

Iowa General Fund Revenues and Revenue Estimating

Legislative Fiscal Bureau
Dennis Prouty, Director
515-281-5279

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Revenue Estimating Conference Estimate

- ◆ The Revenue Estimating Conference is responsible for providing quarterly estimates of General Fund revenues available for the budgeting process.
- ◆ The estimate is composed of several pieces, including:
 - ❖ Cash tax receipts for July 1 through June 30.
 - ❖ Cash other receipts for July 1 through June 30.
 - ❖ Cash Lottery receipts and other transfers to the General Fund.
 - ❖ Accruals of tax receipts, other receipts, and transfer revenues associated with the fiscal year hold open period after June 30.
 - ❖ Refunds paid from fiscal year receipts.
- ◆ The combination of these projections provide the estimate of total net General Fund revenues available during the fiscal year.

General Fund Revenues

- ◆ This table provides the revenue breakdown for FY 1998 and FY 2002 through the May REC estimate. In the four years from FY 1998 to FY 2002, tax revenues grew by only 1.4% while tax refunds grew by 41.3%. Total net revenues fell \$112.7 million (2.5%). Transfer revenue changes made in the Second Special Session are not included.

General Fund Receipts FY 1998 & FY 2002 Estimated

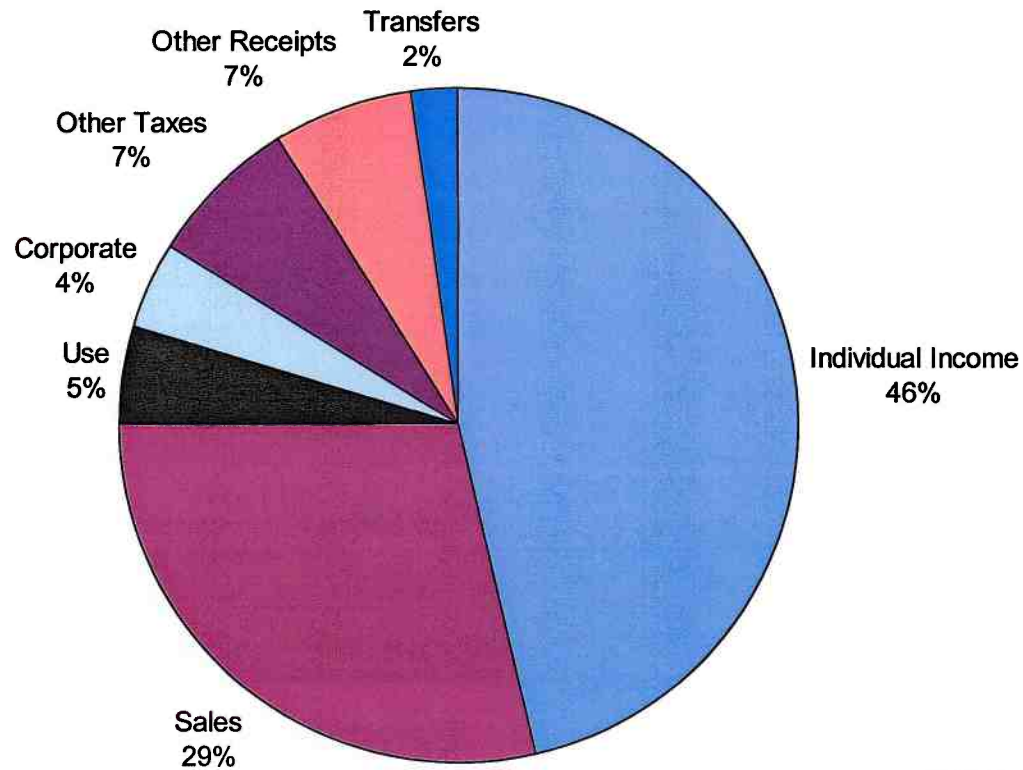
(Dollars in Millions)

	<u>FY 1998</u>	<u>FY 2002 Est.</u>	<u>\$ Change</u>	<u>% Change</u>
Tax Revenues	\$ 4,463.7	\$ 4,526.9	\$ 63.2	1.4%
Other Receipts	367.2	339.6	-27.6	-7.5%
Transfers	40.1	107.2	67.1	167.3%
Accrued Revenues	12.3	-15.2	-27.5	-223.6%
Tax Refunds	<u>-455.1</u>	<u>-643.0</u>	<u>-187.9</u>	41.3%
Total Net Revenues	<u>\$ 4,428.2</u>	<u>\$ 4,315.5</u>	<u>\$ -112.7</u>	-2.5%

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Iowa's General Fund Revenues

- ◆ State individual income tax is the largest single source of gross General Fund revenues, followed by sales tax, use tax, and corporate tax. Percentages are based on FY 2002 Revenue Estimating Conference May estimate.

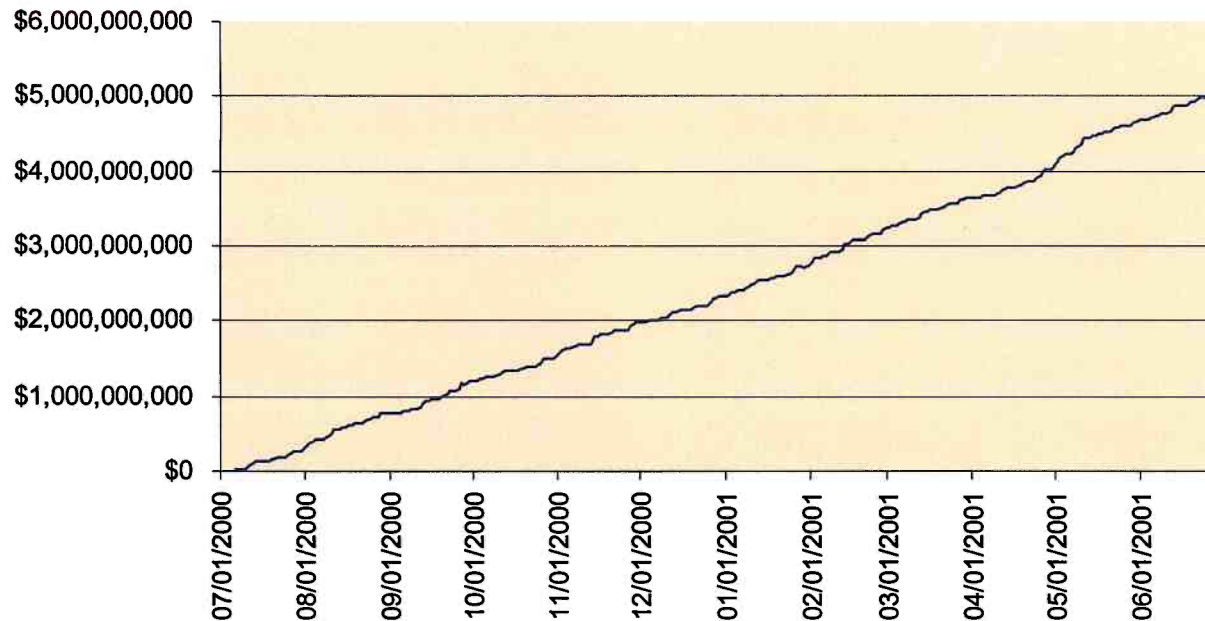


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Iowa's General Fund Revenues

- ◆ Revenues from each funding source arrive in the General Fund based on when the tax or other receipt is due, when it is paid, and when it is deposited. Each funding source has a different pattern of deposit. However, the combination of all funding sources presents a fairly smooth revenue stream.

FY 2001 Actual Gross General Fund Cash Receipts



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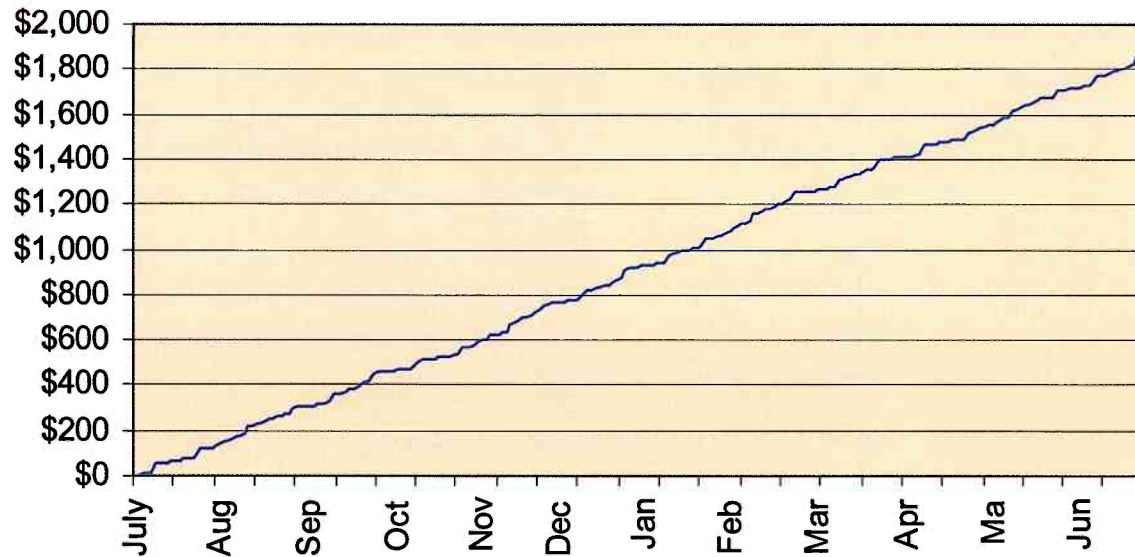
Individual Income Tax

- ◆ Individual income tax is deposited to the State General Fund in three categories:
 - ❖ Withholding payments.
 - ❖ Estimate payments.
 - ❖ Pay returns.
- ◆ Of the three, withholding payments remitted by employers is most significant, representing 76.9% of all income tax receipts (FY 2001 data). Withholding payments arrive in a consistent pattern. Most estimate payments arrive on a quarterly basis, with the fourth quarter (due January 31) payment generally the largest. Most payments with returns arrive during late April and early May.

Individual Income Tax, cont.

- ◆ For larger Iowa employers, withholding payments are due to the State on the 10th and 25th of each month, or the business day after the due date if the due date falls on a weekend. For electronic filers, the money is deposited to the General Fund the work day after the due date. Local option income tax is initially deposited with the State income tax and later moved to a separate fund.

FY 2001 Income Tax Withholding Receipts
Dollars in Millions

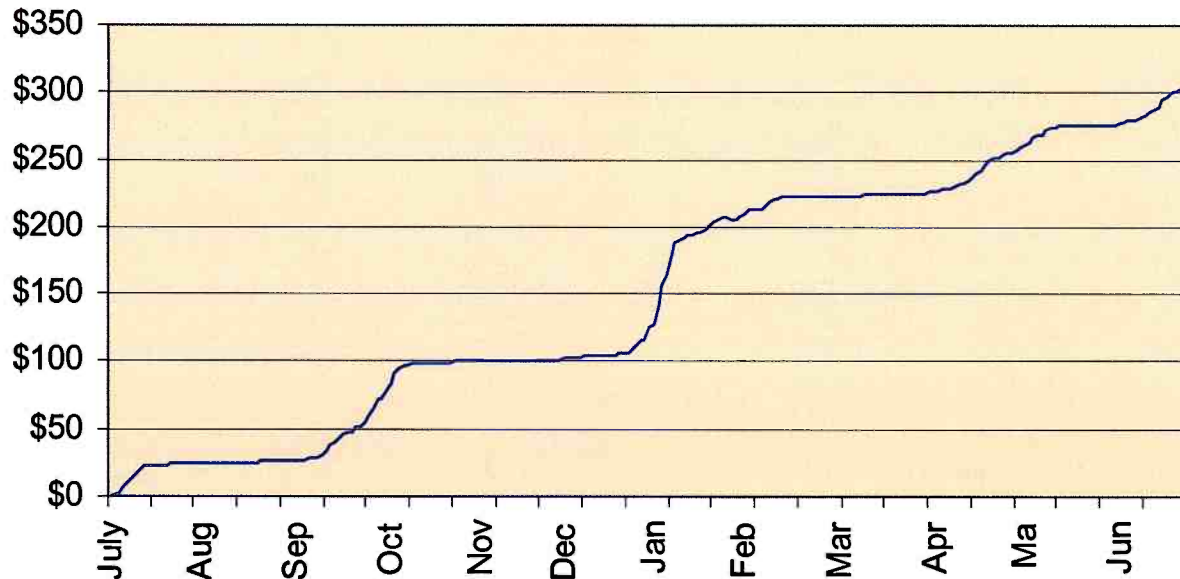


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Individual Income Tax, cont.

- ◆ Individuals with sufficient income that is taxable but not subject to withholding, pay income estimate payments on a quarterly basis. Those payments are due at the end of April, July, October, and January. The January payment is usually the larger. Many taxpayers remit that payment in December for federal tax purposes.

FY 2001 Income Tax Estimate Payments
Dollars in Millions

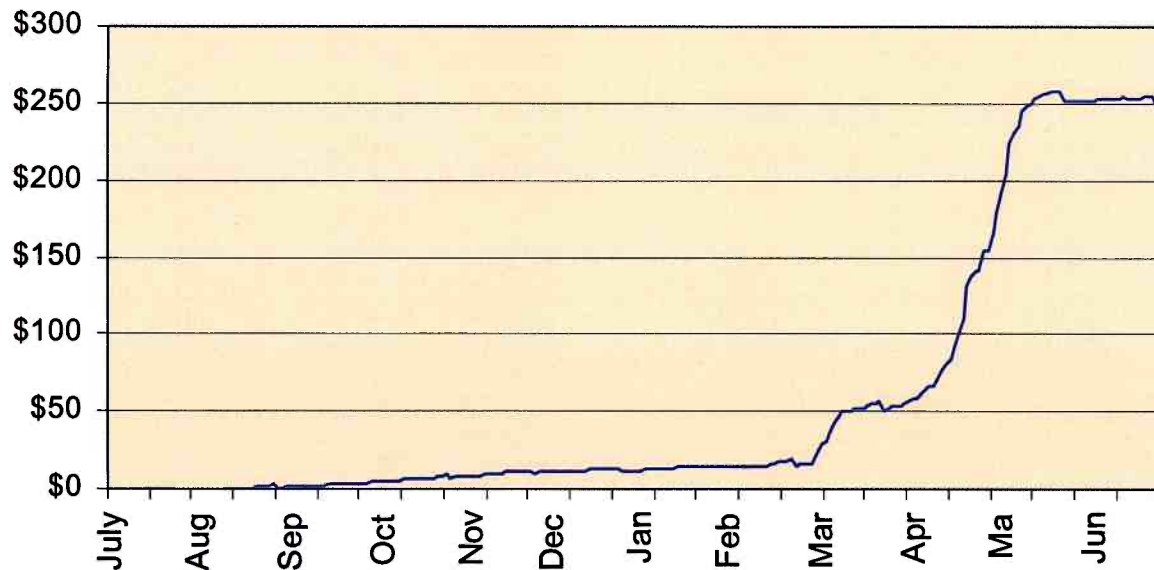


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Individual Income Tax, cont.

- ◆ Most individuals file income tax returns with a due date of April 30. If the taxpayer has not submitted sufficient taxes to the State through withholding or estimate payments, the taxpayer submits additional tax along with the annual return. The majority of the revenue is deposited at the end of April and in early May. Farm returns are due in early March.

FY 2001 Income Tax Payments with Returns
Dollars in Millions

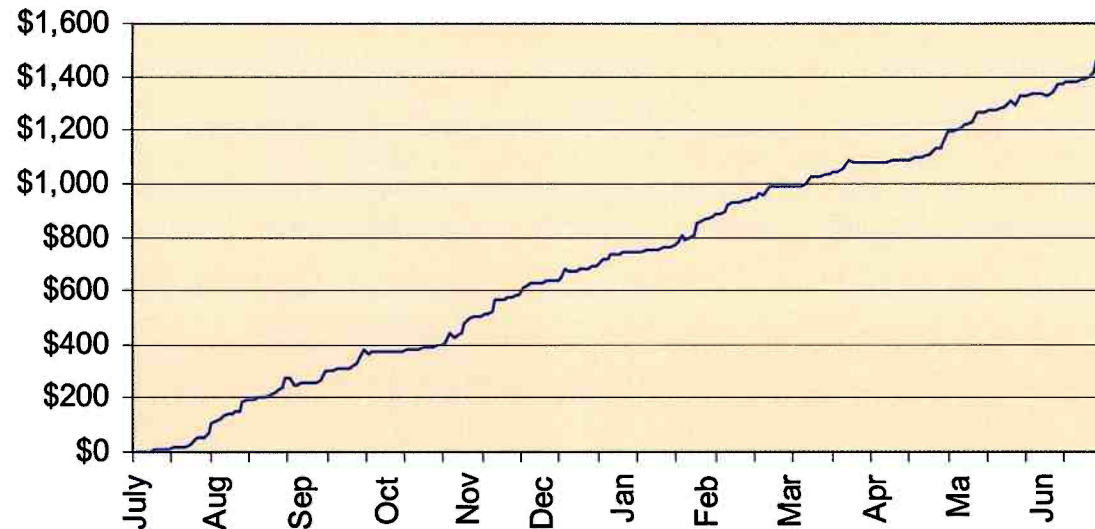


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Sales Tax

- ◆ Sales tax is remitted bi-monthly, monthly, or quarterly, depending on the amount of tax collected. Iowa law allows remitters to make estimate payments based on the previous year during the quarter with a reconciliation to actual taxes due when the quarterly report is filed. Local option taxes are deposited with State sales tax and then moved to a separate fund at the end of the month.

FY 2001 Sales Tax Receipts
Dollars in Millions

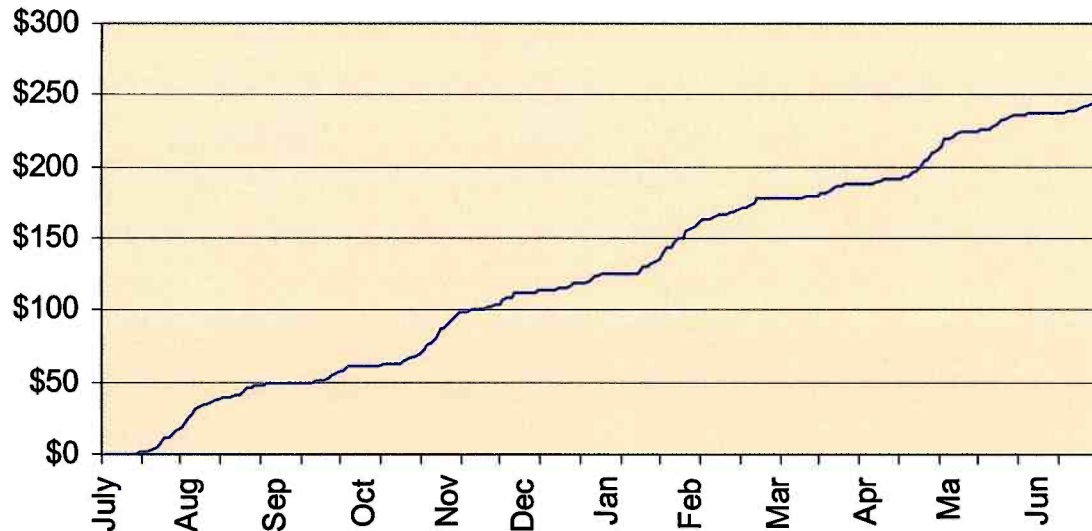


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Use Tax

- ◆ Use tax is similar to a sales tax in that it applies a tax percentage to the purchase price of an item. Generally, the use tax applies to items purchased outside of the State for use within Iowa. Most use tax is remitted on a quarterly basis. Out-of-state retailers with a nexus to Iowa, and businesses making out-of-state purchases remit most of the use tax in Iowa (excluding automobile use tax). Consumers making on-line, catalog, and out-of-state purchases with no sales tax applied should also remit a use tax if the item is taxable and for use in Iowa.

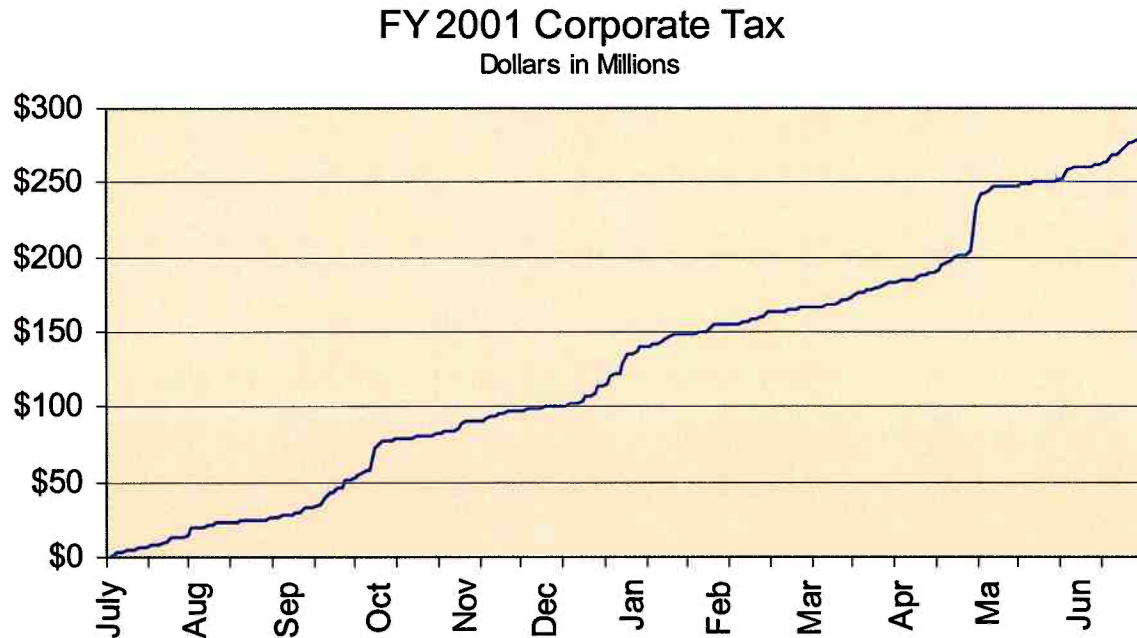
FY 2001 General Fund Use Tax
Dollars in Millions



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Corporate Tax

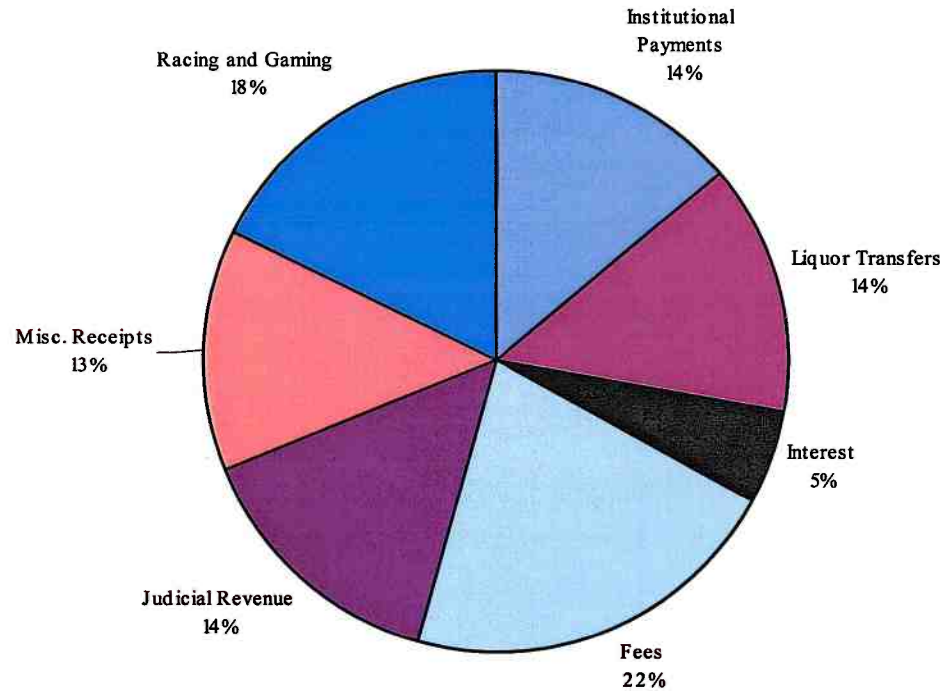
- ◆ Iowa-based corporations and other corporations with a nexus to Iowa are subject to the corporate income tax. Iowa uses a single-factor formula that applies only to a company's sales in Iowa. Corporations make quarterly estimate payments and also file an annual return. A significant portion of corporate income tax collections has been refunded in recent years.



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Other Receipts

- ◆ Other receipts are non-tax revenue deposited in the General Fund, which includes payments to State institutions, profits from wholesale liquor sales, interest, fees, judicial revenue, and \$60.0 million per year from wagering tax receipts.
- ◆ In recent years, institutional payments have been declining due to net budgeting and closing of beds.



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Transfers

- ◆ The Code of Iowa requires the transfer of certain revenues to the General Fund each year. Those transfers typically amount to approximately \$40.0 million per year and include:
 - ❖ Lottery profits
 - ❖ Indirect cost reimbursements
 - ❖ Excess Prison Infrastructure bond repayment money
 - ❖ A portion of the Marine Fuel Tax
 - ❖ Miscellaneous transfers
- ◆ The Legislature has also transferred money from other State funds to the General Fund on a one-time basis. In recent years, that has included Funds such as the Tobacco Settlement Fund, Groundwater Fund, and the Reserve Funds.

Accrued Revenues, Net

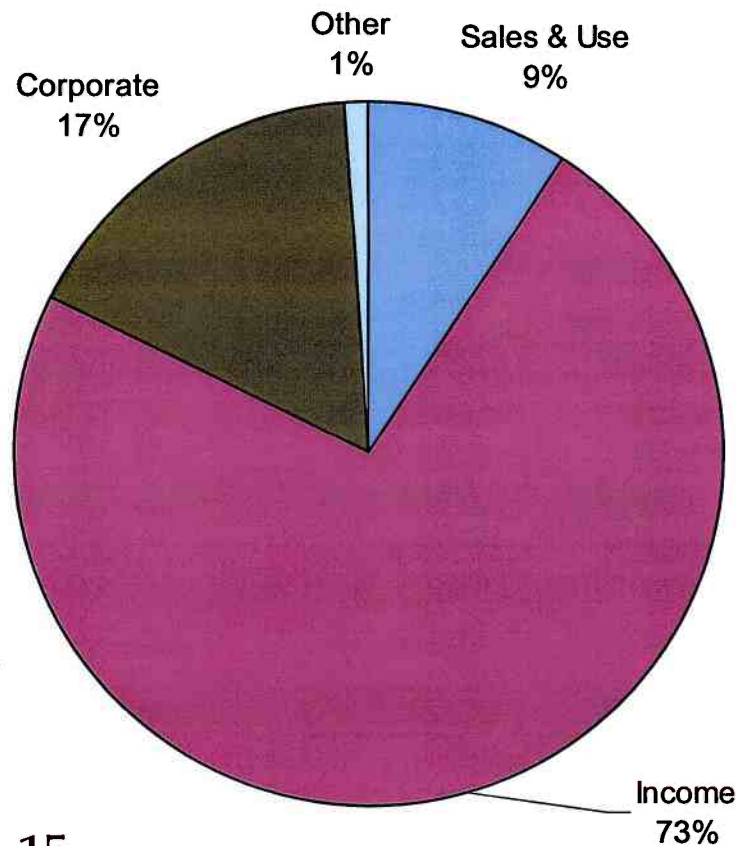
- ◆ General Fund revenues are projected by the Revenue Estimating Conference and may be tracked daily on a cash basis. That is, the numbers are reported on a July 1 through June 30 basis according to the date the revenue is deposited in the General Fund. However, to properly account for revenues on a Generally Accepted Accounting Principle (GAAP) basis, an adjustment must be made for revenues received by the State after June 30 but attributed to revenue-generating events in the previous year.

	Actual FY 00	Actual FY 01	Net Accruals
Total Personal Income Tax	\$148.1	\$141.2	\$ (6.9)
Sales Tax	93.0	89.9	(3.1)
Use Tax	38.2	37.1	(1.1)
Corporate Income Tax	30.9	22.9	(8.0)
Other Taxes	21.2	25.7	4.5
Other Receipts	44.3	32.7	(11.6)
Transfers	3.2	4.1	0.9
Total Receipts and Transfers	\$378.9	\$353.6	\$ (25.3)

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Tax Refunds

- ◆ Tax refunds are paid through standing unlimited General Fund appropriations. In FY 2001, tax refunds totaled \$550.7 million. Of that amount, \$401.5 million was due to refunds of income taxes and \$93.1 million was due to corporate income tax refunds.

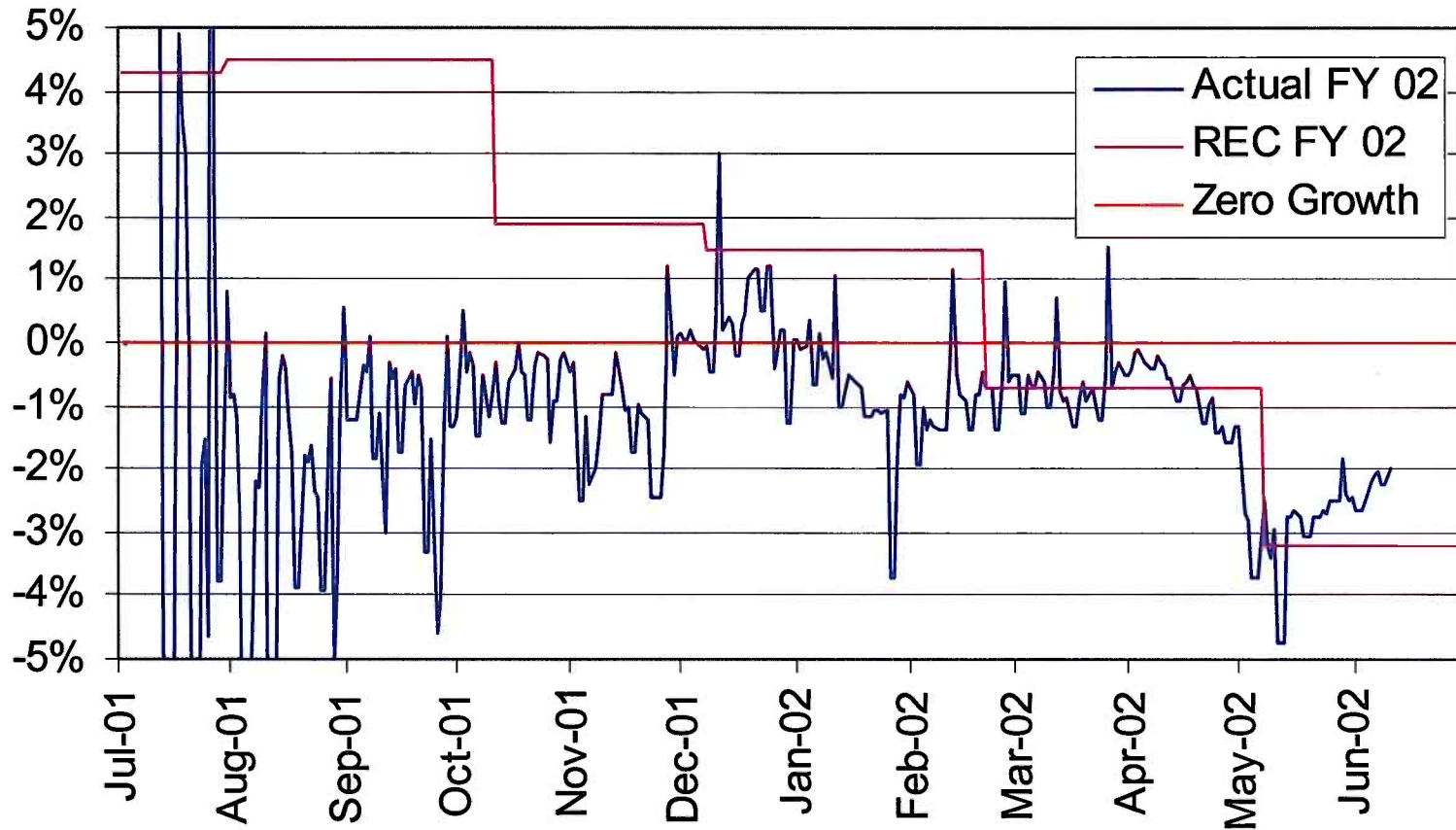


FY 2002 REC Estimates

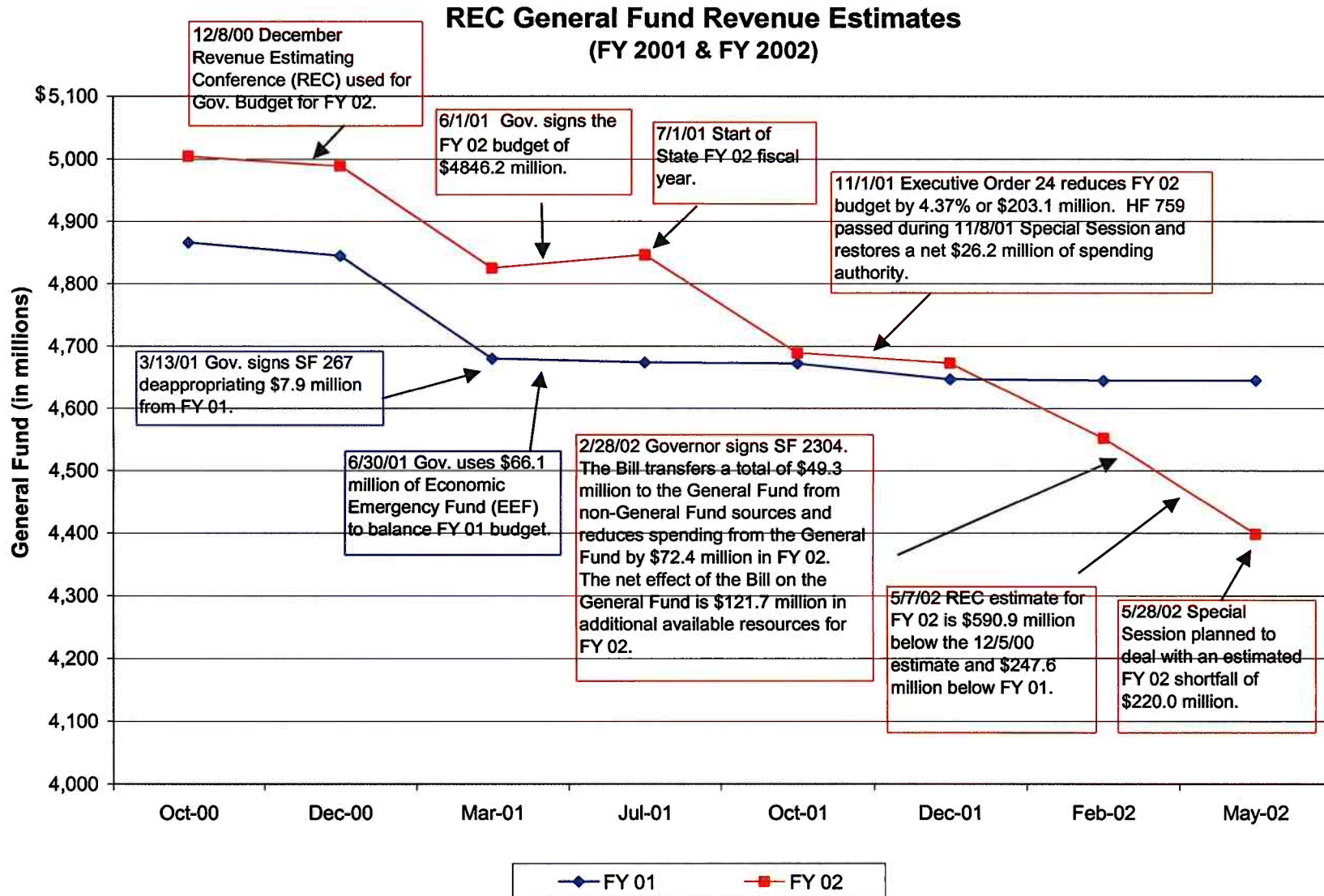
- ◆ At the start of FY 2002, the REC estimate was 4.3% growth over the FY 2001 estimate (excluding transfers and not adjusted for accruals and refunds).
- ◆ The October REC lowered the estimate to 1.9% growth over actual FY 2001 receipts.
- ◆ The December REC lowered the estimate to 1.5% growth.
- ◆ The March REC estimated an FY 2002 receipt decline of 0.7%.
- ◆ At a special REC meeting held in May, the FY 2002 estimate was further reduced to negative 3.2%.
- ◆ Since the May meeting, receipts have generally increased compared to FY 2001. On June 10th, receipts were 2.0% below the same date in FY 2001.
- ◆ The chart on the following slide shows each REC revenue estimate and the actual percentage change compared to the same calendar date in FY 2001. Due to June 29 falling on a Saturday in 2002 as opposed to a Friday in 2001, the Actual FY 02 line on the graph will fall 0.5% on June 29th.

FY 2002 REC Estimates

July 1, 2001 Through June 10, 2002

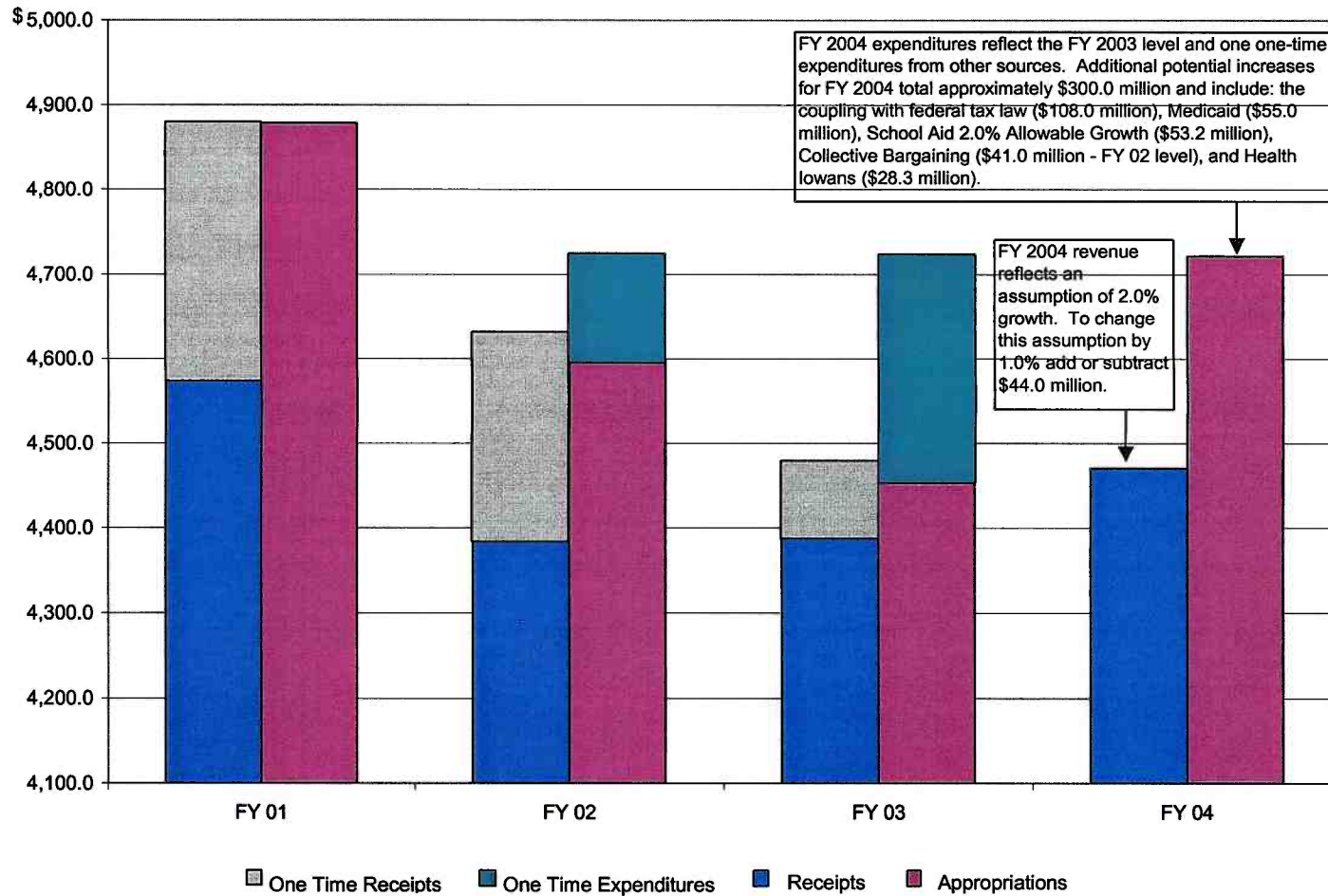


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Historical General Fund Receipts and Expenditures and Projected FY 2004 (\$ in millions)



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