

How we get out: The path to shared prosperity

Lawmakers should reject austerity — extreme budget cuts leading to a weaker economy, school closures and health care denied — in favor of recapturing the revenue we need to fund services that help all lowans get ahead and thrive. Here’s how:

▶ No more tax cuts

The state cannot afford more broad-based income tax cuts — and certainly not extreme plans to eliminate the personal income tax — nor to buy down local property taxes using General Fund dollars.

▶ For now, use surpluses to maintain services

The state built up big surpluses in just a few years in part by failing to fully fund crucial public goods. In the short term we can use the surpluses to avoid gutting services that protect the health, education and safety of lowans. We have them. Use them.

▶ Build a long-term strategy for adequate, sustainable revenue

Lowans want their communities to remain strong and resilient, and they understand their civic responsibility to contribute. Although we can tap surpluses for a while, longer term we need more revenue. An obvious first step is to decouple the Iowa tax code from tax provisions of the 2025 federal megabill that overwhelmingly benefit the rich. Those include the Qualified Small Business Stock deduction deduction that shields large investors from paying taxes on gains from tech and other startups.

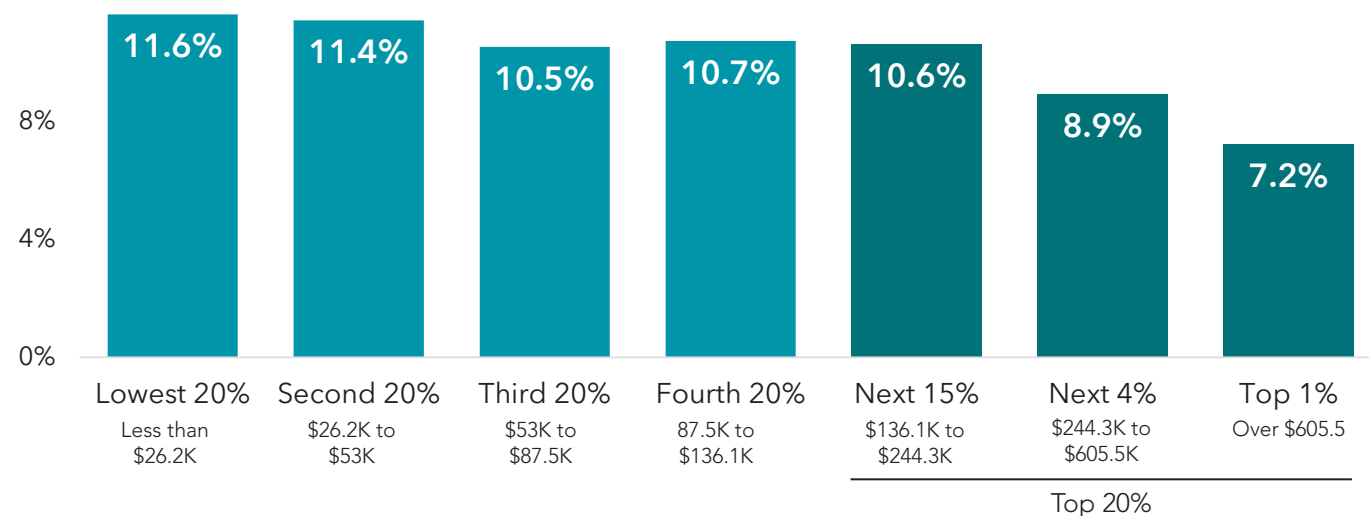
▶ Preserve full range of policy options for the future

Reject constitutional amendments that would tie the hands of future legislators to respond to budget challenges. Our constitution should not allow a legislative minority to overrule their colleagues on income tax increases or mandate a flat personal income tax.

Our tax system asks the most of those with the least

Share of family income paid in total state and local taxes, by income level, 2024 tax law

Recent personal income tax cuts collapsed our formerly progressive structure to a single rate. This shift has exacerbated our “upside-down” total tax system (income, sales and property taxes), in which we ask the lowest-income households to shoulder the biggest burden for our common needs.



Source: Institute on Taxation and Economic Policy, “Who Pays?” Accessed at: <https://itep.org/whopays-7th-edition/>

The path forward: Raise revenue, don’t slash the budget

Lawmakers must protect services that promote widespread opportunity

To set a course for the future, it’s helpful to understand how you got where you are. After years of tax cuts skewed to the wealthy, Iowa now faces a billion-dollar deficit. To fill the gap, lawmakers plan to tap surpluses, built up in large part thanks to a pandemic-era revenue bubble. But the surpluses, expected to drop 41% by the end of FY 2027, just two years after their peak, are going fast.

But there is a better path forward: one where we recapture the revenue we need to support great schools, affordable health care and other services lowans value — and in turn help build thriving communities and a stronger economy.

Read on to learn how we got here and how to get on the path toward a brighter future for all lowans.

We are truly at a crossroads.

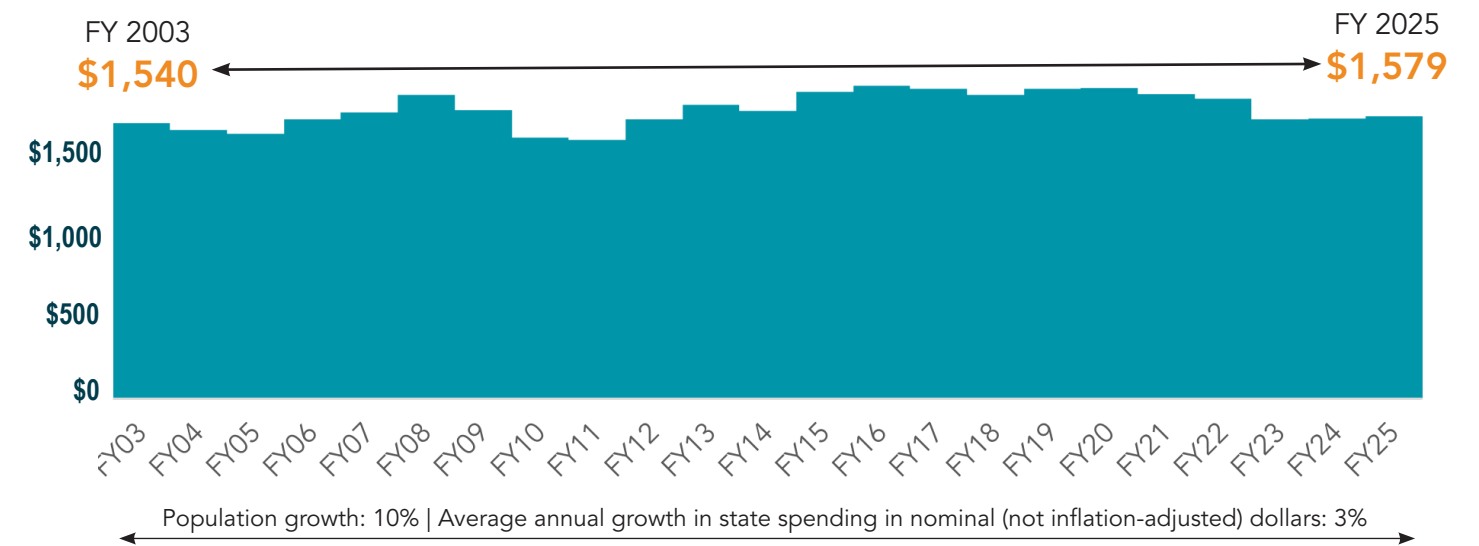
On one path forward — one without new sources of revenue to balance the budget — lowans can expect to see their health, safety and education on the chopping block. There is little fat to cut after decades of restrained budgeting (see chart, below).

Without new revenue to balance the budget, lowans can expect to see their health care, safety and education on the chopping block.

Adjusted for inflation & population, total spending has hardly budged since 2003

Net General Fund appropriations per capita, FY 2003-2025, in constant July 2002 dollars

Even as lawmakers took on new spending in some areas, most recently an uncapped private-school voucher program, overall per-capita spending was basically flat. It’s no wonder the state’s response to many of our most pressing needs — from strengthening public schools and child care to addressing rising cancer rates — has been inadequate.



Sources: Legislative Services Agency, Fiscal Reports (Graybooks), 2003-2025, and U.S. Census Bureau, Resident Population in Iowa, retrieved from FRED, Federal Reserve Bank of St. Louis. Inflation adjustments based on CPI-U, retrieved from U.S. Bureau of Labor Statistics, CPI Inflation Calculator.

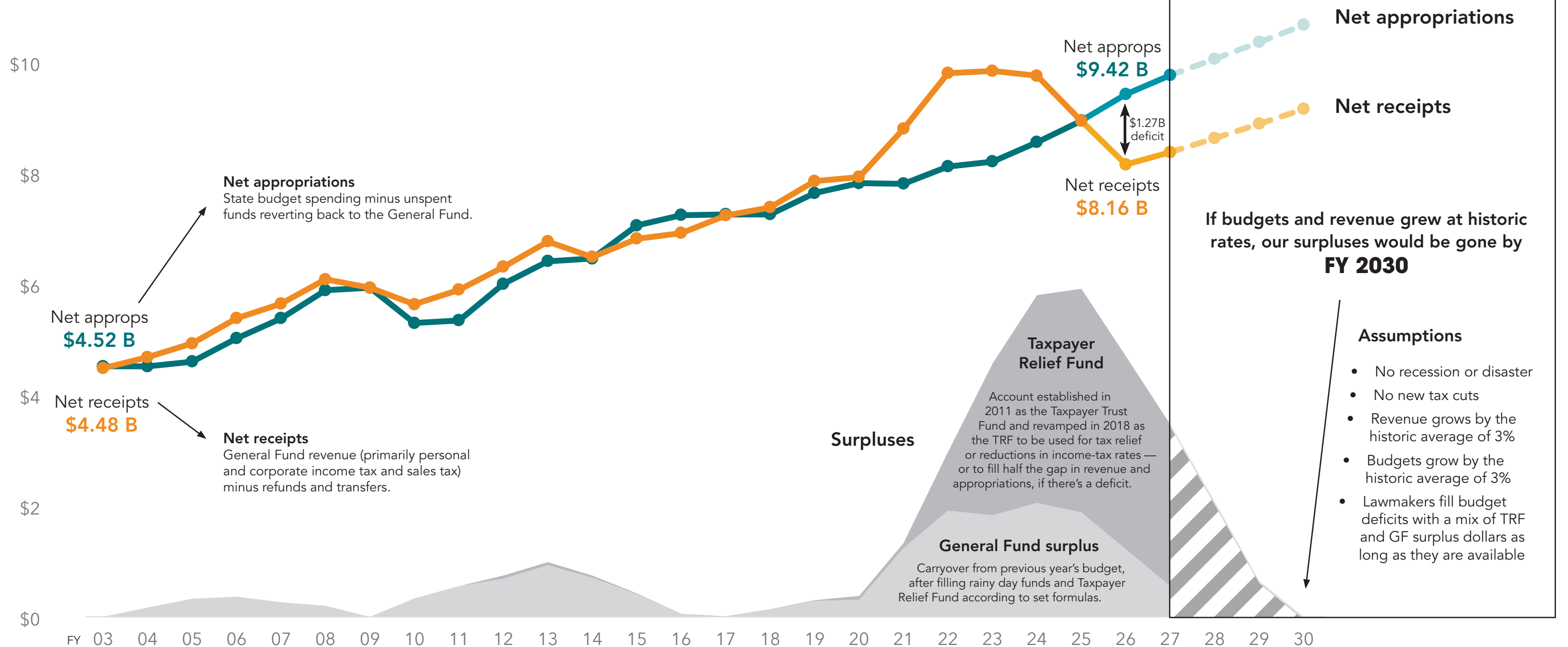
How we got here: Tax cuts opened a structural deficit imperiling schools, health care and other services

Iowa General Fund net receipts, net appropriations and surpluses, in billions

Actuals, FY 2003-25

State estimates and projections, FY 2026-27

Projections based on historic trends, FY 2028-30



General Fund net receipts and net appropriations closely track one another

Federal Covid stimulus spurs an unprecedented revenue boom

Modest tax cuts kick in starting in TY 2019, but the deepest cuts take effect between TY 2023 and 2025

Net receipts drop by \$1.6 billion in just two years

The REC anticipates that absent a recession, revenue will grow again, but from a lower base

Sources: Legislative Services Agency. Graybooks, 2003-2025, and General Fund Balance Update, December 2025. FY 2028-30 projections calculated by Common Good Iowa