Myth-Buster: Competitiveness no problem for Iowa taxes
Iowa is average or below by any reasonable comparison of state-governed taxes

Iowa’s standing vs. other states on taxes is routinely mischaracterized in political talk. “Competitiveness” of taxation indeed is a tax principle recognized as one legitimate measuring stick for tax policy. Unfortunately, it is misused and misinterpreted in these debates. State tax policy governs not only Iowa’s state income and sales and excise taxes, but also local property and sales taxes and local income surtaxes.

Business Taxes
Leading business consultants agree: Iowa ranks in the middle, actually below the middle, of a very large pack of states from highest to lowest state and local taxes on business. Below are two reliable, straight-up analyses of state and local business taxes, the top one by Ernst & Young, with Iowa 29th highest in business taxes as a share of the economy, and the other by Anderson Economic Group, with Iowa 28th highest as a share of pre-tax profit. Iowa is also in the middle or below regionally; the light bars highlight the ranking of the states surrounding Iowa (white bar).

State and local business taxes — Iowa is in the middle of a large pack in the middle

... as a share of total General State Product, FY2016
Source: Ernst & Young, Total state and local business taxes, August 2017

... and as a percent of pre-tax operating surplus, FY2015
Source: Anderson Economic Group, April 2017
Individual Taxes

Likewise, individual taxes in Iowa have often been portrayed as high by politicians and lobbyists seeking tax cuts, but Census data — see the table below — again show Iowa is part of the middle of a very large pack.

As all these data suggest, there is not a great deal of difference among the vast majority of states on state and local taxes — contrary to the common political spin about the impact of tax levels on decisions to locate or expand in a state.

As a tax principle, the Iowa Fiscal Partnership has accepted the definition of competitiveness as: “A state’s overall tax system should not be significantly out of line when compared to other states.” (emphasis added) This reflects an understanding that states have varying mixes of taxes:

• One tax, such as the income tax, might appear higher than that of another state based on rates alone. But the rates, and how they apply at different levels of income, and how they apply after exemptions, deductions and credits, can mask their true effect. (Iowa’s unusual “federal deductibility” is one example of this.) This is why it is important to view “effective” tax rates, not the nominal rates.

• The combination of taxes — reflected by both the Ernst & Young and Anderson Economic Group examples above — is understood by companies and individuals as the relevant factor in evaluating that as one of many factors used in decisions on where to locate. But even then, Census data have long shown little or no effect of taxes on migration patterns of either businesses or individuals.

Some politicians run down Iowa’s standing on taxes by exaggerating Iowa’s tax levels, focusing on nominal, top marginal rates rather than effective tax rates as they attempt to get new tax cuts. Some ideologically based tax analyses support their talking points.

The GradingStates.org website exposes faults in widely cited estimates of "business tax climates." These include the Tax Foundation’s “State Business Tax Climate Index” and the American Legislative Exchange Council’s “Rich States, Poor States.”

Neither offers a clear understanding of effective taxes or economic growth potential, and both fail to defend their methodology. GradingStates.org notes policies more likely to encourage economic growth.

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3 U.S. Census Bureau, State and Local Finances.
6 Grading the States, www.gradingstates.org. This Iowa Policy Project research has been supported through the years by national nonpartisan research organizations: the Center on Budget and Policy Priorities, the Economic Policy Institute, and Good Jobs First.