FOR IMMEDIATE RELEASE, WEDNESDAY, MARCH 7, 2018

Governor's tax cut plan sets stage for service cuts

Reforms for fairness and simplicity could be achieved without losing revenue

IOWA CITY, Iowa (March 7, 2018) — Governor Kim Reynolds' tax proposal trades massive cuts in public services for small savings for lower-income taxpayers, larger savings for high-income taxpayers and few meaningful strides toward fairness in a system that already treats the poor poorly and raises too little revenue to avoid mid-year cuts.

The plan is now being considered in committee in the Iowa House, following approval of a larger package of tax cuts by the Iowa Senate that would whack over $1 billion from Iowa's general fund. The Governor's plan would cost $132 million to $299 million a year, depending on estimates.

"Favorable elements of the Governor's plan could be achieved without the reduction in revenues, and the inevitable cuts in essential services that would result," said Peter Fisher, research director of the nonpartisan Iowa Policy Project (IPP) and author of the new report for the Iowa Fiscal Partnership (IFP) www.iowafiscal.org.

Measured against established principles for tax policy, the report found the Reynolds plan offers:

- Fairness: a mixed bag and no meaningful strides toward greater fairness of Iowa taxes;
- Revenue Adequacy: reduced revenues at a time of budget cuts, and ratcheting down revenue;
- Competitiveness: mixed — removing federal deductibility while changing rates eliminates a deceptive image of high tax rates, but Iowa already is in the middle of the pack on taxes; and
- Simplification: some improvements, not because the plan reduces the number of rates, but because it reduces the complications of determining taxable income applied to those rates.

"The one clear improvement on simplification holds up poorly against the hit to revenue and the missed opportunity to improve fairness of an unfair system," Fisher said.

An IFP report last fall noted tax reform could provide a fairer and more sustainable system, including cutbacks in tax-credit spending, limits on tax-increment financing, eliminating federal deductibility while reducing income-tax rates, protecting the Earned Income Tax Credit, and plugging corporate income-tax loopholes costing between $60 million and $100 million a year.

The new report cites official Department of Revenue analysis of who gains and loses under the income-tax plan, and estimates from the Institute on Taxation and Economic Policy about the impact of the sales-tax changes.

The Governor's plan did not include reductions in Iowa's already low corporate income taxes that were approved by the Senate, as she stated in her January Condition of the State address that the state could not afford them this year. In recent days, however, she has left the door open to considering such changes, so the ultimate form of a tax package is yet to be determined.

The Governor's plan — like the Senate plan — takes the step on federal deductibility and reductions of rates, but does so in a way that reduces revenue unnecessarily. The plan also would increase the standard deduction, and modernize Iowa's sales tax by extending it to e-commerce.

Anne Discher, executive director of the Child & Family Policy Center, which with IPP forms the Iowa Fiscal Partnership, expressed concern about the new revenue losses that will harm services to struggling families, and the failure of either plan to better recognize the cost of raising children.

She pointed to Fisher's observation that the recent federal tax cut legislation recognized this by doubling the federal child tax credit to $2,000, but Iowa's child tax credit remains at only $40. A higher Iowa credit would better reflect the cost of raising children.

"The plan overall does not increase the regressive nature of Iowa's income tax system — which tilts the system against lower-income families and more favorably to higher-incomes. But the changes do provide far greater benefits to the wealthy than to moderate- or low-income Iowans," author Fisher said.

Fisher wrote that a central focus of tax reform, given the need to cut the current budget at mid-year, should be to assure adequate revenues to meet service needs.

"Already, the current system does not produce enough revenue to meet the needs specified by the current Legislature and administration in the budget they approved a year ago," he wrote. "On top of this structural deficit, the Governor's plan would produce annual reductions to the state General Fund of $132 to $299 million.

"This would only further reduce Iowa's ability to maintain quality public education and affordable community colleges and universities, or to begin to address our water quality problems in a serious way, or to shore up a woefully inadequate mental health system."

Fisher noted parts of the plan are progressive (favoring lower-income taxpayers), and some regressive.

"Rates are cut in all brackets, but the rates fall about 16 percent for the bottom three brackets, 20 to 23 percent for the top brackets, when fully phased in," he wrote. He also noted changes that on balance would benefit higher-income families: eliminating the alternative minimum tax and creating a "qualified business income deduction."

However, the current ability to deduct federal income taxes on the Iowa return is far more valuable to those at high incomes, so its elimination has a much larger impact on those high-income tax filers, increasing their Iowa taxes substantially.

In addition, increasing the standard deduction would benefit those at lower and middle incomes who do not itemize deductions — typically if they do not pay property taxes or mortgage interest that they could deduct for income-tax purposes.

Small improvements in the EITC also would benefit low- to moderate-income working families. For a married couple with three children, these changes offer an estimated $179 per year.

Fisher also noted the mischaracterization by the Governor of so-called "triggers" for tax cuts, ostensibly as a "safeguard" for revenue if the economy is doing poorly and the cuts become unaffordable.

“The ‘triggers’ are more accurately described as a way to force revenues down — ironically, they would occur when times are better, and revenues would naturally rise,” Fisher said. “In addition, the first set of tax cuts would come in 2019, regardless of how revenues are doing. No ‘triggers’ are needed for the cuts, and those first cuts are a little over half the eventual amount when the tax triggers have taken effect.”

Department of Revenue estimates for 2019 illustrate the progressive/regressive conflict. Tax filers at $100,000 income or above represent 19 percent of filers, but would gain more than twice that share — 42 percent — of the tax cuts. However, the percentage reduction of taxes for that group is lower — 3.8 percent, compared to an overall 6.7 percent reduction for those under $100,000. Overall, the plan would cut taxes for 63 percent of Iowans but raise taxes for 18 percent, while 19 percent would see no change.

When the bill is phased in for tax year 2023, those with income of $100,000 or more would gain 56 percent of the tax cuts. However, the percentage reduction in taxes for that group is 8.2 percent, compared to 13.1 percent for those with income under $100,000. Overall, the plan by 2023 would cut taxes for 68 percent of Iowans, raise taxes for 13 percent, with no change for 19 percent.

# # # # #

The Iowa Fiscal Partnership is a public policy analysis initiative of two nonpartisan, nonprofit organizations, the Iowa Policy Project in Iowa City and the Child and Family Policy Center in Des Moines. Find reports at www.iowafiscal.org.