



TAX INCREASES ON THE HORIZON? FIRST UP – ELMINATING FEDERAL DEDUCTIBILITY?

Over the past two years, the Iowa Legislature has increased spending in Des Moines by more than \$849 million, and created a gaping hole in the next fiscal year, a hole that is approximately \$570 million deep.¹

On top of that, the state anticipated an ending balance of \$85 million in its general fund, but now calculations show the state will be left with approximately \$5 million when the year ends June 30, 2009.

When the Legislature adjourned in April, one of the few positives of the 2008 session was that federal deductibility, a key economic development tool, remained unchanged. However, with the 2008 election in the rearview mirror, speculation on the potential for tax increases has begun.

Concern continues to grow that the solution to the state budget disaster is to take away every Iowan's right to deduct all federal income tax payments on their Iowa income tax returns.

WHAT DOES FEDERAL DEDUCTIBILITY DO FOR IOWANS?

Federal deductibility has been a cornerstone principle of Iowans for Tax Relief and we have successfully turned back numerous attempts to take this deduction away from Iowans. We support federal deductibility as a matter of simple fairness – you should not pay a tax on a tax.

For some Iowans, their deduction of federal taxes paid is their single largest deduction on state income taxes. For instance, lower - and middle -income taxpayers who rent their home, can't deduct property taxes, and federal deductibility is the largest deduction these Iowans have on their state income taxes.

Iowa corporations also have the benefit of federal deductibility (however, instead of 100% of all federal tax payments, corporations can deduct 50% of federal tax payments). Even the Iowa Department of Economic Development website lists federal deductibility as a "tax advantage" for businesses locating in Iowa!²

¹ State Auditor David Vaudt, www.auditor.iowa.gov/press/Budget_Aug_2008.pdf

² Iowa Department of Economic Development <http://www.iowalifechanging.com/business/taxadvantages.html>

WHY TARGET FEDERAL DEDUCTIBILITY?

Through the years, there have been legislative proposals to eliminate federal deductibility, and some of those proposals would have reduced the personal income tax rate. In the past when proposals have come up, Iowans have let their Legislators know how important federal deductibility is to Iowa families and businesses. Iowans for Tax Relief has fought for the taxpayer and protected this deduction. Because of our strong defense, attempts to do away with federal deductibility have failed.

But 2009 has the potential to be very different.

The budget mess from 2007 and 2008 needs to be cleaned up – and some will choose to take a quick way out – and suggest federal deductibility for the chopping block. Estimates show that Iowans save approximately \$600 million annually from the deduction of federal taxes paid. Iowan's tax saving is coincidentally very close to the amount of the budget hole for the coming fiscal year.

Iowans for Tax Relief will be at the Capitol to make certain Legislators and the Governor do not balance their budget disaster on the backs of Iowa families and businesses by taking away this important income tax deduction.

WHEN THE LEGISLATURE CONVENES.

The 2009 Session of the Legislature will convene on January 12, 2009, and the Governor has until February 1, 2009 to release his Fiscal Year 2010 budget. Expect to see tax increases to offset the unbridled spending sprees of the 2007 and 2008 Legislative Sessions.

Iowans for Tax Relief will continue to fight for every Iowan's right to deduct federal income taxes, as well as reduced state government spending and lower taxes for all Iowans.

Visit our website for more information on federal deductibility at: www.taxrelief.org

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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