

**MEMORANDUM**

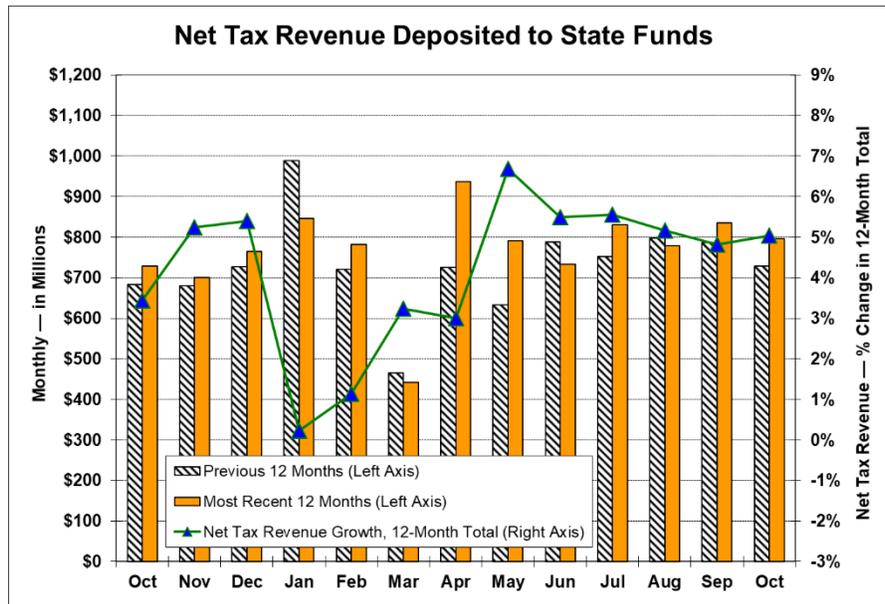
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: November 27, 2019

**Twelve-Month Total Net Tax Receipts Through October 31, 2019**

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending October 31, 2019, with comparisons to the previous 12 months. October 2018 to October 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 \$795.7 million for the month of October 2019, an increase of \$67.7 million (9.3%) compared to the previous October. For the month, individual income and sales/use tax provided large gains, while fuel tax deposits declined. Over the most recent 12 months, net tax revenue increased \$443.6 million (5.0%). For the past 12 months, sales/use, corporate income, bank franchise, and insurance premium tax revenue growth has been strong, while cigarette/tobacco and inheritance tax deposits decreased.

## Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending October 31, 2019, net revenue from all taxes deposited to State funds totaled \$9.238 billion, an increase of \$443.6 million (5.0%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$108.3 million, 2.7%) — 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. A reduction in Iowa income tax rates was effective January 1, 2019. With that rate reduction in place for 10 months, the growth rate for individual income tax revenue has slowed.
- Corporate Income Tax (positive \$82.5 million, 17.5%) — 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 \$191.0 million, 6.7%) — 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 \$10.0 million (2.6%).
  - Sales/use tax deposited to other State funds (mainly the Flood Mitigation Fund, Reinvestment District Fund, and two water quality funds) increased \$4.3 million.
  - Sales/use tax deposited to the State General Fund increased \$185.1 million (6.2%). The sales/use tax base was expanded effective January 1, 2019, and this expansion explains the growth in General Fund sales/use tax revenue.
  - Refunds of State General Fund sales/use tax payments decreased \$20.7 million.
  - Sales tax payments to the school infrastructure account (recorded as tax refunds) increased \$29.1 million.
- Bank Franchise Tax (positive \$27.6 million, 106.2%) — Over the most recent 12 months, franchise tax deposits increased \$27.4 million, while franchise tax refunds declined \$0.2 million.
- Fuel Tax (positive \$5.4 million, 0.8%) — According to Department of Revenue monthly fuel sales [reports](#), the total gallons<sup>1</sup> subject to fuel tax decreased 1.5% 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,<sup>2</sup> 575.0 million gallons, -5.6%.
  - Gasoline blended with ethanol, 1.091 billion gallons, -2.0%.
  - Diesel, including biodiesel blends, 752.0 million gallons, 2.6%.
  - Aviation, jet, and other fuels, 45.3 million gallons, -4.0%.
- Gambling Tax (positive \$5.2 million, 1.7%) — According to Racing and Gaming Commission statistics, nine of Iowa's 19 State-regulated casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending

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<sup>1</sup> Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.463 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.

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

October 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 0.8% below the annual AGR peak (November 2012).

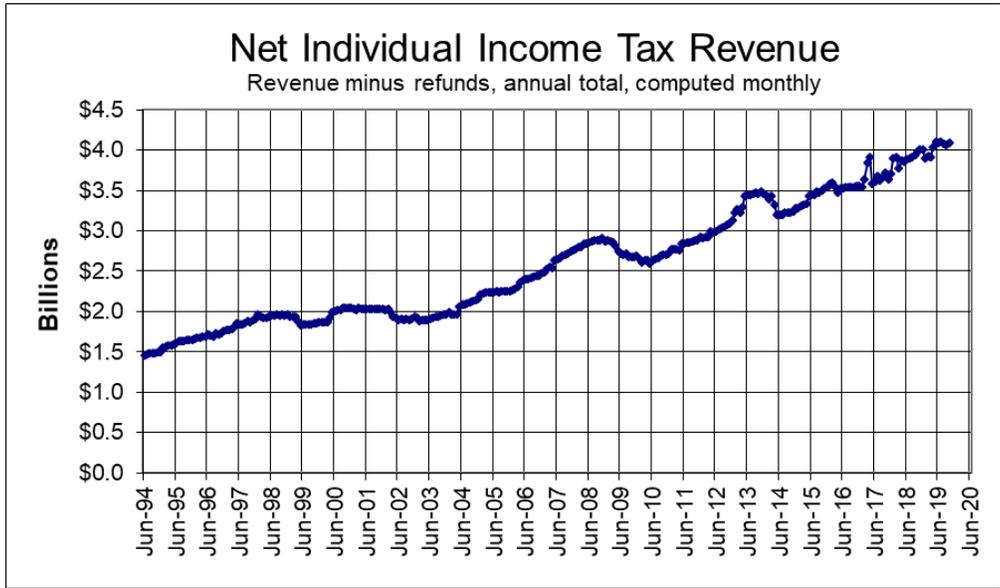
- Insurance Premium Tax (positive \$44.1 million, 35.5%) — Iowa's insurance premium tax is based strictly on the dollar amount of insurance premiums multiplied by a flat tax rate (in most instances, 1.0% of insurance premiums). It is unlikely that the amount Iowans pay for insurance has increased 35.5% 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 \$0.3 million, -1.3%).
- Cigarette and Tobacco Tax (negative \$3.3 million, -1.6%) — 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 — 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 Iowa tax return. Iowa uses federal adjusted gross income as the starting point for income tax calculation.

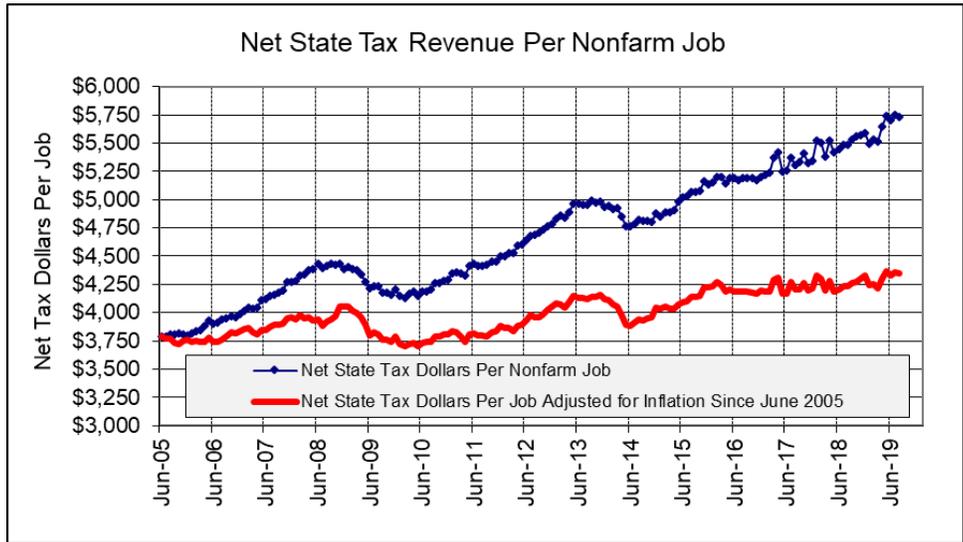
The Iowa individual income tax was first imposed in 1934 with a minimum rate of 1.0% and a maximum rate of 5.0% ([HF 1](#) – Income, Corporation, and Sales Tax Act). Iowa's current individual income tax rates were established in [SF 2417](#) (2018 Tax Modifications Act) and are applied to nine taxable income brackets with an initial rate of 0.33% and a maximum rate of 8.53%. The income bracket amounts are adjusted each year by the Department of Revenue based on an inflation calculation. For the 2019 tax year, the maximum marginal tax rate applies to taxable income above \$73,710. 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 State individual income tax liability. A tax credit list and users' manual is maintained by the [Iowa Department of Revenue](#). 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 revenue is deposited to the State General Fund. Pursuant to Iowa Code section [422.16A](#), \$6.0 million of withholding tax revenue is deposited annually in the [Workforce Development Fund](#). 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.

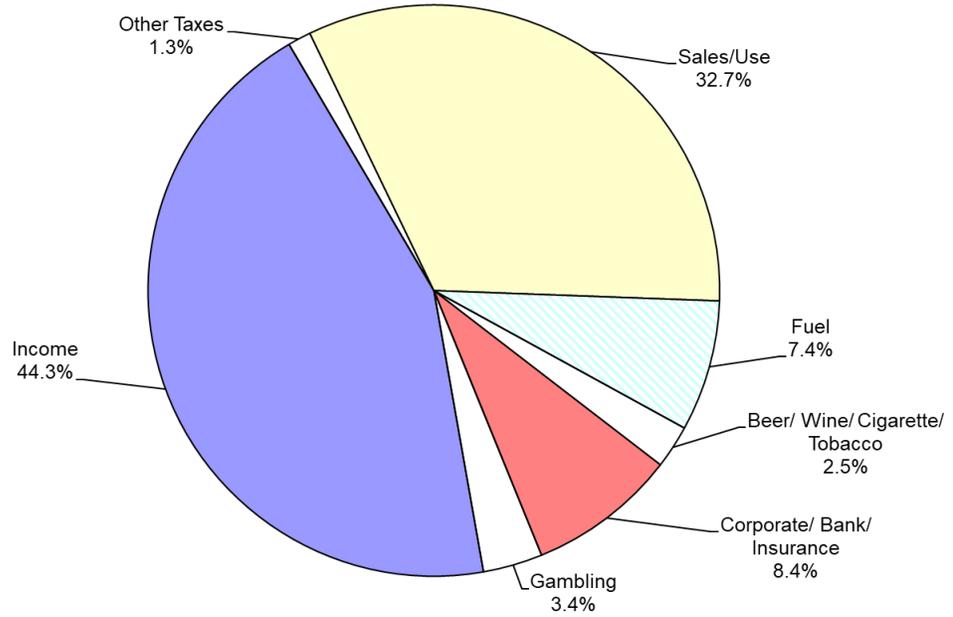


### Tax Revenue and Employment

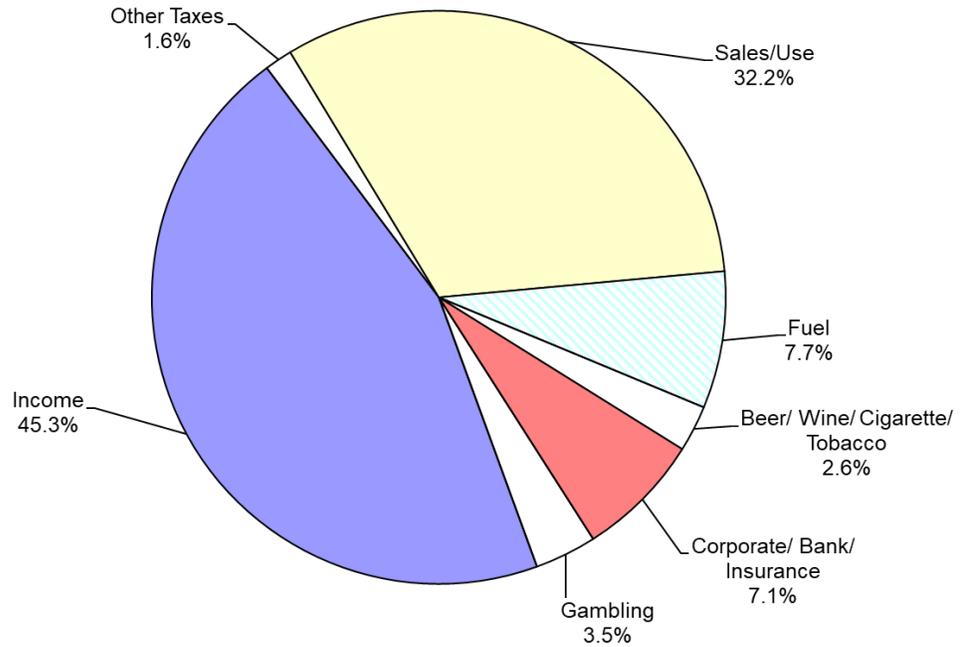
The average reading for Iowa nonfarm employment over the 12 months ending September 2019 was 1,590,100, and net State tax receipts over the same 12 months totaled \$9.171 billion, or \$5,764 per nonfarm job. This is \$1,979 higher than the per-job average for the 12 months ending June 2005. The blue (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 \$581 since June 2005, and the remainder of the \$1,979 increase (\$1,398) represents the impact of inflation.



**Net State Tax Revenue — 12 Months Ending October 2019**  
**Net Revenue = \$9.238 Billion**  
Percentages may not add to 100% due to rounding



**Net State Tax Revenue — 12 Months Ending October 2018**  
**Net Revenue = \$8.794 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.

<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 2018</b>	<b>Month of October 2019</b>	<b>October \$ Change</b>	<b>October % Change</b>
Banking	\$ 26.0	\$ 53.6	\$ 27.6	106.2%	\$ 2.1	\$ 5.1	\$ 3.0	142.9%
Beer & Wine	22.2	22.0	- 0.2	-0.9%	1.6	1.5	- 0.1	-6.3%
Cigarette & Tobacco	207.7	204.4	- 3.3	-1.6%	17.1	21.1	4.0	23.4%
Corporate Income	472.5	555.0	82.5	17.5%	13.2	14.3	1.1	8.3%
Fuel	679.4	684.8	5.4	0.8%	80.6	59.4	- 21.2	-26.3%
Gambling	306.1	311.3	5.2	1.7%	23.7	29.7	6.0	25.3%
Individual Income	3,985.7	4,094.0	108.3	2.7%	343.3	366.9	23.6	6.9%
Inheritance	89.6	67.5	- 22.1	-24.7%	12.1	7.5	- 4.6	-38.0%
Insurance	124.2	168.3	44.1	35.5%	0.0	3.0	3.0	--
Other Taxes	24.9	30.3	5.4	21.7%	6.9	6.4	- 0.5	-7.2%
Real Estate Transfer	23.8	23.5	- 0.3	-1.3%	1.8	1.9	0.1	5.6%
Sales/Use	2,832.0	3,023.0	191.0	6.7%	225.6	278.9	53.3	23.6%
<b>Total Net Taxes</b>	<b>\$ 8,794.1</b>	<b>\$ 9,237.7</b>	<b>\$ 443.6</b>	<b>5.0%</b>	<b>\$ 728.0</b>	<b>\$ 795.7</b>	<b>\$ 67.7</b>	<b>9.3%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 10,460.7	\$ 10,946.9	\$ 486.2	4.6%	\$ 853.5	\$ 898.9	\$ 45.4	5.3%
Tax Refunds	\$ - 1,666.7	\$ - 1,709.3	\$ - 42.6	2.6%	\$ - 125.6	\$ - 103.2	\$ 22.4	-17.8%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 7,134.7	\$ 7,555.2	\$ 420.5	5.9%	\$ 567.2	\$ 641.9	\$ 74.7	13.2%
Road Use Tax Fund	\$ 1,074.8	\$ 1,098.7	\$ 23.9	2.2%	\$ 111.7	\$ 95.5	\$ - 16.2	-14.5%
Non-GF Gambling	\$ 304.4	\$ 307.3	\$ 2.9	1.0%	\$ 23.6	\$ 29.5	\$ 5.9	25.0%
Other State Funds	\$ 280.0	\$ 276.5	\$ - 3.5	-1.3%	\$ 25.4	\$ 28.9	\$ 3.5	13.8%
<b>Local Option Taxes *</b>	<b>\$ 971.4</b>	<b>\$ 1,059.0</b>	<b>\$ 87.6</b>	<b>9.0%</b>	<b>\$ 72.0</b>	<b>\$ 81.7</b>	<b>\$ 9.7</b>	<b>13.5%</b>

\* 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.