

IOWA ILLUSTRATED

A VISUAL GUIDE TO
TAXES & THE ECONOMY



Iowa Illustrated

A VISUAL GUIDE TO TAXES & THE ECONOMY

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Introduction

Taxes are complicated. Each state's tax code is a multifaceted system with many moving parts, and Iowa is no exception. This chart book aims to help readers understand Iowa's overall economy and tax system from a broad perspective. But it also provides detailed illustrations of each of Iowa's major tax types—individual income taxes, business taxes, sales and excise taxes, and property taxes—to help make the complicated task of understanding the state's tax code a bit easier.

First, individual income taxes in Iowa suffer from two problems: the rates are high and the structure is graduated, meaning different income levels are taxed at different rates. Business taxes, which include taxes on corporate income, are also comparatively high and poorly structured. However, when compared to other states, Iowa's state-level sales tax

rate falls in the middle, and the average local rate is low. The state rate has increased over time as the base has become narrower. Gasoline excise taxes in Iowa, similar to the rest of the country, aren't adjusted for inflation. Finally, property taxes in Iowa have increased only slightly over time, while total tax collections (excluding property) have risen at a faster pace.

Each piece of Iowa's tax code tells a story, but it's important to look at each piece in the context of the whole. Taxes are still complicated, but this book helps put those dynamic pieces together to provide an in-depth picture of Iowa's tax code as a whole.

These charts were compiled by Tax Foundation staff and edited by economist Liz Malm.

Joseph D. Henchman
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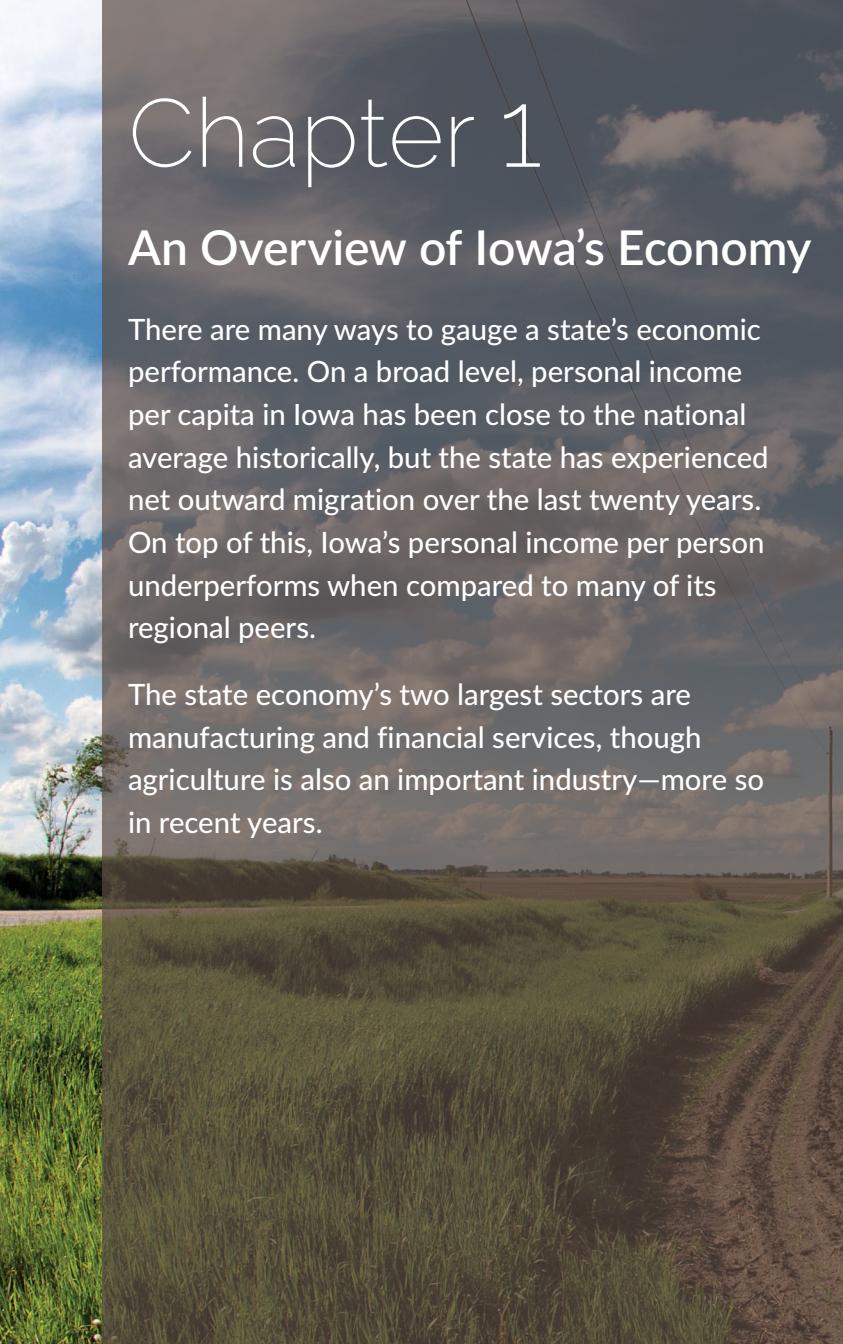
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Chapter 1

An Overview of Iowa's Economy

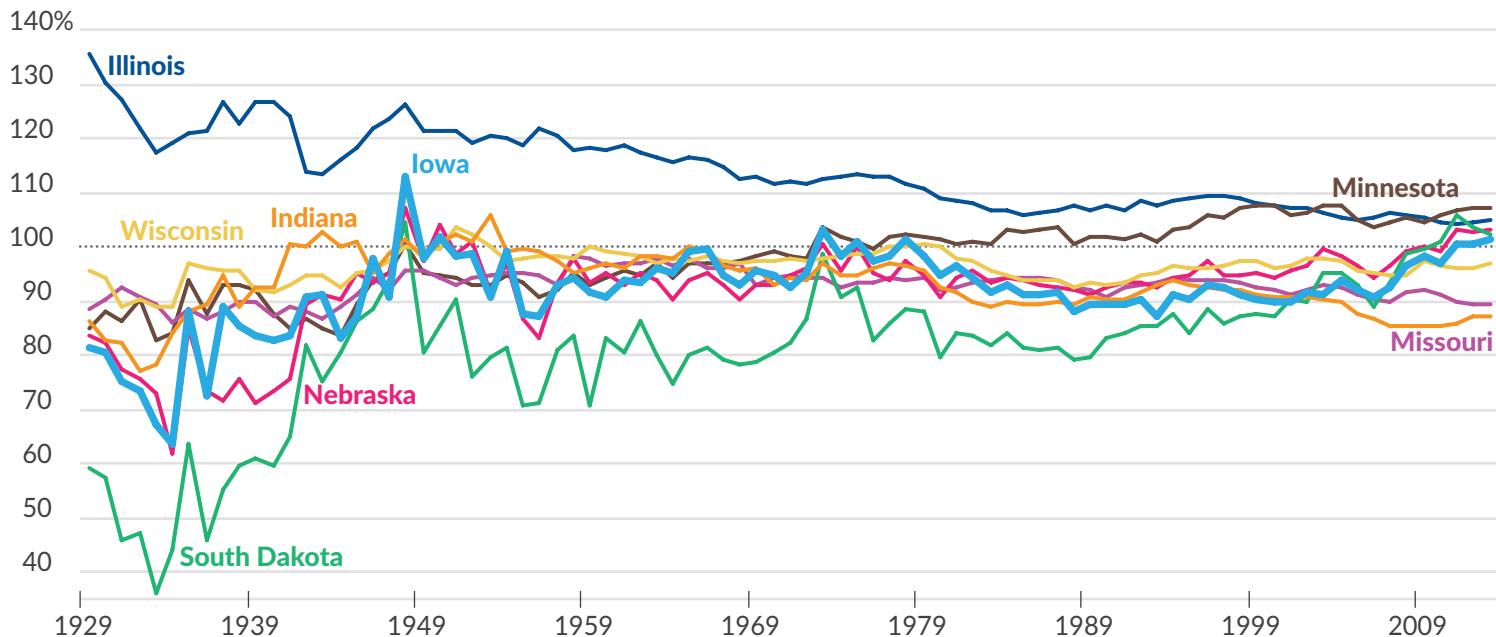
There are many ways to gauge a state's economic performance. On a broad level, personal income per capita in Iowa has been close to the national average historically, but the state has experienced net outward migration over the last twenty years. On top of this, Iowa's personal income per person underperforms when compared to many of its regional peers.

The state economy's two largest sectors are manufacturing and financial services, though agriculture is also an important industry—more so in recent years.



Iowa Income Per Person Is Close to National Level, but Underperforms Regionally

Personal Income Per Capita as Percent of U.S. Level for Iowa and Select States in the Region (1929-2013)

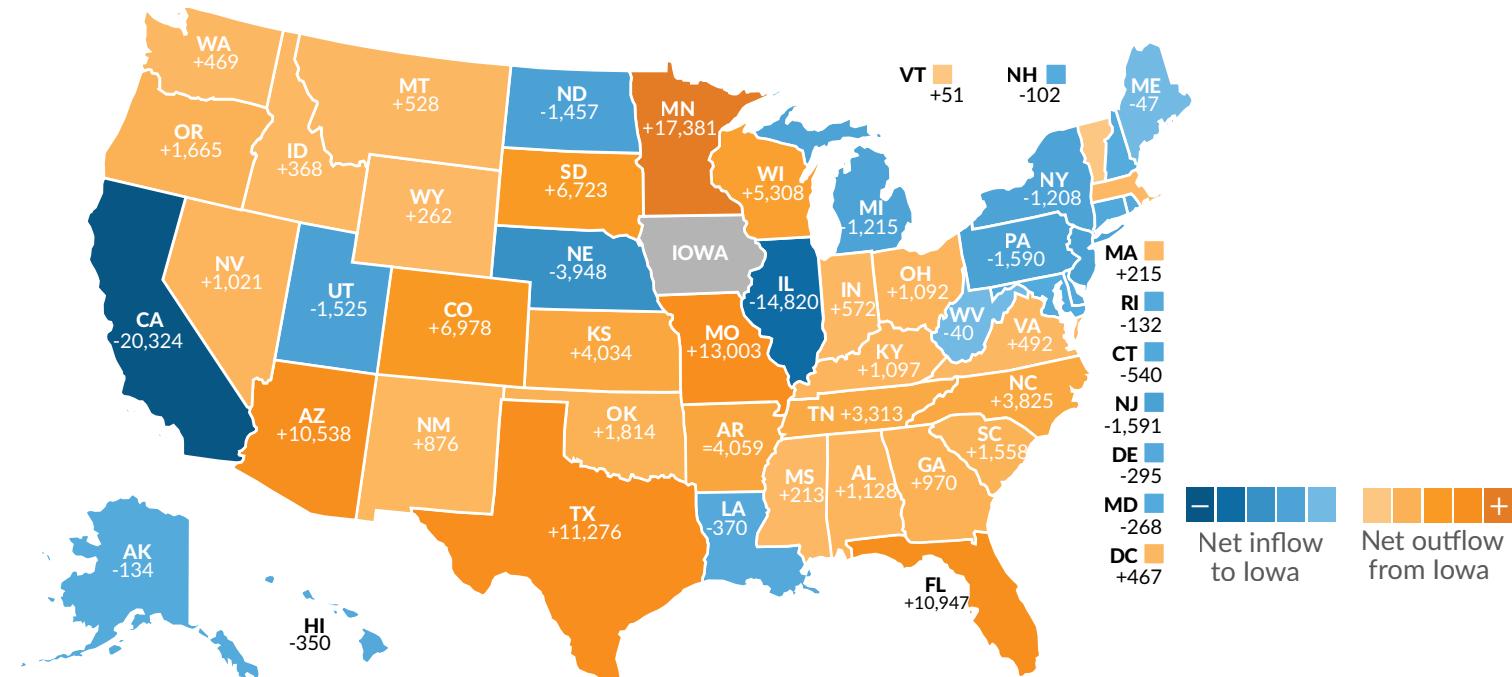


Iowa's personal income per person has been around 90 to 95 percent of the national average since the 1940s. During the 1970s and 1980s, shortly after a series of tax increases, Iowans' incomes fell further behind the rest of the nation.

Source: Bureau of Economic Analysis, Regional Economic Accounts (Annual State Personal Income).

Iowa Has Had a Net Loss of 63,287 People over the Last Twenty Years

Net Migration **to** and **from** Iowa (1992-2011)



Over the last twenty years, Iowa has seen a net of over 60,000 people migrate out of the state. However, there are some states from which Iowa has gained people, such as California and Illinois. Meanwhile, Iowa has lost a large number of people to Minnesota, Missouri, Texas, Florida, and Arizona.

For example, 20,324 people migrated **out of California into Iowa** between 1992 and 2011, and 17,381 people migrated **into Minnesota from Iowa** over the same period.

Source: Internal Revenue Service, Statistics of Income.

Note: Net Migration to and from Iowa determined by net number of federal exemptions out of Iowa between 1992 and 2011.

Iowa's Largest Sectors: Manufacturing and Financial Services

Industry GDP as Percent of Iowa's Total GDP Compared to U.S. Total (2012)



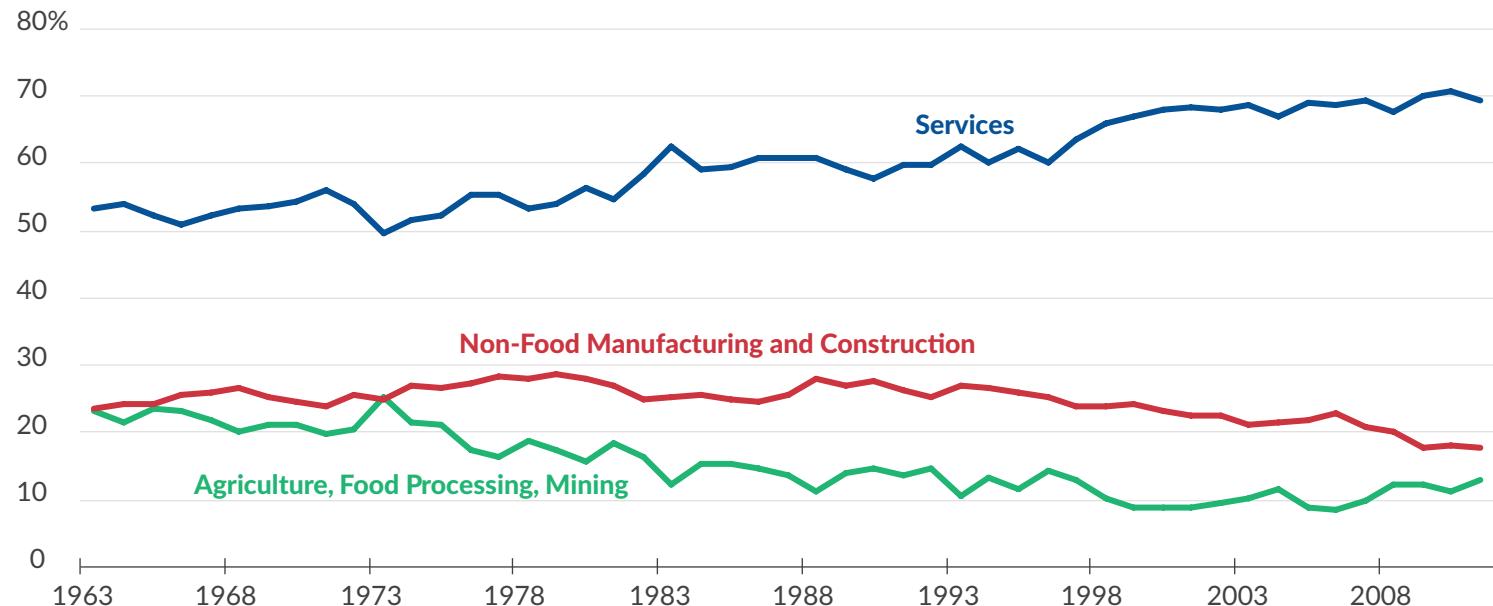
Iowa's economy leans most heavily on manufacturing, finance and insurance, and professional services. While agriculture is a smaller portion of the U.S. economy, it is a larger portion in Iowa.

Manufacturing in Iowa includes agriculture- and food-related production in addition to a prominent aerospace manufacturing sector.

Source: Bureau of Economic Analysis, Regional Economic Accounts (GDP by State).

Services Share Has Expanded, Goods Share Has Declined

Percent of Iowa's Total Private Economic Activity for Select Sectors (1963-2011)

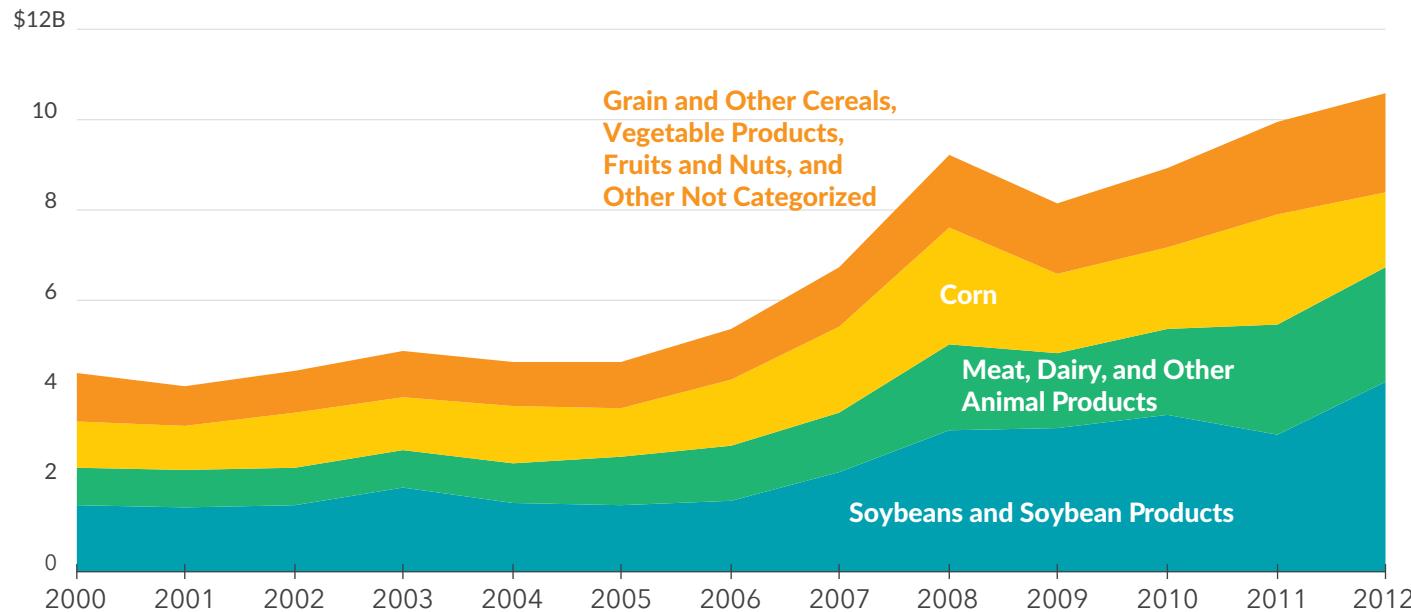


Fifty years ago, sectors involving the production of tangible goods—agriculture, food processing, mining, other manufacturing, and construction—amounted to about half of Iowa's economy. Today, those categories make up around 30 percent of the state economy, and services make up the other 70 percent. While a recent rise in agricultural activity has increased agriculture's share of the economy to some degree, other types of good-producing industries claim a smaller and smaller share.

Source: Bureau of Economic Analysis, Regional Economic Accounts (GDP by State).

Iowa's Agricultural Exports Have Risen Dramatically Since 2005

Iowa's Agricultural Exports (2000-2012, in Billions of 2011 Dollars)



Thanks to the rising global demand for food, Iowa, like many other agriculturally-intensive states, has seen its agricultural exports increase markedly in the last decade. The result has been a slight increase in agriculture's share of the state economy and rising incomes for farmers, agricultural businesses, and the communities where they operate. As of 2012, Iowa represented 19 percent of all U.S. corn exports and 31 percent of all pork exports. Iowa's agriculture exports were 8 percent of the U.S. total—an increase from 6.3 percent in 2011.

Source: U.S. Department of Agriculture, Economic Research Service; Bureau of Labor Statistics, Consumer Price Indexes.

Note: Dollar amounts are expressed in 2011 dollars. Inflation adjusting based on annual average Consumer Price Index for All Urban Consumers (CPI-U).

Chapter 2

Iowa's Tax Code: The Basics

Iowa relies on several types of taxes to raise revenue. Property taxes, income taxes, and sales taxes are well known, but other revenue sources include excise taxes on gasoline, the inheritance tax, and funding from the federal government, among others. Though tax burdens and collections in Iowa tend to be mid-ranked compared to other states, poorly-structured portions of the state's tax code are a deterrent for businesses.



Iowa Taxes at a Glance

Tax Rates Are High in Several Categories

When measured against other states, Iowa has comparatively high tax rates in several categories. The state's top corporate income tax rate is the highest in the nation and its top individual income tax rate is the fifth highest. Both are also graduated, taxing different income levels at different rates. Similarly, Iowa's property taxes rank in the top half of the fifty states. The Hawkeye State wisely doesn't levy taxes on gross receipts or capital stock, but it does have an inheritance tax. Sales and excise tax rates in Iowa tend to fall in the middle.

Individual Income Tax

Number of brackets	9
Top income tax rate	8.98%
Top bracket kick-in	\$68,175
Bottom income bracket rate	0.36%
Bottom bracket kick-in	\$0
Collections per capita	\$963
Collections rank	18th

Property Tax

Collections per capita	\$1,429
Collections rank	18th
Property taxes paid as share of owner-occupied housing value	1.37%
Property taxes paid rank	14th

Corporate Income Tax

Number of brackets	4
Top corporate tax rate	12%
Collections per capita	\$82
Collections rank	36th

Sales Tax

State rate	6%
State + average local rate	6.78%
State + average local rank	27th
Collections per person	\$949
Collections rank	22nd

For all rankings on this page, 1 indicates highest among the 50 states.

General Info

	Rank	Nat. Avg.
Income per capita	23	\$43,735
Federal aid as % of gen. revenue	23	32.8%
State debt per capita	41	\$3,678

Excise Taxes

	Rate	Rank
Gasoline taxes and fees	22¢ per gallon	33rd
Cigarette taxes	\$1.36 per pack	25th
Spirits taxes	\$12.43 per gallon	6th
Beer taxes	\$0.19 per gallon	31st
Cell phone taxes	8.61%	30th

Other Taxes

	Rate	Exemption
Gross receipts tax	None	N/A
Capital stock tax	None	N/A
Inheritance tax	0-15%	Variable
Estate tax	None	N/A

Source: Tax Foundation, *Facts & Figures 2014: How Does Your State Compare?*

Note: All collections listed on this page are combined state and local per capita collections.

How Does Iowa Score?



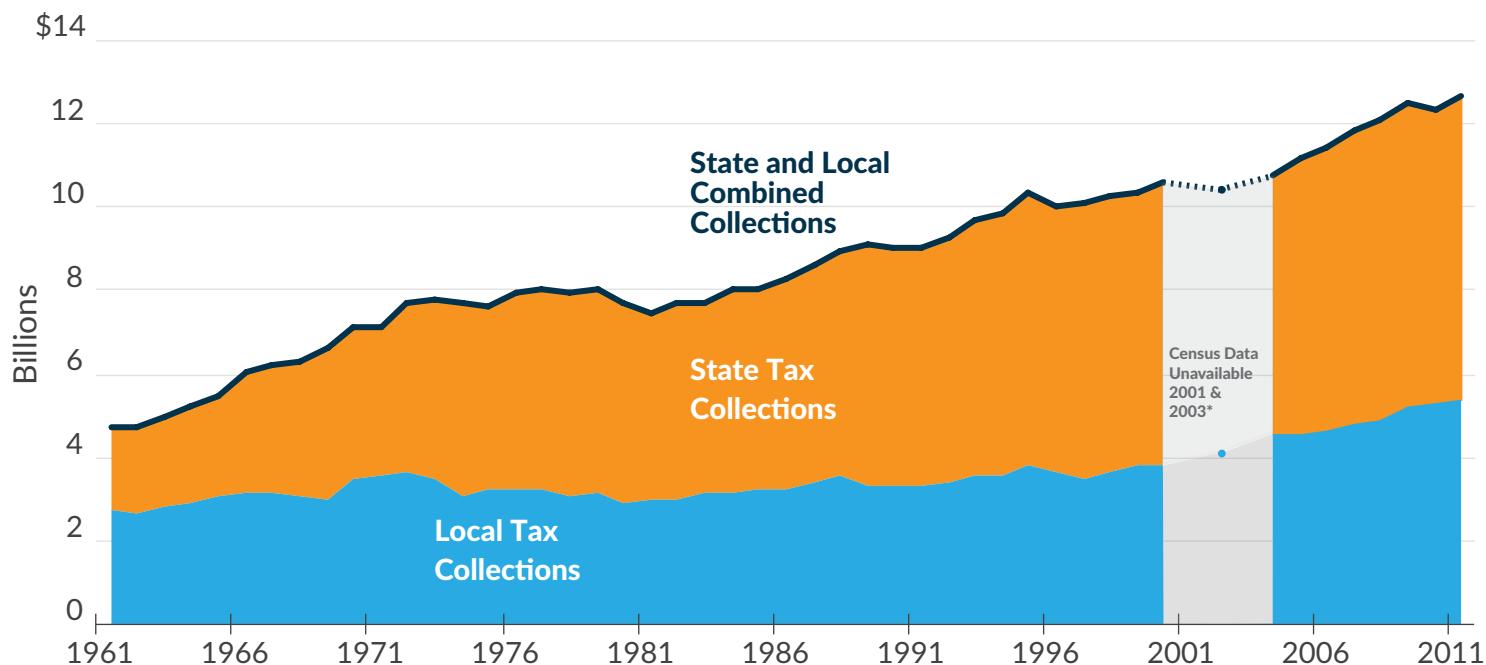
Iowa ranks 40th out of the 50 states on the Tax Foundation's 2014 *State Business Tax Climate Index*, which annually compares the states' tax systems on over 100 variables that impact business. In other words, Iowa has the 11th worst business tax climate when compared to other states.

Iowa ranks 29th highest on the *Annual State-Local Tax Burdens* ranking, which estimates state and local taxes paid to state of residence and other states. An estimated 9.3 percent of Iowa's collective income goes toward state and local taxes (below the national average of 9.8 percent).

Tax Freedom Day is the day when taxpayers have earned enough to pay their total federal, state, and local tax bill for the year. In 2014, Iowa taxpayers worked 103 days into the year (until April 13) to pay their total tax bill. Eighteen states celebrated Tax Freedom Day before Iowa.

State Tax Collections Have Grown Faster Than Local Tax Collections

Iowa Combined State and Local Tax Collections (1961-2011, in 2011 Dollars)



Over time, Iowa's inflation-adjusted state and local tax collections have risen from approximately \$4.75 billion in 1961 to \$12.6 billion in 2011. Since 1961, state tax collections have grown from 42 percent of the combined total to 57 percent. Local tax collections have shrunk from 58 percent of the total to 43 percent.

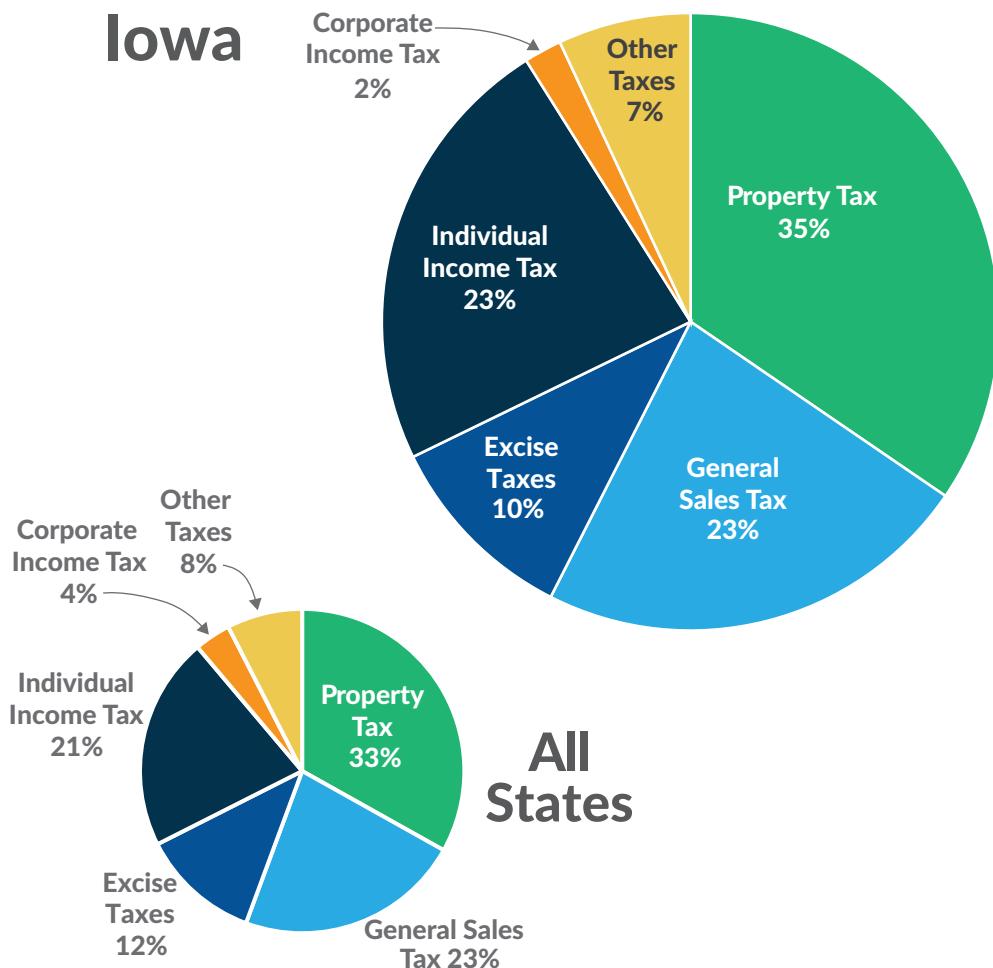
Source: Census Bureau, State and Local Government Finances; Bureau of Economic Analysis, Regional Economic Accounts (Annual State Personal Income); Bureau of Labor Statistics, Consumer Price Indexes.

Note: Dollar amounts are inflation-adjusted based on annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2011 base year.

*Because data is unavailable for 2001 and 2003, those points were excluded here.

Iowa's Tax Toolkit Is Similar to the National Average

Percent of Total Tax Collections, Iowa and U.S. Total (2011)



When Iowa's sources of state and local tax collections are compared to the rest of the country, the state is just about average. Iowa obtains the largest share of state and local combined collections from property taxes (35 percent of total), followed by individual income taxes and general sales taxes. Corporate income taxes are the smallest share in both Iowa and the country as a whole.

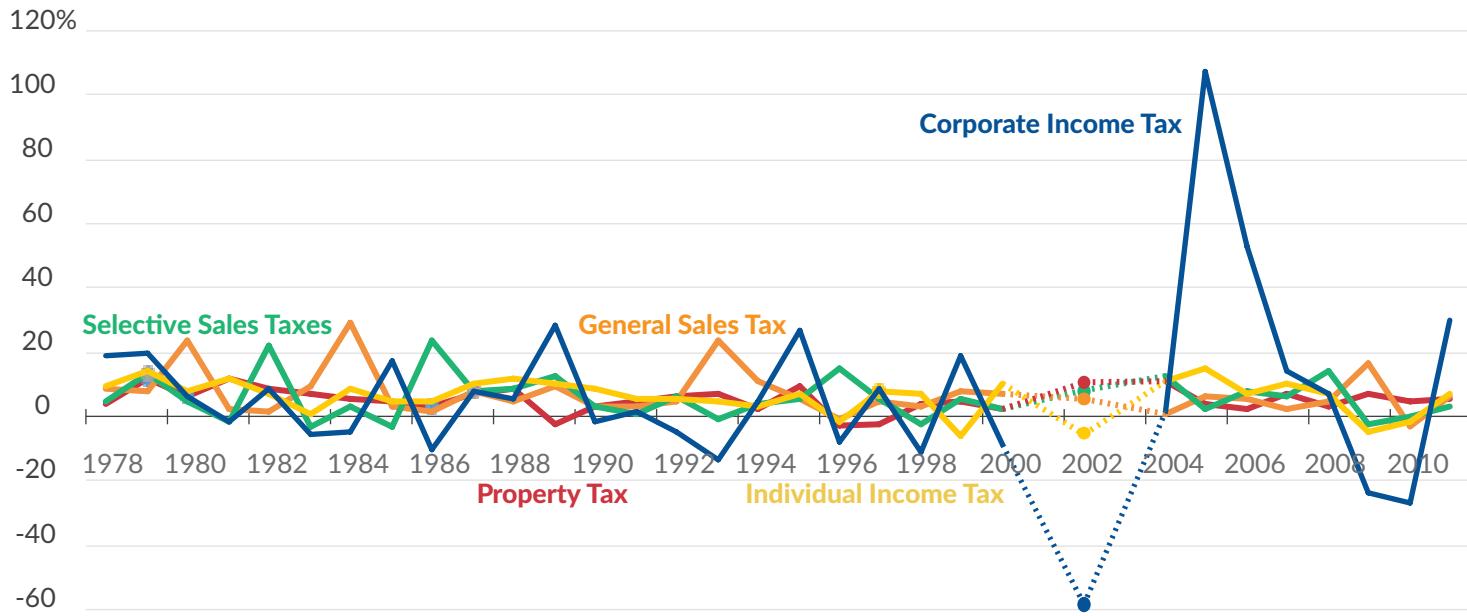
However, taxes are just one portion of a state's total budget. Most states, including Iowa, also obtain revenue from the federal government, utility revenues, liquor sales, lottery sales, and other sources.

Source: Census Bureau, State and Local Government Finances.

Note: Percentages may not add to 100 percent due to rounding.

Corporate Income Taxes are the Most Unstable Tax Source

Annual Percentage Change in Iowa Tax Collections by Tax Type (1978-2011)



Revenue stability over the business cycle is an important facet of state tax policy. Different types of taxes react differently to changes in the economy. Some taxes, such as corporate income taxes or highly-graduated individual income taxes, fluctuate sharply when the overall economy changes, while others remain more stable.

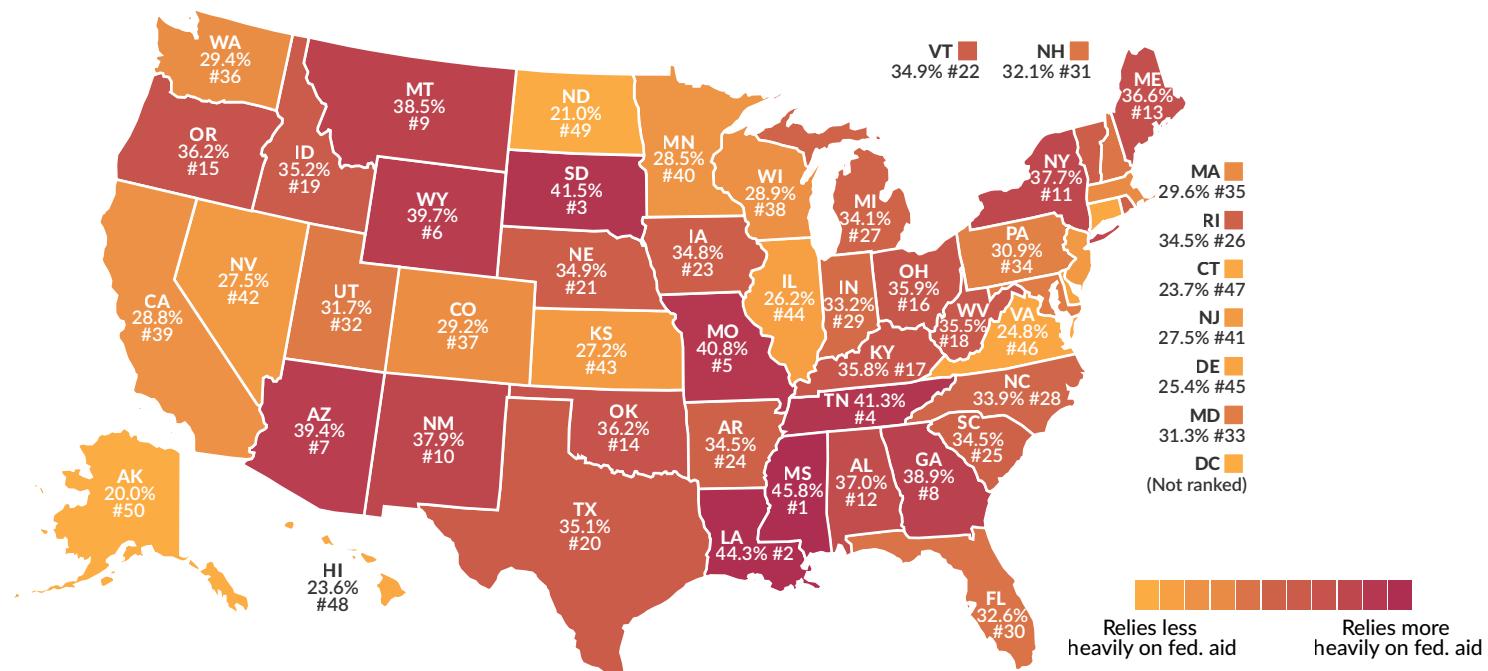
The structure of each tax matters, too. For example, individual income taxes tend to be more volatile than general sales taxes, but a sales tax levied on a narrow base can be more unstable than a flatter, broad-based income tax.

Source: Census, State and Local Government Finances; Bureau of Economic Analysis, Regional Economic Accounts (Annual State Personal Income).

Note: Local data is unavailable for 2001 and 2003, so those points have been excluded here.

Iowa Relies on Federal Funding for One-Third of Its Budget

Federal Funding As a Percent of State Government Revenues (2012)



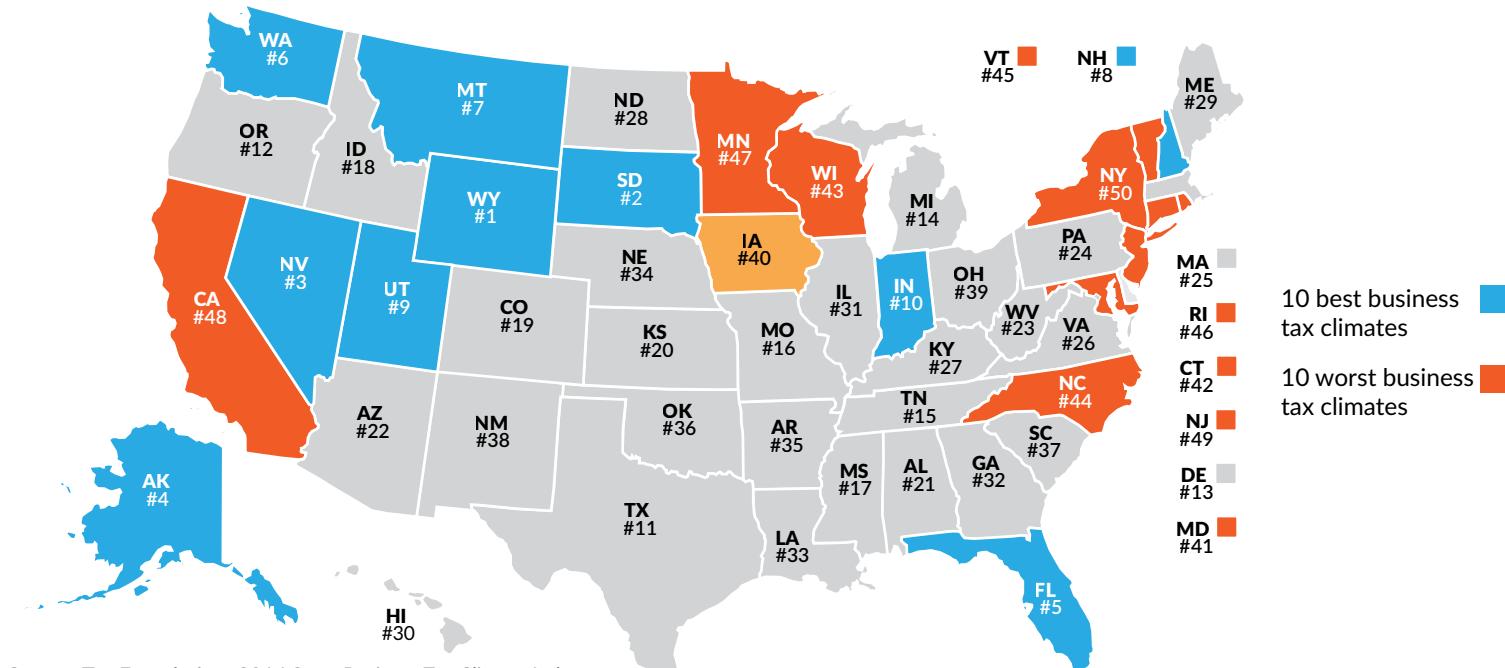
Iowa relied on federal funding for 34.8 percent of general revenues in 2012, compared to the national average of 32.8 percent. Federal funding in the states supports a variety of programs, including those related to public welfare, health, education, and transportation.

Source: Census Bureau, State and Local Government Finances.

Note: Figures are calculated by dividing each state's "Intergovernmental Revenue" into its "General Revenue." "General Revenue" includes all tax revenue but excludes utility revenue, liquor store revenue, and investment income from state pension funds. DC is not included because it is designated as a local jurisdiction.

Iowa Has One of the Worst Business Tax Climates

Iowa Ranks 40th out of 50 in Business Tax Climate Ranking



Source: Tax Foundation, 2014 State Business Tax Climate Index.

The *State Business Tax Climate Index* gauges how well-structured a state's tax code is. States that score well on the *Index* have broad bases and low rates, but Iowa has narrow bases and high rates on many taxes.

Iowa's northern neighbors, Minnesota and Wisconsin, have worse tax codes, while other regional competitors—Missouri, Indiana, and South Dakota—have far better tax codes.

Regional competition: Indiana recently set its corporate income tax rate on a schedule to decline from 8.5 percent to 4.9 percent in the coming years, while Iowa's corporate rate remains at 12 percent. South Dakota does not levy a corporate income tax at all.

Iowa Business Tax Climate Falls behind Many Competitors

2014 State Business Tax Climate Index Ranking for Iowa and Select States in the Region

	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Unempl. Insurance Tax Rank	Property Tax Rank
South Dakota	2	1	1	34	37	18
Indiana	10	24	10	11	13	5
Missouri	16	7	27	26	9	7
Illinois	31	47	11	33	43	44
Nebraska	34	36	30	29	8	39
Iowa	40	49	32	24	36	38
Wisconsin	43	33	43	15	25	36
Minnesota	47	44	47	35	41	33

Iowa's 12 percent top corporate income tax rate is the highest in the country.

Iowa has ranked 40th in the *State Business Tax Climate Index* for the last three years.

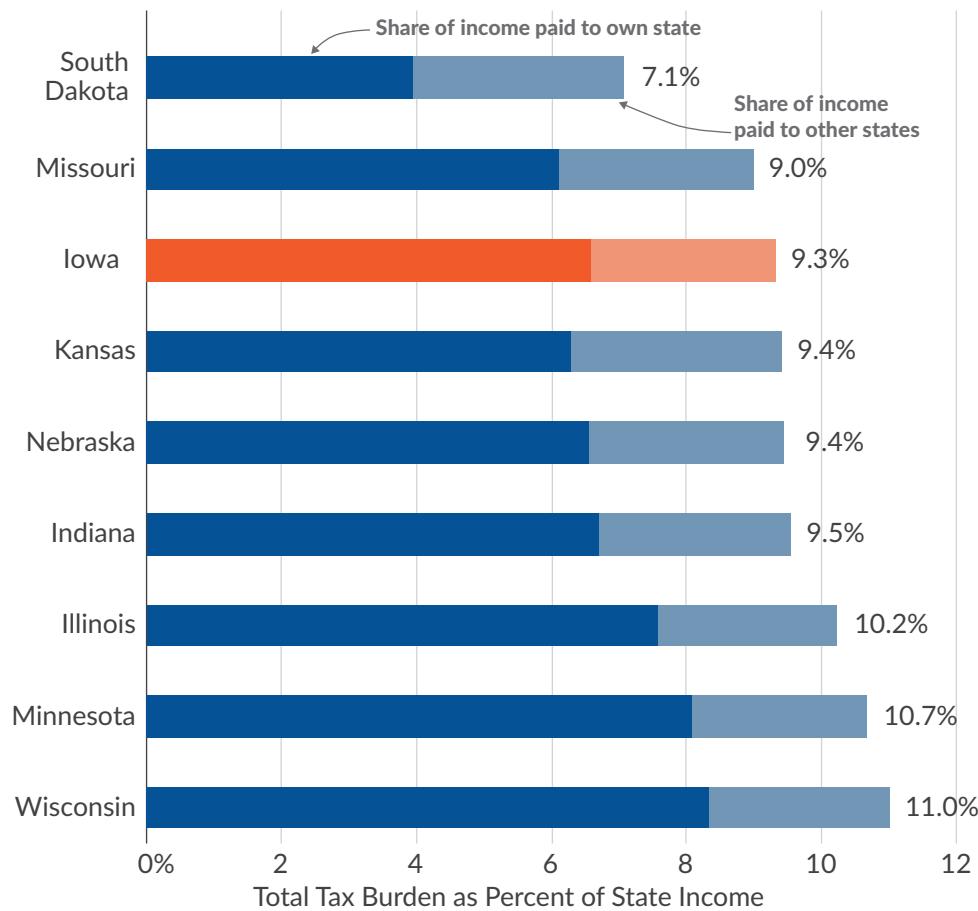
Breaking the *State Business Tax Climate Index* up into its subcomponents allows for comparison of each major tax type. Competing states like South Dakota and Indiana offer more competitive corporate tax climates, while Iowa can leave prospective businesses with sticker shock because of its 12 percent corporate income tax rate.

Further, many Iowa businesses file income taxes through the individual income tax code, which has a high top rate of 8.98 percent. Even Illinois is more competitive in this regard; it taxes individual income at a single rate of 5 percent.

Source: Tax Foundation, 2014 *State Business Tax Climate Index*.

Iowa's Tax Burden Ranks in the Middle of the Pack

Total State-Local Tax Burden as Percent of State Income for Iowa and Select States in the Region (2011)



Iowa's total state-local tax burden is ranked 29th highest when compared with the rest of the country and falls in the middle of regional states. The average Iowa taxpayer paid \$3,740 in state and local taxes in 2011, amounting to 9.3 percent of income. Iowans pay approximately 71 percent of their total tax burden to state and local governments in Iowa and pay the remaining share to out-of-state jurisdictions.

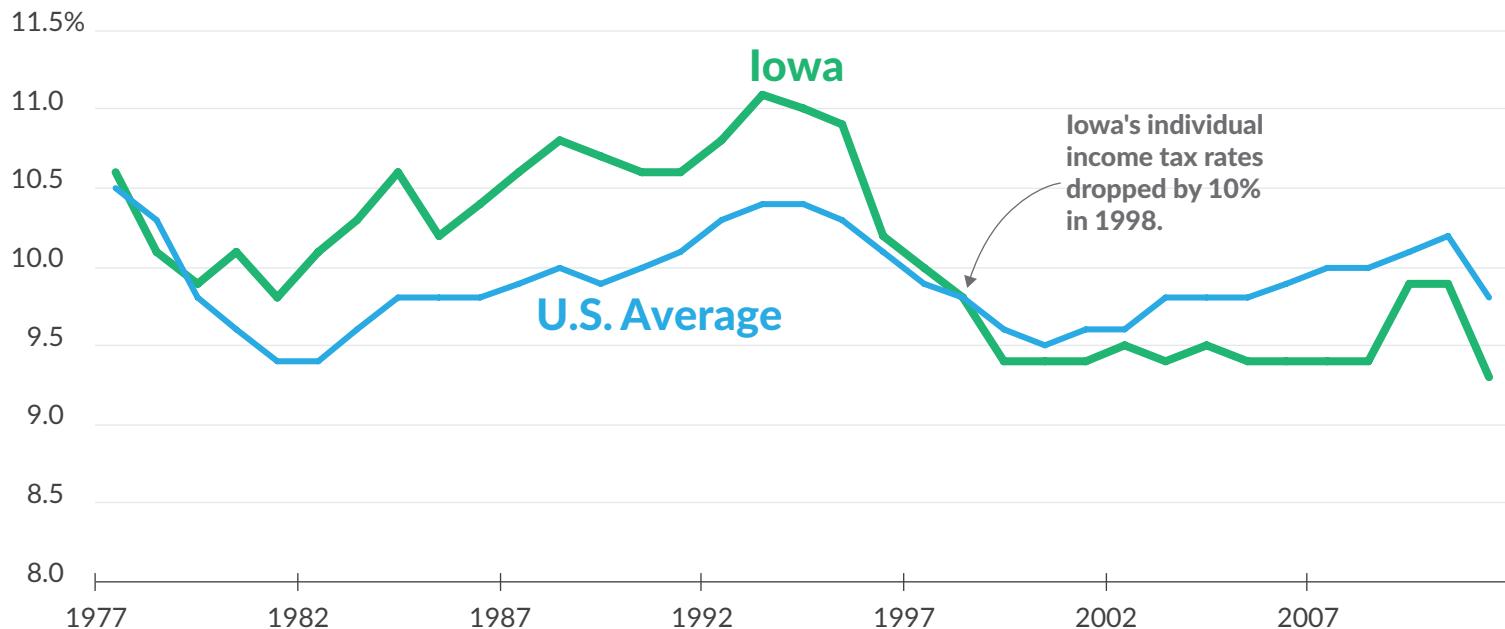
Iowa taxpayers pay state and local taxes not only to Iowa, but also to other state and local governments due to tax shifting across state lines. For example, a portion of sales and excise taxes are paid by nonresident tourists when they travel to other states.

Source: Tax Foundation, Annual State-Local Tax Burden Ranking (FY 2011).

Note: Total state-local tax burden includes all taxes levied by state and local governments, including individual income taxes, property taxes, sales and excise taxes, corporate income taxes, license taxes, and others. For a full list of taxes included, see Tax Foundation Working Paper No. 10.

Iowa's Tax Burden Now Lower than U.S. Average

Iowa State-Local Tax Burden as Percent of State Income Compared to U.S. Average (1977-2011)



Prior to 1998, Iowa taxpayers paid a larger share of their collective incomes to state and local taxes than the rest of the U.S. In 1998, Iowa individual income tax rates were cut by 10 percent across the board, moving the top rate down from 9.98 percent to 8.98 percent.

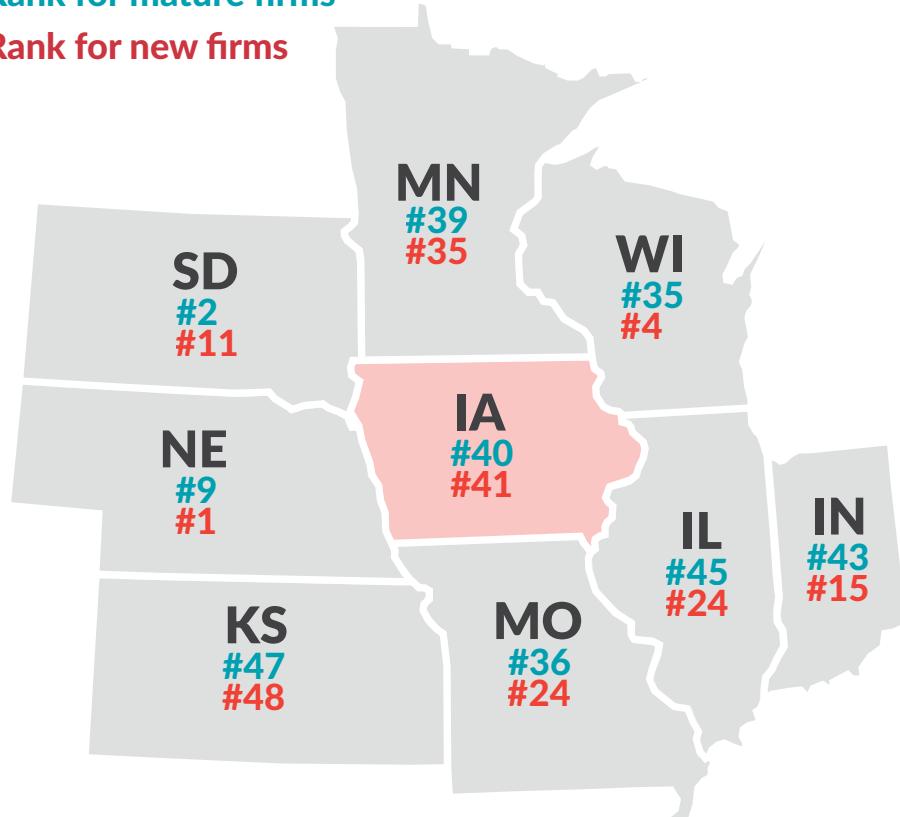
Source: Tax Foundation, *Annual State-Local Tax Burden Ranking (FY 2011)*.

Iowa's Business Taxes Are Uncompetitive

Total Business Effective Tax Rate Rankings for Iowa and Select States in the Region (2011)

US Rank for mature firms

US Rank for new firms



The Tax Foundation's *Location Matters* study calculates the tax bills of seven hypothetical firms in each of the fifty states so total effective business tax rates can be compared.

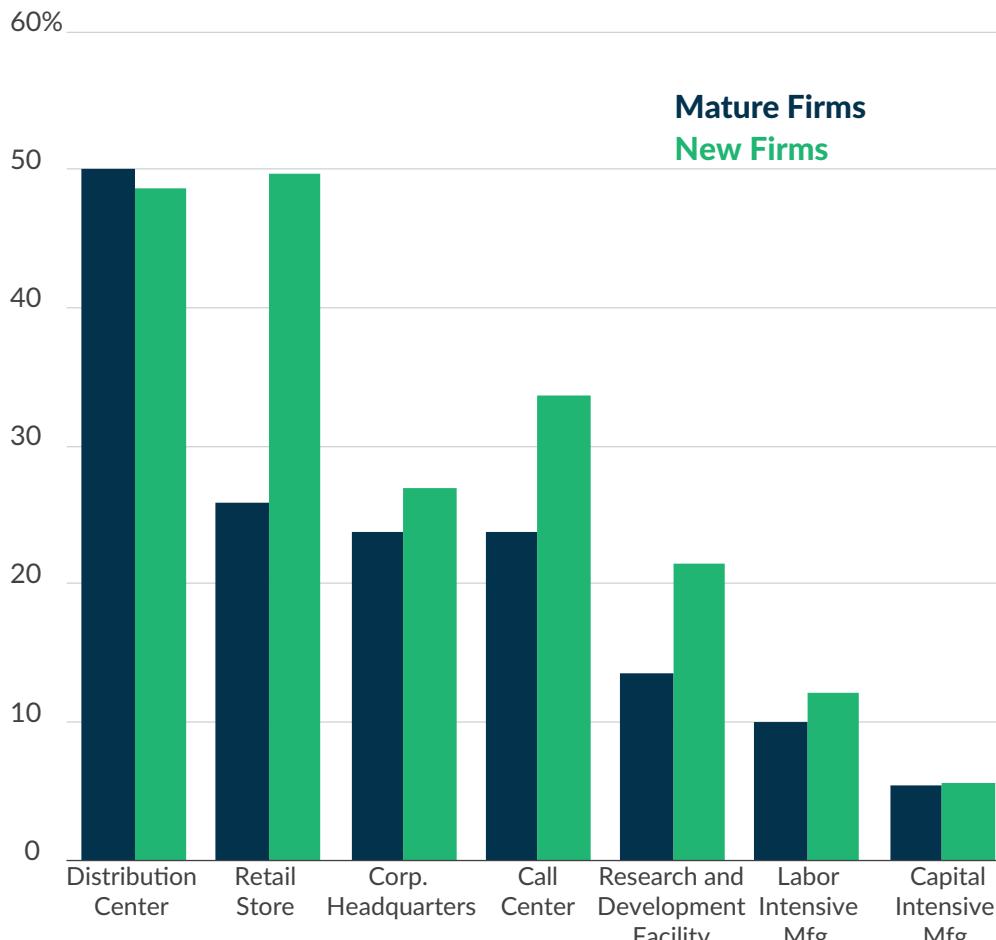
A ranking of 1 on this page indicates the lowest total effective tax rate among the states for the category (either mature or new firms), while a ranking of 50 indicates the highest total effective tax rate for the category. Thus, a lower ranking means firms in that state pay a lower effective tax rate.

For the most part, Iowa's effective business taxes are higher than its neighbors'. For mature firms, five of eight competitors have lower effective rates than Iowa (and lower ranks). For new firms, all of Iowa's competitor states have lower effective tax rates (and thus lower ranks), except Kansas.

Source: Tax Foundation, *Location Matters: A Comparative Analysis of State Tax Costs to Business* (2011).

Effective Tax Rates in Iowa Vary Widely across Industries

Total Effective Tax Rates for Select Iowa Business Types (2011)



For some industries, Iowa has very low effective tax rates. Its taxes on capital-intensive manufacturing firms, for example, are among the lowest in the nation at 5.5 percent. But for other industries, its taxes are much higher. Retailers and distribution centers in particular face effective tax rates as high as 50 percent. These wide divergences are non-neutral, resulting in distorted investment decisions.

New and mature firms often face different taxes thanks to various jobs and investment tax credits and differing needs for new property and equipment. However, in Iowa, mature firms generally have lower taxes than new firms.

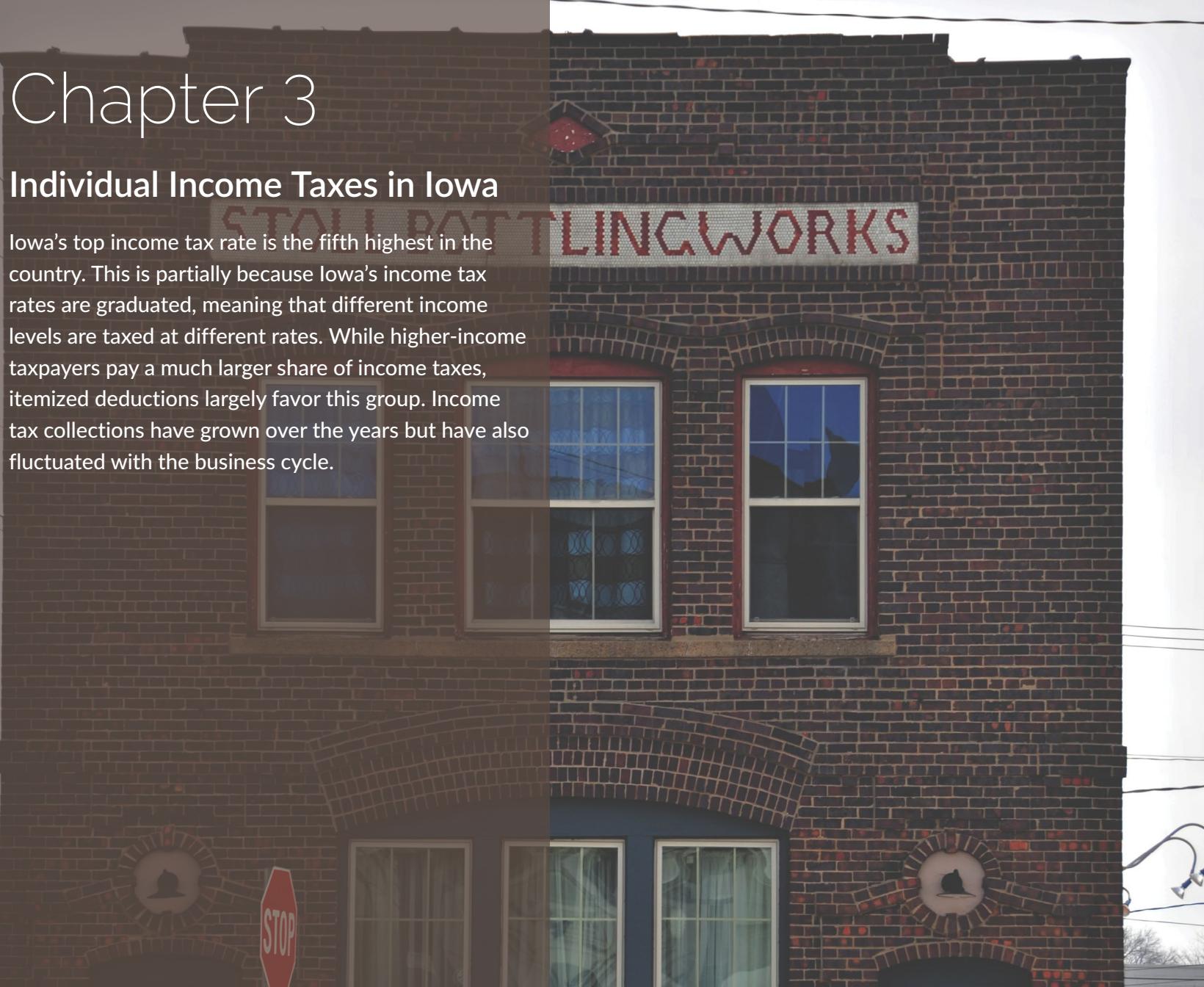
Source: Tax Foundation, *Location Matters: A Comparative Analysis of State Tax Costs to Business* (2011).

Note: Only includes state and local tax liability. Does not include federal tax liability.

Chapter 3

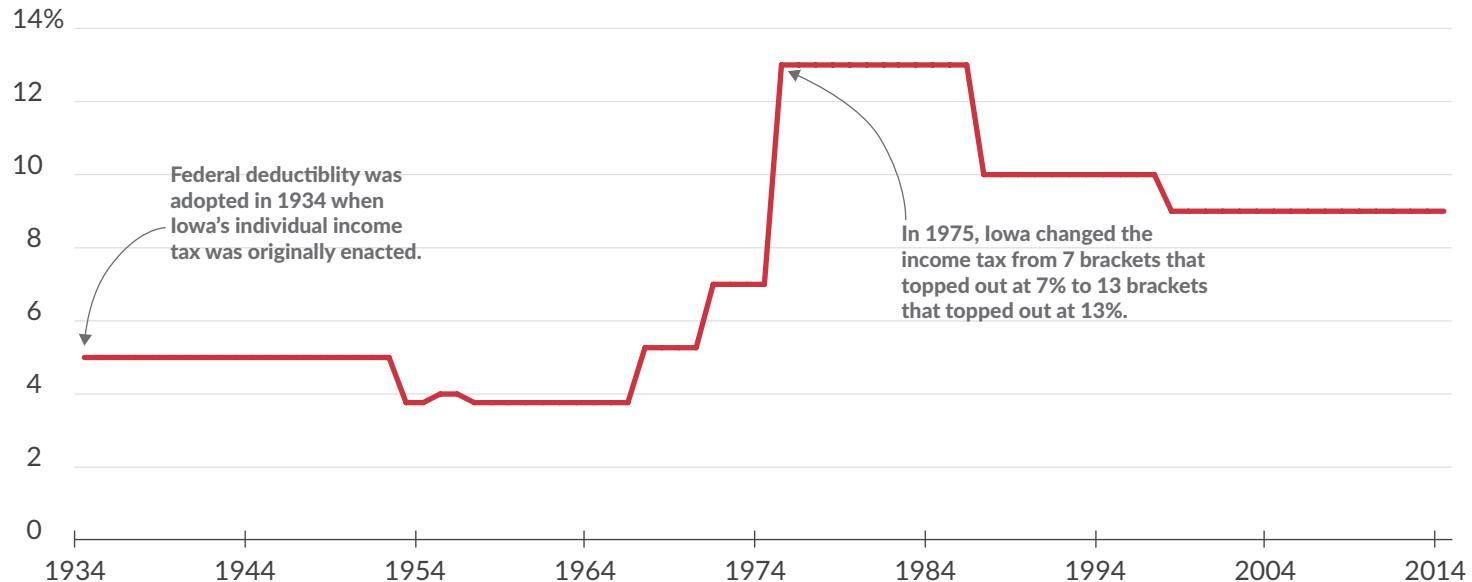
Individual Income Taxes in Iowa

Iowa's top income tax rate is the fifth highest in the country. This is partially because Iowa's income tax rates are graduated, meaning that different income levels are taxed at different rates. While higher-income taxpayers pay a much larger share of income taxes, itemized deductions largely favor this group. Income tax collections have grown over the years but have also fluctuated with the business cycle.



Iowa's Top Income Tax Rate Has Fluctuated over Time

Iowa's Top Marginal Individual Income Tax Rates (1934-2014)



Source: Iowa Department of Revenue.

Iowa's income tax brackets have changed nine times since the tax was created in 1934. In the 1960s and early 1970s, the top rate climbed as high as 13 percent. Reforms in the late 1980s and 1990s brought the rate back down, eventually settling at 8.98 percent today. The tax currently has nine separate brackets, taxing different income levels at different rates ranging from 0.36 percent to 8.98 percent.

Iowa allows taxpayers to deduct federal tax payments from their state taxable income, eroding the state income tax base.

Tax brackets in Iowa are indexed for inflation, a feature that ensures taxes don't rise over time due to rising price and wage levels.

How Does the Income Tax Impact Real People?

The way a state chooses to structure its income taxes matters for real people.

These seven scenarios show how low- or high-income Iowans with or without children fare under the code in Iowa and six competitor states that levy an individual income tax.

Iowa Tax Bill



Filing Status	Head of Household	Married Filing Jointly	Single	Married Filing Jointly	Married Filing Jointly	Married Filing Jointly	Married Filing Jointly
Income	\$11,218	\$32,400	\$36,261	\$76,359	\$92,908	\$383,813	\$1,120,011
Exemptions	2	2	1	4	3	2	4
Income Taxes Paid to Iowa	-\$423	\$0	\$1,486	\$3,926	\$4,740	\$22,452	\$57,791
Effective Tax Rate (ETR), Iowa	-3.8%	0.0%	4.1%	5.1%	5.1%	5.8%	5.2%
ETR, Federal+IA	-33%	0%	13%	13%	15%	29%	33%

Source: State statutes; Tax Foundation calculations.

Note: All calculations made are for the 2014 tax year and reflect state statutes as of May 25, 2014. Assumes equal split of income between spouses, all income earned in state of filing, no estimated tax payments made in advance, and no interest or penalties included.

Tax Bill in Other Select States in the Region

If these same Iowans lived in one of the states below, these would be their income tax bills. These estimated taxes can be compared to their estimated Iowa tax bills.

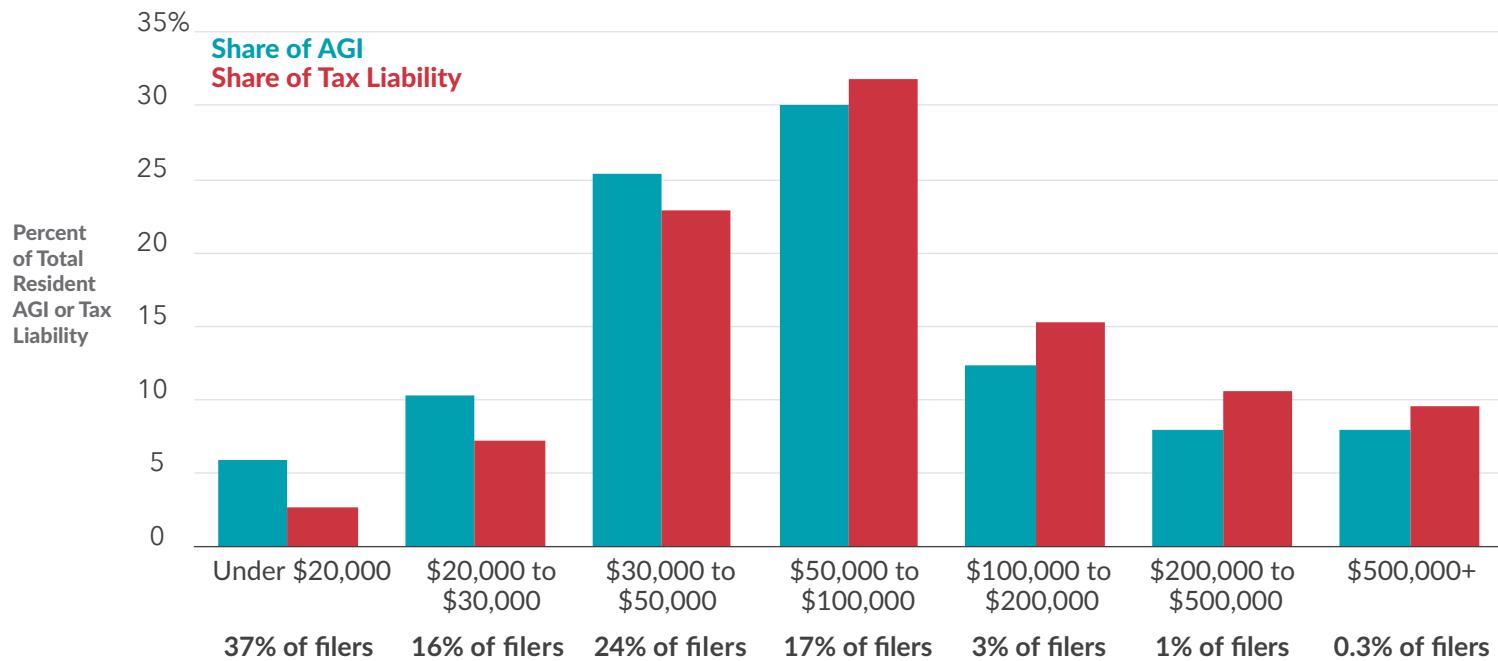
	Van	Jason & Nicole	Justine	Max & Danielle	Laura & Jeremy	Sam & Ellen	Heidi & Bret
Filing Status	Head of Household	Married Filing Jointly	Single	Married Filing Jointly	Married Filing Jointly	Married Filing Jointly	Married Filing Jointly
Income	\$11,218	\$32,400	\$36,261	\$76,359	\$92,908	\$383,813	\$1,120,011
Exemptions	2	2	1	4	3	2	4
Total Taxes Paid in:							
Iowa	-\$423	\$0	\$1,486	\$3,926	\$4,740	\$22,452	\$57,791
Illinois	\$23	\$237	\$1,707	\$3,393	\$4,327	\$18,978	\$55,576
Indiana	\$4	\$170	\$1,199	\$2,426	\$3,040	\$12,982	\$37,910
Kansas	-\$520	475	\$1,174	\$2,243	\$3,060	\$16,354	\$46,037
Minnesota	-\$81	\$0	\$1,421	\$2,782	\$4,446	\$28,267	\$90,439
Nebraska	-\$325	\$0	\$1,098	\$2,206	\$3,677	\$22,660	\$65,387
Wisconsin	-\$130	\$0	\$1,478	\$3,795	\$5,081	\$24,443	\$80,655

Source: State statutes; Tax Foundation calculations.

Note: All calculations made are for the 2014 tax year and reflect state statutes as of May 25, 2014. Assumes equal split of income between spouses, all income earned in state of filing, no estimated tax payments made in advance, and no interest or penalties included.

Iowa's Individual Income Tax Is Progressive

Distribution of Adjusted Gross Income (AGI) and Tax Liability among Iowa Resident Taxpayers (2011)



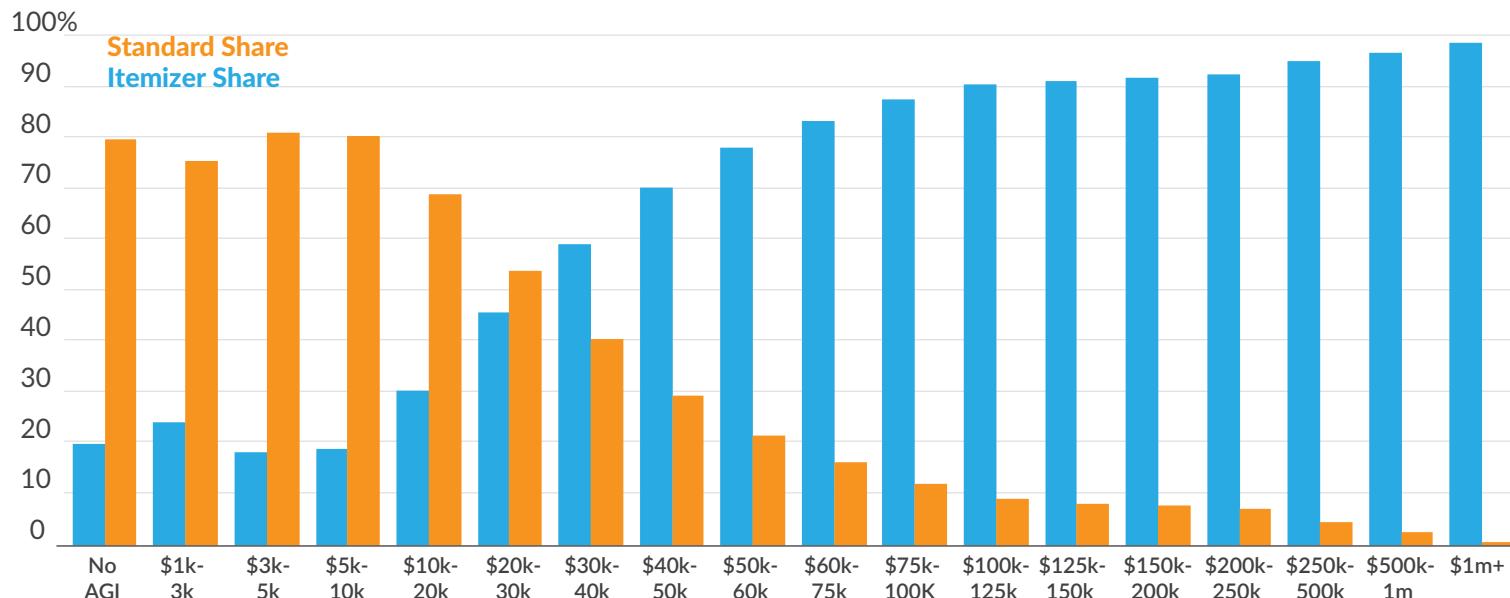
Iowa's income tax system is progressive, with lower-earning Iowans paying a smaller share of taxes than they earn in income. Meanwhile, higher earning Iowans pay a larger share of taxes. Effective tax rates for the top 5 percent of filers are two to three times that of the bottom 40 percent of filers.

Adjusted gross income is taxpayers' total income (wages plus other income sources) minus allowable deductions. Tax liability is total state income taxes paid. Comparing these two demonstrates which income groups bear more of the income tax relative to their income.

Source: Iowa Department of Revenue, 2011 Iowa Individual Income Tax Annual Statistical Report (2013).

Taxpayers That Itemize Tend to Have Higher Incomes

Percent of Total Resident Iowa Income Tax Filers That Take Standard vs. Itemized Deductions (2011)



Lower-income Iowa resident taxpayers overwhelmingly claim the standard deduction, while higher-income filers tend to itemize. A standard deduction can be a good tool for offering low-income tax relief when paired with a flatter income tax.

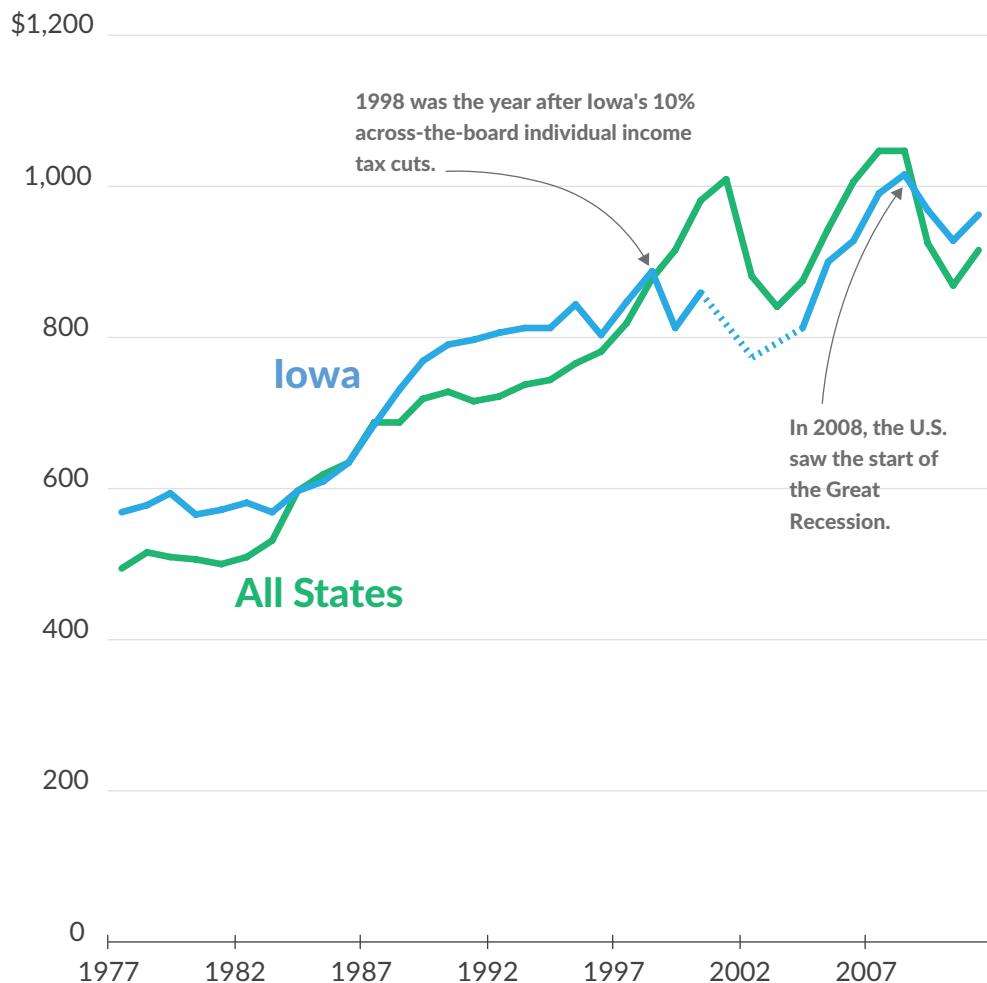
Itemized deductions tend to fall into two categories: structural deductions that are designed to avoid double taxation and ensure the proper treatment of business income (good tax policy) and those meant to incentivize special behaviors (poor tax policy).

Deductions lead some individuals to have no AGI.

Source: Iowa Department of Revenue, 2011 Iowa Individual Income Tax Annual Statistical Report (2013).

Iowa's Individual Income Tax Collections over Time

Iowa State and Local Individual Income Tax Collections Per Capita Compared to U.S.
(1977-2011, in 2011 Dollars)



Similar to other states, Iowa's state and local individual income taxes per person have trended up over time. However, prior to the state's 1998 across-the-board individual income tax cuts, Iowa's collections were higher than the rest of the country. After the 1998 reform, collections in Iowa briefly dipped below the rest of the U.S.

The two flipped again in 2008, when the U.S. entered an economic downturn and income tax collections across the U.S. saw a sharp decline.

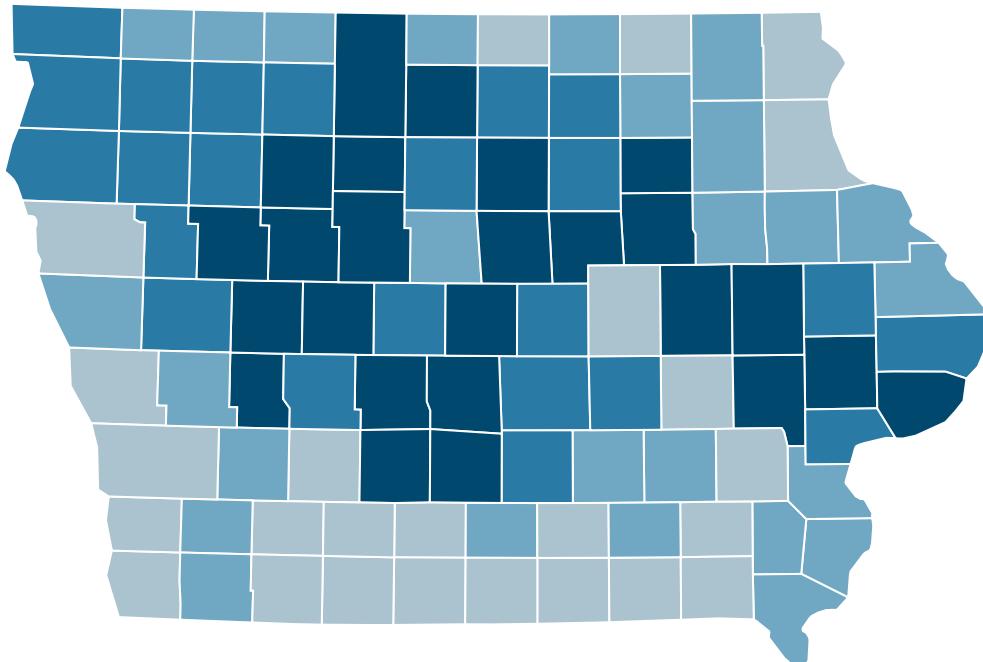
Iowa is one of only 13 states that levy local-level income taxes. 297 school districts impose an income tax surcharge ranging between 1 and 20 percent of state income tax owed.

Source: Iowa Department of Revenue, 2011 Iowa Individual Income Tax Annual Statistical Report (2013); Tax Foundation Fiscal Fact No. 280, Local Income Taxes: City- and County-Level Income and Wage Taxes Continue to Wane.

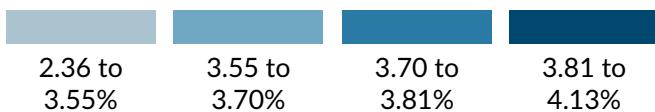
Note: Dollar amounts are inflation-adjusted based on annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2011 base year. Because data is unavailable for 2001 and 2003, those points were excluded here.

Effective Tax Rates Vary by County

Individual Income Tax Collections as Percent of Iowa Adjusted Gross Income by County (2011)



Individual Income Tax Collections as % of AGI



Because different counties have different income levels, and their residents claim different credits and deductions, state income taxes paid as a percentage of income vary from a low of 2.36 percent in Pottawattamie County to a high of 4.13 percent in Grundy County.

Source: Iowa Department of Revenue, 2011 Iowa Individual Income Tax Annual Statistical Report (2013).

Note: Ranges expressed here reflect the data's quartiles.

Chapter 4

Iowa's Business Taxes

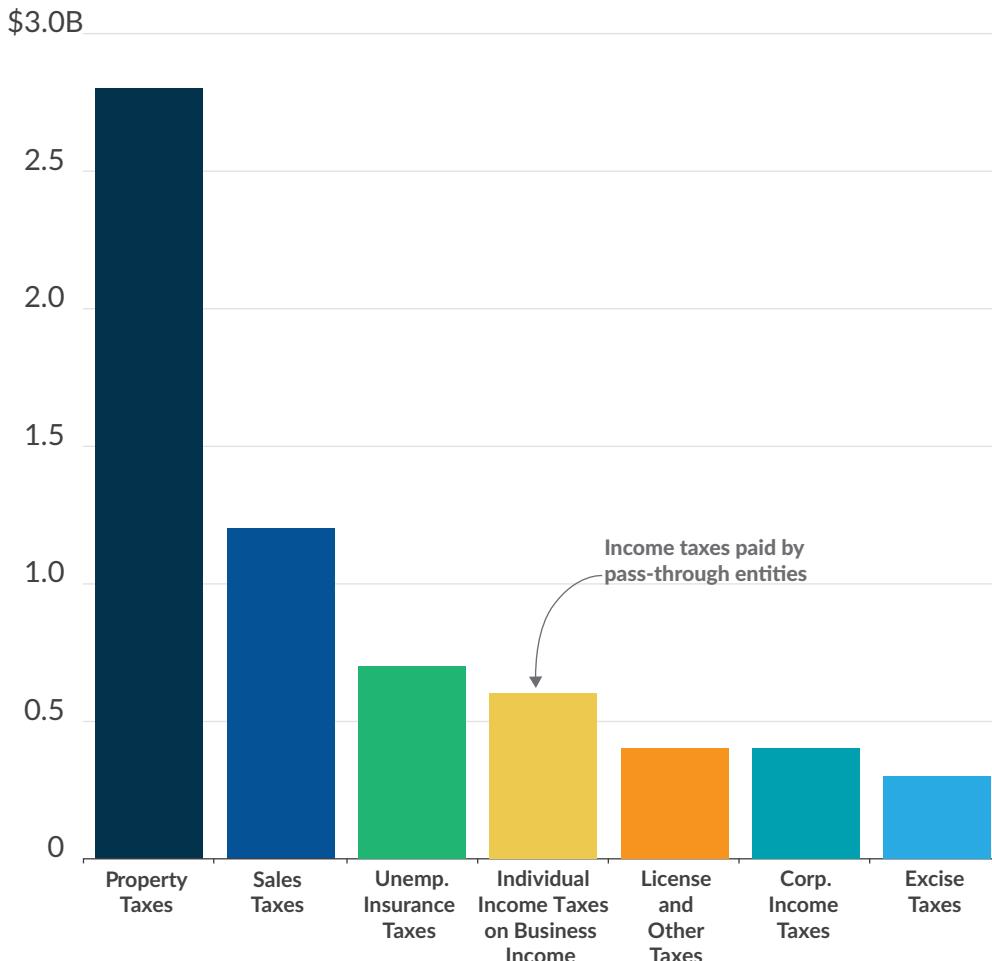
Taxes paid by businesses are an important part of any state's tax code. In Iowa, businesses paid \$6.3 billion in total taxes in 2012, but most of this wasn't corporate income taxes (the most recognizable type of business tax). In reality, most firms tend to be pass-through entities that pay individual income taxes rather than corporate income taxes. Businesses also pay sales taxes and excise taxes, among others.

Iowa's top corporate income tax rate is nevertheless the highest in the country, and Iowa's corporate income tax structure is graduated (something only thirteen states do). In a misguided attempt to mitigate this unfriendly business tax structure, Iowa awards many business tax incentives each year, which erodes tax revenues over time.



Businesses Don't Only Pay Corporate Income Taxes

State and Local Business Tax Liability by Tax Type (2012, in Billions of Dollars)



A common misconception is that corporate income taxes are the only tax cost for businesses. However, businesses pay a number of other taxes, including property taxes on real estate and business property, sales taxes on the goods and services they use in the production process, and individual income taxes on business income (if they're pass-through entities).

Overall, Iowa businesses paid \$6.3 billion in taxes in 2012, with the largest portion of that in the form of property taxes.

Pass-through entities are businesses that file through the individual income tax code rather than the corporate income tax code.

Source: Council on State Taxation and Ernst & Young LLP, *Total state and local business taxes (FY 2012)*.

Majority of Iowa's Employers Pay Individual Income Taxes

Percent of Employers That Are Pass-Through Entities in Iowa's Ten Largest Private Industries (2011)



Firms that pay individual income taxes rather than corporate income taxes are known as “pass-through” or “flow-through” entities because business income “flows through” to the owner’s individual income tax return. Sole proprietorships, partnerships, and S corporations are all types of pass-throughs.

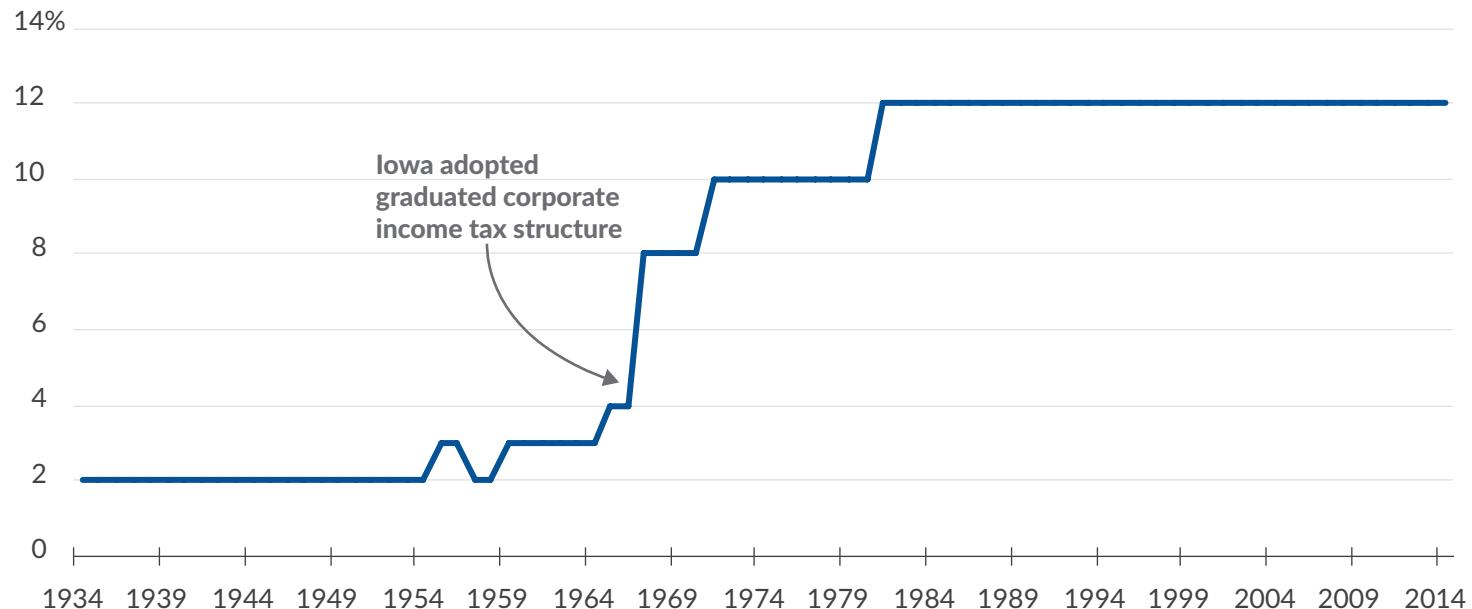
Fifty-nine percent of all employers in Iowa are pass-through entities, but that share varies for specific sectors of the economy. In Iowa’s largest industry (manufacturing), 60 percent of employers pay individual income taxes. The construction industry has the highest share of pass-through employers at 79 percent of total.

Many pass-through entities in Iowa face the state’s high top individual income tax rate of 8.98 percent, which applies to income above \$68,175.

Source: Census Bureau, County Business Patterns; Bureau of Economic Analysis, Regional Economic Accounts (GDP by State). Industries listed are the ten largest private sectors in Iowa as determined by share of total state GDP.

Top Corporate Income Tax Rates Have Risen over Time

Iowa Top Marginal Corporate Income Tax Rate (1934-2014)



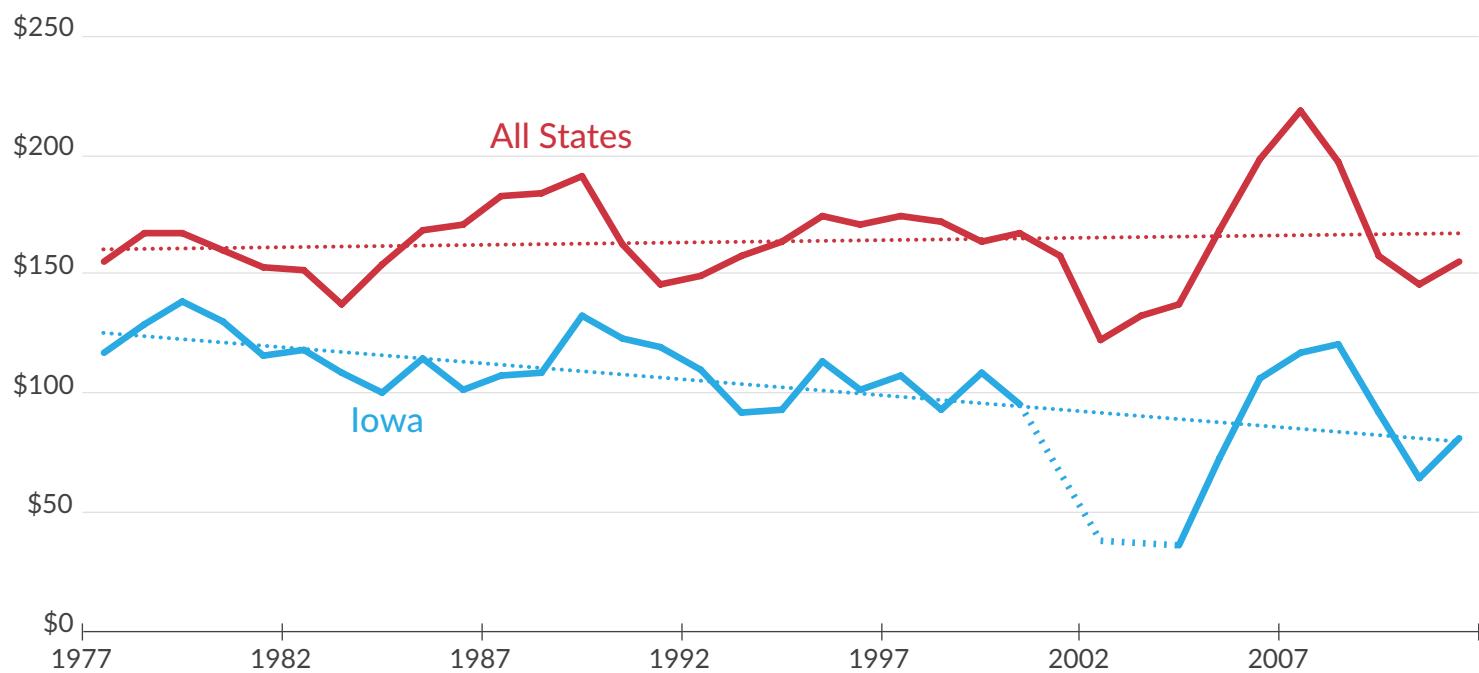
Iowa's top corporate tax rate has increased dramatically since its inception, with the most noticeable spikes occurring after the state adopted a graduated rate structure in 1967. Though the state allows for the deductibility of federal taxes, Iowa boasts the highest top marginal corporate rate in the country: 12 percent.

Iowa's current top income tax rate of 12 percent kicks in at \$250,000.

Source: Iowa Department of Revenue.

Iowa's High Corporate Rate Doesn't Mean High Collections

Iowa State and Local Corporate Income Tax Collections Per Capita Compared to U.S. (1977-2011, in 2011 Dollars)



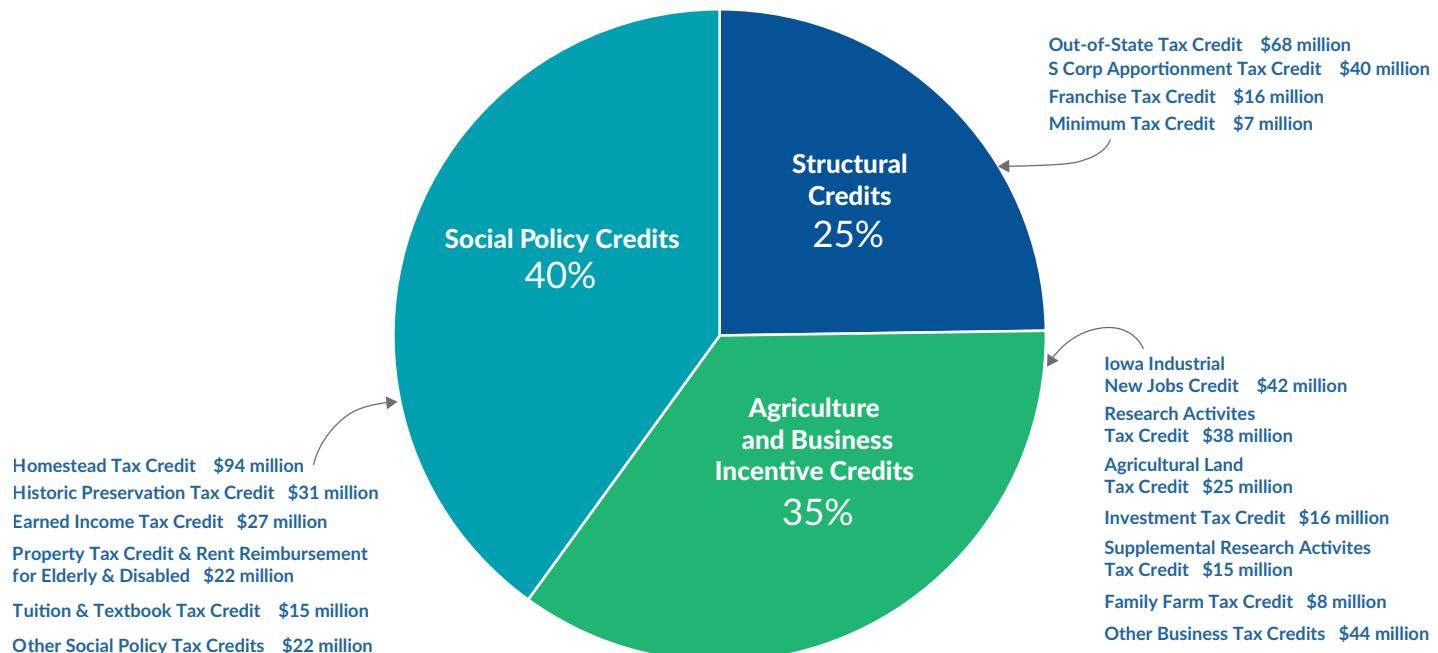
Taxes paid by businesses, including corporate income taxes, are ultimately borne by people—whether it's in the form of higher prices, lower wages, or smaller returns on investment. Corporate income tax collections per person in Iowa are lower than the country as a whole. Despite the state's highest-in-the-nation top rate of 12 percent, the corporate income tax is unproductive and inefficient. A high top rate isn't a good mechanism for raising revenue.

Source: Census Bureau, State and Local Government Finances; Bureau of Economic Analysis, Regional Economic Accounts (State Annual Personal Income); Bureau of Labor Statistics, Consumer Price Indexes.

Note: Dollar amounts are inflation-adjusted based on annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2011 base year. Because data is unavailable for 2001 and 2003, those points were excluded here.

Social Policy Credits Make Up Largest Piece of Tax Credit Pie

Tax Credits by Type and Value (2010)



At least \$530 million in credits were claimed in Iowa in 2010. That's almost equal to the total administrative costs of the entire state government and doesn't even include other exemptions and deductions. However, not all of these credits are poor tax policy. Approximately \$131 million are structural tools used to prevent double taxation and ensure proper treatment of business income. But the remaining share of the credits (\$212 million for social policy and \$186 million for agriculture and business incentives) are non-neutral and carve away at revenues.

Source: Iowa Department of Revenue, 2010 Iowa Tax Expenditure Study (2013); Iowa Department of Revenue, 2011 Iowa Individual Income Tax Annual Statistical Report (2013); Census Bureau, State Government Finances.

Chapter 5

Sales and Excise Taxes in Iowa

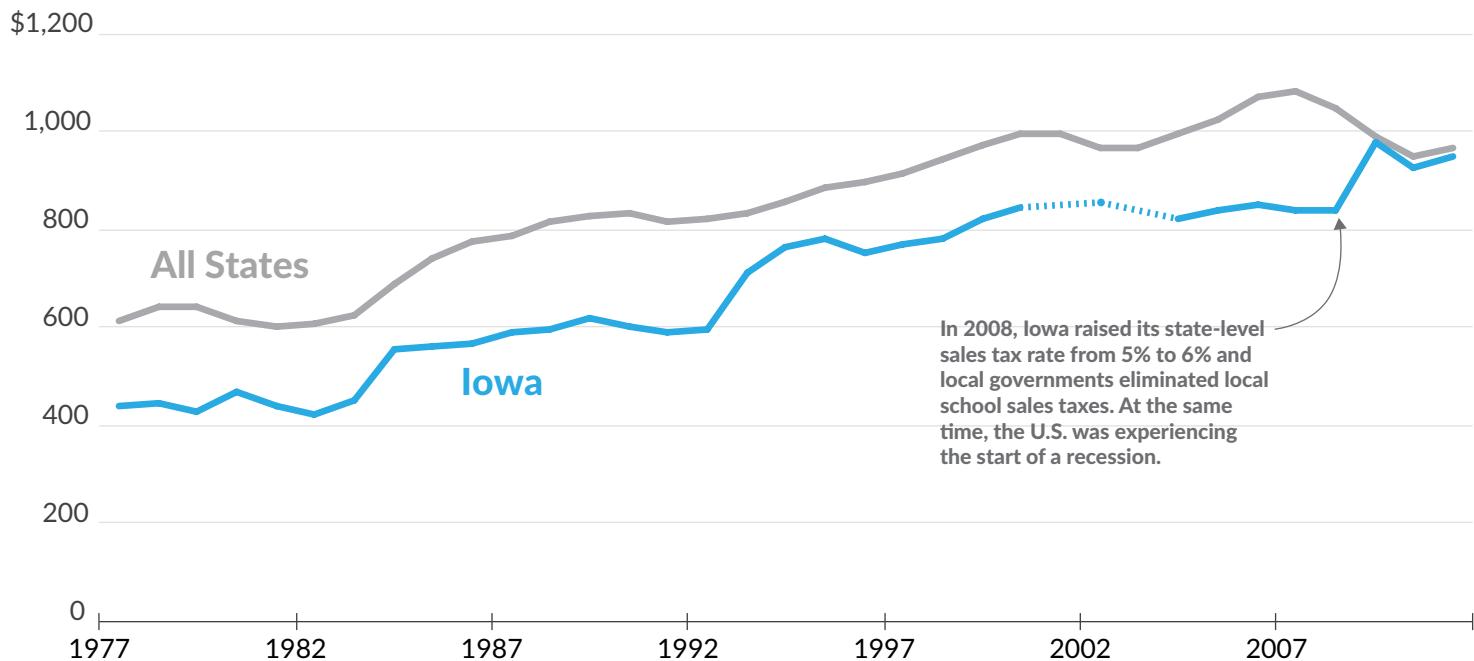
States levy taxes not only on general purchases but also on specific types of transactions, such as the purchase of gasoline. Iowa's general sales tax rate has increased over time in part because of a shrinking tax base.

This shrinking base is not unique to Iowa. In general, states tend to levy sales taxes on goods, even though the services sector now makes up a much larger share of the economy than when sales tax statutes were written in the 1930s.



Iowa's Sales Tax Collections over Time

Iowa State and Local General Sales Tax Collections Per Capita Compared to U.S.
(1977-2011, in 2011 Dollars)



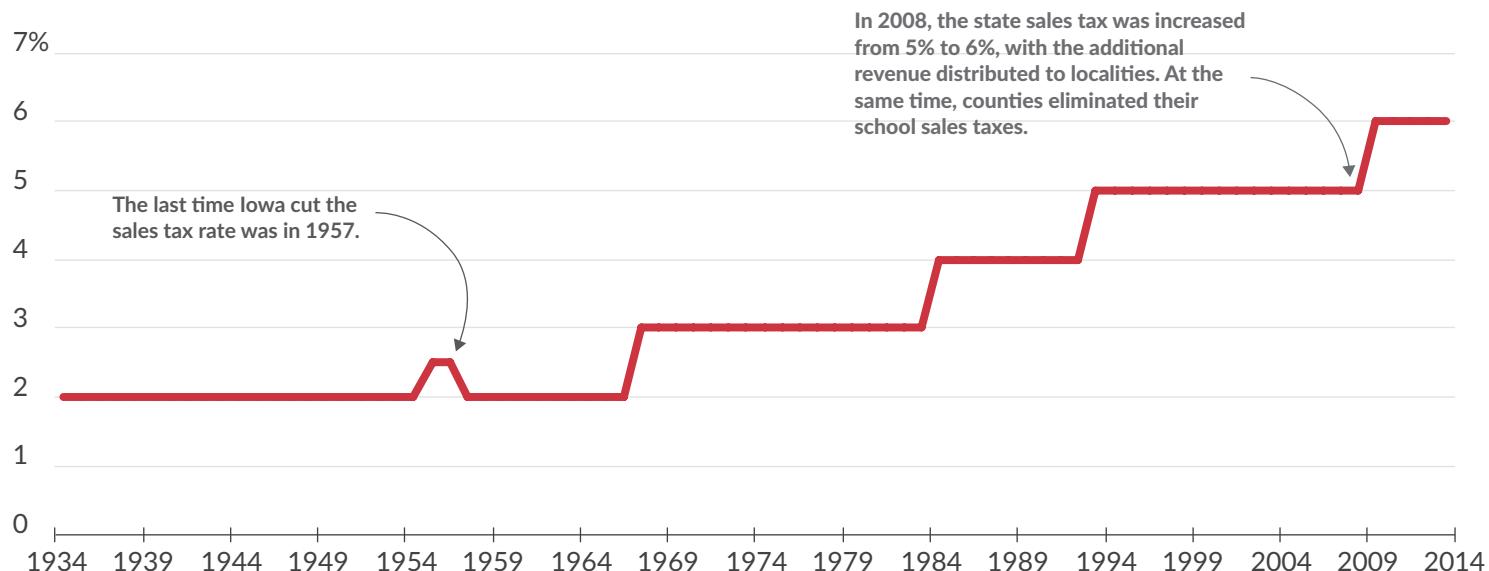
Prior to 2008, Iowa tended to collect less general sales tax revenue per person than the rest of the country. However, in 2008, two things occurred. First, Iowa raised its general sales tax rate from 5 to 6 percent, which caused Iowa's collections to tick upwards. Second, the national economy experienced a downturn, leading to decreased tax collections across the country. This combination contributed to the convergence seen here.

Source: Census Bureau, State and Local Government Finances; Bureau of Economic Analysis, Regional Economic Accounts (Annual State Personal Income); Bureau of Labor Statistics, Consumer Price Indexes.

Note: Dollar amounts are inflation-adjusted based on annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2011 base year. Because data is unavailable for 2001 and 2003, those points were excluded here.

Iowa's Sales Tax Rate Has Tripled Since Its Creation

Iowa State General Sales Tax Rate (1934-2014)



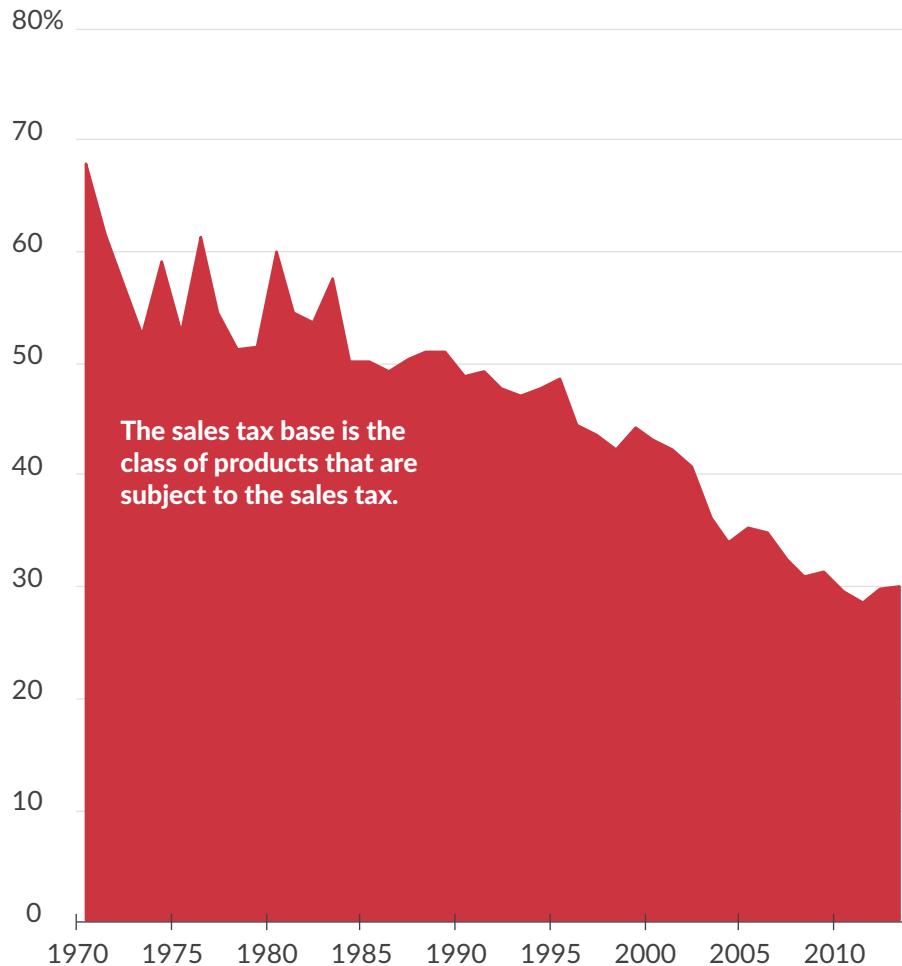
Since its creation in 1934, Iowa's sales tax rate has tripled from 2 percent to 6 percent thanks to a temporary increase in 1955 and sustained increases in 1968, 1984, 1993, and 2009.

Iowa's state sales tax rate is 16th highest in the nation. The average local sales tax rate in Iowa is 0.78 percent.

Source: Iowa Department of Revenue; Tax Foundation Fiscal Fact No. 420, *State and Local Sales Tax Rates in 2014*.

Iowa Sales Tax Applies to Less and Less of the Economy

Iowa Sales Tax Breadth (1970-2013)



An ideal sales tax is one that is levied on all final consumer purchases. By taxing a large number of transactions, the rate can be kept low and still raise sufficient revenue.

When sales taxes were created in the 1930s, they were levied on tangible goods, which at the time were a large part of the overall economy. However, the economy has become more service-based over time. As a result, the sales tax is not nearly as productive as it could be and fails to collect revenue in a neutral way (by taxing goods rather than services, in general).

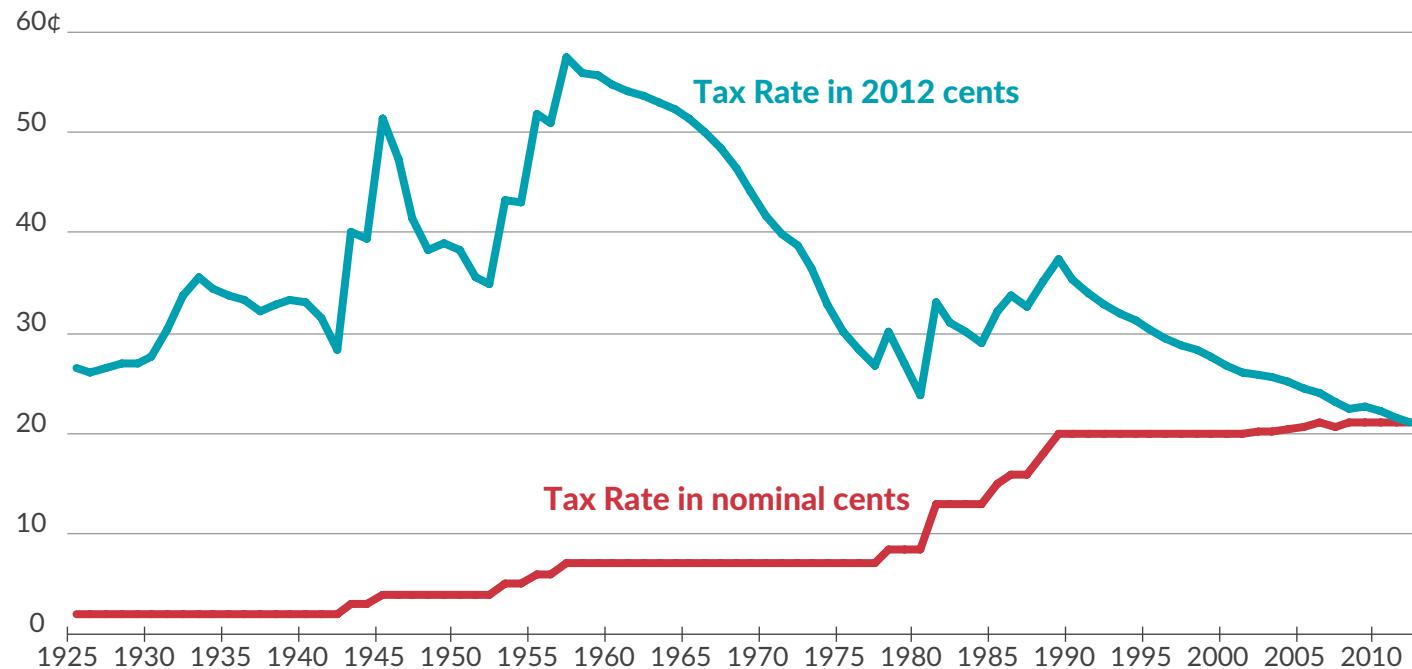
By failing to tax consumer services, the sales tax inherently favors the services sector of the economy over the goods sector.

Source: Professor John Mikesell (Indiana University), Tax Analysts Special Report, *State Retail Taxes in 2012: The Recovery Continues* (2013).

Note: Sales tax breadth is defined as the ratio of the implicit sales tax base to state personal income.

The Value of Iowa's Gas Tax Has Declined Due to Inflation

Iowa's Gasoline Tax Rate, Nominal vs. Real (1925-2012)



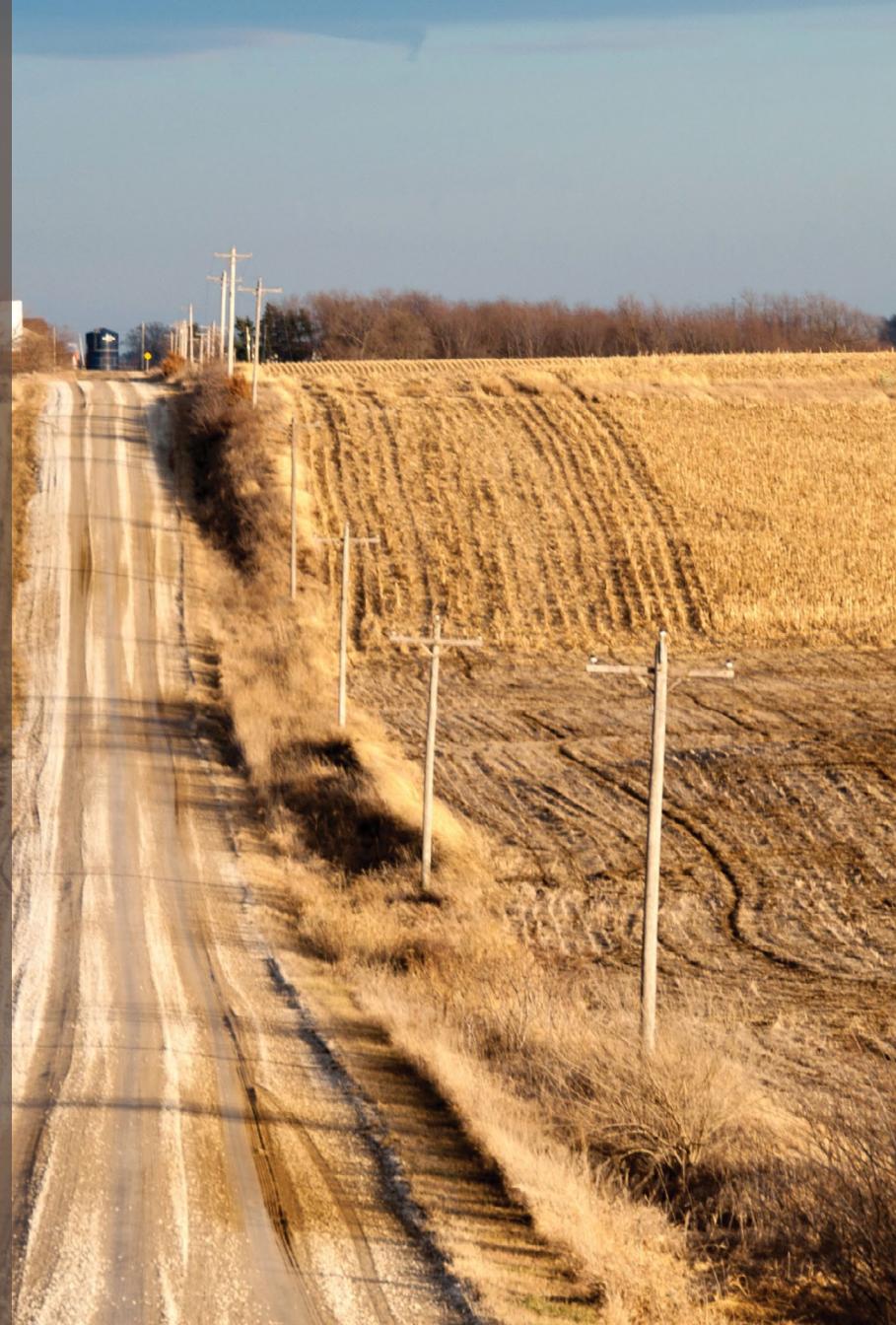
All states tax motor fuels with excise taxes on gasoline and diesel. Iowa's gas tax started at 2 cents per gallon in 1925 and has increased periodically to today's 21 cents per gallon (red line). The teal line shows each year's tax rate expressed in today's cents. For example, the 7 cent per gallon tax in 1957 is the equivalent of 57 cents per gallon today. The tax rate in real terms is much more volatile. States with inflation-indexed gas taxes have tax collections that grow with rising price and wage levels.

Source: State statutes; Tax Foundation calculations using Bureau of Labor Statistics, Consumer Price Indexes data.

Chapter 6

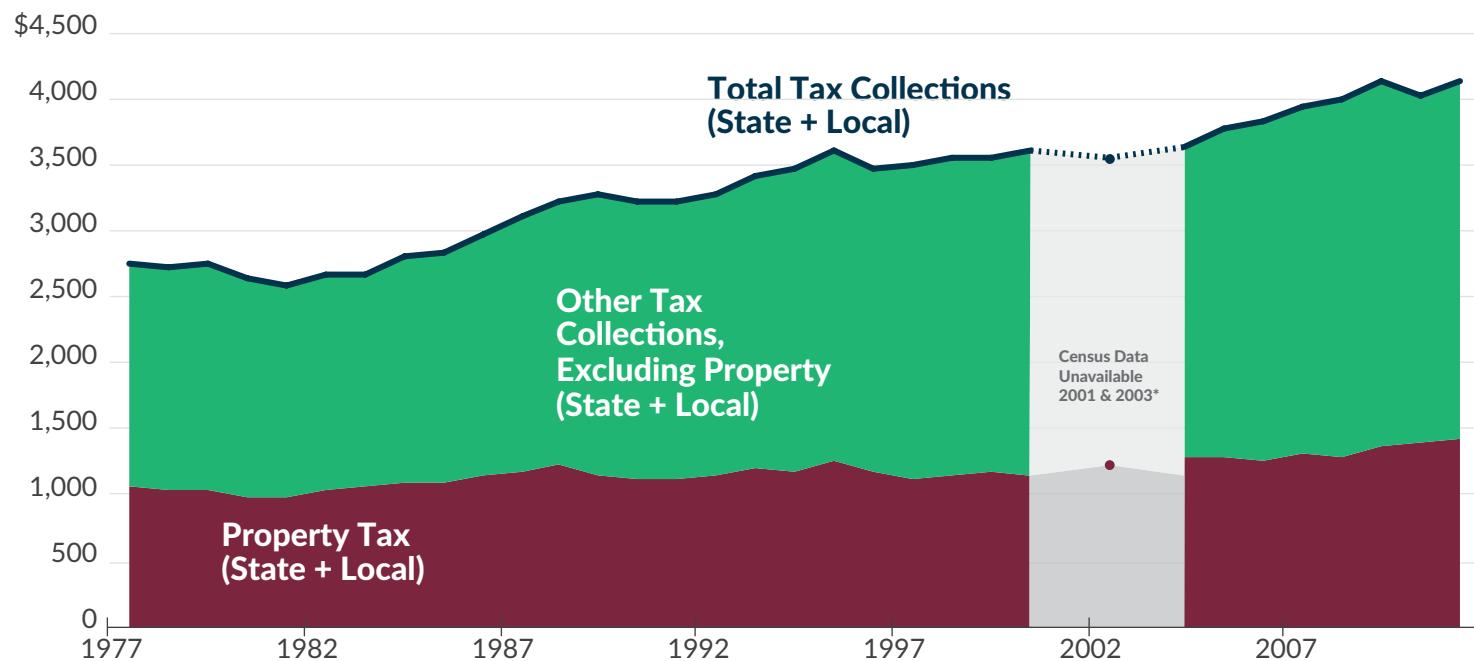
Iowa's Property Taxes

Property taxes are a major part of Iowa's revenue toolkit. Property tax collections have increased only slightly over the past several decades, while other tax collections have grown at a faster pace. Business and residential property are subject to higher effective property tax rates than agricultural property, which in turn contributes to a highly varied geographical distribution of effective rates.



Property Tax Collections Only Slightly Increased over Time

Iowa State and Local Property Tax Collections Per Capita Compared to Total Iowa Collections Per Capita (1977-2011, in 2011 Dollars)



Property tax collections in Iowa haven't increased much over time. In fact, the average annual increase since 1977 has been only 0.83 percent. In contrast, total state and local tax collections in Iowa had an average annual increase of 1.41 percent over the same period. The increase in tax collections between 1977 and 2011 largely came from other types of taxes, such as individual income taxes, sales taxes, and excise taxes.

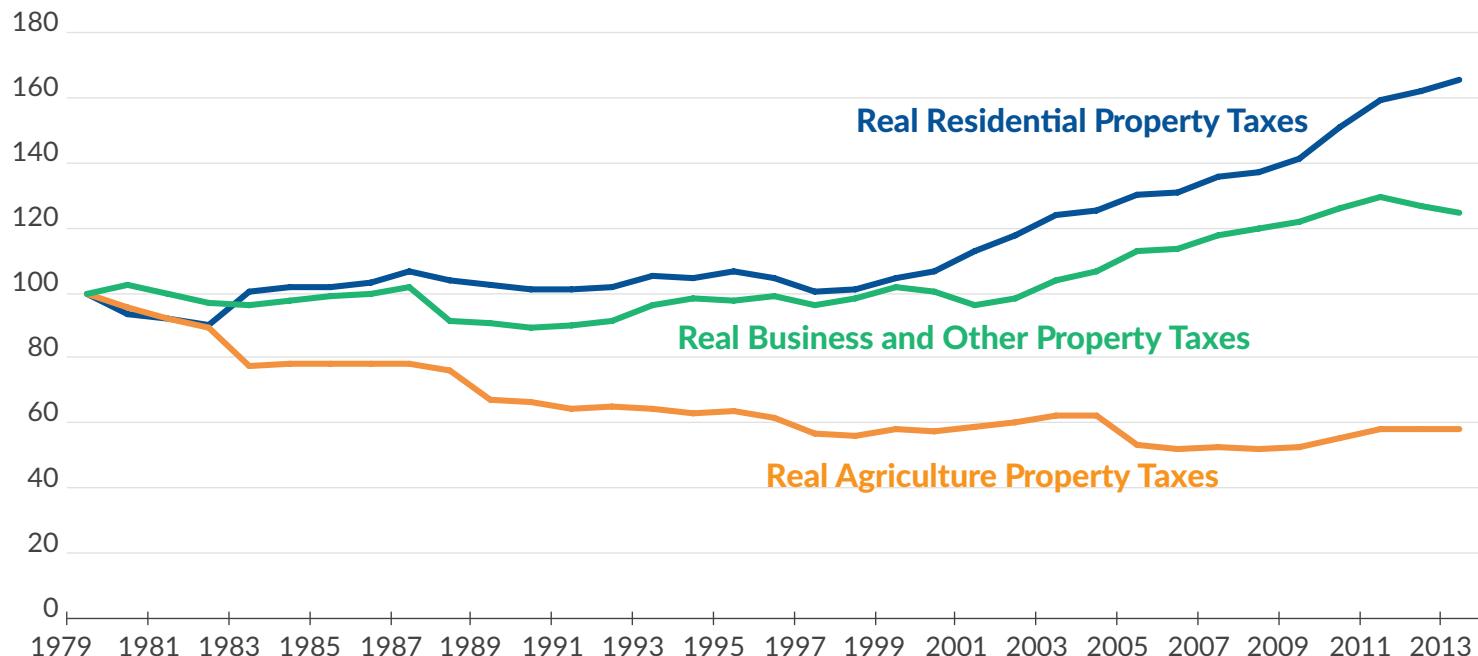
Source: Census Bureau, State and Local Government Finances; Bureau of Economic Analysis, Regional Economic Accounts (Annual State Personal Income); Bureau of Labor Statistics, Consumer Price Indexes.

Note: Dollar amounts are inflation-adjusted based on annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2011 base year.

*Because data is unavailable for 2001 and 2003, those points were excluded here.

Agricultural Sector Pays Less in Property Taxes

Iowa Real Property Tax Collections by Class of Property (1979-2013, 1978 Index Year)



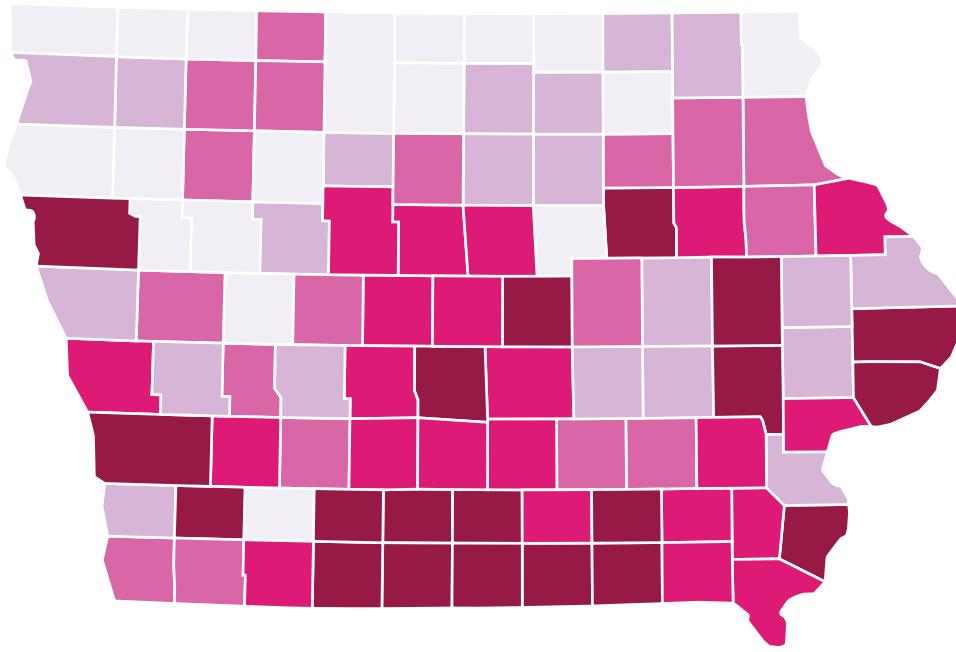
In 1978, taxes on agricultural, residential, and commercial property each made up about one-third of Iowa's state and local combined property tax revenues. Throughout the 1980s, agriculture's share of Iowa's economy declined, as did the sector's real taxes paid. But since the mid-1990s, residential and commercial property taxes have risen rapidly, while agricultural property taxes have fallen. Average effective tax rates on agricultural property are 2.6 percent of assessed value, while rates on business and residential property are 3.6 percent.

This chart has a 1978 index year, standardizing the values and making them easier to compare. In other words, 1978 values have been scaled to equal 100.

Source: Iowa Department of Management.

Urban Property Taxes Are High, and Rural Taxes Vary Widely

Effective Property Tax Rates by County (2014)



Effective property tax rates range from a low of 2 percent in Dickinson County in north-central Iowa to a high of 4.19 percent in Polk County, where the capital city of Des Moines is located.

Urban areas tend to have higher effective rates. Among rural counties, effective tax rates show large variation, with northwestern counties facing some of the lowest rates in the state and southern rural counties facing much higher effective rates. Thus, the variance likely reflects local preferences for taxes and public services.

Source: Iowa Department of Management.

Note: Effective property tax rate is defined as countywide tax collections divided by total assessed property values.

Ranges expressed here reflect the data's quintiles.

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About the Tax Foundation

The Tax Foundation is the nation's leading independent tax policy research organization. Since 1937, our principled research, insightful analysis, and engaged experts have informed smarter tax policy at the federal, state, and local levels. Our Center for State Tax Policy is routinely relied upon for presentations, testimony, and media appearances on state tax and fiscal policy, and our website is a comprehensive resource for information on tax and spending policy in each U.S. state.

About the Future of Iowa Foundation

Established on January 9, 2009, the Future of Iowa Foundation is a research and educational organization dedicated to improving the quality of life for the citizens of Iowa by advancing sensible, well-researched solutions to state and local policy issues. The Foundation's studies relating to taxation and governmental spending in the State of Iowa are designed to educate state leaders and the general public.

Taxes are complicated. Each state's tax code is a multifaceted system with many moving parts, and Iowa is no exception. This chart book aims to help readers understand Iowa's overall economy and tax system from a broad perspective. But it also provides detailed illustrations of each of Iowa's major tax types—individual income taxes, business taxes, sales and excise taxes, and property taxes—to help make the complicated task of understanding the state's tax code a bit easier.