

Most small businesses would gain under tax plan

The income tax proposal being discussed in the Legislature uses revenue from the elimination of a tax provision called “federal deductibility” to lower rates for all Iowa taxpayers, and fund targeted relief to low- and moderate-income Iowans. Many small-business owners in Iowa pay taxes on business income through an individual income tax return and would be affected by the proposed legislation. Most small-business owners, like most Iowans, would benefit directly from the income-tax reform proposal.

Why small-business owners gain: Most have income below \$100,000

Key to small-business benefits in the plan is that a substantial share of small-business owners in Iowa have incomes below \$100,000 and would see lower income-tax payments from the reforms. In fact, as Table 1 shows, almost 9 in 10 Iowans with proprietorship income (filing a Schedule C or F return) reported adjusted gross income (AGI) of less than \$100,000 on their federal tax returns. Of these small-business owners, most by far (57 percent) had AGI under \$50,000.

Table 1. Most Iowa Small Business Owners Have Under \$75,000 Income

	Percent of Returns, AGI Under		
	\$50,000	\$75,000	\$100,000
Federal Tax Returns of Iowans in 2006			
Schedule C: Non-Farm Proprietorships	57%	76%	87%
Schedule F: Farm Proprietorships	57%	78%	89%
Total Number of Proprietorship Returns	57%	77%	88%

Source: U.S. Internal Revenue Service

Nationwide, IRS statistics show Schedule C and F returns account for 76 percent of small-business taxpayers.¹ The remaining share of small-business owners may file a Schedule E, used by partnerships and S-corps but also by anyone with rental or royalty income, or income from estates and trusts. The mixed use of the Schedule E return makes it more difficult to separate small-business owners from filers with non-business income in Iowa. However, Table 2 shows almost 80 percent of Iowa Schedule E filers have an AGI below \$100,000 and that a majority also have an AGI of less than \$50,000.

Table 2. Most Schedule E Filers in Iowa Have Incomes below \$70,000

	Iowa Adjusted Gross Income				Total	Percent of Returns With AGI Under		
	Under \$50,000	\$50,000	\$70,000	\$100,000 or more		\$50,000	\$70,000	\$100,000
		under \$70,000	under \$100,000					
Number of returns	114,400	32,905	30,933	47,178	225,416	51%	65%	79%

This table shows all filers who included a Schedule E. Source: Iowa Department of Revenue

Taken together, these figures indicate that most small-business owners in Iowa fall into income brackets where a majority of Iowa taxpayers will benefit from the Democratic proposal.

Two-thirds or more small-business filers would see tax cuts or no change

In fact, analysis by the Department of Revenue shows that over 60 percent of Schedule C and F filers in Iowa will see a tax cut under the

income tax reform plan. (See Table 3) Farmers, who file Schedule F returns, benefit the most, with almost 80 percent seeing either no change or a tax decrease.

Table 3. Tax Cuts for Most Small-Business Filers

	No Change	Tax Decrease	Tax Increase	Decrease or No Change
Schedule C (Business Income)	9.4%	63.3%	27.2%	72.8%
Schedule F (Farm Income)	17.9%	61.5%	20.7%	79.3%
Schedule E (S-Corp, LLC, Partnership, Rent, Royalty, Trust Income)	16.3%	51.5%	32.3%	67.7%
All Individual Income Tax Taxpayers	12.7%	60.4%	27.2%	73.1%

Source: Iowa Department of Revenue

A majority (51.5 percent) of Schedule E filers in Iowa would also benefit from the proposed income tax plan.

Six in 10 benefit — whether in small business or general Iowa population

Overall, a larger share of Schedule C and F filers, who make up a substantial majority of small business owners in Iowa, will see a tax decrease under this proposal than will the general population of all taxpayers. Sixty percent of all taxpayers will see a decrease in their taxes, compared to 63 percent of Schedule C filers and 61.5 percent of farmers seeing a tax cut.

¹ For this calculation, we considered a small business taxpayer to be a filer whose return includes a Schedule C, a Schedule F, or a Schedule E that reports the profits of a partnership or S-Corporation. Schedule E filers that report only rents and royalties, or income from estates and trusts were not included in the calculation. The source is: U.S. Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, 2006, Table 1.4.

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