

---

## ISSUE REVIEW

Fiscal Services Division

June 28, 2019



---

Ground Floor, State Capitol Building

Des Moines, Iowa 50319

515.281.3566

## Iowa Individual Income Tax Revenue Growth

### ISSUE

Individual income tax accounts for more than 50.0% of Iowa General Fund revenue, so annual increases in Iowa's General Fund budget rely on individual income tax growth.<sup>1</sup> For fiscal years (FY) 2016 and FY 2017, individual income tax revenue growth was very low compared to other nonrecession years, and this contributed significantly to the overall low General Fund revenue growth experienced over the two fiscal years. This *Issue Review* explores the magnitude of, and taxable income factors contributing to, the FY 2016 and FY 2017 individual income tax revenue shortfall.

### CODE AUTHORITY

Iowa Code chapter [422](#) (Division II)

### NATIONAL ECONOMIC CONDITIONS

This *Issue Review* focuses on the slow growth Iowa experienced in individual income tax revenue during FY 2016 and FY 2017. The individual income tax revenue the State received in those two fiscal years was most influenced by tax returns filed for tax years (TY) 2015 and TY 2016, and the individual income tax revenue derived from those tax years was from calendar year (CY) 2015 and CY 2016 economic activity.

The last U.S. recession began in December 2007 and ended in June 2009.<sup>2</sup> According to national statistics, CY 2009 experienced negative growth in Gross Domestic Product (GDP), employment, personal income, and wage and salary income (the largest component of personal income). **Table 1** provides historical data for the national economy from CY 2008 through CY 2017. The years since CY 2009 have been a period of continuous economic expansion. From CY 2009 through CY 2017, U.S. GDP expanded at an average annual rate of 3.8%, nonfarm employment 1.4%, personal income 4.3%, and wage and salary income 3.9%.

The national economy expanded at a rapid pace in CY 2015, with all four indicators displayed in **Table 1** posting stronger growth for that one year than the average annual growth for the time since the end of the last recession.

The economic results for CY 2016 were not as strong (but remained positive); just one of the four indicators displayed in **Table 1** (nonfarm employment) expanded in CY 2016 as fast as the average for the time frame.

---

<sup>1</sup> For this *Issue Review*, amounts and comparisons are presented as net individual income tax revenue, meaning income tax payments to the State minus income tax refunds issued. The tax payments come in the form of income tax withholding, estimate payments, and payments with annual tax returns. Individual income tax refunds are issued from the State General Fund.

<sup>2</sup> The dates of national economic cycles (recessions and expansions) are determined by the Economic Cycle Dating Committee of the [National Bureau of Economic Research](#).

**Table 1**  
**U.S. Economic Indicators**

U.S. Nominal GDP Dollars in Billions			U.S. Nonfarm Employment Thousands of Jobs	
CY 2008	\$ 14,712.8		137,241	
CY 2009	14,448.9	-1.8%	131,313	-4.3%
CY 2010	14,992.1	3.8%	130,362	-0.7%
CY 2011	15,542.6	3.7%	131,932	1.2%
CY 2012	16,197.0	4.2%	134,175	1.7%
CY 2013	16,784.9	3.6%	136,381	1.6%
CY 2014	17,521.7	4.4%	138,958	1.9%
<b>CY 2015</b>	<b>18,219.3</b>	<b>4.0%</b>	<b>141,843</b>	<b>2.1%</b>
<b>CY 2016</b>	<b>18,707.2</b>	<b>2.7%</b>	<b>144,352</b>	<b>1.8%</b>
CY 2017	19,485.4	4.2%	146,624	1.6%
Average Annual Growth Rate		3.8%		1.4%
U.S. Personal Income Dollars in Billions			U.S. Wage/Salary Income Dollars in Billions	
CY 2008	\$ 12,442.2		\$ 6,528.9	
CY 2009	12,059.1	-3.1%	6,242.9	-4.4%
CY 2010	12,551.6	4.1%	6,366.1	2.0%
CY 2011	13,326.8	6.2%	6,619.8	4.0%
CY 2012	14,010.1	5.1%	6,921.2	4.6%
CY 2013	14,181.1	1.2%	7,106.6	2.7%
CY 2014	14,991.8	5.7%	7,466.7	5.1%
<b>CY 2015</b>	<b>15,719.5</b>	<b>4.9%</b>	<b>7,847.8</b>	<b>5.1%</b>
<b>CY 2016</b>	<b>16,125.1</b>	<b>2.6%</b>	<b>8,074.2</b>	<b>2.9%</b>
CY 2017	16,830.9	4.4%	8,447.5	4.6%
Average Annual Growth Rate		4.3%		3.9%

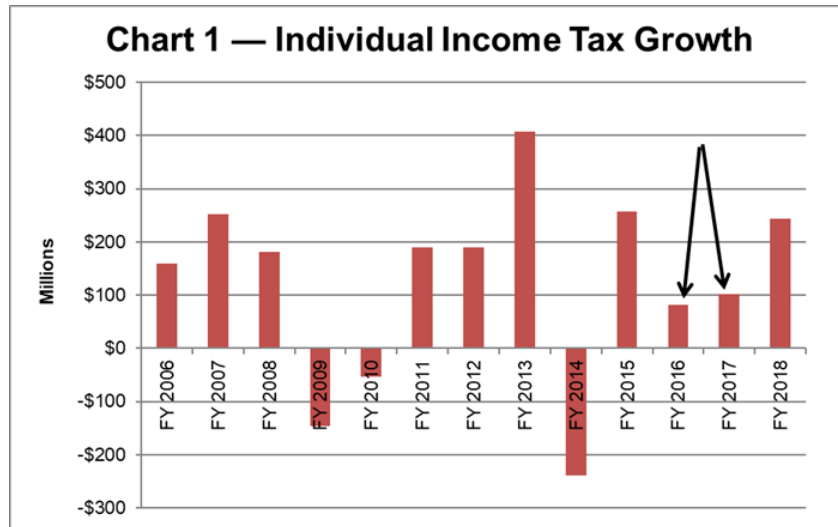
## **IOWA INDIVIDUAL INCOME TAX REVENUE — FY 2006 THROUGH FY 2018**

**Chart 1** displays annual State General Fund individual income tax revenue growth for FY 2006 through FY 2018.<sup>3</sup> Arrows highlight the two years that are the subject of this *Issue Review*.

The average growth rate for Iowa individual income tax revenue for years that were not FY 2016 and FY 2017 and were not impacted by an economic recession was 6.6%.<sup>4</sup> The average revenue growth rate for FY 2016 and FY 2017 was just 2.6%.

<sup>3</sup> The data depicted in **Chart 1** is provided in **Appendix A** at the end of this document.

<sup>4</sup> The 6.6% average growth rate calculation is described in **Appendix A**. The time period for the calculated average is FY 2006 through FY 2018, excluding FY 2009 and FY 2010 (impacted by the last recession) and FY 2016 and FY 2017 (the subject of this *Issue Review*). The average revenue growth has not been adjusted to reflect law changes enacted over the time period. The most significant change was the 2006 exclusion of Social Security income from Iowa income tax. Additionally, numerous tax credits that reduced individual income tax revenue were created or expanded over the time period.



At 2.4% (FY 2016) and 2.9% (FY 2017), Iowa individual income tax revenue growth for the two years averaged 4.0 percentage points below the rate of individual income tax growth Iowa normally experiences in nonrecession years (6.6%).

The Iowa Department of Revenue (IDR) issues an [Iowa Individual Income Tax Annual Statistical Report](#) 17 months after the end of a tax year.<sup>5</sup> The Legislative Services Agency (LSA) analyzed recent IDR reports to investigate the income tax shortfall experienced in FY 2016 and FY 2017. The analysis determined that TY 2015 (returns filed in the spring of FY 2016) and TY 2016 (returns filed in the spring of FY 2017) each produced low growth in income tax liability when compared to other tax years that were not impacted by an economic recession. The IDR annual reports for TY 2015 and TY 2016 confirm the low rate of revenue growth experienced in FY 2016 and FY 2017.

Tax liability is calculated and paid on a tax year basis, while tax revenue is tabulated by fiscal year. This situation causes confusion when tax year reports are used to analyze and explain fiscal year results. The following general statements may be made about the timing of tax year payments and fiscal year tax revenue:

- Withholding deposits for a calendar (and tax) year are made January 25 of the calendar year through early February of the following calendar year.
- Quarterly estimate payment deposits for a calendar (and tax) year are made April 30 of the calendar year through mid-February of the following calendar year.
- Payments with tax returns are deposited from early February through May of the calendar year following the tax year. Tax filing extensions can delay payments for six months.
- Tax refunds are issued from early February through May of the calendar year following the tax year. Tax filing extensions can delay the issuance of refunds for six months or longer.

<sup>5</sup> The IDR annual reports summarize tax returns filed in the year after the conclusion of a tax year. Total tax liability for all filed tax returns does not equal tax revenue to the State, as some individual income tax is received by the State from taxpayers who never file individual income tax returns. For an analysis comparing actual individual income tax paid to what is reported on Iowa individual income tax forms through the IDR annual reports, please see **Appendix B**.

- In contrast to the tax year payment and refund schedule, fiscal year accounting for withholding, estimates, and payments with tax returns is recorded on a July 1 through June 30 basis, with a hold-open period after June 30 for the deposit of revenue associated with tax withheld or tax due dates on or before June 30. Tax refunds are charged to a fiscal year on a September 1 through August 31 basis. July and August refunds at the beginning of a fiscal year are charged to the just-ended fiscal year. Refunds issued after August 31 are charged to the new fiscal year.

To simplify the study and explanation of the situation, this **Issue Review** uses FY 2015 as the comparison individual income tax revenue year and uses tax year reports as the dataset for studying fiscal year results. For example, TY 2015 individual income tax reports will be used to explain FY 2016 revenue.

**Table 2** provides the total tax liability reported on Iowa individual income tax returns filed for TY 2014, TY 2015, and TY 2016. After the above-normal revenue growth of \$262.0 million posted for TY 2014 (8.9%), growth fell to \$81.8 million for TY 2015 and \$63.1 million for TY 2016. **Table 2** divides Iowa income tax liability between Iowa residents and nonresidents. For both TY 2015 and TY 2016, there was a sharp decline in income tax liability. The structure of available State and federal tax reports dictates that this **Issue Review** can only analyze the resident taxpayer portion of the revenue decline issue.<sup>6</sup>

Tax and Fiscal Year	Iowa Resident		Nonresident		Total	\$ Growth
	Returns	\$ Growth	Returns	\$ Growth		
TY14 / FY15	\$ 2,990.8	\$ 225.0	\$ 209.7	\$ 37.0	\$ 3,200.5	\$ 262.0
TY15 / FY16	3,072.0	81.2	210.3	0.6	3,282.3	81.8
TY16 / FY17	3,129.8	57.8	215.6	5.3	3,345.4	63.1

### **IOWA RESIDENT TAX RETURN DATA**

Adjusted gross income (AGI) is the sum of all sources of gross income subject to tax, adjusted (reduced) by allowed statutory adjustments. Taxable income is AGI minus a deduction for federal taxes paid (net of federal refunds) and minus itemized or standard deductions. Tax liability is taxable income subjected to Iowa's graduated income tax rates, minus any allowed refundable or nonrefundable tax credits. The amount of individual income tax revenue summarized in the annual IDR individual income tax reports is therefore controlled by the following factors:

- Gross income subject to Iowa income tax and adjustments to gross income
- Federal tax deduction
- Itemized or standard deduction
- Tax rates
- Tax credit usage

<sup>6</sup> The Iowa tax returns of nonresidents contain significant reported income that is not ultimately subject to Iowa income tax.

### AGI Growth

**Table 3** presents Iowa resident AGI amounts and growth for the three years. As reported on Iowa income tax returns, Iowa resident AGI growth for TY 2015 was less than half that of TY 2014, and growth for TY 2016 was less than half of the muted TY 2015 level.

<b>Table 3</b>			
<b>Iowa Resident Adjusted Gross Income</b>			
Dollars in Millions			
Tax and Fiscal Year	Iowa Resident Returns	\$ Growth	% Growth
TY14 / FY15	\$ 78,122.7	\$ 3,544.2	4.8%
TY15 / FY16	79,830.0	1,707.3	2.2%
TY16 / FY17	80,665.4	835.4	1.0%

It is clear from **Table 3** that slow AGI growth significantly contributed to the reduced income tax revenue received in FY 2016 and FY 2017. However, the IDR annual reports do not provide a breakdown of AGI sources. For an analysis of the variations in individual components of Iowa resident AGI, data produced by the federal [Internal Revenue Service](#) is used. The federal data represent the line item totals from all Iowa resident taxpayers as reported on the federal 1040 tax form.

**Table 4** summarizes the AGI reported by all Iowa resident federal taxpayers.

According to federal tax returns filed by Iowa residents, after expanding \$3.9 billion in TY 2014, Iowa resident AGI growth fell to \$1.8 billion, a growth reduction of \$2.1 billion. Growth comparison highlights by AGI category for TY 2015 include:

- Wage and Salary growth was higher (\$2.6 billion) than TY 2014 growth (\$2.0 billion), so wage/salary income did not contribute to the TY 2015 decline in AGI growth.
- Interest and Dividends income growth for TY 2015 was insignificantly lower compared to TY 2014. The growth reduction was in dividend income.
- Business, Capital Gains, and Other income growth was \$2.1 billion below the TY 2014 growth amount, falling from positive \$1.2 billion to negative \$0.9 billion. Of the \$2.1 billion reduction in growth, \$1.4 billion was in capital gains, and \$0.5 billion was from partnership/subchapter S income.
- Retirement and Unemployment income growth was \$0.3 billion below TY 2014, falling from growth of \$0.5 billion to \$0.2 billion. The majority of the decline in growth was in the pension portion of this category (line 16b of the federal 1040 form).

For TY 2016, Iowa resident federal AGI growth equaled \$0.1 billion. Comparison highlights include:

- The rate of Wage and Salary growth contributed significantly to the low level of federal AGI growth reported in TY 2016, with growth falling from \$2.6 billion for TY 2015 to just \$0.7 billion for TY 2016.
- Interest and Dividends income growth for TY 2016 was modestly higher compared to TY 2015.
- Business, Capital Gains, and Other income growth declined again, with growth registering at negative \$0.9 billion for the year. Capital gains growth was further reduced by \$0.4 billion,

while partnership/subchapter S income growth rebounded \$0.2 billion and the unspecified “other” category contributed \$0.4 billion to growth.

- Retirement and Unemployment income growth was \$0.1 billion above the TY 2015 growth level.

**Table 4**  
**Iowa Resident AGI Reported on Federal Income Tax Returns \***  
In Billions

Income Item	TY 2014	TY 2015	TY 2016
Wage/Salary	\$ 59.7	\$ 62.3	\$ 63.0
Interest & Dividends	2.4	2.4	2.5
Business, Cap. Gains, & Other	14.1	13.2	12.3
Retirement & Unemployment	8.1	8.3	8.6
Statutory Adjustments	-1.7	-1.7	-1.7
Total of Items	\$ 82.7	\$ 84.6	\$ 84.7
	<u>Amount of Growth</u>		
Income Item	TY 2014	TY 2015	TY 2016
Wage/Salary	\$ 2.0	\$ 2.6	\$ 0.7
Interest & Dividends	0.2	-0.0	0.1
Business, Cap. Gains, & Other	1.2	-0.9	-0.9
Retirement & Unemployment	0.5	0.2	0.3
Statutory Adjustments	-0.0	0.0	0.0
Total Growth	\$ 3.9	\$ 1.8	\$ 0.1

\* Excludes state/local tax refunds and Social Security. Both items are not included in Iowa AGI.

The AGI growth results found in IDR annual income tax reports (**Table 3**) are confirmed and clarified by Iowa resident federal income tax return data (**Table 4**). The AGI growth reported on TY 2015 federal tax returns filed by Iowa residents totaled less than 50.0% of the AGI growth realized in TY 2014. The decline was concentrated in capital gains and partnership/subchapter S income, with smaller declines in dividend and pension income contributing to the reduction in AGI growth.

Tax year 2016 saw a significant decline in the level of reported income growth from wages and salaries, and the level of growth from capital gains declined for a second tax year.

**Table 5** compares U.S. and Iowa annual growth rates for AGI and select components of AGI. The growth calculations are based on federal IRS annual reports. The growth rate comparisons lead to the following observations:

- For all three years, the rate of growth in reported Iowa AGI lagged the growth rate for the entire U.S. For TY 2015 and TY 2016, the Iowa rate of growth was half or less than that of the U.S.

- The Iowa and U.S. growth rate for wage and salary income increased in TY 2015 and then decreased significantly in TY 2016. Iowa's wage and salary income growth rate lagged the U.S. rate in all three years.
- Capital gains income growth surged in Iowa and the U.S. in TY 2014 and then declined in TY 2015 and TY 2016. The Iowa decline was significantly larger than the U.S. decline.
- Income from partnerships and subchapter S corporations increased in TY 2014 in both Iowa and the U.S. The growth in Iowa for TY 2015 and TY 2016 was minor.
- Pension income growth for Iowa and the U.S., while still positive, was lower in TY 2015 and TY 2016.
- Overall, the IRS tax return data indicates that both Iowa and U.S. income growth slowed in TY 2015 and again in TY 2016. The Iowa rate of growth lagged the U.S. growth rate in all three years.

		TY 2014	TY 2015	TY 2016
Adjusted Gross Income	Iowa	5.1%	2.3%	0.2%
	U.S.	7.2%	4.6%	0.5%
Wage/Salary	Iowa	3.5%	4.3%	1.1%
	U.S.	4.3%	5.1%	1.7%
Capital Gains	Iowa	43.7%	-6.8%	-19.4%
	U.S.	43.2%	-0.3%	-10.9%
Partnership/ Subchapter S	Iowa	11.6%	1.1%	2.2%
	U.S.	9.6%	8.2%	-0.2%
Pension	Iowa	7.0%	1.0%	3.0%
	U.S.	5.0%	3.6%	1.7%

### **Deduction for Federal Taxes Paid**

Iowa's deduction for federal income taxes paid reduces the amount of Iowa income subject to the State income tax. **Table 6** shows the total amount of federal income taxes deducted from Iowa income for the three years. For TY 2015, there was a significant increase in the amount of federal taxes deducted from Iowa income. The federal deduction growth amount of \$598.2 million represents 35.0% of the total AGI growth for the tax year. This deduction growth significantly reduced the amount of taxable income growth. For TY 2016, the federal tax deduction grew very little (\$4.7 million, 0.5% of AGI growth) and therefore did not produce a drag on taxable income for the year.

Tax and Fiscal Year	Iowa Resident Returns	\$ Growth	% Growth
TY14 / FY15	\$ 10,270.4	\$ 377.1	3.8%
TY15 / FY16	10,868.6	598.2	5.8%
TY16 / FY17	10,873.3	4.7	0.0%

### Standard and Itemized Deductions

Standard and itemized deductions reduce the amount of lowa income subject to the State income tax. **Table 7** provides the total dollar amount of standard and itemized deductions claimed on lowa income tax returns for the three years. All years show modest growth in the deductions. The table does not indicate that deductions were a contributing factor to the FY 2016 and FY 2017 individual income tax revenue decline.

Tax and Fiscal Year	Iowa Resident Deductions	\$ Growth	% Growth
TY14 / FY15	\$ 9,757.9	\$ 216.0	2.3%
TY15 / FY16	9,953.2	195.3	2.0%
TY16 / FY17	10,117.6	164.4	1.7%

### Iowa Average Income Tax Rates

The Iowa income tax rate schedule ranges from 0.36% to 8.98% of taxable income. The schedule has not changed since tax year 1998.<sup>7</sup> However, this does not mean that the average tax rate cannot vary from year to year. Changes in the distribution of taxable income across tax brackets and indexation of State income tax brackets could produce changes to the effective average tax rate. The IDR data do not indicate that changes to the effective average income tax rate contributed to the FY 2016 and FY 2017 revenue decline. The effective average income tax rate, calculated as tax liability before tax credits are applied divided by taxable income, equaled 5.76%, 5.75%, and 5.78% for tax years 2014, 2015, and 2016, respectively.

### Tax Credit Usage

Tax credits reduce Iowa income tax revenue by reducing the amount of tax actually paid by the taxpayer. If there is an increase in utilized tax credits from one tax year to the next, Iowa income tax revenue will be reduced. Reduction in tax credit utilization produces the opposite effect. The IDR data indicate that variations in the total amount of tax credits claimed on Iowa 1040 tax forms provided a \$22.8 million boost to TY 2015 revenue growth and a \$9.8 million reduction in TY 2016 revenue growth.<sup>8</sup> Tax credit usage did not significantly contribute to the low income tax growth experienced in FY 2016 and FY 2017. Total tax credit claims for the three tax years were as follows:

- TY 2014 = \$470.2 million
- TY 2015 = \$447.4 million
- TY 2016 = \$457.2 million

<sup>7</sup> With enactment of [SF 2417](#) (2018 Tax Modifications Act), Iowa individual income tax rates will range from 0.33% to 8.53% beginning TY 2019.

<sup>8</sup> The IDR annual reports do not differentiate between the total amount of nonrefundable tax credits claimed by taxpayers on tax returns and the total amount that actually benefits the taxpayers. For this reason, there is some error in this calculation.



## **BUDGET IMPACT**

The reduced growth in AGI and the increase in the federal income tax deduction contributed to the low level of individual income tax growth experienced in FY 2016 and FY 2017. **Table 8** uses an assumed average marginal tax rate of 6.5%<sup>9</sup> to estimate the revenue impact of each of the factors impacting Iowa taxable income growth for TY 2014 through TY 2016. The top portion of **Table 8** uses AGI and deduction component growth amounts from **Table 4**, **Table 6**, and **Table 7** to estimate the amount of taxable income growth resulting from the growth items listed in each of the three years. The bottom portion of **Table 8** calculates the income tax revenue impact that would result from the taxable income changes with a simple 6.5% average marginal tax rate applied. The final calculation in **Table 8** shows the income tax revenue growth difference for TY 2015 and TY 2016 when compared to TY 2014, a more typical tax year. The reduced level of taxable income growth produced an estimated \$143.8 million less in new revenue in TY 2015 than TY 2014 and an additional \$213.9 million in reduced revenue growth in TY 2016.

<b>Table 8</b>			
<b>Iowa Resident AGI Growth</b>			
In Billions			
<u>Income Item</u>	<u>TY 2014</u>	<u>TY 2015</u>	<u>TY 2016</u>
Wage/Salary	\$ 2.0	\$ 2.6	\$ 0.7
Interest & Dividends	0.2	0.0	0.1
Business, Cap. Gains, & Other	1.2	-0.9	-0.9
Retirement & Unemployment	0.5	0.2	0.3
Statutory Adjustments	0.0	0.0	0.0
Standard/Itemized Deduction	-0.2	-0.2	-0.2
Federal Deduction	-0.4	-0.6	0.0
<b>Total Growth</b>	<b>\$ 3.3</b>	<b>\$ 1.1</b>	<b>\$ 0.0</b>
<b>Estimated Income Tax Growth at a Marginal Rate of 6.5%</b>			
In Millions			
<u>Income Item</u>	<u>TY 2014</u>	<u>TY 2015</u>	<u>TY 2016</u>
Wage/Salary	\$ 131.3	\$ 168.4	\$ 45.5
Interest & Dividends	12.4	0.0	5.8
Business, Cap. Gains, & Other	76.7	-58.5	-61.1
Retirement & Unemployment	31.9	11.7	20.4
Statutory Adjustments	0.0	0.0	0.0
Standard/Itemized Deduction	-14.0	-12.7	-10.7
Federal Deduction	-24.5	-38.9	0.0
<b>Total Growth</b>	<b>\$ 213.8</b>	<b>\$ 70.0</b>	<b>\$ -0.1</b>
	<b>Change from TY 2014 Growth Level</b>	<b>\$ -143.8</b>	<b>\$ -213.9</b>
Columns may not add, due to rounding.			

<sup>9</sup> The 6.5% assumed average marginal tax rate (the tax rate on an additional dollar of taxed income) is an LSA estimate based on the growth in tax liability, prior to tax credits, divided by the growth in taxable income. The growth time period is TY 2011 to TY 2016.

---

**SUMMARY**

Fiscal years 2016 and 2017 individual income tax revenue growth was very low, yet those two years were not impacted by a U.S. recession. Iowa net General Fund revenue, excluding transfer revenue, expanded at an average annual amount of \$240.0 million from FY 2010 through FY 2015. For FY 2016 and FY 2017, average annual growth was \$136.0 million. With individual income tax revenue comprising more than 50.0% of Iowa General Fund revenue, a reduction in the growth of income tax revenue significantly contributed to the overall General Fund revenue growth reduction.

An examination of IDR annual individual income tax statistical reports shows that for TY 2015 (impacting FY 2016), Iowa AGI slowed considerably from the growth levels of TY 2014 and other nonrecession years, and also for TY 2015, that the deduction for federal income taxes paid increased sharply in TY 2015. An examination of statistics covering federal tax returns filed by Iowa residents shows that for TY 2015, the AGI growth reduction was concentrated in capital gains and partnership/subchapter S income.

Tax return statistics from IDR for TY 2016 (impacting FY 2017) show even lower growth in Iowa AGI. Federal statistics covering Iowa TY 2016 returns reveal that capital gains income once again contributed to the AGI growth deficit, and Iowa wage and salary income growth for that tax year was very low.

For TY 2016, AGI growth for both Iowa and the U.S. was very low for a nonrecession year, with wage and salary growth below 2.0% and capital gains income growth negative by more than 10.0%. Comparing Iowa AGI growth statistics to AGI growth in the U.S. as a whole reveals that Iowa's AGI growth slowdown in TY 2016 was much more pronounced than the slowdown experienced at the national level.

The low AGI growth for Iowa's TY 2015 and the low AGI growth for Iowa and the U.S. for TY 2016 are situations that are very unusual for a nonrecession period of time with very low unemployment.

LSA Staff Contact: Jeff W. Robinson (515.281.4614) [jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov)

1023152

## **APPENDIX A — STATE GENERAL FUND INDIVIDUAL INCOME TAX FISCAL YEAR REVENUE**

**Table A-1** provides the net individual income tax totals for FY 2006 through FY 2018, along with the dollar and percentage growth calculations for each year. The amounts are from the State accounting system and reflect actual net revenue for the fiscal years. Two years, FY 2009 and FY 2010, experienced revenue declines and are marked with an “R” as recession years.<sup>10</sup> The two years that are the subject of this *Issue Review* are marked with an “S.” The average growth for those two years was \$92.0 million and 2.6%. The average income tax revenue growth for the nine years that were not the two recession years or FY 2016 or FY 2017 was \$182.2 million and 6.6%.<sup>11</sup>

	<u>Net Revenue</u>	<u>\$ Growth</u>	<u>% Growth</u>
FY 2006	\$ 2,418.9	\$ 159.4	7.1%
FY 2007	2,671.3	252.4	10.4%
FY 2008	2,852.9	181.6	6.8%
FY 2009	2,707.4	-145.5 <b>R</b>	-5.1%
FY 2010	2,654.0	-53.4 <b>R</b>	-2.0%
FY 2011	2,844.3	190.3	7.2%
FY 2012	3,033.2	188.9	6.6%
FY 2013	3,440.1	406.9	13.4%
FY 2014	3,200.8	-239.3	-7.0%
FY 2015	3,457.5	256.7	8.0%
FY 2016	3,539.4	81.9 <b>S</b>	2.4%
FY 2017	3,641.5	102.1 <b>S</b>	2.9%
FY 2018	3,884.7	243.2	6.7%
<b>Annual Growth Averages</b>			
	FY 16 and FY 17	\$ 92.0	2.6%
	Excludes FY 09, 10, 16, 17	\$ 182.2	6.6%
	Difference	\$ -90.2	-4.0%
	<b>R</b> = Recession Year		
	<b>S</b> = Subject of this <i>Issue Review</i>		

<sup>10</sup> The last U.S. recession significantly reduced overall economic activity. That recession ran from December 2007 to June 2009. The associated negative impact on Iowa tax revenue fell for the most part on FY 2009 and FY 2010.

<sup>11</sup> While FY 2013 and FY 2014 were unusual individual income growth years, they are included in the average nonetheless as the years were not economic recession years. Fiscal year 2013 experienced unusually high revenue growth due to taxpayer actions in anticipation of potential federal tax increases effective beginning tax year 2013. Taxpayers recognized income in tax year 2012 that in other instances the taxpayers would have recognized in tax year 2013 or later. Those taxpayer actions then produced lower taxed income for tax year 2013 (negatively impacting FY 2014). In addition, FY 2014 was negatively impacted by the new Taxpayer Trust Fund Tax Credit and an increase in the Iowa Earned Income Tax Credit.

---

## **APPENDIX B — IDR INDIVIDUAL INCOME TAX ANNUAL REPORT BACKGROUND**

The annual IDR individual income tax reports summarize all tax returns filed for a tax year during the calendar year following the tax year (for instance, TY 2016 returns are filed in CY 2017). Since the reports represent tax year filings, and for almost all tax returns the tax year is a calendar year, comparisons of IDR annual reports to actual individual income taxes collected by the State are problematic. There simply is not a 12-month period where actual tax revenue collected represents the net taxes paid by taxpayers for a specific tax year. For this reason, the revenue in IDR annual reports can never match fiscal year individual income tax revenue reflected in accounting documents.

In addition, there are several instances in which the individual income tax paid by taxpayers is not reflected in State General Fund receipts. These instances all relate to diversions of withholding tax revenue to other purposes. The withholding diversion instances are:

- Iowa Industrial New Jobs (260E) Training — Iowa Code section [260E.5](#) allows qualified employers to transmit employee withholding to a community college instead of to the State. The transmitted withholding payments are used to fund job training.
- Accelerated Career Education (ACE) — Iowa Code section [260G.4A](#) allows qualified employers to transmit employee withholding to a community college instead of to the State. The transmitted withholding payments are used to pay ACE program costs associated with students enrolled in certain career paths.
- Targeted Jobs Withholding Pilot Project — Iowa Code section [403.19A](#) allows qualified employers to transmit employee withholding to a pilot city instead of to the State. The transmitted withholding payments are used or pledged by the pilot city to pay project costs associated with the employer.
- Job Training — Iowa Code section [422.16A](#) provides for an annual transfer of \$6.0 million from withholding tax receipts to the Iowa Economic Development Authority to be used for the purposes of the [Workforce Development Fund](#).
- IDR Administrative Diversions ([Tax Gap](#)) — The tax enforcement expenses of the IDR are paid for in part by direct withdrawals from the various tax revenue streams.

**Table B-1** compares the amount of net individual income tax paid in Iowa to the amount reflected in the IDR annual reports. The amount in the Total Income Tax column includes amounts diverted to 260E Job Training, ACE, and to the Targeted Jobs Withholding Pilot Project. The withholding diverted to the Workforce Development Fund and the IDR is not included. Inclusion of these amounts would not significantly change the comparisons.

**Table B-1** shows that over the six fiscal and tax years displayed, income tax paid totals \$20.633 billion, while IDR annual reports only reflect \$18.715 billion of tax liability, or 90.7% of the amount collected. The underreporting totals \$1.919 billion, or about \$320.0 million each year. The underreporting is very consistent, indicating that tax year IDR reports are very good indicators of fiscal year receipts, but also showing that the reports do not account for all the Iowa income taxes paid in a year.

The annual underreporting of \$320.0 million is not easily explained, other than to note that the IDR reports only cover taxpayers who file tax returns. The withholding or estimate payments of individuals who never file a tax return for a tax year would be within the Total Income Tax column of **Table B-1** but would not be reflected within the IDR Annual Report column. Also, taxpayers who file returns more than one year after the end of the tax year may not be included, and taxes paid as the result of audit or court decisions may not be included.

**Table B-1**

**State Income Tax Collections Compared to IDR Annual Income Tax Reports**  
In Millions

<u>Fiscal Year</u>	<u>State General Fund Income Tax</u>	<u>Diverted Withholding</u>	<u>Total Income Tax</u>	<u>Tax Year</u>	<u>IDR Annual Report</u>	<u>Difference</u>
FY 2012	\$ 3,033.2	\$ 58.4	\$ 3,091.6	TY 2011	\$ 2,769.7	\$ 321.9
FY 2013	3,440.1	54.4	3,494.5	TY 2012	3,178.4	316.1
FY 2014	3,200.8	52.6	3,253.4	TY 2013	2,938.4	315.0
FY 2015	3,457.5	53.2	3,510.7	TY 2014	3,200.5	310.2
FY 2016	3,539.4	51.9	3,591.3	TY 2015	3,282.3	309.0
FY 2017	3,641.5	50.2	3,691.7	TY 2016	3,345.3	346.4
			<u>\$ 20,633.2</u>		<u>\$ 18,714.6</u>	<u>\$ 1,918.6</u>