



**Statement of Beth Pearson, Iowa Policy Project
Public Hearing on Income-Tax Reform • Iowa House Chamber • March 31, 2009**

Thank you, and good evening. In my capacity as a researcher at the Iowa Policy Project, I evaluate potential budget and tax policies according to whether they make our overall fiscal system more sound and help support our shared public priorities.

In general, good changes to our tax system are ones that make it fairer, more competitive, more stable and secure, and easier to understand. We want a system that provides sufficient revenue to fund essential public services, but we want it to generate that revenue in a way that respects a taxpayer's ability to pay a tax and doesn't distort an individual's private economic decisions.

The income tax reform proposal now before you goes a long way in moving Iowa's overall tax system — comprised of income, sales, and property taxes — in the direction of these basic principles. Let me talk about just two of those principles: competitiveness and fairness.

First, competitiveness. When profits dip for a small business owner during a recession, their income tax bill goes down automatically. Even those small business owners lucky enough to have steady profits in these tough economic times will likely see a tax decrease as a result of this proposal. The Tax Policy Center, a project of the Urban Institute and the Brookings Institution, found that, nationwide, seventy percent of taxpayers with small business income earned less than \$100,000 in 2009. Assuming the same distribution holds true for Iowa, that would mean that more than 70 percent of taxpayers with small business income in Iowa would see an average tax decrease under this proposal. I think that makes it a more competitive system.

Second, fairness. There's no question that there are particular types of households who benefit the most under this package: low-income working families with children. In addition to seeing lower income tax rates, these families also stand to benefit from expansions in the Earned Income Tax Credit, which helps make work pay by targeting tax assistance to income earners with children, as well as expansions in the child and dependent care credit. So, yes, this package does offer a disproportionate share of its benefits to low-income families who are sending their kids to child care every day so that they can hold down a job in a tough economy. I think that makes it a fairer system.

Most tax changes made during the past 20 years in Iowa haven't held up when scrutinized according to good budget and tax principles. But this proposal offers us an opportunity to take a step in the direction of common sense and fiscal stability, and I urge the Legislature to pass and the governor to sign this bill.

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