



The Watchdog

A Legislative Update from Iowans for Tax Relief



Friday, March 23, 2007

11th Week of Session

State Revenue Continues to Grow Beyond Expectations: This is No Time for Tax Increases

REVENUE GROWTH HAS OUTPACED LAST YEAR IN SEVEN OF THE EIGHT 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 eight months of fiscal year 2007 (July 1, 2006 through February 28, 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 eight 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, (+\$112.3 million for the first eight months) while corporate income tax collections are growing at the highest percentage rate (+37.5% for the first eight months).

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

Personal Income Tax revenue for the first eight months of FY07 totaled nearly \$1.9 billion, a **6.4% and \$112.3 million increase** over the same period in FY06. This is the state's single largest revenue source.

For the month of February FY07, personal income tax revenue totaled \$256.1 million, a 11.3% and \$26 million increase over February FY06.

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

Corporate Income Tax revenue for the first eight months of FY07 totaled \$237.8 million, a **37.5% and \$64.8 million increase** over the same period in FY06.

For the month of February FY07, corporate income tax revenue totaled \$12.5 million, a 3.3% and \$0.4 million increase over February FY06.

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

Sales and Use Tax revenue for the first eight months of FY07 totaled over \$1.3 billion, a **2.4% and \$31.1 million increase** over the same period in FY06.

For the month of February FY07, sales and use tax revenue totaled \$242.6 million, a 2.5% and \$5.9 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 additional tax increases.

Already this year, the Legislature approved and the Governor signed legislation to increase state excise taxes on tobacco users to the tune of more than \$140 million annually.

Now, the Legislature is likely to consider an increase in the state use tax that will hit consumers with another \$100 million plus in additional state taxes (see HF 854).

Tax increases on consumers and large Iowa employers (the target of another proposed tax increase in Governor Culver's budget) 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. (In regards to the proposed increase in the use tax, car buyers will be especially hard hit.)

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.

HOUSE SUB COMMITTEE APPROVES STATEWIDE SALES TAX FOR SCHOOLS:

A House sub committee reviewed and approved HF 854, a bill to replace the current local option sales tax for school infrastructure with a permanent statewide increase in the state sales and use tax on a 3-2 vote.

Those members of the sub committee in favor of HF 854 were Rep. Roger Wendt (D-Sioux City), Rep. Mark Davitt (D-Indianola), and Rep. Marcie Frevert (D-Emmetsburg). Those opposing HF 854 were Rep. Tom Sands (R-Columbus Junction) and Rep. Jamie Van Fossen (R-Davenport).

At a minimum, passage of HF 854 would result in a \$100 million increase in the state use tax over the current local option law.

Iowans for Tax Relief is strongly OPPOSED to HF 854.

For more information on this legislation, see the March 16 edition of *The Watchdog* on our website at www.taxrelief.org.

Also, watch your mail box in the next few days and receive your next **Tax Action Alert**. This action publication explains HF 854 in detail and provides you with the talking points you need to be an effective citizen lobbyist.

The House Ways and Means Committee could consider HF 854 as early as next week and members of Iowans for Tax Relief need to make their voices heard as soon as possible.

Our lobbyists will be making a full court press on the issue in the coming weeks and your calls from home help make the difference!

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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