

The Iowa Independent

[Report: Iowa tax code favors wealthiest residents](#)

By [Jason Hancock](#) 11/18/09 10:39 AM



Moderate- and low-income Iowans pay a greater share of their income in state and local taxes than the rich do, according to a new report from two non-partisan research organizations.

According the report, Iowa families earning less than \$20,000 a year — the poorest fifth of Iowa non-elderly taxpayers — [pay 11 percent of their income in state and local taxes](#). Middle-income families — those earning

between \$37,000 and \$56,000 — pay 10 percent of their income in Iowa state and local taxes.

The richest Iowa taxpayers, with income averaging \$989,200, pay 7.4 percent of their income in state and local taxes.

When a state tax law that allows residents to write off federal taxes on state returns is factored in, the wealthiest Iowans pay only 6 percent of their income in state and local taxes. Low-income taxpayers see no benefit from the deduction.

“No one would ever design an income tax with lower tax rates for the best-off taxpayers,” said Matthew Gardner, executive director of the D.C.-based Institute on Taxation and Economic Policy and lead author of the report. “But that is exactly what Iowa’s tax system overall does. It allows the very wealthiest individuals to contribute less of their income, on average, than middle- and lower-income families must pay. In other words, Iowa has an unfair, regressive tax system.”

Peter Fisher, research director of the Iowa Policy Project, said the report shows the need in Iowa for dramatic income-tax reform. He said the report confirmed Iowa’s reliance on “regressive” taxes — sales, excise and property taxes — which fall heavier as a share of income on lower-income families, and the weak progressivity of the state income tax.

During the 2009 legislative session, [Democrats proposed to end federal deductibility and rework the tax code](#) to lower the overall tax rate for every citizen. However, those making more than \$125,000 a year would have ended up paying slightly more under the new system, up to \$1,400 a year for Iowans making \$250,000 or more a year.

[Fierce opposition from conservative groups](#) like Iowans for Tax Relief ultimately [killed the proposal](#). The Muscatine-based group, which helped derail a similar proposal in the 1980s when it was pushed by former Republican Gov. Terry Branstad, said ending federal deductibility “flies in the face of common sense Iowa values and is simply unfair.”

Iowa State University economist David Swenson told the Iowa Independent during the session that federal deductibility was an [“archaic holdover from a long ago time that nobody really knows why it exists anymore.”](#)

Iowa, Alabama and Louisiana are the only states that allow federal taxes to be deducted on state returns.