



## Senate tax proposal is costly — and unnecessarily rushed

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Mike Owen, Deputy Director, Common Good Iowa, March 9, 2021

Senate Study Bill 1250 combines two concepts that are terribly costly at a time Iowa cannot afford them. The two principal features, together, come at a cost over a quarter-billion dollars in Fiscal Year 2024.

That the bill is being rushed through the process when there is no immediate deadline on tax bills is a troubling footnote to this latest unfounded commitment to reduce revenues at any cost to public services. In a more deliberative process, a fiscal note would be available right now for anyone to review before testifying in this subcommittee, let alone for senators to consider.

Using LSA Fiscal Notes and memos on similar bills, we see the following top-line impacts:

**First, the inheritance tax phaseout** by FY 2024 will cost about \$65 million, and grow.

**Second, repealing revenue triggers** to ignite tax cuts a year early appear, from the most recent estimates by the Department of Revenue, to cost an additional \$199 million in FY 2024.

The 2018 income-tax legislation promised a loss of revenue that was never a good idea, but the triggers at least were a nod to some fiscal responsibility. If revenues were not strong enough, the cuts would be delayed. This bill throws that promise of fiscal responsibility to the scrap heap. We're going to guarantee a loss of over \$150 million regardless of whether we can afford it.

The combination here will very quickly hit and pass the quarter-billion mark in revenue losses each year. And it is all so unnecessary.

**The inheritance tax cuts are irresponsible.** Already, immediate family members pass all bequests up and down the family line without a dime in state tax. That's the way current law works. Iowa's generous inheritance tax exemptions already protect family wealth.

Repealing what remains of the tax could provide anyone else any amount of inheritance tax-free, **while people who earn the same — or less — through wages would pay income tax.** An important principle of taxation is fairness: **Taxes should be based on ability to pay, and those with similar ability to pay should have similar tax responsibilities.**<sup>1</sup>

Under inheritance tax repeal, a shirttail relative or even a non-relative could receive \$50,000 or \$500,000 tax-free, while a person who earns \$50,000 (or less, or more) in a 9-to-5 job would pay tax on the earnings.

The Department of Revenue estimated in 2019 that:

- **Nonresidents would take almost \$30 million a year** if the tax were abolished.
- **Simply raising the exemption for estates** from the current \$25,000 to \$230,000 would totally exempt about 40 percent of estates, lose only about 6 percent of tax revenue from full repeal.

**The income-tax cuts rest on inaccurate representations** about Iowa taxes, denying the undeniable fact that Iowa taxes remain below average. **In a more deliberative process we could find ways to improve fairness in the system without slashing revenues.** We look forward someday to discussions about assuring critical needs are met and services sustained to make Iowa once again an attractive place to live and raise a family.

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<sup>1</sup> Iowa Fiscal Partnership, "Intro to 2018: Sensible improvements for Iowa tax policy," October 19, 2017.  
<https://www.iowapolicyproject.org/2017docs/171019-IFP-realtaxreform.pdf>