



IOWANS FOR TAX RELIEF

— VOICE OF THE TAXPAYER —



LEGISLATIVE ISSUE GUIDE

A 2020 VISION FOR THE LEGISLATIVE SESSION

A 2020 VISION FOR IOWA

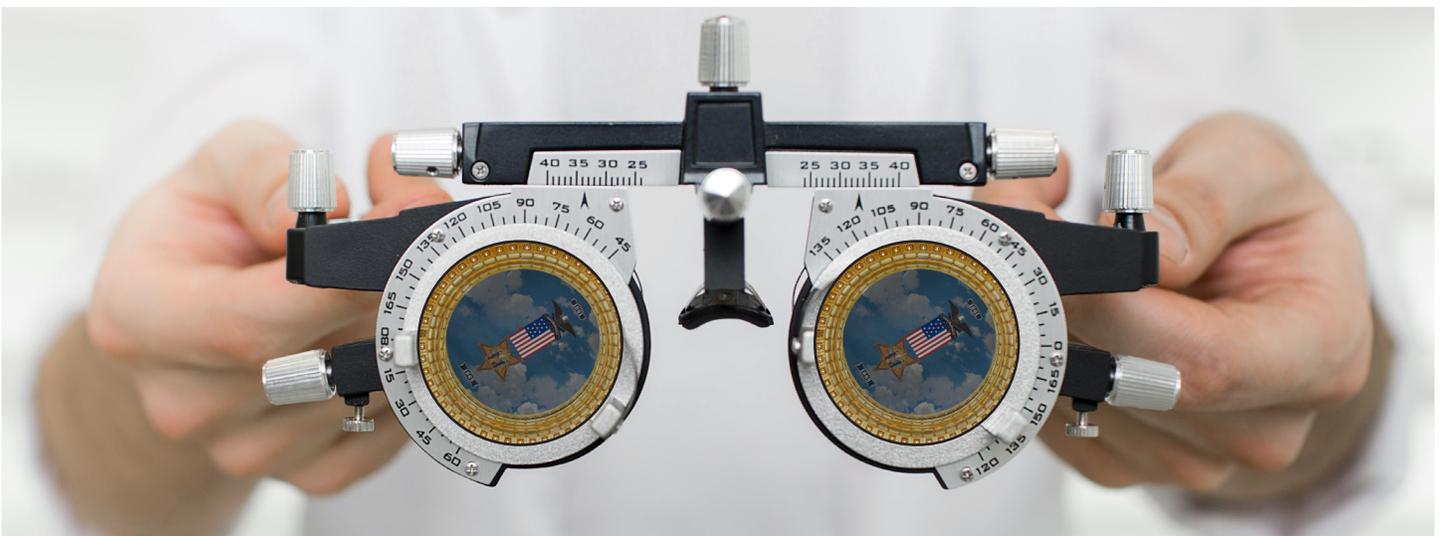
Having 20/20 vision indicates a person's vision is clear and sharp.

Governments rarely operate with this type of clarity. That is why we are working on a prescription to help the state government's vision. In other words, Iowans deserve to keep more of their hard-earned money and have the freedom to make decisions without unnecessary barriers.

Heading into the 2020 legislative session, policymakers have the opportunity to speed up scheduled tax cuts, make it easier to enter new careers, guarantee support is given to those who are genuinely in need, and increase the fiscal accountability of local governments.

Iowans deserve every opportunity to grow and prosper. When citizens make their voices heard it's harder for bureaucrats to get away with increasing spending and creating economic burdens.

ITR will remain the voice of the taxpayer and will not relent in fighting for a better Iowa. If you have any questions about any of the information presented in this guide, please email itr@taxrelief.org.



ITR LEGISLATIVE ISSUE GUIDE



Tax Rates Matter3-4

Iowa's income tax rates must be competitive



Occupational Licensing Reform.....5-6

It's time to cut the red tape tax



Stop Medicaid Abuse7-8

Iowa must ensure resources reach the truly needy



Taxpayer Funded Lobbyists..... 9-10

Are they really working in your best interest?



Federal Funds Inventory11



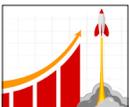
Regulatory Reform.....11



Inheritance Tax12



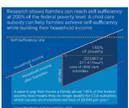
Donor Privacy.....12



Zero-Based Budgeting12



TIF Reform13



Ending the Welfare Cliff.....13

TAX RATES MATTER!

Iowa's income tax rates must be competitive.



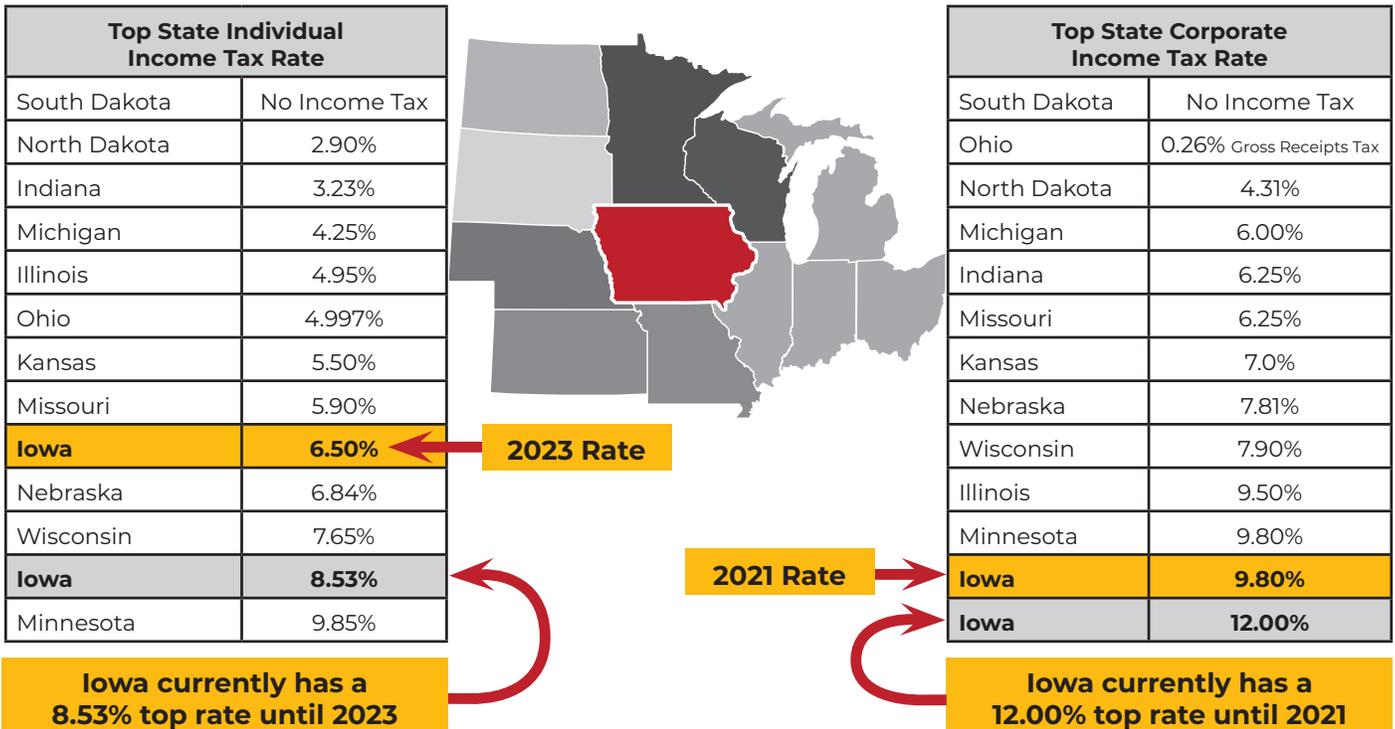
Individuals, Entrepreneurs, and Businesses VOTE WITH THEIR FEET!

States with a low tax and regulatory climate will continue to be more attractive than Iowa.

Iowa's top individual income tax rate of 8.53% will be reduced to 6.5% in 2023 if:

- 1. State revenue grows to over \$8.3 billion (FY 2020 budget is \$7.643 billion)**
- 2. State revenue increases at least four percent that fiscal year**

If those two items don't happen, rates will remain high until those targets are met.



Legislators need to evaluate if the long timeline and high threshold for enacting tax cuts still make sense.

IOWANS DESERVE THE PROMISED TAX CUTS

Tax rates matter. The tax bill passed by the legislature during the 2018 session was a great step toward rate reduction, sales tax modernization, and conformity with federal tax code, but there is much work left to be done.

Under the initial individual income tax cut that reduced the top marginal rate to 8.53%, Iowa still has a higher rate than every border state but Minnesota. Iowa's corporate income tax rate is 12%, which is also higher than every state that borders Iowa. With many cities located along Iowa's borders, this difference matters.

The Tax Foundation ranks states' business tax climates annually, and the 2018 tax bill has moved Iowa up in their rankings from 45th worst tax climate in the country in 2018 to 43rd worst tax climate in 2019 to.....42nd worst for 2020.

While progress has been made, Iowa is still lagging behind neighboring states. When people and businesses see more desirable rates across the border, many opt to locate on the side that costs less to live and do business. Individuals, entrepreneurs, and businesses will vote with their feet by moving to states with the best regulatory and tax climates.

A great example of how tax rates affect our state is the stark contrast between Sioux City, IA, and Sioux Falls, SD. South Dakota does not collect individual or corporate income taxes. Separated by the Missouri River, these cities are only a little over an hour apart. Since 1990, Sioux City's population has grown 2.6% from 80,505 to 82,568. Over that same time period, Sioux Falls's population grew 69% from 100,814 to 170,401.

Residents of Sioux Falls are also making more than their neighbors in Sioux City. Median family income in Sioux City is \$59,113, while median family income in Sioux Falls is \$74,598. Adding insult to injury, Sioux

City residents must pay state income taxes on that income while Sioux Falls residents do not, meaning that the disparity between these numbers is even greater than indicated at first glance.

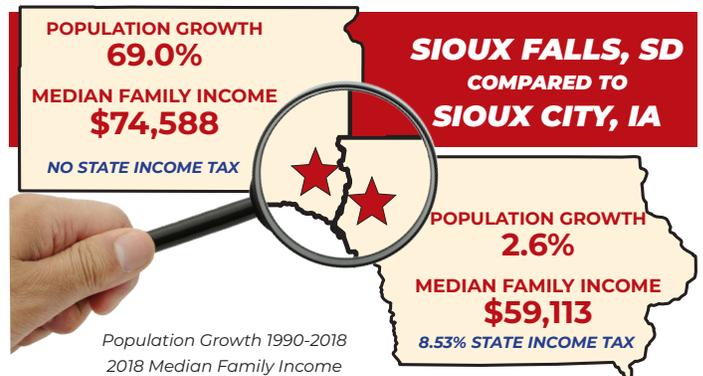
While eradicating income taxes in Iowa may not be feasible at present, legislators must look at ways to become more competitive with border states. The 2018 tax bill, if fully implemented, would reduce personal income tax rates below neighboring

Wisconsin and Nebraska to a top rate of 6.5%. Unfortunately, the triggers within this legislation make that reality impossible until 2023 at the earliest and only if those triggers are met at that point which, at present, looks unlikely. Additionally, the cut in the corporate tax rate would leave Iowa with a top rate of 9.8%, which is still higher than every state that borders Iowa.

Triggers are a reasonable protection, but continuing to subject Iowans to high tax rates while praising tax cuts that may never happen is disingenuous at best. It is imperative that legislators evaluate the triggers passed into law to determine if the long timeline and extremely high threshold for enacting the larger tax cuts still make sense. Rhetoric praising tax cuts means nothing if those cuts never happen.

Iowans deserve better, which includes allowing them to keep more of their hard-earned money and giving them the tax cuts they were promised.

42ND WORST TAX CLIMATE IN THE COUNTRY



Population Growth 1990-2018
2018 Median Family Income

OCCUPATIONAL LICENSING REFORM



UNNECESSARY REGULATIONS = RED TAPE TAX

1950s:
1 in 20
WORKERS NEEDED
A LICENSE TO
WORK FOR PAY



TODAY:
1 in 4
WORKERS
NEED A
LICENSE



2ND MOST
LICENSED
STATE IN THE COUNTRY

Iowa Needs to Reduce Unnecessary Burdens on Workers

Occupational licenses protecting the health and wellbeing of citizens make sense and are practical, but onerous licensing requirements can create a barrier for Iowa's most vulnerable.



"I'm already licensed in Missouri. If we moved to Iowa, I'd have to jump through all of those hoops again."

INCREASE ECONOMIC OPPORTUNITIES WITH:

Job License Reviews

Licensing requirements should be reasonable and designed to ensure the health and safety of consumers. Iowa should regularly review to determine if the requirements, and each license itself, are necessary.

Criminal Justice Reform

Non-violent offenders who have already paid their debt to society should not be forced to repay that debt for the rest of their lives.

Universal Recognition

If a person has proven they can successfully do a job by one state's standards, shouldn't they be able to continue their profession in Iowa? This would especially help military spouses.

CUT THE RED TAPE TAX



Unnecessary and excessive barriers are pricing people out of the workforce.

Excessive and burdensome occupational licensing laws serve as a hidden red tape tax that disproportionately impact Iowa's working class. These laws make it more difficult and more expensive for Iowans to earn a living and fill high-demand jobs. As a state with one of the lowest unemployment rates in the country, it is time Iowa makes entering the job market easier for both current and new residents.

According to a 2018 report by the Institute for Justice, Iowa is the 2nd-most licensed state in the U.S., with 24.3% of our workforce requiring a license to do their jobs. In the 1950s, only 5% of the workforce nationally required a license to work.

At a legislative round table co-hosted by Iowans for Tax Relief, a business owner said with respect to job licensing: "These types of things are causing a problem for [single parents] and their kids. We need to get that under control because there's only so much an employer like me can do to help make up for the situation that, in essence, the state has put them in."

Occupational licenses that protect the health and wellbeing of citizens make sense and are practical, but onerous licensing requirements can create a barrier for Iowa's most vulnerable. Unnecessary and excessive barriers are pricing people out of the workforce.

Nebraska and Ohio addressed this problem by creating a cyclical review process. All occupational licenses are evaluated every five to six years to determine if the requirements, and each license itself, are necessary. Licensing requirements should be reasonable and designed to ensure the health and safety of consumers.

A second important piece of occupational licensing reform is a criminal justice component. Earlier this year, Iowa removed a permanent ban on those with past criminal convictions so they can now work in

the plumbing and electrical fields. However, many broad bans for those with past felonies still exist. Previous offenders who have demonstrated they are unlikely to re-offend and have not committed crimes related to the profession should be allowed to advance their careers. Non-violent offenders who have already paid their debt to society should not be forced to repay that debt for the rest of their lives.

"These types of things are causing a problem for [single parents] and their kids.

We need to get that under control because there's only so much an employer like me can do to help make up for the situation that, in essence, the state has put them in."

Arizona waives licensing fees for those under 200 percent of the poverty level as another means to give Arizonans the ability to work; doing the same in our state would open opportunities to even more Iowans.

A final important element of job licensing reform is universal recognition. If a person has proven they can successfully do a job by one state's standards, shouldn't they be able to continue their profession in another state? In 2019, Arizona enacted a new law recognizing licenses from other states. This type of reform is particularly valuable for military spouses who move from state to state with their families.

Occupational licensing makes it harder for Iowans to work, and it drives up costs for all Iowans. It is time for Iowa to review its job licenses, create meaningful criminal justice reforms, increase economic opportunities, and establish universal recognition. These reforms would encourage people not just to move into our great state but to also pursue their chosen careers and professions.



STOP MEDICAID FRAUD

Iowa Needs Eligibility Verification

The Facts

Iowa's Largest General Fund Appropriations:

1. School Aid
- 2. MEDICAID**
3. Higher Education



Nearly
1 of 5
Iowans receive
Medicaid benefits

Federal and state governments combine to spend

\$5 BILLION
on Medicaid in Iowa every year

The Problem

It is unclear how much Medicaid abuse is present in Iowa. Other states have found:

 Illinois uncovered more than 14,000 dead enrollees.

 Michigan identified thousands of lottery winners.

 Arkansas removed 25,000 receiving benefits in multiple states

 Louisiana randomly checked 100 recipients. 82 did not qualify.



Iowa doesn't know!

The Solution

Protect resources for those who qualify.



Regularly review recipient eligibility.



Remove individuals from the rolls who abuse the system.

*A **Medicaid recipient** audit would control costs and ensure benefits reach the truly needy.*

More information on this issue is available from the Foundation for Government Accountability - thefga.org

IOWA MUST ENSURE RESOURCES REACH THE TRULY NEEDY

Abuse and fraud within Medicaid is a serious and costly issue. Jonathan Ingram, Vice President of Research at the Foundation for Government Accountability (FGA), has written, “Medicaid fraud weighs heavy on budgets — both state and federal — and robs important resources from the truly needy. Every dollar lost to waste, fraud, or abuse is a dollar that cannot go to fund services for those with genuine and urgent needs.”

“Every dollar lost to waste, fraud, or abuse is a dollar that cannot go to fund services for those with genuine and urgent needs.”

A Medicaid audit that regularly reviews recipient eligibility is a needed mechanism to ensure that benefits go to those Iowans who truly need the services. States that have begun the process of examining Medicaid eligibility abuse have found shocking results that are costing taxpayers millions. FGA previously outlined some of the findings of Medicaid eligibility abuse from other states:

- Michigan identified more than 7,000 lottery winners still collecting welfare, some with jackpots as high as \$4 million.
- Illinois uncovered more than 14,000 dead enrollees still on Medicaid.
- Arkansas removed 25,000 individuals from their Medicaid rolls because they were receiving benefits in multiple states.

The Louisiana legislative auditor made a random selection of 100 Medicaid recipients and found that 82 of those individuals did not qualify to receive benefits. At this time, it is unclear how much Medicaid fraud is present in Iowa, but the evidence from other states demonstrates that a Medicaid recipient audit is needed.



Iowa’s Medicaid program has expanded due to the Patient Protection and Affordable Care Act and now nearly one in five of Iowans receive Medicaid benefits. While the federal government picks up most of the tab, Medicaid is still the second largest appropriation within Iowa’s General Fund, totaling \$1.4 billion in our state’s most recent budget. With this much money involved in delivering such needed care, Iowa’s taxpayers deserve to know that their hard-earned dollars are being spent appropriately.

A commonsense solution to halt Medicaid abuse should start with regular eligibility reviews of Medicaid recipients. These reviews should include:

- Earned and unearned income
- Residency status
- Death records
- Lottery winnings
- Other status changes that would otherwise make a recipient ineligible for assistance

Allowing Medicaid fraud and abuse doesn’t just fleece the taxpayer, but it is unfair to those Iowans who need the services Medicaid provides.

TAXPAYER-FUNDED LOBBYISTS

Are they really working in your best interest?

Lobbyists contracted by local governments are not subject to open records laws.

Who Hires Taxpayer-Funded Contract Lobbyists?

- **Cities**
- **Counties**
- **School Districts**
- **Taxpayer Funded Associations**

If property tax dollars are paying for lobbying activities, you deserve to know exactly how that money is being used.

Citizens must have transparency to be able to hold their local governments accountable.



TAXPAYER-FUNDED LOBBYIST TRANSPARENCY

Did you know your property tax dollars are used to lobby legislators? Not only this, but you may never know exactly what taxpayer-funded lobbyists are promoting. Holding local elected officials accountable for the efforts of their lobbyist is difficult, particularly when they work with legislators behind the scenes.

Sometimes, the positions taken by taxpayer funded lobbyists are not in the best interest of the taxpayers.

Many cities, counties, and school districts hire lobbyists. Other lobbyists are hired through associations and organizations like the Iowa League of Cities. Dues for, and training through, these organizations are paid for with your property tax dollars. It's challenging to determine exactly how many property tax dollars are funding lobbying because the communications between local governments and their lobbyists are not transparent.

Lobbyists who are *contracted* by cities and counties are not subject to open records laws. If a city or county hires an employee to lobby, that *employee* would be subject to open records laws, but a contract employee is not. Further, some of the associations funded by tax dollars, like the Iowa League of Cities and the Iowa State Association of Counties, are not subject to open records laws. If your property tax dollars are paying for lobbying activities, you deserve to know exactly how your money is being used.

Lobbyists must declare official positions, and those are public record; however, much more happens behind the scenes than an official position indicates. There are talks to draft legislation which sometimes go nowhere. There are also internal discussions to decide what lobbyists support or oppose. Citizens deserve to know what local elected officials are using their money to advocate for or against because

sometimes, the positions taken by lobbyists representing local governments or associations of local governments take stances that are not in the best interest of the taxpayers.

Some of the most prominent opponents to last year's property tax transparency bill were local governments and associations of local governments. The property tax bill passed last year simply required an affirmative vote and a second public meeting for local governments to increase their budgets above two percent. This measure did not prohibit local governments from raising taxes. Instead, it made the process of raising taxes more transparent for property taxpayers so they would have a better opportunity to voice their opinions on the matter.

Contract lobbyists paid with taxpayer dollars and associations of local governments hiring lobbyists should be subject to the same open records laws as public employees. The people deserve the opportunity to learn how their money is spent and determine if that use is genuinely in their best interest. Citizens must have transparency to be able to hold their local governments accountable.

Citizens must have transparency to be able to hold their local governments accountable.



Federal Funds Inventory



Roughly half of Iowa's budget consists of money from the federal government. While it may seem like a great idea to recapture tax dollars from the federal government, this money often comes with strings attached that can drive up costs for state government. Federal programs can also be eliminated, and when lowans are used to programs created through federal grants, the state is hesitant to cut them. If that were to occur, legislators would likely end up funding the programs entirely with state dollars.

Further, there is a lack of transparency regarding maintenance of effort requirements for federal grants. The way the information is presented in many budget subcommittees indicates there is a maintenance of effort agreement for a program but does not detail what that agreement is. Legislators are led to believe state funding cannot be reduced, but that may not be the case. Clarity is also needed regarding potential end dates for federal funds, so legislators aren't surprised when federal money is eliminated. These improvements would help ensure legislators have the best tools to use tax dollars as efficiently and effectively as possible.

Regulatory Reform



Administrative rules serve to supplement law where interpretation is in question. Some regulations are reasonable and necessary, but as the number of rules grows, the scope of government increases. These rules can become overly complex and burdensome. Too many regulations drive up the cost of doing business beyond what is reasonable to protect health and safety. Those costs hinder economic growth and increase prices for consumers.

Iowa does require a legislative review of administrative rules, but as regulations continue to increase, the ability to thoroughly review every rule becomes extremely difficult. According to a 2019 Mercatus Center study, Iowa has 160,000 restrictive terms, such as "must," "shall," and "may not," in state regulations. This is more than every neighboring state except Illinois, which is notorious for being a high regulation state.

Legislators should consider methods of reducing state regulations to more reasonable levels to help Iowa grow and prosper, both for businesses and consumers.

Inheritance Tax



The inheritance tax, or death tax, is a tax on assets passed to a living person from a deceased person at the time of their death. Several years ago, the legislature removed the inheritance tax for lineal relations. Today, if a deceased person does not have children or chooses to leave their assets to a non-lineal relation, such as a niece or nephew, a business partner, or an employee, this is a taxable event. If the beneficiary does not have the liquid assets to pay an inheritance tax, the potential result is the sale of a small business or family farm just to pay the tax bill.

This is not the outcome tax policy should strive to achieve. The legislature should address this inequity in the tax code and allow the deceased to dictate the recipients of their assets without penalty.

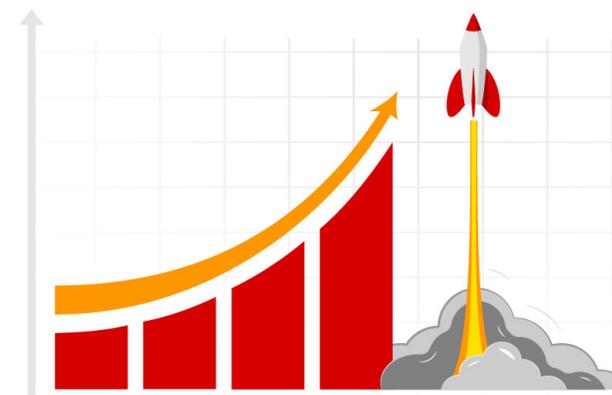
Donor Privacy



Individuals making charitable donations deserve to be able to do so privately. Some donors do not want to be bombarded with requests for donations. Others donate to causes that are not politically popular, and they deserve to do so without fear of harm to themselves or their families.

The First Amendment protects the freedom of association. The Supreme Court reaffirmed this right in 1958 with the NAACP v. Alabama case where the State of Alabama tried to suppress the civil rights movement by requesting NAACP member lists. Iowa's legislators must act to preserve the privacy of donors to nonprofit organizations and clarify the rights granted under the First Amendment.

Once Per Decade Zero-Based Budgeting



Each department in Iowa's state government currently uses the previous year's budget as a starting point when creating their next budget. Zero-based budgeting requires state departments to itemize and justify every expenditure when creating their budget request. It would seem like a great idea to do this annually. However, the depth and volume of information produced would be so large that it would be overlooked, resulting in the effective reversion back to the current system.

If departments were required to utilize zero-based budgeting once per decade on a rotating system by department, it would allow legislators to more closely scrutinize state expenditures and reject the status quo of automatically using last year's appropriation as a base. The growth of government must be addressed, and slowly reining in the ballooning costs of state government through periodic zero-based budgeting is a great solution for controlling this growth.

Tax Increment Financing (TIF) Reform

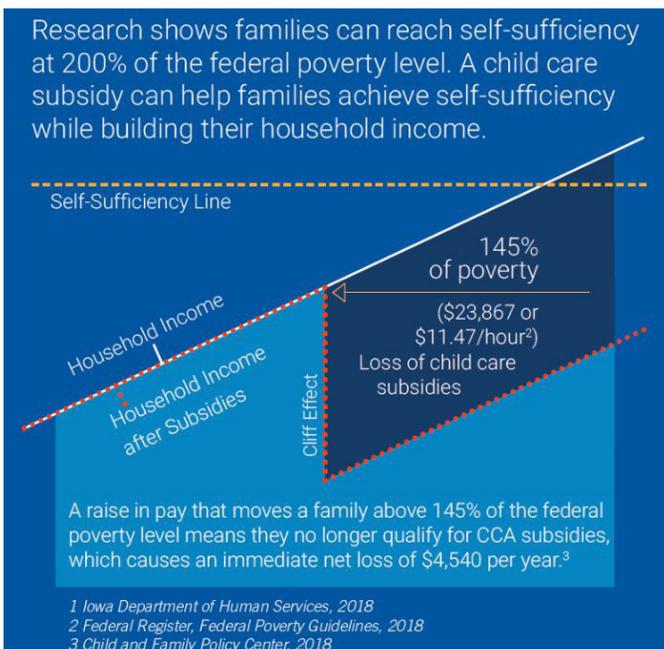


Tax increment financing (TIF) is an economic development tool used by local governments. It can be an excellent mechanism for addressing blight and encouraging development in an area that may otherwise be unfavorable.

Unfortunately, an increasing number of cities are using TIF to incentivize development in desirable areas to compete with neighboring communities for new businesses. When property tax dollars are spent in this manner, the taxpayer loses. Local governments are subsidizing growth that would have likely occurred without incentives given at the taxpayers' expense.

The scope of TIF desperately needs to be addressed. Using TIF for the original intent of addressing blighted areas is reasonable, but the increasing use of TIF for broader economic development is concerning. Cities, and in turn, the taxpayers, are being held hostage. Their tax dollars are paying for development that would occur naturally if cities no longer had to compete financially against each other with tax incentives.

The Welfare Cliff Effect



Our welfare system is broken. Individuals trying to work their way out of poverty struggle because benefits are reduced faster than their wages increase. This is particularly true for single parents relying on government assistance for childcare costs. Trapping people in a cycle of poverty is unfair for individuals trying to work their way out of their situation and off public assistance. It's also costly for taxpayers, as individuals who could become net tax contributors are stuck in a cycle of being net recipients of tax dollars.

Creating a stair-step system to help people work their way out of poverty would help address the shortfalls in current public assistance programs. People should ultimately be financially better off by working and earning more money. Putting workers in a position where a raise could mean losing the ability to afford a rent payment is not a situation anyone should have to face. Creating a path for people to work their way out of poverty should ultimately reduce public assistance costs as more individuals become financially independent and no longer need government assistance.

Image Source: United Way (unitedwaydm.org/cliffeffect)

Principles of Sound Tax Policy

The best way to create economic growth is by lowering tax rates and reducing the regulatory burden. This economic blueprint will serve the interests of the taxpayers while creating a better Iowa.

Whether at the Capitol or across the state, we advocate for a real reduction in the tax burden on households and businesses in Iowa. But what principles should Iowa's tax code adhere to?

ITR believes taxes in Iowa should be:



Fair: Iowa's tax code should be fair and not favor one group of taxpayers at the expense of another.



Competitive: Iowa should have lower tax rates rather than the current high tax rates making the state less competitive with its neighbors. The Iowa tax code should encourage, rather than hinder, economic growth.



Transparent: The Iowa tax code is complex and needs to be simplified. A simpler and easier to understand tax structure will be friendlier to taxpayers. Taxpayers in Iowa deserve transparency and accountability when it comes to tax credits and incentives, too.



Limited: Iowa's tax code should be limited, that is, taxes should only be collected to finance the essential functions of state government. It is immoral for government to believe they have an unlimited claim to the hard-earned income of individuals and businesses.



Protective of Freedom: Iowa's tax code should promote freedom. Taxes should not be used for social engineering.

A tax code following these principles while reducing the tax burden on Iowans will allow everyone to keep more of their hard-earned dollars. This will encourage economic growth and boost additional investment, ultimately providing more revenue to address the priorities of state government.



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