



**MEMORANDUM**

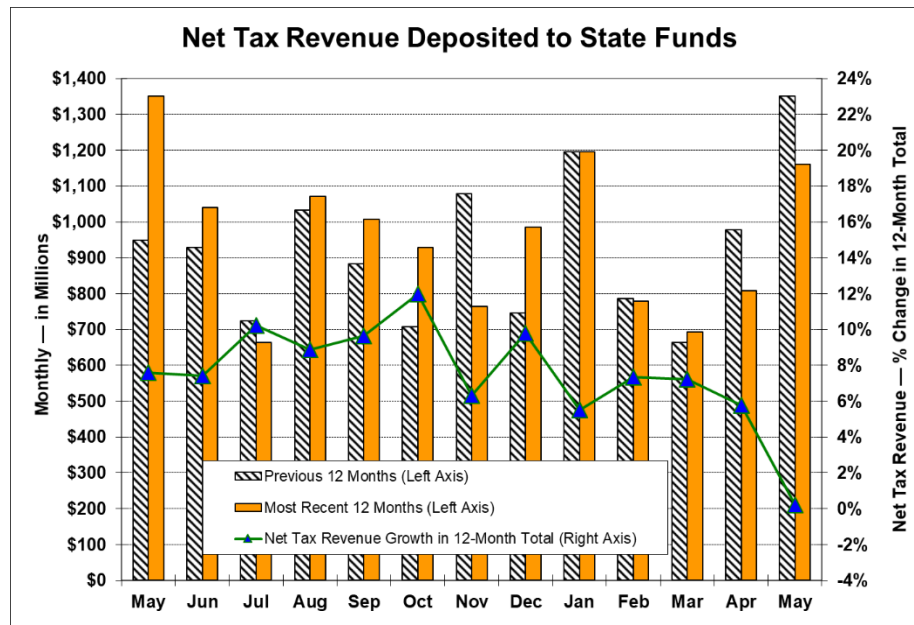
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: June 28, 2023

**Twelve-Month Total Net Tax Receipts Through May 31, 2023**

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending May 31, 2023, with comparisons to the previous 12 months. May 2022 to May 2023 one-month comparisons are also presented. The source of the information is the State Accounting System and includes both General Fund and non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



**Overview of Current Situation**

Net tax revenue totaled \$1,160.4 million for the month of May 2023, a decrease of \$190.5 million (-14.1%) compared to the previous May. Individual income tax and sales/use tax declined for the month of May, while corporate income tax and insurance premium tax offset some of the reduction.

Over the most recent 12-month period, net tax revenue increased \$22.5 million (0.2%). The recent weakness in individual income tax and sales/use tax has weighed heavily on year-over-

year tax revenue growth.

### Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending May 31, 2023, net revenue from all taxes deposited to State funds totaled \$11,096.1 million, an increase of \$22.5 million (0.2%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include the following:

- **Individual Income Tax (negative \$245.6 million, -5.0%)** — Individual income tax revenue has declined, when compared to the same month the previous year, in seven of the past eight months, and growth is now negative over the past 12 months. Beginning January 1, 2023, Iowa decreased individual income tax rates and reduced the income tax base through a full exemption for retirement income.
- **Corporate Income Tax (positive \$146.8 million, 18.4%)** — Gross deposits increased \$111.7 million year over year, while corporate tax refunds decreased \$35.1 million. Iowa corporate income tax rates were reduced at the beginning of calendar year 2021 and were reduced further beginning January 1, 2023. The reduction in refunds issued may be the result of slower processing of corporate income tax refunds.
- **Sales/Use Tax (positive \$22.9 million, 0.6%)** — The sales/use net tax growth breakdown for the most recent 12 months is as follows:
  - Gross tax receipts from the sale of vehicles (deposited to the Road Use Tax Fund) increased \$21.9 million (4.5%).
  - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, Reinvestment District Fund, and two water quality funds) decreased \$5.3 million.
  - Sales/use tax deposited to the General Fund increased \$108.1 million (2.8%).
  - Increased refunds of General Fund sales/use tax payments decreased net revenue \$18.2 million.
  - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$83.7 million.
- **Banking Taxes (positive \$10.8 million, 15.0%)** — Over the most recent 12 months, bank franchise tax deposits increased \$9.1 million, while franchise tax refunds decreased \$1.7 million.
- **Fuel Tax (negative \$7.9 million, -1.1%)** — According to Department of Revenue monthly fuel sales [reports](#), the total gallons<sup>1</sup> subject to Iowa fuel tax decreased 1.2% over the most recent 12-month period. The gross taxable gallons by fuel type sold over the most recent 12 months, along with the percentage change when compared to the previous 12 months, are as follows:
  - Unblended gasoline,<sup>2</sup> 343.2 million gallons, -9.8%.
  - Gasoline blended with ethanol, 1,291.0 million gallons, 1.2%.
  - Diesel, including biodiesel blends, 802.5 million gallons, -1.8%.
  - Aviation, jet, and other fuels, 49.4 million gallons, 2.7%.
- **Gambling Tax (negative \$5.7 million, -1.5%)** — The annual gambling tax total has decreased each of the past four months.
- **Insurance Premium Tax (positive \$92.7 million, 87.5%)**. The current increase is likely the result of deposit timing issues.

---

<sup>1</sup> Taxable gallons distributed in Iowa (all fuel types) over the last 12 months totaled 2,486.1 million gallons. Taxed fuel later used for an exempt purpose is eligible for a fuel tax refund. Gallons that are originally distributed for an exempt purpose are not taxed and are not included in the Department's monthly report.

<sup>2</sup> A portion of the gallons listed as unblended gasoline is later blended with ethanol.

- **Real Estate Transfer Tax (negative \$5.5 million, -14.0%)** — After more than two years of strong increases, real estate transfer tax revenue growth has slowed, and the recent year-over-year decline in the 12-month total is the first since December 2019.
- **Cigarette Tax and Tobacco Tax (negative \$11.8 million, -6.1%).**

### Tax Spotlight — Franchise (Bank) Tax and Credit Union Tax

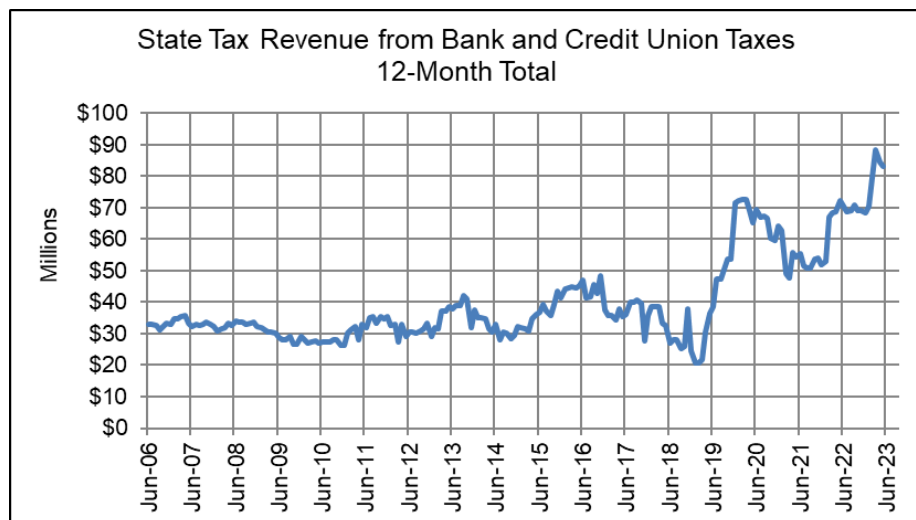
The taxation of banks and financial institutions in Iowa dates back to at least 1851. Prior to [HF 1294](#) (Taxation of Financial Institutions Act of 1970), the bank tax was essentially a property tax, collected and retained at the local level.

The current franchise tax (Iowa Code chapter [422](#), division V) is imposed on the net income of State banks, national banking associations, trust companies, federal and State-chartered savings and loan associations, financial institutions chartered by the Federal Home Loan Bank Board, and production credit associations at a rate of 5.0%. Credit unions are subject to a different tax discussed below.

The Iowa franchise tax enacted in 1970 provided for rates ranging from 5.0% to 8.0% of net income. The franchise tax rate was reduced to a flat 5.0% in 1980. Under provisions of [SF 2367](#) (Department of Revenue Operations and Tax Reduction Act), the franchise tax rate will be reduced to 3.5% over five tax years, beginning with TY 2023. Prior to 1995, financial institutions could transfer income-producing assets to nonbank subsidiaries, reducing the franchise tax owed. Legislation was enacted beginning with tax year 1995 that prohibits the deduction of those types of transfers.

Tax returns for franchise tax are required to be filed by the last day of the fourth month after the end of the tax year. Estimate payments from most financial institutions are due on a quarterly basis. Revenue received from the franchise tax is deposited in the State General Fund.

Credit unions are taxed at a rate of 0.5% of “legal and special reserves” (Iowa Code section [533.329](#)). Prior to FY 2020,<sup>3</sup> the tax was imposed by the county board of supervisors. The revenue derived from the tax is divided among the county, city, and State, with the State share equal to 50.0% of revenue collected. The State revenue is deposited in the General Fund.

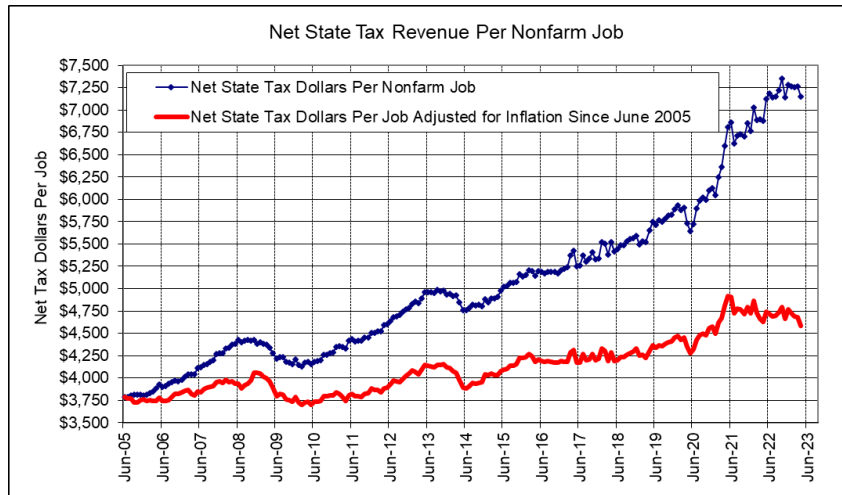


### Tax Revenue and Employment

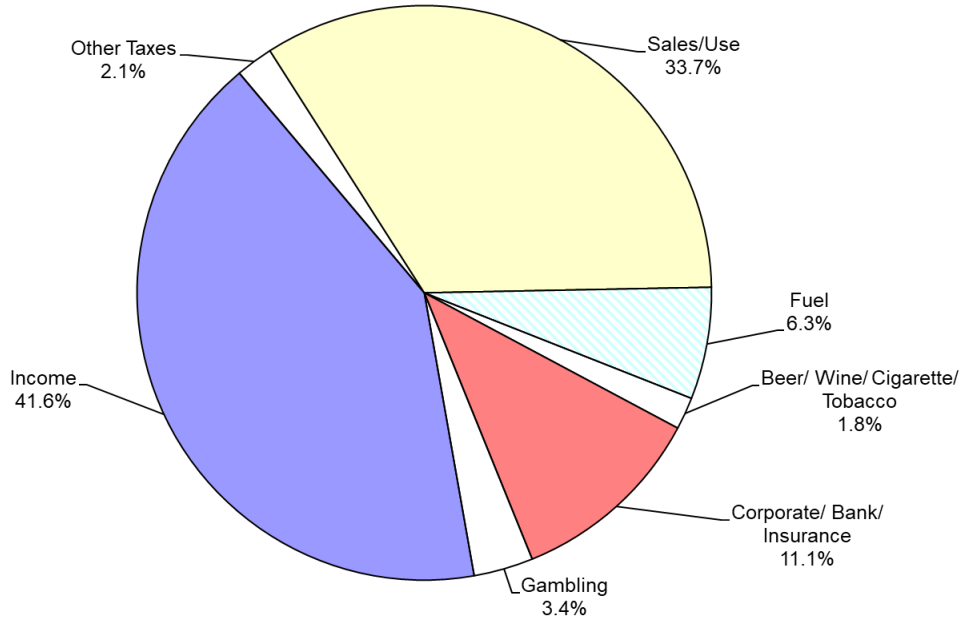
The average reading for Iowa nonfarm employment over the 12 months ending April 2022 was 1,578,900, and net State tax receipts over the same 12 months totaled \$11,286.6 million, or

<sup>3</sup> See section 70 of [HF 779](#) (2019 Tax Code Changes Act).

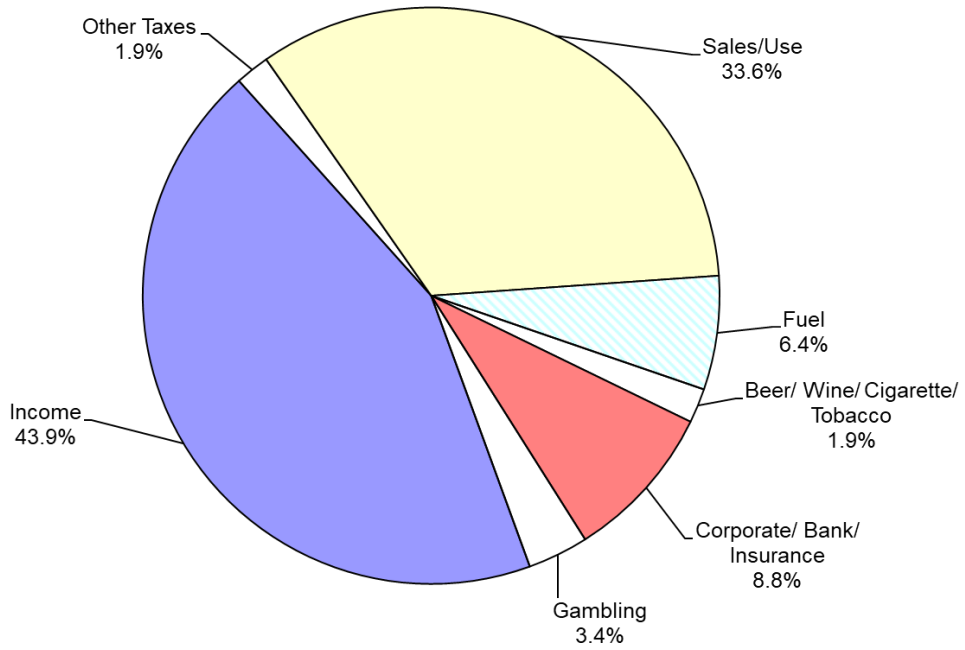
\$7,148 per nonfarm job. This is \$3,363 higher than the per-job average for the 12 months ending June 2005. The blue (upper) line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red (lower) line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation-adjusted tax revenue per job has increased \$798 since June 2005, and the remainder of the \$3,363 increase (\$2,565) can be considered the impact of inflation.



**Net State Tax Revenue — 12 Months Ending May 2023**  
**Net Revenue = \$11.096 Billion**  
Percentages may not add to 100% due to rounding



**Net State Tax Revenue — 12 Months Ending May 2022**  
**Net Revenue = \$11.074 Billion**  
Percentages may not add to 100% due to rounding



## Cash Basis Net Tax Revenue Deposited to State Funds

Dollars in millions. Columns and rows may not add due to rounding.

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of May 2022</b>	<b>Month of May 2023</b>	<b>May \$ Change</b>	<b>May % Change</b>
Banking	\$ 72.2	\$ 83.0	\$ 10.8	15.0%	\$ 6.1	\$ 4.6	\$ - 1.5	-24.6%
Beer and Wine	22.3	21.4	- 0.9	-4.0%	1.6	1.6	0.0	0.0%
Cigarette and Tobacco	191.9	180.1	- 11.8	-6.1%	14.9	12.5	- 2.4	-16.1%
Corporate Income	799.6	946.4	146.8	18.4%	50.8	87.8	37.0	72.8%
Fuel	706.4	698.5	- 7.9	-1.1%	51.4	70.8	19.4	37.7%
Gambling	377.5	371.8	- 5.7	-1.5%	30.3	29.2	- 1.1	-3.6%
Individual Income	4,866.1	4,620.5	- 245.6	-5.0%	743.8	494.2	- 249.6	-33.6%
Inheritance	91.1	89.2	- 1.9	-2.1%	0.4	4.0	3.6	900.0%
Insurance	106.0	198.7	92.7	87.5%	7.9	46.7	38.8	491.1%
Other Taxes	82.0	110.6	28.6	34.9%	- 0.5	40.6	41.1	--
Real Estate Transfer	39.3	33.8	- 5.5	-14.0%	2.8	2.2	- 0.6	-21.4%
Sales/Use	3,719.2	3,742.1	22.9	0.6%	441.4	366.2	- 75.2	-17.0%
<b>Total Net Taxes</b>	<b>\$ 11,073.6</b>	<b>\$ 11,096.1</b>	<b>\$ 22.5</b>	<b>0.2%</b>	<b>\$ 1,350.9</b>	<b>\$ 1,160.4</b>	<b>\$ - 190.5</b>	<b>-14.1%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 12,885.4	\$ 13,014.4	\$ 129.0	1.0%	\$ 1,614.9	\$ 1,496.6	\$ - 118.3	-7.3%
Tax Refunds	\$ - 1,811.8	\$ - 1,918.2	\$ - 106.4	5.9%	\$ - 264.0	\$ - 336.1	\$ - 72.1	27.3%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 9,187.7	\$ 9,217.9	\$ 30.2	0.3%	\$ 1,193.5	\$ 995.2	\$ - 198.3	-16.6%
Road Use Tax Fund	\$ 1,198.8	\$ 1,214.7	\$ 15.9	1.3%	\$ 97.0	\$ 116.9	\$ 19.9	20.5%
Non-GF Gambling	\$ 373.2	\$ 367.6	\$ - 5.6	-1.5%	\$ 30.1	\$ 29.1	\$ - 1.0	-3.3%
Other State Funds	\$ 313.9	\$ 295.9	\$ - 18.0	-5.7%	\$ 30.2	\$ 19.3	\$ - 10.9	-36.1%
<b>Local Option Taxes *</b>	<b>\$ 1,389.3</b>	<b>\$ 1,460.0</b>	<b>\$ 70.7</b>	<b>5.1%</b>	<b>\$ 137.3</b>	<b>\$ 169.1</b>	<b>\$ 31.8</b>	<b>23.2%</b>

\* Sales, income surtax, and hotel/motel tax. Distributed to local governments and not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount is zero or negative so no meaningful percentage change may be calculated.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is also included in this line. Of the total deposited, the bank tax provides approximately 97.50% of the revenue, and the credit union tax provides 2.50%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco product tax revenues were deposited in the General Fund. Beginning with FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes was deposited in the Health Care Trust Fund and the remainder deposited in the General Fund. Beginning with FY 2014, all revenue from the cigarette and tobacco tax is deposited in the Health Care Trust Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds. Funds receiving deposits of gambling tax revenue over the past two fiscal years include the General Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, the Sports Wagering Receipts Fund, the Iowa Skilled Worker and Job Creation Fund, and the Water Quality Infrastructure Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the General Fund. A total of \$7.8 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees, and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (General Fund), utility replacement property tax (General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax revenue type, and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% of the tax collected and remit the remainder to the State. Of the 82.75% remitted to the State, 5.00% is deposited in the Shelter Assistance Fund, the lesser of 30.00% or \$7.0 million to the Housing Trust Fund, and the remainder in the General Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.00% sales/use tax, and the revenue from that statewide tax is transferred out of the General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of State sales/use tax revenue is deposited in the Sales Tax Increment Fund and used for local flood mitigation projects. Beginning FY 2019, a portion of State sales/use tax revenue is deposited in the Reinvestment District Fund and used for local economic development projects. Also beginning FY 2019, a new Water Excise Tax is deposited in the General Fund and two water quality funds.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning in FY 2009, the SILO tax was converted to a 1.00% statewide tax and was eliminated. To allow for continuity of data, the transfers from the General Fund as a result of the 1.00% statewide tax are included in the local option tax amount. Flood mitigation sales tax increment transfers to local governments were added beginning July 2014.

**Report Dataset:** The dataset for this report is the State Accounting System. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.