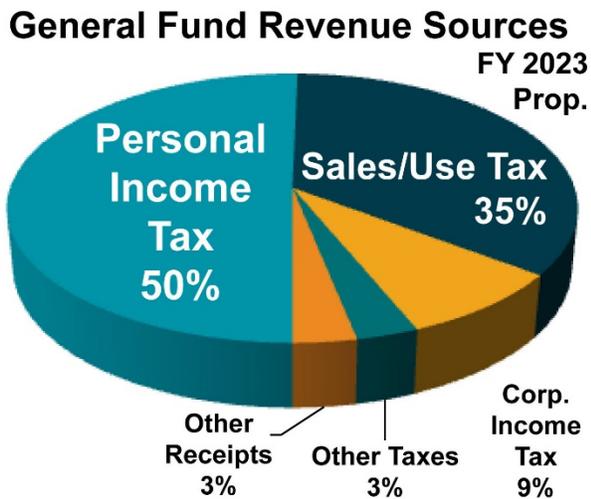
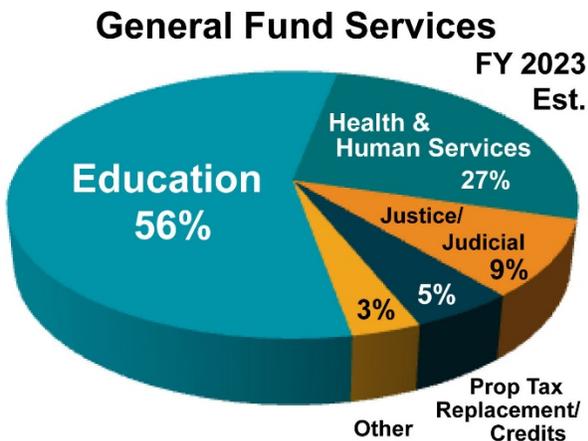


Tax proposals promise tough, unpopular decisions down the road

The size of proposed tax cuts in the legislature — and the budget cuts they will ultimately require — is beyond what every day Iowans will want to accept. The Senate proposal to eliminate the state income tax would eventually cut general fund revenue in half; the Governor's proposal would cut general fund revenue by \$1.6 million after five years. Both would force tough decisions for lawmakers, who would have to find places to reduce funding. About 90% of the state's general fund goes toward education, health and human services and the justice system.



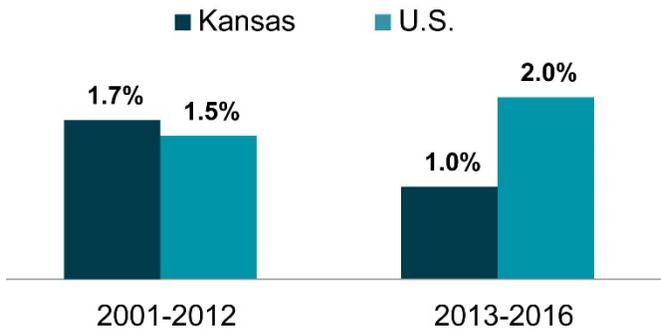
Experience shows tax cuts of this magnitude don't pay for themselves — and are not popular. Kansas lawmakers passed big tax cuts back in 2012 and 2013. Then when revenues crashed in subsequent years, they used up reserves, postponed projects, and skipped payments to the pension fund. Districts closed schools early when funds ran out. Political backlash ensued. A half-decade after most tax cuts were repealed, Kansas still has a negligible rainy-day fund and its public employee retirement system is dangerously underfunded.



Tax cuts will put Iowa schools in particular jeopardy — and force unpopular decisions, from cutting programs and raising class sizes to school district consolidations. Together, PK-12 and higher education spending comprise over 50% of the general fund. It would be impossible make big budget cuts without striking them. Iowans across the state highly value their community schools. They will not accept these cuts.

Budget cuts are also likely to lead to job losses, which will have the biggest economic effects in small communities where a high share of relatively well-paid jobs like teaching depend on state funding. Cities with mental health and correctional institutions and other group facilities are also likely to see big job cuts.

Kansas GDP growth lags behind U.S. after tax cuts
Average annual percent change in real GDP

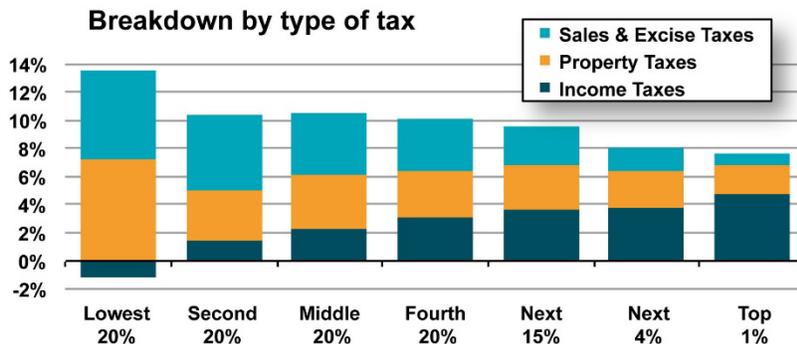


Source: Bureau of Economic Analysis, Real GDP by State (chained 2009 dollars), 2000-2016

All evidence says large tax cuts will not make Iowa more competitive. When Kansas passed those similarly large tax cuts a decade ago, their economy suffered. As the cuts kicked in, the state budget was slashed, state GDP growth quickly fell, and Kansas became the least competitive state in the region.

The bills give the biggest breaks to the wealthiest Iowans, who already pay the lowest shares of their incomes in state and local taxes. Legislative proposals would give immediate tax cuts to the highest earners, while middle-class Iowans would not see tax cuts for several years, and many lower-income Iowans would see no cuts at all.

Share of income paid in state and local taxes by Iowa tax filers' percentile of income



Source: Institute on Taxation and Economic Policy

Eliminating retirement income tax is expensive — and isn't likely to change retirees' behavior. The state would take a \$400 million hit from excluding retirement income tax, but the average retired Iowan would only see a tax reduction of about \$50 per month. This is not a large enough saving to convince someone to remain in Iowa, but it is a large enough cut in revenue to harm the services that make Iowa a great place to live.

The IWILL element of the Senate tax bill breaks promises to Iowans. When voters passed the IWILL constitutional amendment in 2010, they were promised significant new outdoor recreation funding from the next sales tax increase. The Senate proposal changes what projects IWILL will fund, and the new list bears little resemblance to what Iowa's voters agreed to.

To learn more, contact deputy director Mike Owen at mowen@commongoodiowa.org or visit www.commongoodiowa.org