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To Our Members

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Time to Stand Up! HELP Iowans for Tax Relief Win the Fight to Save Federal Deductibility in the New Legislature.

Iowa is one of only a few states that allow taxpayers to deduct all their federal income tax payments on their state income tax returns. Your right to take this deduction is called "federal deductibility." Iowans for Tax Relief is the strong force that has, to date, successfully defeated all attempts to take away or cut back this key deduction. We must keep this valuable component of tax fairness in the Iowa tax code.

During the next two years, we face our biggest challenge since the 1980s. Special-interest lobbyists are gearing up for a full-scale effort to **repeal** or at least **take away part** of federal deductibility. They correctly view 2007-2008 as their best window of opportunity to **rob you** of this important deduction.

1. NO TAX ON A TAX: Federal deductibility is simple fairness. Iowans should not be forced to pay a state income tax on money used to pay their federal income tax. The average taxpayer never touches, sees, or has any control over this money. The state has **no** right to tax the money the IRS takes out of your paycheck before you get your hands on it!

The federal deduction is one of many tax fairness protections in the Iowa tax code. All Iowans who itemize their deductions also have the right to deduct property taxes on their Iowa income tax return.

Simple fairness says governments should not tax income used to pay another tax.

2. IOWANS STRONGLY SUPPORT KEEPING FEDERAL DEDUCTIBILITY: A new survey shows 77% of Iowans support keeping federal deductibility – including 78% of Democrats, 78% of Republicans, and 73% of no-party Iowans.

That same poll shows 72% of Iowans believe keeping federal deductibility is a matter of fairness and nearly 62% of Iowans believe politicians can't be trusted to reduce tax rates in return for taking away federal deductibility.

Support for federal deductibility is exceptionally high across demographic categories. It is not a partisan issue and has strong support at all income levels.

This survey of 526 Iowa respondents was conducted on January 3-4, 2007 by Victory Enterprises and has a margin of error of +/- 4.3%.

3. THE SAD HISTORY OF TAX "REFORM": There have been many attempts to combine repeal of federal deductibility with a reduction in Iowa personal income tax rates. Even the "revenue-neutral" schemes would cause a big tax shift, changing the distribution of the tax burden among income groups.

Beware! Don't trade federal deductibility for the promise of lower tax rates – unless you **trust** politicians **never** to raise those rates! Experience proves the lower rates would be temporary – raised again whenever the politicians "need" more money.

The federal "Tax Reform Act of 1986" is a painful example of what happens when you give up important deductions in return for lower tax rates.

In the name of "simplification" many tax deductions were taken away, the definition of income was broadened, and tax rates were lowered in return.

This tax "reform" was short-lived. Two rates with a 28% top rate have been replaced with six rates and a 35% top rate. "Reform" became a huge tax increase.

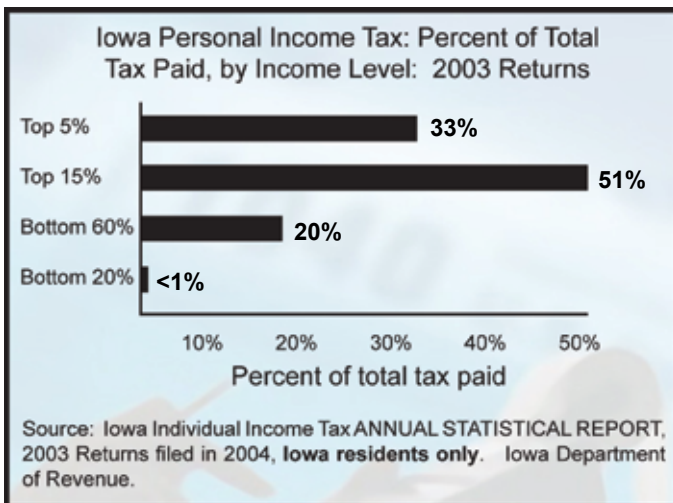
The complexity has returned, the tax rates have been raised, but the deductions are gone forever. (OVER)

We need your help to send a message to the Iowa Legislature to save federal deductibility!

Iowans for Tax Relief will be waging a major media campaign to inform Iowans about this threat and ask them to contact their State Legislators. We are purchasing radio and television advertising to bring our message to a statewide audience.

However, YOU are the final (and most important) part of our effort. YOU will determine its success or failure. Please use your Personal Action Checklist on the next page. Contact your own Legislators and tell them NOW: "protect federal deductibility" and "a tax on a tax is wrong." Your voice can overcome the special interest lobbyists who want to get their hands on more of YOUR money!

Why we fight to keep federal deductibility, continued...



Don't let Iowa repeat the federal mistake! This trade would not be tax reform – it would be **double taxation**, and **higher taxes** on most Iowans.

Iowans for Tax Relief works to **reduce** actual taxes on all Iowa families and businesses.

4. IT IS THE SINGLE BIGGEST DEDUCTION FOR MANY LOW-AND-MIDDLE-INCOME IOWANS:

Some politicians argue federal deductibility is a huge tax break for the rich and keeps them from paying their fair share. This is simply false.

Federal deductibility is a huge help to low-and-middle-

income Iowans who have few other ways to reduce their tax burden.

If you own a home, federal deductibility is probably your second biggest deduction. If you rent, it is likely your **BIGGEST** deduction. Thus, for most low-and-middle-income Iowans, federal deductibility is one of their best methods to lower their tax burden and allow their families to keep more of their earnings.

Federal deductibility does **not** in any way allow upper-income Iowans to avoid paying their "fair share."

State government data clearly show high-income Iowans pay a huge share of the total Iowa personal income tax burden. The **highest-income five percent** of Iowa taxpayers **pay 33%** — and the **top 15% pay more than half** — of all Iowa personal income taxes. Iowa already "soaks the rich."

The **lowest-income 60%** of all Iowa taxpayers **pay about 20%** — and the **bottom 20% pay less than one percent** — of total Iowa personal income taxes.

If Iowa "soaks the rich" even more, this may make them so wet they will move to states with a drier tax climate. And most "rich" victims of eliminating federal deductibility would be middle-income Iowans. If your adjusted gross income is slightly above \$50,000, you are in Iowa's highest-income 10% of taxpayers.

Our Message to Iowa Legislators:

1. **A tax on a tax is wrong.** Federal deductibility is simple fairness. The state has no right to tax the money the IRS takes from us to pay federal income taxes.
2. **Iowans support federal deductibility.** A new poll shows 77% of Iowans want to keep our federal tax deduction. We oppose trading this deduction for lower rates, because we know that trade will raise our taxes; the lower rates won't last.
3. **Trading federal deductibility for lower tax rates is a shell game.** Once a deduction is taken away, it is gone forever. But tax rates NEVER stay the same. Any lower rate will be raised again and that means higher taxes on all Iowans.
4. **Federal deductibility protects low-and-middle-income Iowans.** They benefit the most from federal deductibility because they have few other meaningful deductions.

How You Can Help: Your Personal Action Checklist!

- CALL YOUR STATE REPRESENTATIVE AND SENATOR, TODAY!** Talk to them or leave a message. Tell them: **KEEP** federal deductibility. Use one of the above messages, in your own words, to support your request. **Iowa Senate: 515-281-3371 Iowa House: 515-281-3221**
- If you don't know who is your Representative or Senator, go to our Website at **www.taxrelief.org** and use its "Legislative Lookup" feature — or use the ITR 2007-2008 Legislative Directory we sent you in early January.
- SEND AN E-MAIL MESSAGE.** You can find your Senator or Representative's e-mail address using the "Legislator Lookup" feature on our Website.
- SEND THE ENCLOSED POSTCARDS.** This is another good way to make your voice heard. Add your Legislators' names, sign the postcards, put on 24 cent stamps, and mail them TODAY!