

The Missing Half of the Tax-Reform Discussion

All Income-Tax Rates Would Drop as Part of Iowa Reform Package

It's the missing half of the discussion regarding the major features of the proposed package of changes to the Iowa state income tax structure. While many focus on the repeal of federal deductibility, those looking at the total package also see the major companion change: reducing all income-tax rates.

Critics of Iowa's income tax have long complained that the rates are too high. They compare those rates to other states' rates. Due to many deductions and credits, Iowa's effective income-tax rates are much lower than advertised, and inaccurately presented by anti-tax organizations in comparing Iowa with other states. Those rankings frequently give the artificially inflated rates, rather than their actual effects.

To allow better comparisons, the tax-reform package offers the lower rates, but enables them by repealing federal deductibility — which is one of the reasons the rates have been held at current levels. Facing revenue shortfalls in a declining economy, the state would not be able to keep up services without holding the rate cuts as revenue-neutral as possible.

Under the proposed legislation, income at every level would be taxed at a lower rate

The table below shows how income-tax brackets and rates would change in Iowa under the proposed legislation, HF807, with the major committee amendment, H1484. Most taxpayers would see a 10 to 20 percent cut in the tax rate. So while a taxpayer who now deducts federal income taxes could no longer do so, the new, lower rates apply to all taxable income. That's why most taxpayers come out ahead.

Table 1. At Every Income Level, A Tax Cut Under Amended HF807

Income	2009 Tax Rate Under Current Law	Proposed Tax Rate	
		2009	2010-After
Zero to \$1,407	0.36%	0.30%	0.31%
\$1,407 to \$2,814	0.72%	0.59%	0.60%
\$2,814 to \$5,628	2.43%	1.95%	2.00%
\$5,628 to \$12,663	4.5%	4.20%	4.28%
\$12,663 to \$21,105	6.12%	5.46%	5.56%
\$21,105 to \$28,140	6.48%	5.46%	5.56%
\$28,140 to \$42,210	6.8%	5.76%	5.87%
\$42,210 to \$63,315	7.92%	6.20%	6.30%
Above \$63,315	8.98%	6.98%	6.98%

Source: Iowa Department of Revenue, Legislative Services Agency. Note: Tax rates are slightly lower in 2009 because taxable income is higher, as a result of taxpayers still paying taxes on federal refunds from earlier years.

The Iowa Policy Project

20 E. Market Street
Iowa City, IA 52245
(319) 338-0773 • www.iowapolicyproject.org

CHILD & FAMILY POLICY CENTER

1021 Fleming Building • 218 Sixth Ave.
Des Moines, IA 50309
(515) 280-9027 • www.cfpciowa.org