



# PERFECT STORM Iowa's budget challenges

November 10, 2025



How did we get here?

# Tax cuts

by Iowa lawmakers since 2018



Cut the  
**personal income tax**

**4x**

('18, '21, '22, '24)  
& exempted all retirement income

Cut the  
**corporate income tax**

**3x**

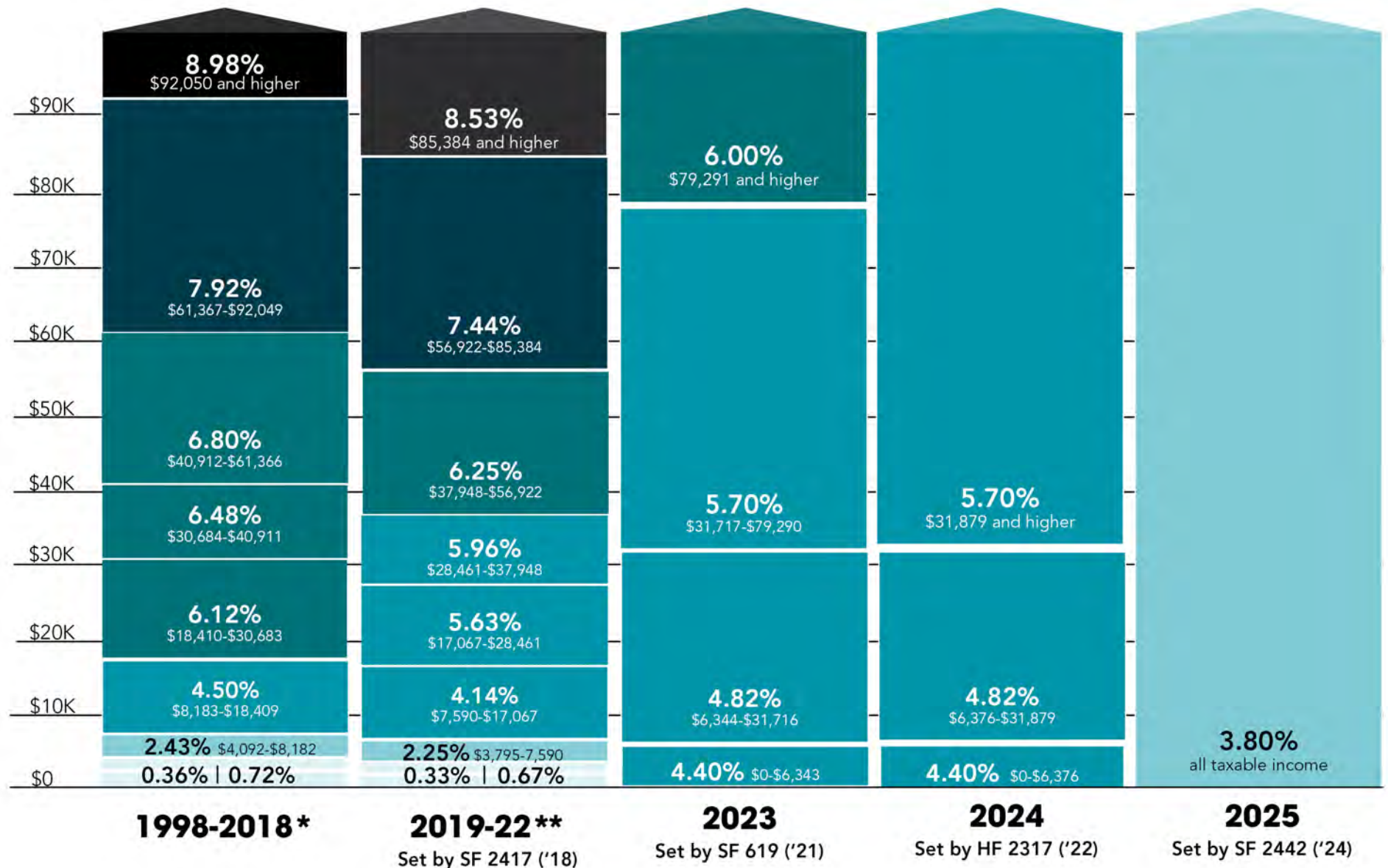
('18, '21, '22)

Eliminated the  
**inheritance tax**

('21)

# The biggest cuts were to the personal income tax

Iowa personal income tax rates and brackets by taxable income (single filer), 1998-2025, in 2025 dollars

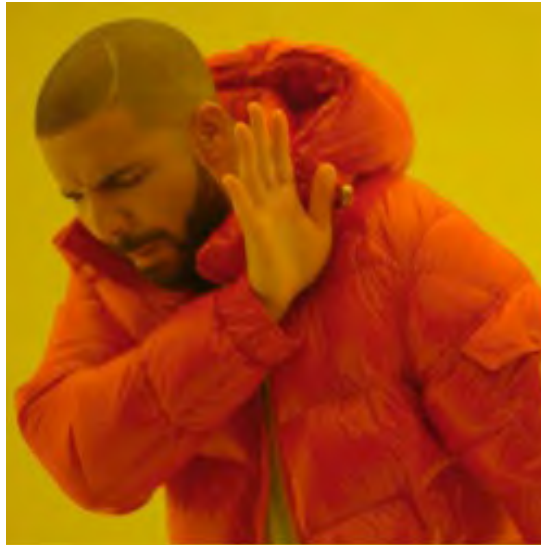


Sources: Iowa Department of Revenue, Legislative Services Agency, and the Tax Foundation, "Historical State Individual Income Tax Rates, 2015-2025"

\* Shows 2018 taxable income (adjusted to 2025 dollars)

\*\* Shows 2022 taxable income (adjusted to 2025 dollars)

# The income tax was our only progressive tax



## Regressive tax

Higher-income people pay *lower* share of income in tax



## Progressive tax

Higher-income people pay a *higher* share of income in tax

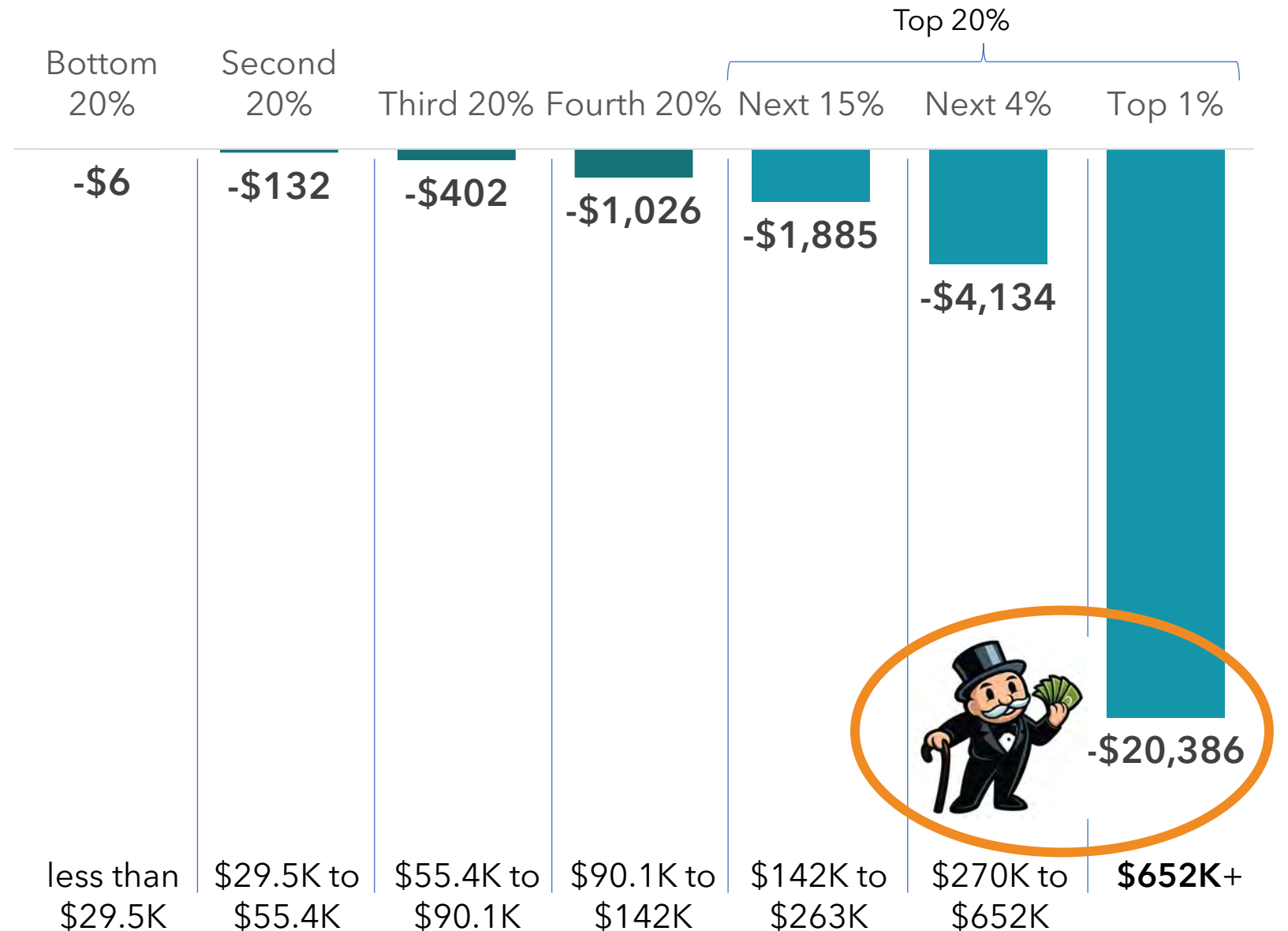
# Who gets the big breaks when you disassemble a progressive income tax?

Average income-tax cut by income group

SF 2442, 2024

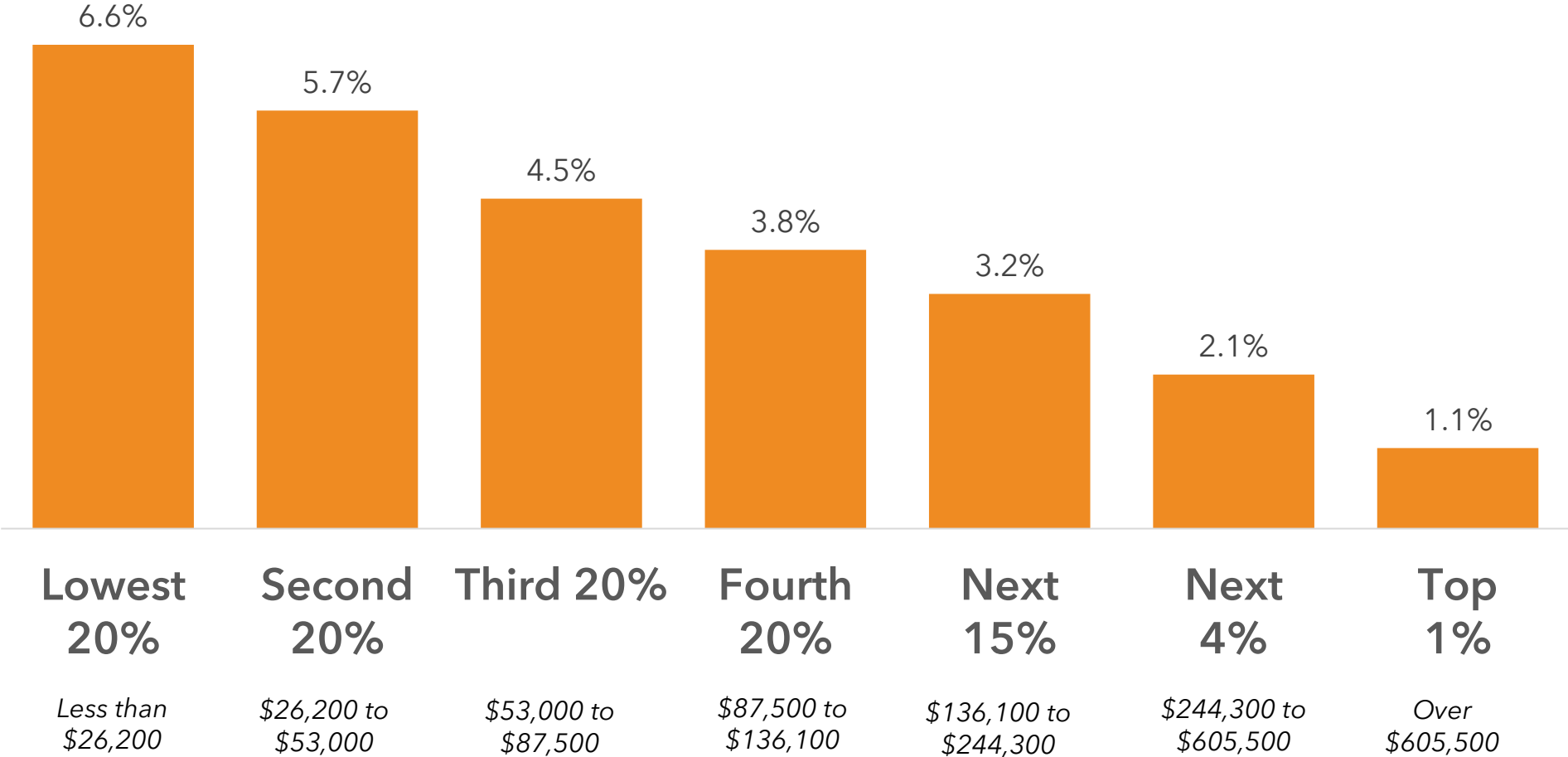
From 2024 baseline

Source: Institute on Taxation and Economic Policy



# Cutting the income tax puts more pressure on regressive sales tax

Share of family income going to sales and excise taxes, by income group, Iowa (2023 income levels, based on 2024 tax policy)



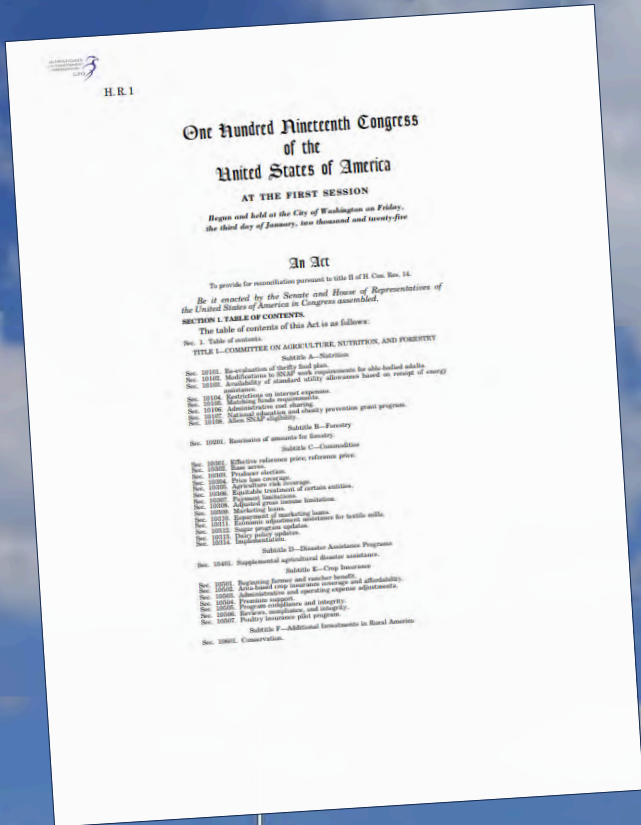
Source: Institute on Taxation and Economic Policy, "Who Pays? 7th Edition."

# Tax-cut proponents:



"General Fund revenue is down just as we projected and responsibly planned for ...!"

"The FY2026 gap between revenue and spending ... **poses no imminent risk** to the state's fiscal situation."



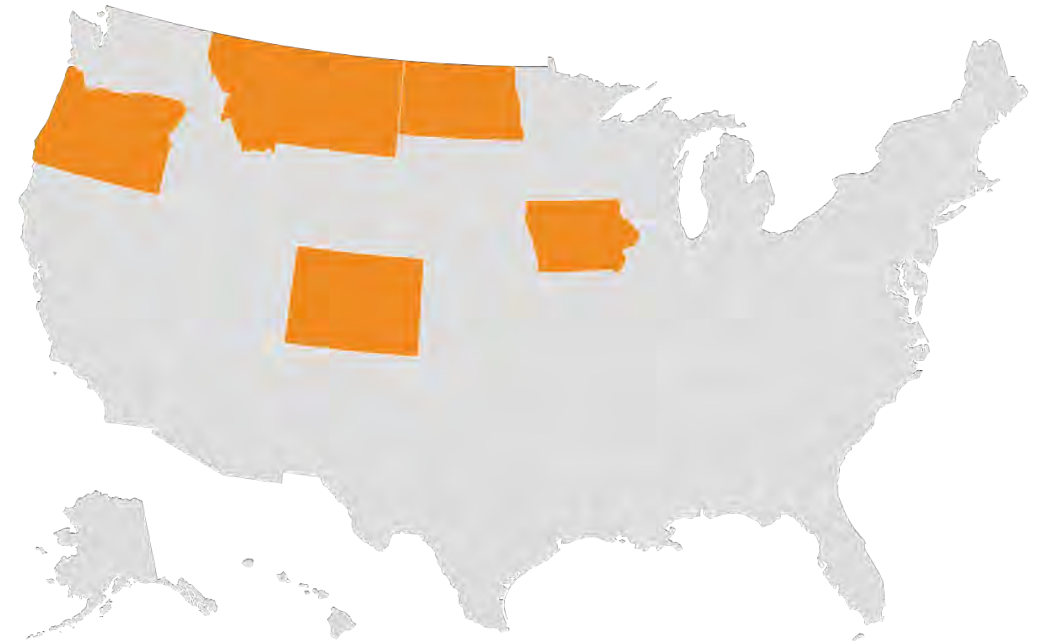
# H.R. 1 (OB**B**BA) enters the chat



# Conformity

- Since 2020, Iowa has automatically adopted provisions of the federal tax code (per 2018 law)
  - “Rolling conformity”
- OBBBA tax cuts are now Iowa law
- Estimated to cost
  - **\$438 M** in FY 2026
  - **\$384 M** in FY 2027
- Reflected in latest REC estimates

Iowa is one of five states most vulnerable to revenue losses from federal tax changes




- Have rolling conformity
- Conform based on federal taxable income, a narrow definition of income that is highly affected by federal tax changes

# Conformity

Without action from state lawmakers, we have a whole slew of new tax cuts

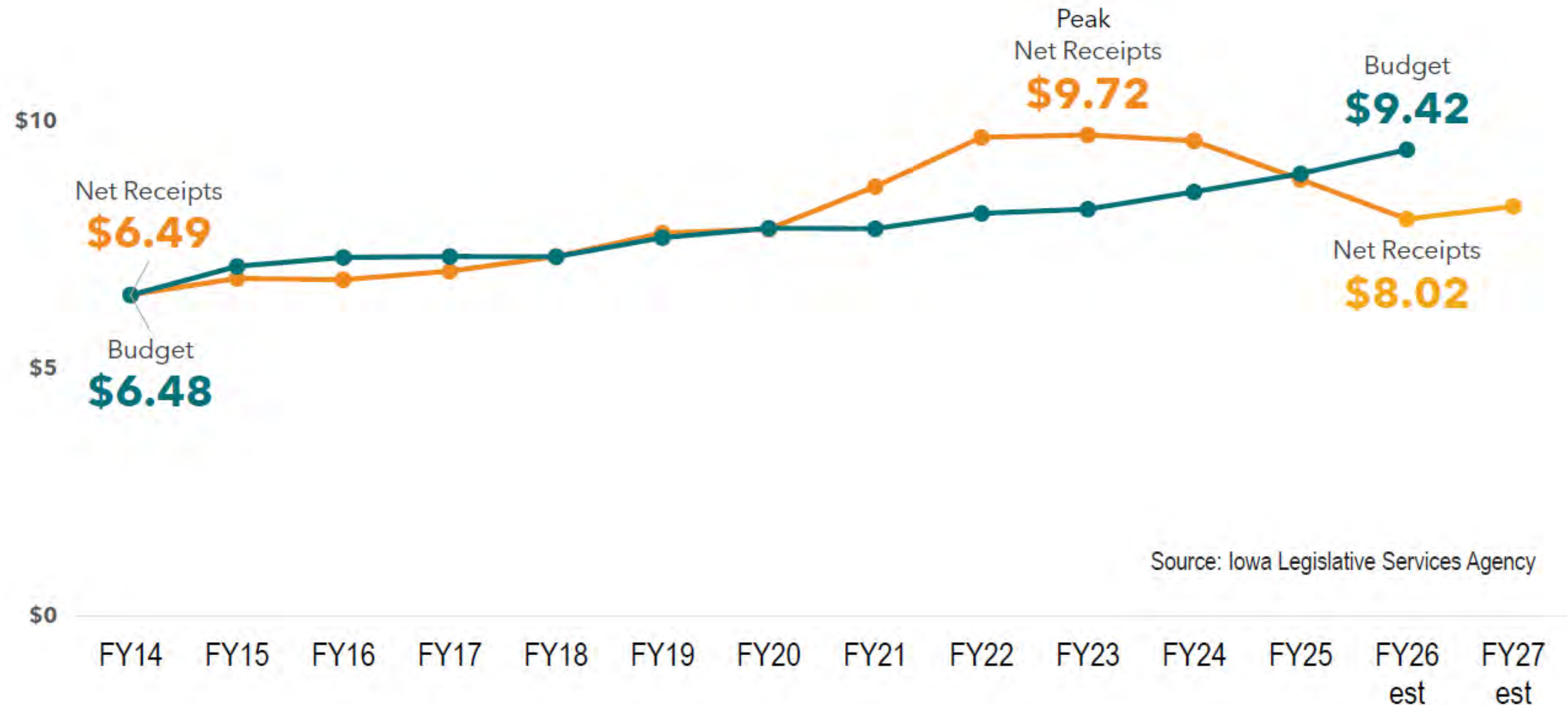
Adjusted Gross Income (AGI)	<b>Opportunity Zones: Individual</b>	 <p><b>Qualified Small Business Stock exemption</b></p>
	<b>Opportunity Zones: Corporate</b>	
	<b>529 Accounts for Private K-12</b>	
	Trump Accounts	
	<b>Qualified Small Business Stock</b>	
Personal Exemptions, Standard & Itemized Deductions	Dependent Care FSAs	
	Increased Standard Deduction	
	Senior Citizen Deduction	
Additional Deductions	SALT Cap Increase	
	Tips	
	Overtime	
	Auto Loan Interest	
	Pass-through Deduction (QBI)	
Business Depreciation	Non-Itemizer Charitable Deduction	
	<b>168(k) Depreciation</b>	
	<b>168(n) Depreciation</b>	
	<b>174 R&amp;E</b>	
	<b>179 Small Business Depreciation</b>	

A young child with light brown hair and freckles, wearing a light green t-shirt, stands outdoors on a paved surface. In the background, there is a grey metal railing and a concrete walkway. The child is looking directly at the camera with a neutral expression.

Real talk about  
surpluses

# Iowa leaders expect to operate at a deficit in FY 26 and beyond

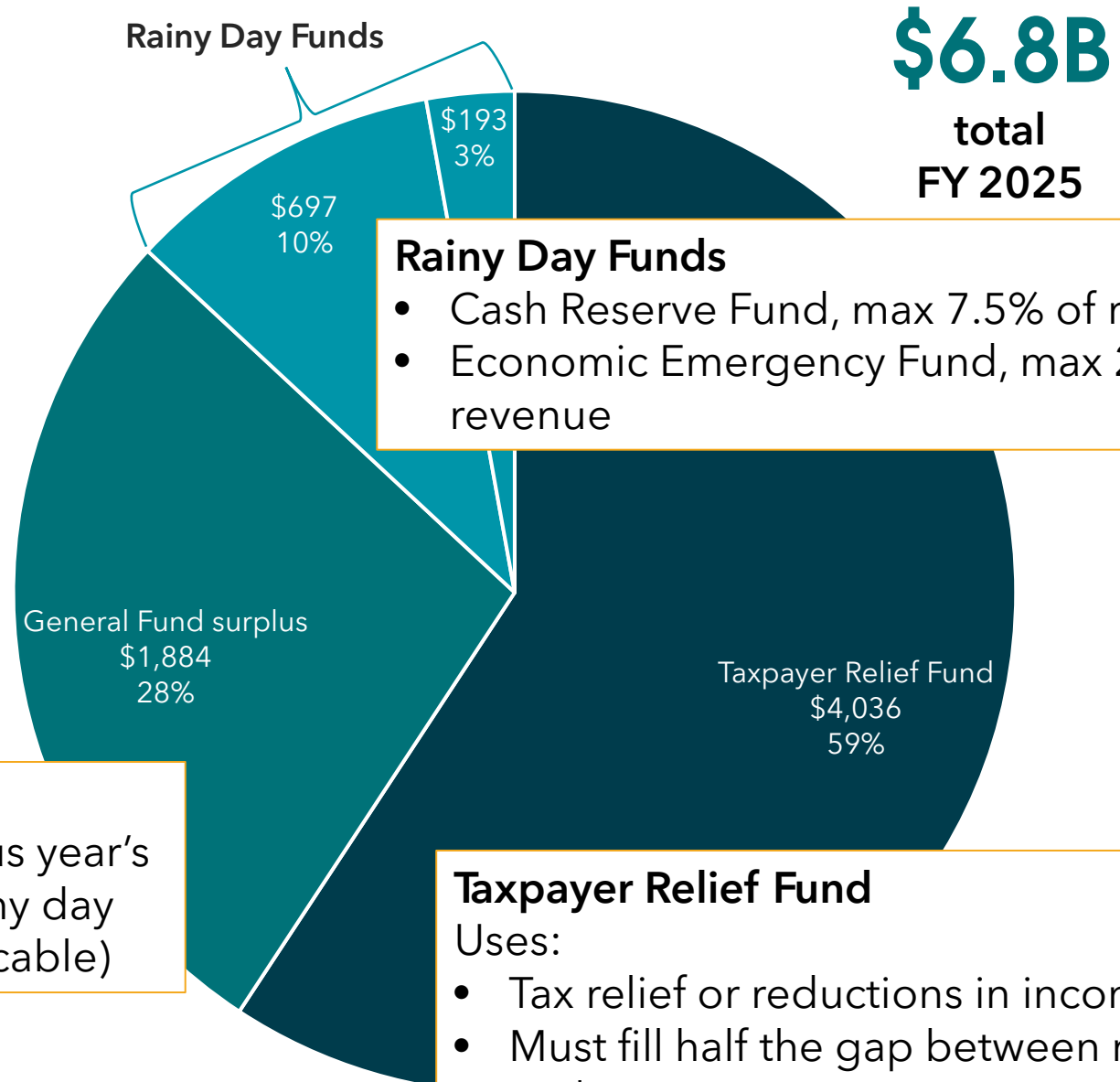
Net General Fund receipts and approved General Fund budgets (in billions), FY 2014-2027



Source: Iowa Legislative Services Agency

# We have them.

When we talk generally about “surpluses,” we’re referring to several different pots of money:



**Rainy Day Funds**

- Cash Reserve Fund, max 7.5% of revenue
- Economic Emergency Fund, max 2.5% of revenue

**General Fund surplus**

- Carryover from previous year’s budget, after filling rainy day funds and TRF (if applicable)

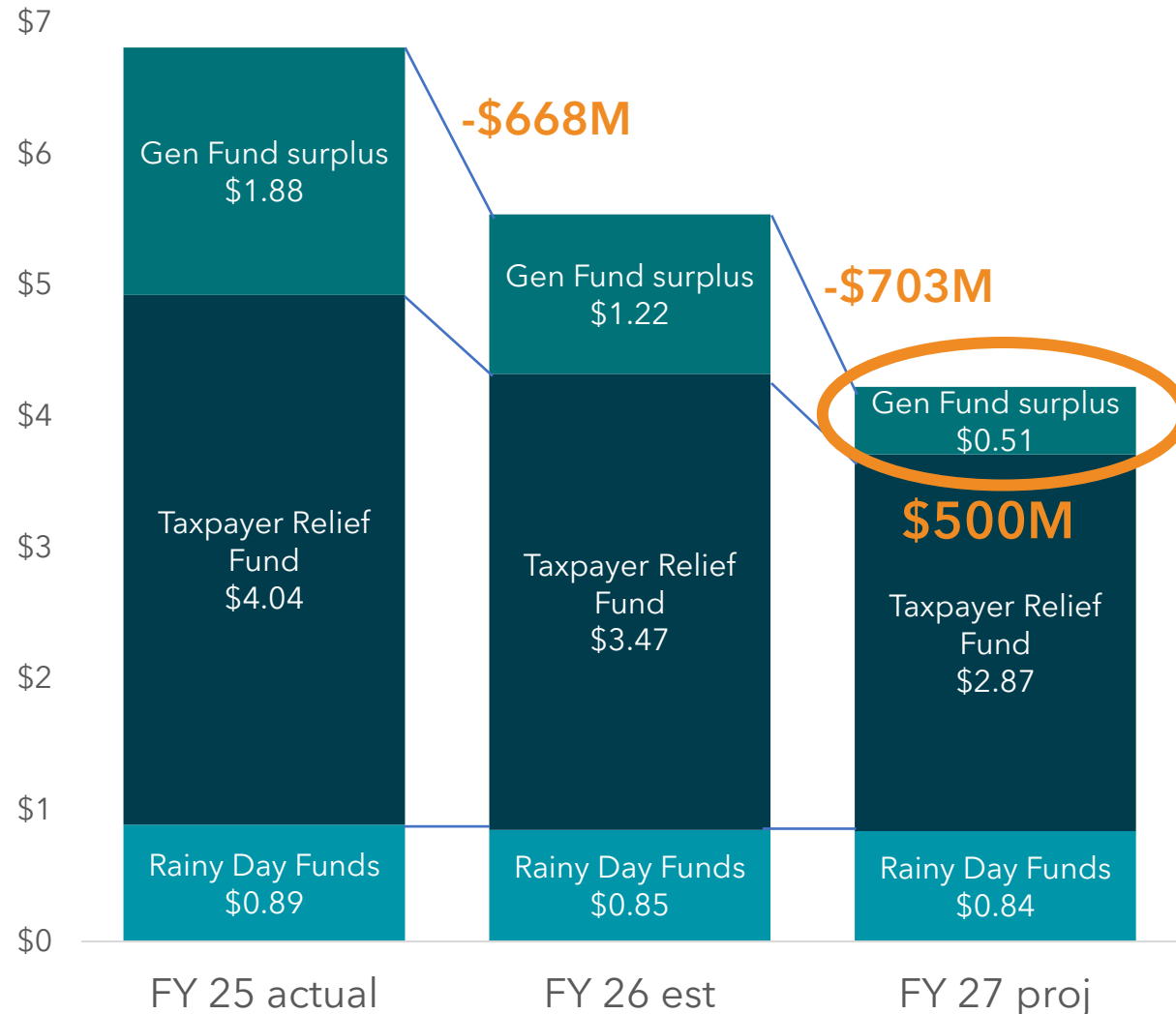
**Taxpayer Relief Fund**

Uses:

- Tax relief or reductions in income-tax rates
- Must fill half the gap between net revenue and appropriations

# But we're about to start burning through them, and pretty fast

Surplus balance by type, FY 2025-27 (proj), in billions



In just two years:



General Fund surpluses

**-73%**

Taxpayer Relief Fund

**-29%**

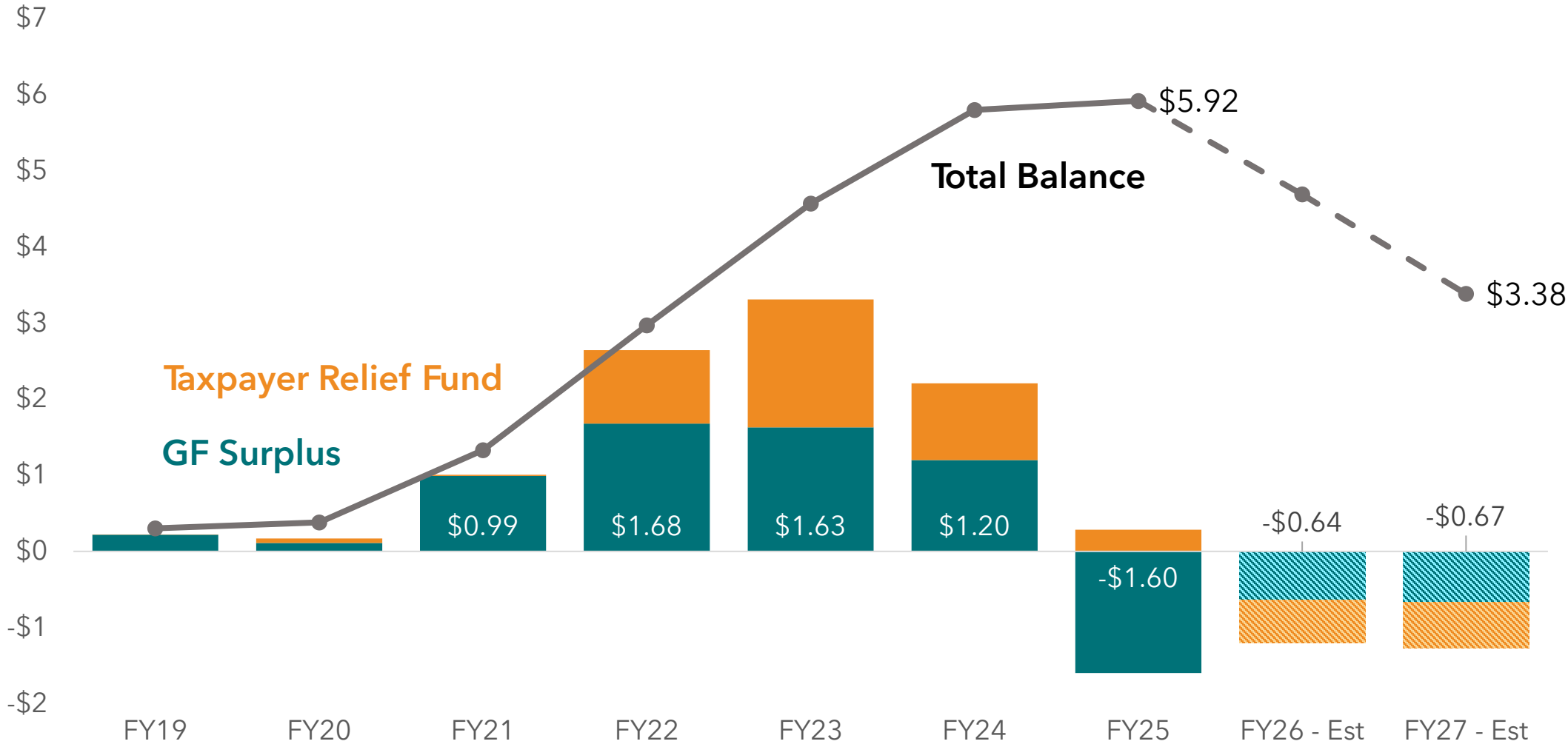
Rainy Day Funds

**-6%**

Sources: Legislative Services Agency. Fiscal Reports, 2020-2025; General Fund Balance Sheet Update, October 21, 2025

# The tax cuts were made permanent, but the surplus isn't

Change in General Fund surplus and Taxpayer Relief Fund balance, FY 2020-2027 (est), in billions



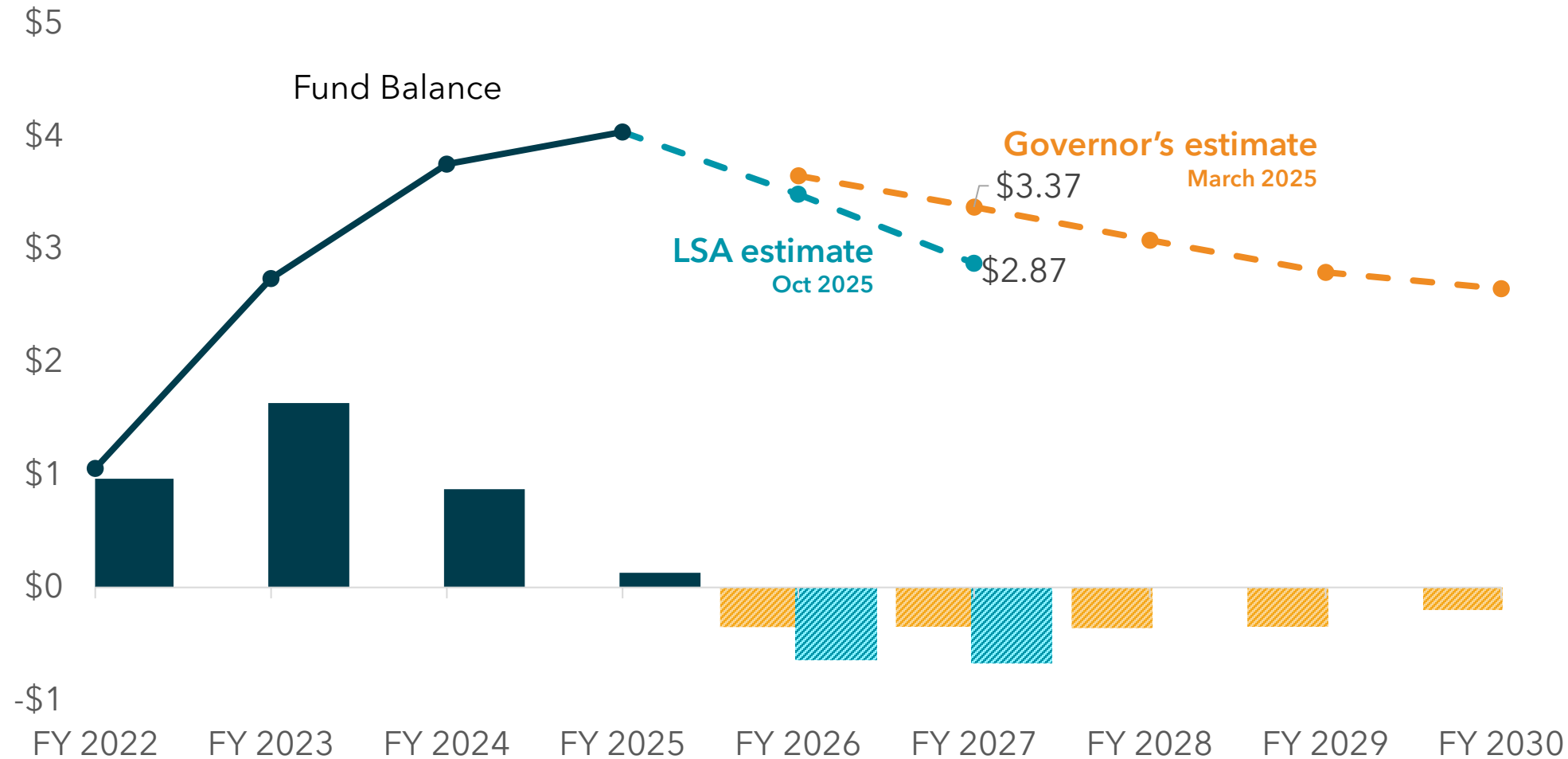
Sources: Legislative Services Agency. Fiscal Reports, 2020-2025; General Fund Balance Sheet Update, October 21, 2025

# March Executive Branch numbers overestimated TRF balance by \$500M

Revealed plan to rely on fund to balance the budget through at least 2030



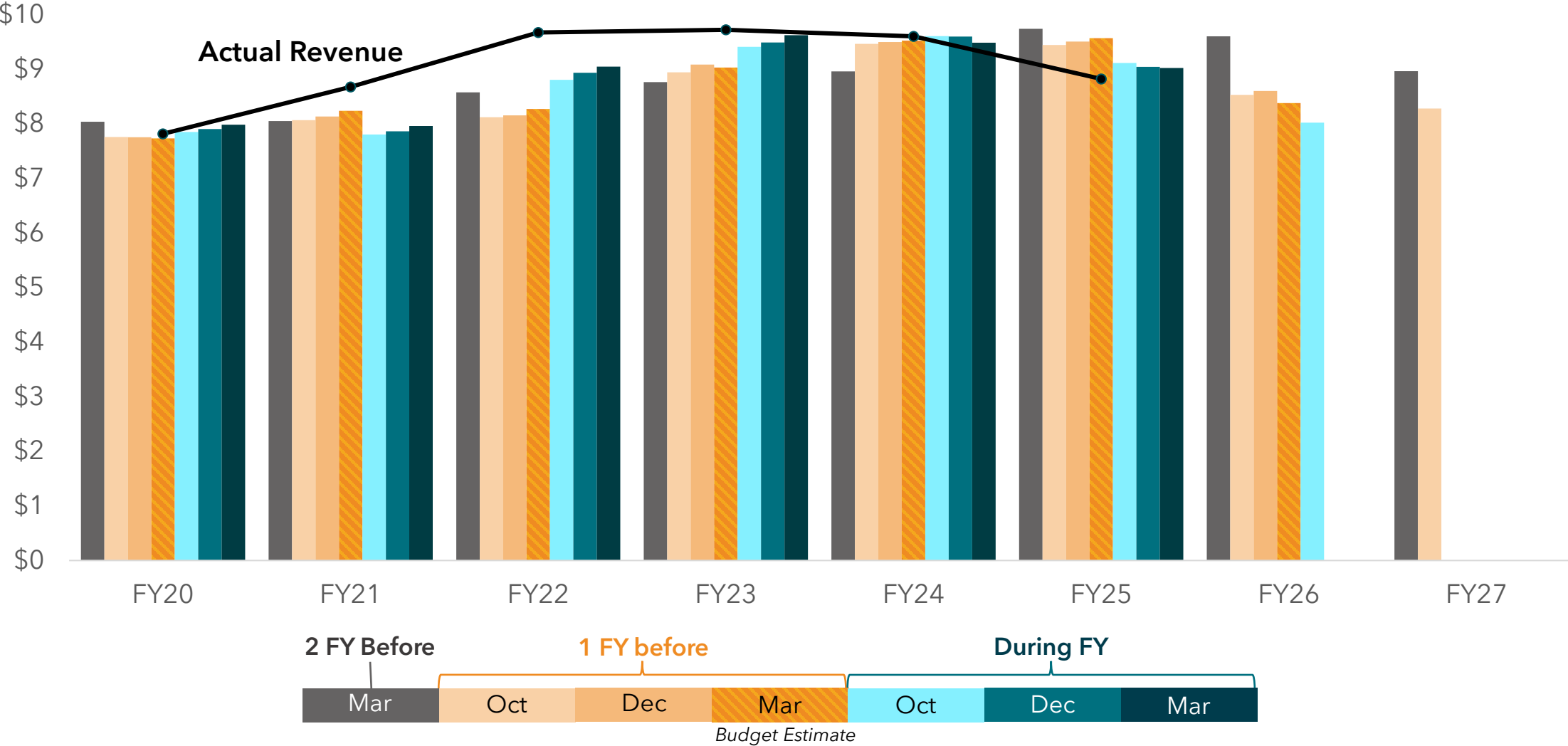
Taxpayer Relief Fund annual balance change, FY 2022-25 actual and FY 2026-30 est. (in billions)



Sources:  
Legislative Services Agency. Fiscal Report (Graybook), 2020-2025,  
Legislative Services Agency. General Fund Balance Sheet Update. October 21, 2025.  
Iowa Department of Management. Governor's Office 5-Year Financial Plan. March 2025.

# State has consistently overestimated revenue since 2024

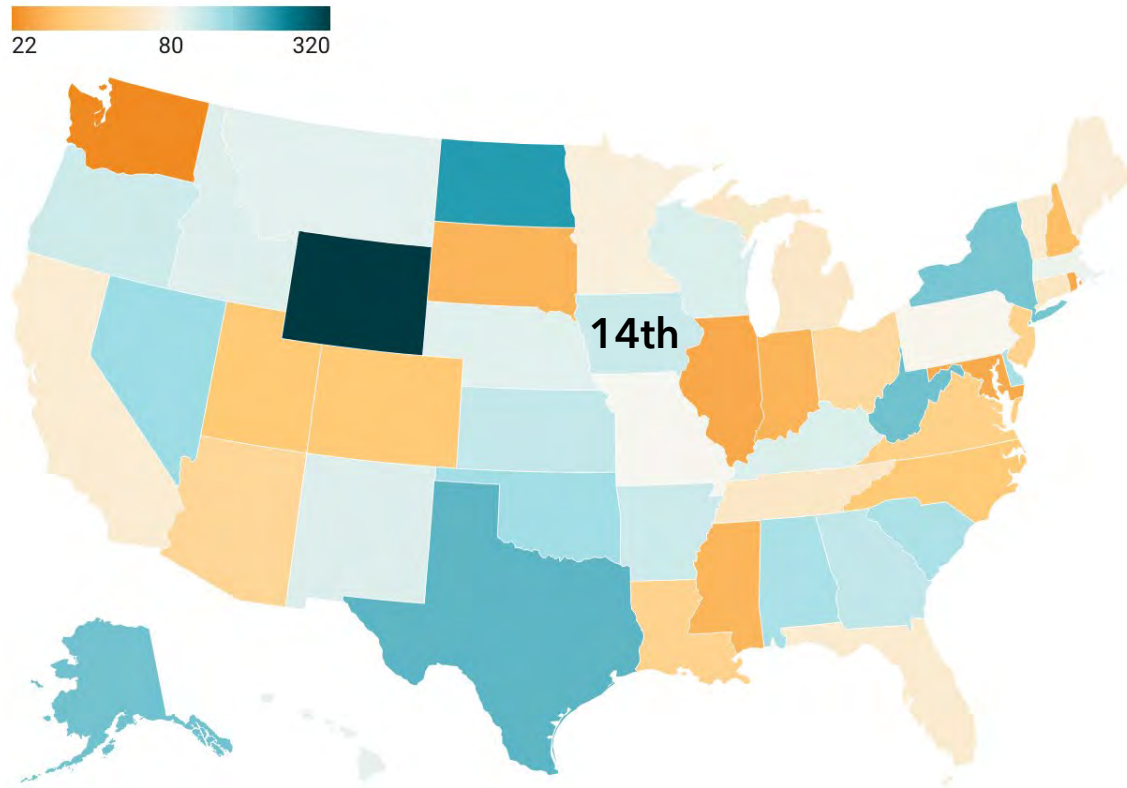
REC Revenue Estimates by Fiscal Year, FY 2020 - FY2027 (in billions)



Using all surplus dollars, Iowa could cover 122 days of spending – but some of those funds are already tapped to backfill tax cuts

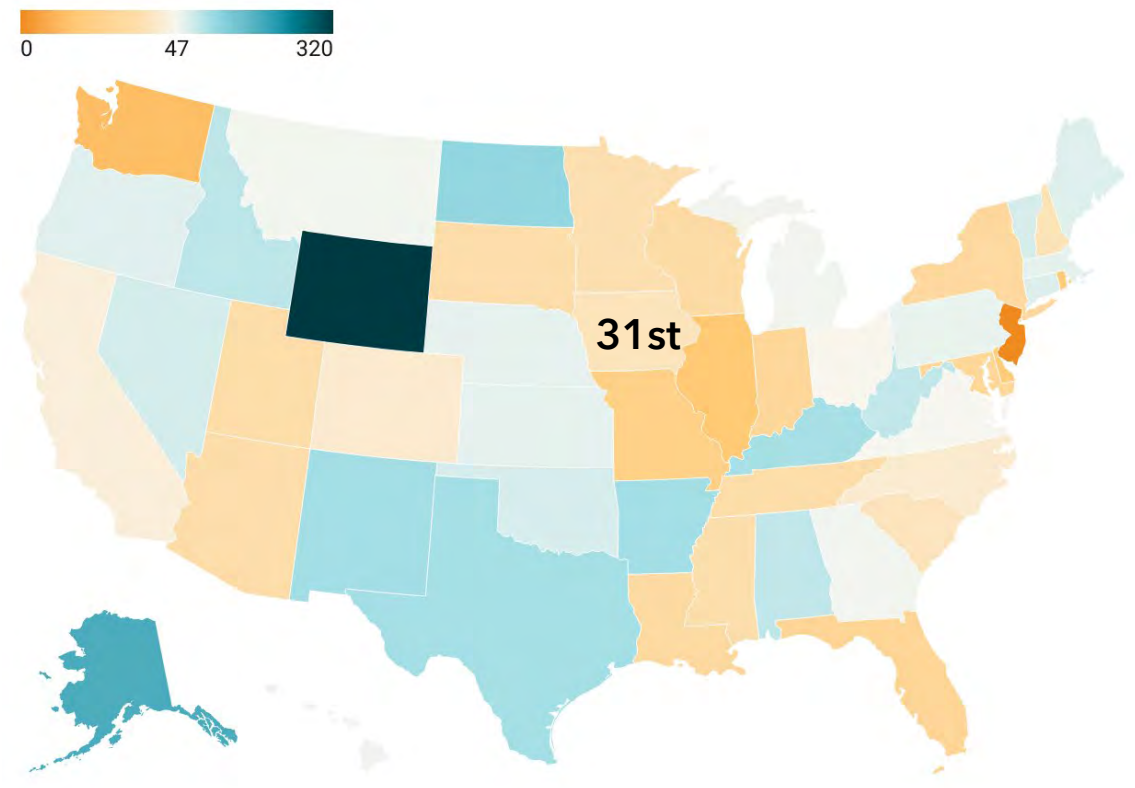
On rainy-day funds alone, Iowa could cover 38 days of spending, below U.S. average

Days states could operate on total surpluses



Created with Datawrapper

Days states could operate on rainy-day funds



Created with Datawrapper

Justin Theal and Page Forrest, Pew, "State Reserves Recede From Record High as Fiscal Pressures Mount."

# Soft economy makes optimistic projections even more questionable

**-2,300** jobs in the past year  
August 2024-2025  
Source: Iowa Workforce Development

**#40** GDP growth  
Q1-Q2 2025  
Source: Bureau of Economic Analysis

**#49** consumer spending growth  
2023-2024  
Source: Bureau of Economic Analysis

**+100%** U.S family farm bankruptcies  
Q1 2024-Q1 2025  
Source: Bloomberg

Ag states like Iowa are feeling the pain of trade wars

## Iowa farm troubles continue with a 24% decline in income projected for 2026, report shows



**Donnelle Eller**  
Des Moines Register

Nov. 6, 2025 Updated Nov. 7, 2025, 6:29 p.m. CT

**JOHN DEERE ANNOUNCES MORE LAYOFFS**

- ▶ 101 IN WATERLOO
- ▶ 40 IN DES MOINES
- ▶ DECREASED DEMAND, LOWER ORDER VOLUMES



**JOHN DEERE**

KCCI 8 77°  
Des Moines IA 12:07

## As farmers face falling incomes, are land prices next?

Iowa Public Radio | By Sheila Brummer  
Published October 9, 2025 at 2:16 PM CDT



### LOCAL NEWS

## Bankruptcy on the rise with rural Iowa farms

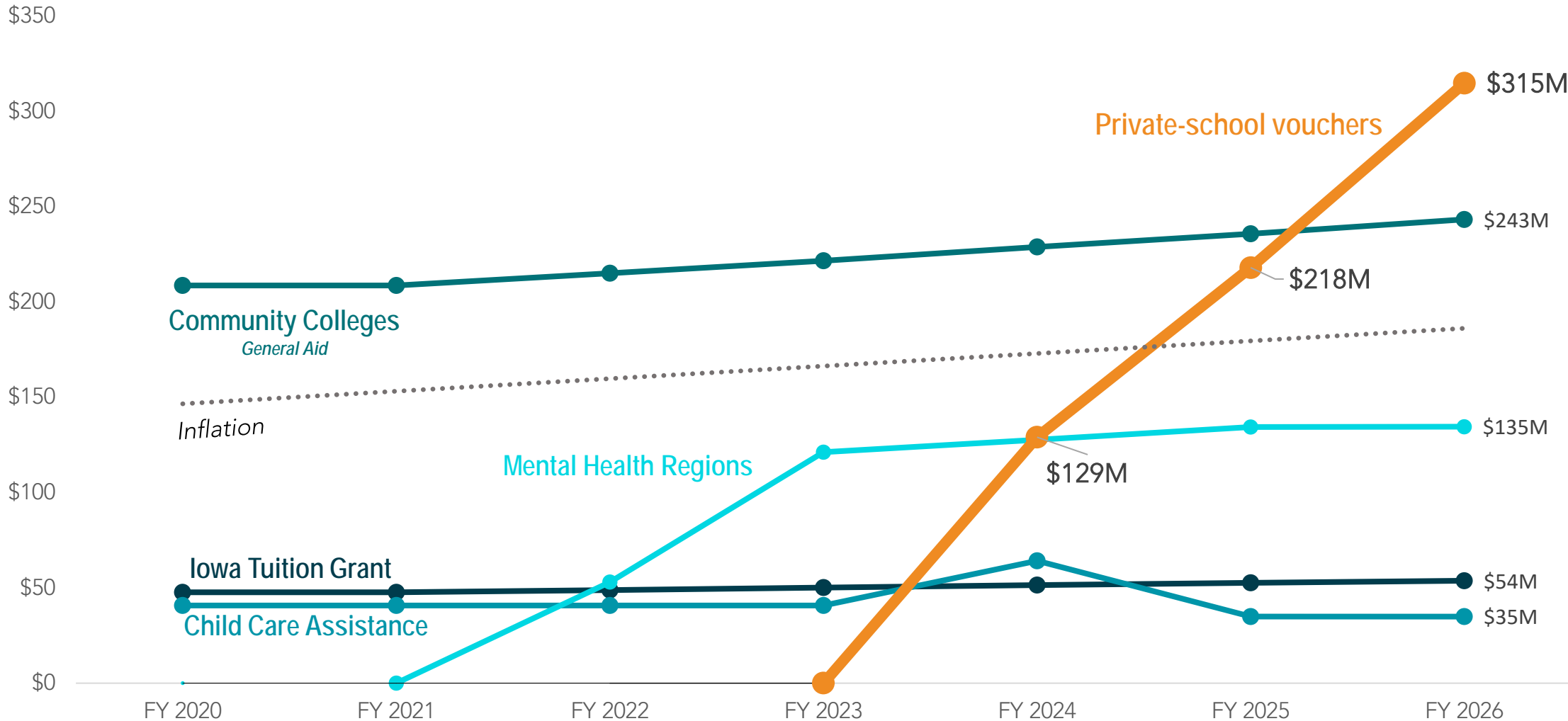
by **Brian Weckerly**  
Posted: Sep 16, 2025 / 06:18 PM CDT  
Updated: Sep 16, 2025 / 06:19 PM CDT



Even as lawmakers cut taxes,  
they added new spending obligations

# Vouchers quickly dwarf other education, family supports

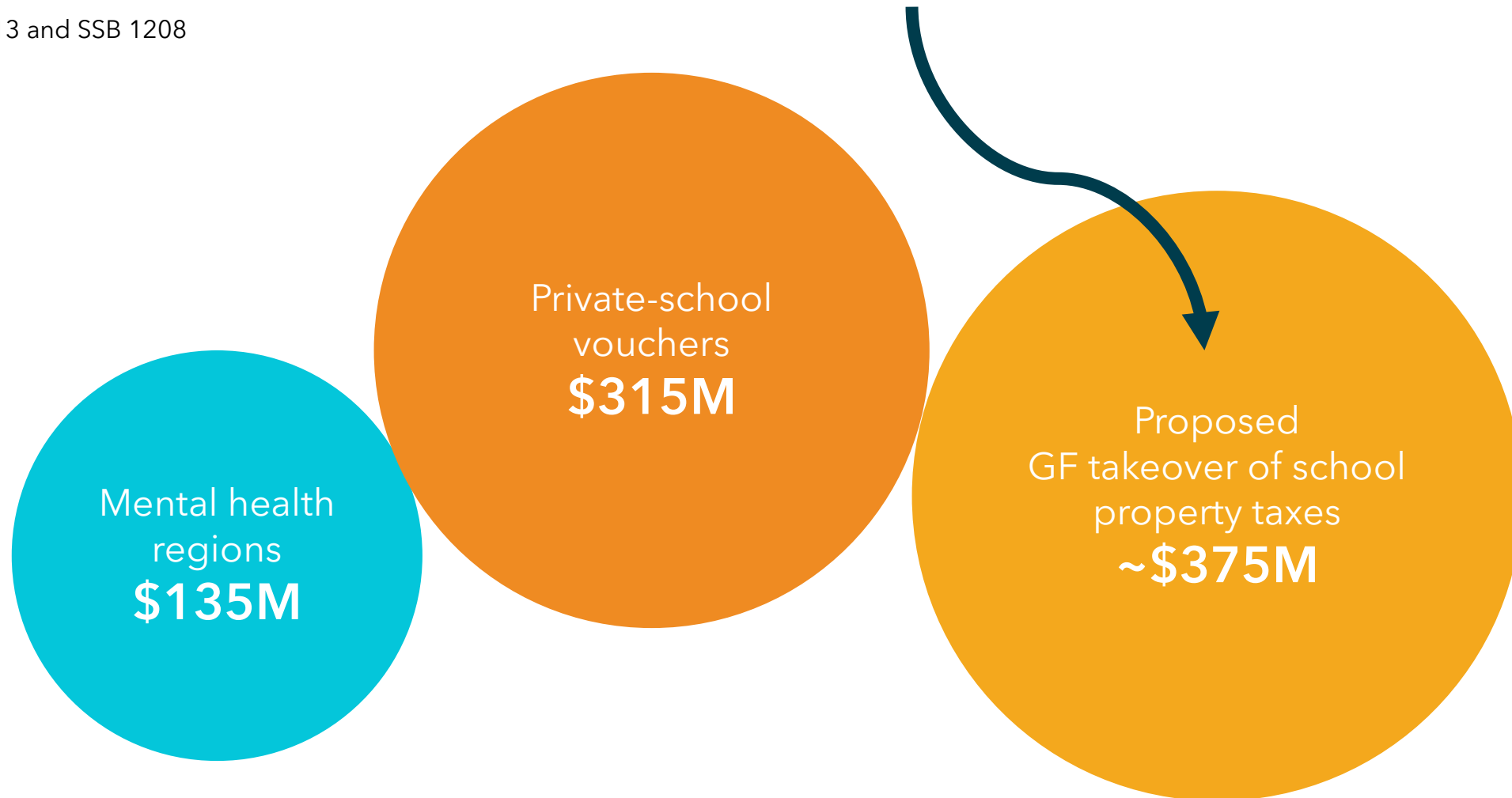
Select General Fund appropriations, FY 2021-26



# Property tax cuts could make budget squeeze worse

Recent additions to the General Fund compared with last session's proposal to shift some local school funding from property taxes to the General Fund, FY 2026

HSB 313 and SSB 1208



# Are we meeting lowans' needs now?



## As a baby bust hits rural areas, hospital labor and delivery wards are closing down

JULY 15, 2024 · 5:00 AM ET

FROM **KFF** Health News

By Tony Leys



Obstetrician-gynecologist Taylor Swartz uses an ultrasound scanner to check the health of Addie Comegys' baby on May 30. Comegys, who is due in late August, had traveled 45 minutes for her prenatal appointment at Mahaska Health in Oskaloosa, one of a few rural hospitals in Iowa still offering labor and delivery services.  
Tony Leys/KFF Health News

## IOWA CAPITAL DISPATCH

### Iowa scores in 50-state education rankings decline from years past

BY: JACK O'CONNOR - JUNE 17, 2024 1:53 PM

## Des Moines Register

### Treating high nitrate levels that drove irrigation ban cost central lowans \$1 million



**Donnelle Eller**  
Des Moines Register

Aug. 28, 2025 | Updated Aug. 29, 2025, 3:17 p.m. CT

## The Gazette

### Study: Iowa employers rarely penalized for endangering youth at work



### Why cancer is hitting the Midwest harder than anywhere else in America

Environmental exposures to carcinogens under investigation as potential factors

By **Khloe Quill** · Fox News

Published October 30, 2025 3:47pm EDT

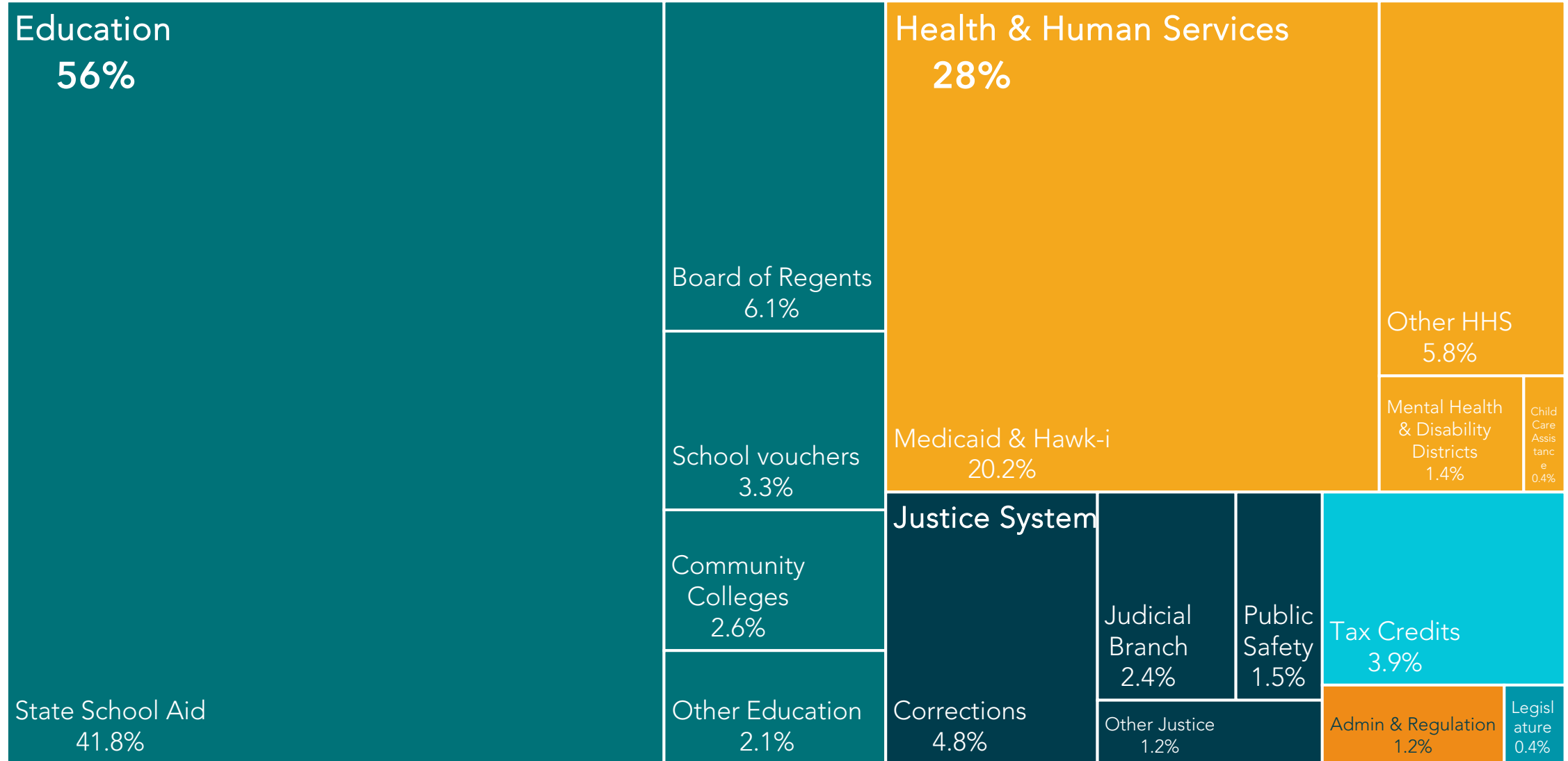


### Number of Iowa school districts with 4-day weeks tripled in one year

Iowa Public Radio | By **Nicole Grundmeier**  
Published December 9, 2024 at 5:00 AM CST

# There's no way to make big budget cuts without doing harm

FY 2026 General Fund legislative appropriations by function



Source: Legislative Services Agency, 2025 Fiscal Report (Graybook)





# A Win for the Wealthy, A Loss for Hundreds of Thousands of Iowans

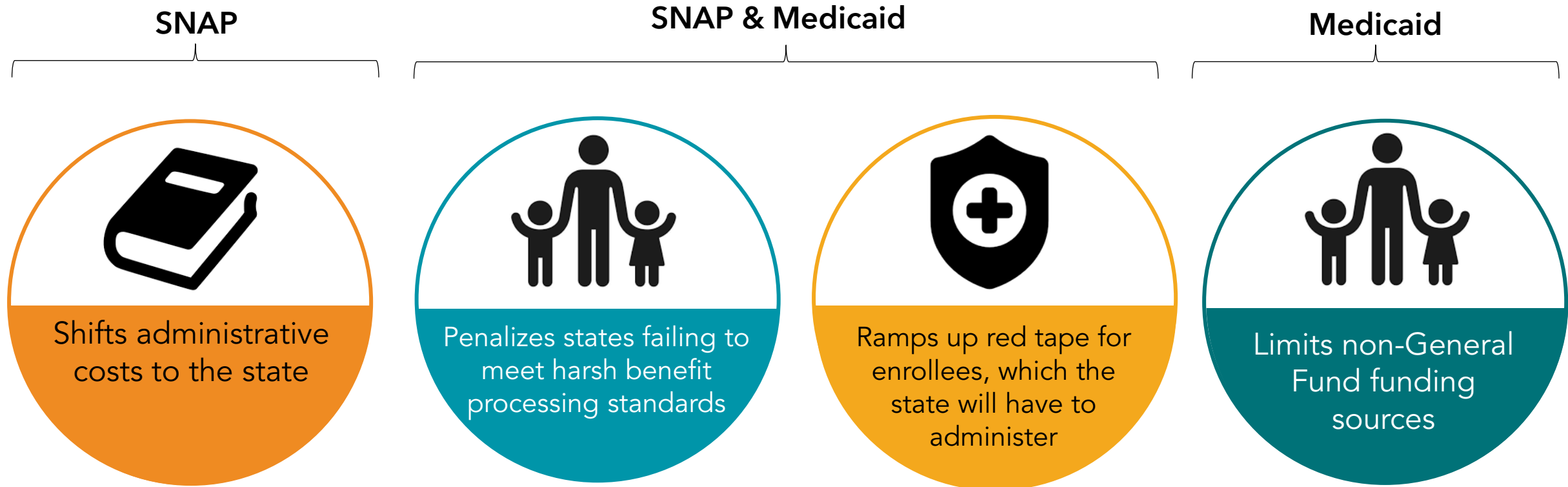
## Raises costs and increases hardship

- **96,000** Iowans will lose health coverage
- An additional **112,000** Iowans will face higher health care costs
- **259,000** Iowans, including children, at risk of losing food assistance
- Increases annual Iowa household energy costs by **\$550** each year

## Delivers massive tax cuts to wealthy Iowans and leaves behind working families and children

- **\$76,100** average tax cut for the richest 1% of Iowans compared to just **\$80** for the lowest-income households
- **120,000** children get nothing from the Child Tax Credit boost and another **6,000** will lose the credit

# Makes enormous cuts to food assistance and health care in part by shifting big new costs onto state governments



Webinar | H.R. 1, SNAP and Medicaid: The impacts and choices facing Iowa  
Wednesday, November 19 at 7 p.m.

A wide-angle photograph of a golden wheat field stretching to the horizon. The sky is filled with heavy, dark blue and grey clouds, with a bright patch of light breaking through near the center. A thin line of green trees is visible on the horizon. The overall mood is dramatic and somber.

**They that fail to learn from  
history are doomed to repeat it**

"Our new pro-growth tax policy will be like a shot of adrenaline into the heart of the Kansas economy. ... An expanding economy and growing population will directly benefit our schools and local governments."

Kansas Gov. Sam Brownback, July 29, 2012

**Bloomberg**

Industries Tech Politics Businessweek Opinion More ▾

## Kansas Schools Close Early as Sam Brownback Tax Cuts Squeeze Revenue

The Wichita Eagle

### *KPERS cuts are costly*

In order to help close this year's budget shortfall, Brownback is withholding \$58 million in state payments to KPERS. The loss of that money and its investment earnings will cost the state \$76.7 million over 20 years, said Alan Conroy, executive director of KPERS.

## THE KANSAS CITY STAR.

GOVERNMENT & POLITICS

### Gov. Sam Brownback cuts higher education as Kansas tax receipts fall \$53 million short

BY EDWARD M. EVELD

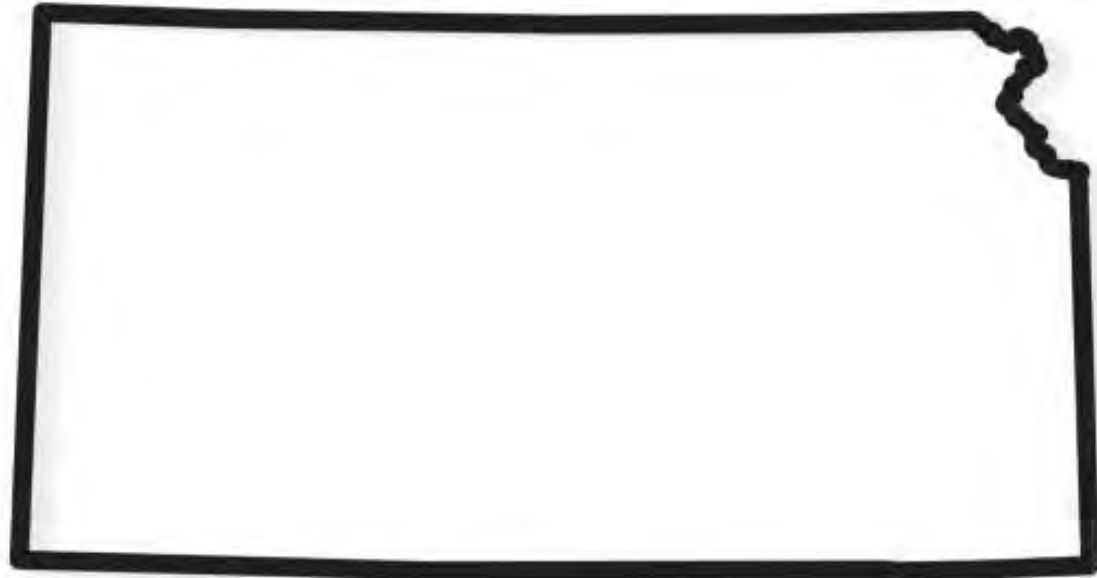
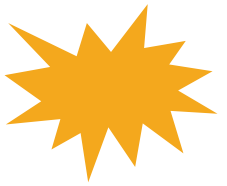
**G** **Governing**  
For the people making government work.

### The Long Road to Recovery After Years of Severe Budget Cuts

BROOKINGS

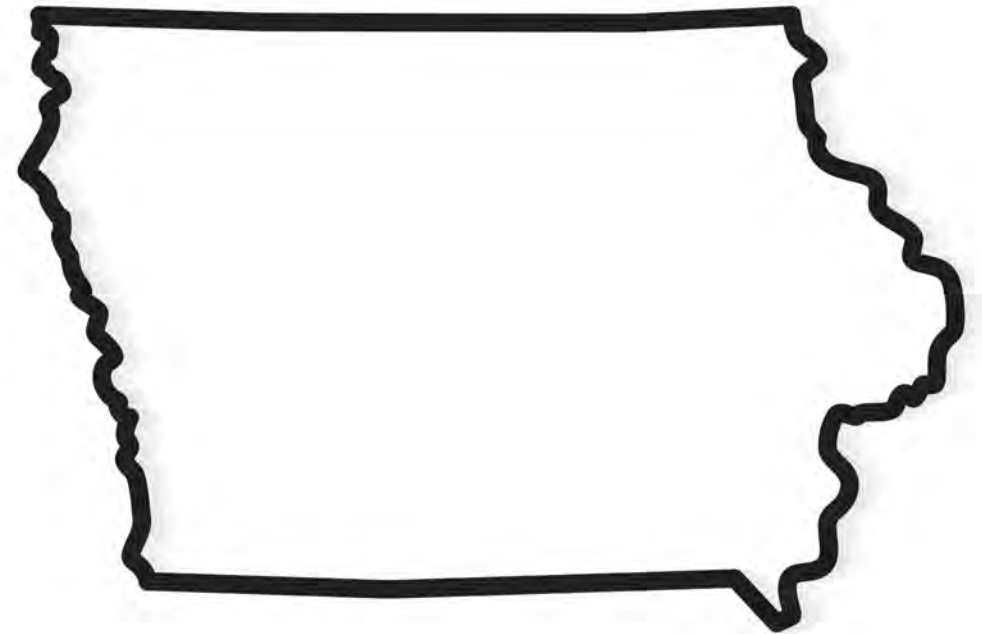
### How state tax cuts in Kansas raised municipalities' borrowing costs

Michael Ng and David Wessel  
July 16, 2018

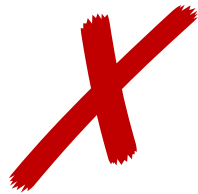


Iowa bills would make reversing the damage very difficult

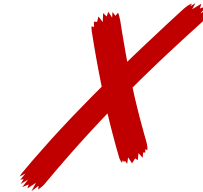
When things went south in Kansas, lawmakers reversed most of the cuts



# Proposed **constitutional amendments** would lock in bad tax policy



**Preclude the wealthy from doing their fair share** by requiring flat-rate personal income tax



**Give veto power** to a legislative minority by requiring two-thirds approval on income-tax increases

**1 'no' vote = 2 'yes' votes**

A photograph of a path covered in fallen autumn leaves, leading towards a house in the distance, framed by trees and bushes. The path is the central focus, covered in a thick layer of dry, yellow and brown leaves. In the background, a white house with a dark roof is visible through the trees. The scene is set in a wooded area with large trees and dense bushes on either side of the path. The overall atmosphere is quiet and serene, typical of an autumn day.

How do we get out



# 1. Stop digging.

No more risky tax cuts that  
force extreme cuts to  
services



## 2. Protect current services.

Use surpluses to weather the storm  
in the short term

### 3. Recapture revenue.

Uncouple low tax code from the fed's most expensive provisions.

Build consensus on other options – undoing some recent income-tax cuts, trimming corporate tax credits, or pursuing new revenue sources that ask the wealthy to do their fair share



## 4. Don't tie the hands of future lawmakers.

Reject proposed constitutional amendments that would preclude the wealthy from doing their fair share and give a legislative minority veto power over income-tax increases.



# What you can do



## Build your own case for revenue

What services in your community depend on taxes? What's at stake?



Ask candidates for office how they will address Iowa's structural deficit and fund the services Iowans depend on

## Bookmark our new revenue toolkit

Content and talking points for social media, newsletters, letters to the editor, lawmaker communication



Invite us to present to your group, members, board of directors, partners ...

# What you can do

Sign up for our new  
tax and budget  
advocacy listserv



And tell us how we  
did today