

## Values Fund, tax plans should be considered on merits

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By David Osterberg

State legislators have called for massive income tax cuts to make Iowa more “competitive” with surrounding states to attract businesses and retain residents. This idea is founded on a great myth that needs to be removed from Iowa’s tax debate.

Two not-for-profit, non-partisan groups, the Iowa Policy Project (IPP) and the Child & Family Policy Center, have examined many of the tax proposals that have been floated throughout the regular session of the Legislature and since. These proposals ignore the fundamental responsibility of legislators to build tax policy on a foundation of principles that do more than tell rich folks they deserve tax cuts.

Competitiveness? What IPP has demonstrated irrefutably is that Iowa already is competitive on taxes, by any measure. (See “Average by Any Measure: State and Local Taxes in Iowa” on our website, [www.iowapolicyproject.org](http://www.iowapolicyproject.org).) Those who call for tax cuts to “make us competitive” ignore the facts. They distort Iowa’s effective tax rates to make their case, ignoring the fact that people are allowed to reduce their state tax burden by deducting their federal income taxes paid, something most states don’t allow.

Here are some important points:

- Iowa taxes are not fair. People at the lower end of the income scale pay a higher percentage of their smaller incomes in state and local taxes than do wealthy people.
- Iowa taxes are not high. Iowa’s ranking among the states is in the middle by virtually any measure of income, sales and property taxes paid to state and local government.
- Taxes are only a very small piece of the cost considerations in businesses’ decisions to locate or expand in Iowa. The important concerns are transportation, utilities, wages and availability of skilled labor. Individual income tax cuts will not affect business decisions to invest in Iowa – unless their effect is to reduce those investments, because Iowa is not investing in itself with strong public services.
- Drastic cuts to Iowa income taxes (10 percent in 1997) already have reduced state revenues significantly and have contributed to a shift of responsibilities to local governments, which are funded primarily through property tax. These tax cuts favored the wealthy.
- Income taxes are paid by both residents and non-residents who make money in Iowa. Non-Iowans received a significant portion of the 10 percent across-the-board income-tax cut passed in 1997 and that will happen with the new proposed tax cut as well.

Why might such a tax proposal pass in the upcoming special session? Because it is tied to the Iowa Values Fund, which Governor Tom Vilsack hopes will revitalize the state’s economy, Republicans leading the House and Senate are using the governor’s strong desire to pass the Values Fund to bargain for seriously flawed tax policies. They also demand a weakening of worker and consumer protections that the governor has vetoed or would have vetoed in the past.

The reason all of these proposals could become law, with no sorting of the good from the bad, is that they are linked – not in one package that will be voted up or down, but by a political deal that will give each side something it wants to happen, and something to run against in the next couple of elections. Iowans need to understand that any legislator voting for one piece of the package is voting for all of it. No piece of this package becomes law without the other components. That appears to be the deal being negotiated behind closed doors.

The Iowa Values Fund is a multifaceted proposal and should be considered on its merit, in a special session that considers only this issue.

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