



MEMORANDUM

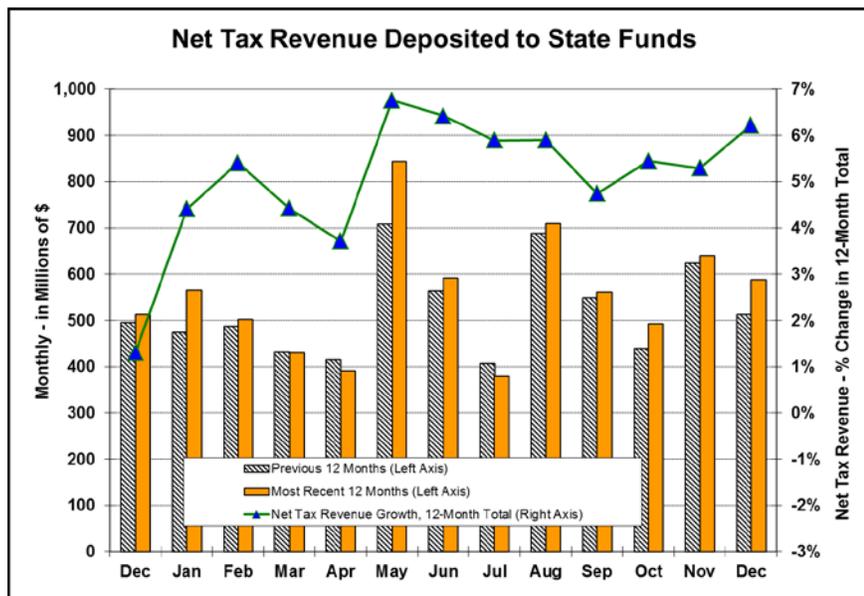
TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives

FROM: Jeff Robinson
 Shawn Snyder

DATE: January 25, 2012

Twelve-month Total Net Tax Receipts Through December 31, 2011

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending December 2011 with comparisons to the previous twelve months. December 2010 to December 2011 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

Net tax revenue across all State funds increased 14.8% in December and is up 6.2% over the most recent 12 months. A significant portion of the strong December growth appears to be the result of early deposit timing. If this proves to be the case, some of the month's increase will reverse in January. At \$6.691 billion, annual revenue remains below the pre-recession peak level of \$6.760 billion (October 2008). The 6.2% annual growth rate is the result of good growth

in individual income tax and sales/use tax receipts supplemented by strong growth in corporate tax deposits.

Month of December Comparison

December net tax receipts totaled \$587.9 million, an increase of \$75.6 million (14.8%) compared to December 2010. Major taxes and their contribution to the month's change include:

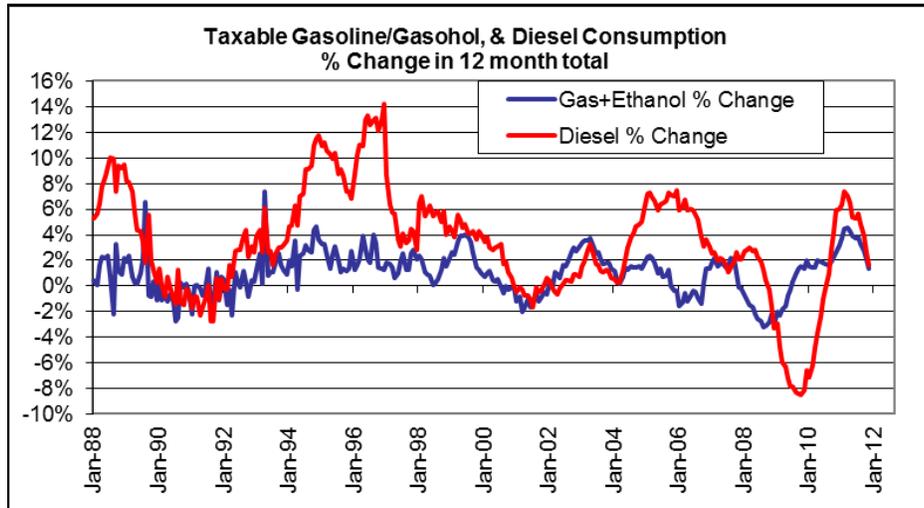
- Individual Income Tax (positive \$36.5 million, 15.3%) – Withholding payments increased 5.6% and estimate payment deposits increased 74.8%. Income tax deposits since December 31 indicate that withholding and estimate payments were likely influenced by earlier than usual deposit timing this year.
- Sales/Use Tax (negative \$0.6 million, - 0.4%)
 - Road Use Tax Fund use tax (fee for new registration) increased \$1.9 million in December.
 - Gross General Fund sales/use tax receipts increased \$1.5 million while regular tax refunds increased \$1.7 million and school infrastructure transfers out increased \$2.2 million.
- Corporate Income Tax (positive \$29.1 million, 119.3%) – Deposits of corporate income tax estimate payments grew significantly in December. Corporate income tax refunds were down slightly for the month.
- Fuel Tax (negative \$1.3 million, - 3.2%) – Gross tax deposits showed a modest increase for the month. The month's decrease was due to an increase in tax refunds issued.
- Cigarette and Tobacco Taxes (positive \$6.0 million, 38.5%) – Deposit timing issues have produced volatility in recent cigarette and tobacco tax monthly amounts. The \$106.0 million annual limit for deposits to the Health Care Trust Fund was reached in late December. Cigarette and tobacco tax deposits for the remainder of the fiscal year will be deposited to the General Fund.
- Gambling Tax (positive \$3.0 million, 12.7%) – The new casino in Lyon County (opened June 2011) will provide monthly year-over-year revenue increases throughout FY 2012.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending December 2011, net revenue from all taxes deposited to State funds totaled \$6.691 billion, an increase of \$391.6 million (6.2%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$205.8 million, 7.6%) – Individual income tax continues to post strong year-over-year annual growth numbers, with a significant uptick in the growth rate at the end of December. However, much of the December increase appears to be related to deposit timing.
- Sales/Use Tax (positive \$67.3 million, 3.1%) – While sales/use tax revenue increased 3.1% over the past year, receipts are \$24.9 million (-1.1%) below the December 2008 peak level.
- Corporate Income Tax (positive \$88.5 million, 39.9%) – Although up significantly over the most recent 12 months, corporate tax revenue, net of refunds issued, is 13.6% below the prerecession peak (September 2008 = \$359.2 million).

- Fuel Tax (negative \$1.4 million, - 0.3%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 1.4% while taxable diesel sales increased 1.6%. Although up year-over-year, taxable diesel sales over the most recent 12-month period are 3.9% lower than the March 2008 peak diesel sales level and total taxable fuel gallons (gasoline/ethanol/diesel) are only 1.0% above the prerecession (August 2007) peak for all gallons sold.



- Gambling Tax (positive \$9.9 million, 3.6%) – According to Racing and Gaming Commission statistics, four of Iowa’s 18 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending December 2011. The combined AGR growth for the 18 facilities was positive 4.1% over the same 12 months last year, with the Lyon County casino contributing 58.3% of the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.424 billion.
- Insurance Premium Tax (negative \$3.5 million, - 3.6%)
- Cigarette and Tobacco Tax (positive \$3.8 million, 1.7%)

Tax Spotlight – Other Taxes

The “Other Tax” category includes the following net tax collections:

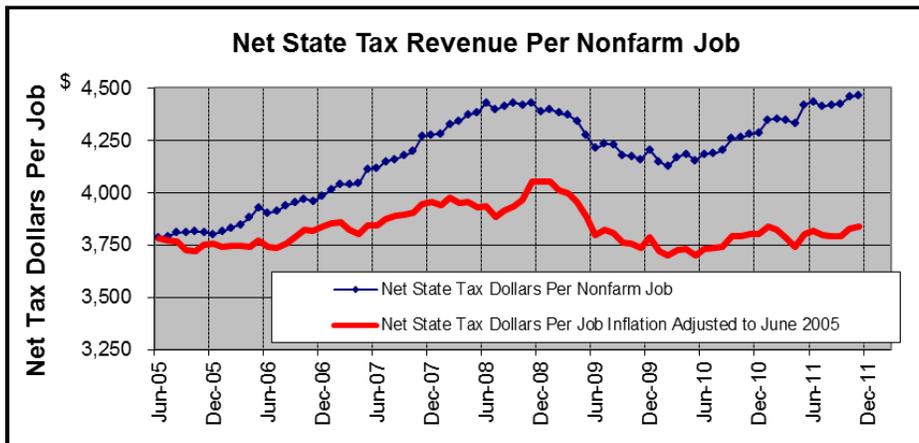
- Brucellosis Eradication Property Tax – This statewide property tax is administered under the authority of [Iowa Code section 165.18](#). The Secretary of Agriculture sets a property tax rate not to exceed \$0.3375 per \$1,000 of taxable valuation to cover expenses estimated to be paid through the Brucellosis and Tuberculosis Eradication Fund for the following fiscal year. For FY 2012, the property tax rate was \$0.0032 per \$1,000. Funds received from the tax are credited to the Brucellosis and Tuberculosis Eradication Fund. The tax raised \$473,000 over the most recent 12-month period.
- Drug Stamp Tax – This excise tax is administered by the Department of Revenue under the authority of [Iowa Code chapter 453B](#). The tax is imposed on dealers of marijuana and other controlled substances. Rates range from \$5.00 per gram of marijuana to \$750 for each unprocessed marijuana plant. Funds received from the Drug Stamp Tax are deposited in the General Fund. The tax raised \$148,000 over the most recent 12-month period.
- Utility Replacement Property Tax – This statewide property tax is administered under the authority of [Iowa Code section 437A.18](#). The tax rate is established at \$0.03 per \$1,000 of

taxable utility company property valuation in the State. Funds generated from this property tax are deposited in the General Fund. The tax raised \$309,000 over the most recent 12-month period.

- Property Tax Relief Fund – Under certain circumstances, utility replacement property tax may be deposited in the Property Tax Relief Fund created in [Iowa Code chapter 426B](#) for distribution to counties. During the most recent 12-month period, \$1.1 million in tax was deposited in the Fund.
- Car Rental Tax – This excise tax is administered by the Department of Revenue under the authority of [Iowa Code chapter 423C](#). The tax rate of 5.0% is imposed on the rental price of an automobile. Funds received from the car rental tax are credited to the Statutory Allocations Fund. The tax raised \$3.7 million over the most recent 12-month period.
- Tax Gap Program – The Department of Revenue transfers tax revenue on a monthly basis to fund the tax collection activities of the Tax Gap Program. The Tax Gap Program is a Department initiative designed to improve tax compliance through utilization of technology. A total of \$9.3 million in tax revenue was credited to the Tax Gap Program over the most recent 12-month period.
- Department of Revenue Operating Appropriation Transfers – Each month the Department of Revenue transfers tax revenue out of the State General Fund and deposits the money to the Department’s operations account. The money is used in the operations budget to fund collections (FY 2011 = \$11.0 million) and streamlined sales tax activities (FY 2011 = \$0.3 million). Although the money is withdrawn as tax receipts, the Department does not redeposit the money as tax revenue, instead depositing the money as “intrastate transfers.” During FY 2011, these transactions artificially reduced reported State tax receipts by a total of \$11.3 million.

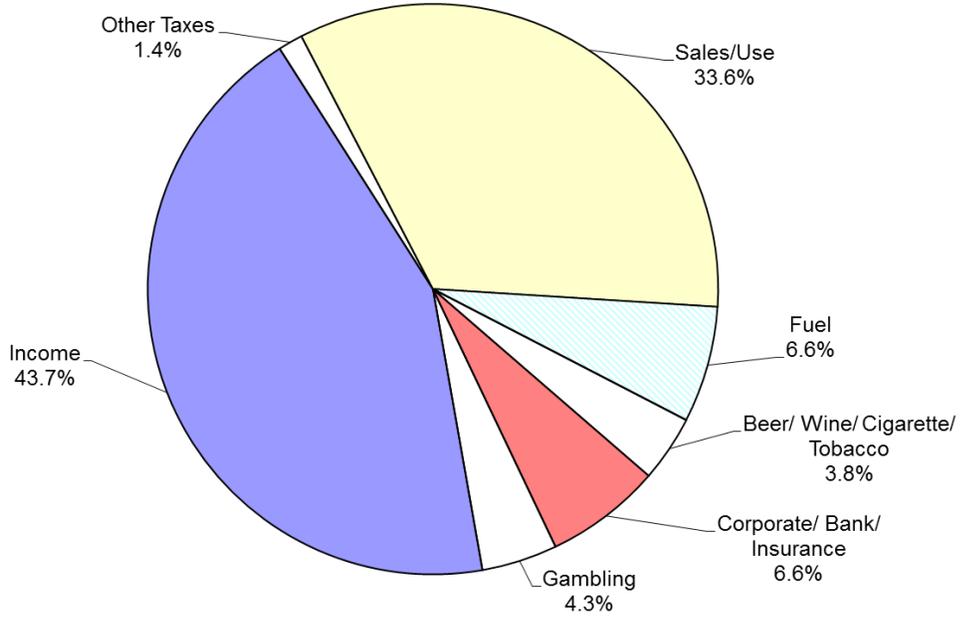
Tax Revenue and Employment

The average reading for Iowa nonfarm employment over the 12 months ending November 2011 is 1,481,500 and net State tax receipts over the same 12 months totaled \$6.615 billion, or \$4,465 per nonfarm job. This is \$680 (18.0%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 16.3%. Therefore, State tax revenue per job has slightly exceeded the rate of inflation since July 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 December 2011
Net Revenue = \$6.691 Billion

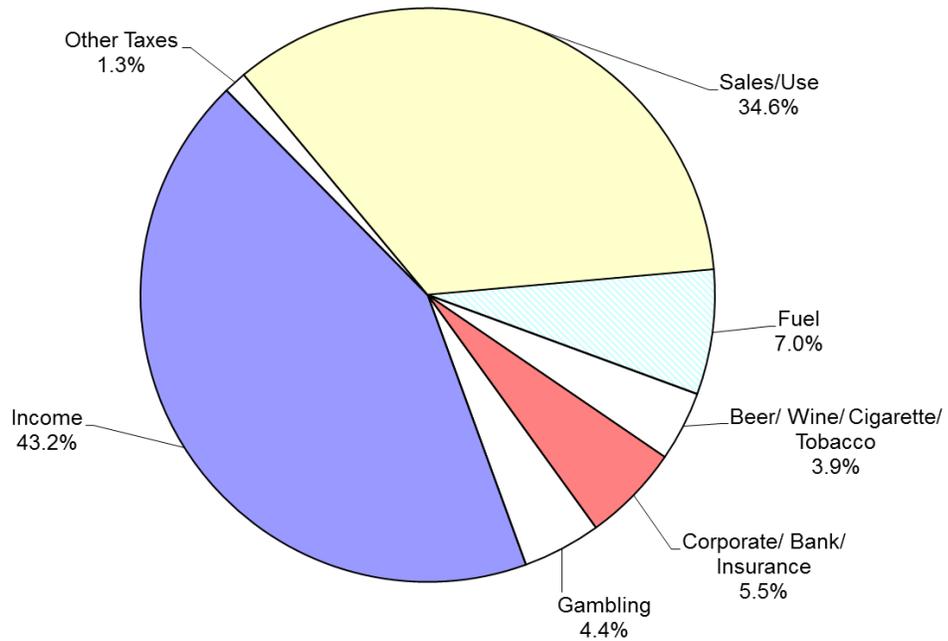
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending December 2010

Net Revenue = \$6.299 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 December 2010	Month of December 2011	December \$ Change	December % Change
Banking	\$ 26.4	\$ 35.3	\$ 8.9	33.7%	\$ 4.4	\$ 4.9	\$ 0.5	11.4%
Beer & Wine	21.3	21.5	0.2	0.9%	1.8	1.8	0.0	0.0%
Cigarette & Tobacco	226.0	229.8	3.8	1.7%	15.6	21.6	6.0	38.5%
Corporate Income	221.8	310.3	88.5	39.9%	24.4	53.5	29.1	119.3%
Fuel	443.1	441.7	- 1.4	-0.3%	41.0	39.7	- 1.3	-3.2%
Gambling	277.4	287.3	9.9	3.6%	23.7	26.7	3.0	12.7%
Individual Income	2,721.1	2,926.9	205.8	7.6%	238.4	274.9	36.5	15.3%
Inheritance	63.2	68.7	5.5	8.7%	7.3	9.1	1.8	24.7%
Insurance	97.9	94.4	- 3.5	-3.6%	0.0	0.0	0.0	--
Other Taxes	5.2	10.3	5.1	98.1%	1.0	1.3	0.3	30.0%
Real Estate Transfer	13.1	14.6	1.5	11.5%	1.1	1.4	0.3	27.3%
Sales/Use	2,182.5	2,249.8	67.3	3.1%	153.6	153.0	- 0.6	-0.4%
Total Net Taxes	\$ 6,299.0	\$ 6,690.6	\$ 391.6	6.2%	\$ 512.3	\$ 587.9	\$ 75.6	14.8%
Gross Tax & Refunds								
Gross Tax	\$ 7,522.6	\$ 7,976.7	\$ 454.1	6.0%	\$ 574.5	\$ 650.5	\$ 76.0	13.2%
Tax Refunds	\$ - 1,223.6	\$ - 1,286.0	\$ - 62.4	5.1%	\$ - 62.2	\$ - 62.5	\$ - 0.3	0.5%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,336.1	\$ 5,609.3	\$ 273.2	5.1%	\$ 448.6	\$ 508.0	\$ 59.4	13.2%
Road Use Tax Fund	\$ 710.4	\$ 735.7	\$ 25.3	3.6%	\$ 62.2	\$ 63.0	\$ 0.8	1.3%
Non-GF Gambling	\$ 234.7	\$ 213.4	\$ - 21.3	-9.1%	\$ 0.9	\$ 1.0	\$ 0.1	11.1%
Other State Funds	\$ 17.8	\$ 132.3	\$ 114.5	643.3%	\$ 0.7	\$ 16.0	\$ 15.3	2185.7%
Local Option Taxes *	\$ 789.3	\$ 838.9	\$ 49.6	6.3%	\$ 67.3	\$ 71.7	\$ 4.4	6.5%

* 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.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

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 a Department of Economic Development 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 State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

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.