



The Watchdog

A Legislative Update from Iowans for Tax Relief



Friday, February 16, 2007

6th Week of Session

Steady Iowa Economy Shows Strength in State Revenue Growth: No Justification for Tax Increases in Governor's Budget

REVENUE GROWTH HAS OUTPACED LAST YEAR IN SIX OF THE FIRST SEVEN MONTHS OF CURRENT BUDGET YEAR:

The monthly revenue report from the Fiscal Division of the Iowa Legislative Services Agency shows the Iowa economy is producing revenue to the state government at an annualized growth rate of 6.2% over the first seven months of fiscal year 2007 (July 1, 2006 through January 31, 2007).

If the trend continues for the final five months of FY2007, Iowa will collect \$357.8 million more revenue than it did in FY2006. This would be an unexpected windfall of \$72.9 million above the revenue estimate of 4.9% growth that was used to write the current year's budget.

ESTIMATED GROWTH RATE: 4.9%
CURRENT GROWTH RATE: 6.2%
(first seven months of FY07)

ESTIMATED \$\$ GROWTH: \$284.9
(in millions)
ACTUAL \$\$ GROWTH: \$357.8
(in millions, if current trend continues to end of FY07)

Growth in personal income tax collections leads the way in pure new dollars (+\$86.3 million for the first seven months) while corporate income tax collections are growing at the highest percentage rate (+40% for the first seven months).

Here are additional revenue growth details for the major state revenue sources:

Personal Income Tax revenue for the first seven months of FY07 totaled over \$1.6 billion, a 5.7% and \$86.3 million increase over the same period in FY06. This is the state's single largest revenue source.

For the month of January FY07, personal income tax revenue totaled \$303.5 million, a 6.2% and \$17.8 million increase over January FY06.

The FY07 revenue estimate for personal income tax was a growth rate of 6.1%.

Corporate Income Tax revenue for the first seven months of FY07 totaled \$225.3 million, a 40% and \$64.4 million increase over the same period in FY06.

For the month of January FY07, corporate income tax revenue totaled \$33.6 million, a 29.2% and \$7.6 million increase over January FY06.

The FY07 revenue estimate for corporate income tax was a growth rate of 24.3%.

Sales and Use Tax revenue for the first seven months of FY07 totaled nearly \$1.1 billion, a 2.4% and \$25.2 million increase over the same period in FY06.

For the month of January FY07, sales and use tax revenue totaled \$117.5 million, a 18.2% and \$18.1 million increase over the same period in FY06.

The FY07 revenue estimate for sales and use tax was a growth rate of 2.7%.



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REVENUE GROWTH, continued...

With state revenue growing at such a robust rate (thanks to a growing Iowa economy) there appears little justification for the tax increases being proposed by Governor Culver (over \$180 million in his proposed budget for FY08).

In fact, tax increases on consumers and large Iowa employers (the targets of his proposed tax cuts) could well have the effect of slowing the Iowa economy in future years and costing state government significant new revenue it would have otherwise collected.

State revenue estimating models tend to operate in a static mode, meaning they do not take into account the behavioral changes that occur when you raise taxes on certain products or businesses.

For example, state revenue estimates on the proposed cigarette tax increase do not account for the certain changes in personal buying habits that will occur when this tax increase is implemented.

A dollar increase in the cigarette tax will totally wipe out Iowa's price advantage over Minnesota and Illinois. As a result, those out of state consumers who have traveled to Iowa to purchase tobacco products (and the gas, groceries, and other purchases that accompany such trips) will no longer have a price incentive to do so and will likely begin to make those purchases in their home states.

Our static revenue estimates simply do not accept the premise that people will change behavior based on the taxation of an item, a service, or a behavior.

As a result, our revenue estimates are unlikely to anticipate the negative effects tax increases will have on economic activity and, by extension, on state revenue growth.

SENATE WAYS AND MEANS COMMITTEE APPROVES INCREASE IN TOBACCO TAX:

Last week the Senate Ways and Means Committee, on a 14-3 vote, approved Senate File 128, an estimated \$133.3 million increase in state tobacco taxes in FY08.

Currently, cigarettes in Iowa are taxed at the rate of \$0.36 per pack. If SF 128 were to become law, the per pack tax would rise to \$1.36 (an increase of nearly 278%).

HOUSE AND SENATE BOTH PASS INCREASE IN SCHOOL SPENDING. NEXT STOP IS GOVERNOR CULVER'S DESK:

Senate File 109 increases the school foundation allowable growth rate in spending for K-12 schools by four percent.

SF 109 was approved by the Iowa House this week (after receiving approval by the Senate the previous week) and is now headed to Governor Culver's desk where it is certain to be signed.

With the passage of SF 109, state aid for K-12 education will total nearly \$2.3 billion, with an additional \$1.15 billion coming from local property taxes.

In fact, passage of SF 109 also means local property taxes will, by law, increase by \$28.8 million, a 2.6% increase over the previous fiscal year.

The Watchdog is a weekly update of issues which are being considered by the Iowa Legislature.

It is a service to members of Iowans for Tax Relief. Permission is granted to forward this to any interested individuals.

Comments or questions concerning **The Watchdog** should be directed to:

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