



MEMORANDUM

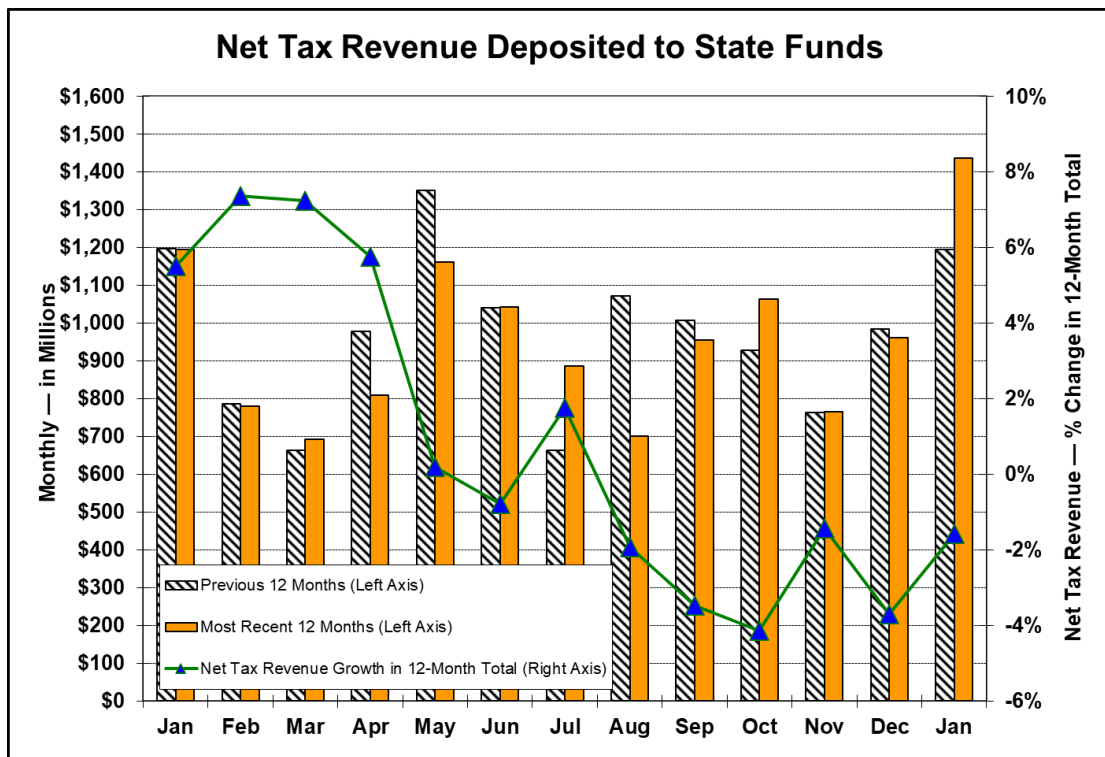
TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives

FROM: Eric M. Richardson

DATE: February 13, 2024

Twelve-Month Total Net Tax Receipts Through January 31, 2024

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending January 31, 2024, with comparisons to the previous 12 months. January 2023 to January 2024 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 \$1,437.5 million for the month of January 2024, an increase of \$242.4 million (20.3%) compared to the previous January. Individual income tax, corporate income tax, gambling tax, and the beer and wine tax decreased compared to the previous

January, while sales/use taxes, fuel tax, other taxes, and banking tax increased.

Over the most recent 12-month period, net tax revenue decreased \$180.0 million (-1.6%). The recent declines in individual income tax, inheritance tax, and the real estate transfer tax have been offset by an increase in sales and use tax, banking tax, insurance premium tax, and other taxes. During November 2023, the introduction of the pass-through entity tax (PTET) into the State Accounting System on a retroactive basis to January 1, 2022, increased other taxes significantly for the most recent 12-month period.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending January 31, 2024, net revenue from all taxes deposited to State funds totaled \$11,252.3 million, a decrease of \$180.0 million (-1.6%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include the following:

- **Individual Income Tax (negative \$906.5 million, -17.9%)** — Individual income tax revenue has declined in 15 of the past 16 months when compared to the same month the previous year, and growth is now negative over the past 12 months. Beginning January 1, 2023, Iowa reduced individual income tax rates and reduced the income tax base through a full exemption for retirement income. Individual income tax rates were reduced further for tax year 2024.
- **Corporate Income Tax (negative \$38.1 million, -4.2%)** — Gross deposits increased \$26.7 million year over year, while corporate tax refunds increased \$64.9 million. Iowa corporate income tax rates were reduced at the beginning of calendar year 2021 and were reduced further beginning January 1, 2023.
- **Sales/Use Tax (positive \$117.2 million, 3.0%)** — 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 \$39.6 million (8.0%).
 - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, the Reinvestment District Fund, and two water quality funds) decreased \$34.9 million.
 - Sales/use tax deposited to the General Fund increased \$136.0 million (3.4%).
 - Increased refunds of General Fund sales/use tax payments decreased net revenue \$7.4 million.
 - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$16.2 million.
- **Banking Taxes (positive \$12.4 million, 17.6%)** — Over the most recent 12 months, bank franchise tax deposits increased \$36.9 million, while franchise tax refunds increased \$24.5 million.
- **Beer Tax (negative \$0.7 million, -3.3%).**
- **Fuel Tax (negative \$17.5 million, -2.5%)** — According to Iowa Department of Revenue (IDR) monthly fuel sales [reports](#), the total gallons¹ subject to Iowa fuel tax decreased 1.3% 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,² 386.7 million gallons, 12.5%.
 - Gasoline blended with ethanol, 1,258.9 million gallons, -2.4%.

¹ Taxable gallons distributed in Iowa (all fuel types) over the last 12 months totaled 2,471.4 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 IDR's monthly report.

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

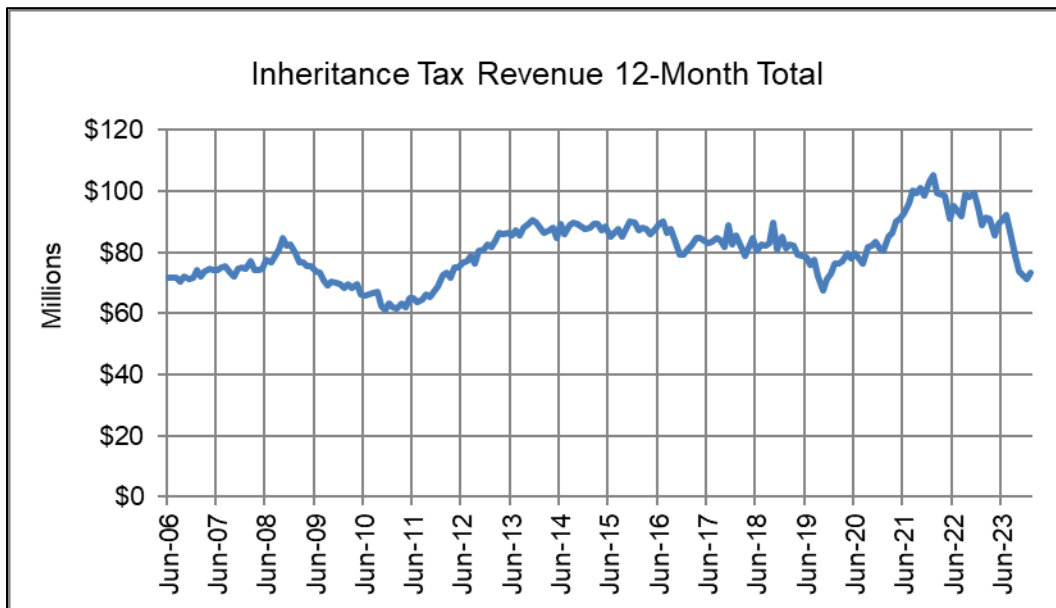
- Diesel, including biodiesel blends, 775.1 million gallons, -5.3%.
- Aviation, jet, and other fuels, 50.7 million gallons, 1.2%.
- **Gambling Tax (negative \$14.3 million, -3.8%)** — The annual gambling tax total has decreased in each of the past 11 months.
- **Inheritance Tax (negative \$15.3 million, -17.2%)** — The inheritance tax is currently being phased out by 20.0% per year over multiple years until all rates are 0.0% in tax year (TY) 2025.
- **Insurance Premium Tax (positive \$39.1 million, 25.8%).**
- **Real Estate Transfer Tax (negative \$7.5 million, -20.4%)** — After more than two years of strong increases, real estate transfer tax revenue growth slowed beginning in October 2022. The recent year-over-year decline in the 12-month total is the first since December 2019.
- **Cigarette Tax and Tobacco Tax (negative \$10.9 million, -6.0%).**
- **Other Taxes (positive \$662.1 million, 4,847.4%)** — On November 30, 2023, the IDR created a new revenue classification for the PTET, which was enacted in 2023 Iowa Acts, [HF 352](#) (Pass-Through Business Entity Tax and Deduction Act). The PTET creates a voluntary election for a partnership or S corporation to be subject to Iowa income tax at the entity level and was applied retroactively beginning on or after January 1, 2022. In previous months, the PTET was categorized as corporate income tax. With the creation of the PTET, a \$-138.5 million entry of corporate income tax was reflected in the State Accounting System for the month of November 2023, while a corresponding \$138.5 million entry in Other Taxes was made.

Tax Spotlight — Inheritance Taxes

The inheritance tax is imposed under the authority of Iowa Code chapter [450](#). Tax rates in range from 5.0% to 15.0% depending on the amount of the inheritance and the relationship of the beneficiary to the decedent. To be subject to the tax, an estate must exceed \$25,000 in value. Spouses were exempted fully from the inheritance tax with the passage of 1991 Iowa Acts, [chapter 159](#) (Department of Revenue and Finance Tax Administration Act of 1991). 1997 Iowa Acts, [chapter 1](#) (Inheritance Tax Act of 1997) expanded the full tax exemption to include lineal ascendants and descendants.

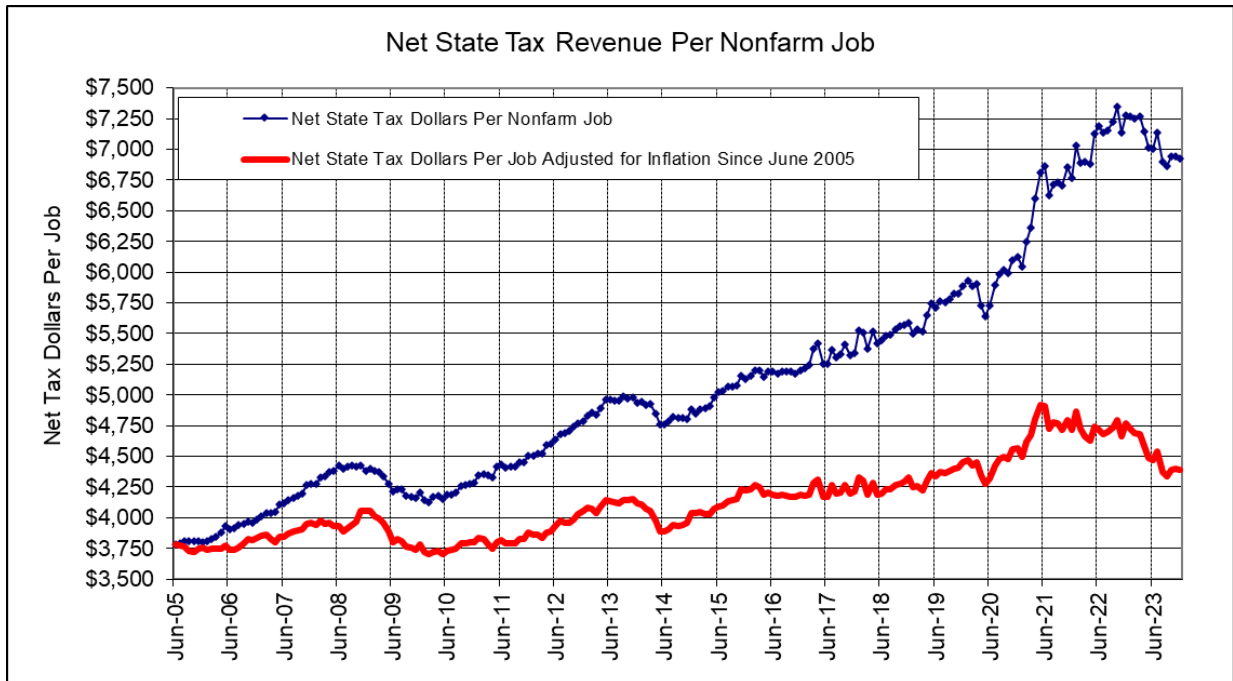
The qualified use inheritance tax is imposed under the authority of Iowa Code chapter [450B](#). A qualifying heir for federal tax purposes may forego inheritance tax on property used in farming or business if the heir maintains the business for up to 10 years. However, if the farm or other business is sold to a nonrelative before the 10-year period ends, the heir may be required to pay inheritance tax.

2021 Iowa Acts, chapter [177](#) (SF 619 — Taxation and Other Provisions Act), phases out the inheritance tax and qualified use inheritance tax in five stages by reducing the effective tax rate by 20.0% per year over four years and then eliminating the tax on January 1, 2025 (for deaths occurring on or after that date). The following figure depicts Iowa inheritance tax revenues on a 12-month moving total basis.

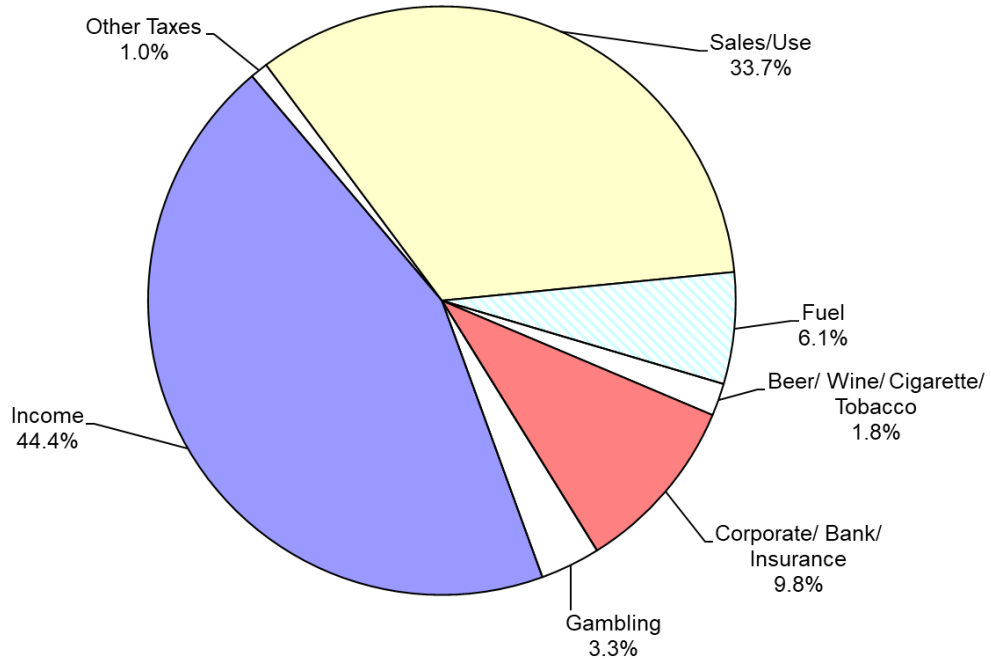


Tax Revenue and Employment

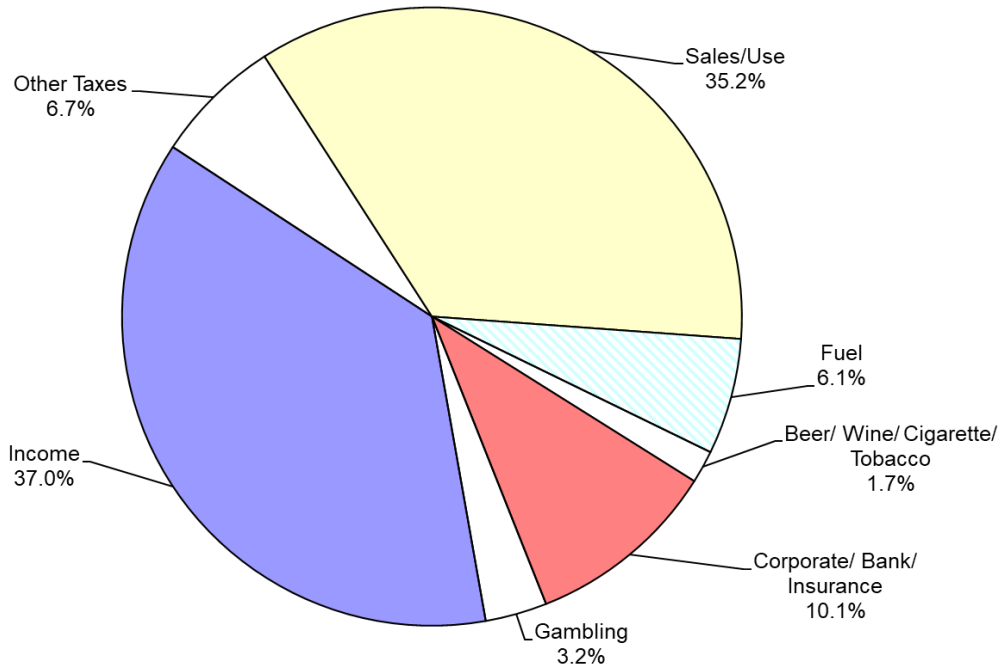
The average reading for Iowa nonfarm employment over the 12 months ending December 2023 was 1,589,700, and net State tax receipts over the same 12 months totaled \$11,010.0 million, or \$6,926 per nonfarm job. This is \$3,141 higher than the per-job average for the 12 months ending June 2005. The blue (upper) line on the following figure 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 \$607 since June 2005, and the remainder of the \$3,141 increase (\$2,534) can be considered the impact of inflation.



Net State Tax Revenue — 12 Months Ending January 2023
Net Revenue = \$11.432 Billion
 Percentages may not add to 100% due to rounding



Net State Tax Revenue — 12 Months Ending January 2024
Net Revenue = \$11.252 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.

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of January 2023	Month of January 2024	January \$ Change	January % Change
Banking	\$ 70.3	\$ 82.7	\$ 12.4	17.6%	\$ 5.2	\$ 7.6	\$ 2.4	46.2%
Beer and Wine	21.4	20.7	- 0.7	-3.3%	1.9	1.8	- 0.1	-5.3%
Cigarette and Tobacco	182.7	171.8	- 10.9	-6.0%	12.4	14.2	1.8	14.5%
Corporate Income	897.1	859.0	- 38.1	-4.2%	72.3	64.3	- 8.0	-11.1%
Fuel	700.8	683.3	- 17.5	-2.5%	67.0	71.4	4.4	6.6%
Gambling	377.1	362.8	- 14.3	-3.8%	30.6	26.7	- 3.9	-12.7%
Individual Income	5,072.0	4,165.5	- 906.5	-17.9%	485.8	409.3	- 76.5	-15.7%
Inheritance	88.8	73.5	- 15.3	-17.2%	3.5	5.6	2.1	60.0%
Insurance Premium	151.3	190.4	39.1	25.8%	0.4	0.3	- 0.1	-25.0%
Other Taxes	- 13.7	648.4	662.1	4847.4%	70.5	366.4	295.9	419.7%
Real Estate Transfer	36.7	29.2	- 7.5	-20.4%	2.9	2.9	0.0	0.0%
Sales/Use	3,847.8	3,965.0	117.2	3.0%	442.6	467.0	24.4	5.5%
Total Net Taxes	\$ 11,432.3	\$ 11,252.3	\$ - 180.0	-1.6%	\$ 1,195.1	\$ 1,437.5	\$ 242.4	20.3%
Gross Tax & Refunds								
Gross Tax	\$ 13,218.4	\$ 13,314.1	\$ 95.7	0.7%	\$ 1,264.6	\$ 1,526.5	\$ 261.9	20.7%
Tax Refunds	\$ - 1,786.1	\$ - 2,062.0	\$ - 275.9	15.4%	\$ - 69.4	\$ - 89.2	\$ - 19.8	28.5%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 9,524.4	\$ 9,378.9	\$ - 145.5	-1.5%	\$ 1,038.1	\$ 1,283.7	\$ 245.6	23.7%
Road Use Tax Fund	\$ 1,200.6	\$ 1,223.2	\$ 22.6	1.9%	\$ 114.4	\$ 110.8	\$ - 3.6	-3.1%
Non-GF Gambling	\$ 372.8	\$ 358.6	\$ - 14.2	-3.8%	\$ 28.2	\$ 26.6	\$ - 1.6	-5.7%
Other State Funds	\$ 334.4	\$ 291.3	\$ - 43.1	-12.9%	\$ 14.5	\$ 16.2	\$ 1.7	11.7%
Local Option Taxes *	\$ 1,398.1	\$ 1,468.5	\$ 70.4	5.0%	\$ 97.0	\$ 98.8	\$ 1.8	1.9%

* 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 and 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, the Water Quality Infrastructure Fund, and the Levee Improvement 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, Composite Tax, Pass-Through Entity Tax, 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.