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Income-tax proposal: Iowa lawmakers keep firing in war of words

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Democrats worked Thursday to debunk Republican opposition to an income-tax proposal, arguing the GOP wanted to eliminate federal deductibility in 2003.

But Republicans struck back Thursday, saying that Democrats have their facts wrong and that the 2003 bill was drastically different from the current plan, House File 807.

During a special session in 2003, House Republicans voted to eliminate federal deductibility.

"The part that's interesting, if you compared what Democrats are attempting to do versus what Republicans did six years ago, if you look at those, our rate tables are lower in every category," said House Speaker Pat Murphy, D-Dubuque.

The 2003 bill was a four-year plan to reduce and simplify personal income taxes, which included the elimination of federal deductibility. However, changes would have been reliant upon passage of a constitutional amendment making it harder to raise taxes.

Republicans produced information that showed the top income rate under the 2003 plan would have dropped below what the Democrats have proposed this year. In addition, federal deductibility would only have been eliminated if a constitutional amendment had been put in place that would require a 60 percent vote of the Legislature to raise taxes.

"Look, these guys don't understand their own bill. I certainly don't expect them to understand what we proposed in 2003," said House Republican Leader Kraig Paulsen of Hiawatha.

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Battle over federal deductibility escalates

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By James Q. Lynch, Journal Des Moines Bureau | Posted: Friday, April 03, 2009

DES MOINES -- The verbal war over a Democratic plan to end federal deductibility escalated Thursday with Democrats charging Republicans have flip-flopped on the issue because they voted to end federal deductibility in 2003.

"This is the height of Republican hypocrisy and continues the Republican trend of 'just say nope,'" House Majority Leader Kevin McCarthy, D-Des Moines, said in a memo.

What's more, Democrats said the tax rates Republicans proposed then were higher than those Democrats hope to pass before adjourning the 2009 session next week.

Not so fast, Republicans said. The numbers Democrats were using in their comparison applied only if federal deductibility was maintained. The rates would have fallen well below current Democratic targets if federal deductibility was eliminated.

"These guys don't even understand their own bill," House Minority Leader Kraig Paulsen, R-Hiawatha, said. "I truly don't expect them to understand what we proposed in 2003. It's clear they don't understand or we wouldn't be in this mess on Thursday of week 12 with a bill before us that raises taxes on every income bracket in Iowa."

Democrats are tweaking their plan to lower income tax rates by ending federal deductibility, the provision in the Iowa tax code that allows taxpayers to deduct the amount they pay in federal income taxes. For many Iowans, critics say, it is their largest income tax exemption.

"Our goal," House Speaker Pat Murphy, D-Dubuque, said, "is to give as many people a tax cut as possible with this, especially middle-class. That's the bottom line."

¶Toward that end, Sen. Joe Bolkcom, D-Iowa City, chairman of the Ways and Means Committee, said he and colleagues are tinkering with the bill, trying to "improve it on the margins."

"It's a big deal," Bolkcom said of the plan that in its current form provides tax relief to nearly half of Iowa income tax filers, "to be able in this time when people need it, to be able to provide help."

The Democratic leaders rejected the suggestion they have to increase the number of Iowans getting tax cuts to more than half to get Gov. Chet Culver on board. Murphy said the "goal is to go over 50 percent if we have to."

"(Culver) just wants to make sure we have as many winners as possible," the speaker said.

The leaders, who said they have 52 votes in the House to approve their tax plan, said they could debate the bill as early as today.

Republicans have scoffed at the Democratic plan, arguing it provides ¶the average Iowan an extra 17 cents a day.

Democrats would use the \$600 million windfall from ending federal deductibility to drive down income tax rates, as much as 2 percent in some brackets. Based on Department of Revenue numbers, 667,314 Iowans, 49.1 percent, would see a tax cut in 2009, while 242,421, 17.8 percent, would see no change to their tax bills and 450,292, 33.1 percent, would pay more.

¶The plan would lower the top income tax rate from 8.98 percent to 6.98 percent. The 2003 Republican plan, authored by Paulsen and others, would have lowered the top rate to 7.61 percent over three years. Then the Legislature would have had to decide whether to end federal deductibility. If it was ended, the top income tax rate would have fallen to 4.9 percent.

Federal deductibility would have been ended only if voters approved a constitutional amendment requiring a 60 percent vote by the Legislature to raise tax rates.

It became moot because Democratic Gov. Tom Vilsack vetoed the legislation.¶

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