

POLICY REPORT

The Iowa Policy Project Child & Family Policy Center

March 2004

Iowa Voters and Taxes: Strong Public Support for Selective Taxes to Maintain Services

Background

Over the last eight years, the General Assembly has enacted and two governors have signed a series of tax cuts that totaled \$858 million in 2004, according to the Iowa Department of Management. Most of these were enacted between 1996 and 2000, at a time when the economy of the state was growing dramatically. In 2001, however, the economy entered a recession and state revenues have declined significantly. Between state fiscal years 2001 and 2004, there were a series of cuts and shifts in state funding that resulted in an overall reduction in state general fund expenditures of more than \$396 million. This is a decline of 8.1 percent (one of the largest reductions among all states in the country), according to the nonpartisan Legislative Services Agency, Fiscal Division. This year, the Iowa Department of Management has estimated a further revenue shortfall of \$337 million for state fiscal year 2005, based upon current obligations and projected revenues.

Prior Iowa Policy Project (IPP) and Child and Family Policy Center (CFPC) reports have shown that the majority of the gain in income from the economic boom in the late 1990s went to Iowans in the top 20 percent of Iowa income earners. These same Iowans also gained the most from the enacted tax cuts. A national study by the Institute on Taxation and Economic Policy showed that tax changes in Iowa between 1989 and 2001 resulted in major reductions for the top 1 percent of Iowa earners (those making over \$200,000 per year), while the bottom four-fifths of Iowa income earners saw little or no gain from tax changes during that period (which included a sales tax increase as well as income and other tax cuts).

Focus of Public Opinion Survey

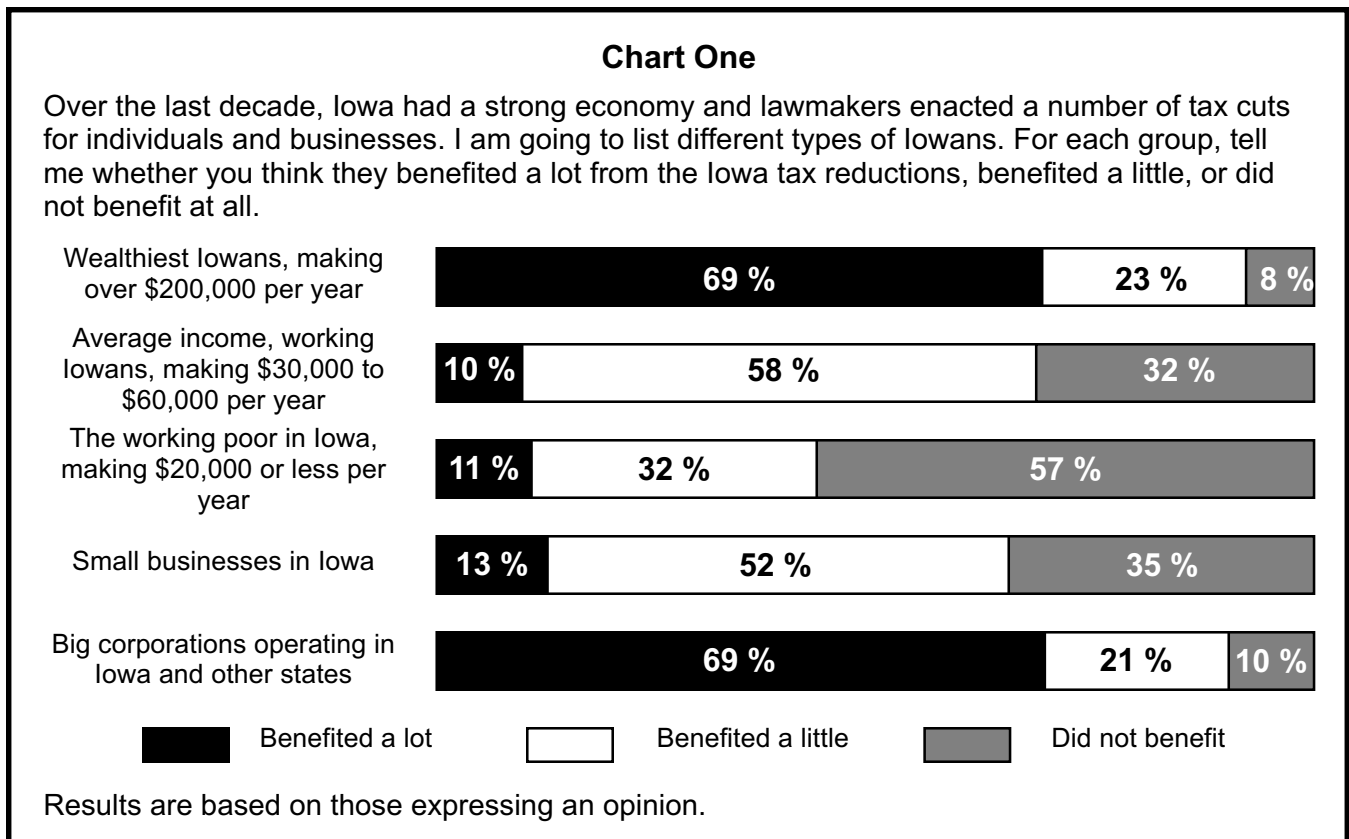
Given this information and the state budget deliberations being undertaken by the Governor and the General Assembly in 2004, the Iowa Policy Project and the Child and Family Policy Center commissioned a poll of Iowa voters to determine their views on both spending and taxing issues, including:

- Attitudes toward government's role in supporting low- and moderate-income children and families
- Attitudes toward state funding for programs serving children, seniors, and persons with disabilities, programs often considered most vulnerable to budget cuts;
- Views on which taxpayers have benefited from tax changes;
- Views on which taxpayers are paying more or less than their fair share; and
- Attitudes on the acceptability of different types of possible tax increases.

A public opinion poll of 502 registered Iowa voters statewide was conducted by Selzer & Company during the period from February 25 to February 27, 2004. Selzer & Company is a national polling firm that also conducts the Iowa Poll for *The Des Moines Register*. Given the size of the poll, the margin of error for overall responses is approximately plus or minus 4.4 percentage points. (The margin of error is somewhat higher for analysis of subgroups of the responding population.) CFPC and IPP, not Selzer & Company, did all of the analysis provided in this report.

Highlights of Findings

The survey revealed that most Iowa voters believe that the wealthiest Iowans (those making over \$200,000 a year) and big corporations benefited a lot from recent tax reductions in Iowa. A majority believe that the working poor (making \$20,000 or less) did not benefit at all, and that average-income working Iowans (making \$30,000 to \$60,000 a year) and small business in Iowa benefited a little. As Chart One shows, of those expressing opinions, over two-thirds believed that the wealthiest Iowans benefited a lot, while less than one in 10 did not believe they benefited at all. On the other hand, 57 percent believed that the working poor did not benefit at all, compared with only 11 percent who believed they benefited a lot. These survey results are very consistent with the actual impact of the tax cuts that were enacted during this period.

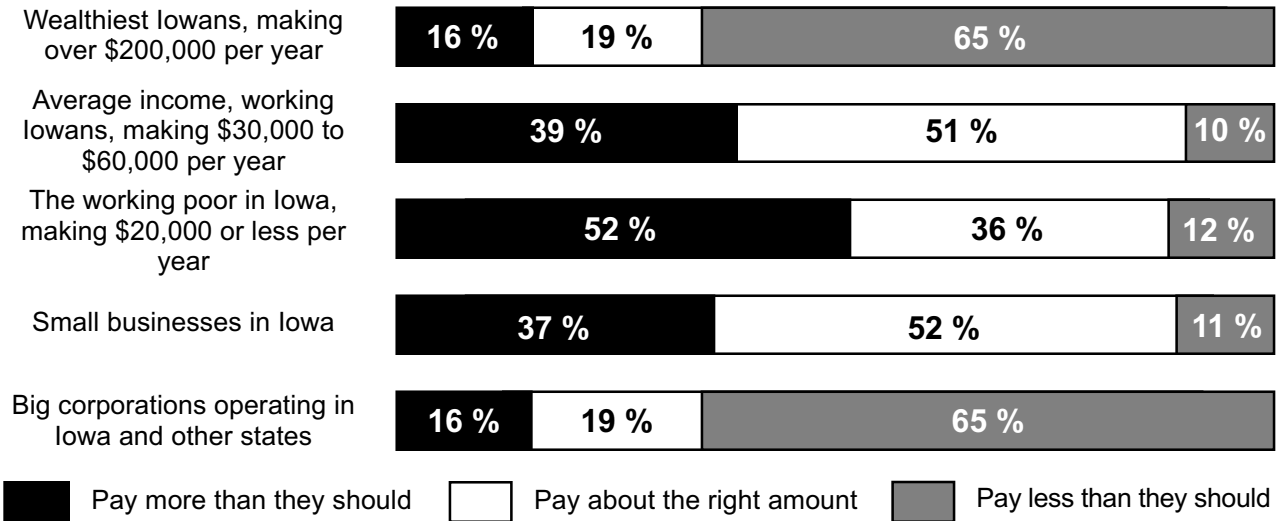


On a related question, Iowans believe that the tax system unfairly benefits both the wealthiest Iowans and big corporations, with the greatest disadvantage to the working poor. As Chart Two shows, 65 percent of those polled with an opinion indicated the wealthiest Iowans pay less taxes than they should, and only 16 percent believe they pay more than they should. This contrasts with 52 percent believing the working poor pay more than they should, and only 12 percent believing they pay less than they should.

Although they differed by degree, these views held across age, sex, education level, income status, and party affiliation. Since tax issues tend to be among the most partisan issues in the General Assembly, the breakouts by political party affiliation are shown in Chart Three on which groups pay more, the right amount, or less than they should in taxes. As Chart Three shows, by more than a 2-to-1 margin, Republican voters surveyed indicated that the wealthiest Iowans pay less taxes than they should, rather than more. The same held for big corporations. While independents and Democrats had even stronger margins than Republicans on these issues, there were strong majorities regardless of political party.

Chart Two

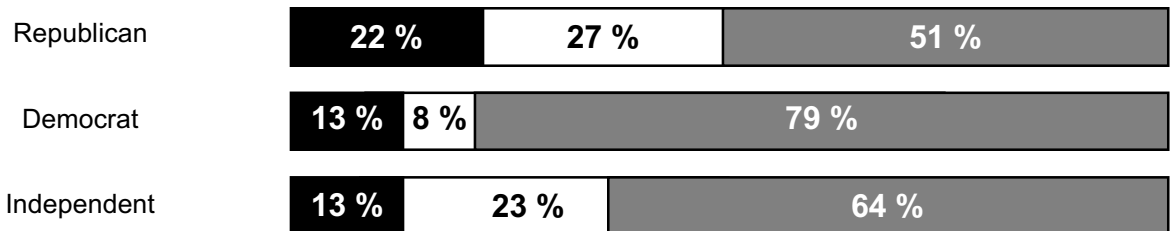
Think about Iowa taxes and how much different types of taxes taxpayers pay. Do you think the following types of taxpayers probably pay more than they should, pay about the right amount, or do they probably pay less than they should?



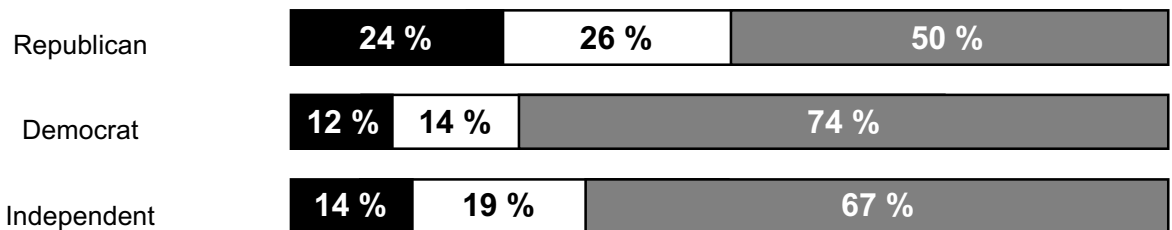
Results are based on those expressing an opinion.

Chart Three

Do you think the wealthiest Iowans, making over \$200,000 per year, pay more than they should, about the right amount, or less than they should in taxes?



Do you think big corporations operating in Iowa and other states pay more than they should, about the right amount, or less than they should in taxes?



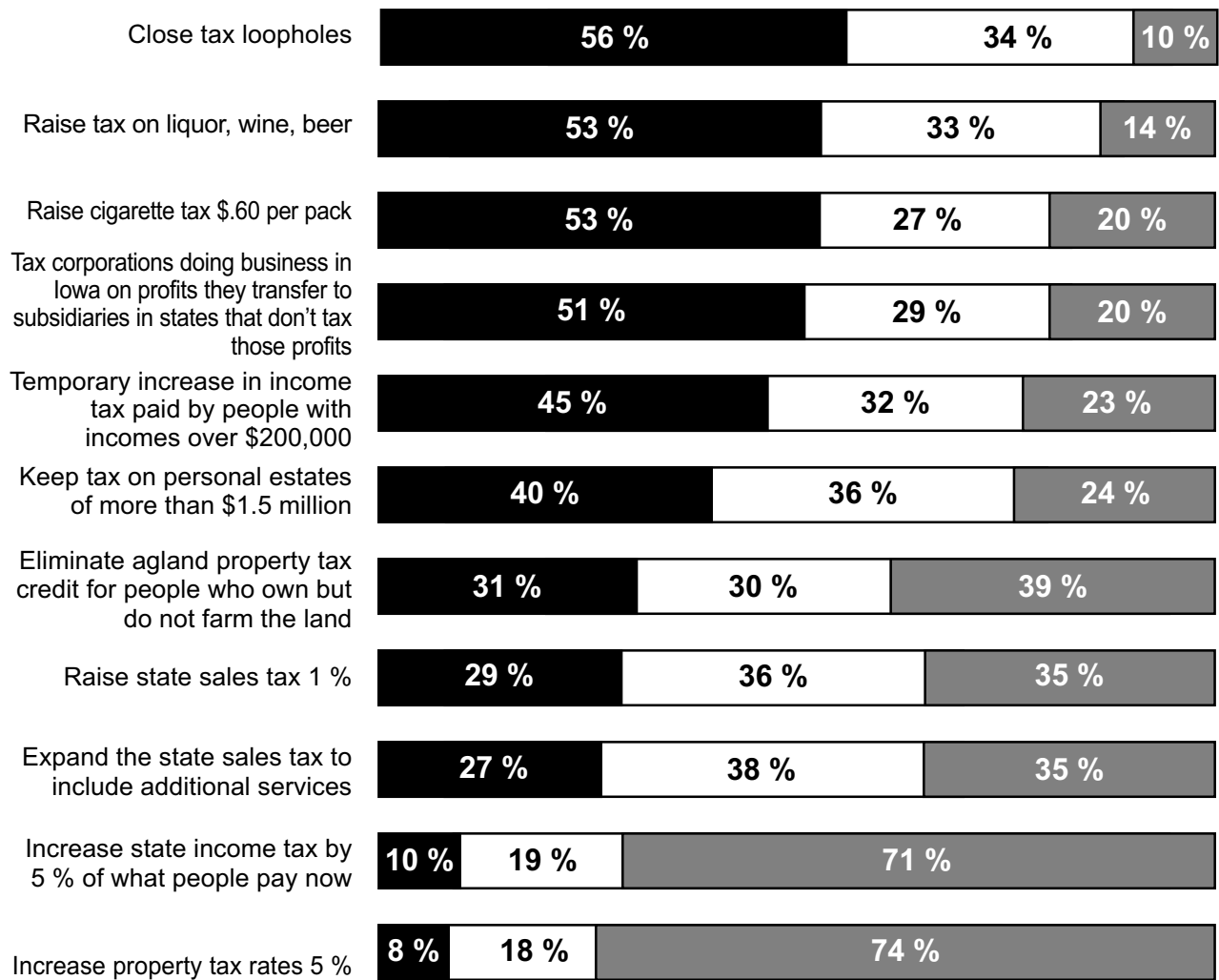
Pay more than they should
 Pay about the right amount
 Pay less than they should

Results are based on those expressing an opinion.

When it came to specific tax options, survey respondents were asked whether an option represents a good way to raise state tax revenue, an acceptable way to raise revenue if necessary to avoid cutbacks, or an unacceptable way to raise state revenue. As Chart Four shows, four tax options were favored by a majority of those surveyed as a good way to raise revenue – taxes on liquor, wine and beer; taxes on cigarettes; taxes on corporations that transfer profits out-of-state to avoid taxes; and closing tax loopholes. Two others were recognized by at least three-quarters of respondents as a good or acceptable way to raise revenue – providing a temporary increase in the income tax paid by people with incomes over \$200,000 per year and keeping the current estate tax as it is rather than phasing it out completely. Other tax proposals presented had less support, but still a majority, including expanding the sales tax to cover additional services.

Chart Four

For each of these ways to raise revenue, do you think it would be a good way, an acceptable way if necessary to avoid cutbacks, or an unacceptable way?



Good way to raise revenue
 Acceptable to avoid cutbacks
 Unacceptable

Results are based on those expressing an opinion.

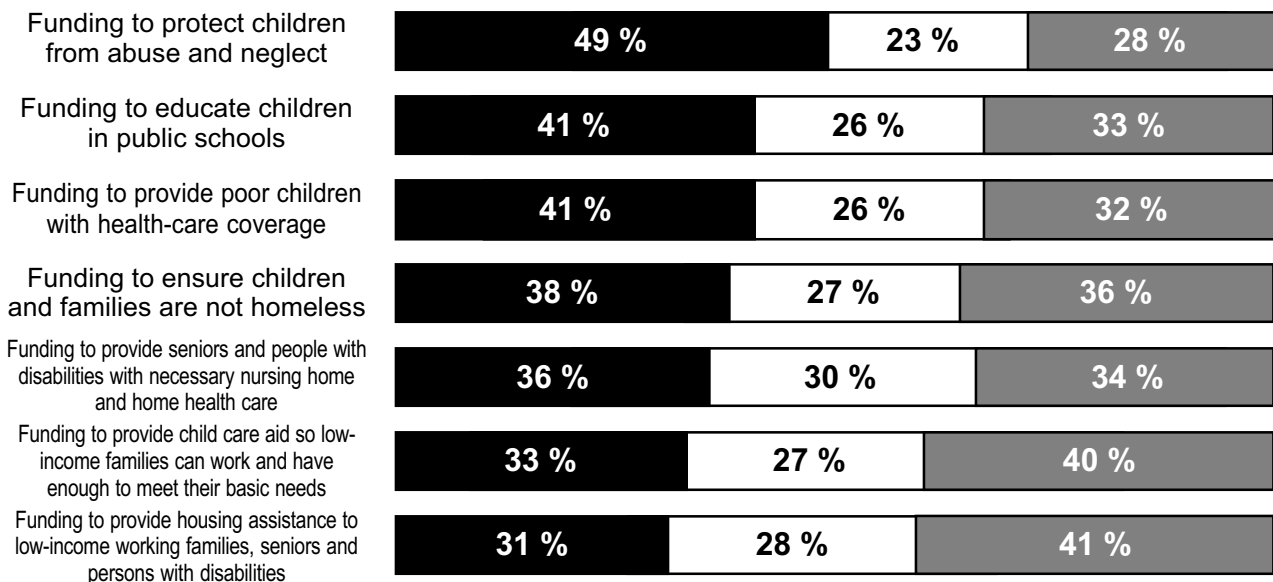
In addition to supporting so-called "sin taxes" (on cigarettes and liquor), voters were strongest in their support of progressive tax policies – those that collected revenue from those with the most resources or those most likely to seek to avoid taxes. While the "sin taxes" can be considered regressive (proportionally affecting lower-income people more than higher income people), they also can be considered as helping to pay for the societal costs produced by smoking and excess drinking.

Many surveys have reported that the public opposes "estate" or "death" taxes, but this survey found the opposite, by being specific about what the current "estate" tax is. Under current law, only that portion of an individual estate in excess of \$1.5 million is subject to taxation (which can cover \$3 million for married couples, as each can have separate parts of the estate). Almost 40 percent thought preserving the estate tax in its current form was a good way to retain revenue, and less than 25 percent thought it was an unacceptable way to retain revenue.

Voters also were asked about whether the state should raise taxes to support a variety of child, family, senior and disability services. There generally was very strong voter support for raising taxes if needed to avoid program cutbacks for all seven services identified in the survey, and significant support for raising taxes to increase funding support. As Chart Five shows, the strongest support came for raising taxes to protect children from abuse and neglect, with funding to educate children in the schools and to provide poor children with health care next on the list. Last year, the General Assembly cut \$10 million in funding for child abuse and neglect services, but this cut was made up by a one-time new revenue source identified by the Iowa Department of Human Services. Restoring this \$10 million permanently is one of the issues the General Assembly is facing this session.

Chart Five

For each state funding area, tell me whether you think the state should raise taxes in order to increase funding, if the state should raise taxes only to avoid cutbacks, or if the state should not raise taxes, even if it means program cutbacks.



Raise taxes to increase funding
 Raise taxes to avoid cutbacks
 Don't raise taxes

Results are based on those expressing an opinion.

Conclusion

This survey of Iowa voters shows that voters have concerns both about Iowa's tax system and its tax fairness and revenue adequacy, two of the core principles upon which tax experts agree tax policy should be based. Moreover, this concern is shared across voters of different political party affiliation, different income levels, different ages, and different sexes.

This survey should add weight to calls for a more thorough examination of current Iowa tax policies and their impacts by different income groups, and particularly around tax expenditures that constitute special benefits or loopholes for privileged individuals or groups.

The survey also showed widespread support for maintaining or increasing public services in Iowa, even if that means raising taxes. The survey revealed six revenue sources that garnered the support of at least 75 percent of the respondents as a good way or an acceptable way to increase revenue and avoid cut-backs in services.

Other reports by CFPC and IPP concerning tax policy include:

- Everything You Wanted to Know About Closing Tax Loopholes and Balancing Iowa's Budget ... But Were Afraid to Ask
- What Would Real Tax Reform Look Like in Iowa?
- Tax Policy and Economic Growth in Iowa: Who Gained in the 1990s?

All reports are available on the IPP website, www.iowapolicyproject.org.

The Child & Family Policy Center was established in 1989 to better link research and policy on issues vital to children and families. CFPC publications are on the web at www.cfpciowa.org.

The Iowa Policy Project, founded in 2000, is a non-profit, non-partisan research organization that engages scholars at Iowa's public and private colleges and universities to research issues of importance to the citizens of Iowa. IPP reports are on the web at www.iowapolicyproject.org.