



Once Again, Gov. Kim Reynolds Proves that Conservative Budgeting Pays Off

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The CATO Institute has just released their 2022 *Fiscal Policy Report Card on America's Governors* and Governor Kim Reynolds is ranked as best in the nation. She received a grade of "A" for her fiscal conservatism. "Governor Reynolds has been a lean budgeter and dedicated tax reformer since entering into office in 2017," wrote Chris Edwards, who holds the Kilts Family Chair in Fiscal Policy, and Ilana Blumsack, a research associate, authors of the report.

Governor Reynolds announced that Iowa's budget will end Fiscal Year 2022 with a \$1.91 billion surplus. This follows Fiscal Year 2021's \$1.24 billion surplus. Iowa's budget is in healthy condition because of prudent budgeting and fiscal conservative policies. Governor Reynolds and the legislature are demonstrating that conservative fiscal policies work to create a strong economy and a healthy financial foundation. Edwards and Blumsack noted that "general fund spending has risen at just a 2.3 percent annual average rate under Reynolds."

Kraig Paulsen, who serves as the Director of both the Departments of Management and Revenue, stated that "Iowa's strong financial status again proves that we continue to over collect from Iowa taxpayers." As a result, Governor Reynolds and the legislature has made it a priority to return the money back to taxpayers.

Since 2018, Governor Reynolds and the legislature have made tax reform a priority. This spring Governor Reynolds signed into law the largest tax relief measure in state history. Under the new tax reform law, the current nine bracket progressive income tax rate system will be gradually reduced until it reaches a flat 3.9 percent by 2026. The corporate tax, which currently stands at a top rate of 9.8 percent, will be phased down until it reaches a flat 5.5 percent.

Critics of the tax reform measure used the tired class warfare arguments of "tax cuts for the rich" and that the budget would be in disaster and vital services would suffer. Those critics are wrong. Governor Reynolds and the legislature have not only funded the priorities of government, but they have also balanced prudent spending with pro-growth tax reform.

"Time and again over the last five years, we've ignored the self-appointed experts who insisted that tax cuts and economic prosperity wouldn't be worth the cost," said Gov. Reynolds. Further, Governor Reynolds noted that the "budget numbers show, they were worth every penny. It turns out that growth-oriented policies and fiscal restraint are a powerful combination."

In addition to having close to a \$2 billion surplus, Iowa's reserve funds will be at their statutory full levels of \$830 million and the Taxpayer Relief Fund will have a balance of \$1.06 billion. As a result of strong revenue growth, the corporate tax rate is scheduled to be reduced.

Corporate tax receipts will exceed \$850 million, which will translate in a 14.2 percent reduction in the top rate. The 9.8 percent rate will be lowered to 8.4 percent, which was not anticipated to occur until 2027.

As a result of prudent budgeting and pro-growth tax reforms Iowa's economy is becoming more competitive. Iowa joins several other states that have enacted significant tax reforms. "When looking for the state that made the most significant changes to its tax code this year, that award probably goes to Iowa, the other state where lawmakers enacted tax reform in 2022 that moves in the same direction as North Carolina's reforms," argues Patrick Gleason, who serves as Vice President for State Affairs at Americans for Tax Reform.

North Carolina has served as the gold standard for state tax reform. North Carolina has lowered the individual income tax rate and the corporate tax rate is scheduled to be eliminated. The reason for the success of North Carolina is they have balanced limiting spending with prudent tax reform. This is exactly the policy blueprint that Governor Reynolds and the legislature are following. Iowa is now a gold standard example for other states to follow.

This year is being hailed as a "flat tax revolution" because of the number of states that have enacted legislation to transition from a progressive income tax rate structure to a low flat rate. Iowa joins Georgia, Arizona, Mississippi, Idaho, and other states are considering moving to a flat tax.

"Iowans want common-sense responsible policies even when it requires going against the grain. We cut taxes when many said our budget couldn't handle it; we kept our economy open when few others were; we chose growth over government even when it was hard. As a result, our fiscal health is strong, and our tax code is more competitive than ever," stated Gov. Reynolds.

Tax reform is far from finished in Iowa. By continuing to follow fiscal conservatism and prudent budgeting rates can be lowered even more until the goal of eliminating the income tax is achieved.

The cornerstone of a any sound tax policy is to keep spending limited. "This generational tax cut will be implemented over the next several years, and a conservative, sustainable budget must accompany that tax relief," argues Iowa's Senate Majority Leader Jack Whitver.

Once again Governor Reynolds proves that conservative budgeting pays off. She is a champion for Iowa taxpayers and a defender of traditional values. Fiscal conservatism is working in Iowa, and we can now join with North Carolina as a gold standard example for other states to follow.