

MEMORANDUM

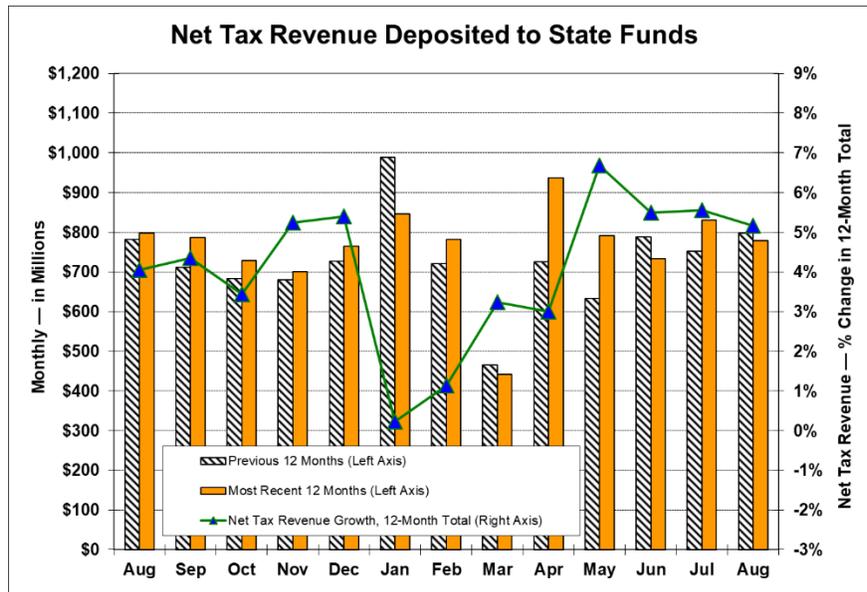
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: September 25, 2019

Twelve-Month Total Net Tax Receipts Through August 31, 2019

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending August 31, 2019, with comparisons to the previous 12 months. August 2018 to August 2019 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 \$779.1 million for the month of August 2019, a decrease of \$18.2 million (-2.3%) compared to the previous August. Over the most recent 12 months, net tax revenue increased \$447.7 million (5.2%). For the month of August, individual income, corporate income, and fuel tax net deposits were each lower compared to the previous August. For the past 12 months, corporate income, bank franchise, and insurance premium tax revenue growth has been strong, while cigarette/tobacco, inheritance, and fuel tax deposits decreased.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending August 31, 2019, net revenue from all taxes deposited to State funds totaled \$9.121 billion, an increase of \$447.7 million (5.2%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$170.8 million, 4.4%) — Tax year (TY) 2018 tax returns exhibited strong tax liability growth compared to TY 2017. This is in part the result of recent federal income tax changes that lowered federal income taxes. Iowa's tax laws allow individual income taxpayers to deduct federal income tax from Iowa taxable income, so the federal tax reduction resulted in an Iowa income tax increase for TY 2018.
- Corporate Income Tax (positive \$99.9 million, 22.6%) — Federal tax changes enacted in December 2017 significantly reduced federal corporate income taxes. Iowa allows companies subject to the Iowa corporate income tax to deduct 50.0% of federal income taxes paid from their Iowa taxable income, so a federal tax decrease acts to increase Iowa corporate income taxes for many companies.
- Sales/Use Tax (positive \$125.5 million, 4.4%) — 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 \$6.7 million (1.7%).
 - Sales/use tax deposited to other State funds (mainly the Flood Mitigation Fund, Reinvestment District Fund, and two water quality funds) increased \$8.4 million.
 - Sales/use tax deposited to the State General Fund increased \$146.3 million (4.9%).
 - Refunds of State General Fund sales/use tax payments decreased \$12.3 million.
 - Sales tax payments to the school infrastructure account (recorded as tax refunds) increased \$48.3 million.
- Bank Franchise Tax (positive \$19.3 million, 68.9%) — Over the most recent 12 months, franchise tax deposits increased \$19.3 million, while franchise tax refunds were unchanged.
- Fuel Tax (negative \$12.9 million, -1.9%) — According to Department of Revenue monthly fuel sales [reports](#), the total gallons¹ subject to fuel tax decreased 3.0% 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,² 592.2 million gallons, -3.6%.
 - Gasoline blended with ethanol, 1.069 billion gallons, -6.2%.
 - Diesel, including biodiesel blends, 751.0 million gallons, 2.2%.
 - Aviation, jet, and other fuels, 47.9 million gallons, 3.4%.
- Gambling Tax (positive \$0.5 million, 0.2%) — According to Racing and Gaming Commission statistics, 11 of Iowa's 19 State-regulated casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending August 31, 2019. The combined AGR change for the 19 facilities was negative 0.5% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.459 billion, an amount that is 0.7% below the annual AGR peak (November 2012).

¹ Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.460 billion 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.

² A portion of the gallons listed as unblended gasoline is later blended with ethanol.

- Insurance Premium Tax (positive \$48.2 million, 41.3%) — Iowa's insurance premium tax is based strictly on the dollar amount of insurance premiums multiplied by a flat tax rate (in most instances, 1.0% of insurance premiums). It is unlikely that the amount Iowans pay for insurance has increased 41.3% over the past year. The large increase in insurance premium tax deposits is more likely the result of either reduced redemption of tax credits or changes to the state of domicile for some insurance companies. This second issue could subject a company to a higher insurance premium tax rate than the company was subjected to last year.
- Real Estate Transfer Tax (negative \$0.2 million, -0.8%).
- Cigarette and Tobacco Tax (negative \$6.5 million, -3.1%) — The annual total for cigarette and tobacco tax deposits has been edging lower since November 2017, breaking a long-standing trend of flat annual receipts.

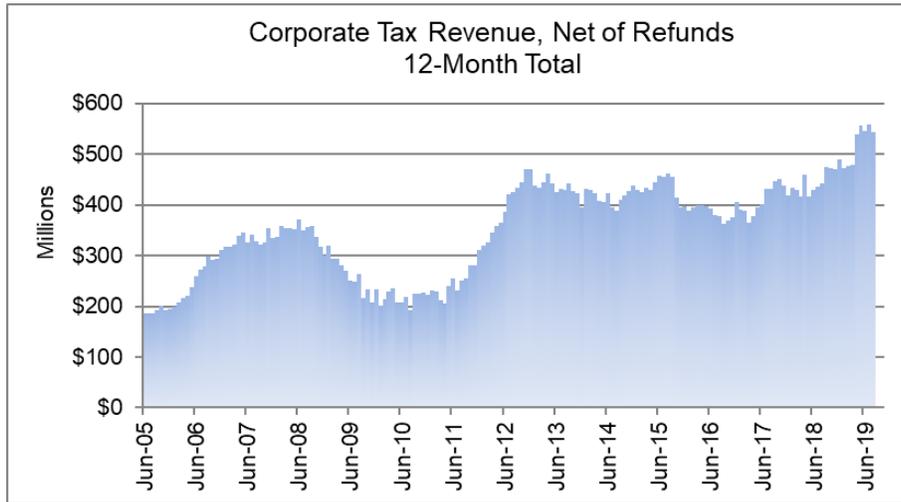
Tax Spotlight — Corporate Income Tax

Corporate income is taxed under the authority of Iowa Code chapter [422](#), Division III. The tax is imposed on the net income of corporations doing business in Iowa or receiving income from property located in Iowa. Taxation of corporate income by the State of Iowa is based on the share of total company sales occurring within Iowa (single factor formula). Corporate income tax rates are applied as follows:

- 6.0% on the first \$25,000 of net income.
- 8.0% on the next \$75,000.
- 10.0% on the next \$150,000.
- 12.0% on amounts in excess of \$250,000.

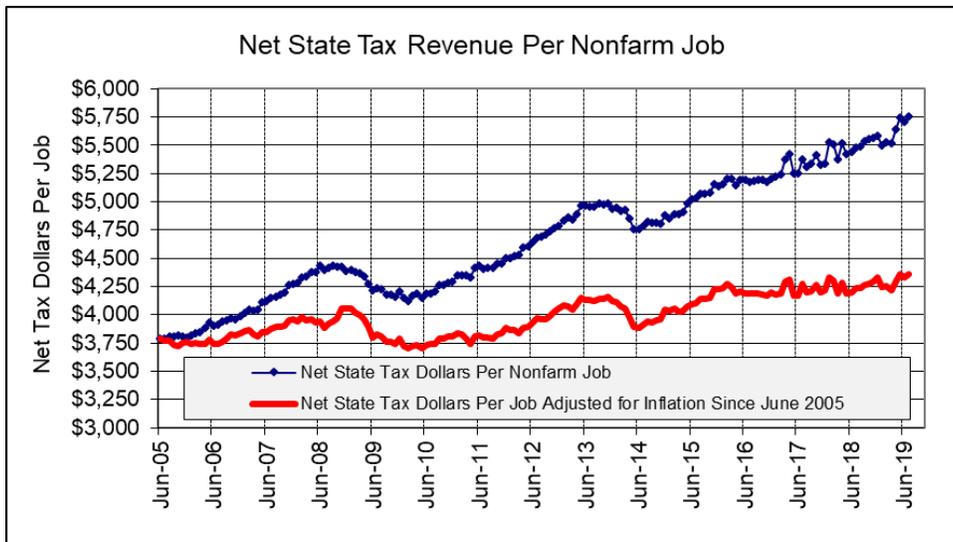
An alternative minimum tax may be imposed at an effective rate of 7.2% if 7.2% exceeds the corporation's regular tax liability. Iowa uses federal corporate taxable income of a corporation as the basis for Iowa corporate income tax. Iowa allows for the deduction of 50.0% of federal corporate income tax paid prior to calculating State corporate income tax liability.

The Iowa corporate income tax was first imposed in 1934 at a single rate of 2.0% with the passage of [HF 1](#) (Income, Corporation, and Sales Tax Act). The rate remained at 2.0% until 1955, when it was increased to 3.0%. The rate decreased to 2.0% in 1957, increased again to 3.0% in 1959, and increased to 4.0% in 1965. With the passage of [HF 702](#) (Tax Modifications Act) in 1967, the corporate income tax rate was changed from a single rate to varying rates at different income levels, starting at 4.0% on the first \$25,000, 6.0% on the next \$75,000, and 8.0% for amounts in excess of \$100,000. In 1971, [HF 654](#) (School Finance Act) increased the rates 2.0 percentage points (6.0%, 8.0%, and 10.0%). The current corporate income tax rates and income levels were approved in [HF 2171](#) (Taxation Act of 1982). Under provisions of [SF 2417](#) (2018 Income and Sales Tax Modifications Act), corporate income will be subject to a three-bracket tax system with rates of 5.5%, 9.0%, and 9.8% beginning with tax year 2021.

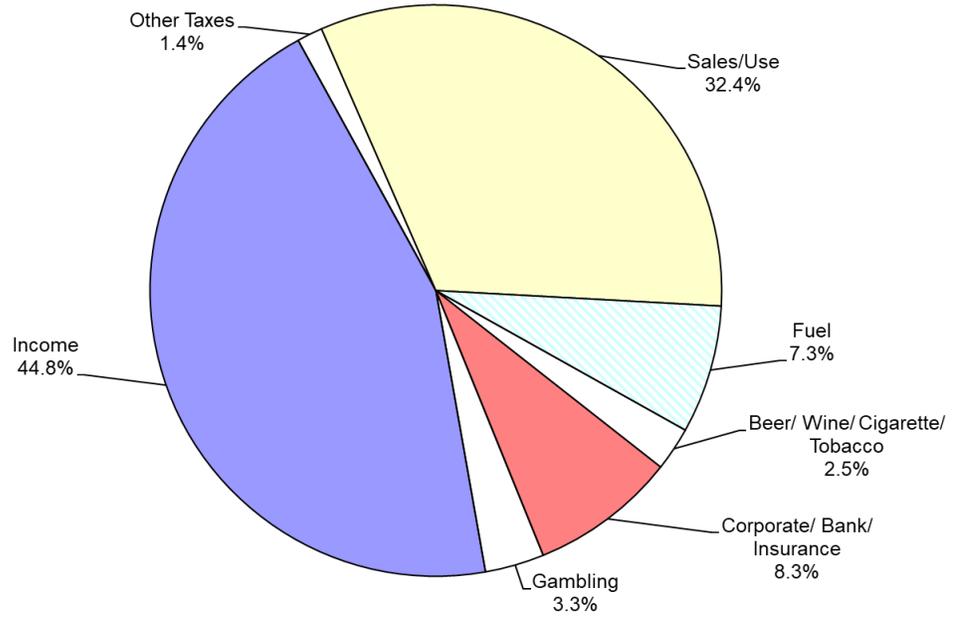


Tax Revenue and Employment

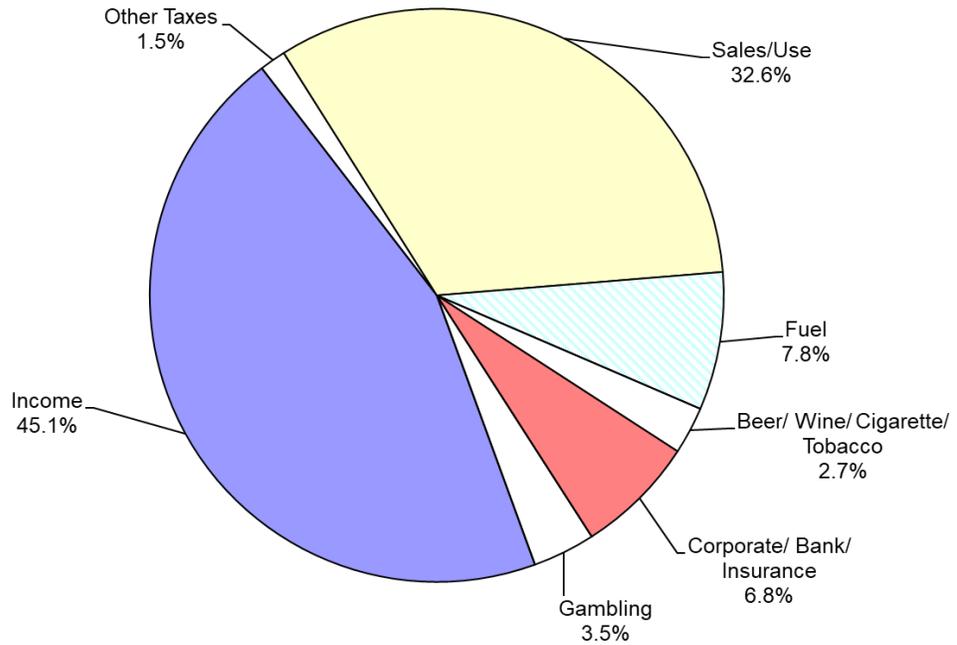
The average reading for Iowa nonfarm employment over the 12 months ending July 2019 was 1,589,200, and net State tax receipts over the same 12 months totaled \$9.140 billion, or \$5,751 per nonfarm job. This is \$1,966 higher than the per-job average for the 12 months ending June 2005. The blue (upper) 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 \$575 since June 2005, and the remainder of the \$1,966 increase (\$1,391) represents the impact of inflation.



Net State Tax Revenue – 12 Months Ending August 2019
Net Revenue = \$9.121 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue – 12 Months Ending August 2018
Net Revenue = \$8.674 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.

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of August 2018	Month of August 2019	August \$ Change	August % Change
Banking	\$ 28.0	\$ 47.3	\$ 19.3	68.9%	\$ 0.2	\$ 0.2	\$ 0.0	0.0%
Beer & Wine	22.3	22.2	- 0.1	-0.4%	1.8	2.1	0.3	16.7%
Cigarette & Tobacco	210.2	203.7	- 6.5	-3.1%	18.6	22.5	3.9	21.0%
Corporate Income	442.5	542.4	99.9	22.6%	16.6	0.5	- 16.1	-97.0%
Fuel	674.8	661.9	- 12.9	-1.9%	50.1	39.3	- 10.8	-21.6%
Gambling	305.0	305.5	0.5	0.2%	28.9	29.1	0.2	0.7%
Individual Income	3,913.4	4,084.2	170.8	4.4%	317.7	298.9	- 18.8	-5.9%
Inheritance	82.4	77.5	- 4.9	-5.9%	7.9	9.6	1.7	21.5%
Insurance	116.7	164.9	48.2	41.3%	53.9	64.2	10.3	19.1%
Other Taxes	23.0	31.1	8.1	35.2%	3.7	4.7	1.0	27.0%
Real Estate Transfer	23.6	23.4	- 0.2	-0.8%	2.2	2.2	0.0	0.0%
Sales/Use	2,831.8	2,957.3	125.5	4.4%	295.7	305.8	10.1	3.4%
Total Net Taxes	\$ 8,673.7	\$ 9,121.4	\$ 447.7	5.2%	\$ 797.3	\$ 779.1	\$ - 18.2	-2.3%
Gross Tax & Refunds								
Gross Tax	\$ 10,358.7	\$ 10,832.9	\$ 474.2	4.6%	\$ 875.7	\$ 880.4	\$ 4.7	0.5%
Tax Refunds	\$ - 1,685.1	\$ - 1,711.6	\$ - 26.5	1.6%	\$ - 78.3	\$ - 101.2	\$ - 22.9	29.2%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 7,022.8	\$ 7,468.5	\$ 445.7	6.3%	\$ 663.8	\$ 644.8	\$ - 19.0	-2.9%
Road Use Tax Fund	\$ 1,069.1	\$ 1,071.4	\$ 2.3	0.2%	\$ 86.4	\$ 76.9	\$ - 9.5	-11.0%
Non-GF Gambling	\$ 303.1	\$ 301.6	\$ - 1.5	-0.5%	\$ 28.6	\$ 28.8	\$ 0.2	0.7%
Other State Funds	\$ 278.6	\$ 279.9	\$ 1.3	0.5%	\$ 18.5	\$ 28.7	\$ 10.2	55.1%
Local Option Taxes *	\$ 953.5	\$ 1,044.8	\$ 91.3	9.6%	\$ 86.1	\$ 98.9	\$ 12.8	14.9%

* Sales, income surtax, hotel/motel, and flood mitigation. 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 State 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 98.5% of the revenue and the credit union tax provides 1.5%.

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 product tax revenue was deposited in the State 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 State General Fund. Beginning with FY 2014, all cigarette and tobacco tax revenue is deposited in 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. Funds receiving deposits of gambling tax revenue over the last 24 months include the State General Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, 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 \$6.0 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 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, 65.0% is deposited in the State General Fund, 30.0% in the Housing Trust Fund, and 5.0% in 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. 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 State 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 1.0% statewide tax and 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. Flood mitigation sales tax increment transfers to local governments were added beginning July 2014.

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.