Would Cause Net Tax Increase for Some

DES MOINES, Iowa (June 13, 2003) – Sixty cents of every dollar would go to the wealthiest 20 percent of Iowa taxpayers if Gov. Tom Vilsack signs income-tax cuts passed by the Iowa Legislature, while those at the bottom of the income scale would receive about a penny, according to a new analysis.

“These tax cuts primarily benefit the wealthiest Iowans and jeopardize the state’s ability to finance essential services,” said Charles Bruner, executive director of the Child & Family Policy Center.

“Instead of simplifying Iowa’s income taxes, this would only phase in a permanent cut in income-tax rates that would do nothing to improve Iowa’s tax competitiveness. The cuts are unfair by any standards, particularly when coupled with the freeze on utility sales tax reductions,” Bruner said.

David Osterberg, executive director of the Iowa Policy Project, noted the legislation would at least delay a utility sales-tax cut promised in current law to help middle- and low-income Iowans. If that were stopped, as proposed, it would bring a net tax increase to the lowest 20 percent of Iowans, and wipe out most of the small tax cut to the next 20 percent.

“This legislation would repeal the only across-the-board tax cut where the lion’s share of the benefit goes to the lion's share of the people,” Osterberg said.

At the request of the CFPC and IPP, the Institute on Taxation and Economic Policy provided an analysis of the impact of the proposed tax changes, by income level. The groups released the findings today at a news conference in the State Capitol.

The ITEP analysis of the proposed across-the-board cut in current Iowa income tax rates showed:

- At the top 1 percent – Iowa taxpayers earning an average of \$561,400 a year – the average tax cut would be \$3,730. At the bottom 20 percent, with an average income of \$8,500, the cut would be \$8. At the next 20 percent, with an average income of \$20,800, the cut would be \$60.

- As a share of the tax change, the top 20 percent would receive 60 percent, the next 20 percent would get 22 percent, with the bottom three-fifths of income earners dividing up the remainder. The bottom 20 percent would receive about 1 percent of the overall tax cut.

- In the middle income bracket – the 20 percent of taxpayers earning between \$28,000 and \$43,000 – the average income would be \$34,700, with a tax cut of \$135. Someone making \$53,300 would see a tax cut of \$251. Someone making \$82,400 would see a cut of \$453.

- Coupling the income-tax cut with a freeze in the phase-out of the sales tax on utilities, as provided by the legislation, would mean a net tax increase on low-income Iowans – about \$16 for the average taxpayer in the lowest 20 percent of income earners. Keeping the utility sales tax in place would swallow up most of the income tax cut for the next 20 percent of earners.

The utility sales tax phaseout passed in 2001 promised tax relief across the spectrum of Iowa taxpayers. In fact, the middle 60 percent of Iowans get a comparable percentage of the relief from this measure. In contrast, the current bill would roll back that broad relief in order to finance relief targeted at the highest income earners – the top 20 percent of Iowa taxpayers would get about 60 percent of the benefit.

The bill passed by the House and Senate also provides for the option of a three-bracket structure, without a state tax deduction for federal income taxes paid, if the state Constitution is amended to allow 41 House members or 21 senators (40 percent plus one vote in either House) to block a tax increase. Under that structure, the top 20 percent of income earners would see a bigger tax break. The \$561,400 earner would gain another \$621, with a \$4,351 tax cut.

“We are seeing a repeat of the 1990s tax changes that went heavily toward Iowa’s wealthiest taxpayers,” said Peter Fisher, research director of the IPP.

Fisher said the ITEP figures demonstrate that the lowest-income Iowans – the 20 percent with less than \$14,000 income – will pay higher taxes under the bill for each of the next five years. This is because the higher sales taxes they would pay on utilities would be three to five times the small amount they would save on income taxes.

In addition, the next 20 percent of Iowans would pay slightly higher taxes over the next three years because the higher utility sales tax burden would exceed their income tax cut. Even in 2007, Fisher said, the higher sales-tax bill would eat up about three-fourths of their income-tax savings.

A report by Bruner and Fisher in 2002 demonstrated that the combination of major changes in Iowa tax policy in the ’90s – a sales tax increase in 1992 and an income-tax cut in 1997 – produced a net tax benefit to only the top 20 percent of income earners. At the same time, the top 20 percent was gaining three-fifths of the income growth in Iowa.

“It’s remarkable that legislators would target the new tax cuts to help the same people, while those at the bottom will see little help in tougher economic times,” Fisher said.

Bruner and Fisher this year have reviewed several Iowa tax proposals based on seven principles: fairness, competitiveness, public benefit and economic efficiency, revenue adequacy, stability and predictability, simplicity, and accountability. They have urged that any one tax should be evaluated as part of the overall tax system.

“The legislative process did not follow this course, however, and the income tax measure enacted by the General Assembly fails miserably on all these counts,” Bruner said.

“In fact, the negotiations for these proposals were done out of public view, and without the benefit of this kind of analysis – either in terms of tax principles or an examination of who gains,” Fisher added.

A table showing the ITEP analysis is available on the web at www.iowapolicyproject.org.

The Iowa Policy Project is a non-profit, non-partisan research organization that engages scholars at Iowa’s public and private colleges and universities to research issues of importance to the citizens of Iowa. IPP reports are on the web at www.iowapolicyproject.org.

The Child & Family Policy Center was established in 1989 “to better link research and policy on issues vital to children and families.” CFPC publications are on the web at www.cfpciowa.org.