

**MEMORANDUM**

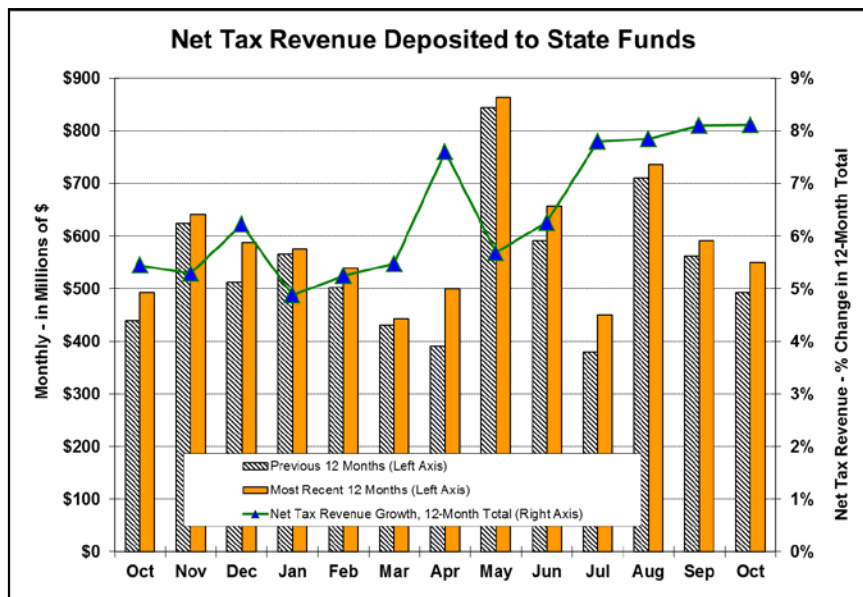
**TO:** Members of the Iowa Senate and  
 Members of the Iowa House of Representatives

**FROM:** Jeff Robinson  
 Shawn Snyder

**DATE:** November 21, 2012

**Twelve-month Total Net Tax Receipts Through October 31, 2012**

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending October 2012 with comparisons to the previous twelve months. October 2011 to October 2012 one-month comparisons are also presented. The source of the information is the State accounting system, including 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**

At 8.1%, the annual growth rate is now higher than any time since June 2007 (8.5%). There was a large increase (\$25.3 million) in sales/use tax deposits this month, with about \$10.0 million of the increase due to early deposits of quarterly tax payments. Inheritance and real estate transfer tax receipts have shown strong gains in recent months, driven by recoveries in the equity and real estate markets.

## Month of October Comparison

October net tax receipts totaled \$550.3 million, an increase of \$58.2 million (11.8%) compared to October 2011. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$19.3 million, 8.6%) – Gross income tax deposits increased \$20.0 million in October while individual income tax refunds issued increased \$0.7 million. The strong October 2012 results came in spite of a deposit timing issue that negatively impacted the month.
- Sales/Use Tax (positive \$25.3 million, 20.1%)
  - Road Use Tax Fund use tax (fee for new vehicle registration) decreased \$1.3 million in October. This is only the third negative month in the past two years.
  - Gross General Fund sales/use tax receipts increased \$23.3 million (16.7%), with approximately 43.0% of the increase due to the early deposit of quarterly sales tax payments. This will negatively impact November comparisons. Regular sales tax refunds decreased \$3.1 million. School infrastructure transfers out decreased \$0.1 million in October.
- Corporate Income Tax (positive \$10.1 million, 22.3%) – Deposits of corporate income tax receipts increased \$12.5 million (25.6%) in October, while corporate tax refunds increased \$2.4 million.
- Fuel Tax (negative \$1.9 million, - 5.1%) – Gross fuel tax deposits decreased \$0.3 million for the month while tax refunds increased \$1.6 million.
- Cigarette and Tobacco Taxes (unchanged)
- Gambling Tax (negative \$0.1 million, - 0.4%)

## Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending October 2012, net revenue from all taxes deposited to State funds totaled \$7.135 billion, an increase of \$535.5 million (8.1%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$187.7 million, 6.5%) – Individual income tax continues to post good year-over-year annual growth numbers and the income tax withholding component has shown improvement recently with growth equal to 6.6% over the most recent three months.
- Sales/Use Tax (positive \$152.7 million, 6.8%) – Sales tax receipts continue to post very good gains, both for the General Fund and for the Road Use Tax Fund (vehicle sales).
- Corporate Income Tax (positive \$162.1 million, 57.6%) – Corporate income tax revenue has shown significant strength over the past 18 months, although the positive growth percentages are starting to come down.
- Fuel Tax (negative \$3.9 million, - 0.9%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 2.9% while taxable diesel sales decreased 0.3%. Taxable diesel sales over the most recent 12-month period are 3.9% lower than the March 2008 peak diesel sales level. Total taxable fuel gallons (gasoline/ethanol/diesel) have dipped below the prerecession peak (September 2007) for all taxed gallons sold.

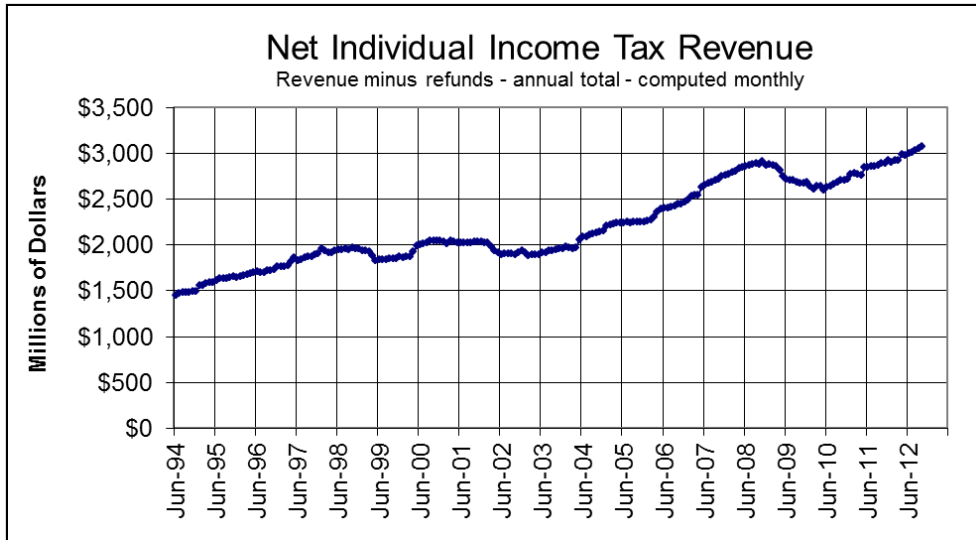
- Gambling Tax (positive \$14.4 million, 5.1%) – According to Racing and Gaming Commission statistics, six of Iowa’s 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-month period ending October 2012. The combined AGR growth for the 18 facilities was positive 4.9% over the previous 12-month period, with the new Lyon County casino contributing 50.2% of the AGR growth. Across all facilities, the AGR for the most recent 12 months totaled \$1.467 billion.
- Real Estate Transfer Tax (positive \$2.5 million, 17.6%) – Annual real estate transfer tax receipts peaked in April 2006 at \$18.8 million and bottomed in May 2010 at \$12.9 million. Receipts are now 11.1% below the April 2006 peak.
- Cigarette and Tobacco Tax (negative \$2.5 million, - 1.1%)

### **Tax Spotlight – Individual Income Tax**

Iowa individual income is taxed under the authority of [Iowa Code chapter 422, Division II](#). The Iowa individual income tax is imposed on Iowa taxable income of individuals, estates, and trusts. Married filers with a combined net income of less than \$13,500 (\$9,000 for single taxpayers) are not generally required to pay Iowa income tax or submit an Iowa income tax return. This “filing threshold” does not apply to taxpayers claimed as dependents on another tax return. Iowa uses federal adjusted gross income as the initial point for tax calculation.

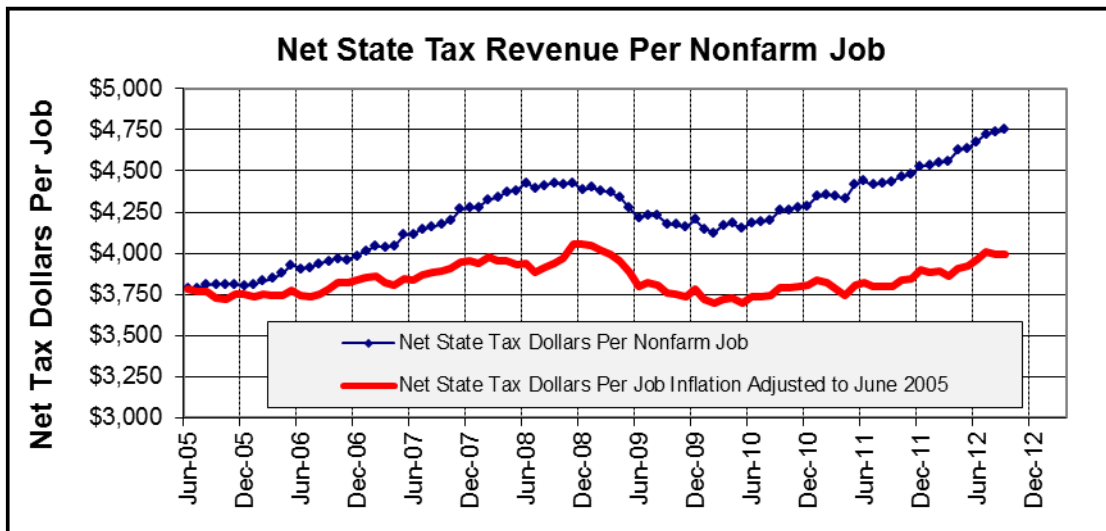
The Iowa individual income tax was first imposed in 1934 with a minimum marginal rate of 1.0% and a maximum marginal rate of 5.0% (HF 1 - Income, Corporation, and Sales Tax Act). The current tax rates were established in 1998 (HF 388 – Individual Income Tax Rates Act) and are applied to nine taxable income brackets ranging from an initial rate of 0.36% and a maximum rate of 8.98%. The income brackets are adjusted each year by the Department of Revenue based on an inflation calculation. For the 2012 tax year, the maximum marginal tax rate applies to taxable income above \$66,105. Taxpayers deduct 100.0% of federal income tax paid when calculating taxable income.

There are a large number of tax credits that may provide a reduction in individual income tax. A list is located at <http://www.iowa.gov/tax/taxlaw/Taxcredits.pdf>. Individual income tax returns are filed by the last day of the fourth month following the end of the tax year (April 30 for most taxpayers). In some cases, individuals may be required to remit quarterly estimated tax payments. Withholding tax is due semimonthly, monthly, or quarterly, depending on the total amount of income tax withheld by the employer. In general, individual income tax revenues are deposited in the State General Fund. Pursuant to [Iowa Code section 422.16A](#), \$4.0 million from withholding tax is deposited in the Workforce Development Fund each year.



### Tax Revenue and Employment

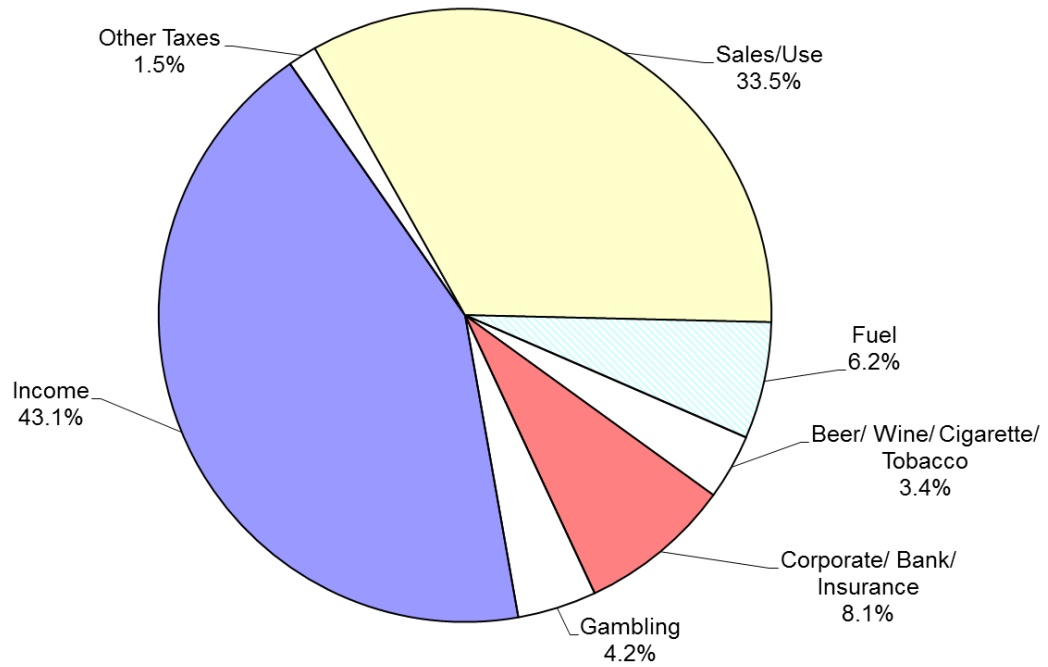
The average reading for Iowa nonfarm employment over the 12 months ending September 2012 is 1,489,000 and net State tax receipts over the same 12 months totaled \$7.076 billion, or \$4,752 per nonfarm job. This is \$967 (25.6%) higher than the per-job average for the 12 months ending June 2005. Over that same time period, inflation (CPI-U) increased 19.0%. Therefore, State tax revenue per job has exceeded the rate of inflation by approximately 0.9% per year since June 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



## Net State Tax Revenue - Twelve Months Ending October 2012

**Net Revenue = \$7.134 Billion**

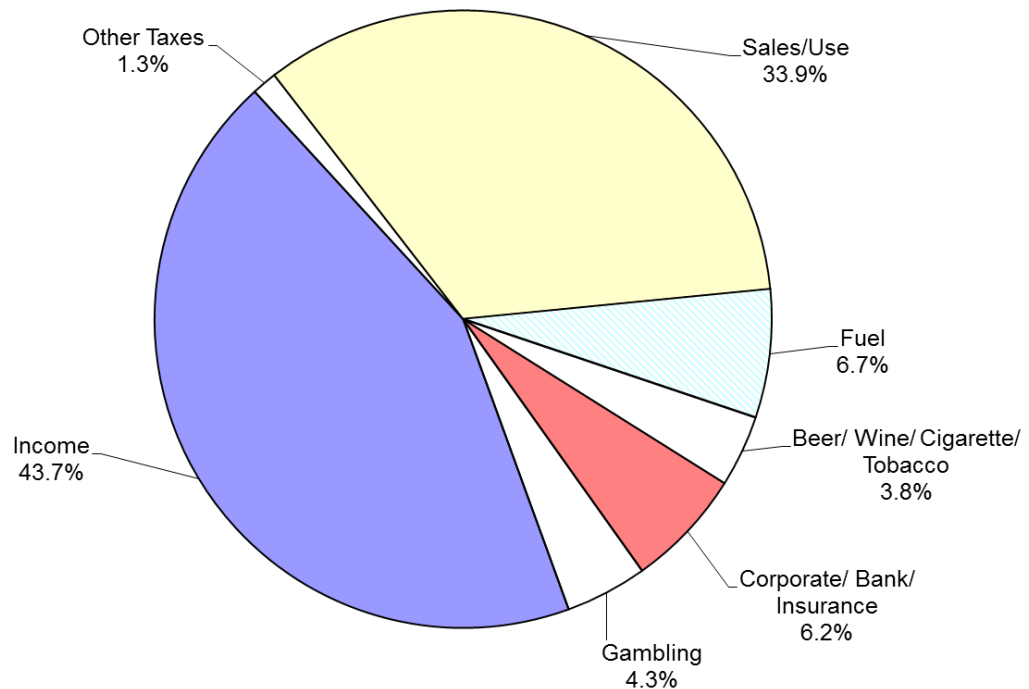
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending October 2011

**Net Revenue = \$6.599 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

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 October 2011</b>	<b>Month of October 2012</b>	<b>October \$ Change</b>	<b>October % Change</b>
Banking	\$ 35.6	\$ 31.6	\$ - 4.0	-11.2%	\$ 3.5	\$ 4.4	\$ 0.9	25.7%
Beer & Wine	21.5	21.9	0.4	1.9%	1.8	1.3	- 0.5	-27.8%
Cigarette & Tobacco	226.4	223.9	- 2.5	-1.1%	24.1	24.1	0.0	0.0%
Corporate Income	281.2	443.3	162.1	57.6%	45.3	55.4	10.1	22.3%
Fuel	443.3	439.4	- 3.9	-0.9%	37.1	35.2	- 1.9	-5.1%
Gambling	283.1	297.5	14.4	5.1%	23.4	23.3	- 0.1	-0.4%
Individual Income	2,886.8	3,074.5	187.7	6.5%	223.9	243.2	19.3	8.6%
Inheritance	65.3	80.4	15.1	23.1%	4.2	8.1	3.9	92.9%
Insurance	94.5	101.8	7.3	7.7%	0.0	0.0	0.0	--
Other Taxes	7.8	11.5	3.7	47.4%	1.5	2.9	1.4	93.3%
Real Estate Transfer	14.2	16.7	2.5	17.6%	1.5	1.3	- 0.2	-13.3%
Sales/Use	2,239.3	2,392.0	152.7	6.8%	125.8	151.1	25.3	20.1%
<b>Total Net Taxes</b>	<b>\$ 6,599.0</b>	<b>\$ 7,134.5</b>	<b>\$ 535.5</b>	<b>8.1%</b>	<b>\$ 492.1</b>	<b>\$ 550.3</b>	<b>\$ 58.2</b>	<b>11.8%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,881.8	\$ 8,421.3	\$ 539.5	6.8%	\$ 556.2	\$ 616.2	\$ 60.0	10.8%
Tax Refunds	\$ - 1,282.8	\$ - 1,287.0	\$ - 4.2	0.3%	\$ - 64.2	\$ - 65.9	\$ - 1.7	2.6%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,551.5	\$ 6,024.3	\$ 472.8	8.5%	\$ 380.8	\$ 441.1	\$ 60.3	15.8%
Road Use Tax Fund	\$ 733.2	\$ 751.3	\$ 18.1	2.5%	\$ 62.9	\$ 59.7	\$ - 3.2	-5.1%
Non-GF Gambling	\$ 215.2	\$ 228.7	\$ 13.5	6.3%	\$ 21.9	\$ 21.9	\$ 0.0	0.0%
Other State Funds	\$ 99.2	\$ 130.0	\$ 30.8	31.0%	\$ 26.5	\$ 27.6	\$ 1.1	4.2%
<b>Local Option Taxes *</b>	<b>\$ 839.9</b>	<b>\$ 858.2</b>	<b>\$ 18.3</b>	<b>2.2%</b>	<b>\$ 58.4</b>	<b>\$ 58.6</b>	<b>\$ 0.2</b>	<b>0.3%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - 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 was zero or negative so no meaningful percentage change can be calculated.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State 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 products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State 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, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 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 State General Fund.

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

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State 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 type for the money 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% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the State 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 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State 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.

**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 FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database 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.