

Middle-Class Tax Cut / Simplification Passes Committee

The House Ways and Means Committee passed legislation cutting income tax rates by about 20% for all Iowans and cutting taxes for the middle class by \$34 million. Although revenue neutral to the state, taxes on 67% of Iowans stay the same or decrease. The bill also eliminates nine lines from the Iowa income tax form, the biggest tax simplification in decades.

House File 807 eliminates the deduction for federal taxes, raising \$595 million. Of that, \$589 million is used to cut all tax rates, and the remaining \$9 million is used to increase a tax exemption for the blind and those age 65 and over from \$20 to \$40, to increase the Earned Income Tax Credit, increase the Child and Dependent Care Credit, and increase the Early Child Development Credit.

Everyone's specific tax situation is unique, so there are people in every income group that may see their taxes go up slightly, stay the same, or go down. But generally,

taxes of households with incomes under \$125,000 will either stay the same or go down.

Why End the Federal Deduction?

Only six states allow any federal deduction. Iowa, Alabama, and Louisiana allow a 100% deduction. Missouri, Montana and Oregon only allow partial deductions. States with no deduction have lower tax rates. Ending the deduction will result in a 20% cut in every Iowan's income tax rate.

From	To	Current Rates	New Rates
\$0	\$1,444	0.36%	0.31%
\$1,444	\$2,888	0.72%	0.60%
\$2,888	\$5,776	2.43%	2.00%
\$5,776	\$12,996	4.50%	4.28%
\$12,996	\$21,660	6.12%	5.56%
\$21,660	\$28,880	6.48%	5.56%
\$28,880	\$43,320	6.80%	5.87%
\$43,320	\$64,980	7.92%	6.80%
\$63,315	or more	8.98%	6.98%

Iowa's 8.98% top rate is the 4th highest in the country. The bill cuts this to 6.98%, the lowest in 40 years, and puts Iowa more in line with the neighboring states of Illinois (3%), Kansas (6.45%), Minne-

sota (7.85%), Missouri (6.0%), Nebraska (6.84%), Wisconsin (6.75%). South Dakota has no income tax.

The lower rate improves efforts to attract new businesses to Iowa. Development professionals have complained for 30 years about the false perception that Iowa is one of the highest tax states, when in reality it ranks 37th in per capita tax revenues.

Even President Reagan realized one needed to get rid of some deduction to get rates down. His Tax Reform Act of 1986 cut rates but also repealed the second earner deduction, repealed the sales tax deduction, set a 2% deduction threshold limit on passive losses, put income limits on IRAs for those covered by pensions, and repealed investment tax credits.

No State Revenue Increase

Once again, under House File 807, the state will receive the same amount of revenue as under current tax law.