



NEWS RELEASE

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Income Surtaxes Raise Revenue, Allow Local Choice

IOWA CITY, Iowa (Jan. 26, 2009) — Allowing cities and counties in Iowa to offer an income surtax would give voters more of a choice in generating needed revenue, an Iowa Fiscal Partnership paper noted today.

Even a 5 percent surtax – a rate applied not to income, but to the lower amount of state income tax paid – would provide revenue varying from \$1.2 million to \$8.9 million in 15 Iowa cities, depending for each on the state income tax paid by their residents. The paper provides estimated revenue from income surtaxes at various rates for 22 Iowa cities.

The report, available at <http://www.iowafiscal.org/2009docs/090122-IFP-release.pdf>, outlines how a local income surtax could generate revenue while being structured to lessen impacts on lower-income Iowans. Current options, such as sales taxes, take a larger share of low-income budgets than of high-income budgets.

“This is a question of local choices in funding strategies — and of finding sensible and fair ways to raise revenue at a time Iowa communities are suffering from the effects of both the national recession and flooding and storm disasters in the state last year,” said Beth Pearson, research associate for the Iowa Policy Project, part of the Iowa Fiscal Partnership.

“It also would allow cities and counties to respond to property-tax concerns by replacing a portion of property tax with revenue from an income surtax,” Pearson added. “On average, a 10 percent local income surtax would produce about 18 percent of the revenue now generated from property taxes.”

According to the paper:

- Use of local income surtaxes is not new in Iowa; they are used in 4 out of 5 school districts as a substitute for some property-tax levies. Most districts rates are between 6 and 10 percent for this year.

- Cedar Rapids could raise an estimated \$5.8 million in local income surtax revenue at a 5 percent rate; \$11.6 million at 10 percent. The paper offers figures for 22 cities based on Census and Department of Revenue data.

- A 10 percent local income surtax could offset property tax levies by 25 percent in Dubuque, over 19 percent in Des Moines and Ames, and almost 18 percent in Cedar Rapids.

The Iowa Fiscal Partnership is a joint budget analysis initiative of two nonpartisan, nonprofit organizations, the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines. Reports are available on the IFP website, www.iowafiscal.org.

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