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## Iowa Tax Reform: But Some Do Not

Legislators should dismiss some of the proposals to reform Iowa's tax system because they will lead to higher taxes.

**Increase the State Sales Tax.** In mid-December, Dennis Prouty, Director of the Legislative Fiscal Bureau speculated that a 1% increase in the sales tax, from 5 to 6%, would yield an additional \$300 million annually. But it would also increase the tax burden \$261 annually per Iowa household.

**Local Option Sales Tax Reform.** State Representative Chuck Gipp's proposed reform would eventually pool all revenue generated from local option sales taxes to be redistributed on a per-pupil basis. Yet this proposal has all the trappings of a stealth tax increase. Under the proposal, counties will only receive money from the pool if their voters approve a local option sales tax. As a result the plan creates increased pressure on counties to do so. Ultimately, Iowa could have a de facto statewide 1% increase in the sales tax, thereby increasing the Iowa tax burden.

**Taxing Internet Purchases.** Governor Tom Vilsack favors this, claiming that Iowa loses between \$80 million to \$100 million in sales taxes each year because it does not tax Internet sales. Yet a 2001 report by the U. S. Government Accounting Office estimated the range of possible loss for Iowa as \$2 million to \$31 million. Whatever the amount, instituting a sales tax on Internet purchases would increase the tax burden on Iowans. Another reason to avoid a sales tax on the Internet is that the Internet commerce serves as a brake on state taxation. If Iowa shoppers feel that the state sales tax is too high, they can turn to the tax-free Internet. This puts pressure on state government to keep the sales tax rate down.

**Monies and Credit Tax.** State Senator Stewart Iverson has proposed a tax on Iowans who put their money in the stock market or the bank. In 2001, Iowa enacted various tax breaks for investment, including ones for stock purchases. A monies and credit tax could undo that. This would make Iowa a less investment-friendly state.

*Source: David Hogberg, Institute Brief, February 2003, "Iowa Tax Reforms: But Some Do Not."*

*By David Hogberg and Amy K. Frantz, Research Analysts*

[public.interest.institute@limitedgovernment.org](mailto:public.interest.institute@limitedgovernment.org) Phone: 319-385-3462 Fax: 319-385-3799