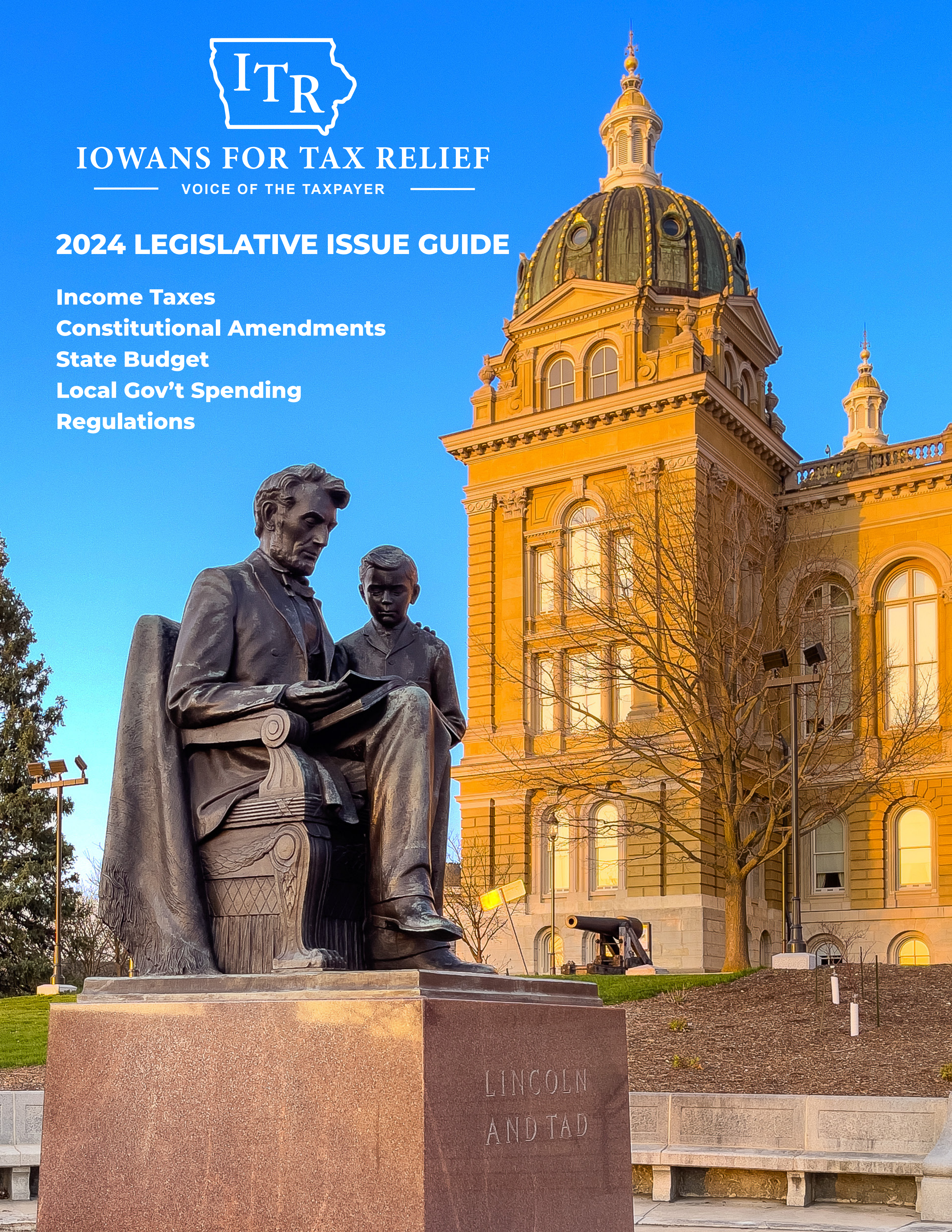
IOWANS FOR TAX RELIEF

VOICE OF THE TAXPAYER

2024 LEGISLATIVE ISSUE GUIDE

Income Taxes
Constitutional Amendments
State Budget
Local Gov't Spending
Regulations



Members of the 90th Iowa General Assembly,

Think back to 2010. Democrats held the state government trifecta. Politically, Iowa's policy positions were quickly lining up with Illinois.

However, Iowa had real hope and change. In November 2010, Iowans ended the tax-and-spend trifecta by electing Governor Terry Branstad, Lt. Governor Kim Reynolds, and a conservative majority in the Iowa House. Then, in 2016, the control of the Iowa Senate finally flipped.

Immediately, fiscally conservative leaders began enacting free-market, pro-growth reforms.

In 2018, Iowa enacted a significant tax reform bill, lowered income tax rates, and modernized the sales tax. Disciplined budgeting led to surpluses, and the revenue triggers included in the 2018 reform were removed in 2021. Then, in 2022, Iowa's conservative leadership put Iowa on the path to a 3.9 percent flat income tax.

Iowa is setting the gold standard that other states want to follow. However, we must not become complacent. Our state's tax code must continue to improve, and we must secure our victories for future generations.

Last year's property tax reform was a good first step. But we can't stop now. Further reform is needed to address the leading cause of high property taxes. To be clear: the problem is not property assessments; the driving cause is local government spending.

The Iowans for Tax Relief freedom infrastructure is here to help. We will have a strong presence at the Capitol throughout the legislative session, ensuring the voice of the taxpayer is heard every day. I am eager to collaborate with you in the coming year, alongside our skilled contract lobbyists, Jake Highfill and Andy Conlin. Further, our sister organization ITR Foundation will continue to provide policy solutions, messaging, and intellectual ammunition.

On behalf of ITR's board, staff, and membership, we are excited about the opportunity in Iowa to continue down the path of limited government, fiscal responsibility, and freedom.

Chris Hagenow
ITR President

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ITR LEGISLATIVE ISSUE GUIDE

The Greatest State Income Tax Cuts in U.S. History

2017

Iowa is one of the highest taxed states. The Tax Foundation ranks the state 45th out of 50.

8.98% Individual Income Tax
9 Brackets

12.0% Corporate Income Tax

2018

Iowa enacts first major tax reform bill, lowering income tax rates and modernizing the sales tax.

8.53% Individual Income Tax
9 Brackets

9.8% Corporate Income Tax

2019

$289 million
Budget Surplus

$13.5 million
Taxpayer Relief Fund

2020

$305 million
Budget Surplus

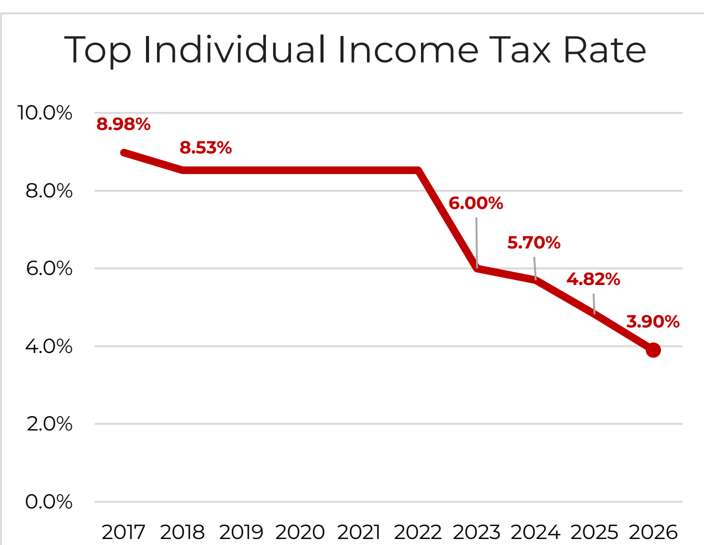
$74 million
Taxpayer Relief Fund

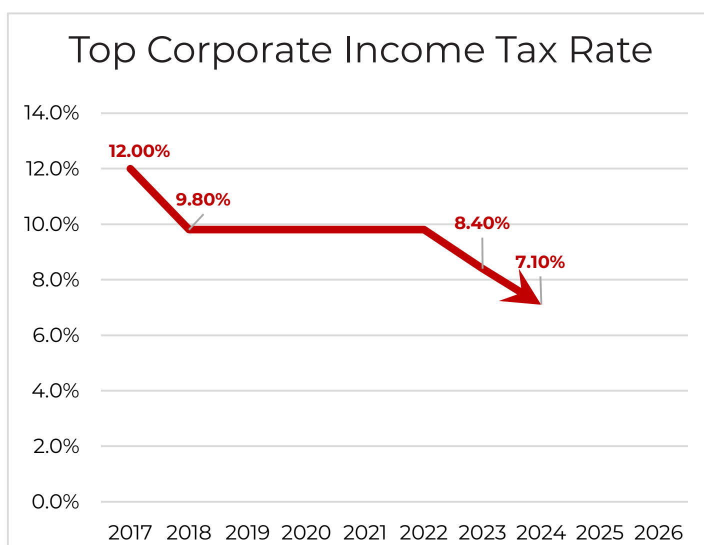
2021

$1.24 billion
Budget Surplus

$90.4 million
Taxpayer Relief Fund

Legislature removes "triggers" from the 2018 tax bill.





Over the last six years, legislators have delivered the deepest set of income tax cuts ever made in this country. It is the new "gold standard" that other states want to copy.

Iowa's tax policy is making history. It's all been done above board and built on fiscal responsibility. A cleaver was not taken to the budget. Nothing has been cut. This has all been done out of the overpayment of income taxes.

2022

Gov. Reynolds signs HF 2317, putting Iowa on the path to a 3.9% flat tax in 2026.

$1.91 billion
Budget Surplus

$1.06 billion
Taxpayer Relief Fund

2023

6.0% Individual Income Tax
4 Brackets

8.4% Corporate Income Tax

Revenue is ahead of projections, and the Taxpayer Relief Fund explodes.

$1.83 billion
Budget Surplus

$2.74 billion
Taxpayer Relief Fund

2024

5.7% Individual Income Tax
3 Brackets

7.1% Corporate Income Tax

$2.13 billion
Budget Surplus
(estimated)

$3.64 billion
Taxpayer Relief Fund
(estimated)

2025

4.82% Individual Income Tax
2 Brackets

Possible Corporate Income Tax Cut

$2.99 billion
Budget Surplus
(estimated)

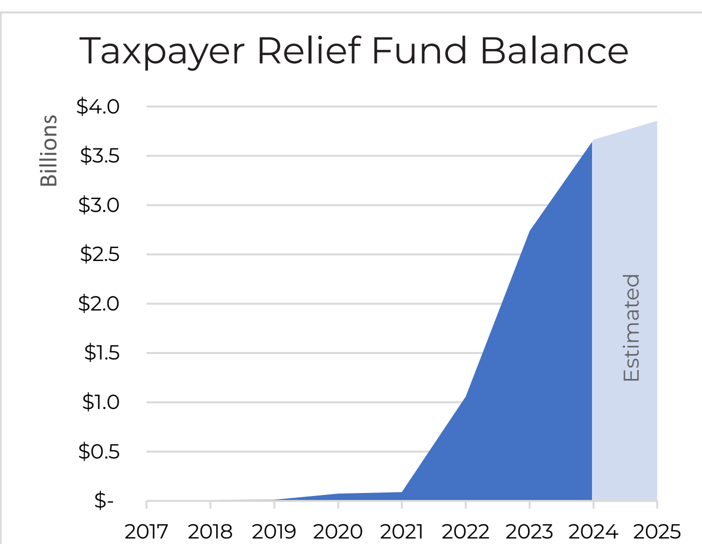
$3.86 billion
Taxpayer Relief Fund
(estimated)

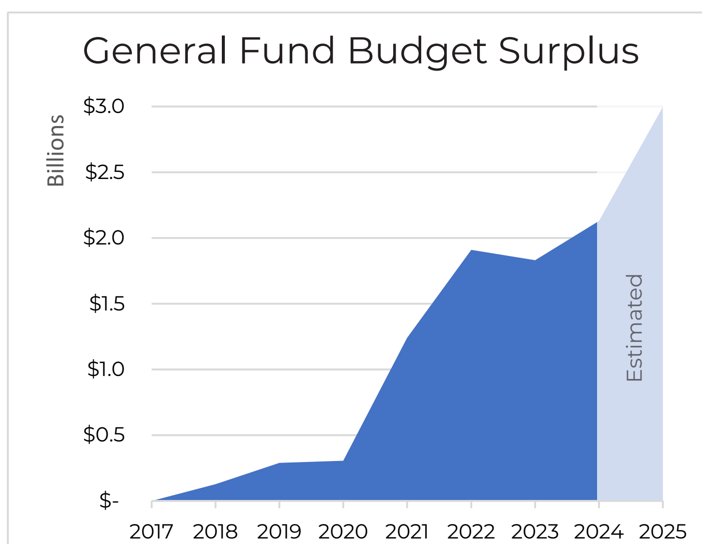
2026

Iowa will have one of the lowest individual rates among states with an income tax.

3.9% Flat Individual Income Tax

Possible Corporate Income Tax Cut





Let's Keep Going!

Iowa is in a strong position to enact even further income tax reform.

1. Accelerate existing rate reductions

Accelerating the existing tax rate reductions to get to the 3.9 percent flat rate before 2026 is possible as a result of built in budget growth. This would create an opportunity for policymakers to establish a lower flat tax rate.

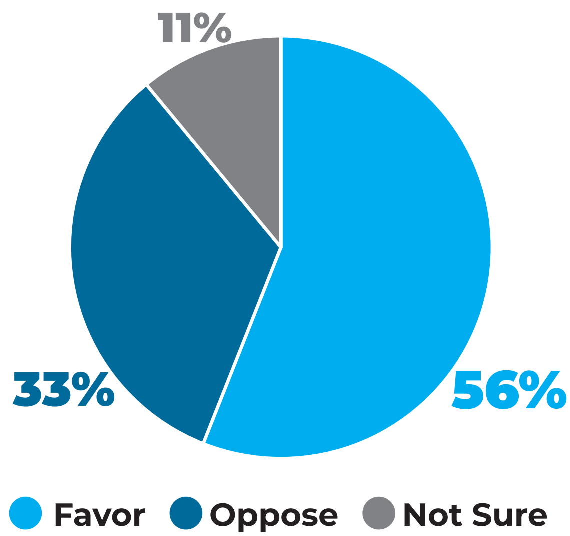
2. Continue to lower rates

The short-term goal should be a 2.4 percent or lower flat tax, which would be the lowest flat tax in the nation. Arizona currently has a 2.5 percent flat tax. If needed, use the Taxpayer Relief Fund to supplement revenue.

3. Create a path to eliminate the income tax

The overcollection of taxes from Iowans has increased the Taxpayer Relief Fund to an estimated 3.6 billion in 2024. Use this fund to supplement revenue to gradually reduce rates with the goal of eliminating the individual income tax.

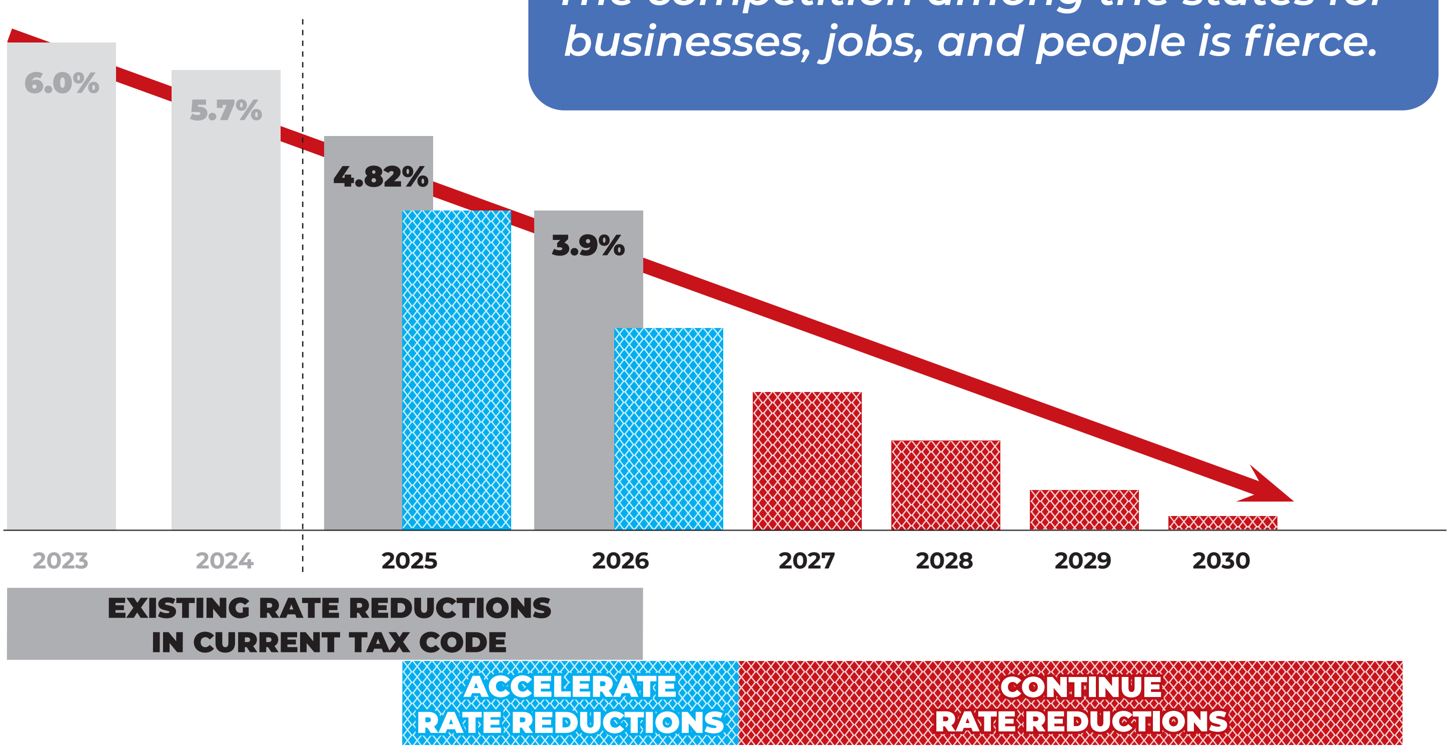
A Majority of Iowans Support Legislation to Reduce Income Taxes



"Do you favor or oppose gradually reducing the state's individual income tax rate until it is eliminated?"

March 2023 Des Moines Register/Mediacom Iowa Poll

Iowa cannot become complacent. The competition among the states for businesses, jobs, and people is fierce.



Protect Iowa Taxpayers

These constitutional amendments are common-sense safegaurds.

1. Two-Thirds Legislative Majority to Increase Taxes

A two-thirds majority requirement would force legislators to justify why they want to raise taxes and make it more difficult to implement new taxes such as a wealth tax. Currently, 16 states have some form of supermajority requirement for tax increases. Seven states have it enshrined in their constitutions.

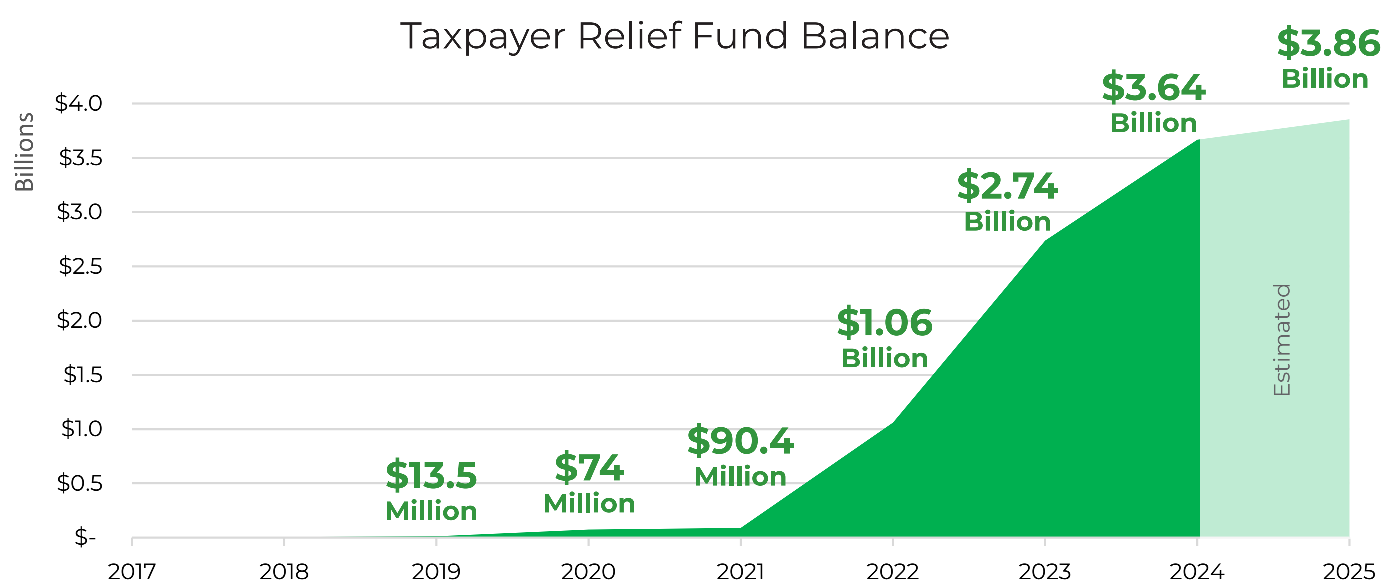
2. Secure the Taxpayer Relief Fund

The Taxpayer Relief Fund is projected to have a balance of $3.6 billion in fiscal year 2024. In fiscal year 2025 it is projected to increase to $3.8 billion. It is increasing as a direct result of the overcollection of income and sales taxes.

This fund was originally created for the specific purpose of income tax relief. It now has such an enormous balance that legislators and special interests are tempted to spend the money rather than use it as intended.

Constitutional protections would guarantee the Taxpayer Relief Fund is only used for income tax relief to benefit taxpayers and not special interests.

> *"I was there when it was the Taxpayer Trust Fund. The whole idea was when the state brought in more money than it needed, those dollars would be taken off the table, out of the hand of the spenders, and create a mechanism to ultimately give it back to the taxpayer." – ITR President Chris Hagenow*



Conservative Budgeting & Reforming Government

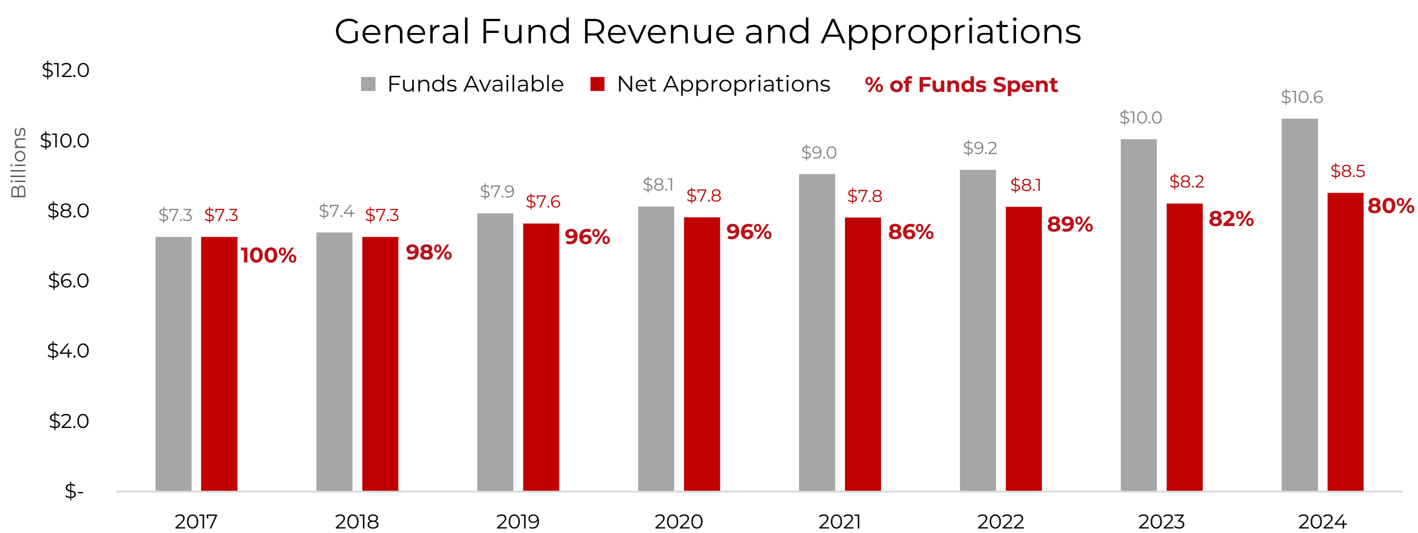
Future tax reform has to be paired with spending restraint.

Pro-growth tax reform cannot occur without reasonable budgeting and controlled spending. In recent years, Iowa has excelled at both.

- The $8.2 billion budget in FY 2023 had an increase of just 1 percent over the prior year, spent only 82 percent of available revenue, and had a $1.8 billion surplus.
- For FY 2024, legislators passed an $8.5 billion budget. This was a 3.6 percent increase, spent only 80 percent of projected revenue, and has an estimated $2.1 billion surplus.

Iowa revenue continues to be strong even with the phased-in tax cuts and the national economic uncertainty. The Cash Reserve Fund and the Economic Emergency Fund contine to be funded at their statutory limits and have a combined balance of over $961 million. The Taxpayer Relief Fund also continues to grow. The balance in the fund for FY 2023 is $2.7 billion and is estimated to increase to $3.6 billion in FY 2024 and $3.8 billion in FY 2025.

Iowa has proven that fiscal restraint works and the priorities of government can be fully met.



The legislature has the opportunity to build upon Governor Reynolds's state government reorganization measure. Limiting Iowa's bureaucracy or administrative state is just as important as limiting spending.

"Like any large organization, government is marked by bureaucracy's natural tendency to grow. If that growth isn't constantly checked and rechanneled toward its core function, it quickly takes on a life of its own." – Governor Kim Reynolds

Regulatory Reform

Regulations are not just rules; they are a hidden tax.

Regulations are necessary, but too many will stifle economic growth and hinder individuals' ability to earn a living.

During the last legislative session, Governor Reynolds continued regulatory reform started in 2020 with an executive order placing a moratorium on new regulations and requiring a review of existing rules.

2020 Occupational Licensing Reform

- Universal recognition of out-of-state licenses
- Waived licensing fees for low-income individuals
- Established a fairer standard of review for licenses denied based on past criminal convictions

While Governor Reynolds has led on executive branch regulatory reforms, more work is needed to improve legislative oversight of regulations.

Reform also needs to be applied through the judicial branch. Iowa law dictates that judges ruling on legal challenges to state agency decisions give deference, or prioritization, to state agency rulings when considering challenges to agency decisions. This unfairly favors the government over the individual. Iowa code needs to be changed to require de novo (Latin for "of new") judicial review over the current agency deference standard, restoring the scales of justice back to a neutral stance and ensuring the right of the individual to a fair and impartial judicial outcome.

A reduction of the barriers of "red tape" will add to and amplify other reforms, moving Iowa toward a more-competitive economic climate.

Encourage Innovation Through Regulatory Sandboxes

Regulatory sandboxes allow localized industries to develop ideas free from burdensome regulations.

They create a safe and transparent avenue for businesses and entrepreneurs to innovate and can help regulators determine if existing regulations are burdensome and need to be repealed.

Several Iowa industries could benefit:

- **Insurance**
- **Finance**
- **Agriculture**
- **Bioscience**
- **Manufacturing**

As tax and regulatory reforms spur our state's economy forward, policymakers must ensure regulations do not unnecessarily prevent innovation, new ideas, and new jobs from being created in Iowa.

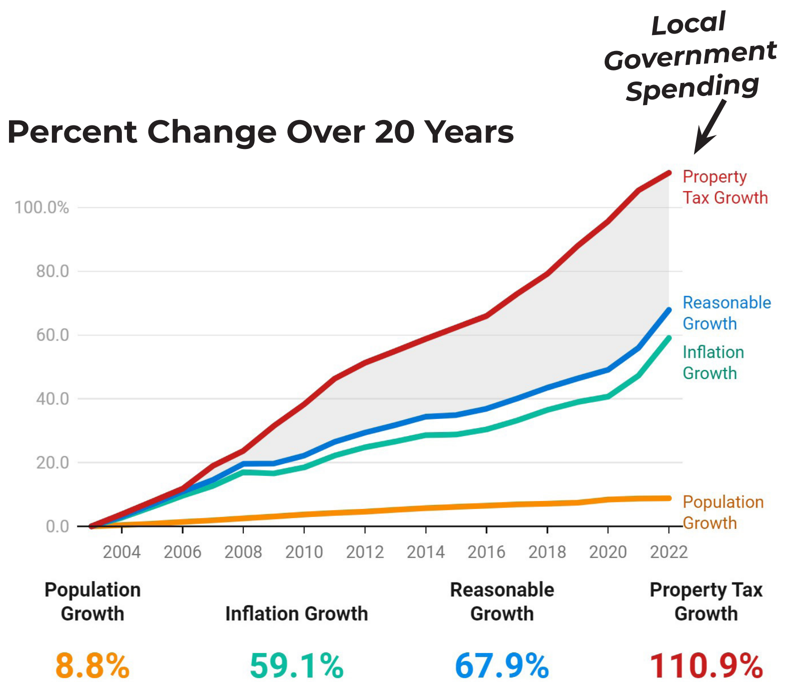
The executive order issued by Governor Reynolds is already providing an executive-led regulatory reform effort, but the legislature can do more to eliminate burdensome regulations and ensure our regulatory climate encourages competition and allows people and businesses to earn a living without battling red tape.

Create a Local Government Spending Limitation

Since 2004, total property taxes in Iowa have increased 110.9 percent. This is far more than the rate of inflation and the state's population growth.

Iowa ranks in the bottom ten (41st) states in the Tax Foundation rankings for the highest property tax burden.

Last year's property tax reform bill was a good first step and added transparency to a complex tax system. Cities and counties will no longer have a blank check to grow their spending as a result of growth in property valuations.



Source: itrlocal.org

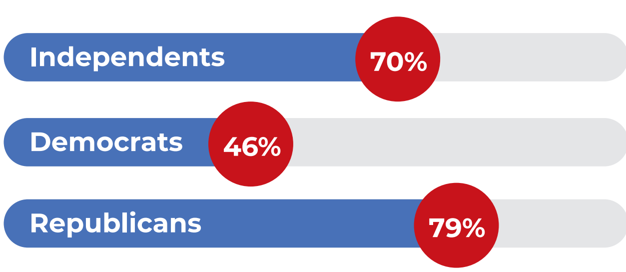
Last year's property tax reform was a good first step, but don't stop now!

Further reform is needed to address the main cause of high property taxes. The problem is not assessments, but government spending.

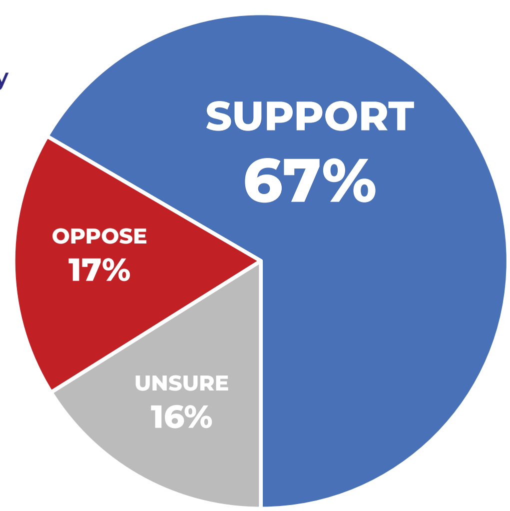
Therefore, any property tax reform must include a spending or budget limitation that is applied to the entire local government budget.

An ITR Foundation public opinion poll found that 67 percent of Iowans surveyed support the legislature establishing limits on how much a local government can tax and spend in order to control the growth of property taxes.

Limiting local government spending receives bipartisan support:



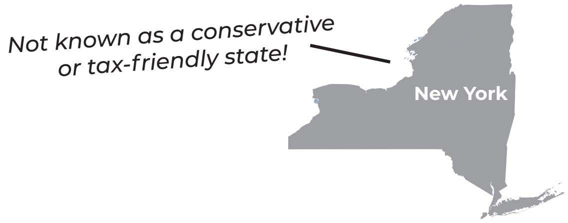
To control the growth of property taxes, do you support or oppose the state setting limits on how much a local government can tax and spend?



Source: April 2023 ITR Foundation Poll

Control property tax growth with local government spending limits.

Limits in New York have successfully saved taxpayers billions and haven't hindered local governments or public education.



New York has a property tax revenue cap limiting the annual growth of taxes levied by local governments and school districts to the lesser of 2 percent or the rate of inflation. For a local government to exceed the cap, the governing authority must approve it by a supermajority vote.

A spending limit allowing local government budgets to grow 1 or 2 percent and then require a vote of the people if more spending is needed.

A stronger spending limitation on all local governments, including school districts, would require voters to approve a budget increase and avoid interfering with the market's ability to determine property valuations. It would also avoid the pitfall of exempting various budget categories.

"Spending limits are similar to speed limits in a school zone — both are designed to protect. In the case of local governments, they apply the brakes to slow spending down."
– Economist Daniel Mitchell

Improve Access to Healthcare

Certificate of Need laws decrease competition, resulting in higher medical costs and reduced healthcare access.

Regulatory reform also includes repealing specific regulations, such as obsolete Certificate of Need (CON) laws. In 2023, West Virginia and South Carolina both repealed CON laws. CON laws provide monopoly power for established medical providers. If a new provider wants to establish a practice, CON law requires the existing providers to permit a new facility to open. This would be similar to establishing a law requiring Hy-Vee, Fareway, Walmart, or Target to approve a new grocery store from opening. CON laws also limit healthcare accessibility, especially in rural areas.

An example of this is the shortage of birth centers and midwives. CON laws also make health care more expensive. Repealing CON laws would be a common-sense regulatory reform measure that would serve all Iowans.

Forty-five years of CON law has not made healthcare in Iowa better or less expensive. Instead, healthcare costs have skyrocketed, partly due to limited competition to drive down prices. Further, access to healthcare has decreased, particularly in rural areas, leaving people driving long distances to receive care. It's time to end this government-mandated monopoly and let the free market address these healthcare problems. It's time to repeal Iowa's CON law.

"Healthcare costs are 11 percent higher in states with CON laws than in states without."

– Kaiser Family Foundation

Principles of Sound Tax Policy

The best way to create economic growth is by lowering tax rates and reducing the regulatory burden. This economic blueprint will serve the interests of the taxpayers while creating a better Iowa.

Whether at the Capitol or across the state, we advocate for a real reduction in the tax burden on households and businesses in Iowa. ITR believes taxes in Iowa should be:

- **Fair**
  Iowa's tax code should be fair and not favor one group of taxpayers at the expense of another.
- **Protective of Freedom**
  Iowa's tax code should promote freedom.
  Taxes should not be used for social engineering.
- **Transparent**
  Iowa's tax code is too complex. An easier-to-understand tax structure will be friendlier to taxpayers. Taxpayers in Iowa deserve transparency and accountability when it comes to tax credits and incentives.
- **Limited**
  Iowa's tax code should be limited. Taxes should only be collected to finance the essential functions of state government. It is immoral for government to have an unlimited claim to the hard-earned income of individuals and businesses.
- **Competitive**
  The Iowa tax code should encourage, rather than hinder, economic growth.

A tax code following these principles while reducing the tax burden on Iowans will allow everyone to keep more of their hard-earned dollars. This will encourage economic growth and boost additional investment, ultimately providing more revenue to address the priorities of state government.

ITR

IOWANS FOR TAX RELIEF

VOICE OF THE TAXPAYER

7601 Office Plaza Drive North, Suite 140, West Des Moines, Iowa 50266

Email - itr@taxrelief.org Website - taxrelief.org