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Federal Tax Deductibility in Iowa: Who Benefits and Why It Should Continue

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by

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Contents

Executive Summary

Currently, Iowa is one of nine states that allow federal income taxes, all or a portion thereof, to be deducted from their taxable state income.[1] This means that Iowa citizens pay state income tax on their real income, not on earnings unrealized. Iowans are not required to pay a tax on a tax.

The primary rationale for federal deductibility is fairness. Proponents of the policy argue that citizens should not be required to pay taxes on the federal government's takings. This portion of earnings is not the workers'; they never saw these dollars or possessed them in any tangible sense. Hence, proponents ask, why should they be required to pay taxes on them?

Yet there are some in Iowa who would change this policy, and prevent Iowans from deducting federal income taxes from their tax liability. Opponents of federal tax deductibility offer myriads of explanations for their position that often include such nouns as "simplicity," "fairness," and "stability." However, the main complaint from critics of federal deductibility is that it is not "progressive." A progressive tax is one that involves a worker paying a proportionately higher percentage of his or her income to the government as he or she earns more.

This study will address and answer the following questions: Who benefits from allowing Iowans to deduct their federal income taxes from their taxable state income? What consequences would repeal of federal deductibility have on Iowa's economic competitiveness? What is the purpose of taxation and how would repeal of federal deductibility affect Iowa's tax structure and overall tax burden?

A careful analysis of the policy of federal tax deductibility and its use in Iowa reveals the following:

1) Federal deductibility is an economically fair policy that benefits the vast majority of full-time working Iowans, particularly in their life stages when they are most productive.

2) History shows that repealing federal deductibility could raise Iowa's overall tax burden and make it less hospitable for entrepreneurship, even if income tax rates are marginally or temporarily reduced in conjunction with repeal.

3) Federal deductibility in Iowa is a policy that is harmonious with and runs congruent to the Lockean philosophy of taxation adopted at our nation's Founding.

"The primary rationale for federal deductibility... is fairness. Proponents of the policy argue that citizens should not be required to pay taxes on the federal government's takings."

Federal Deductibility in Iowa:

"The principal raison d'être of federal deductibility is tax fairness. No person should be required to pay a tax on a tax."

Introduction

Section 422.9 of the Iowa Code states "In computing taxable income of individuals, there shall be deducted from net income the larger of the following amounts… An optional standard deduction, after deduction of federal income tax …" As of 2007, nine states, including Iowa, allow citizens to deduct their federal income taxes from their taxable state income.[2] The principal raison d'être of federal deductibility is tax fairness. No person should be required to pay a tax on a tax. Requiring citizens to pay taxes on income that is not theirs is an affront to civic justice. Requiring workers to pay taxes on the United States government's income — income garnished from an earner's paycheck — is hardly an even-handed or just policy.

Yet there are some in Iowa who would change this policy, and prevent Iowans from deducting federal income from their tax liability. As *Des Moines Register* columnist David Yepsen pointed out in a February 9, 2007 broadcast on Iowa Public Television, "Democrats for years have been talking about …repeal[ing] federal deductibility" and lowering tax rates to make the tax code "more competitive."[3]

Democrat State Senator Joe Bolkcom advocates "[e]liminating federal deductibility," claiming this would "create a simpler, fairer and more competitive income tax system." In a 2004 Policy Report for the Iowa Policy Project, Dr. Charles Bruner, Executive Director of Child and Family Policy Center, wrote that making Iowa's tax system more equitable and simple involved "eliminating federal deductibility."[4]

While most proposals combine only modest reduction in income tax rates with the elimination of federal deductibility — a fact that almost certainly presupposes an exorbitant increase in the overall tax burden on Iowans — other proposals have gone further. In 2002, Iowa State Senator Larry McKibbin, a Republican, advanced legislation that would have replaced Iowa's nine income tax brackets with a 3.5 percent flat tax, but eliminated nearly all tax deductions, including federal income taxes.[5]

Opponents of federal tax deductibility offer various explanations for repeal. However, the most frequent complaint from critics is federal deductibility is not "progressive." A progressive tax is one that involves a worker paying a higher percentage of income to the government as he or she earns more. Many believe that federal deductibility only benefits, or primarily benefits, the highest income earners, and is, hence, "regressive."

This study will analyze Iowa's current income tax structure and the policy of allowing Iowans to deduct federal taxes from their taxable state income. It will address and answer the following questions: Who benefits from allowing Iowans to deduct their federal income taxes from their taxable state income? What consequences would repeal of federal deductibility have on Iowa's economic competitiveness? What is the purpose of taxation and how would repeal of federal deductibility affect Iowa's tax structure and overall tax burden?

Who Benefits from Federal Deductibility?

Aside from being just, federal deductibility is also sound economic policy. Its primary benefit is that it lowers the overall tax burden of all Iowa workers. Calculations based on Iowa tax returns from the years 2004 and 2005 suggest that Iowans would pay an additional $500 to $600 million per year if federal deductibility were repealed.[6]

The notion that federal deductibility only benefits "the rich" is erroneous. If federal deductibility were repealed, an estimated 65 percent of the resulting tax increase — around $350 million — would be born by individuals earning less than $75,000 per year. Nearly 80 percent of this tax increase would fall upon individuals earning less than $100,000 a year. Despite the conventional wisdom, lower-income workers benefit from the policy as well, with those who earn under $40,000 a year saving an estimated $133 million due to federal deductibility, nearly 25 percent of the total savings.[7]

Opponents of federal deductibility invariably argue that higher-income earners benefit more than lower income-earners from the policy of federal deductibility. This is true only in the sense that because higher-income earners pay substantially more in federal income taxes than lower income earners, they benefit, on an individual basis, marginally more from the policy. Yet these differences are not substantial.

An individual earning $95,000 a year keeps an estimated $1,734 because of federal deductibility; a worker making $75,000 saves approximately $1,250; an earner making $50,000 pockets an additional $607 every year because of federal deductibility, while one earning $40,000 a year still saves $352. As a group, earners making between $20,000 and $39,999 per year would see a larger tax increase than earners making over $100,000 if federal

Why It Should Continue:

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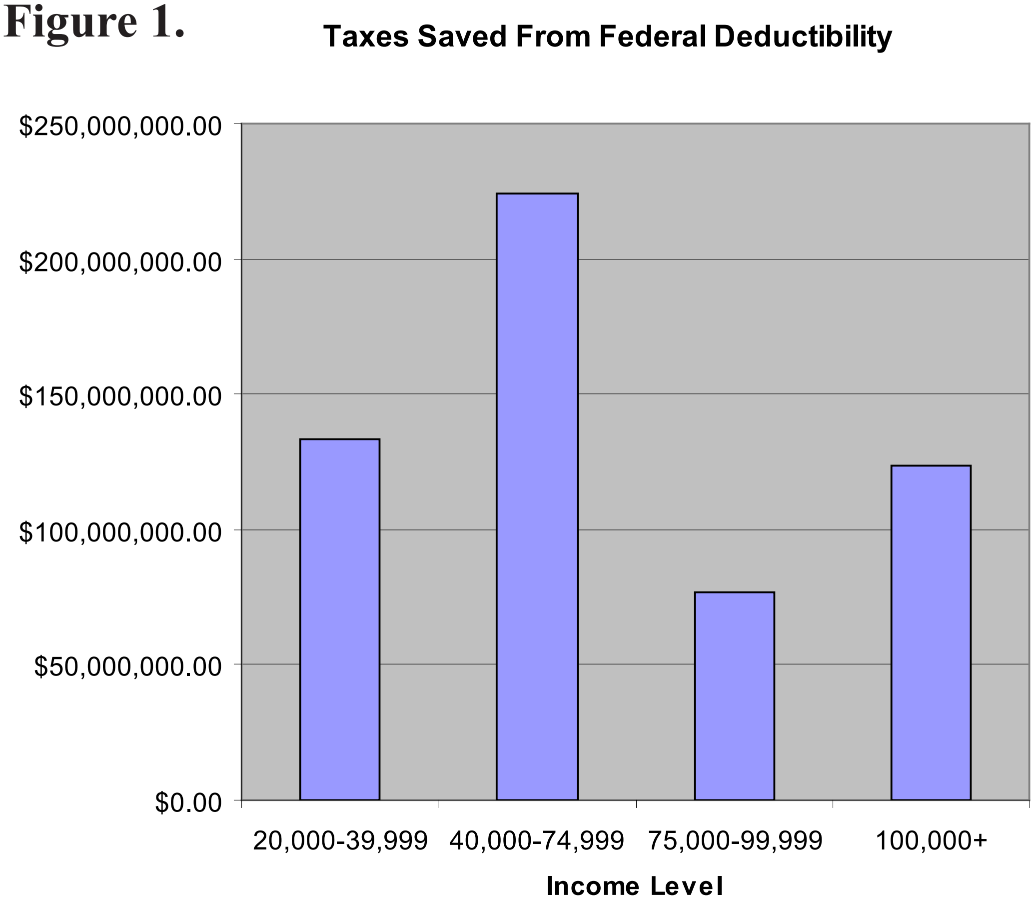
Figure 1.



Federal Deductibility in Iowa:

"Iowans making over $30,000 per year pay approximately 83 percent of all income taxes while making up only 40 percent of the population."

deductibility were repealed.[8]

Some may oppose any tax policy that benefits a person making $45,000 per year more than someone making $22,000 per year. Yet the reason a person making $45,000 per year benefits more from the policy than a person making $22,000 per year is that the individual making $45,000 per year is paying substantially more in income taxes; hence, they enjoy a tax return that is marginally more lucrative.

The suggestion that higher-income earners do not pay their "fair share" of income taxes is based on a facetious construal of the facts. Iowans making over $30,000 per year pay approximately 83 percent of all income taxes while making up only 40 percent of the population. Individuals making over $50,000 per year bear over 50 percent of Iowa's income tax burden while representing less than 15 percent of the respective population. Individuals earning over $100,000 per year bear nearly 30 percent of the entire income tax burden, while making up only 3.7 percent of the population.[9]

It is also true that these higher income earning individuals — while assuming a disproportionately high percentage of the income tax burden — consume significantly fewer state resources and receive far fewer government services and benefits. Taken as a whole this demographic has fewer children in school and tax the road system less (because there are less of them). They are also ineligible for government aid in the form of Medicaid, food stamps, etc. It is a fact that these individuals are paying a disproportionate amount of income tax compared to the benefits they receive.

Federal deductibility rewards all working Iowans who pay federal taxes. That some of these Iowans are higher-income earners than others does not change the fact that all working Iowans have the potential to benefit from a policy that allows any Iowan to deduct federal taxes from his or her taxable state income. However, evidence suggests that not only do a plurality of Iowans benefit from federal deductibility, but it is far more equitable policy than a first glimpse at numbers might imply.

One of the realities opponents of federal deductibility fail to appreciate is the inherent dynamism and economic mobility that marks a free-market society. Class-warfare enthusiasts and the practitioners of victimization politics would have you believe there is some mythical class called "the rich" that is taking more than their fair share of a finite pie.

However, as one economist points out, the economic reality is that an absolute majority of Americans in the bottom quintile of income in 1975 were also in the top quintile at some point within the next 17 years. A recently released report from the U.S. Treasury Department analyzing federal income tax returns between the years 1996-2005 shows a similar story. The report reveals that "roughly half of taxpayers who began in the bottom quintile mov[ed] up to a higher income group within 10 years" ... and ... "median incomes of all taxpayers increased by 24 percent after adjusting for inflation."[10]

These statistics demonstrate the elasticity of class and income potential in the United States and reveals a simple, but often forgotten truth: high-income levels have little to do with "class" and much to do with life stages. As individuals age they acquire more education, work experience, and skills; hence, it is entirely natural that individuals, given opportunity and incentive, will earn higher-incomes in certain life stages.

This means that the individual who might enjoy, through

Why It Should Continue:

"One of the realities opponents of federal deductibility fail to appreciate is the inherent dynamism and economic mobility that marks a free market society."

Federal Deductibility in Iowa:

"The terms 'poor' and 'rich' suggest two distinct and immobile classes of people. This is an entirely unrealistic representation of class in Iowa and America."

federal deductibility, a tax burden $350 less at 25 or 30 years of age is likely to enjoy a tax burden that is $1200 less when that person reaches 40 or 50 years of age. The terms "poor" and "rich" suggest two distinct and immobile classes of people. This is an entirely unrealistic representation of class in America and, for that matter, Iowa.

For example, data from the Iowa Department of Revenue reveal that a minority of taxpayers in Iowa made over $30,000 in 2004 (see Figure 2). However, U.S. Census data shows that of individuals at least 25 years of age who worked a full-time job year round, 70 percent made at least $30,000. When measuring this same group and measuring individuals that held at least a high school diploma, census data reveal that *94 percent* of this group earned over $30,000 in 2006.[11]

The ideal economy will reward innovation, education, and experience. It will encourage citizens to become educated and develop skills in high demand by allowing them to enjoy the benefits that come from possessing talents that are needed and in high demand.

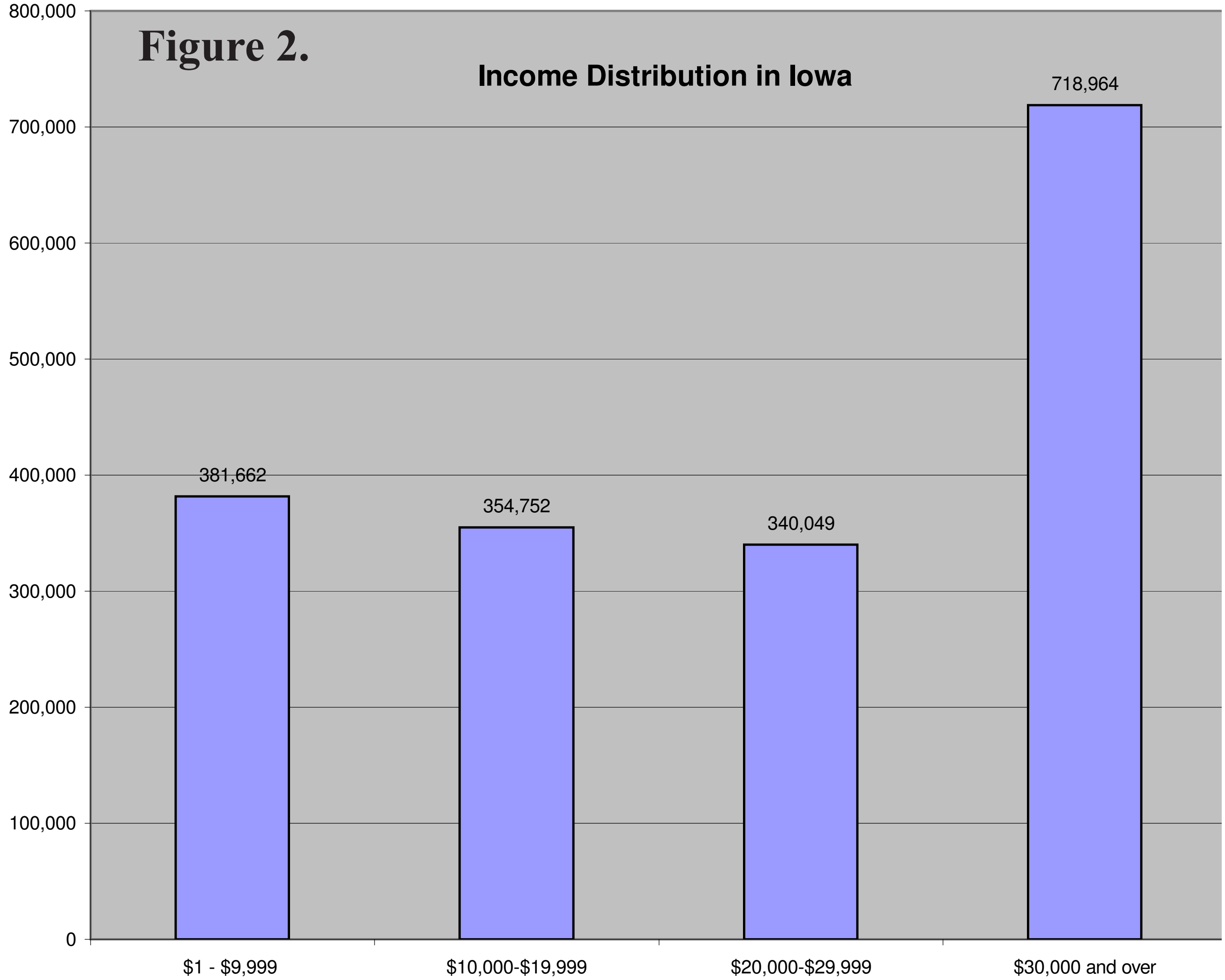
What Would Iowa's Tax Structure Look Like Without Federal Deductibility?

Based on tax data from 2004, if Iowans would not have had the ability to deduct federal taxes from their taxable state income they would have paid an additional $557 million in taxes. Of this increase, $133 million would have been paid by earners making less than $39,999; $224 million would have been paid by earners making between $40,000 and $74,999. That means that if federal deductibility were repealed, an absolute majority (65 percent) of the tax increase would fall upon workers earning less than $75,000 per year.[12]

It is also worthwhile, on a practical level, to examine what Iowa's tax climate would look like without federal deductibility in relation to the other respective states and, more importantly, its adjacent neighbors. Currently, Iowa's top real income tax rate — the actual tax rate an individual would pay on net income (i.e. income after federal taxes) — is 8.98 percent. This puts Iowa at 26th in the nation.[13]

If federal deductibility were repealed, Iowa would immediately have the fifth highest income tax rate in the country. Only Rhode Island, California, Vermont, and

Figure 2.



Oregon would have a more confiscatory top bracket rate than Iowa. Of Iowa's adjacent neighbors, the top income tax rates would appear thus: South Dakota, no state income tax; Illinois, 3.5 percent; Missouri, 6 percent; Wisconsin, 6.75 percent; Nebraska, 6.84 percent; Minnesota, 7.85 percent; Iowa, 8.98 percent.[14]

Iowa already has the highest corporate tax in the nation. Last year, the non-partisan Tax Foundation ranked Iowa among the top ten *worst* states to do business in (43rd in the nation to be precise) on its State Business Tax Climate Index.[15]

If Iowa is intent on racing to the bottom of that list by scaring off professionals, would-be entrepreneurs, and business owners, enacting a $500 million tax increase is a good place to start.

Critics will argue that repealing federal deductibility will not, in fact, result in a $500 million tax increase. They allude (often vaguely) to a general reduction in

Why It Should Continue:

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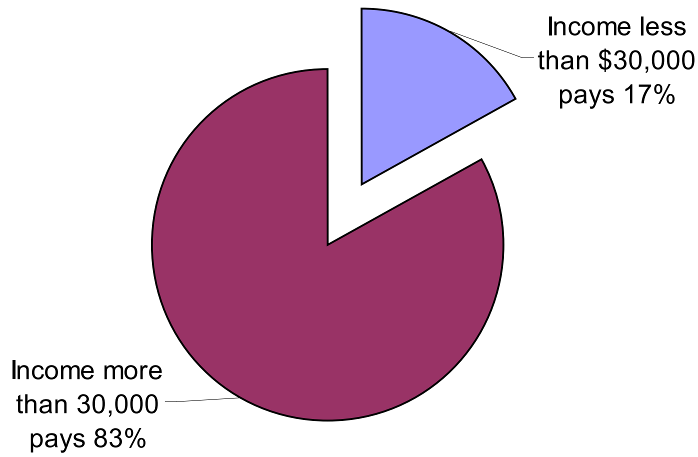
Tax Burden in Iowa: Percentage of Iowa Income Taxes Paid by Income Level



Federal Deductibility in Iowa:

"As Chief Justice John Marshall once stated, 'The power to tax involves the power to destroy.'"

income tax brackets. Hence, proponents of repealing federal deductibility argue that their goal is not to increase taxes, but to make Iowa's income tax structure more "progressive."

Assuming that Iowa Legislators would be able to create a new tax scheme that would lower the income tax rates in such a way that it would be revenue neutral (a dubious assumption considering the unpredictable distorting affect taxes have on economies), it is worth asking if such a system would in fact be more fair and in Iowa's economic interest. To answer the question of fairness, it is worthwhile to consider the inherent quality of taxes and their underlying objectives.

The Nature and Purpose of Taxes

A tax is a government taking like any other. As Chicago law Professor Richard Epstein has noted, cloaking a taking "in the general terms of a tax only increases the dimensions of the prima facie government wrong by making it a taking against all parties who fall within the statutory ambit."[16]

Though the mode and figures of extraction have changed over time — the king in his counting house, the tribal chieftain, the IRS (Internal Revenue Service), etc. — the nature of taxation has changed little: "[T]hose in control of the apparatus of the state extract assets and value from serf or citizen in order to pay for governmental obligations and services."[17]

Though taxes, being the lifeblood of government, are necessary for governance (and, hence, order) the ability to tax is perhaps the greatest and most dangerous of all government powers. As Chief Justice John Marshall once stated, "The power to tax involves the power to destroy."[18]

The question of when, who, and how much to tax, however, depends largely on one's view of the purpose and nature of the state. It was the English philosopher John Locke's view of government (and taxation) that dominated during the signing of the United States Constitution and was the prevailing philosophy of the Founders of our country. Locke rejected Thomas Hobbes' view of the nature of government, which held than man — upon entering a (metaphorical) "social contract" — yielded his sovereignty to the state in exchange for its protection. Hobbes argued that because order is preferable to anarchy, humans have little choice but to toil under an oppressive state and surrender their individual liberty.[19]

To Locke, the state did not extinguish the rights of man, but sheltered them. In the Lockean view, the protection of private property is the foundation and end of government; hence, it is a right that is inalienable. To Locke, the idea that one should forfeit it upon entering society that thing which he entered society to protect — property — was "too gross an absurdity for any man to know."[20]

Locke's philosophy was congruent with English common law, which denied that externalities were to be collectively held and enjoyed by all. Man had a right to that which he owned, including "the labour of his body and the work of his hands." In a Lockean world, the state cannot seize the property of citizens — including cash assets and earned income — without compensating them in some comparable and explicit way.[21]

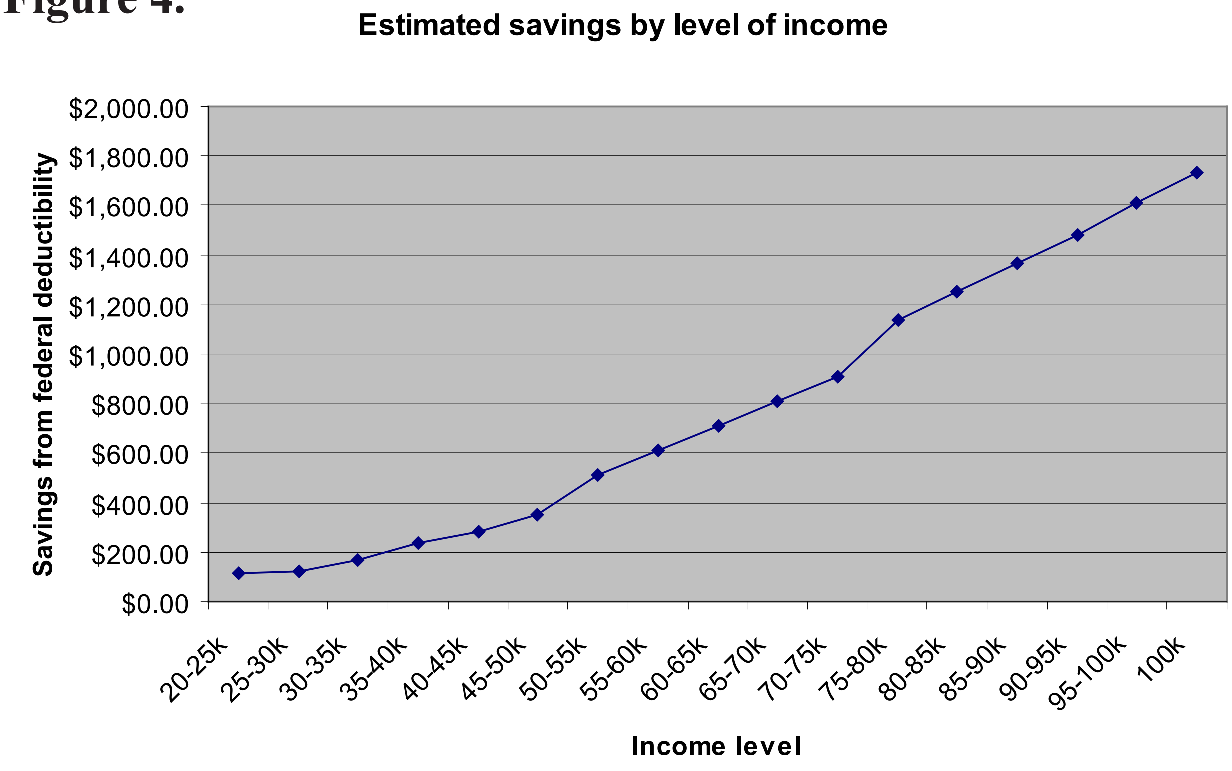
For much of U.S. history, it was the Lockean form of government that prevailed. The role of government was to protect the life, liberty, and property of citizens. Taxes were levied equally, and in proportion to benefits received, to support the limited and clearly defined functions of government that were enjoyed equally by the general public.

By the dawn of the 20th century however, this began to change as advocates of a more

Why It Should Continue:

"...the protection of private property is the foundation and end of government..."

Figure 4.



Federal Deductibility in Iowa:

"... a steeply progressive tax system ... can hardly be regarded as one that would encourage hard work and investment ..."

active, forceful, and robust government sought to expand the role of the state. As the perception of the proper functions of government began to change, so did the idea of how taxes should be collected. The logic of advocates of a progressive tax is simple: taxes, as Dr. Charles Bruner of the Iowa Policy Project maintains, should be based on "people's ability to pay."[22]

A tax system based on one's "ability to pay" sounds like a wonderful ideal, but it is hardly a definable one. It is an altogether imprecise term that will arbitrarily change according to individual differences in taste, world view, income level, etc.

The great question: Who determines one's "ability to pay?" The answer: lawmakers. Lawmakers are elected by the people and if enough people say they want more of Joe Millionare's wealth, they get it through taxation.

For example, prior to the Kennedy tax cuts (enacted posthumously in 1964) the top non-wartime tax bracket in the U.S. history was 92 percent (1952-1953) — Americans paid $0.92 on every dollar earned to the federal government after income of $400,000. At the same time, the bottom bracket was 22.2 percent paid on income up to $4,000. This is an example of a steeply progressive tax system. Yet it can hardly be regarded as one that would encourage hard work and investment — not when the government allows you to keep only $.08 of every dollar you earn.[23]

It is also apparent that a tax system based on one's "ability to pay" does not meet Locke's standard in that it does not adequately safeguard private property. This should not be surprising, considering that the idea that taxes should be based on one's ability to pay them comes from no less of a socialist than Karl Marx. "Ability to pay" is simply a paraphrase of the dictum popularized by Marx, "*from each according to his ability*, to each according to his need."[24]

In Marx's system, the protection of private property is not the end of government; rather, as stated by Marx, it is the end of government to abolish private property. It is not coincidence that to achieve this end Marx advocated a "Heavy Progressive or Graduated Income Tax."[25]

This is not to suggest that all proponents of a progressive income tax are Marxists. But what is clear is that advocates of an "ability to pay" tax system do not favor an income tax system that applies equally to all citizens. Instead, proponents of a progressive tax system seek to confiscate a higher and higher percentage of worker income based on that worker's productivity, using force or the threat of force to redistribute private assets as they see fit.

Not a Tax Increase?

The general claim among opponents of federal deductibility is that any tax reform would be revenue neutral. That is, the tax increase resulting from the repeal of federal deductibility would be offset by some marginal reduction in individual income tax rates. But we have heard this before.

The Tax Reform Act of 1986 was sold to the American people as a compromise. In exchange for lower rates and a simpler bracketing system, Americans would give up a number of prized tax credits and deductions. No longer would Americans be able to deduct things like state and local sales taxes or accrued consumer interest from their taxable federal income. Tools such as income averaging and numerous tax credits were also eliminated, phased out, or reduced. Capital gain taxes were raised to the level of ordinary income.[26]

Why It Should Continue:

"the idea that taxes should be based on one's ability to pay them comes from no less of a socialist than Karl Marx."

Federal Deductibility in Iowa:

"Many Iowans are unlikely to benefit from a policy that removes what is for many of them their single largest tax deduction while offering only slightly reduced tax rates in return."

The 1986 Tax Reform Act did, however, have features that appealed to proponents of tax reduction, namely fewer brackets with lower rates. Instead of fourteen different brackets, there would instead be three. The bottom bracket taxed income at 15 percent; the top bracket would tax income at 28 percent. The tax rates were also indexed to inflation to prevent "bracket creep." By 1988, the first year the new tax rates were fully implemented, federal revenues were up $140 billion from 1986 levels. In only two years the federal deficit had shrunk by $66 billion.[27]

But a simple tax scheme with modestly progressive rates was bound to offend the sensibilities of individuals who believe that history is defined by a perpetual war between the wicked "haves" (bourgeoisie) and the poor "have nots" (proletariat). For those with such a mindset, confiscating $0.28 on every $1.00 earned will never satisfy the sentimental urge to redistribute society's material to a proletariat too helpless and dim-witted to care for itself.

We remember the rest of this story. The promise of lower tax rates proved fleeting, as a Democrat-controlled Congress pressured and eventually persuaded George Herbert Walker Bush to break his "read my lips" pledge not to raise taxes. The Omnibus Budget Reconciliation Act of 1990, signed by President Bush on November 5 1990, raised or extended taxes on gasoline purchases, air travel, and Medicare, and raised the top federal tax bracket to 31 percent.

Two years after the passage of the Budget Reconciliation Act, revenues had increased by less than $60 billion from the 1990 level (or over $100 billion *less* than they had increased during the two years following the passage of the 1986 tax cut), while the budget deficit actually increased by $62.8 billion. The economy also slumped into its worst recession since, arguably, the Great Depression.[28]

Less than three years after the passage of the Budget Reconciliation Act of 1990, President William Jefferson Clinton raised income tax rates, adding an additional two income tax brackets, the top taxing income at a rate of 39.6 percent. This was the highest income tax rate since the passage of the 1986 Tax Reform Act, but, needless to say, Americans did not reclaim the tax deductions and credits they forfeited in the 1986 Act in exchange for lower income tax rates.[29]

There is, of course, a moral to this brief history and it's this:

Americans should beware of politicians bearing the "gift" of lower tax rates in exchange for cherished tax deductions. For one, many Iowans are unlikely to benefit from a policy that removes what is for many of them their single largest tax deduction while offering only slightly reduced tax rates in return. Second, history demonstrates that just because tax rates are reduced does not necessarily mean that politicians intend to allow them to remain so.

Conclusions

Based on the evidence, it is in the interest of Iowans to preserve and protect the policy of federal tax deductibility. The policy significantly lowers the overall tax burden of Iowans who work and pay federal taxes. For many Iowans, federal deductibility is the single most effective device they possess to lower their taxable state income. And for many of those for whom this is not currently the case, it will be in the future once their skills and experience result in more income (which the federal government will tax).

Even assuming that taxes are significantly lowered in conjunction with repeal of federal deductibility, it is not in the interest of Iowans to change the policy which allows them to deduct federal taxes from their state income taxes. Not only has history demonstrated that trading tax deductions for lower rates is a poor bargain when governments can raise taxes as they see fit, but a tax policy that confiscates workers' wages on income unrealized (i.e. the federal government's 'income') is antithetical to tax fairness.

Unless Iowans receive a significantly reduced single flat rate and a constitutional guarantee that requires a "super majority" to pass any future tax increases, they should not even contemplate forfeiting their ability to deduct federal tax payments from their taxable state income.

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"It is not in the interest of Iowans to change the policy which allows them to deduct federal taxes from their state income taxes."

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Appendix 1: 2004 Iowa Individual Income Tax Report

(2004 IOWA INDIVIDUAL INCOME TAX REPORT*)		
Income	**Number of Filers**	**Income tax paid**
No AGI	40,314	$115,193.00
$1 - $2,999	92,562	$60,272.00
$3,000 - $3,999	42,274	$32,244.00
$4,000 - $4,999	43,743	$79,094.00
$5,000 - $5,999	43,549	$256,773.00
$6,000 - $6,999	42,097	$670,270.00
$7,000 - $7,999	40,961	$1,230,561.00
$8,000 - $8,999	39,036	$1,838,609.00
$9,000 - $9,999	37,440	$3,377,073.00
$10,000 - $11,999	72,511	$9,544,618.00
$12,000 - $13,999	70,856	$13,467,957.00
$14,000 - $15,999	70,899	$18,392,888.00
$16,000 - $17,999	70,171	$24,211,022.00
$18,000 - $19,999	70,315	$31,141,504.00
$20,000 - $21,999	70,504	$38,413,860.00
$22,000 - $24,999	104,325	$70,049,309.00
$25,000 - $29,999	165,220	$143,358,130.00
$30,000 - $34,999	144,221	$159,915,924.00
$35,000 - $39,999	121,143	$162,585,201.00
$40,000 - $49,999	166,811	$276,176,035.00
$50,000 - $74,999	166,307	$387,705,655.00
$75,000 - $99,999	51,862	$179,156,038.00
100,000 A ND OVER	68,620	$617,458,806.00
TOTALS	1,835,741	$2,139,237,036.00

http://www.state.ia.us/tax/educate/04increp.pdf

Appendix 2: Iowa Taxes Paid with Federal Deductibility assuming standard federal deduction

US Ind. TAXRATES		*(Figures Include 2005 Standard Deduction of $5,000.00)	$25,000	$30,000	$35,000
Taxable income over--	Not over--	The tax is:			
$0	$7,825	10% of the amount over $0			
$7,825	$31,850	$782.50 plus 15% of the amount over 7,825	$20,000	$25,000	$30,000
$31,850	$77,100	$4,386.25 plus 25% of the amount over 31,850			
$77,100	$160,850	$15,698.75 plus 28% of the amount over 77,100			
$160,850	$349,700	$39,148.75 plus 33% of the amount over 160,850			
$349,700	no limit	$101,469.25 plus 35% of the amount over 349,700			
		Federal Taxes Paid on Earnings	-$1,859	-$2,609	-$3,359
		Income after Federal Taxes*	$23,141	$27,391	$31,641
		State Standard Tax Deduction	-$1,650	-$1,650	-$1,650
		Taxable Income Under Current Iowa Law	$21,491	$25,741	$29,991

Iowa TAX RATES					
$0.00	$1,300	.36% over $0			
$1,300.00	$2,600	$4.68 plus 0.72% of the amount over $1,300			
$2,600.00	$5,200	$14.04 plus 2.43% of the amount over $2,600			
$5,200.00	$11,700	$77.22 plus 4.5% of the amount over $5,200			
$11,700.00	$19,500	$369.72 plus 6.12% of the amount over $11,700			
$19,500.00	$26,000	$847.08 plus 6.48% of the amount over $19,500	$21,491	$25,741	
$26,000.00	$39,000	$1268.28 plus 6.8% of the amount over $26,000			$29,991
$39,000.00	$58,500	$2152.28 plus 7.92% of the amount over $39,000			
$58,500.00	no limit	$3696.68 plus 8.98% of the amount over $58,500			
			$19,500	$19,500	$26,000
			$1,991	$6,241	$3,991
			$1,991	$6,241	$3,991
		Tax Rate	0.0648	0.0648	0.0680
			$129	$404	$271
			$129	$404	$271
			$847	$847	$1,268
		State Taxes Paid with federal deductibility	$976	$1,252	$1,540

$40,000	$45,000	$50,000	$55,000	$60,000	$65,000	$70,000	$75,000	$80,000	$85,000	$90,000
$35,000	$40,000	$45,000	$50,000	$55,000	$60,000	$65,000	$70,000	$75,000	$80,000	$85,000
-$4,109	-$5,174	-$6,424	-$7,674	-$8,924	-$10,174	-$11,424	-$12,674	-$13,924	-$15,174	-$16,511
$35,891	$39,826	$43,576	$47,326	$51,076	$54,826	$58,576	$62,326	$66,076	$69,826	$73,489
-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650
$34,241	$38,176	$41,926	$45,676	$49,426	$53,176	$56,926	$60,676	$64,426	$68,176	$71,839

$34,241	$38,176									
		$41,926	$45,676	$49,426	$53,176	$56,926				
							$60,676	$64,426	$68,176	$71,839
$26,000	$26,000	$39,000	$39,000	$39,000	$39,000	$39,000	$58,500	$58,500	$58,500	$58,500
$8,241	$12,176	$2,926	$6,676	$10,426	$14,176	$17,926	$2,176	$5,926	$9,676	$13,339

$8,241	$12,176	$2,926	$6,676	$10,426	$14,176	$17,926	$2,176	$5,926	$9,676	$13,339
0.0680	0.0680	0.0792	0.0792	0.0792	0.0792	0.0792	0.0898	0.0898	0.0898	0.0898
$560	$828	$232	$529	$826	$1,123	$1,420	$195	$532	$869	$1,198

$560	$828	$232	$529	$826	$1,123	$1,420	$195	$532	$869	$1,198
$1,268	$1,268	$2,152	$2,152	$2,152	$2,152	$2,152	$3,697	$3,697	$3,697	$3,697
$1,829	$2,096	$2,384	$2,681	$2,978	$3,275	$3,572	$3,892	$4,229	$4,566	$4,895
$3,097	$3,365	$4,536	$4,833	$5,130	$5,427	$5,724	$7,589	$7,926	$8,262	$8,591

Appendix 3: Savings from federal deductibility

		INCOME EARNED	$20,000	$25,000	$30,000	$35,000
		Standard Deduction	$1,650	$1,650	$1,650	$1,650
			-$1,650	-$1,650	-$1,650	-$1,650
Tax rates						
$0.00	$1,300	.36% over $0				
$1,300.00	$2,600	$4.68 plus 0.72% of the amount over $1,300				
$2,600.00	$5,200	$14.04 plus 2.43% of the amount over $2,600				
$5,200.00	$11,700	$77.22 plus 4.5% of the amount over $5,200				
$11,700.00	$19,500	$369.72 plus 6.12% of the amount over $11,700	$18,350			
$19,500.00	$26,000	$847.08 plus 6.48% of the amount over $19,500		$23,350		
$26,000.00	$39,000	$1268.28 plus 6.8% of the amount over $26,000			$28,350	$33,500
$39,000.00	$58,500	$2152.28 plus 7.92% of the amount over $39,000				
$58,500.00	no limit	$3696.68 plus 8.98% of the amount over $58,500				
			$11,700	$19,500	$19,500	$26,000
			$6,650	$3,850	$8,850	$7,500
		Amount Taxed	$6,650	$3,850	$8,850	$7,500
		Tax Rate	0.0612	0.0648	0.0648	0.068
			$407	$249	$573	$510
			$370	$847	$847	$1,268
		Taxed amount W/O Federal Deductibility	$777	$1,097	$1,421	$1,778

INCOME EARNED	$20,000	$25,000	$30,000	$35,000
Taxes Without Federal Deductibility	$777	$1,097	$1,421	$1,778
With Federal Deductibility	$663	$976	$1,252	$1,540
Savings From Federal Deductibility	$114	$120	$169	$239

$40,000	$45,000	$50,000	$55,000	$60,000	$65,000	$70,000	$75,000	$80,000	$85,000	$90,000
$1,650	$1,650	$1,650	$1,650	$1,650	$1,650	$1,650	$1,650	$1,650	$1,650	$1,650
-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650	-$1,650

$38,350										
	$43,350	$48,350	$53,350	$58,350						
					$63,350	$68,350	$73,350	$78,350	$83,350	$88,350
$26,000	$26,000	$39,000	$39,000	$39,000	$39,000	$39,000	$58,500	$58,500	$58,500	$58,500
$12,350	$17,350	$9,350	$14,350	$19,350	$24,350	$29,350	$14,850	$19,850	$24,850	$29,850

$12,350	$17,350	$9,350	$14,350	$19,350	$24,350	$29,350	$14,850	$19,850	$24,850	$29,850
0.068	0.068	0.0792	0.0792	0.0792	0.0792	0.0792	0.0898	0.0898	0.0898	0.0898
$840	$1,180	$741	$1,137	$1,533	$1,929	$2,325	$1,334	$1,783	$2,232	$2,681
$1,268	$1,268	$2,152	$2,152	$2,152	$2,152	$2,152	$3,697	$3,697	$3,697	$3,697
$2,108	$2,448	$2,893	$3,289	$3,685	$4,081	$4,477	$5,030	$5,479	$5,928	$6,377

$40,000	$45,000	$50,000	$55,000	$60,000	$65,000	$70,000	$75,000	$80,000	$85,000	$90,000
$2,108	$2,448	$2,893	$3,289	$3,685	$4,081	$4,477	$5,030	$5,479	$5,928	$6,377
$1,829	$2,096	$2,384	$2,681	$2,978	$3,275	$3,572	$3,892	$4,229	$4,566	$4,895

$279	$352	$509	$608	$707	$806	$905	$1,138	$1,250	$1,363	$1,483

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