New income tax cuts: A recipe for disaster and inequity
Proposals would require slashing services or pushing sales tax as high as 15%

Iowa lawmakers have repeatedly cut taxes over the last three decades in ways that provide the greatest benefits to the highest-income taxpayers while ratcheting down investments that historically made the state attractive to raise a family or do business — including public schools and public health.

Now, within months of passing tax cuts that when fully phased in will cost hundreds of millions of dollars, lawmakers are proposing a new round of income tax cuts, up to the full elimination of the state income tax.

Eliminating or significantly cutting the state income tax is irresponsible. Here is why:

- **Big new tax cuts are too expensive.** The current budget surplus, which is driving arguments for new tax cuts, was largely due to a one-time boost from federal pandemic aid. Looking ahead to next year, FY 2023, the state’s Revenue Estimating Conference estimates a net revenue increase of only 1.7 percent — insufficient even to keep up with current obligations.

- **More income tax cuts would likely make Iowa’s already unfair tax system even more unfair.** Income taxes are Iowa’s only taxes based on ability to pay, so general cuts in income tax disproportionately benefit the highest-income lowans. Iowa already has a state and local tax system that takes a far greater share of income from low-income lowans than the wealthiest ones (chart, right). Unless specifically targeted to low-income households, proposed income tax cuts would make inequality worse.

- **Big new tax cuts would decimate critical services for lowans.** The personal income tax generates half of Iowa’s general fund, which pays for the services supporting Iowa families, workers and their communities (chart, next page). Making large new cuts to the income tax, let alone eliminating it, would force draconian cuts or even elimination of entire service areas. If lawmakers wanted to hold revenues even, they would need to approve an offsetting tax increase — and the sales tax is the only existing option. State and local sales taxes, now 7 percent in most of Iowa, would spike to 15 percent to fully replace the income tax.²
Iowa already is underfunding critical services, including education, child care, workplace protections and environmental quality. For example, per-pupil spending growth has been held down in Iowa over the last decade. It grew only 1.9 percent from 2012 to 2022, down from 3.1 percent from 2002 to 2011.

Tax cuts are not a recipe for growth. Business tax cuts have very little to do with economic growth, and force service cuts that can harm the economy. In Kansas, drastic tax cuts were followed by slower, not faster, economic growth. Iowa taxes, in any case, are not out of line with those of other states.

Current proposals do not meet widely accepted principles for tax policy (below).

Lawmakers should reject irresponsible income tax cuts that put the least politically powerful Iowans at a greater disadvantage.

Instead they should craft a tax code in which the wealthiest Iowans and profitable corporations pay their fair share — one that funds the public services that Iowa families, workers and small businesses need to thrive.

Principles for evaluating tax proposals

- **Fairness.** Base taxes on the ability to pay. Those with similar ability to pay should have similar tax responsibilities, regardless of income source.
- **Revenue adequacy:** Taxes must produce sufficient revenue to financial essential state and local services.
- **Public benefit/economic efficiency:** Tax “incentives” should promote a public purpose and not distort economic choices.
- **Competitiveness:** Iowa’s overall tax system should not be significantly out of line with other states.
- **Stability and predictability:** A tax base should be stable and predictable over the business cycle.
- **Simplicity:** Tax laws should make it easy for taxpayers to understand and comply, and the state to administer and audit.
- **Transparency and accountability:** Taxpayers should be able to see how public funds are provided and used.

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2 The income tax is expected to provide more than $4.4 billion in the current fiscal year for the state General Fund, far more than the state sales tax, which provides just under $3 billion for the General Fund. (This sales tax revenue number does not include the use tax, or the penny returned to local schools for infrastructure projects.) To replace the income tax, the sales tax would have to more than double to raise the additional $4.4 billion now raised by the income tax for the General Fund. On top of the 5-cent sales tax for the state General Fund, and the sixth cent for local school infrastructure, an additional 7.3 cents would be needed. Under a constitutional amendment approved in 2010, the first three-eighths-cent of the next sales tax increase would go to an Outdoor Recreation and Natural Resources Trust Fund, which by state law is designated for programs not currently provided. This would bring the increase to about 7.7 percent. Together, these pieces would take the state sales tax to 13.7 percent. In addition, most cities in Iowa have a 1-cent local option sales tax. Therefore, the sales tax in most of the state would be about 15 percent. In practice, to assure the same amount of revenue, the rate probably would have to be higher, as many Iowans in border communities would make big-ticket purchases in neighboring states.