



March 7, 2018

The Honorable Linda Upmeyer
Speaker of the House of Representatives
State Capitol
Des Moines, IA 50319

The Honorable Matt Windschitl
Speaker Pro Tempore
State Capitol
Des Moines, IA 50319

Chairman Guy Vander Linden
House Committee on Ways and Means
State Capitol
Des Moines, IA 50319

Ranking Member Dave Jacoby
House Committee on Ways and Means
State Capitol
Des Moines, IA 50319

Dear Speaker Upmeyer, Speaker Pro Tempore Windschitl, Chairman Vander Linden, and Ranking Member Jacoby:

On behalf of National Taxpayers Union (NTU) and our members in Iowa and across the country, I write to urge passage of comprehensive, pro-growth tax reform which was previously passed by the State Senate. Senate File (SF) 2383, the Iowa Working Families Tax Act, makes important changes to the state's tax code, which has not been modernized in decades. This bold and significant legislation will boost economic growth and facilitate greater prosperity for Iowan families, workers, and job creators.

When the Tax Cuts and Jobs Act was signed into federal law in December of 2017, tax reform became a top priority for lawmakers at the state level. Though the average Iowan family with two children will see a decrease of \$1,700 in their annual federal tax bill, the majority of Iowans will experience a higher state tax burden due to federal deductibility. This protects taxpayers when federal taxes are increased, but in this case, a reduced federal tax liability translates to greater tax liability at the state level. As a result, Iowa is estimated to gain an additional \$138 million per year in revenue, giving state lawmakers more leeway to boost the size of tax reform.

There are several credible pro-growth packages on the table, like Governor Reynolds' proposal. However, the Senate plan is preferable because it would be implemented quickly, provide more meaningful tax reductions for the middle class, and lower Iowa's corporate tax rate. For these reasons, NTU believes the House should swiftly consider the Senate's tax plan, which is much more comprehensive and broad, delivering combined annual tax relief of \$1 billion to individuals and businesses.

The individual income tax changes within this legislation improve the tax code by broadening the tax base and reducing tax rates, creating a simplified system that is more competitive with neighboring states. SF 2383 rightly repeals federal deductibility, consolidates nine income brackets into five, and cuts overall individual income tax rates by 30 percent. It also slashes Iowa's top marginal income rate from one of the highest in the nation at 8.98 percent down to 6.3 percent to put Iowa in a more competitive position with its neighbors. The Senate plan also eliminates the Alternative Minimum Tax and couples Iowa to more federal provisions.

With the changes outlined above, along with other pro-taxpayer elements of this legislation, the average middle-income earner will see a tax savings of \$1,000 once this plan is fully implemented. Hard-working taxpayers could be set to save thousands of dollars from both federal and state tax reform. To put these savings in perspective, a single mother with one child earning \$40,000 per year will see a 56 percent cut in their state taxes and a single Iowa taxpayer making \$30,000 will see a 27 percent state tax cut. More money in the pockets of taxpayers enables them greater flexibility to meet their everyday needs or plan for future purchases.

This plan also makes Iowa a more competitive state to start or expand a business. As it stands, Iowa holds the highest corporate tax rate in the U.S. at 12 percent, a title that no state should want. A rate that high severely limits economic growth, and Iowa consistently has growth below the U.S. average. This plan maintains Iowa's four corporate brackets but gradually reduces the tax rate within each bracket. By 2020, however, the top corporate rate will drop to 7 percent to make Iowa more competitive and put Iowa's economy on path for greater job growth and economic expansion. The Senate bill also makes filing business taxes more efficient and simpler through a repeal of most deductions and the elimination of the corporate alternative minimum tax.

A low corporate tax rate boosts business optimism and attracts new business and investment capital to the state. A competitive rate will lead businesses to finance new equipment to improve productivity, hire workers at the margin, and hike take home pay for workers from all income levels.

As the House continues to debate the size and scope of tax reform, NTU urges the General Assembly to pass a reform bill that is in line with the Senate proposal. Iowa has some of the highest tax rates in the country so any final product must bring lower the corporate and personal income tax rate as low as possible. Tax reform must put as much money back in the pockets of taxpayers and promote business growth. Lawmakers should seize this moment and pass comprehensive tax reform to benefit all Iowans.

Sincerely,

Thomas Aiello
Policy and Government Affairs Associate