

Average by Any Measure: State and Local Taxes in Iowa

Peter S. Fisher
February 2003

A report for

The Iowa Policy Project

318 2nd Avenue North, Mount Vernon, Iowa 52314
319-643-3628 (phone) – 319-895-0022 (fax)
www.iowapolicyproject.org

February 2003

Average by Any Measure: State and Local Taxes in Iowa

By Peter S. Fisher

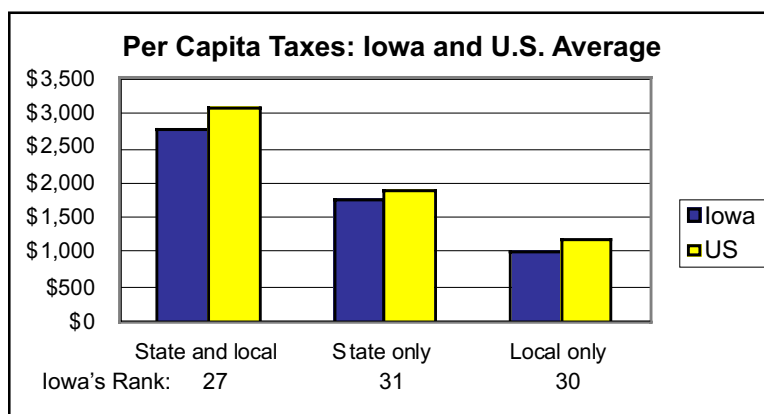
No matter how you look at it, Iowa is about an average state in terms of the financial burden that state and local government places on its residents. This is confirmed by the latest census data on state and local finances for 1999-2000, released in December of 2002.

The burden of taxes and the cost of the government are typically measured in two ways: on a per capita basis, and as a percent of personal income earned in the state. This allows meaningful comparisons with other states and with averages for the United States as a whole.¹

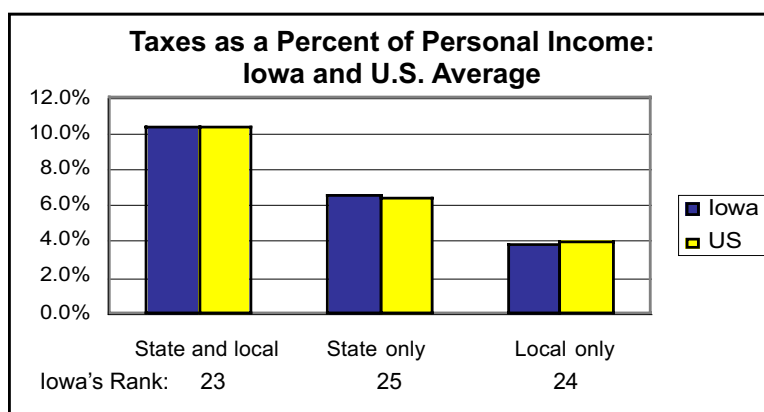
If we look at all kinds of taxes together, we find that the per capita tax burden in Iowa is below the U.S. average. This is true of state taxes considered separately, and of local taxes separately, as can be seen in the chart here. Iowa ranks a little below the middle of all states on this measure, 27th in terms of the total state-local tax burden.

If we measure the burden in terms of the percentage taxes take out of personal income, we find that Iowa is exactly average in terms of the total state-local tax burden, and ranks 23rd. We are slightly above average for state taxes, slightly below for local taxes, on this measure. In both cases we rank right about at the middle.²

We do have more recent data, but only



Source: U.S. Census, Government Finances



Source: U.S. Census, Government Finances

¹ The averages we present here are total taxes collected by all state and local governments in the United States divided by the U.S. population or U.S. personal income. All average measures of tax burden should be used with caution; they do not necessarily represent the burden on a *typical* taxpayer, since averages are skewed upward by the presence of a small proportion of high-income taxpayers.

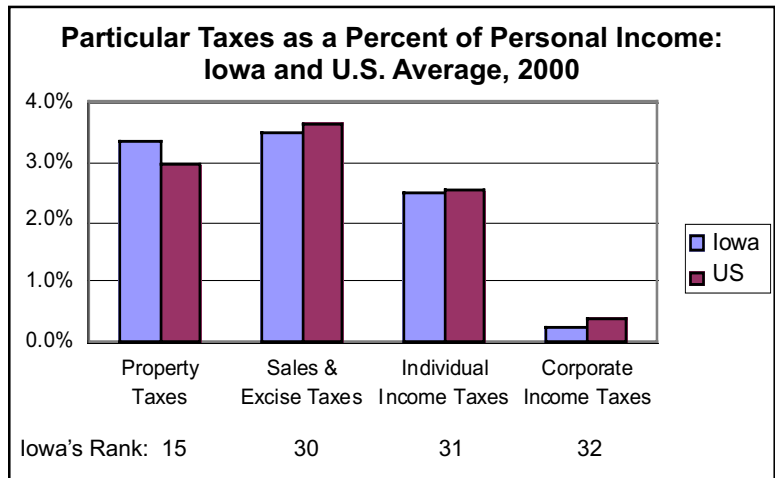
² Iowa ranks a little higher (more toward the higher tax states) on the basis of taxes as a percent of personal income than it

Dr. Peter S. Fisher is Professor of Urban and Regional Planning at the University of Iowa. An economist who specializes in state and local government finance, he is Research Director for the Iowa Policy Project, a nonprofit organization formed in 2000 to engage the academic community in Iowa on public policy issues.

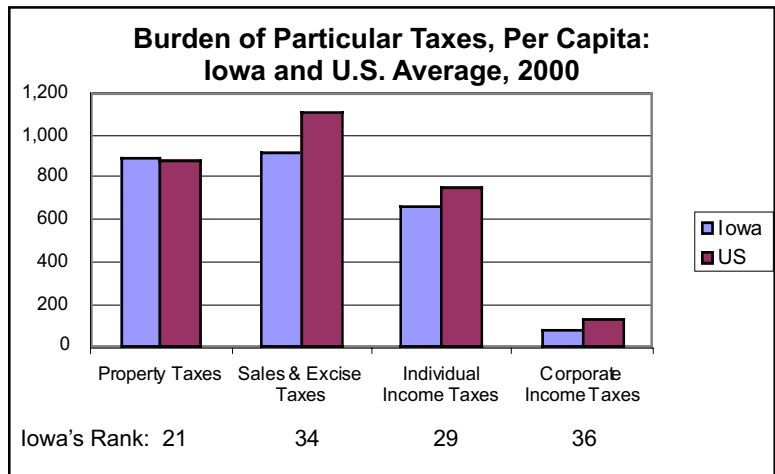
for state tax collections, not for local taxes. The data for 2002 show that on a per capita basis Iowa's state taxes actually fell relative to the national average (from 92.4 percent of the average to 90.5 percent), though we still rank 31st. State taxes in 2002 as a percent of personal income were just slightly above the national average, while Iowa's rank had fallen from 25th to 29th. (See table on page 4.)

How does Iowa compare with the surrounding states on these measures? Minnesota and Wisconsin have higher state and local tax burdens than Iowa on both measures, while Missouri and South Dakota have lower taxes. Kansas and Illinois have higher taxes per capita but lower taxes as a percent of personal income than Iowa, and Nebraska's taxes are higher on both measures, but not by much. (See the chart on page 5 for tax burdens per capita by state.) In other words, in the region, Iowa is about average: lower than two states, about tied with three, and higher than two.

Does the picture change if we look at particular taxes? Only a little. The per capita property tax burden is just \$3 higher than the national average (\$888 vs. \$885), and Iowa ranks 21st. Property taxes represented 3.3 percent of personal income in Iowa, 3.0 percent in the nation as a whole, and on that measure we ranked 15th.³



Source: U.S. Census, Government Finances



Source: U.S. Census, Government Finances

For sales and excise taxes, individual income taxes, and corporate income taxes, Iowa's tax burden is lower than average by any measure: It is substantially below the national average in per capita terms, and a little below average when measured against

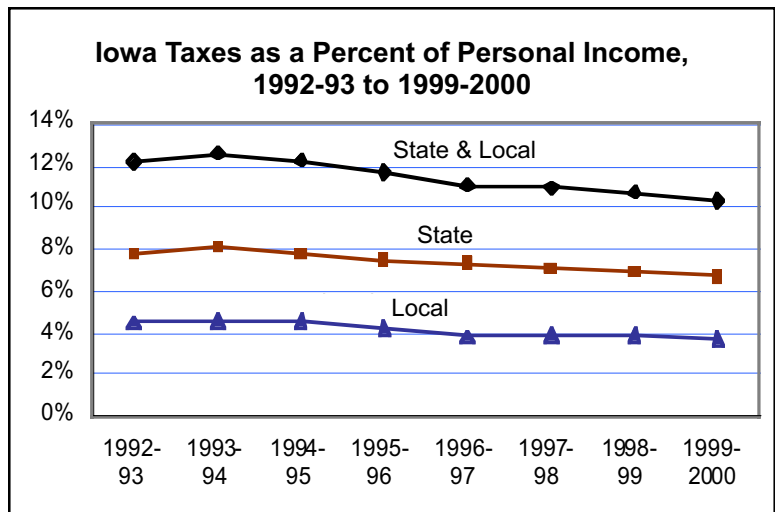
does on the basis of taxes per capita because income per capita is lower than the national average; Iowa ranks 33rd in per capita income. The same taxes as a percent of a smaller income produce a higher percentage. The Tax Foundation reports that Iowa ranks 21st in state and local taxes as a percent of personal income for 2002. We do not view those statistics as reliable for a variety of reasons: They are based on forecasts of national sales and property tax collections and then estimates of how these collections are distributed among the states, whereas the Census uses actual collections in each state.

³ All measures of the burden of particular taxes reported here are for state and local taxes combined. State sales taxes are combined with local option sales tax collections, for example, and in those states that collect a small amount of state property tax, those collections are added to local property tax collections. This gives the clearest picture of comparative tax burdens because no taxes are omitted from the comparison. Recent figures showing Iowa to rank 14th in per capita property tax burden were based on data for the 1999 fiscal year and considered local property taxes only.

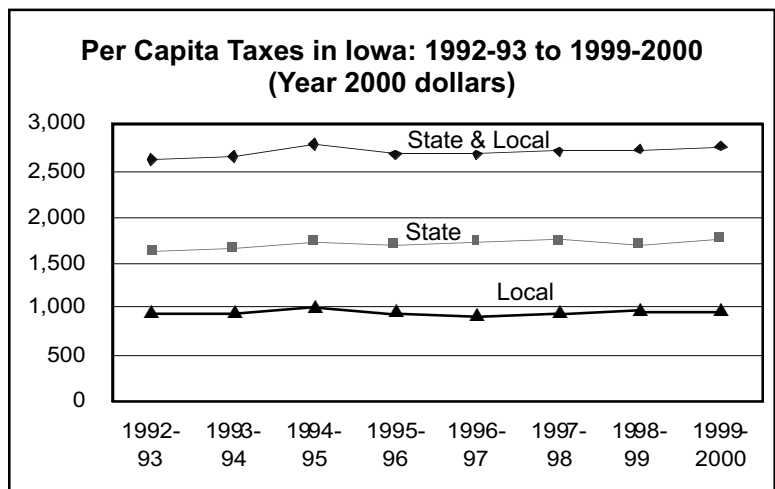
income. The state ranks between 29th and 36th on these measures. Corporate income taxes, in particular, are low in Iowa compared to elsewhere.

What about spending? How does direct expenditure by state and local governments compare?⁴ Here again we are near the average, and rank between 20th and 25th. (See the table on page 4.) Spending by state and local governments combined is a little below average on a per capita basis, a little above as a percent of personal income. State expenditure is a little above average on either measure, while local spending is a little below average on either measure.

How have Iowa tax burdens changed over time? Both state taxes and local taxes have declined as a percent of state personal income from 1992-93 to 1999-2000. Over that same period, both taxes increased on a per capita basis.



Source: U.S. Census, Government Finances



Source: U.S. Census, Government Finances

Summary

Iowa is not a high tax state, compared to other states in the region or compared to the United States as a whole. It is, in fact, a very average state. While property tax burdens are at or a little above the average, and the state ranks 15th or 21st (depending on the measure) in terms of this tax, other taxes are lower than average. Sales, excise, and individual income taxes are near or below the U.S. average, and among the 50 states we rank below the middle on all of these taxes on either measure. Corporate income taxes are lowest of all; Iowa ranks 32nd or 36th.

Note: The complete data on which this report is based can be found on the Iowa Policy Project website at www.iowapolicyproject.org. All data are from the U.S. Census website, governments section, at www.census.gov/govs/www/index.html.

⁴ By measuring “direct expenditure,” intergovernmental spending on such things as state aid to school districts is counted where it is spent – by local governments – rather than at the state level, where the revenue was raised. This avoids double counting. Spending per capita is well below taxes per capita because governments rely on other revenue sources as well, such as fees and charges, interest and intergovernmental grants.

State and Local Government Taxes: Iowa and U.S.

	Iowa	U.S. Average	Iowa's state rank
For 1999-2000			
All Taxes			
State and Local			
Per capita	\$2,765	\$3,100	27
Percent of personal income	10.4%	10.4%	23
State Only			
Per capita	\$1,772	\$1,918	31
Percent of personal income	6.7%	6.4%	25
Local Only			
Per capita	\$993	\$1,182	30
Percent of personal income	3.7%	4.0%	24
Specific Taxes: State & Local			
Property Taxes			
Per capita	\$888	\$885	21
Percent of personal income	3.34%	2.97%	15
Sales & Excise Taxes			
Per capita	\$922	\$1,099	34
Percent of personal income	3.47%	3.68%	30
Individual Income Taxes			
Per capita	\$659	\$752	29
Percent of personal income	2.48%	2.52%	31
Corporate Income Taxes			
Per capita	\$73	\$128	36
Percent of personal income	0.28%	0.43%	32
Other Taxes			
Per capita	\$222	\$235	28
Percent of personal income	0.84%	0.79%	23
State Taxes Only, 2002			
Per capita	\$1,699	\$1,878	31
Percent of personal income	6.2%	6.1%	29

State and Local Government Direct Expenditures: Iowa and U.S.

	Iowa	U.S. Average	Iowa's state rank
State and Local			
Per capita	\$5,892	\$6,193	25
Percent of personal income	22.2%	20.8%	21
State Only			
Per capita	\$2,817	\$2,690	25
Percent of personal income	10.6%	9.0%	20
Local Only			
Per capita	\$3,075	\$3,503	25
Percent of personal income	11.6%	11.7%	21

Sources, all tables and charts: Tax revenues and expenditures from the U.S. Bureau of the Census, Census of Governments. Posted on Census website Dec. 12, 2002. Per capita figures based on 2000 Census population. Personal income percentages based on 2000 state personal income, from the U.S. Bureau of Economic Analysis.

