



# PUBLIC INTEREST INSTITUTE FACT SHEET

Number 03-04

February 2003

## Iowa Tax Reform: Some Ideas Have Merit, But...

Some proposed reforms of Iowa's tax system have the potential to reduce Iowa's tax burden. However, some adjustments must be made, or the reforms would actually raise taxes.

**Flat Tax.** Perhaps the proposal with the most pro-growth potential is State Senator Larry McKibben's suggestion for lowering the income tax to a 3.5% flat rate and eliminating various deductions and credits. However, if the proposal eliminates Iowans' ability to deduct their federal income taxes on their state income tax returns, then the reform could result in an actual tax increase of \$3,400 for those Iowans earning over \$100,000. This is a tax increase on wealth producers, a disincentive to invest and create jobs for Iowans. To avoid raising taxes on wealth producers, Legislators should not eliminate the federal deduction. Also, for this reform to be effective, a Constitutional Amendment is necessary to avoid future tax mischief. This Amendment would mandate that Iowa have only one income tax rate and require a 60% vote of the Legislature to raise the rate.

**Reducing the Sales Tax.** State Senator Stewart Iverson's proposed reduction of the state sales tax from 5% to 3% should also be given careful consideration. State Senator Iverson's proposal would eliminate all of the sales tax exemptions, including those for food and medicine. Yet, if this proposal had been in effect in 2000 Iowans would have paid about \$145 million more than they actually did pay, increasing the tax burden on Iowa consumers.

A better reform would be to eliminate all the exemptions *except* the ones for food and medicine, and then reduce the rate from 5% to 3.25%. Based on the 2000 numbers, a 3.25% rate would have reduced the tax burden for the average Iowan while only yielding slightly less sales tax revenue for the state.

*Source: David Hogberg, Institute Brief, February 2003, "Iowa Tax Reforms: Some Ideas Have Merit, But..."*

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