

The Gazette

Iowa's historic tax reform opportunity

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In 2022, the CATO Institute's Fiscal Policy Report Card on America's Governors ranked Iowa Gov. Kim Reynolds the most fiscally conservative governor in the nation. Since 2018, Gov. Reynolds and the Legislature have placed a priority on conservative budgeting and pro-growth tax reforms. Iowa once had some of the highest income tax rates in the nation. By 2026, Iowa will replace the progressive income tax with a flat 3.9% rate. However, Reynolds and the Legislature understand that Iowa cannot become complacent. Iowa is in competition for both jobs and people. Reynolds and the Republicans in the Iowa Legislature have introduced two pro-growth income tax reform plans.

Iowa is in a historic opportunity to enact substantial tax reform as a result of conservative budgeting. Over the past several years Iowa's budget has been in surplus and fiscal year 2023 ended with a \$1.83 billion surplus. Iowa's reserve accounts are filled at their statutory maximums (over \$900 million). The surpluses have also fueled an enormous growth in the Taxpayer Relief Fund. The Taxpayer Relief Fund is projected to increase to \$3.8 billion in 2025.

The governor's plan calls for an aggressive rate cut this year which would lower the rate from 5.7% to a flat 3.65 percent. Further, Reynolds would lower the rate even further to a flat 3.5% by 2025. This would amount to a \$3.8 billion savings for taxpayers over the next five years.

Republicans in the Senate and House have released a joint plan that also accelerates rate reductions until a flat 3.65% rate is achieved by 2027. Further, the House and Senate plan creates a mechanism to eventually eliminate the income tax. Plus, this plan honors the original intent of the Taxpayer Relief Fund by ensuring that it will be used for income tax relief and not further government spending. Both plans are pro-growth and will provide substantial tax relief for Iowa taxpayers and make the state more competitive.

The Legislature is also considering two important constitutional amendments to protect taxpayers. The first would require a two-thirds or supermajority requirement of both chambers of the Legislature to increase the income tax. The second would constitutionally protect the flat tax so a future legislature could not enact another progressive tax system. Both of these amendments would serve as taxpayer protections and place the taxpayer first. Other funds in the state Constitution are protected and it is time that the taxpayer receives protection as well.

Critics are already howling that further tax reform will lead to "fiscal Armageddon." Nevertheless, Iowa is not going to become another "Kansas." It's time for critics of the governor

and the Legislature to learn a lesson from Minnesota. Minnesota, after a massive increase in spending and increasing taxes, is confronted with a budget crisis. The same is true for California.

Minnesota is practicing the failed tax and spend agenda; Iowa is demonstrating to the nation how responsible fiscal policy works. Conservative budgeting and pro-growth tax reforms lead to economic strength and fiscal stability. Governments cannot tax and spend their way to prosperity.

Taxpayers should be encouraged by both tax reform proposals and the proposed constitutional taxpayer protections. The income tax is considered the most harmful tax because it punishes growth and productivity. Workers and small business owners will benefit from a tax code that has a low flat rate. Plus, if the income tax can be eliminated it will be a further incentive. Going forward it will be essential for the legislature to continue conservative budgeting, which is the foundation for any tax reform.

What is clear is that Gov. Reynolds and the Republican legislature are not wasting this historic opportunity, and both have introduced prudent tax reform plans that will benefit all taxpayers.