Writing to accompany Kent Scheib's handouts. Kent presented to the Iowa Democratic Women's Constituency Caucus March 16, 2023.

Reducing the income tax helps the wealthy far more than the middle class and poor. Republicans <u>always</u> advocate reducing the income tax because it sounds good and helps their wealthy donors.

As you can see from the article dated January 18, 2022 from **COMMON GOOD IOWA,** LOWER INCOME Iowans pay more in taxes than the wealthy! Lowering or eliminating the income tax shifts the tax burden to the middle class and poor. To raise the same revenue other taxes, have to go up—property tax, sales tax, social security and Medicare tax, fuel tax, fees for hunting and fishing licenses, driver's license, marriage licenses, building permits, camping fees at state and county parks, fees on cell phone bills, court costs etc. etc. The article states the state general fund will lose <u>1.6 billion dollars a year</u> from the income tax cut enacted last year.

I shared this article with my state representative last year and again this year. I also explained it's the property tax that needs to be reduced in this state, that it a much more equitable way to reduce taxes and we are a high property tax state not a high income tax state.

The income tax is based on your ability to pay. It would be great to eliminate all taxes <u>except</u> the income tax. Think of two households living next to each other with the same home value. Now, think what it would be like if the income tax was eliminated and one household wins the lottery, and the other household made almost nothing because of medical issues, or lost their job. Both households tax burden would be the same-same property tax, sales tax, fuel tax, etc. It is not equitable.

Several years ago, the Republicans reduced property taxes on <u>commercial</u> (not residential!) property. Cities and towns across the state opposed this because it would mean less revenue for them. So, the Republicans promised to "backfill" the lost revenue from the general fund. Last year the Republicans <u>eliminated</u> the "backfill". So now, cities and towns must increase property taxes to maintain the same level of services. The shift from income tax to other taxes increases the inequities.

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Common Good Iowa
Bold Policy for Families & Communities

POLICY BRIEF — Jan. 18, 2022

Governor Reynolds' flat-income tax plan: Not flat, not fair

New breaks for the wealthy, increasing inequities in Iowa's state and local tax system

By Peter Fisher, Research Director

Iowa's tax system is upside down: Those with the lowest income pay a higher percentage of their income in state and local taxes than those at the top. Along comes the governor with a "flat tax" proposal that she has defined as "fair." In fact, it would make things worse with a tax system that is heavily weighted in favor of those who have the highest incomes. It would make the Iowa system even less flat, more skewed in favor of the rich.

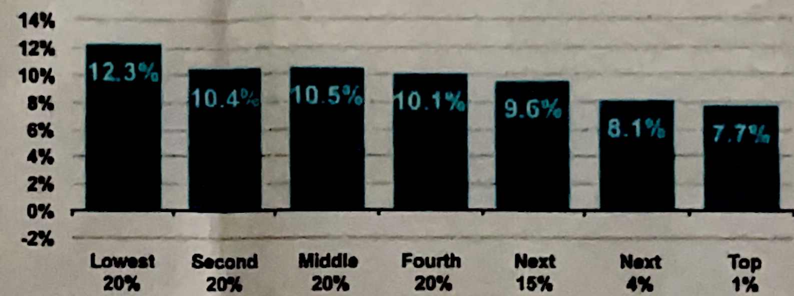
A flat tax approach — not focused on one tax — would take the same share of income from everyone, not 8 percent from the rich and 12 percent from the poor as Iowa's system does now (graph at right).

When you break out the pieces of the Iowa system (bottom graph), the role of the income tax is clear: It is the principal tax paid at higher incomes, and it lessens the disparity caused by the property and sales taxes.

For a "flat" system overall, Iowa would raise income taxes for those at the top, cut the sales tax, and/or provide a renters' credit for property taxes. Instead, Iowa lawmakers over the last 25 years have cut income taxes, raised sales taxes, and targeted property tax cuts to businesses. These choices have compounded inequities while reducing resources to provide critical public services in education, health care, child care, environmental quality, public safety and more.

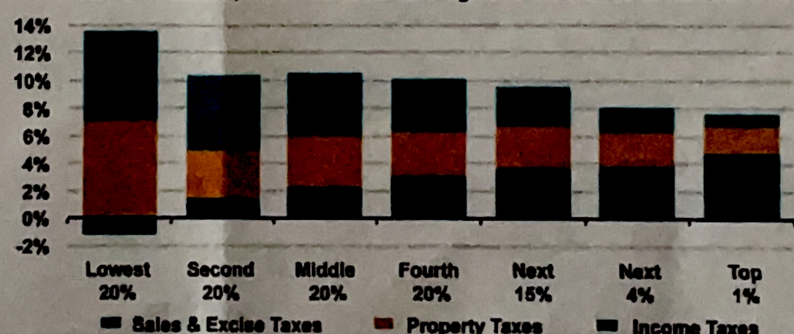
Who pays taxes in Iowa?

Lower-income Iowans pay largest share of income in state and local taxes



Income taxes needed to lessen Iowa tax disparities

At lower incomes, state and local taxes greater as shares of income



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Source: Institute on Taxation and Economic Policy

Examples of the imbalance

Consider an elderly couple living on $20,000 in Social Security, or a single mom earning $10 an hour and trying to cover rent, food and child care out of $20,000 a year. Both fall in the bottom 20 percent of Iowa families in terms of income and pay about 12 percent of their income in taxes, but little or nothing in income tax. Mostly they pay sales taxes and, as part of their rent, property taxes.

Now consider a retired hedge fund manager with an income of $500,000 a year, mostly from stocks and bonds and a generous pension. That person would fall in the top 1 percent of Iowa taxpayers, paying about 8 percent of income in state and local taxes.

If the governor were truly interested in a flat tax system as "fair," she would take a much broader approach, toward the entire state tax system for individuals and families.

According to the Department of Revenue analysis of the Governor's proposal, when fully phased in by 2027, less than 1 percent of the total tax cut is directed to the bottom fifth of Iowa income tax filers, whose average savings are less than a dollar per week. The richest 2.3 percent — those with over $250,000 in taxable income — would get almost 36 percent of the cuts. For the millionaires, the average cut is $68,000, or $1,316 a week. Two-thirds of the cuts go to those making over $100,000 per year — the richest 14 percent of Iowa taxpayers.

Conclusion

Instead of flattening Iowa's tax system, the governor's proposal moves us a long way in the other direction. The hedge fund manager gets a huge income tax cut. The top tax bracket would fall from 6.5 percent to 4.0 percent, a 38 percent reduction, and all private pension income would be exempt.

The low-earning single mom, or the retired couple on Social Security, would get little or nothing. They would continue to pay sales taxes and property taxes as they do now, but the income-tax cut would make no difference in their household budget — while hurting services that matter to them.

Meanwhile, the state general fund will lose about $1.6 billion a year. It will become even harder to adequately fund public schools, or to expand affordable housing or child care or elderly services. The hedge fund manager, of course, couldn't care less. But the retired couple or the single mom will be worse off than before.

The governor's tax proposal is not flat, and its impacts certainly are not fair.

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Reynolds tax plan would increase inequity

Iowa is long overdue to reform taxes to benefit Iowa working families, and Gov. Kim Reynolds' plan to increase sales tax, cut income tax, and drive down investments in public services is exactly the wrong prescription.

Already, the 2018 income-tax cuts being phased in shower most of their benefits on those at the top; the governor would compound this imbalance.

Reynolds and anti-tax advocates regularly run down Iowa's competitiveness using debunked analysis that fits their political agenda. Instead, they could be boosting the state's economic prospects by promoting investments in education and other services that would better serve the majority of Iowans.

For the real story on so- called tax competitiveness, we can look to accounting firms such as Ernst & Young. They get away from the contrived "tax climate" reports that are used to justify tax cuts for the wealthy and big business. The firm simply calculates every year what states and their localities charge in business taxes as a share of the economy.

Iowa repeatedly ranks in the low-tax half — which contradicts the anti-tax crusaders. Even more important, Ernst & Young's report shows about half of the states are pretty tightly bunched. The differences among states just aren't that great.

Anderson Economic Group, another accounting firm, also ranks states on business taxes — with similar results. Iowa again is a relatively low-tax state.

Broader analysis of state and local tax systems finds most are "regressive," which means they tax lower-income residents at a higher rate than they do higher-income people.

In Iowa, the only counterpoint to this unfairness is the income tax. It is the only piece of the puzzle that taxes higher- income people at a higher rate. The sharply regressive sales tax is chiefly responsible for the overall inequity, though property tax contributes as well.

Quite simply, Reynolds' approach would compound this problem, just as those of her predecessors and their legislative accomplices have done since 1983, when new Gov. Terry Branstad made a sales-tax increase his first initiative after campaigning against tax increases.

If that were not enough, and it should be, her plan terribly distorts the voters' will in authorizing the creation of an environmental and outdoor recreation trust to be funded by the next threeeighths- cent sales tax increase. Her insistence on pairing an income tax cut with the trust funding was never part of the deal voters authorized.

She also wants to change the formula for how the three- eighths of a cent is to be spent, and violates the understanding that this was to be new money and not just a replacement for some of what is already being spent on water quality and outdoor recreation.

The only growth we can expect with this plan are growing inequities, growing deficiencies in funding for education and other services, and growing inability of public policy to stem the environmental degradation being caused by unsustainable, unregulated farm practices.

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Why tax cuts won't change seniors' decisions to move or stay

February 16, 2022 | by Peter Fisher
Download a PDF

People do not move from state to state over tax policy, research has consistently shown. This is true for the elderly or for people of all ages. While those pushing a tax-cut agenda use the contrary argument to make their case, it is good to take a step back and look at the research.

Karen Conway, professor in the Carsey School of Public Policy at the University of New Hampshire, has been researching elderly migration patterns for decades. "Put simply," she wrote, "state tax policies toward the elderly have changed substantially while elderly migration patterns have not. ... Our results, as well as the consistently low rate of elderly interstate migration, should give pause to those who justify offering state tax breaks to the elderly as an effective way to attract and retain the elderly."

"Our results are overwhelming in their failure to reveal any consistent effect of state tax policies on elderly migration across state lines."[1]

Conway summarized these findings in her most recent report this way: "Census data show that elderly migration is a fairly rare event, with a pattern of movement that has remained stable for decades, despite many new tax breaks designed to attract the elderly. Our formal analyses like-wise provide no consistent evidence that these tax breaks influence migration decisions in a meaningful way."[2]

Iowa's elderly migration patterns are like those in other states, according to the most recent U.S. Census data: Only about 1 percent of seniors leave the state in a given year, and a slightly smaller number of seniors move into the state — about eight-tenths of 1% of current seniors lived elsewhere last year. As a result, the net outmigration of the elderly from Iowa has averaged fewer than 400 people per year, only two-tenths of 1% of the senior population. Tax exemption of pension income to slow outmigration is clearly enormously expensive; the breaks come at a cost of $400 million a year, which amounts to $1 million for every net out-migrant, most of whom in all likelihood are moving for the weather.

If the revenue loss to the state were not enough to give legislators pause, they should note why taxes don't matter to most seniors:

- Many would see no benefit.
- Those who do would not see enough of a benefit to change their residence.

The tax breaks already in the law leave the majority of seniors paying little or no income tax. In the examples here, a single person and a married couple earn an average Social Security benefit (completely exempt in Iowa) and a typical pension income (partially exempt). They have average health insurance expenses for those on Medicare, also deductible. The table shows how much they could earn and still pay no Iowa income tax under current law for tax year 2023.[3] For the couple, $92,527 income is reduced to just $2,727 in Iowa taxable income, leaving them with zero tax after taking the personal exemption credits.

How seniors are taxed under current law

Already, Iowa tax law excludes much retirement income

	Single	Couple
Average Social Security benefits	$ 20,000	$ 40,000
Pension & other retirement income	18,000	50,000
Other income (interest on savings, wages)	8,614	2,527
Total Income	**$ 46,614**	**$ 92,527**
Less: Partial exemption of Social Security	$ (13,278)	$ (9,753)
Less: Standard deduction	(14,250)	(27,800)
Federal taxable income	**$ 19,085**	**$ 54,975**
Less: remainder of Social Security benefit	(6,722)	(30,247)
Less: Iowa pension exclusion	(6,000)	(12,000)
Less: health insurance premiums	(5,000)	(10,000)
Iowa taxable income	**$ 1,364**	**$ 2,727**
Iowa tax at 4.4%	60	120
Iowa senior personal credits	(60)	(120)
Net Iowa Tax	**0**	**0**

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Second, the benefit at any income — but especially in the middle — is too small to make a difference on residency decisions. Analysis by the Institute on Taxation and Economic Policy illustrates this clearly: A household at a middle income — averaging $61,000 — would receive an average benefit of about $600 from the retirement income breaks. That is simply not enough to keep someone from moving now if they were so inclined. And a recent Department of Revenue analysis showed that only 2% of taxpayers with income under $50,000 would get any benefit. For those with $50,000 to $100,000 income, 14 percent get a benefit, but it averages just $833. Seventy-six percent of taxpayers have income under $100,000.[4]

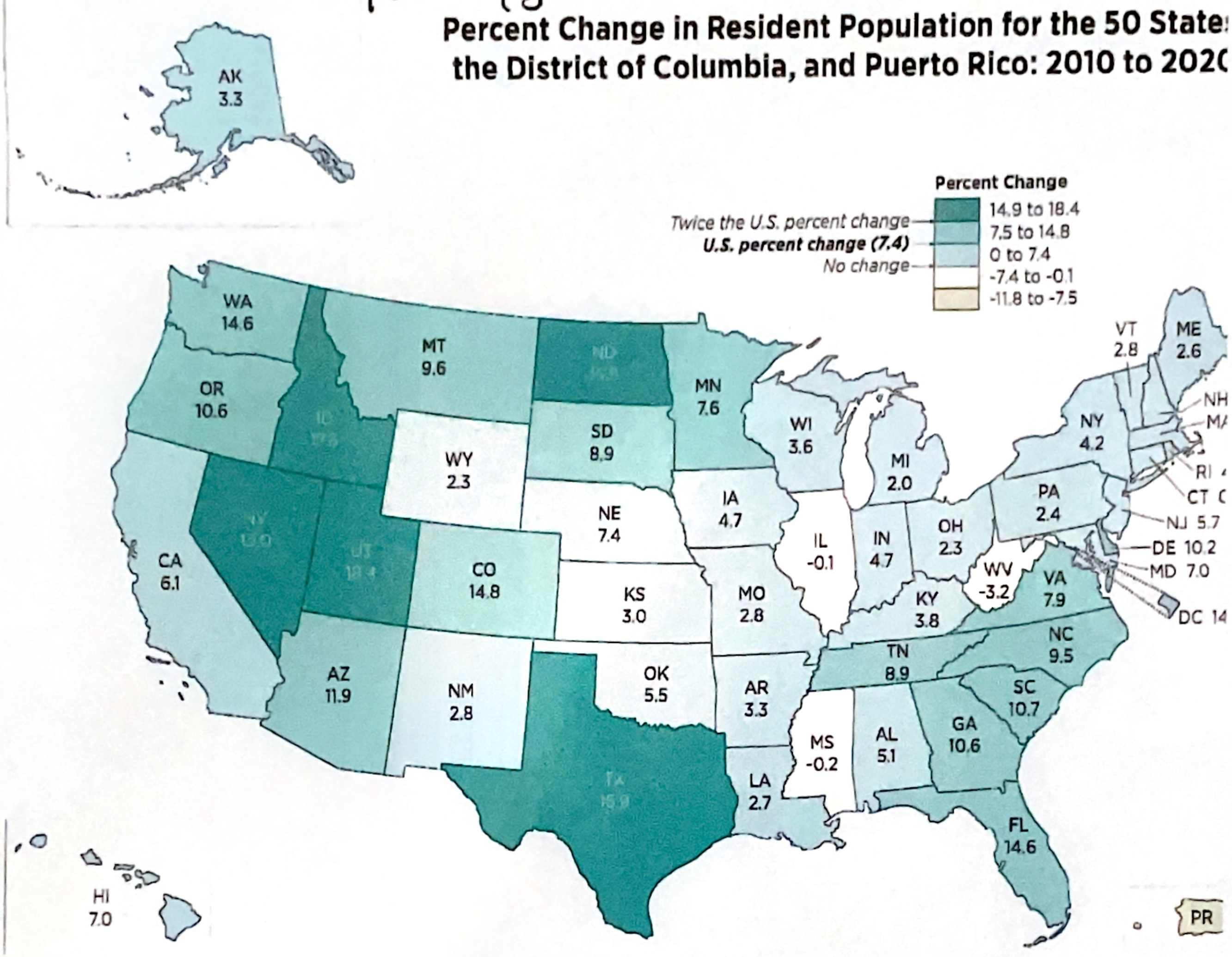
In short, the claims of a benefit to Iowa from the new retirement income breaks have no foundation. They are costly and they would further squeeze General Fund revenues, ratcheting down Iowa's capacity to provide education, public safety and human services that benefit every Iowan, including retirees.

An official website of the United States government
Here's how you know

2020 Census: Percent Change in Resident Populatic the 50 States, the District of Columbia, and Puerto R 2010 to 2020

APRIL 27, 2021

Minnesota income tax higher than Iowa yet their population grew faster. Illinois income tax lower yet they grew slower than Iowa



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