Common Good Iowa is a new organization built on a collective 50 years of experience of two respected Iowa organizations — the Child and Family Policy Center and the Iowa Policy Project. Learn more at www.commongoodiowa.org.
Economic Policy we estimate that a 1 percent local sales tax would cost the average household in the lowest fifth of the income distribution — those earning $22,500 a year or less — about $45 per year.\footnote{Institute on Taxation and Economic Policy. \textit{Who Pays?} Sixth Edition, 2018. https://itep.org/whopays/iowa/ Our analysis divides the annual amount of tax estimated for an income group by 6.8 to arrive at the cost per penny of tax, since the statewide average sum of state and local sales taxes is 6.8. We assume three-fourths of spending on taxable items is spent within Johnson County and therefore subject to LOST.} Those in the next quintile, with income between $22,500 and $40,500, would pay about $114 a year.

There are about 58,000 households in Johnson County, and 30,000 of those residences are in Iowa City. One- fifth of Iowa City households would be 6,000. The bottom 40 percent of Iowa City households would thus be contributing about $950,000 in additional sales taxes to the countywide pool of LOST revenue.\footnote{Calculated as follows: 6,000 households times $45 plus 6,000 households times $114.} To offset that would require that the city of Iowa City dedicate a similar amount every year to social service and affordable housing programs benefiting low- and moderate- income households. While that could eliminate regressivity on average, not every lower income household will benefit from those programs.

State law has changed in the intervening years. The Legislature now requires that at least 50 percent of LOST revenues be used to reduce property taxes. That means that about $4 million of Iowa City’s share of LOST revenue would be used to reduce property taxes. Of the remaining $4 million at least a quarter would need to go to programs benefiting low- and moderate-income households in order to offset the higher taxes they would pay. The calculations would be similar for Coralville, North Liberty, and other cities approving the tax if the regressive impact were to be offset for residents of those cities. To the extent that Johnson County used a portion of its LOST allocation to provide increased services for low- and moderate-income families throughout the county, the regressive impact would be further reduced. However, it could be more challenging to ensure that lower-income households in rural Johnson County are not harmed by LOST, since the county does not generally provide social services exclusively to residents of unincorporated areas, unless the county undertook to finance the entire offset countywide.

The impact of the 50 percent requirement for property tax reduction is not as clear as it might seem. In practice, the requirement probably is interpreted to mean that in the first year of LOST revenue, property taxes levied must be lower than they were the previous year by an amount equal to half of LOST revenues. After that, it would be difficult to establish what the property tax levy would have been in the absence of LOST. It certainly would not be logical that property taxes must never rise again, particularly in Johnson County where population growth continues at a healthy pace. If property taxes rise by 5 percent the following year, who is to say that this violates the 50 percent rule about LOST proceeds? Without LOST, would property taxes have gone up 10 percent, or not at all, or something in between? It will be difficult to prove that half of LOST proceeds do or do not continue to be used for property tax reductions. This has confused the issue just as it is getting new attention in Johnson County.

3. Iowa State University, Iowa Community Indicators Program. “Retail Trade Analysis Report Fiscal Year 2017: Johnson County”. \url{https://www.icip.iastate.edu/retail/county}
4. Peter S. Fisher is research director of Common Good Iowa.