



**MEMORANDUM**

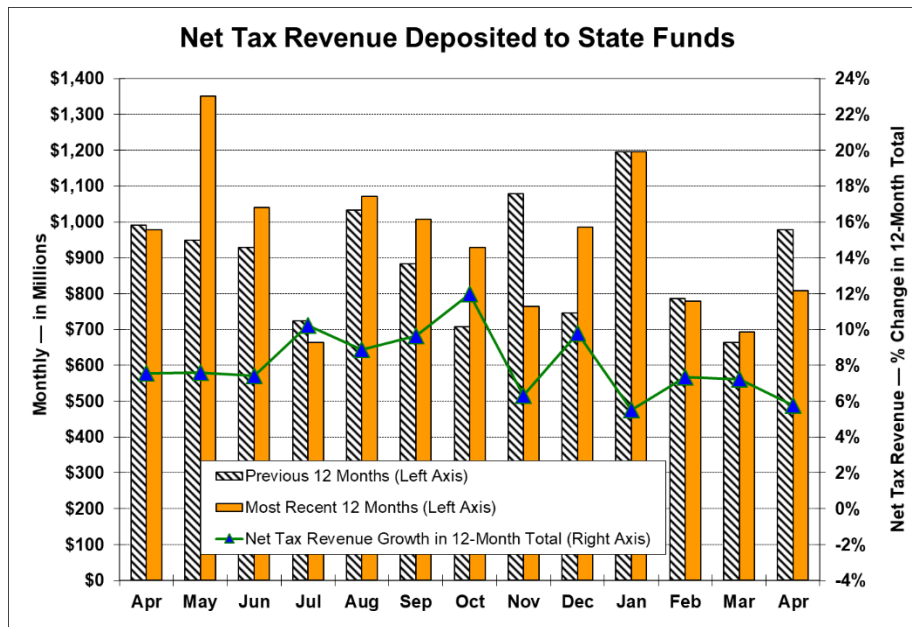
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: May 25, 2023

**Twelve-Month Total Net Tax Receipts Through April 30, 2023**

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending April 30, 2023, with comparisons to the previous 12 months. April 2022 to April 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 \$808.6 million for the month of April 2023, a decrease of \$169.8 million (17.4%) compared to the previous April. Individual income tax revenue accounted for \$150.6 million of the April decrease, as all four components of net individual income tax revenue (withholding, estimate payments, tax refunds, and payments with tax returns) contributed to the month’s revenue downturn.

Over the most recent 12-month period, net tax revenue increased \$615.3 million (5.8%). Of that annual growth amount, more than 50.0% of the annual increase arrived through the

individual income tax.

An accounting practice change that began in November 2021 has created considerable uncertainty as to the actual amounts and rates of revenue growth, both monthly and year over year, for sales/use, fuel, and individual income tax, and the category of other taxes. It appears that this uncertainty will continue to varying degrees for the foreseeable future.

The accounting change involves the use of a suspense account process that initially deposits income tax withholding, corporate income tax, sales/use tax, and fuel tax to the General Fund without initially crediting the deposit to the relevant tax type. The correct revenue category is added at a later date as the funds are moved out of the suspense account.

At the conclusion of FY 2022, \$14.8 million remained in the General Fund suspense account as uncategorized tax receipts. At the conclusion of April 2023, \$31.3 million in FY 2023 tax revenue remained in the suspense account with the revenues not yet allocated to the appropriate tax type. Transfers out of the suspense account that took place on May 1, 2023, indicate that \$9.2 million of the FY 2023 uncategorized revenue in the General Fund at the end of April was motor fuel tax.

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

During the 12-month period ending April 30, 2023, net revenue from all taxes deposited to State funds totaled \$11,286.7 million, an increase of \$615.3 million (5.8%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include the following:

- **Individual Income Tax (positive \$339.6 million, 7.5%)** — The current 7.5% annual rate of growth remains strong, and despite the COVID-19 pandemic, individual income tax growth has averaged 8.6% per year over the past three years. The growth in individual income tax has occurred despite a decrease in the number of employed Iowans since the start of the pandemic.
- **Corporate Income Tax (positive \$114.9 million, 14.5%)** — Gross deposits increased \$72.3 million year over year, while corporate tax refunds decreased \$42.6 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 \$177.2 million, 4.9%)** — 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 \$16.2 million (3.3%).
  - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, Reinvestment District Fund, and two water quality funds) increased \$1.9 million.
  - Sales/use tax deposited to the General Fund increased \$247.4 million (6.6%).
  - Increased refunds of General Fund sales/use tax payments decreased net revenue \$23.9 million.
  - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$64.4 million.
- **Banking Taxes (positive \$15.6 million, 22.6%)** — Over the most recent 12 months, bank franchise tax deposits increased \$13.6 million, while franchise tax refunds decreased \$2.0 million.

- **Fuel Tax (positive \$4.6 million, 0.7%)** — 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> 337.3 million gallons, -13.3%.
  - Gasoline blended with ethanol, 1,300.3 million gallons, 2.6%.
  - Diesel, including biodiesel blends, 798.4 million gallons, -1.7%.
  - Aviation, jet, and other fuels, 49.7 million gallons, 5.0%.
- **Gambling Tax (negative \$4.2 million, -1.1%)** — Iowa's 19 State-regulated casino/racetrack locations temporarily closed on March 17, 2020, as a result of the Governor's declaration of the COVID-19 State public health emergency. Most casinos reopened in early June 2020. While the closure resulted in a significant decrease in casino gambling during calendar year 2020, gambling tax receipts expanded significantly in calendar years 2021 and 2022 when compared to prepandemic levels. The February, March, and April decreases in the annual total are the first since March 2021.
- **Insurance Premium Tax (positive \$11.8 million, 8.0%)**.
- **Real Estate Transfer Tax (negative \$4.6 million, -11.8%)** — 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 \$10.8 million, -5.6%)**.

### Tax Spotlight — Cigarette Tax and Tobacco Tax

Tobacco products are taxed under the authority of Iowa Code chapter [453A](#). Based on law changes enacted in 2007:

- Cigarettes and little cigars are taxed at \$0.068 per cigarette (\$1.36 per pack of 20).
- Snuff is taxed at \$1.19 per ounce.
- Cigars are taxed at 50.0% of the wholesale price, not to exceed \$0.50 per cigar.
- All other tobacco products are taxed at 50.0% of the wholesale price.
- Effective July 1, 2012, in addition to the tobacco tax of 50.0% of the wholesale price, roll-your-own (RYO) cigarettes are taxed at \$0.0306 per cigarette (\$0.61 per pack of 20).
- Iowa cigarette and tobacco taxes do not apply to electronic cigarettes. Sales of alternative nicotine and vapor products are subject to the sales/use tax.

The Iowa cigarette tax was first enacted at a rate of \$0.02 per pack of 20 cigarettes ([HF 678](#), Cigarette Tax Act of 1921). The cigarette tax rate was increased periodically and reached \$0.34 per pack in 1988. The tax rate was lowered to \$0.31 per pack in 1989 and increased to \$0.36 per pack in 1991. The current \$1.36 State tax rates went into effect on March 16, 2007.

The tobacco tax was enacted in 1967 at a rate of 10.0% of the wholesale price ([HF 702](#), Tax Modification Act of 1967). The tax was increased to 15.0% in 1985, 19.0% in 1988, and 22.0% in 1991. The rate stood at 22.0% of the wholesale price until the 2007 Legislative Session.

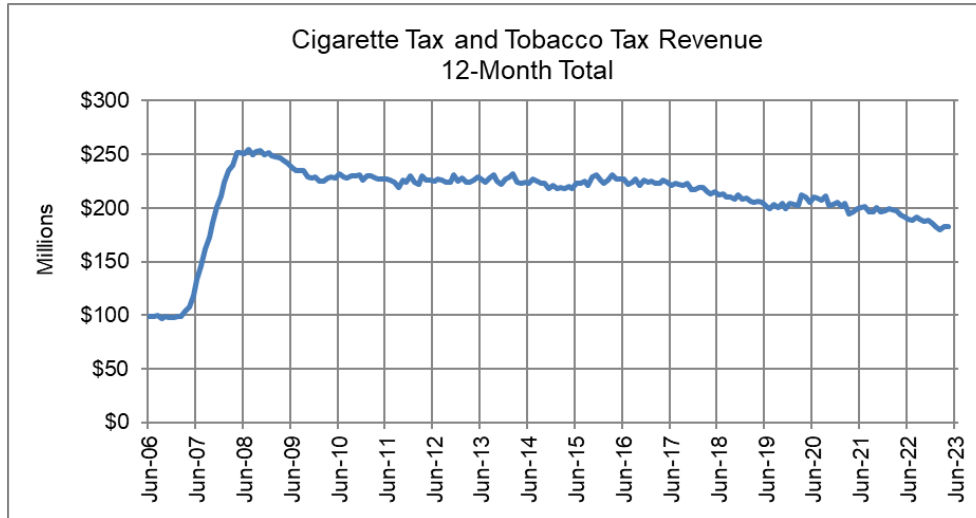
The tax imposed on cigarettes must be paid by the person making the first sale in Iowa. Cigarette stamps affixed to the package indicate the tax has been paid. Cigarette tax returns

<sup>1</sup> Taxable gallons distributed in Iowa (all fuel types) over the last 12 months totaled 2,485.7 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.

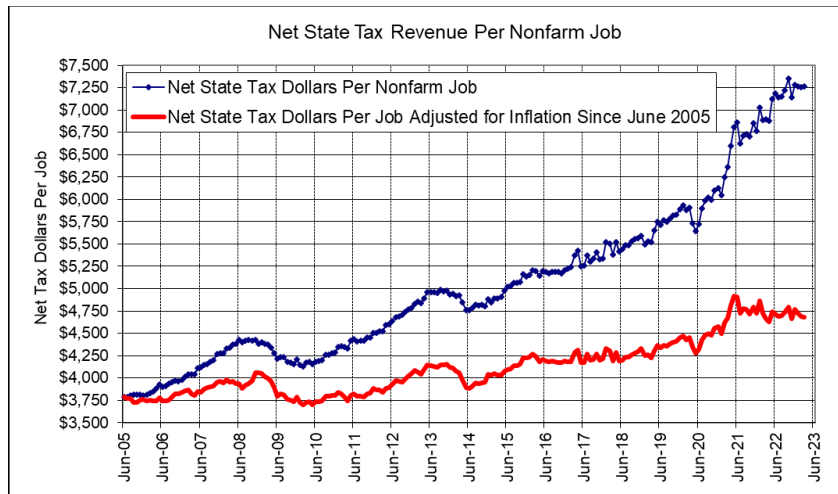
are to be filed by the holder of a permit by the 10th day of each month for the preceding calendar month. Tobacco (other than cigarette) tax returns must be filed by the 20th day of each month for the preceding calendar month. Beginning with FY 2014, all income from the cigarette and tobacco tax is deposited into the [Health Care Trust Fund](#).

The following chart depicts Iowa cigarette tax and tobacco tax revenues deposited to all funds on a 12-month moving total basis.

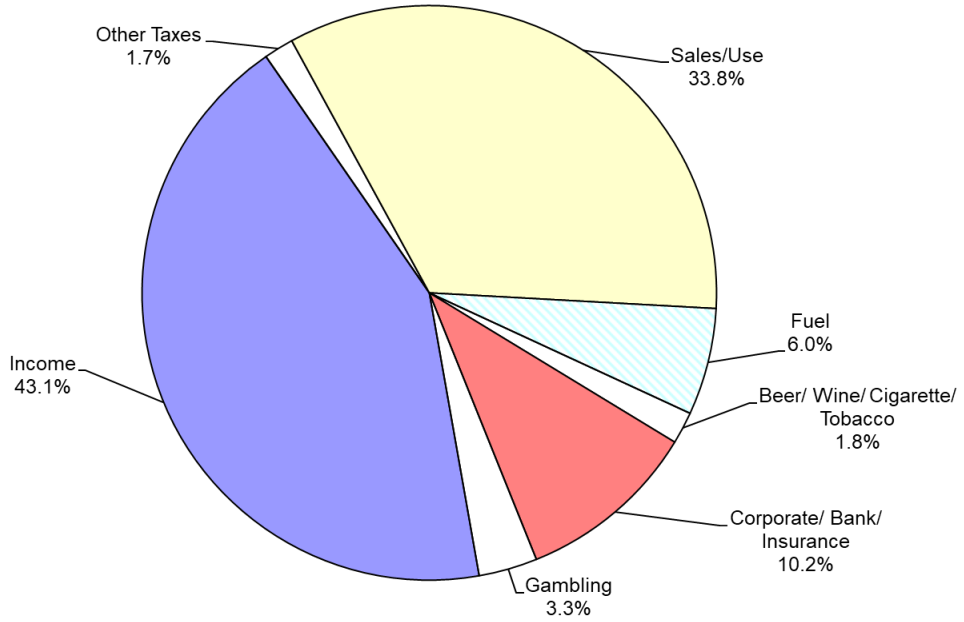


### Tax Revenue and Employment

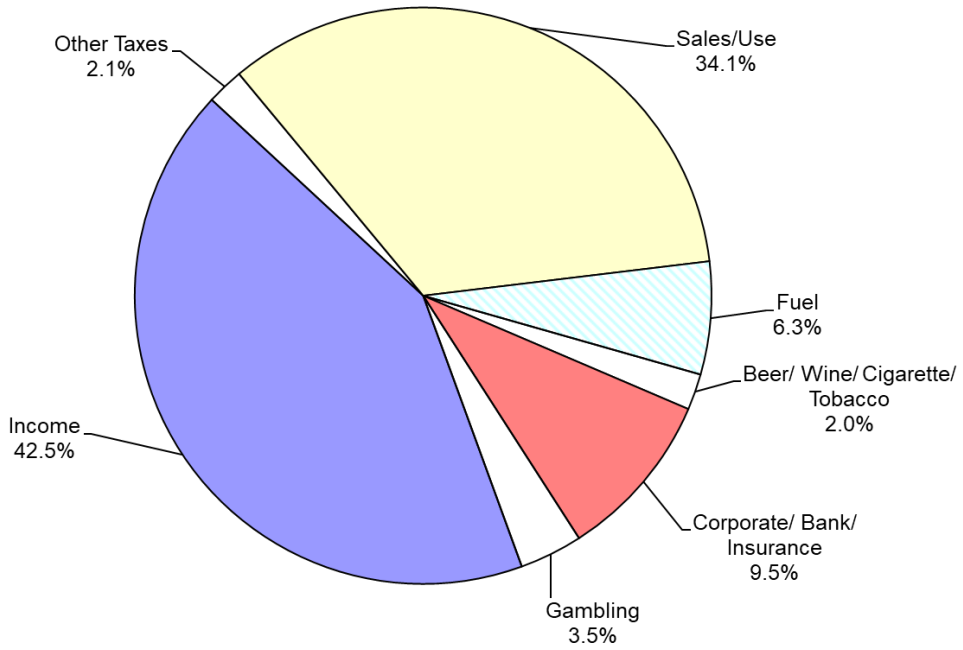
The average reading for Iowa nonfarm employment over the 12 months ending March 2022 was 1,577,000, and net State tax receipts over the same 12 months totaled \$11,456.4 million, or \$7,265 per nonfarm job. This is \$3,480 higher than the per-job average for the 12 months ending June 2005. The blue (upper) 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 \$896 since June 2005, and the remainder of the \$3,480 increase (\$2,584) can be considered the impact of inflation.



**Net State Tax Revenue — 12 Months Ending April 2023**  
**Net Revenue = \$11.287 Billion**  
Percentages may not add to 100% due to rounding



**Net State Tax Revenue — 12 Months Ending April 2022**  
**Net Revenue = \$10.671 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 April 2022</b>	<b>Month of April 2023</b>	<b>April \$ Change</b>	<b>April % Change</b>
Banking	\$ 68.9	\$ 84.5	\$ 15.6	22.6%	\$ 19.1	\$ 15.3	\$ - 3.8	-19.9%
Beer and Wine	22.3	21.4	- 0.9	-4.0%	1.7	1.6	- 0.1	-5.9%
Cigarette and Tobacco	193.4	182.6	- 10.8	-5.6%	12.5	12.2	- 0.3	-2.4%
Corporate Income	794.5	909.4	114.9	14.5%	168.0	164.8	- 3.2	-1.9%
Fuel	674.5	679.1	4.6	0.7%	41.0	34.2	- 6.8	-16.6%
Gambling	377.1	372.9	- 4.2	-1.1%	35.9	30.3	- 5.6	-15.6%
Individual Income	4,530.5	4,870.1	339.6	7.5%	407.5	256.9	- 150.6	-37.0%
Inheritance	98.6	85.6	- 13.0	-13.2%	9.4	4.2	- 5.2	-55.3%
Insurance	148.1	159.9	11.8	8.0%	0.3	0.3	0.0	0.0%
Other Taxes	84.4	69.5	- 14.9	-17.7%	21.0	17.8	- 3.2	-15.2%
Real Estate Transfer	39.0	34.4	- 4.6	-11.8%	3.2	2.4	- 0.8	-25.0%
Sales/Use	3,640.1	3,817.3	177.2	4.9%	258.8	268.6	9.8	3.8%
<b>Total Net Taxes</b>	<b>\$ 10,671.4</b>	<b>\$ 11,286.7</b>	<b>\$ 615.3</b>	<b>5.8%</b>	<b>\$ 978.4</b>	<b>\$ 808.6</b>	<b>\$ - 169.8</b>	<b>-17.4%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 12,462.3	\$ 13,132.7	\$ 670.4	5.4%	\$ 1,227.8	\$ 1,100.5	\$ - 127.3	-10.4%
Tax Refunds	\$ - 1,790.9	\$ - 1,846.1	\$ - 55.2	3.1%	\$ - 249.3	\$ - 291.9	\$ - 42.6	17.1%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 8,808.5	\$ 9,416.2	\$ 607.7	6.9%	\$ 844.4	\$ 683.2	\$ - 161.2	-19.1%
Road Use Tax Fund	\$ 1,172.2	\$ 1,194.9	\$ 22.7	1.9%	\$ 84.4	\$ 81.8	\$ - 2.6	-3.1%
Non-GF Gambling	\$ 372.8	\$ 368.7	\$ - 4.1	-1.1%	\$ 35.7	\$ 30.2	\$ - 5.5	-15.4%
Other State Funds	\$ 317.9	\$ 306.9	\$ - 11.0	-3.5%	\$ 14.0	\$ 13.6	\$ - 0.4	-2.9%
<b>Local Option Taxes *</b>	<b>\$ 1,366.4</b>	<b>\$ 1,428.1</b>	<b>\$ 61.7</b>	<b>4.5%</b>	<b>\$ 116.6</b>	<b>\$ 102.6</b>	<b>\$ - 14.0</b>	<b>-12.0%</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 98.50% of the revenue, and the credit union tax provides 1.50%.

**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.