

Legislative Services Agency

Issue Review

Income Surtaxes

January 7, 2009

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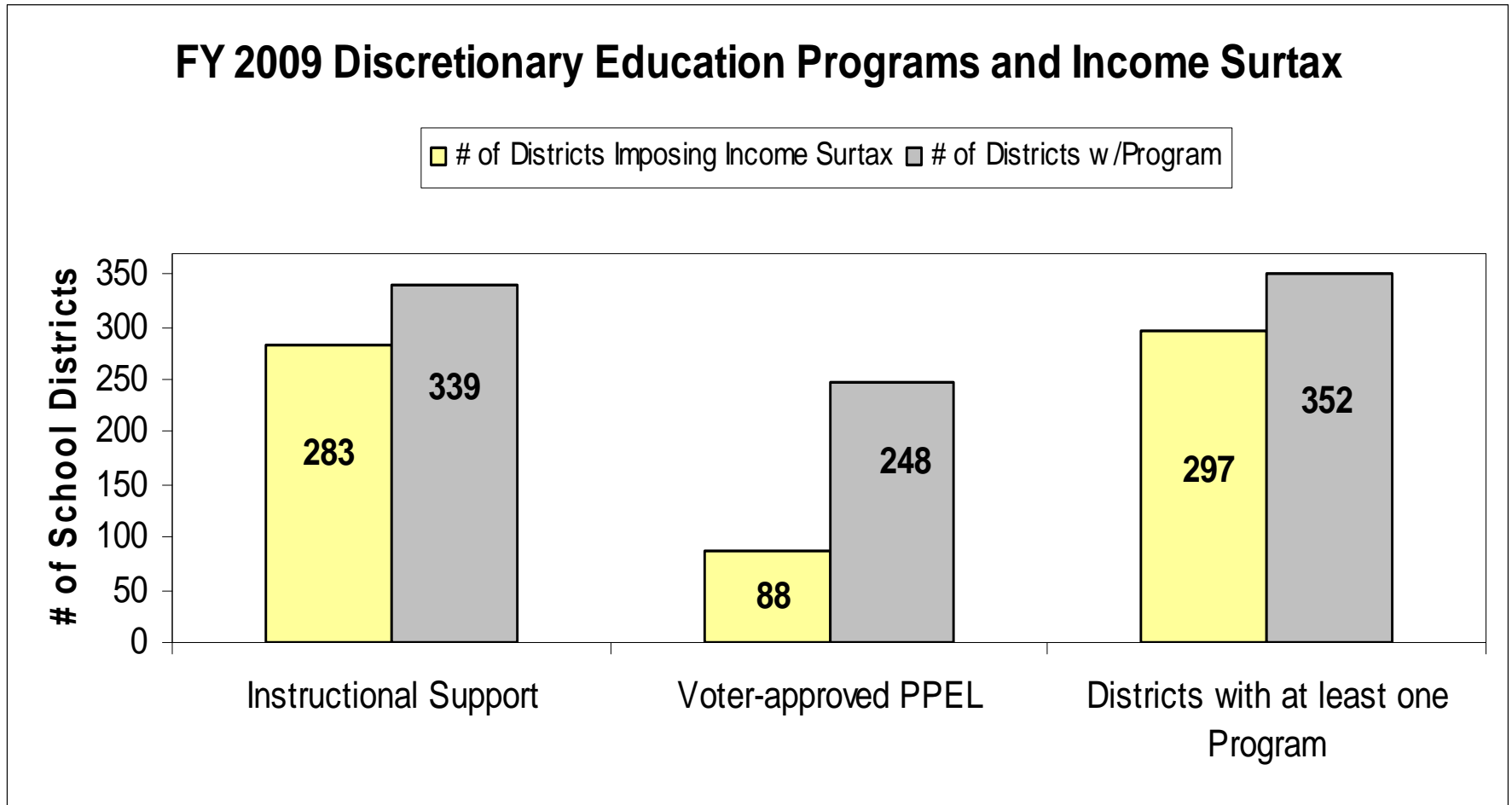
Income Surtax

- Additional tax applied to the amount of State individual income tax less any nonrefundable credits.
- Paid by individuals residing in the jurisdiction on the last day of the tax year.

Brief History

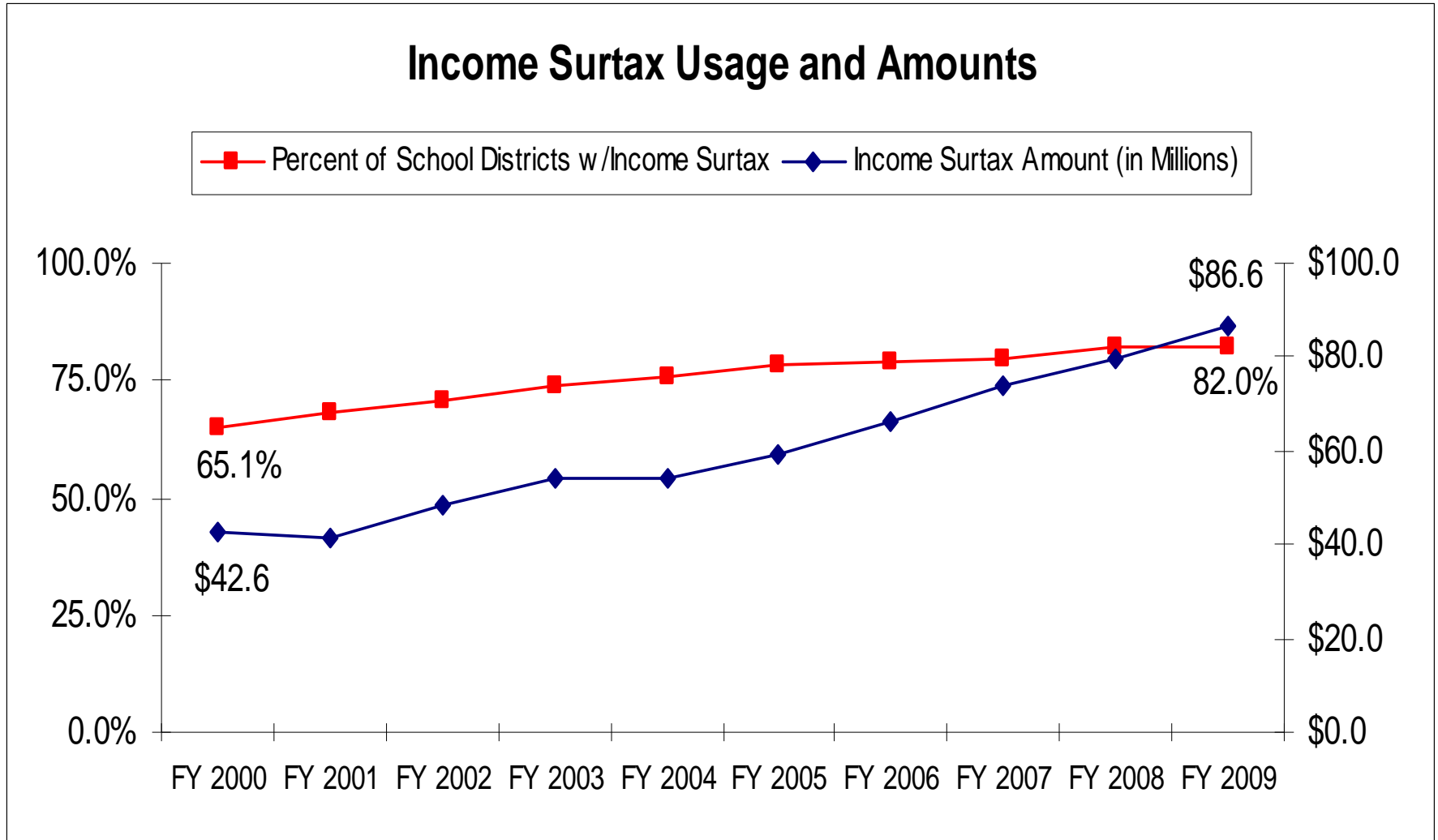
- 1970s – School districts authorized to use income surtax.
- 1985 – Sales and Local Option Taxes Act included provision for Cities/Counties to impose annual earnings tax. That provision was repealed the following year.
- 1990 – School finance reform included local income surtax to supplant property taxes for discretionary education programs.
- 1992 – Optional Taxes for Emergency Medical Services (EMS) were authorized.

Current Situation – Education Programs



There are 362 school districts in FY 2009.

Growth in Income Surtax Usage



Income Surtax – FY 2009 Current Capacity

- Maximum combined Income Surtax Rate of 20.0%
- Current total Income Surtax capacity = \$475.8 million
- School districts and EMS Income Surtax = \$86.7 million
- Remaining capacity = \$389.1 million

Example – Income Surtax as Property Tax Replacement

Examples of Income Surtax as Property Tax Replacement

	Maintain 20.0% Maximum for All Jurisdictions	Allow 5.0% Combined Maximum for Cities and Counties
Income Surtax Base	\$ 2,379,010,046	\$ 2,379,010,046
Income Surtax Capacity	\$ 389,121,516	\$ 118,950,502
Property Tax Rate Equivalent	\$ 3.176	\$ 0.971
Property Tax Equivalent for \$150,000 Home	\$ 210	\$ 64
Property Tax Equivalent for \$300,000 Business	\$ 950	\$ 291
Average Amount of Income Surtax Paid*	\$ 264	\$ 81

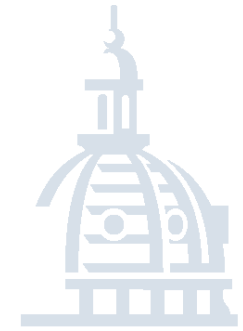
Notes:

*Based on the number of taxpayers with pay returns for tax year 2006 (Iowa Department of Revenue).

Data based on statewide totals in FY 2009 and is for comparison purposes only.

Other Considerations

- Stability of income surtax vs. property tax.
- Income surtax as property tax replacement must be specified.
- Income surtax is an itemized deduction – expansion of income surtax will have ramifications on the State General Fund.



Issue Review located at:

<http://www.legis.state.ia.us/lsadocs/IssReview/2009/IRSLS003.PDF>

Questions?