

ISU prof: Ending federal deductibility could raise Iowans' tax burden

Posted on 07. Apr, 2009 by [james.lynch](#) in [Federal Government](#), [Legislative News](#), [Politics](#), [State Government](#)

DES MOINES - Iowans pay less in state and local taxes than residents in most states, but that could change if lawmakers eliminate federal deductibility, an Iowa State University researcher said Tuesday.



David Peters

If a plan under consideration by legislative Democrats to lower tax rates and end federal deductibility is adopted, Iowa may no longer stay below the national average, according to David Peters, assistant professor of sociology at ISU. Iowans currently can deduct their federal tax burden from their state tax.

Eliminating federal deductibility "would likely move us higher, as the plan would hit higher-income filers," Peters said. "It would increase our tax burden relative to other states."

That's what Ed Failor Jr. of Iowans for Tax Relief has been saying since Democrats unveiled their plan.

"They're just going to make Iowa less competitive - which is the opposite of their stated goal," Failor said Tuesday.

However, Majority Democrats insist most Iowans will get a tax cut under the plan.

"It's a middle-class tax cut," Senate Ways and Means Chairman Joe Bolkcom, D-Iowa City, said.

Democrats have proposed middle-tax relief by using the \$600 million windfall from eliminating federal deductibility to drive down tax rates for all income brackets. Their plan has gone through numerous revisions and has yet to be finalized, according to those involved.

House leaders and the governor's office indicated they had reached agreement on the plan that, in broad terms, would mean either no change or lower taxes for nearly 75 percent of Iowa income tax filers. The remaining 25 percent either would have no change or an income tax increase. Democrats said that Iowans with adjusted gross incomes of \$125,000 or more would be likely to pay more.

According to the Department of Revenue, those Iowans making less than \$125,000 would, on average, pay tens of dollars less in income taxes. Those earning more than \$250,000 would likely pay as much as \$900 more per year, the department said.

Under the current tax code, Peters found Iowa ranks 36th out of the 50 states and the District of Columbia in how much tax revenue is paid to state and local governments.

"About 8 percent of our total business and individual income is consumed in taxes," he said. "Nationally that rate is about 9 percent."

Peters looked at five different types of taxes nationally and ranked the 51 areas studied. Iowa ranked below the national average in four categories — sales tax (38th), individual income taxes (30th), miscellaneous taxes (34th) and corporate income taxes (42nd).

Iowa ranked above the national average in one category — property taxes (19th). Iowa's higher property tax may be related to the state's emphasis on education, Peters said.

When examining how Iowa ranks in comparison to neighboring states, Iowa is about in the middle.

"In terms of our surrounding states, generally we are more competitive in terms of lower taxes than Minnesota or Wisconsin," said Peters. "We are about equivalent to Nebraska and Illinois. Iowa has higher taxes than Missouri and South Dakota. South Dakota has no individual income tax."

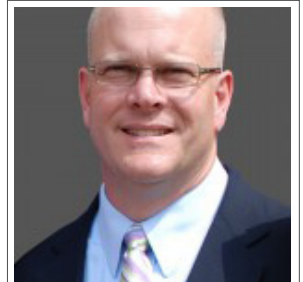
These tax rates can be among the criteria considered when businesses are looking to relocate to the Midwest from another region of the United States or another country.

"If a business is looking to relocate, Missouri and Iowa both have many reasons to come to either state — infrastructure, central location — but Missouri has much lower taxes and that would make them more competitive," said Peters.

Comparing tax burdens from one state to another is more than just looking at tax rates. Peters' formula also factors in variables such as each state's personal income and business profits.



Sen. Joe Bolkcom



Ed Failor Jr.