



NEWS RELEASE

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Latest Reform Plan Cuts Taxes for Most Iowans

Businesses, Farms, Students Among Beneficiaries in Plan

DES MOINES, Iowa (Thursday, April 9, 2009) — Amendments made to the Democratic income-tax reform proposal at the Statehouse substantially increase the share of low- and middle-income Iowans who will see tax decreases as a result of the revised plan.

“The most important provisions remain — lowering all income tax rates by eliminating federal deductibility, and providing help to moderate-income working families,” said Charles Bruner, executive director of the Child & Family Policy Center (CFPC).

Amendments added this week also increase the standard deduction, and create a separate \$100 refundable tax credit for Iowans in post-secondary education.

“The result of the latest changes is that more Iowans would directly benefit — with the total share of taxpayers either seeing a tax cut or no change at 73 percent — but the proposal now costs revenue in 2010. Previously, it was a revenue-neutral change,” Bruner said.

“Importantly, the tax changes overall begin to make Iowa’s tax laws more fair to working families with children.”

An Iowa Fiscal Partnership (IFP) analysis of the proposal refuted claims being made by opponents about impacts on businesses.

“We’re seeing pretty clearly that the majority of small business owners would benefit from the proposal now under consideration,” said Beth Pearson, research associate for the Iowa Policy Project (IPP), which teamed with staff of CFPC in the IFP analysis.

IFP reviewed three classes of business-tax filers representing the vast majority of Iowa small-business owners, many of whom file individual tax returns to report their business income. IFP found that over 60 percent of filers in two of those groups would see a tax decrease, similar to the percentage of all individual taxpayers, while the majority in the remaining category also would see a cut.

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How working families benefit: Two examples

A working family of four making \$43,600 and a single-parent family of three making \$37,400 do not owe any federal income taxes, but pay \$1,987 and \$1,575 in state income taxes, respectively.

Their Iowa tax bills will be lowered by \$361 and \$290 under the proposal, an 18 percent reduction.

The Iowa Policy Project

20 E. Market Street
Iowa City, IA 52245
(319) 338-0773 • www.iowapolicyproject.org

CHILD & FAMILY POLICY CENTER

1021 Fleming Building • 218 Sixth Ave.
Des Moines, IA 50309
(515) 280-9027 • www.cfpciowa.org

“About 4 of 5 farmers — 79 percent — would see a tax cut or no change under this legislation,” Pearson said. “A substantial share of small-business owners have incomes below \$125,000; this tax plan on average provides a tax cut or no change to households under that income.”

Amendments offered this week by legislative leaders mean the plan disproportionately helps low- and middle-income taxpayers. The earlier proposal would mean tax cuts for 49 percent of taxpayers, no change for 18 percent, and higher taxes for 33 percent. The new proposal offers more gains, so that almost three-fourths of taxpayers see tax cuts or no change.

According to analysis of official state figures:

- The new plan would bring tax cuts for 60 percent of Iowans, no change for 14 percent and higher taxes for 26 percent.

- Of those who would see a tax cut or no change in 2010, the vast majority (72 percent) have adjusted gross income of less than \$60,000.

- In tax years 2011-13, the majority of Iowa taxpayers (around 56 percent) would continue to see either a decrease or no change in their state income taxes.

The change in the standard deduction is a boost to people who do not itemize deductions for such things as property taxes, mortgage interest, car registration fees, or donations to charity. It most helps low-income taxpayers.

The plan raises the standard deduction from \$1,750 to \$2,710 for single persons or married persons filing separately, and from \$4,310 to \$5,420 for married couples, single parents and widows/widowers. For a single person making \$20,000 a year, the increase in the deduction would cut taxable income by 14 percent, to \$17,290.

IFP analysts also noted the change from a revenue-neutral bill to one that is estimated to cost \$20 million in the current tax year and \$35 million for 2010. That is a challenge, they said, but come in exchange for changes that make the income tax more progressive, better reflecting that taxpayers have greater ability to pay tax the greater their income.

“This proposal is coming in the wake of many changes to the tax code over the past 20 years that have consistently benefited upper-income taxpayers,” Bruner said. “There is more the Legislature could do to help lower- and moderate-income working families, but this plan includes some good provisions.”

Bruner noted many low- and middle-income families with children may pay no federal income tax due to the exemptions and deductions in the federal tax code. These families don’t benefit from federal deductibility because they don’t pay federal income tax. However, many of them do pay Iowa state income tax; the proposed plan includes credits and a new standard deduction that will help them.

The Iowa Fiscal Partnership is a joint fiscal policy initiative of two nonprofit, nonpartisan Iowa-based organizations, the Child & Family Policy Center in Des Moines and the Iowa Policy Project in Iowa City. IFP reports are available at www.iowafiscal.org.

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