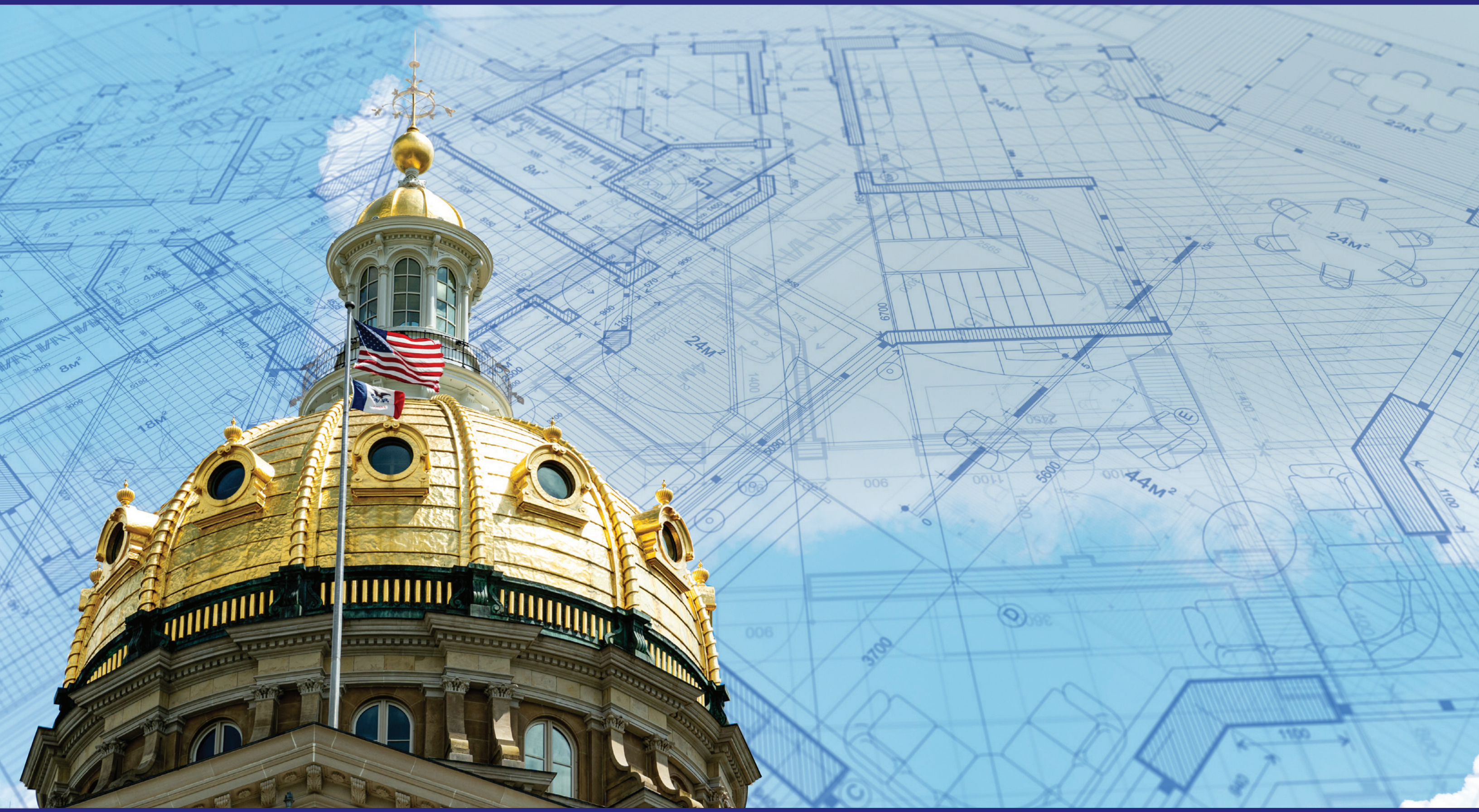
Accelerate, Lower, and Eliminate

A Pro-Growth Blueprint to Make Iowa's Tax Code More Competitive



By John Hendrickson
Policy Director

ITR FOUNDATION

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About the Author

JOHN HENDRICKSON is the Policy Director of ITR Foundation. He joined the ITR Foundation team in 2017. Before joining the Foundation, Hendrickson served as a Research Analyst with Public Interest Institute, a public policy research group, and as a researcher for the Heritage Foundation. His articles have been published in many newspapers across Iowa including the Des Moines Register, Cedar Rapids Gazette, and the Lee Enterprises newspapers.

Hendrickson earned both his BA and MA degrees in History from the University of North Dakota. He specializes in American political and constitutional history.

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Introduction

Iowa's 2024 legislative session will likely see our state's leaders taking the next big step in income tax reform. After three significant rounds of tax cuts since 2018, Iowa firmly established itself as the national leader in state-based tax reform. Now, the state government has a real possibility of eliminating the income tax, making Iowa the first state to do so.

Given the progress that has been made in a few short years, Iowans may not remember how unfriendly Iowa's tax code was to families and businesses just six years ago. We faced some of the highest income tax rates in the nation, with the top individual rate close to 9 percent and the top corporate rate at 12 percent.

Governor Kim Reynolds and the legislature understand that it is vital for Iowa's economy to have a more-competitive tax code. Despite the pro-growth tax reforms already passed, more work is needed. Further lowering income tax rates is a moral issue, because Iowa is collecting more from taxpayers than is needed to fund the government. In this report, Iowans for Tax Relief Foundation will examine the changes that have already been implemented, map out the reforms still being phased in, consider the state's ability to continue reducing rates, and demonstrate the positive benefits of doing so.

A Brief History of Iowa Income Tax Reform

The Iowa legislature levied its first income and sales taxes in 1934, ostensibly to provide property tax relief. At that time, the progressive income tax had five brackets, with the highest being five percent. The income tax soon began increasing until it reached a top rate of 13 percent, with 13 tax brackets, in 1975. Legislation in 1987 reduced the number of brackets to nine, with a top rate of 9.98 percent. However, Iowa's first substantial package of income tax cuts came in 1998, as a 10 percent across-the-board rate cut that preserved all nine brackets.

Iowa's corporate tax has a similar story. The state first levied the tax in 1934 at a flat 2 percent. Not until 1967 did the progressive tax structure find its way to this tax, with three brackets and a top rate of 8 percent. This structure increased to four brackets in 1981, with a top rate of 12 percent — the highest in the nation.

Throughout these changes, federal deductibility — the ability of Iowans to deduct their state income tax bills from their federal income tax calculations — and numerous tax credits often "softened" the burden of Iowa's high income tax rates. For decades, policymakers in Iowa turned to tax credits and other carve outs to provide tax relief when they weren't able to pass broad-based

History of Iowa Individual Income Tax Rates and Brackets

Effective Tax Year	Rates and Income Tax Brackets
1934	Graduated rates imposed ranging from 1.0% to 5.0% over 5 taxable income brackets, with a top bracket of $4,000
1953	Rates lowered to range from 0.75% to 3.75% over 5 taxable income brackets, with the top bracket raised to $5,000
1955	Rates increased to range from 0.8% to 4.0% over 5 taxable income brackets, with the top bracket raised to $4,000
1957	Rates lowered to range from 0.75% to 3.75% over the same taxable income brackets
1965	Rates changed to range from 0.75% to 4.5% over 6 taxable income brackets, with a top bracket of $9,000
1967	Additional bracket and new top 5.52% rate introduced
1971	Rate increased on all brackets except lowest two, rates ranging from 0.75% to 7.0%
1975	Rates ranging from 0.5% to 13.0% over 13 taxable income brackets, with a top bracket of $75,000
1979	One-time indexation of brackets raising the top bracket to $76,725
1987	Rates changed to 0.4% to 9.98% over 9 taxable income brackets, with a top bracket of $45,000
1996	Annual indexation of brackets instituted
1998	All tax rates cut 10% with a range of 0.36% through 8.98% over 9 taxable income brackets, with a top bracket of $45,000 indexed ($51,660)

History of Iowa Corporate Income Tax Rates and Brackets

Effective Tax Year	Rates and Income Tax Brackets
1934	Flat Rate of 2.0%
1955	Rate increased to 3.0%
1957	Rate lowered to 2.0%
1959	Rate increased to 3.0%
1965	Rate increased to 4.0%
1967	Additional rates increased with 3 taxable income brackets: Up to $25,000 - 4.0% $25,000 to $100,000 - 6.0% Over $100,000 - 8.0%
1971	Up to $25,000 - 6.0% $25,000 to $100,000 - 8.0% Over $100,000 - 10.0%
1981	Up to $25,000 - 6.0% $25,000 to $100,000 - 8.0% $100,000 to $250,000 - 10.0% Over $250,000 - 12.0%

reductions. They also attempted to engineer other policies by means of the tax code, leaving Iowans with a tax system that was overly complicated, maintained some of the highest marginal rates in the country, and intertwined numerous pieces of policy together, making reforms extremely difficult to implement.

Recent Changes

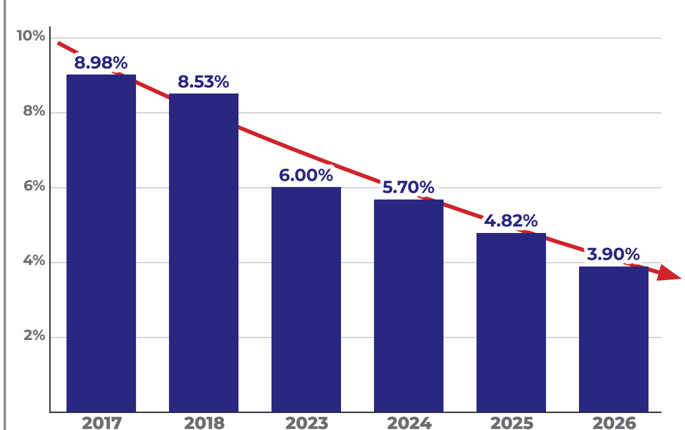
When Congress passed President Donald Trump's signature piece of legislation, the Tax Cuts and Jobs Act, at the very end of 2017, Iowa lawmakers were spurred into action. While reducing the federal tax burden, Congress also reduced the federal deductibility of state taxes. Absent action from the Iowa legislature, this would have produced a de facto state-level tax increase. As Iowa's 2018 legislative session wrapped up, the Iowa Legislature passed, and Governor Reynolds signed into law, what was then the largest income tax cut in state history. The substantial changes included:

- Individual income tax cuts for all income levels, including a reduction in the top rate from 8.98 percent to 8.53 percent, with additional cuts subject to future revenue triggers
- A reduction of the top corporate tax rate from 12.0 percent to 9.8 percent
- Modernizing the sales tax code to provide a level playing field between online businesses and brick and mortar businesses on Main Street
- Increases in Section 179 expensing and qualified business income deductions utilized by farmers and small businesses

Governor Reynolds and Iowa lawmakers went on to pass additional tax reform packages in 2021 and 2022, with the latter serving as the most-significant tax measure in the nation. Important aspects of these packages included:

- Elimination of the inheritance tax and tax on retirement income
- Elimination of the mental health levy from property taxes
- Reduction of corporate income tax rates to a flat rate of 5.5 percent subject to revenue triggers, currently at 7.1 percent in January 2024
- Reduction of individual income tax rates as follows:
- 6.0 percent (2023)
- 5.7 percent (2024)
- 4.82 percent (2025)
- 3.9 percent flat tax/no brackets (2026)

Reduced Individual Income Tax Rates



Conservative Budgeting: The Foundation of Successful Tax Reform

Taxes and spending are two sides of the same coin. Unless spending is controlled, lower tax rates will be impossible to sustain.

Thanks to recent changes, Iowa is a national leader not only in pro-growth tax reform, but also in conservative budgeting. The CATO Institute's 2022 *Fiscal Policy Report Card on America's Governors* rated Governor Reynolds as the most fiscally responsible governor in the country. Governor Reynolds and the legislature have placed a priority on conservative budgeting, which has provided the framework to enact historic tax reforms.

Iowa leaders have not only restrained spending, but also introduced needed reforms to reduce the size and scope of government. During the most-recent session, the legislature passed Governor Reynolds's state reorganization measure, which is the first major reform of state government in nearly 40 years. As a result, state government is undergoing a review process to increase efficiency and reduce waste, while saving taxpayer dollars. Iowa once had 37 different cabinet-level agencies, which has been reduced to 16.

By keeping spending growth restrained while funding the priorities of government, Iowa has achieved regular budget surpluses, full reserve accounts, and a massive buildup of the Taxpayer Relief Fund, even as tax cuts have phased in. Iowa Senate Majority Leader Jack Whitver has succinctly described how Iowa's recent tax and spend policies have played out: "Every single time since we've cut taxes, revenues have still come in higher than estimates," he told the magazine, *The Economist*.

Fiscal year 2023 produced a $1.8 billion surplus, which was $86.3 million higher than originally estimated. The fiscal year 2024 surplus is projected to be $2.1 billion, rising to $3.0 billion in fiscal year 2025. Iowa's reserve accounts (the Cash Reserve Fund and the Economic Emergency Fund) are filled at their statutory maximums and projected to continue at this level in fiscal years 2024 ($961.9 million) and 2025 ($957.6 million). Budget surpluses have also fueled enormous growth of the Taxpayer Relief Fund, which the legislature created to provide income tax relief. It has a current balance of $2.7 billion, which is projected to increase to $3.7 billion in fiscal year 2024 and $3.9 billion in fiscal year 2025. This massive amount of dollars represents an overcollection of taxpayer wealth.

State Budget Surplus

$1.8 billion

FY2023

Estimated Projections

$2.1 billion	$3.0 billion
FY2024	FY2025

Taxpayer Relief Fund

$2.7 billion

FY2023

Estimated Projections

$3.7 billion	$3.9 billion
FY2024	FY2025

Critics of recent Iowa budgets maintain that key programs are being underfunded at the expense of tax rate reductions. However, the General Fund has not decreased; it simply isn't growing as quickly as some would prefer. Overall, government spending in Iowa continues to increase, especially in key areas like K–12 education. Only in government is slowing the growth of spending viewed as a "cut."

The difference is philosophical. Governor Reynolds and the legislature believe allowing individuals, families, and businesses to keep more of their earnings is better for the economy than higher tax rates. In other words, following a limited-government approach works better than the tax-and-spend approach. If taxing and spending worked, people and business would not be fleeing progressive blue states like California, Illinois, and New York while states with low or no income taxes gain population. True to the rule of conservative budgeting, both California and Minnesota are also confronting budget deficits resulting from their reckless spending and tax increases.

Why Tax Reform Matters

A state's tax climate contributes to the success of its economy, especially in comparison with other states. Iowa is in competition with 49 other states for jobs and people, and tax rates affect behavior. The heavier the tax burden, the more it penalizes growth and productivity, calling to mind a famous saying of economist Arthur Laffer: "When you tax something, you get less of it, and when you tax something less, you get more of it."

When you tax something, you get less of it, and when you tax something less, you get more of it.

For decades, Iowa had some of the highest income tax rates in the nation, and the state cannot afford to become complacent about further reform. Making Iowa's tax code more competitive will help grow the economy, attract new people, and provide greater incentives for productivity.

Tax cuts lead to economic growth. This may not happen overnight, but a more competitive tax environment based upon lower rates creates more opportunity for economic growth. Iowa is already seeing the results of this with revenue projections and even slowly increasing the population. Businesses are also seeing the benefits of a lower tax environment.

The Tax Foundation's *2024 State Business Tax Climate Index* measures tax competitiveness across the country. Iowa's standing on the index has been improving every year, and the 2024 results continued the trend. Last year, Iowa ranked 38th overall; the state now ranks 33rd. For several years, Iowa languished in the bottom 10, but now our state is steadily working its way out of the bottom half of these rankings.

The Tax Foundation explains the importance of these results, noting that "states with the best tax systems will be the most competitive at attracting new businesses and most effective at generating economic employment and growth." They are in economic competition with each other, and the mass exodus of businesses and residents from high-tax states such as New York, California, and Minnesota show the effect.

Iowa offers a contrast. "With the full phase-in of the newly enacted reforms, Iowa would rank 15th overall, an improvement of 31 places. This would tie North Carolina for the largest improvement in the Index's history," notes Jared Walczak, Vice President of State Projects at the Tax Foundation.

With a 3.9 percent flat tax scheduled for 2026, Iowa will not only have replaced its progressive income tax, but also reduced the top tax rate by almost 60 percent in less than 10 years. If that were the end of the story, it would be remarkable, but there will be more to come.

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What's Next? A.L.E.

Governor Reynolds and legislative leaders have promised further income tax reform will be a priority during the 2024 legislative session. In a November iinterview, the governor herself predicted "Iowans are going to be very happy" with the next steps for income tax relief. ITR Foundation encourages officials to consider an income tax reform measure that ***ACCELERATES*** existing rate reductions, ***LOWERS*** the future flat tax rate even further, and creates a path that ***ELIMINATES*** the income tax completely, or A.L.E.

More than one approach can accomplish the goal of A.L.E., and multiple plans should be given serious and thoughtful consideration.

During this past legislative session, Senator Dan Dawson, Chair of the Ways & Means Committee, introduced an income tax reform bill that could establish a framework for future reforms in keeping with A.L.E. The proposal would accelerate the existing tax rate reductions enacted in 2022, continue to lower rates, and eventually eliminate the income tax.

This proposal would first accelerate existing tax rate reductions. Under the 2022 law, in tax year 2025 the income tax will fall to two rates, 4.82 percent and 4.40 percent. Dawson's legislation would accelerate rate reductions to be 4.40 percent and 4.00 percent in 2025. Then in 2026, the flat rate would be lowered to 3.55 percent instead of the currently planned rate of 3.9 percent. In 2027, the rate would drop to 2.95 percent and then 2.50 percent in 2028.

The plan would maintain the 2.5 percent flat tax rate in tax year 2029, but then, leveraging the Taxpayer Relief Fund, the state would slowly lower the income tax rate until the tax is eliminated. Renamed the Individual Income Tax Elimination Fund, the balance would act as a revenue trigger for further rate reductions. Starting in tax year 2030, the Department of Revenue would be required to calculate whether excesses in the fund allow reduction of the rate by at least 0.10 percentage points each year.

Although it is not certain this proposal will be introduced again, it provides a clear pathway for historic and pro-growth income tax reform. Senator Dawson honors the original intent of the Taxpayer Relief Fund by ensuring that those dollars are returned directly to taxpayers and not used for additional government spending, local government aid, or even one-time property tax relief.

Modeling the A.L.E. Plan and the Potential Impact of Eliminating the Income Tax

ITR Foundation, in partnership with the Buckeye Institute's Economic Research Center (ERC), has modeled another A.L.E. tax reform possibility. Our ERC model accelerates the existing tax rate reductions so that a flat 2.5 percent rate would be achieved in 2026. We found that more-aggressively cutting the income tax to this level would return $1.065 billion to Iowa taxpayers each year.

Table 1
Static Revenue Change
(millions, 2023)

	Static Revenue Change (millions)
Proportional Reduction in Personal Income Tax	-$1,065
Sales Tax Increase or Base Broadening	$0
Total Change	-$1,065

Table 1 demonstrates the estimated static revenue effect of lowering the rate to 2.5 percent in 2026. Static modeling does not consider any potential economic changes or growth as a result of tax rate reductions. Although it provides a fiscal baseline for tax policy, static modeling can only be considered a starting point for further analysis taking into account the dynamic effects individuals' and businesses' responses to the change. We provide the static effect, here, to acknowledge that these dynamic effects do not happen overnight, and accelerating a rate reduction to 2.5 percent would reduce revenue estimates by $1.07 billion.

ITR Foundation holds that, even if there were no dynamic effects, this revenue impact can be absorbed based upon current revenue strength, built-in budget growth, and the Taxpayer Relief Fund.

For a more-realistic estimate, however, Table 2 presents the dynamic effects of the ERC scenario, including a $600 million increase in state gross domestic product (GDP) in the first year. Spurred by increased economic activity, economic output will quickly outpace tax revenue losses. The Iowa Taxpayer Relief Fund contains a $2.7 billion surplus that should, in tandem with spending restraint, be strategically returned to taxpayers, who can decide to save, spend, or invest in place of government agencies' frittering the money away on spending projects.

Eliminating the Income Tax

It is clear that Iowa can not only afford to make another round of significant income tax cuts, but that the impact of doing so would deliver a major boost to consumption and investment. With that understanding, Iowa policymakers should also train their sights further into the future. By looking beyond the goal of a flat income tax rate of 2.5 percent (or lower), the complete elimination of Iowa's income tax can be considered. The fact that no state has eliminated the income tax once implemented offers Iowa a ground-breaking opportunity, but it also implies the difficulty of doing so.

Eliminating the income tax is admittedly

Table 2

Effects of Tax Reform Starting in 2026: Lowering Personal Income Tax Rate to 2.5 Percent Offset by Taxpayer Relief Fund or Government Spending Reduction[1]

(millions)

Baseline					
Year	GDP	Employment (thousands)	Tax Revenue	Consumption	Investment
2023	$177,555	1,674	$9,536	$86,913	$39,043
2024	$179,257	1,674	$9,931	$87,767	$39,272
2025	$183,146	1,689	$10,508	$88,905	$43,343
2026	$188,206	1,705	$9,331	$90,588	$49,284
2027	$191,843	1,715	$9,533	$91,994	$53,689
2028	$195,014	1,723	$9,723	$93,383	$57,357
2029	$198,020	1,731	$9,905	$94,789	$60,597
2030	$200,994	1,738	$10,072	$96,267	$63,779
2031	$203,947	1,744	$10,253	$97,763	$66,991
2032	$206,888	1,751	$10,428	$99,355	$70,055
2033	$209,811	1,758	$10,611	$100,924	$73,165

Difference from Baseline					
Year	GDP	Employment (thousands)	Tax Revenue	Consumption	Investment
2023	$0	0	$0	$0	$0
2024	$0	0	$0	$0	$0
2025	$0	0	$0	$0	$0
2026	$600	3	($650)	$170	$550
2027	$660	3	($660)	$180	$470
2028	$700	3	($670)	$180	$450
2029	$720	3	($690)	$180	$450
2030	$740	3	($700)	$190	$450
2031	$750	3	($710)	$190	$470
2032	$770	3	($720)	$190	$480
2033	$780	3	($730)	$200	$500

[1] The baseline values for GDP, taxes, consumption, and investment were modified based on the assumption that the revenue triggers were met to implement the new 2026 personal income tax brackets and rates. Starting in 2026, the baselines are also modified to account for implementation of the new personal income tax brackets and rates. GDP, tax revenue, consumption, and investment are in millions of 2012 dollars. Employment is full-time equivalent nonfarm jobs in thousands of jobs. Differences from baseline results are rounded to the nearest $10 million for GDP, tax revenue, consumption, and investment and to the nearest thousand for employment.

Source: The Economic Research Center's dynamic scoring model more complicated than another round of rate reductions. In Iowa the income tax comprises [47 percent]() of the state's revenue, based on fiscal year 2024 revenue projections. While the ballooning budget surpluses Iowa is projected to collect demonstrate taxpayers are overpaying on their income taxes, elimination still must be done with prudence. Eliminating the income tax cannot occur overnight, but policymakers do have several policy options to utilize.

Each one of those options will require candid and serious discussions surrounding not only the policy considerations, but also the political ones. Broadening the sales tax base, for instance, can be good tax policy. There are a surprising number of goods and services that are exempt from the sales tax in Iowa and subjecting those items to the sales tax would generate revenue. However, numerous special interests would fight to preserve their favored exemptions. Certain sales tax exemptions serve a worthwhile purpose for many Iowans, while others only benefit a much more narrow range of citizens. Ultimately, the exemption of some items may be too entrenched in the minds of Iowans and subjecting them to the sales tax will not be politically feasible. Similarly, an increase in the statewide sales tax rate would generate additional revenue and could be considered as part of the path to eliminating Iowa's income tax.

Another option is to utilize a revenue trigger to slowly eliminate the income tax. Numerous states have utilized revenue triggers for income tax rate reductions. A specific revenue trigger could be established and if that target is met then the rate would be lowered. This is similar to how Iowa's corporate tax rate is currently being lowered. If designed properly, a revenue trigger protects against periods when revenues may be lower than expected, while still making additional cuts achievable.

Yet another approach is to utilize the Taxpayer Relief Fund to incrementally eliminate the income tax. The Taxpayer Relief Fund would work similar to a revenue trigger and reduce the rate over time. That Fund could be employed in numerous ways to ensure that rate cuts are achieved without a substantial disruption to the state budget.

Finally, a combination of sales tax changes, revenue triggers, and the Taxpayer Relief Fund could be used to eliminate the income tax. Eliminating the income tax is a noble goal and one that will require a discerning approach. ITR Foundation is not putting forth a specific set of policy changes to achieve income tax elimination but is instead bringing to light the policy discussions that must take place as part of a pragmatic and cohesive tax policy that includes eliminating the income tax.

Modeling the Impact of Elimination

Under a second scenario, the ERC modeled the possibility of eliminating the income tax in the year 2026. Similar to the previous scenario, the ERC first modeled the dynamic effects of an immediate 3.9 percent flat personal income tax rate and incorporated those economic effects into a new Iowa baseline. The difference from baseline strategically uses Iowa's Taxpayer Relief Fund and broadens the sales tax base to bring the 3.9 percent personal income tax to zero.

Table 3
Static Revenue Change
(2023 dollars)

	Static Revenue Change (millions)
Proportional Reduction in Personal Income Tax	-$1,940
Sales Tax Increase or Base Broadening	$970
Total Change	-$970

Table 3 presents the static ERC calculation showing $1.94 billion returned to taxpayers annually before any dynamic growth effects.

Given the more-ambitious decision to eliminate the personal income tax entirely, this scenario models the dynamic effects when half of the tax revenue change is absorbed by a sales tax increase or sales tax base broadening. The plan addresses the other half of the revenue decrease through spending restraint and strategic leveraging of the Taxpayer Relief Fund. To offset half of the revenue change of eliminating the personal income tax in 2026, Iowa policymakers could either raise the sales tax rate from 6 percent to 7.41 percent or eliminate a total of $970 million in sales tax expenditures without raising the sales tax rate.

The ERC estimates this tax reform package would increase the state GDP by $940 million in 2026, including the creation of two thousand jobs (see Table 4). Importantly, although this scenario lowers total tax collections by less than the first scenario, it eliminates the more-economically harmful personal income tax and partially replaces it with more-efficient sales tax collections, making the entire tax code more efficient, competitive, and pro-growth.

Even given the economic impact of a quick elimination, policymakers would likely be inclined to consider a more gradual approach. While adjustments to the tax code would be made more slowly, so too would the dynamic effects of lower rates be slower to take hold in the economy.

The Best Path for Income Tax Reform

Taxpayer advocates often compare states with an income tax to others without one, such as Florida and Texas, and point to the tremendous population and economic growth of the latter. We share the admiration for these states' tax policies, but other factors must be taken into consideration. Both Florida and Texas generate revenue streams

Table 4

Effects of Tax Reform Starting in 2026: Eliminating Personal Income Tax Offset by Sales Tax Increase or Base Broadening, Government Spending Restraint, and Use of Taxpayer Relief Fund [2]

(millions)

Baseline					
Year	GDP	Employment (thousands)	Tax Revenue	Consumption	Investment
2023	$177,555	1,674	$9,536	$86,913	$39,043
2024	$179,257	1,674	$9,931	$87,767	$39,272
2025	$183,146	1,689	$10,508	$88,905	$43,343
2026	$188,206	1,705	$9,331	$90,588	$49,284
2027	$191,843	1,715	$9,533	$91,994	$53,689
2028	$195,014	1,723	$9,723	$93,383	$57,357
2029	$198,020	1,731	$9,905	$94,789	$60,597
2030	$200,994	1,738	$10,072	$96,267	$63,779
2031	$203,947	1,744	$10,253	$97,763	$66,991
2032	$206,888	1,751	$10,428	$99,355	$70,055
2033	$209,811	1,758	$10,611	$100,924	$73,165

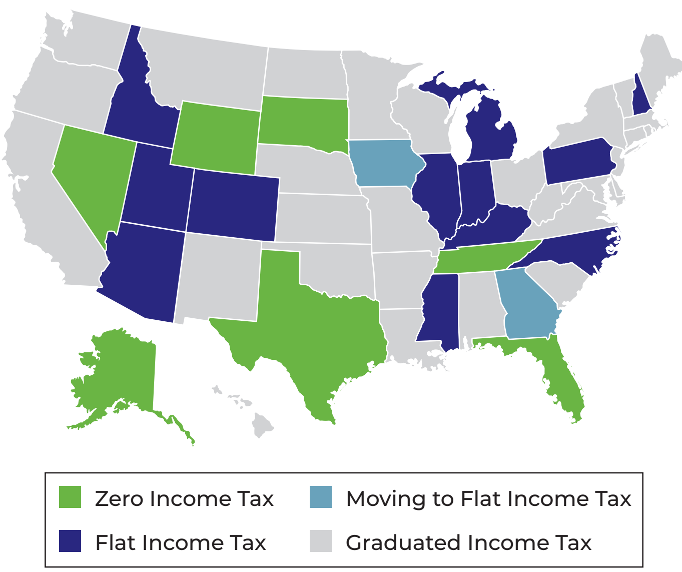
Difference from Baseline					
Year	GDP	Employment (thousands)	Tax Revenue	Consumption	Investment
2023	$0	0	$0	$0	$0
2024	$0	0	$0	$0	$0
2025	$0	0	$0	$0	$0
2026	$940	2	($640)	$140	$1,080
2027	$1.040	2	($650)	$140	$960
2028	$1,100	2	($660)	$150	$920
2029	$1,130	2	($670)	$150	$920
2030	$1,160	2	($680)	$150	$930
2031	$1,190	2	($700)	$160	$960
2032	$1,210	2	($710)	$160	$990
2033	$1,220	2	($720)	$170	$1,030

[2] The baseline values for GDP, taxes, consumption, and investment were modified based on the assumption that the revenue triggers were met to implement the new 2026 personal income tax brackets and rates. Starting in 2026, the baselines are also modified to account for implementation of the new personal income tax brackets and rates. GDP, tax revenue, consumption, and investment are in millions of 2012 dollars. Employment is full-time equivalent nonfarm jobs in thousands of jobs. The difference from baseline results are rounded to the nearest $10 million for GDP, tax revenue, consumption, and investment and to the nearest thousand for employment.

Source: The Economic Research Center's dynamic scoring model from out of state through tourism, and their physical locations and climates naturally attract individuals and businesses to relocate there.

Iowa is a rural Midwestern state. In a post-industrial, high-tech era, rural states are challenged to foster economic growth and attract people. Today, Iowa businesses have difficulty finding workers to fill open jobs, and high property taxes discourage small businesses and families from relocating here, or even force them to leave. As beautiful as Iowa is, the state cannot count on the population magnetism of Florida or Texas simply by eliminating its income tax.

Zero and Flat Income Tax States



Closer to home, South Dakota does not have an income tax and is a direct competitor with Iowa for jobs and people. South Dakota's population has been growing faster than Iowa. Tax rates are not the only factor in attracting new people and businesses to a state, but they are a significant one. The mass exodus of people and businesses from high tax states and the ability for people to work remotely provides further incentive for Iowa policymakers to establish a more competitive tax code.

Governor Reynolds is correct that Iowa's large budget surpluses and the enormous and growing balance in the Taxpayer Relief Fund create an opportunity for further income tax reform. The governor is also correct that Iowa cannot be complacent about the competitiveness of its tax code. Numerous states are in the process of lowering their income tax rates or have already done so. Over the last few years, Iowa has been a national leader in state fiscal policy thanks to conservative budgeting and pro-growth tax reform. The 2024 legislative session offers a unique opportunity to build upon these achievements and provide lasting income tax relief for taxpayers, while making the economy more competitive and attractive.

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