

## CONGRESS AND PROPERTY TAX

### Using Credit to Usurp Local, State Authority

These are tough times for many Iowans. A provision in legislation currently before Congress (H.R. 3221) would appear to provide a little bit of help in the form of a new deduction for local property taxes. Unfortunately, the way the bill is written help would be denied to many of those facing the most difficult financial challenges from floods, tornadoes and mortgage foreclosures.

Currently, only homeowners who itemize deductions on their federal income tax return can deduct local property taxes paid. Itemizers tend to be those with higher incomes. Those who do not itemize but take the standard deduction would be allowed for the first time to deduct property taxes under the new bill. But here's the catch: If you live in a locality where the property tax rate has been raised for fiscal year 2008, you are not eligible.

When economic hard times hit a locality, property values can decline, but the public services on which residents depend must continue. In fact, the need for public services often increases in hard times. With local governments largely dependent on the property tax, when values fall the rate must rise to produce sufficient revenue to keep cities and counties and school districts running.

Consider all the localities recently devastated by a tornado or flood. Those are precisely the places where a shrinking property tax base meets a rising demand for public services of all kinds. The result may well be a rising property tax rate. Then consider a growing, middle class community that was spared the ravages of weather, and where rising property values allow a falling property tax rate to generate ample revenue. Guess which residents get the new property tax deduction and which don't under this proposed law? It's hard to imagine a more perverse result – tax reductions granted to those who need them least, denied to those who need them most.

The restriction on the mortgage deduction also implies a presumption that Congress needs to protect Iowa citizens from the locally elected school boards, city councils and county boards of supervisors. We all know how elected officials are sensitive to charges of raising taxes. They do so with considerable caution and considerable fear – of not being re-elected. The restriction in this bill is simply undue interference in the affairs of local government. Congress should stick to worrying about federal officials and let voters deal with local elected officials who raise taxes unjustifiably.

The law is also simply unworkable. There are well over 1,000 local governments just in Iowa. The average citizen is taxed by at least four: a city (or township), a school district, a county, and an area community college. There may also be special districts for water or fire protection or other essential services. If any one of those governments raised your property tax rate by any fraction, however tiny, for any purpose, however essential, you would be denied the deduction. Not only is this unfair, it simply cannot be enforced. Consider the additional staff the IRS would have to hire just to monitor the thousands of local governments in the U.S. to determine which ones raised rates, which increases qualified under one of the exceptions and which ones didn't, and who lived in each one. This is a bureaucratic nightmare.

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