

Highlights of the 2009 Middle-Class Tax Cut

Lower Taxes

- ✓ Tax rates will fall for all Iowans.
- ✓ Taxes will be cut for more than 60 percent of Iowa taxpayers – more than 825,000 Iowa households.
- ✓ The overall tax cut totals \$55 million.
- ✓ More than 881,000 Iowans will see their standard deduction increased by nearly \$1,000.
- ✓ Nearly 75 percent of Iowa taxpayers – almost 1 million households – will either have a tax cut or no change at all to their taxes.

Better for Families

- ✓ More than 31,000 Iowa families will benefit from an increase in the child and dependent tax credit.
- ✓ 125,000 Iowa households will benefit from an increase in the elderly and blind tax credit.
- ✓ More than 187,000 Iowans will benefit from an increase in the Earned Income Tax Credit.
- ✓ Nearly 69,000 Iowa college students will benefit from a new \$100 refundable tax credit.

More Competitive

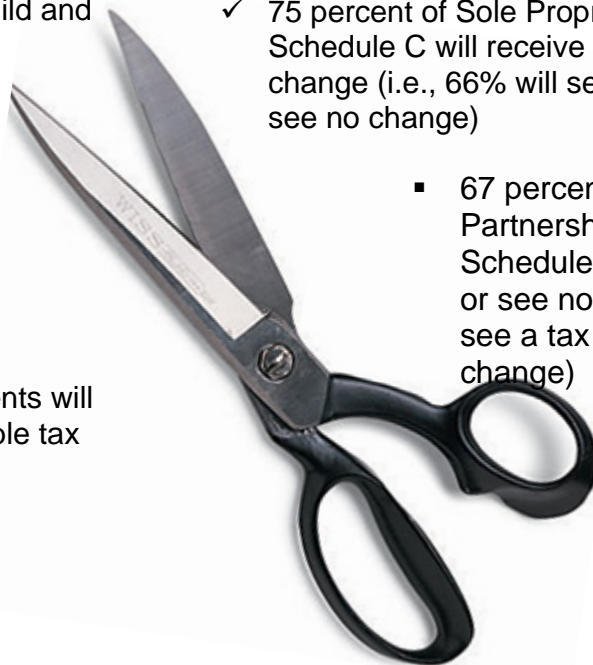
- ✓ Iowa's tax rates will be more competitive for economic development and job creation.
- ✓ Iowa's highest tax rate will be reduced by 22 percent, from 8.98 to 6.98 percent.

Simpler Taxes

- ✓ All Iowans will realize tax simplification, including the elimination of 9 lines from the state's 1040 tax form.

Better for Business

- ✓ 80 percent of Iowa farmers who pay state income taxes will receive a tax cut or see no change (i.e., 61.5% will see a tax cut and 17.9% will see no change).
- ✓ 75 percent of Sole Proprietors who file a Schedule C will receive a tax cut or see no change (i.e., 66% will see a tax cut and 9% will see no change)
 - 67 percent of Subchapter S, Partnerships & LLC's who file a Schedule E will receive a tax cut or see no change (i.e., 51% will see a tax cut and 16% will see no change)



REVISED \$55 MILLION MIDDLE CLASS TAX CUT

HF 807/SF 468	NEW AMENDMENT
<ul style="list-style-type: none"> ➤ Eliminate Federal Deductibility ➤ Reduce Rates with top rate of 6.98% ➤ 8% Earned Income Tax ➤ \$40 Elderly/Blind Credit ➤ Revised Child and Dependent Care Credit 	<ul style="list-style-type: none"> ➤ Increases Standard Deduction to \$2,710 / \$5,420 (currently \$1780/\$4310) ➤ Establishes a New Refundable Iowa College Student Credit of \$100 ➤ Adjusts Transition Tax Year 2009 rates.

IMPACT OF MIDDLE CLASS TAX CUT

- \$55.1 million tax cut over two years
- Impact on Iowans:
 - Tax Year 09: 60.21% get a tax cut + 14.04 % see no change = 74.25% tax cut/no change
 - Tax Year 10: 60.39% get a tax cut + 12.71% see no change = 73.10% tax cut/no change
- Impact on State Budget:
 - Tax Year 09: -\$20.2 million (+\$.5 million in fiscal year 2009)
 - Tax Year 10: -\$34.9 million (-\$27.3 million in fiscal year 2010)

Adjusted Gross Income	Households	2009 Total Change	2009 Average	2010 Total Change	2010 Average
Less than \$20,000	419,586	-14,794,883	-\$35.26	-15,606,984	-\$40.42
\$20,001 to 30,000	171,352	-8,461,822	-49.38	-11,614,278	-69.87
\$30,001 to 40,000	149,157	-5,779,051	-38.74	-10,482,632	-69.84
\$40,001 to 50,000	121,607	-3,884,204	-31.94	-7,982,309	-64.54
\$50,001 to 60,000	100,430	-2,384,205	-23.74	-5,840,674	-57.21
\$60,001 to 70,000	83,358	-2,583,788	-31.00	-5,248,912	-61.04
\$70,001 to 80,000	69,284	-2,354,169	-33.98	-4,475,008	-61.78
\$80,001 to 90,000	55,345	-1,917,660	-34.65	-3,391,145	-56.98
\$90,001 to 100,000	42,200	-1,329,727	-31.51	-2,493,428	-53.56
\$100,001 to 125,000	61,655	-590,493	-9.58	-1,688,693	-23.56
\$125,001 to 150,000	28,051	663,421	23.65	1,222,221	35.40
\$150,001 to 175,000	14,879	1,049,127	70.51	1,945,008	108.10
\$175,001 to 200,000	8,873	1,076,085	121.28	1,637,205	154.24
\$200,001 to 250,000	10,275	1,466,344	142.71	2,366,120	195.27
\$250,001 or more	23,974	19,627,480	818.70	26,755,755	977.88

Tax Brackets and Rates (Tax Year 2010)

From	To	Current Rates	Revised Proposal
\$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%	6.30%
\$64,980	or more	8.98%	6.98%

FEDERAL DEDUCTIBILITY IS A DYING CONCEPT

- Nine states allowed any federal deductibility in 2001.
- Six allowed 100% deductibility Iowa, Alabama, Louisiana, Montana, North Dakota, and Oklahoma.
 - a) North Dakota let taxpayers opt not to take a deduction and pay 14% of federal tax liability.
 - b) Oklahoma's top rate was 10% if you took a deduction and only 6.75% if you didn't.
- Three allowed partial deductibility.
 - a) Missouri capped the deduction at \$5,000 (single) / (\$10,000 Joint).
 - b) Oregon capped the deduction at \$3,000 for all filers.
 - c) Utah allowed a 50% deduction.
- Legislative / Voter Action Since 2001.
 - a) No new state allowed a federal deduction.
 - b) Oklahoma repealed 100% deductibility and cut its top rate from 10% to 5.5%.
 - c) North Dakota repealed 100% deductibility and cut its top rate from 12% to 5.54%.
 - d) Utah repealed 50% federal deductibility and lowered its top rate for 7% to 5%.
 - e) Montana capped it at \$5,000 (single) / \$10,00 (joint), and cut its top rate from 11% to 6.9%.
 - f) Oregon increased its deduction cap from \$3,000 to \$5,600 for all filers. **NOTE:** Measure 59 was on the November 4, 2008 Oregon general election ballot to allow 100% deductibility. It lost 63% to 37%.
- Only Six States Are Left.
 - a) 100% deductibility in Iowa, Alabama, Louisiana.
 - b) Partial deductibility in Missouri and Montana capped at \$5,000 (single) / (\$10,000 Joint).
 - c) Partial deductibility in Oregon, capped at \$5,600 for all filers.

IMPROVING ECONOMIC DEVELOPMENT

- Iowa's top 8.98% rate is 4th highest in the nation.
- Cutting the top rate to 6.98% makes it the lowest in 40 years.
- Cutting the top rate to 6.98% puts Iowa more in line with nearby states: Illinois (3%), Kansas (6.45%), Minnesota (7.85%), Missouri (6.0%), Nebraska (6.84%), Wisconsin (6.75%). South Dakota has no income tax. (Source: Federation of Tax Administrators)
- Professional developers and chambers of commerce have complained for 30 years about the need to fight the false impression that Iowa is one of the highest tax states.
- The Iowa Chamber Alliance's 2009 Legislative Agenda states the problem succinctly. "Publications and statistical data used in marketing Iowa continue to show a skewed view of the true income tax liability of companies and individuals by showing the combined rate of tax. Although these publications may include a small asterisk to signify the deductibility of federal income taxes on state income tax returns, this is mostly overlooked by those looking to invest in Iowa."
- Iowa is a Low-Tax State But No One Knows It. (Source: Federation of Tax Administrators – 2007 data)
 - \$2,487 = U.S. Average state total per capita tax revenue
 - \$2,187 = Iowa (37th). \$2,294 = Nebraska (33rd).
 - \$2,297 = Illinois (32nd). \$2,787 = North Dakota (12th).
 - \$2,483 = Kansas (23rd). \$1,578 = South Dakota (50th).
 - \$3,421 = Minnesota (6th). \$2,585 = Wisconsin (19th).
 - \$1,821 = Missouri (47th).
- The Name of the Economic Development Game is Low-Tax Rates.
 - a) The vast majority of states figured this out a long time ago.
 - b) Montana, North Dakota, and Utah just figured it out a few years ago.
 - c) Iowa just cannot afford to be the last state to "get it" on low-tax rates.