

F I N A L R E P O R T

STATE TAX REFORM STUDY COMMITTEE

January, 1987

The State Tax Reform Study Committee was established by the Legislative Council to direct research on the state revenue, economic development, and local infrastructure impacts of the finally enacted federal tax bill, and propose legislation to adjust the state tax code giving equal weight to federal compliance requirements and a fair state tax system that is based upon ability to pay.

Members serving on the Study Committee were:

Senator William Palmer, Co-chairperson
Representative Minnette Doderer, Co-chairperson
Senator Charles Bruner
Senator William Dieleman
Senator Emil Husak
Senator Lee Holt
Senator Edgar H. Holden
Senator David Readinger
Representative Deo Koenigs
Representative Robert Arnould
Representative David Tabor
Representative Wayne Bennett
Representative Clifford Branstad
Representative Darrell Hanson

The Study Committee was initially granted three meetings and asked for and was granted an additional meeting so as to complete their final recommendations. Meetings were held September 9, October 28, November 24, and December 15, 1986.

At the first meeting, the Study Committee heard from the Department of Revenue and Finance a review of the present state tax structure and the proposed federal tax legislation. Tentative fiscal impacts were also provided by the Department. The Study Committee received testimony at its next meeting from representatives of the Iowa Society of Certified Public Accountants, the Iowa State Bar Association, Coopers and Lybrand, and the Department of Revenue and Finance. The presentations involved the question of whether or not the state should couple with the changes made by the new federal tax reform law and the possible effects of coupling or not coupling.

At the third meeting of the Study Committee, Mr. Ken Haynie, representing bonding counsel, described to the Study Committee the changes that were made in the federal law with regard to bonding and its potential effect on state and local government issuers. Also heard from were Mr. Denis Sullivan, a consulting actuary who discussed the impact of the federal law on public pension systems. Final comments on the impact of the new federal tax code on the state's economy and its citizens were given by Professors Nel Arslaner and David Lawrence of Drake University and Mr. Peter Fisher of the University of Iowa.

At the final meeting, the Study Committee heard from Dr. Neil Hari of the Department of Economics at Iowa State University on the effect of the Tax Reform Act of 1986 on farm operations and Mr. John Bryant, CPA, of McGladrey, Hendrickson and Pullen on the effect of the federal Act on corporate taxation. The Study Committee finished up the meeting on a discussion of the action the General Assembly should take in regards to the state's adopting the changes made in the federal Internal Revenue Code. This discussion culminated in the following recommendation:

"The State Tax Reform Study Committee recommends to the Legislative Council and the General Assembly that the state tax statutes couple with the Tax Reform Act of 1986 and reserve consideration of any other income tax issues until the direct fiscal impact of the Tax Reform Act of 1986 on state tax revenues is determined. As a result of the state's coupling with the federal changes in its income tax code, additional revenues will be generated for the state. Consideration should be given to reducing the state tax rates on individuals and businesses, including revising the standard deductions and personal credits on these individuals, to reflect these additional revenues."