

## **Who Benefits Most in Flat-Tax Option Bill?**

*Most of Benefit to Minority of Iowa Taxpayers — Plus Out-of-State Millionaires*

By Peter S. Fisher

The optional flat tax bill recently introduced in the Iowa House would give \$26.5 million in tax cuts to people living outside the state, including almost 5,000 non-resident millionaires.<sup>1</sup> The remaining \$346.6 million in tax cuts for Tax Year 2015 would go to Iowa residents, but nearly two-thirds of that would go to the 1-in-8 taxpayers making \$100,000 or more.

The bill does not cut income taxes for everyone. It provides an optional way of calculating tax, so that taxpayers would need to compute their taxes two different ways to determine which was better. The flat option is more likely to be advantageous for those over \$100,000 per year. The Department of Revenue estimates about 54 percent of those taxpayers would choose the flat tax.

For the vast majority of taxpayers making less than \$100,000, however, at most 35 percent would benefit from the flat tax option.<sup>2</sup> Because the flat option does not allow any tax credits, lower income households using the Earned Income Tax Credit or other refundable credits would be unlikely to benefit from the flat tax, and certainly would not if they now receive a refund because of a credit.

Table 1 shows the number and percent of Iowa resident taxpayers choosing the flat option vs. the current system. For example, 61.5 percent of taxpayers earning \$40,000 to \$100,000 per year stick with the current system because the flat option would cost more; they would get no benefit. The remaining 38.5 percent of taxpayers in that income bracket would choose the flat tax and receive on average a \$549 cut.

**Table 1. Iowa Residents: Minority Benefit from Flat Tax Option**

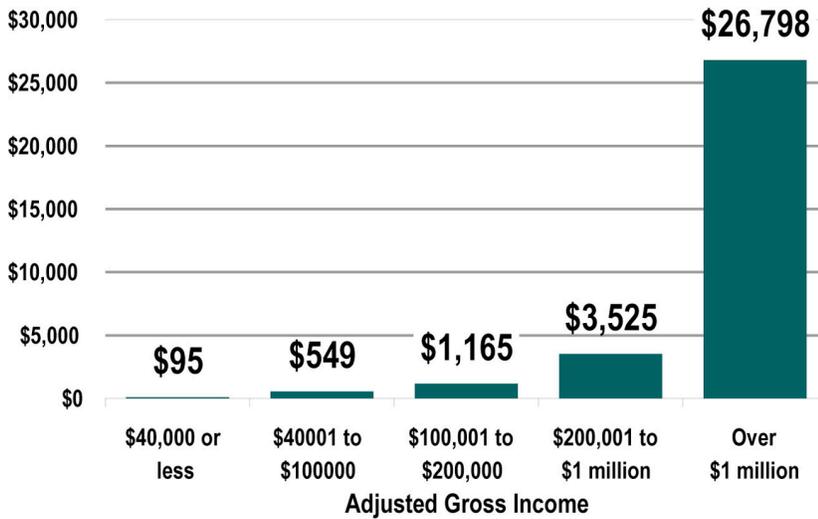
Adjusted Gross Income	Taxpayers Choosing Flat Tax			Taxpayers Choosing Current System		
	Number	Percent	Average Benefit	Number	Percent	Benefit
\$40,000 or less	251,484	33.5%	\$ 95	499,590	66.5%	-
\$40,001 to \$100,000	171,939	38.5%	\$ 549	274,915	61.5%	-
\$100,000 to \$200,000	83,503	50.0%	\$ 1,165	83,617	50.0%	-
\$200,000 to \$1 million	28,421	68.4%	\$ 3,525	13,136	31.6%	-
Over \$1 million	1,142	57.5%	\$ 26,798	844	42.5%	-
<b>Total</b>	<b>536,488</b>	<b>38.1%</b>	<b>\$ 646</b>	<b>872,102</b>	<b>61.9%</b>	<b>-</b>

Source: Tables 2A, 2B, 5A and 5B, for residents vs. non-residents, for tax year 2015, provided by the Iowa Department of Revenue upon request, March 31 and April 2, 2015.

While 858,000 Iowa resident taxpayers making under \$200,000 a year (and representing 61 percent of all Iowa resident taxpayers) would see no tax reduction under this bill, a handful of Iowa millionaires would choose the flat option and gain an average of \$26,798 each.

**Figure 1. Flat-Option Benefit Much Higher at High Incomes**

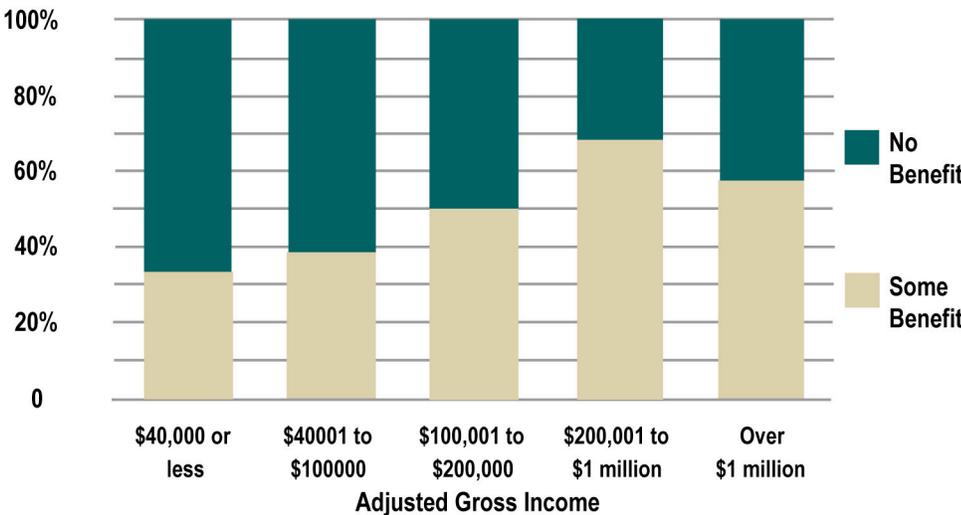
*Average 2015 Tax Cut for Iowa Residents Benefiting from Flat Option*



*Department of Revenue data show the flat-tax option would benefit nearly 5,000 non-resident millionaires — and that the benefit to both in-state and out-of-state millionaires would far outweigh that to most Iowa taxpayers.*

**Figure 2. No Flat-Option Benefit on Average for Iowans below \$200,000 Income**

*Percent of Iowa Resident Taxpayers Benefiting from Flat Option in 2015*



*In fact, 6 in 10 resident taxpayers making between \$40,000 and \$100,000 would be expected to stay with the current system, because the flat tax option would cost them more.*

<sup>1</sup> Table 2B, “Estimated Change in Tax Liability for Non-Residents Under a Choice Between Current Law and the Alternative Base Income Tax as specified in HF604,” provided by the Iowa Department of Revenue upon request, April 2, 2015.

<sup>2</sup> The 35 percent includes many who owe no tax under either system and who would by default under the law be classified as choosing the flat option, even though they get no benefit from it.

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*The Iowa Fiscal Partnership is a joint public policy analysis initiative of two Iowa-based, nonpartisan organizations, the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines. For more on this issue and Iowa fiscal policy choices, visit [www.iowafiscal.org](http://www.iowafiscal.org).*