



Income Surtax

Income Surtax and Utilization as a Local Government Funding Source

Income surtax is an additional tax applied to the amount of State individual income tax less the amount of any nonrefundable tax credits. The local income surtax is not applied to corporate income tax but may include individual income tax resulting from income from partnerships; sole proprietorships; certain limited companies and corporations (Chapter S); and estates and trusts. The income surtax is paid by taxpayers that reside in the jurisdiction on the last day of the tax year.

The use of the income surtax for local funding replaces local property tax within a school district and may provide additional funding for county Emergency Medical Services (EMS). School districts currently have the option to fund specified discretionary programs through local property tax or a combination of local property tax and income surtax. The use of income surtax replaces local property tax within the school districts and may help alleviate the property tax burden. Discretionary school district programs that may use income surtax as a funding source include:

- **Instructional Support Program:** In FY 2012, 334 districts (95.1%) had the program and 280 of those districts (83.8%) used income surtax to help fund the program. Income surtax totaled \$85.2 million and accounted for 45.9% of the local funding for the program. The program and use of income surtax may be approved by a school board for up to five years or by the voters for up to ten years.
- **Educational Improvement Program:** In FY 2012, five districts (1.4%) had the program and four of those districts (80.0%) used income surtax to help fund the program. Income surtax totaled \$188,000 and accounted for 27.1% of the local funding for the program. This program can only be used by districts currently using the program and can only be rescinded through board approval or reverse referendum.
- **Voter-Approved Physical Plant and Equipment Levy:** In FY 2012, 236 districts (67.2%) had the voter-approved levy and 80 of those districts (33.8%) used income surtax to fund the voter-approved levy. Income surtax totaled \$10.2 million and accounted for 10.1% of the local funding for the voter-approved levy. Voter approval is required for the use of this levy and to use income surtax as a funding source.

Code Chapter 422D provides that, with voter approval, counties may generate local funds in the form of local income surtax, local property tax, or a combination of both for emergency medical services within a county. The maximum income surtax rate cannot exceed 1.0% for EMS funding. Currently, only Appanoose County has approved the use of an income surtax to fund emergency medical services. The amount of income surtax generated for EMS in FY 2011 was approximately \$62,800.

The cumulative sum of the income surtax rate within a county cannot exceed 20.0%. For instance, if a school district within a county imposes an income surtax rate of 10.0% for the instructional support program and 9.0% for the voter-approved physical plant and equipment levy, the total income surtax rate is 19.0%. This leaves a remainder of 1.0% available for the maximum income surtax rate for those school districts within that county.

Current Use of Income Surtax

Chart 1 provides the status of the income surtax for FY 2012 by school district. Of the 351 school districts, 291 (82.9%) have imposed an income surtax rate while 60 (17.1%) do not impose an income surtax. Over half the districts (58.7%) impose an income surtax rate of between 5.0% and 10.0%. Two districts have the maximum rate of 20.0% and 22 districts (6.3%) have a rate of 15.0% or greater.

More Information

LSA FY 2011 Income Surtax Amounts by School District:

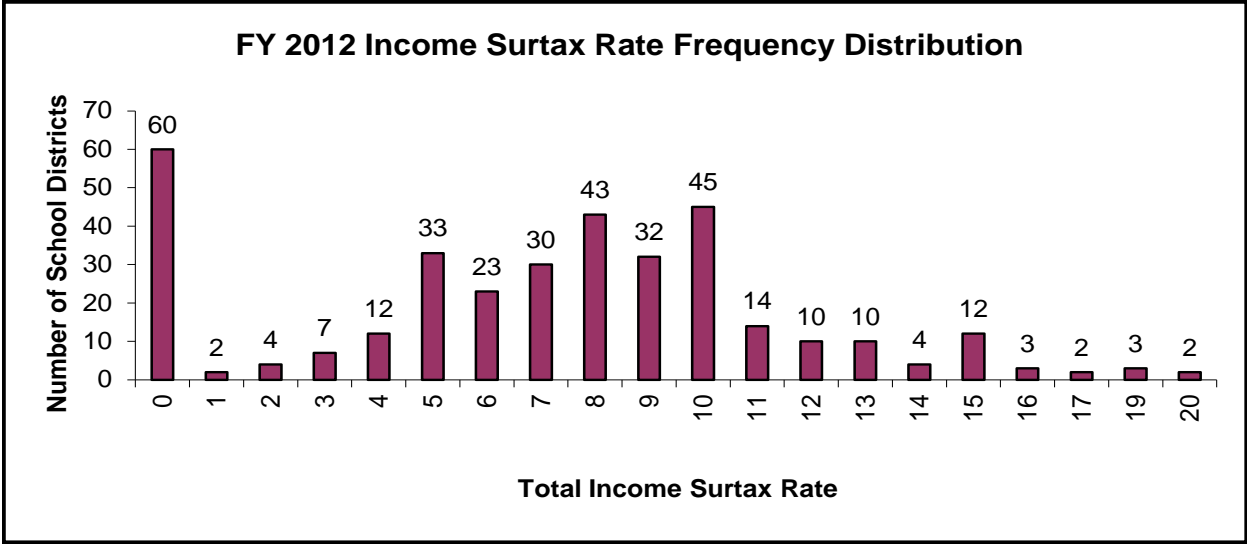
http://staffweb.legis.state.ia.us/lfb/docs/k-12_ed/FY2011_IncSurtaxAmounts_ImpactTaxRates.pdf

LSA Issue Review: Income Surtaxes:

<http://www.legis.state.ia.us/lisadocs/lssReview/2009/IRSL003.PDF>

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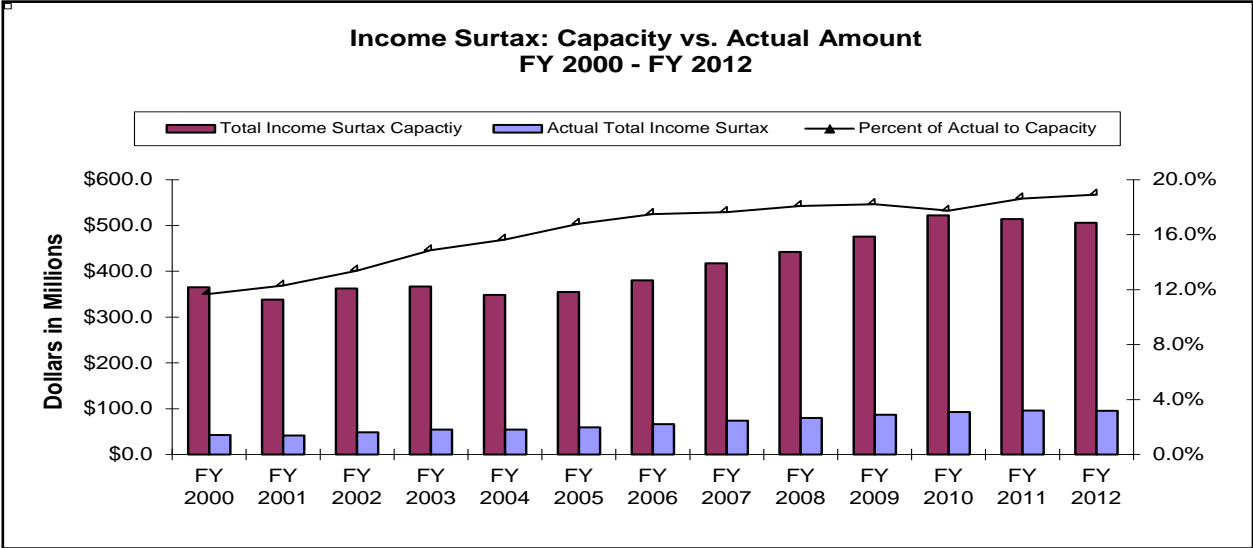
Chart 1



Income Surtax Capacity

Income surtax capacity is the amount of income surtax that could be generated at the maximum rate. **Chart 2** provides information pertaining to the amount of income surtax capacity and the amount of income surtax generated (based on the Department of Management’s Aid and Levy Worksheet) for FY 2000 through FY 2012. The difference between those two variables provides the amount of remaining capacity. With the exception of FY 2001 and FY 2012, the actual amount of income surtax has increased every year for the period shown. The percentage of actual income surtax generated compared to the maximum capacity amount has increased from 11.7% in FY 2000 to 18.9% in FY 2012. Based on FY 2012 data, the remaining income surtax capacity totals \$410.3 million.

Chart 2



Income Surtax – Potential Fiscal Impact

As noted above, the maximum income surtax rate within a county is 20.0%. However, the estimated fiscal impact of imposing a statewide income surtax rate (notwithstanding the current maximum percentage) at varying income surtax rates is as follows (based on FY 2012 data):

- At 1.0%: \$25.3 million
- At 5.0%: \$126.5 million
- At 10.0%: \$253.0 million