



## Proposed Tax Legislation Would Bury Taxpayers with New Local Option Taxes and Massive Tax Shifts: Voter Approval Not Required

### PROPOSED HOUSE LEGISLATION WOULD RAISES TAXES ON MID- AND LOW-INCOME IOWANS IN AN EFFORT TO REDUCE TAXES ON COMMERCIAL PROPERTY:

This week a small group of State Representatives introduced House File 2671, a massive revision of city government finances that would create numerous additional sources of city government revenue and, if passed, would shift tax burdens onto the backs of mid- and low-income taxpayers in an attempt to provide tax relief for commercial property owners.

Make no mistake, **Iowans for Tax Relief SUPPORTS efforts to reduce property taxes on commercial and industrial property.** However, **we strongly OPPOSE efforts to raise taxes on one group of taxpayers in order to reduce taxes on others.** This “rob Peter to pay Paul” approach to tax reform simply shifts tax burdens and does nothing to limit the growth of local government or actually reduce local government tax burdens in any meaningful way.

Worse, the tax shifts proposed in HF 2671 would be a form of “Robin Hood in Reverse” in that the additional taxes authorized in the bill would fall disproportionately on low- and mid-income Iowans in order to provide some relief to the owners of commercial property (and, unfortunately, the method for providing tax “relief” in HF 2671 is far from a guarantee of dollar for dollar tax relief).

#### Here are the details of HF 2671:

1. **Authorizes cities to collect a franchise fee of five percent** on the gross sales to customers of the franchise. In most cases, this would involve taxing the sales of electricity, natural gas, and (in some cases) water. In essence, this tax would replace revenue lost to cities when the State Legislature authorized legislation to eliminate the sales tax on residential utility bills.

Just a few years after Legislators hailed the utility sales tax repeal as a great victory for low income taxpayers, this legislation would reinstate the very same tax burden on those very same people.

Imposition of this fee would NOT require voter approval.

2. **Authorizes cities to collect an additional penny of local sales and services tax** if they are not already collecting a voter approved local sales tax. There are many who believe sales taxes are regressive and impose a disproportionate burden on low income Iowans.

Imposition of this tax would NOT require voter approval.

3. **Authorizes cities to collect an unlimited local tax on cigarette and tobacco products.** Last year the Legislature approved a one dollar per pack increase in the cigarette tax. This legislation would give cities the ability to increase such taxes in any amount.

Once again, there are many who believe tobacco taxes are regressive in their application and are paid disproportionately by low income Iowans.

Imposition of this tax would NOT require voter approval.

4. **Authorizes cities to impose service charges (in lieu of property taxes) on nonprofit organizations** that are currently totally or partially exempt from local property taxes.

## Details of HF 2671 , continued...

Included in the list of such organizations are “non profit literary, scientific, charitable, benevolent, agricultural, and religious institutions and societies.” Not included for purposes of imposing this service charge are areas of property owned by religious institutions that are used exclusively for worship (this appears to limit the exclusion to worship sanctuaries, but would allow the imposition of the service charge on all other areas of church property).

These new service charges would add significant additional costs to non profits hospitals, cost that will have to be passed on to patients in the way of increased health care costs. These new service charges on non profit charitable organizations would result in those charities having fewer dollars available to pursue their charitable functions.

Who can least afford higher health care costs? Low income Iowans. Who benefits the most from the services provided by charitable organizations? Low income Iowans. Thus, yet another provision of HF 2671 falls squarely on the shoulders of low income Iowans.

5. **Authorizes cities to impose an additional three percent franchise fee** (in addition to the five percent authorized earlier in the bill) **and to impose an addition two percent hotel motel tax** (in addition to the seven percent already authorized by Iowa law).

Thus, if HF 2671 became law, a city could impose a maximum franchise fee of eight percent on local utility bills and a maximum hotel motel tax of nine percent. What an incredible change in direction. Just a few years ago the Legislature was celebrating the elimination of the regressive sales tax on residential utility bills and now they are back at the table suggesting the reimposition of virtually the same tax at a rate of eight percent!

Imposition of these taxes would NOT require voter approval.

**The taxes and fees described in items 2 through 4 of this *Watchdog* would be limited by HF 2671 to pilot programs in 10 designated Iowa cities. However, the five percent franchise fee authorized in item 1 would be available for ALL Iowa cities immediately.**

6. **Requires all revenue collected from these additional sources to be used for property tax relief.** HF 2671 requires 70% of the revenue to be used exclusively to reduce property taxes on commercial and industrial property and the remaining 30% to be used to provide property tax relief to be allocated amongst all four classes of property: residential, agricultural, industrial, and commercial.

Unfortunately, there exists no enforceable mechanism in city government finances to ensure true dollar for dollar property tax relief. Cities could, in anticipation of receiving this revenue, artificially raise property tax levies well beyond the level they would otherwise approve and adopt budgets based on these assumptions. They would then use the “property tax relief” funds to reduce those levies to an acceptable level and use the revenue to simply increase city spending. **The only way to ensure true property tax relief would be to put a hard freeze on property tax collections, limit the annual growth of city expenditures to an appropriate inflation and population factor, and use this revenue to fund the incremental spending growth.**

Iowans for Tax Relief strongly OPPOSES HF 2671 and other efforts to expand the taxing powers of city governments. Raising taxes on one group of Iowans to lower them on others is not a long term solution.

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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.

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