



# The Watchdog

A Legislative Update from Iowans for Tax Relief



Monday, October 29, 2007

Interim Report #4

## 10% Across the Board Tax Cut Reaches 10 Year Anniversary: New Research Shows Tax Cut Worked to Grow Iowa

### IOWANS FOR TAX RELIEF CALLS FOR ADDITIONAL 10% ACROSS THE BOARD CUT TO SOLVE BUDGET CRISIS:

On March 27, 1997 Governor Branstad signed House File 388, a bill to lower all state personal income tax brackets by 10%. This year marks the 10th anniversary of the tax cut's passage and Jan. 1, 2008 will mark the same anniversary for its implementation.

At the time opponents called it a tax break for the rich and a pizza box for the poor, while supporters argued it would benefit Iowans at all levels, jump start the economy, and create new jobs.

Iowans for Tax Relief led the coalition that successfully pushed for passage of the tax cut in the Iowa House and Senate (though, our efforts to win a 15% cut were scuttled by a few Senate Republicans and we settled on a compromise of 10%).

New research by the Public Interest Institute ([www.limitedgovernment.org](http://www.limitedgovernment.org)) specifically examined the 10 year anniversary of the tax cut and what has occurred since its implementation in regards to personal income, employment, personal income tax revenue to the state, and K-12 education spending.

For those of us who believe income tax relief, and the money it puts back into the hands of Iowa families, is closely related to economic growth and job creation, the research results are encouraging. In fact, for every one of the measures cited above, the 10 years post the tax cut have seen significant growth.

### NON-FARM EMPLOYMENT:

The total number of non-farm jobs in Iowa grew in the 10 years post the tax cut by nearly five percent. And while the growth rate is less than the 10 years prior to the tax cut, this growth occurred during, and in spite of, a period of deep federal recession.

To understand the remarkable nature of this growth, compare Iowa's experience to that of Illinois.

While Iowa cut income taxes in the late 1990s, Illinois stood pat. And when the recession kicked in during 2001, Iowa refused to raise taxes while Illinois raised taxes significantly.

During the 10 years after Iowa's 10% across the board income tax cut, non-farm employment in Iowa grew by nearly five percent while in tax hiking Illinois that growth was less than two percent.

Had Illinois grown at the same rate as Iowa it would have meant the growth of an additional 271,000 new jobs.

See the Public Interest Institute Fact Sheet at: [www.limitedgovernment.org/publications/pubs/fact\\_sheet/fs07-04.pdf](http://www.limitedgovernment.org/publications/pubs/fact_sheet/fs07-04.pdf).

**NOTE ON THE TERM "CONSTANT DOLLARS":** The next three measures provide performance comparisons using a measure called the **constant dollar**. Constant dollar refers to the adjustment of dollar amounts for **inflation**, using a base year, to allow for a true **"apples to apples"** comparison.



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### **CONSTANT DOLLARS, continued...**

This means when you see growth in a measure using constant dollars, this is real growth, not inflation induced growth. Thus, when looking at a measure such as personal income, growth in constant dollars would mean actual growth in purchasing power.

### **PER CAPITA PERSONAL INCOME:**

During the nine years prior to the income tax cut, per capita personal income averaged \$27,471 for Iowans. During the nine years since the tax cut, Iowans per capita personal income has averaged \$31,609.

This means, in real purchasing power, the average per capita personal income of Iowans was 15% more during the nine years post tax cut than it was in the nine years prior to the tax cut.

By 2006 (last year for which data is currently available), per capita personal income for Iowans had grown to \$33,236.

See the Public Interest Institute Fact Sheet at: [www.limitedgovernment.org/publications/pubs/fact\\_sheet/fs07-03.pdf](http://www.limitedgovernment.org/publications/pubs/fact_sheet/fs07-03.pdf).

### **PERSONAL INCOME TAX COLLECTIONS:**

During the 10 years prior to the income tax cut, annual average personal income tax the state collected was \$2,439,985,000. During the 10 years since the tax cut, average annual personal income tax collections rose to \$2,878,570,000.

Again, as this is being measured in constant dollars, the actual purchasing power of state

government increased on an average annual basis by nearly \$440 million.

That's right, Iowa cut personal income taxes by 10% across the board and actual income taxes collected by state government increased by an average of \$440 million in the 10 years after the tax cut than the 10 years prior to the tax cut.

See the Public Interest Institute Fact Sheet at: [www.limitedgovernment.org/publications/pubs/fact\\_sheet/fs07-02.pdf](http://www.limitedgovernment.org/publications/pubs/fact_sheet/fs07-02.pdf)

### **STATE K-12 FOUNDATION AID:**

The primary state funding mechanism for Iowa K-12 schools is through an annual appropriation called **foundation aid**.

During the 10 years prior to the income tax cut, the average state expenditure on K-12 foundation aid was \$1,659,536,000. During the 10 years since the tax cut, the average annual appropriation for K-12 foundation aid was \$2,019,305,000.

Thus, using a constant dollar comparison, the actual purchasing power of school districts increased on an average annual basis of nearly \$360 million.

The reality is this, the 10% across the board income tax cut did nothing to diminish the state's ability to significantly increase school funding and schools have seen nearly a 22% increase in their purchasing power from state foundation aid in the 10 years post tax cut.

See the Public Interest Institute Fact Sheet at: [www.limitedgovernment.org/publications/pubs/fact\\_sheet/fs07-06.pdf](http://www.limitedgovernment.org/publications/pubs/fact_sheet/fs07-06.pdf).

**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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