

January 26, 2021

To: Members of the Iowa House of Representatives  
From: Americans for Tax Reform

Re: Support Tax Relief

Dear Representative,

On behalf of Americans for Tax Reform (ATR) and our supporters across Iowa, **I thank you for your public service in these challenging times and encourage you to use the 2021 legislative session to enact policies that would help households and employers recover from the pandemic-driven downturn.** Reducing, and ultimately, phasing out the state income tax and providing other forms of tax relief, such as eliminating the inheritance tax, would be a great way to help individuals, families, and small businesses across the Hawkeye State while also attracting new investment, jobs, and opportunities.

### **Phase Out the Income Tax**

Under the status quo, **Iowa's top income tax rate of 8.53 percent – the part of the income tax that is most often used to make decisions about investment – is not competitive.** Nine states – including Iowa's neighbor South Dakota – do not tax wage income and thirty-three more states – including neighbors Illinois, Kansas, Missouri, Nebraska, and Wisconsin – have top marginal individual income tax rates that are lower than Iowa's.

If the revenue triggers included in the 2018 tax reform bill are met and Iowa's top income tax rate is reduced to 6.5 percent, significant progress would be made (if the trigger is not met, that pro-growth tax relief will unfortunately be delayed). However, **even if Iowa were to have a top rate of 6.5 percent, state lawmakers should not get complacent.** In addition to the no income tax states, twenty-three more states – including Illinois, Kansas, and Missouri – would still have lower, more competitive income tax rates than Iowa.

As more and more people and jobs continue to move into no income tax states, **more and more states are looking to phase out their income taxes.** Unless Iowa gets proactive, it will soon be a less attractive place to live, invest, and do business – even if the triggered tax cut takes effect.

As such, lawmakers should prioritize reducing the individual income tax and putting it on the path to zero. **This pro-growth tax relief would promote a strong and speedy economic recovery by allowing individual taxpayers and families to keep more of their hard-earned paychecks. It would also allow small business, which file their taxes under the individual code, to invest more resources in jobs and wages.**

In addition, reducing and phasing out the income tax would enable Iowa to better compete with the likes of South Dakota for businesses that are looking to expand, investors who are looking for opportunities in growing economies, and families who are looking for greater prosperity. **This would ultimately be a win for current Iowa residents as, in addition to allowing everyone to keep more of their own money, new businesses and investment would bring new jobs and higher wages to the state.**

### **Eliminate the Inheritance Tax, Support SF 110/HF 48**

Another great way to provide tax relief to the hardworking people of Iowa is through SF 110/HF 48, legislation that would eliminate the inheritance tax. Iowa is one of just six states that still impose an inheritance or death tax. As a result, non-linear descendants – including siblings, nieces, nephews, domestic partners, and business partners – face a tax of up to 15 percent when they inherit assets that are valued at more than \$25,000.

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“In Iowa, this often means a niece or nephew who inherits a share of the family farm from an uncle who never married will be faced with finding hundreds of thousands of dollars to hold onto land that’s been in their family for generations,” explains Iowans for Tax Relief. “Iowa’s inheritance tax hits entrepreneurs, too. If unrelated partners build a business together and one of them dies, the deceased partner’s half of the business would be subject to the inheritance tax if they choose to leave their portion to their business partner.”

Indeed, the death tax is riddled with serious flaws. **Another concern with the death tax is that it is a form of double taxation.** Assets that are inherited and thus subject to the inheritance tax have already been subject to income taxes, capital gains taxes, interest and dividend taxes, or corporate taxes. This is a practice that economists and tax policy experts agree should not exist in an optimal tax climate.

**Adding insult to injury, the death tax is effectively more burdensome on people with smaller estates.** Wealthier landowners are able to hire armies of lawyers and accountants to find loopholes that would allow them to avoid paying the tax. Meanwhile, lower income landowners, such as small, family-run businesses, farmers, and ranchers, do not have this luxury and often face a difficult decision: **Sell part of the farm or business or take on more debt to pay the tax.**

And finally, **the death tax also encourages people to leave Iowa when they retire.** Forty-four states – including neighboring states Missouri and Wisconsin, which also have lower top marginal individual income tax rates, and South Dakota, which does not impose income taxes – do not impose death taxes. **Why would anyone want to remain in or move to Iowa when it could result in their loved ones facing significant taxes on assets they have worked for their entire life?**

**ATR urges lawmakers to use the 2021 legislative session to provide much-needed tax relief to the people of Iowa.**

Sincerely,

Grover Norquist  
President  
Americans for Tax Reform