

Agenda for the common good

Creating a fair, equitable tax system

Strong, essential public services depend on **adequate funding**. It's as simple as that. So, when lawmakers undermine revenue stability by repeatedly cutting taxes, it erodes long-held public commitments to every service provided or supported by the state of Iowa. An inclusive, transparent budget process gives all Iowans a seat at the table in setting priorities.

Lawmakers have eroded these fundamentals over 25 years by a series of individual income tax cuts, corporate tax cuts and property tax cuts, often negotiated behind closed doors, that disproportionately have benefited the wealthiest. Middle- and low-income Iowans have saved little, if any, in reduced taxes. People who are marginalized in our economy — including many people of color — are harmed when we lose public services that foster opportunity.

Service cuts and revenue cuts go hand in hand. Both are certain following 2022 income-tax cuts — only the latest “largest tax cut in Iowa history” and the third round so advertised since 2013.

To protect essential public services that expand opportunity for Iowans, we must act:

Protect existing revenue sources

Iowans deserve to see the impacts of the new cuts already passed before adding to them. The 2022 cuts were passed before the 2018 cuts were even fully implemented. It is impossible to adequately prepare budgets that meet the needs of Iowans without more certainty on revenues.

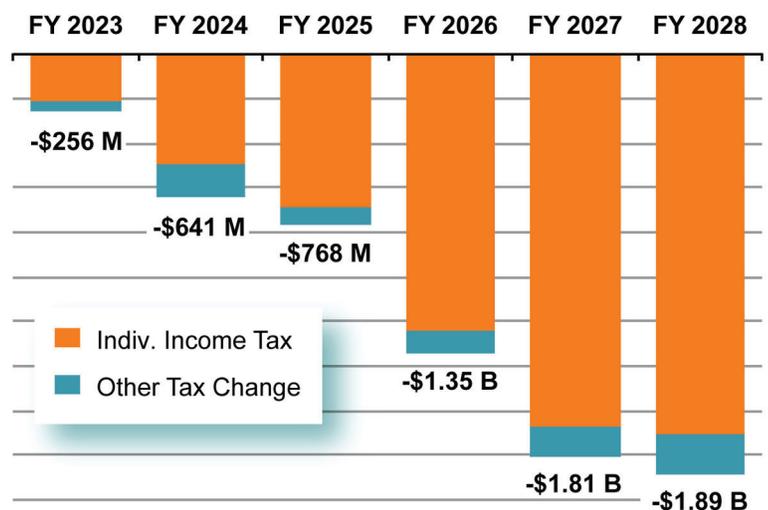
- **Make no new cuts in income tax rates or new revenue limits.**

What voters & lawmakers need to know

- ▶ **Iowa lawmakers for years have cut taxes**, cut tax rates and shifted funding sources for services.
- ▶ **New income-tax cuts passed in 2022 will force massive losses of revenue** in coming years (see graph, below).
- ▶ **Education, health care, public safety and environmental protection face more harm** with more tax cuts planned.
- ▶ **Lawmakers have failed to close costly corporate tax loopholes** and been slow to pass even weak tax-credit reforms.
- ▶ **Tax cuts disproportionately benefited wealthy and powerful interests** from the late 1990s into this decade.

Income tax cuts will force budget cuts

Official revenue estimates from 2022 law, FY 2023-28



Source: Iowa LSA, Fiscal Note, HF 2317, adj. for early implementation of corporate tax cuts in FY 23-24.

Block arbitrary tax-cut gimmicks

Once lawmakers approved the 2022 tax-cut legislation, they followed almost immediately by attempting to lock in the changes by requiring a two-thirds majority in both houses for any income-tax rate increase. This means as few as 17 senators could overrule the will of the other 133 legislators. This heavy-handed attempt to handcuff future voters and elected legislators failed, but can be expected again.

Future legislators should have the same authority and flexibility current legislators have to set policy and to respond to circumstances. Kansas lawmakers went through this just a few short years ago, severely cutting taxes, but went back to correct mistakes when the experiment didn't work.

- ▶ **Make no change from majority rule at the Statehouse.** Proposals to permit minority rule on tax increases defy democratic principles.

Demand transparency about impacts

Proponents of the 2022 tax legislation left to lowans' imagination how valued services would be affected by their cuts. Barely after ink was dry on the bill, and far before the effects of enormous cuts are felt, some legislators freely expressed that they still hope to fully eliminate the state income tax. There is no discussion about replacing a dime of it or what services are to be sacrificed. Eliminating the income tax would wipe away half of the state General Fund.

- ▶ **Require legislators to identify potential service cuts for any cuts they propose.** Even if not binding, it would hold legislators accountable,

and better connect in voters' minds the tie between revenues and services.

Other tax policy choices for the common good

- ▶ **Property tax authority should be local,** without further state interference. Shifting funding to the state reduces local control to assure mental health and other services, are sustained properly.
- ▶ **Honor voters' intent** in any legislation for a sales tax increase to implement the voter-approved Natural Resources and Outdoor Recreation Trust Fund voters authorized in 2010. Past proposals have distorted the goals voters approved.
- ▶ **Include refundable EITC expansion** or other offsets as part of any sales tax increase passed to implement the voter-approved Natural Resources and Outdoor Recreation Trust Fund.
- ▶ **Phase out all corporate tax credits** on the same schedule with corporate income-tax cuts. Business tax credits cost over \$300 million a year. Iowa should act to close corporate tax loopholes as five nearby states have done, including Illinois, Minnesota, Kansas, Nebraska and Wisconsin. In Iowa, this has been conservatively estimated to cost \$100 million a year.
- ▶ **Fees and fines must not become new go-to revenue source** in the absence of revenue lost to income-tax cuts. These regressive revenue sources have been shown in other states to disproportionately hit low-income residents and people of color.

¹ Peter Fisher and Charles Bruner, "Tax Policy and Economic Growth in Iowa: Who Gained in the 1990s?" January 2002. <http://www.iowapolicy-project.org/2002-2004docs/020122-polbrf-taxeql.pdf>

² Anne Discher, "Huge Iowa tax cuts nothing to celebrate." Common Good Iowa blog, March 1, 2022. <https://www.commongoodiowa.org/blog/2022/03/01/huge-iowa-tax-cuts-nothing-to-celebrate>

³ James Q. Lynch, "Gov. Kim Reynolds signs largest tax cut in Iowa history." Cedar Rapids Gazette, May 30, 2018. <https://www.thegazette.com/government-politics/gov-kim-reynolds-signs-largest-tax-cut-in-iowa-history/>; Todd Dorman, "Largest tax cuts are piling up in Iowa." Cedar Rapids Gazette, March 3, 2022. <https://www.thegazette.com/staff-columnists/largest-tax-cuts-are-piling-up-in-iowa/>

⁴ Common Good Iowa fact sheet, "Constitutional amendment would risk schools, safety and health by imposing minority rule on income-tax increases." April 6, 2022. https://www.commongoodiowa.org/media/documents/220406TaxTPtsMemofinal2B_3B818D57B3DED.pdf

⁵ Peter Fisher, "The Lessons of Kansas," Iowa Policy Project, <http://www.gradingstates.org/the-lessons-of-kansas/>.

⁶ David Osterberg, Peter Fisher, Sean Finn, "Senate plan again breaks trust with lowans on water, resources." Common Good Iowa, March 22, 2022. https://www.commongoodiowa.org/media/cms/220322SS-B3157IWILL_A9DE9F752AA3F.pdf