



The Iowa Policy Project

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Guest opinion: Rethink Iowa tax policy

By Mike Owen, executive director of the Iowa Policy Project

As the 2015 Iowa legislative session nears, many news stories have pointed out budget challenges posed by the state's expensive commitments to fund local property tax cuts.

Seemingly unrelated stories have noted — approvingly — that Iowa has completed its eight-year phaseout of state income taxes on Social Security benefits.

But the stories are related. In both cases, past decisions constrained future choices, and in both cases, lawmakers were almost defiant in ignoring the predictable result.

The Social Security tax break was passed in 2006 under false pretenses. First, some claimed — in error — that Iowans were leaving the state over this tax, which was too small to have that kind of impact. Census data confirmed this.

Second, many claimed falsely that benefits were being taxed twice — first when paid in as contributions and second when received as benefits in retirement. However, only the employee's contribution is taxed at payroll; the other half, contributed by the employer, was not taxed until paid in benefits — and then only for some retirees.

In fact, Iowa law already had exempted Social Security benefits from state tax for a majority of retirees. The new break offered no benefit to low- or moderate-income retirees, going primarily to the highest-income one-third.

Similarly, concerns were raised in 2013 about the ultimate fiscal impact on both local and state governments of property-tax changes that were

skewed primarily to large corporations with no perceptible value to economic growth in Iowa. And now lawmakers have tied their own hands as they prepare to pass a new budget.

The point here is not to open a new debate on settled policy, but to help Iowans in future discussions and decisions about taxes.

We could make Iowa's tax system more simple, but we need to do so with changes that do not compound inequities, that base taxes on the amount of income and not its source, and that assure adequate revenues for critical public services.

Eight years later, it's easy to forget the context of the debate on the Social Security benefits break. We should remember it. Iowa's system is now skewed further to the benefit of the wealthy, it treats retirees and working people differently even if they have the same income and we have some \$118 million less to spend every year on education and environmental protection. Worried about people leaving or avoiding Iowa? Those are the kinds of investments that could make a difference in helping to retain young people and attract new Iowans.

If Iowa is to learn from experience, lawmakers should admit their decisions on state and local taxes are rarely significant enough to affect location choices by individuals or businesses — and the loss of revenue will diminish critical public services.

We've been cutting for decades, and our rate of population growth has lagged that of the nation for decades. If tax cuts matter, shouldn't we be growing?

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