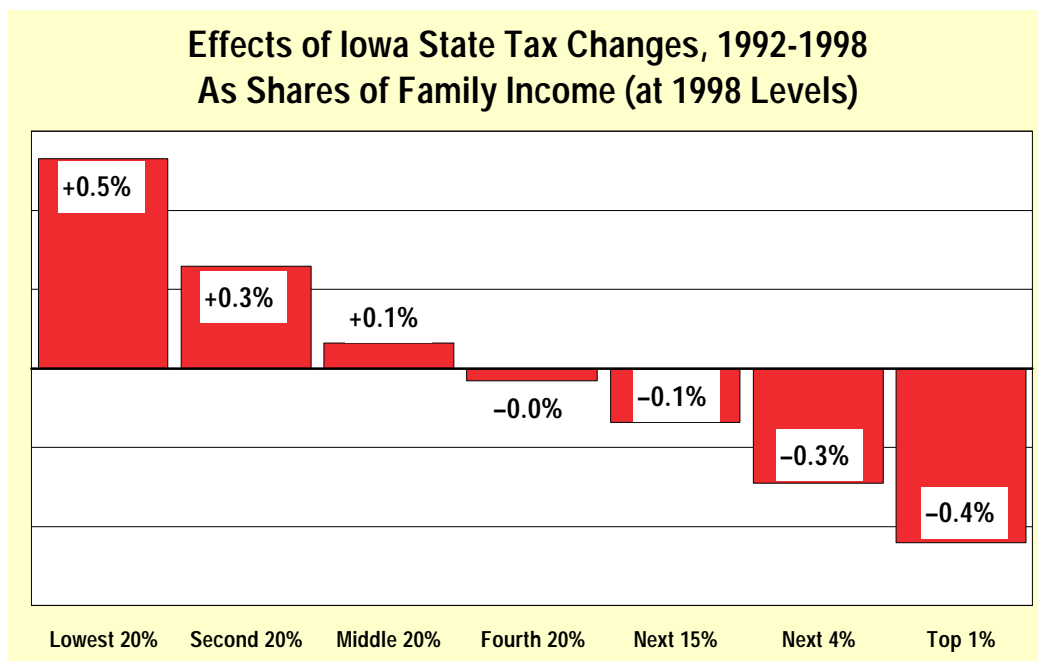


New Study Finds Shift in Iowa Taxes— Away from Well-off and Onto Middle- and Low-Income Households

Increases in Iowa sales taxes, combined with recent cuts in the Iowa personal income tax, have caused a shift in state taxes from the wealthy to middle- and low-income households, according to a study released today by the Washington, D.C.-based Institute on Taxation and Economic Policy.

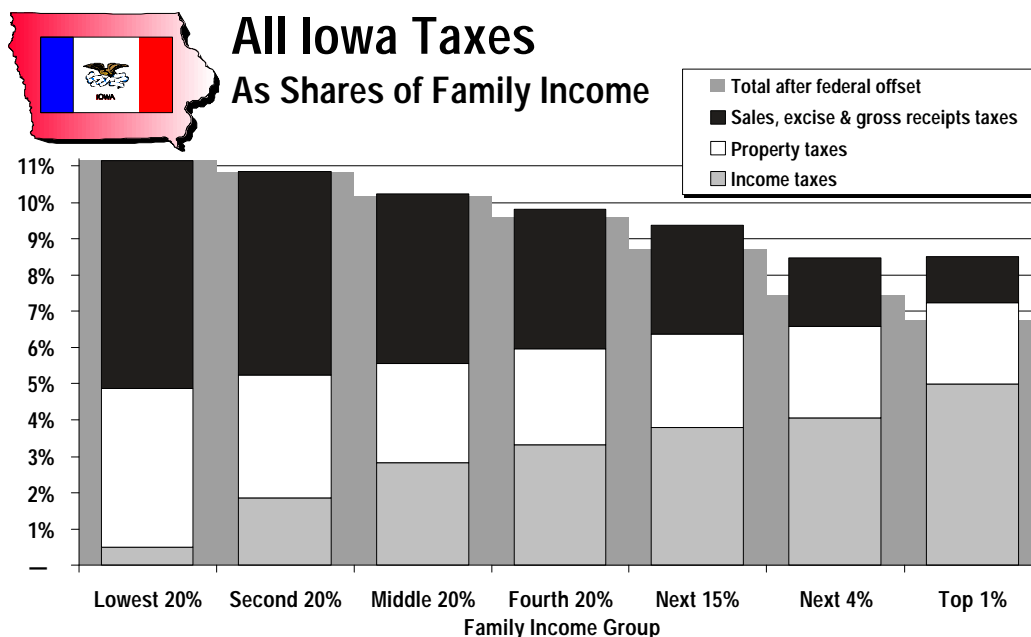
“Since the 1980s, sales and excise taxes on middle- and low-income Iowa families have risen, while the corporate income taxes, personal income taxes and inheritance taxes that the wealthy pay have declined,” said Tyson Slocum, an author of the study. “Recent tax changes in Iowa have continued this long-term trend.”

The study, *Choices for Iowa: Building a Better Tax System*, finds that Iowa’s 1993 state sales tax increase now raises the same amount as state personal income tax cuts since 1993 have lost. The higher sales taxes, however, hit middle- and low-income families the hardest, while the income tax cuts have been most generous to the well-off. The net effect has been a tax cut for the best-off fifth of Iowa taxpayers and a tax hike on the middle- and low-income families in the bottom three-fifths of Iowa taxpayers.



Iowa's Tax System Asks More of Middle- and Low-Income Iowans Than Well-Off

“The tax shift of the nineties, on top of a tax system already skewed in favor of the wealthy, has left Iowa with a significantly regressive tax system,” said Slocum. The study found that currently, middle- and low-income Iowa families pay a higher share of their income in state and local taxes than do the well-off. Indeed, the middle 20 percent of Iowa families and individuals—with average income of \$32,100—pays 10.1% of income in Iowa state and local taxes. The poorest 20 percent of taxpayers—those with incomes below \$14,000—pays 11.1% of income in Iowa taxes. But the wealthiest one percent—with average income of \$476,000—pays only 6.8% of income in Iowa taxes.



State Tax Shift Has Increased Federal Income Taxes for Iowans

The study also reports that the shift from personal income taxes to sales taxes has raised *federal* personal income tax payments by Iowans by \$45 million a year. “Many Iowans can deduct their state and local personal income taxes on their federal tax returns, but they can’t deduct their sales taxes,” said Slocum. “Every time Iowa reduces its personal income tax, it raises Iowans’ federal income taxes. But raising the sales tax doesn’t lower federal tax payments. Thus, Iowa’s shift toward sales taxes has been a net loss for Iowa’s economy.”

What Makes Iowa's Tax System Regressive

Choices for Iowa identifies the key elements that cause to Iowa's overall tax regressivity: highly regressive sales and excise taxes and an insufficiently progressive personal income tax.

“Although personal income tax rates in Iowa may look like they hit the best-off much harder than everyone else, loopholes in the tax law let the wealthy avoid a substantial amount of tax,” said Slocum. “In particular, Iowa’s deduction for federal taxes paid is a huge tax break for the well-off. Besides Iowa, only Alabama and Louisiana offer such a comprehensive deduction.”

Economic & Social Indicators

In addition to analyzing tax trends and the current Iowa tax system, the ITEP study discusses Iowa’s economic and social performance in a wide range of areas. Many of Iowa’s economic and social indicators have shown signs of improvement. These improvements could not have happened without government investments. Unfortunately, as *Choices for Iowa* shows, support for some key government programs has been declining in Iowa relative to other states.

Tax Change Options

Choices for Iowa also analyzes a broad variety of 18 tax change options. These include tax cutting, revenue-raising and revenue-neutral options. The analyses include the distributional, revenue and federal tax implications of each reform proposal. “We hope our detailed analyses of possible tax changes will prove useful to Iowa’s citizens and policy makers as they make tax decisions in the future,” Slocum said.

The Institute on Taxation and Economic Policy is a non-profit, non-partisan tax policy research group based in Washington, D.C. ITEP’s research is relied on by the public and policymakers, and ITEP is frequently consulted by government estimators in performing their official analyses. *Choices for Iowa* relies on ITEP’s Microsimulation Tax Model for its distributional analyses of Iowa’s tax policies. The study was funded through a grant from the Joyce Foundation of Chicago, Illinois.