

MEMORANDUM

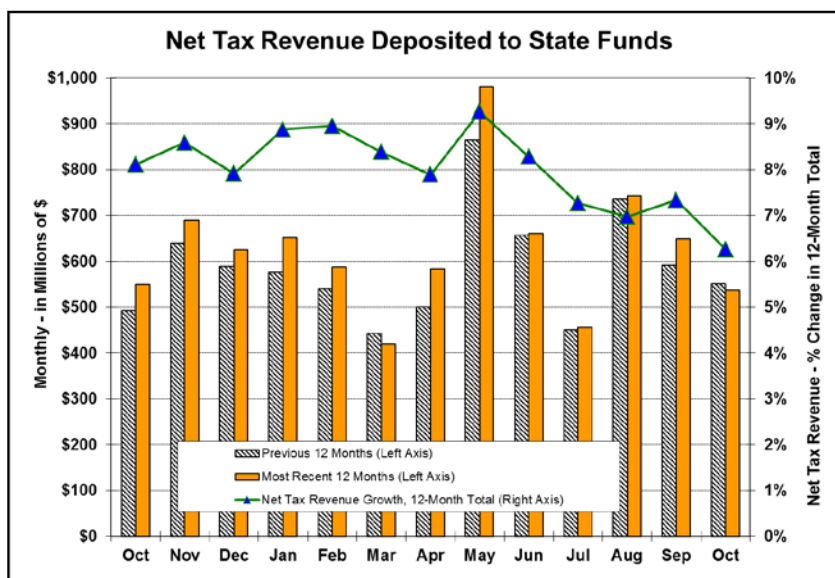
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: November 26, 2013

Twelve-month Total Net Tax Receipts Through October 31, 2013

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending October 2013 with comparisons to the previous twelve months. October 2012 to October 2013 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

Although up a significant 6.3% year-over-year, the rate of growth in Iowa annual net tax revenue has declined over the past five months. Of the \$446.8 million in annual tax revenue growth, 86.8% is growth in individual income tax receipts. Bank tax and real estate transfer tax have experienced large percentage increases in the past year. Of Iowa's significant sources of tax revenue only fuel tax (- 1.5%) and corporate tax (- 1.3%) posted negative growth over the past 12 months.

Month of October Comparison

October net tax receipts totaled \$536.3 million, a decrease of \$14.0 million (- 2.5%) compared to October 2012. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$13.4 million, - 5.5%)
- Sales/Use Tax (positive \$14.5 million, 9.6%)
 - Road Use Tax Fund use tax (fee for new vehicle registration) increased \$3.8 million.
 - General Fund sales/use tax receipts increased \$10.7 million. Gross sales/use tax receipts increased \$11.0 million, while regular tax refunds decreased \$3.0 million and school infrastructure transfers out increased \$3.3 million.
- Corporate Income Tax (negative \$15.0 million, - 27.1%)
- Fuel Tax (positive \$0.9 million, 2.6%)
- Cigarette and Tobacco Taxes (negative \$6.8 million, - 28.2%)
- Gambling Tax (positive \$5.1 million, 21.9%) – There were five weekly gambling tax deposit dates in October 2013 but only four in October 2012, indicating that the large increase for the month was likely the result of deposit timing and the increase will reverse in November.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending October 2013, net revenue from all taxes deposited to State funds totaled \$7.581 billion, an increase of \$446.8 million (6.3%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

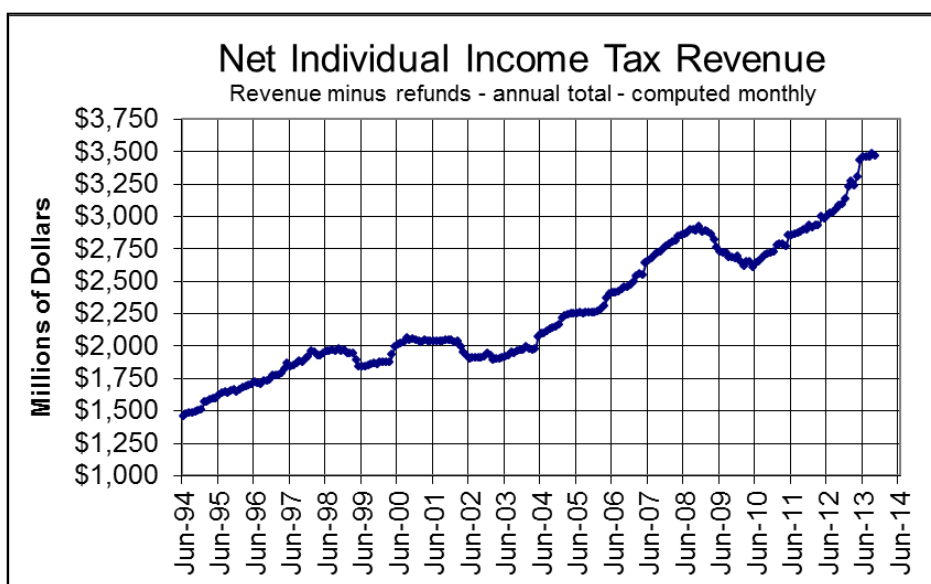
- Individual Income Tax (positive \$387.9 million, 12.6%) – Individual income tax continues to post significant year-over-year annual growth with much of the gain the result of very positive tax year 2012 income tax final returns. Since the 2012 tax year impact began to influence General Fund revenue in mid-December 2012, the annual rate of growth should start to decline in mid-December 2013.
- Sales/Use Tax (positive \$41.9 million, 1.8%) – Sales/use tax receipts show gains over the past 12 months. However, at this time last year, net sales/use tax was growing 6.8%.
- Corporate Income Tax (negative \$6.8 million, -1.5%) – Corporate income tax revenue has shown significant strength since May 2011, but the year-over-year growth has turned negative for the first time since April 2011.
- Fuel Tax (negative \$5.6 million, - 1.3%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 3.0% while taxable diesel sales increased 1.7%. Taxable total gallons decreased in nine of the past 12 months when compared to the same month the prior year.
- Gambling Tax (positive \$2.6 million, 0.9%) – According to Racing and Gaming Commission statistics, 15 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-month period ending October 2013. The combined AGR change for the 18 facilities was negative 2.7% over the previous 12-month period. Across all facilities, the AGR for the most recent 12 months totaled \$1.427 billion. The annual AGR total has been declining and is 2.9% below the November 2012 peak.
- Real Estate Transfer Tax (positive \$3.1 million, 18.6%) – After the strong gains posted in recent months, annual real estate transfer tax receipts total \$19.8 million and now exceed the pre-recession peak of \$19.2 million set in June, 2006.
- Cigarette and Tobacco Tax (positive \$0.7 million, 0.3%)

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 the Iowa 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 income tax calculation.

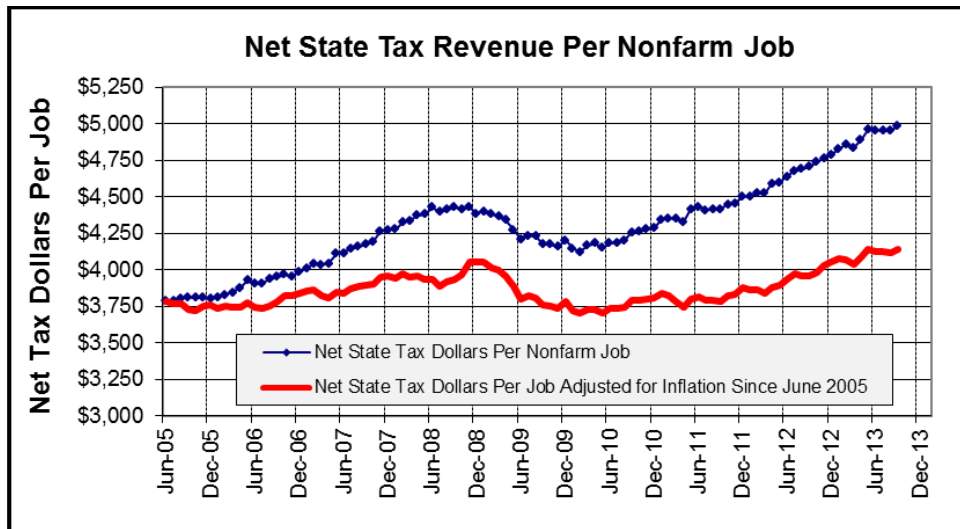
The Iowa individual income tax was first imposed in 1934 with a minimum marginal rate of 1.0% and a maximum rate of 5.0% (HF 1 - Income, Corporation, and Sales Tax Act). The current tax rates were established in 1998 (HF 388 – Individual Income Tax Rates Act) and are applied to nine taxable income brackets 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 2013 tax year, the maximum marginal tax rate applies to taxable income above \$67,230. Iowa 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 of withholding tax revenue is deposited in the Workforce Development Fund each year. In certain instances, withholding tax may be paid to a community college (Iowa Code chapters [260E](#) and [260G](#)) or a [city](#) instead of the State General Fund.

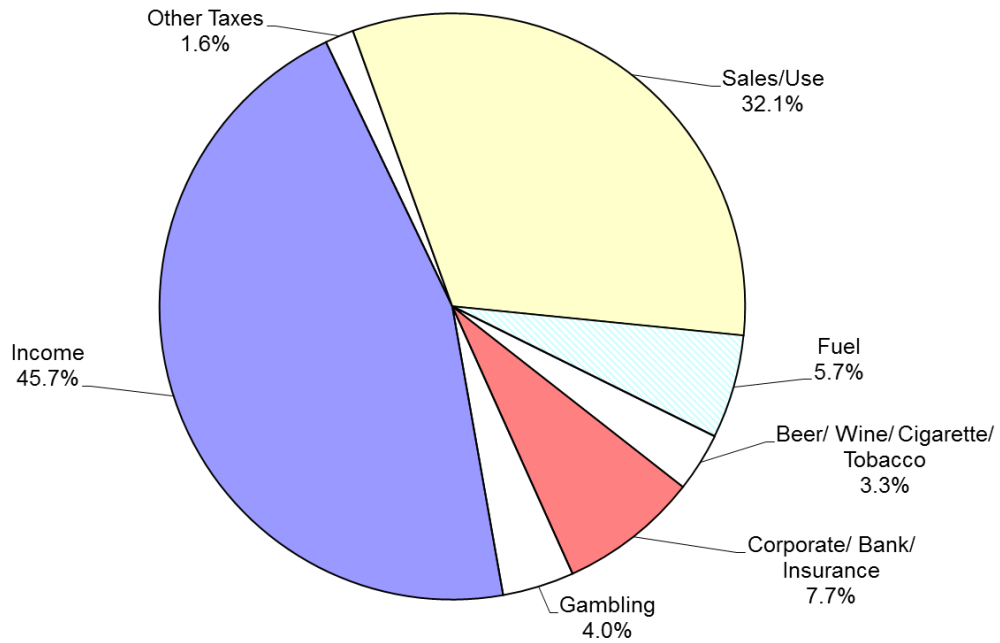


Tax Revenue and Employment

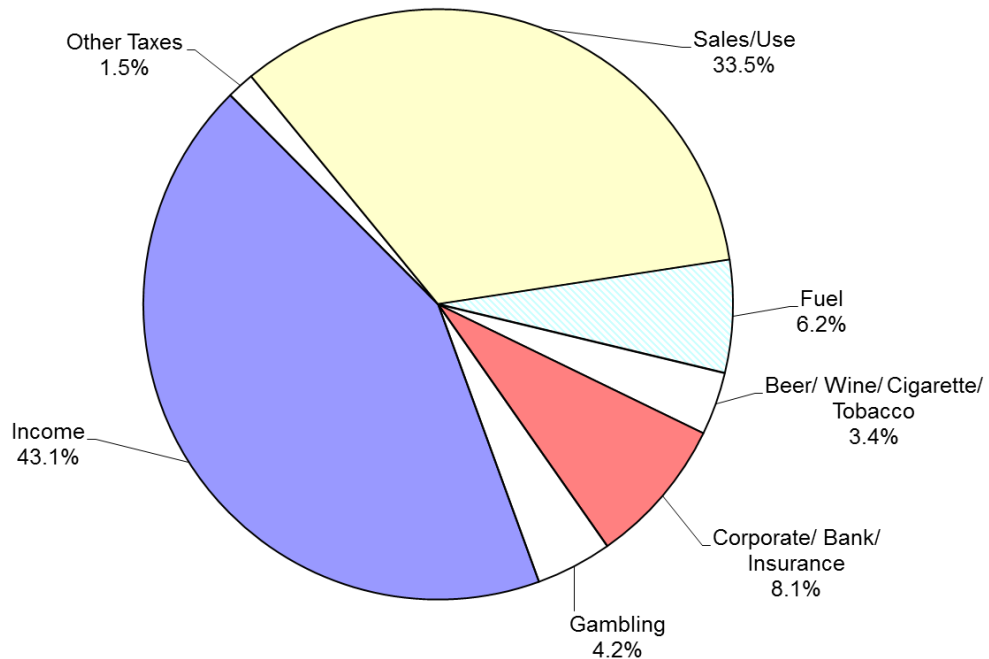
The average reading for Iowa nonfarm employment over the 12 months ending September 2013 is 1,522,800 and net State tax receipts over the same 12 months totaled \$7.595 billion, or \$4,988 per nonfarm job. This is \$1,203 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red 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 \$358 since June 2005 and the remainder of the \$1,203 increase (\$845) represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending October 2013
Net Revenue = \$7.581 Billion
 Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending October 2012
Net Revenue = \$7.134 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

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of October 2012	Month of October 2013	October \$ Change	October % Change
Banking	\$ 31.6	\$ 40.9	\$ 9.3	29.4%	\$ 4.4	\$ 3.1	\$ - 1.3	-29.5%
Beer & Wine	21.9	21.9	0.0	0.0%	1.3	1.7	0.4	30.8%
Cigarette & Tobacco	223.9	224.6	0.7	0.3%	24.1	17.3	- 6.8	-28.2%
Corporate Income	443.3	436.5	- 6.8	-1.5%	55.4	40.4	- 15.0	-27.1%
Fuel	439.4	433.8	- 5.6	-1.3%	35.2	36.1	0.9	2.6%
Gambling	297.5	300.1	2.6	0.9%	23.3	28.4	5.1	21.9%
Individual Income	3,074.5	3,462.4	387.9	12.6%	243.2	229.8	- 13.4	-5.5%
Inheritance	80.4	89.4	9.0	11.2%	8.1	9.6	1.5	18.5%
Insurance	101.8	106.5	4.7	4.6%	0.0	0.0	0.0	--
Other Taxes	11.5	11.5	0.0	0.0%	2.9	2.8	- 0.1	-3.4%
Real Estate Transfer	16.7	19.8	3.1	18.6%	1.3	1.5	0.2	15.4%
Sales/Use	2,392.0	2,433.9	41.9	1.8%	151.1	165.6	14.5	9.6%
Total Net Taxes	\$ 7,134.5	\$ 7,581.3	\$ 446.8	6.3%	\$ 550.3	\$ 536.3	\$ - 14.0	-2.5%
Gross Tax & Refunds								
Gross Tax	\$ 8,421.3	\$ 8,893.3	\$ 472.0	5.6%	\$ 616.2	\$ 612.8	\$ - 3.4	-0.6%
Tax Refunds	\$ - 1,287.0	\$ - 1,312.1	\$ - 25.1	2.0%	\$ - 65.9	\$ - 76.5	\$ - 10.6	16.1%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 6,024.3	\$ 6,424.6	\$ 400.3	6.6%	\$ 441.1	\$ 422.3	\$ - 18.8	-4.3%
Road Use Tax Fund	\$ 751.3	\$ 768.1	\$ 16.8	2.2%	\$ 59.7	\$ 64.5	\$ 4.8	8.0%
Non-GF Gambling	\$ 228.7	\$ 258.7	\$ 30.0	13.1%	\$ 21.9	\$ 28.3	\$ 6.4	29.2%
Other State Funds	\$ 130.0	\$ 129.9	\$ - 0.1	-0.1%	\$ 27.6	\$ 21.2	\$ - 6.4	-23.2%
Local Option Taxes *	\$ 858.2	\$ 893.5	\$ 35.3	4.1%	\$ 58.6	\$ 61.3	\$ 2.7	4.6%

* 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. Beginning FY 2014, all cigarette and tobacco tax revenue is deposited to the Health Care Trust 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. For FY 2013, \$40.0 million was deposited to the General Fund and the remainder to other State funds. 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 Bond Debt and Subsidy Holdback Funds, the Technology Reinvestment Fund, and the Iowa Skilled Worker and Job Creation 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.