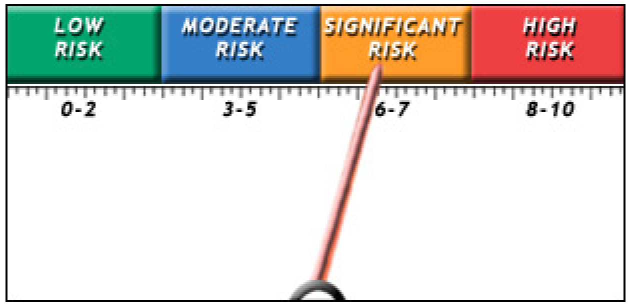
CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

IOWA



Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Iowa is rated as having a significant risk of a structural deficit based on its score of six on the risk scale for structural deficits.

- In Iowa, the percent of sales subject to sales tax declined by 13.2 percentage points from 1990-2003, exceeding the US median decline of 8.0 percentage points.

- In Iowa, corporate income taxes as a share of total taxes declined by 6.5 percentage points from 1979-2002, surpassing the US average decline of 5.5 percentage points. Moreover, Iowa has significant loopholes in its corporate income tax.

- During 1994-2001, Iowa reduced taxes, by cutting its personal income tax rates. This is problematic since income taxes provide stronger growth over the long term than sales and excise taxes.

- Iowa has a statutory spending limit that restricts general fund appropriations to 99% of the revenue estimate and a limit on local assessment increases.

- Iowa remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated $33.4 million per year.

- Two other national studies (Boyd 2002 and Besendorf & Kottlikoff 2002) found that Iowa has a structural gap.

- Lastly, although this paper did not categorize Iowa as having unusually high spending needs, it does face some spending pressure from the number of students with special needs.