

## Iowa tax proposals would worsen existing racial inequities

Even as debate over tax policy dominates the news in Iowa, one issue has yet to enter the discussion: How would the proposals to enact big tax cuts hurt or hinder racial equity? Is that an unexpected question? It should not be: Tax policy is not race neutral.<sup>1</sup>

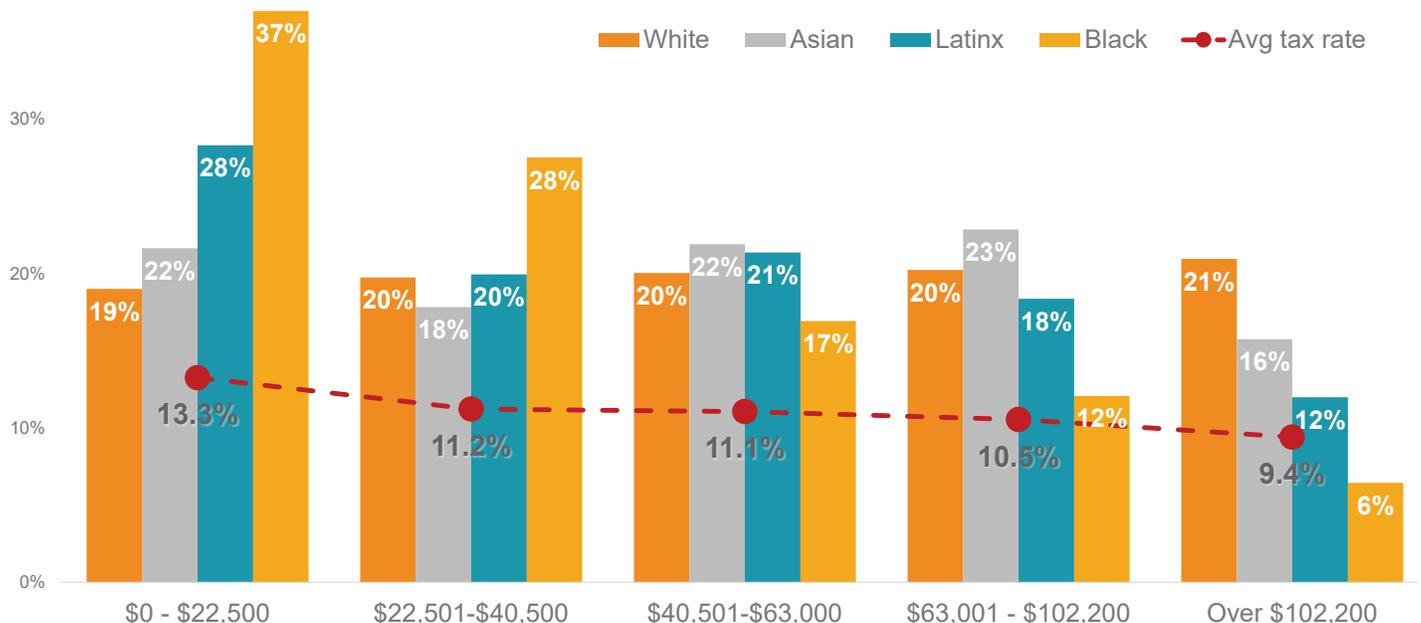
Our state's tax system — like those of most other states — favors white Iowans over Iowans of color, especially Black Iowans. That's because the tax code advantages those at the top of the income distribution, who are disproportionately white, as it disadvantages those at the bottom, who are disproportionately families of color. Historically, Iowa's elected officials have been mostly white and mostly wealthier than the average Iowan. Perhaps it is not surprising that they have, intentionally or not, set things up in ways that end up benefiting people like themselves at the expense of others.

**Tax policy is not race neutral. Our state's tax system is tilted against Iowans of color, especially Black Iowans.**

Discriminatory tax laws sit atop long-standing discrimination in housing, education and employment and rising income inequality that make it more difficult for Iowans of color to accumulate wealth and share in the very prosperity they generate as they contribute to the state's economy. Current tax proposals would exacerbate disadvantages facing families of color.

### People of color are overrepresented in lowest income groups facing highest tax rates

Percent of Iowa households by race and ethnicity in each income group



Source: Institute on Taxation and Economic Policy

## Iowa tax law favors wealthy people over lower-income people

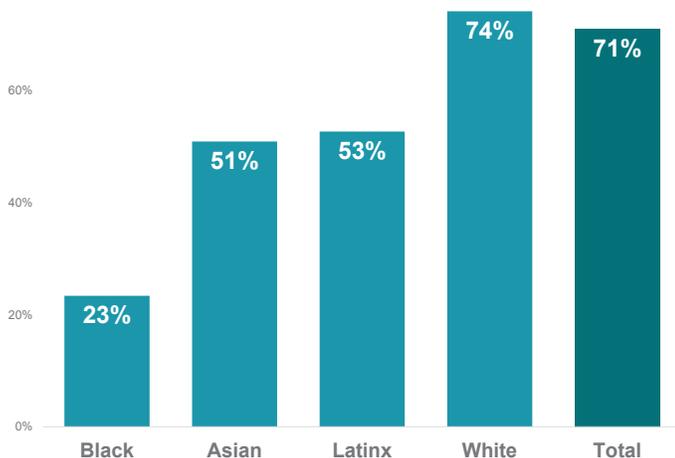
Already the richest 5% of Iowa households earn, before taxes, on average \$328,000 a year. That's 22 times the average income of the poorest 20%, \$12,560.<sup>2</sup> Such extreme income inequality is made worse by Iowa's upside-down tax system. The lowest income 20% of Iowa households pay 12.3% of their income for state and local taxes. The top 20% pay only 9.4%. And the top 5% pay even less: about 8%.

How can that be? Of the major state and local taxes currently in Iowa — the income tax, property tax, and sales tax — only the income tax is somewhat progressive. That is, higher-income Iowans pay a relatively higher share of their incomes than lower-income Iowans do. But the mildly progressive income tax can't make up for the effects of the property and sales tax, both of which are highly regressive. Those two taxes disproportionately hit lower-wage workers, who spend greater shares of their incomes on housing — for which they pay property taxes, whether they own or rent — and other basic needs that are subject to the sales tax.

This disparate tax treatment disproportionately hits Iowans of color. Almost two-thirds (65%) of Black households have income under \$40,500, compared with two-fifths of white households (chart, page 1). As a result, Black households on average face a higher tax rate than white households. Latinx households also have disproportionately lower incomes, with almost half falling in the lower two income groups, and on average face a higher tax rate than white households.

## Low home-ownership rates exclude many communities of color from opportunity

Percent of Iowa households that are owner-occupied by race and ethnicity



Source: U.S. Census Bureau, American Community Survey, 2015-19 5-year estimates

**Big disparities in home ownership contribute to big disparities in wealth because home equity is the principal source of wealth for most households. Low homeownership rates also exclude many households of color, including the vast majority of Black households, from some of the largest tax advantages.**

## Average share of income paid in state and local taxes is highest for Black households

Effective overall state and local tax rates in Iowa, by race and ethnicity

White	9.9%
Latinx	10.0%
Asian	10.9%
Black	11.2%
<b>All</b>	<b>9.9%</b>

Source: Institute on Taxation and Economic Policy

## Iowa tax law favors homeowners over renters

The same racialized patterns hold when you look at tax policies geared toward wealth — the assets families can tap to start a business, send a child to college or weather a health crisis, or pass down to the next generation. Housing discrimination over generations has restricted the ability of families of color to purchase homes that grow in value and build equity.

Three-quarters of white households in Iowa own their homes; the remainder rent. For Black households, the story is reversed: just over a quarter own their home; about three-quarters rent.<sup>3</sup> About half of Asian and Latinx households own their homes. Because home equity is the principal source of wealth for most households, this creates enormous disparities in wealth. While 19% of white households in Iowa have zero net worth, 36% of Black households do.<sup>4</sup>

Again, our tax system penalizes households with the least wealth. The low rate of homeownership excludes most Black households from some of the largest tax advantages: deductions for home mortgage interest and property taxes.

## Iowa lawmakers have spent decades making discriminatory tax impacts worse

Tax policy is a powerful tool to either advance or derail racial equity. Changes to Iowa's tax code over the past 40 years have helped constrain the economic fortunes of many Iowans of color. The few tax increases approved by lawmakers have invariably targeted the sales tax, the tax that hits lower income households — and therefore communities of color — the hardest.<sup>5</sup> Lawmakers have concentrated the largest tax cuts, in contrast, on the modestly progressive income tax, giving the biggest breaks to the wealthiest — and disproportionately white — Iowans.

Similarly, on the property tax, lawmakers have reduced assessments of commercial property, created and expanded business tax breaks, and limited the growth in taxes on owner-occupied housing, all of which disproportionately help white Iowans. Last year lawmakers chose to enact a property tax relief program for seniors that grants a generous new exemption only for homeowners, instead of funding an existing program that includes renters.

## Iowa should use tax policy to advance racial equity

Instead of using tax policy to constrain opportunities for Iowans of color, it is time for lawmakers to use it to advance racial equity. Here's how:

**First, do no (more) harm.** The Legislature should reject large tax cuts advancing in the legislature that would skew our tax system even more in favor of those at the top, exacerbating racial

**Proposed tax cuts would exacerbate racial disparities — and cut services that promote opportunity for workers and families.**

disparities. The Governor's plan, for example, would shower two-thirds of the benefits on the richest one-fifth of Iowa taxpayers. For millionaires, the average cut is \$1,316 each week! The majority of those in the bottom fifth, meanwhile, get nothing.

These tax cuts would further privilege the already privileged few as they drastically reduce revenue for the state's general fund. The general fund pays for services like public schools, colleges and universities, enforcement of fair labor standards, and the array of work supports — from unemployment insurance to child care assistance — that, properly funded, can help our state's most marginalized people find jobs, advance in their careers and support their families.

## Historic barriers help keep many Iowans of color in low-wage work

Iowans of color are more likely to fall in the low end of the income distribution, and that is not an unfortunate accident. People of color have faced barriers to employment, along with housing segregation and discriminatory practices in health care and education, that limit job prospects. Black workers in particular are over-represented in lower-paid occupations less likely to offer health coverage, paid sick leave or retirement benefits.

Black workers in the Midwest face specific challenges with roots in a loss of (primarily union) manufacturing jobs.<sup>1</sup> Opportunities in manufacturing drew Black workers to the Midwest in the early and middle parts of the 19th century. Protections for these workers grew due to rising union density, a booming economy and enforcement of new civil rights laws.

But gains were not to be sustained. They were followed in the latter years of the 19th century by economic decline, decline in union density and erosion of antidiscrimination enforcement. Many Midwestern Black workers were hit hard as manufacturing jobs moved to the suburbs, the south and other countries.

Those losses established patterns of disinvestment and disadvantage that, coupled with ongoing discrimination, limit employment opportunities for Iowans of color today.

<sup>1</sup> Colin Gordon, "Race in the Heartland: Equity, Opportunity and Public Policy in the Midwest." October 2019. Iowa Policy Project. Accessed at <http://iowapolicyproject.org/2019docs/191010-Race%20in%20the%20Midwest-Int.pdf>

**Then, peel back racial disadvantage already embedded in our tax code** by reversing the heavier taxation of low- and moderate-income lowans that disproportionately hits lowans of color. Here's how to begin:

- ▶ **Double the state Earned Income Tax Credit (EITC)** from 15% to 30% of the federal EITC. This would boost the incomes of all low-wage workers, who are disproportionately Black and Latinx.
- ▶ **Increase the child and dependent care credit.** Iowa's credit for child care expenses covers only a small portion of costs: at most, about 8% of the average cost of full-time care.<sup>6</sup> This should be increased to a meaningful amount that would help more families with young children work, and help those working to cover the basic costs of living.
- ▶ **Adopt a state version of the federal child tax credit.** The federal income tax includes a tax credit of up to \$2,000 per child reflecting the high cost of raising children. (For 2021 only, the credit was expanded and could be as high as \$3,600 per child). In contrast, Iowa provides a meager \$40 "personal exemption credit" per child. For those with lower incomes, the Iowa credit should be expanded and made refundable.
- ▶ **Fund the state's low-income renters' and homeowners' property tax credit,** which was enacted in 1993 but never funded. Like the elderly and disabled property tax credit, this program refunds a percentage of the property taxes paid on a home or a percentage of rent assumed to constitute property taxes. The percentage that is refunded decreases as income increases. It is available to all households. Lawmakers should also raise the program's income brackets, set nearly 30 years ago, to reflect the current reality of rents and incomes. Investing in this program could greatly reduce what low-income families pay in property taxes.

**Lawmakers should peel back racial and economic disparities in Iowa's tax code and fund the services every lowan needs to thrive.**

In the longer term, lawmakers should make larger fixes to the tax policies that now favor those at the top over lower-income families and homeowners over renters, and in turn white lowans over lowans of color. Lawmakers should craft a tax system that asks the wealthiest lowans and profitable corporations to pay their fair share and funds the services every Iowa family and worker — no matter their race — needs to thrive.

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<sup>1</sup> For a robust discussion of the ways our federal and state tax codes disadvantage Black Americans, see Dorothy A. Brown, *The Whiteness of Wealth: How the Tax System Impoverishes Black Americans – And How We Can Fix It*, Crown: 2021.

<sup>2</sup> U.S. Census, American Community Survey, 2019 5-year estimates, Table B19081.

<sup>3</sup> U.S. Census, American Community Survey, 2019 5-year estimates, Tables B25003 and B2500B-I.

<sup>4</sup> U.S. Census, Survey of Income and Program Participation, 2016.

<sup>5</sup> The state sales tax has been raised three times since 1982, when it was 3 percent. It was most recently raised in 2008 when the school infrastructure tax became statewide, bringing the total to 6%, double the rate in 1982. With the addition of a one cent local option sales tax in most Iowa counties, the total rate for most households comes to 7%.

<sup>6</sup> Full-time care for a preschooler in a child care center averaged about \$10,000 a year in Iowa in 2021. The federal credit is at most 35% of the first \$3,000 of expense per child and the Iowa credit is at most 75% of the federal (the percentages decline with income). So the maximum Iowa credit would be \$790. This calculation is based on 2020 tax law; the federal credit was vastly expanded for 2021 only.

**Common Good Iowa** is a nonpartisan, nonprofit organization built on the collective experience of the Child and Family Policy Center and Iowa Policy Project. Common Good Iowa informs policymaking to turn Iowa values into concrete solutions that advance opportunity for all lowans. Learn more at [www.commongoodiowa.org](http://www.commongoodiowa.org). For more on equitable tax policy, contact deputy director Mike Owen at [mowen@commongoodiowa.org](mailto:mowen@commongoodiowa.org).