



MEMORANDUM

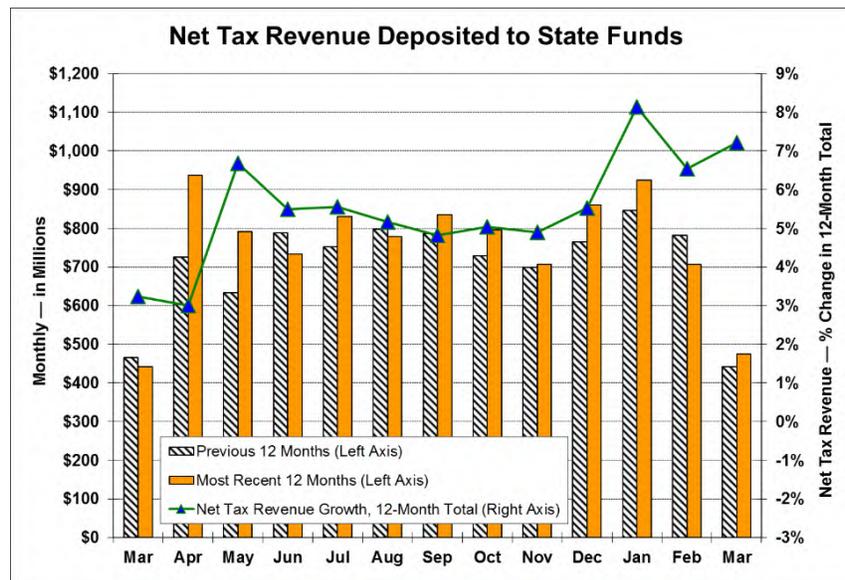
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: April 22, 2020

Twelve-Month Total Net Tax Receipts Through March 31, 2020

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending March 31, 2020, with comparisons to the previous 12 months. March 2019 to March 2020 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 \$475.2 million for the month of March 2020, an increase of \$33.9 million (7.7%) compared to the previous March. Individual income tax, insurance premium tax, and gambling tax revenue declined for the month, while several other tax revenue sources recorded significant increases. Over the most recent 12 months, net tax revenue increased \$631.3 million (7.2%). Net revenues from corporate income, individual income, insurance premium, bank franchise, and sales/use taxes have all registered significant gains over the past year. A large portion of the 7.1% increase in fuel tax deposits is due to a deposit timing issue that will reverse in April. Through the end of March 2020, a

decrease in gambling tax revenue is the only negative State tax revenue impact that can be attributed to the COVID-19 pandemic. Significant negative impacts will likely appear in April tax revenue deposits.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending March 31, 2020, net revenue from all taxes deposited to State funds totaled \$9.377 billion, an increase of \$631.3 million (7.2%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- **Individual Income Tax (positive \$111.8 million, 2.9%)** — Over the past 12 months, income tax withholding decreased \$81.8 million. This is the result of the tax reduction that became effective in January 2019. The main source of income tax growth over the past year was due to the significant increase in payments made with tax returns when tax year 2018 income tax returns were filed last spring. Income tax estimate payments over the last 12 months provided \$68.7 million in revenue growth.
- **Corporate Income Tax (positive \$148.3 million, 31.0%)** — Federal tax changes enacted in December 2017 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. A significant slowdown in the pace of corporate income tax refund issuance contributed to the recent net revenue increase.
- **Sales/Use Tax (positive \$268.8 million, 9.4%)** — 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 \$25.6 million (6.5%).
 - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, Reinvestment District Fund, and two water quality funds) increased \$21.5 million.
 - Sales/use tax deposited to the State General Fund increased \$219.6 million (7.3%). The sales/use tax base was expanded effective January 1, 2019, and this expansion explains the growth in General Fund sales/use tax revenue.
 - Decreased refunds of State General Fund sales/use tax payments increased net revenue \$8.9 million.
 - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$6.7 million.
- **Banking Taxes (positive \$51.0 million, 235.0%)** — Over the most recent 12 months, franchise tax deposits increased \$29.5 million, while franchise tax refunds decreased \$21.5 million.
- **Fuel Tax (positive \$47.6 million, 7.1%)** — According to Department of Revenue monthly fuel sales [reports](#), the total gallons¹ subject to fuel tax increased 0.2% 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,² 492.5 million gallons, -18.4%.
 - Gasoline blended with ethanol, 1.178 billion gallons, 10.5%.
 - Diesel, including biodiesel blends, 755.2 million gallons, 1.9%.
 - Aviation, jet, and other fuels, 45.9 million gallons, -4.5%.

¹ Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.471 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.

- **Gambling Tax (negative \$0.1 million, -0.0%)** — Iowa's 19 State-regulated casino/track locations temporarily closed on March 17, 2020, in response to Governor Reynolds' declaration of the COVID-19 State public health emergency. Casino gambling tax revenue was down \$6.7 million (24.9%) for the month. The decrease in April will likely be greater. The Iowa gambling tax applies to adjusted gross revenue (AGR). For the most recent 12 months, total AGR across all facilities totaled \$1.424 billion, down 2.0% compared to the previous period.
- **Insurance Premium Tax (positive \$11.6 million, 8.2%)** — Iowa insurance premium tax revenue increased significantly from February 2018 through August 2019.
- **Real Estate Transfer Tax (positive \$1.3 million, 5.5%).**
- **Cigarette and Tobacco Tax (positive \$6.8 million, 3.3%)** — Cigarette and tobacco tax deposits were unusually large during the month of March 2020. The month's total (\$26.0 million) was \$9.9 million higher than the March 2019 total and was the highest monthly total since August 2007.

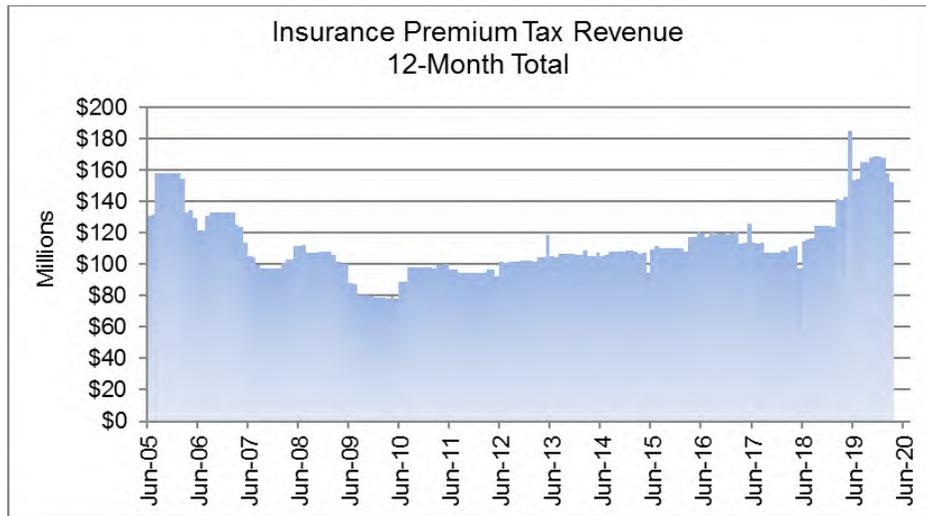
Tax Spotlight — Insurance Premium Tax

The insurance premium tax (Iowa Code chapters [432](#) and [432A](#)) is imposed on the premiums of all insurance companies except fraternal beneficiary associations. The tax is administered by the Iowa Insurance Division, with the Iowa Department of Revenue serving as the depositing entity for the tax receipts.

The Iowa insurance premium tax dates back to at least 1851 ([1851 Code of Iowa](#), chapter 464). The rate was established at 2.0%, with one-half of the revenue at that time devoted to county purposes and one-half to the State. The tax rate has been as high as 2.5%. Prior to legislation enacted during the 2002 Legislative Session ([SF 2318](#), Insurance Tax Rate Reduction Act), the insurance premium tax rate for most forms of insurance was 2.0%. As a result of the 2002 legislation, the tax rate was reduced in annual 0.25% increments until the rate reached 1.0%. For life and health insurance companies and associations and mutual health services corporations, the reduction started with policies issued in calendar year 2003 and reached 1.0% for 2006. For other insurance companies and associations (property and casualty), the reduction began in 2004 and reached 1.0% for 2007.

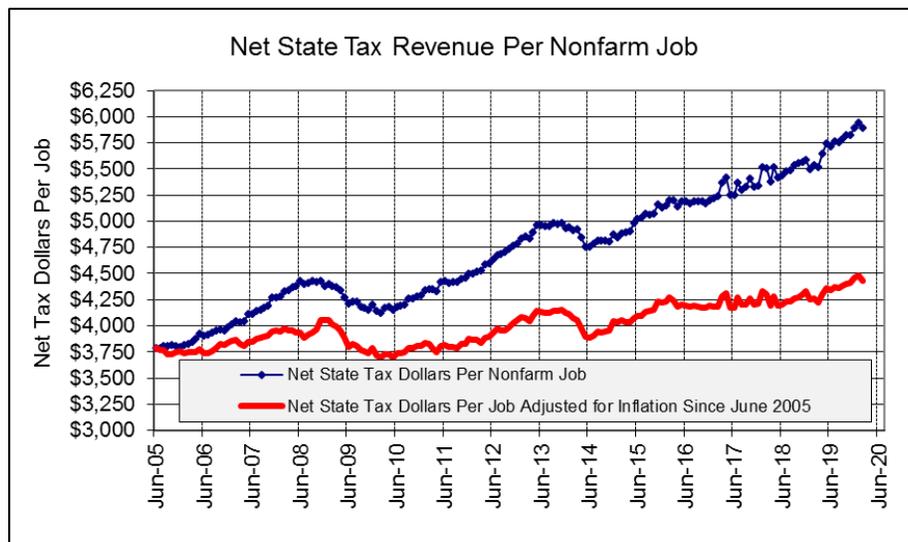
Iowa, like most or perhaps all other states, provides for a retaliatory insurance premium tax against insurance companies not located in the State. The retaliatory tax requires non-Iowa companies to pay either the Iowa tax rate, or the tax rate an Iowa company would be subjected to in the company's home state if that rate is higher than the Iowa rate.

Insurance premium tax reports from all insurers are to be filed before March 1 of the year following the calendar year the tax is due. Prepayments are due in June and August, and each payment equals 50.0% of the company's previous year tax liability. Tax receipts from the insurance premium tax are deposited in the State General Fund.

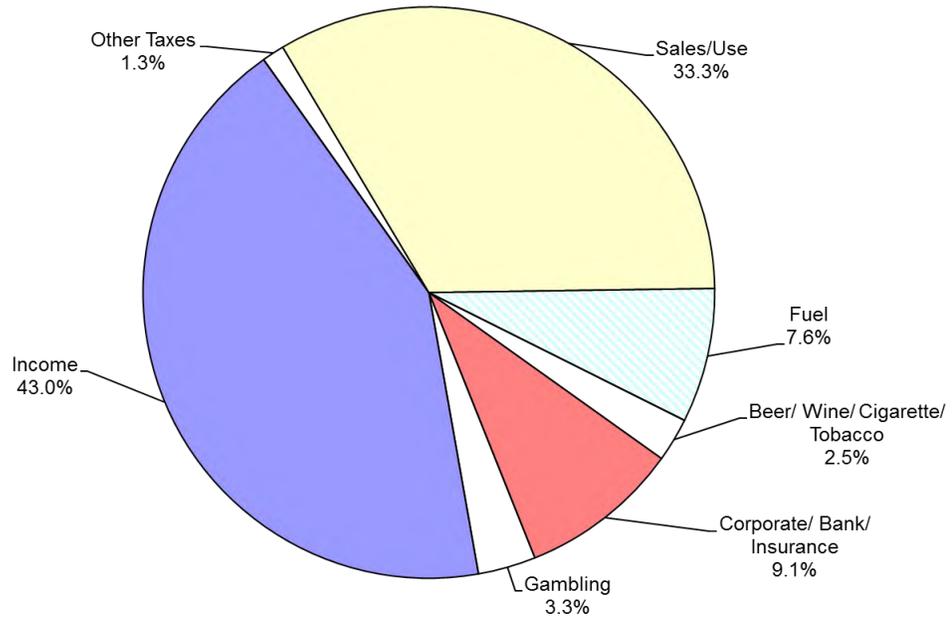


Tax Revenue and Employment

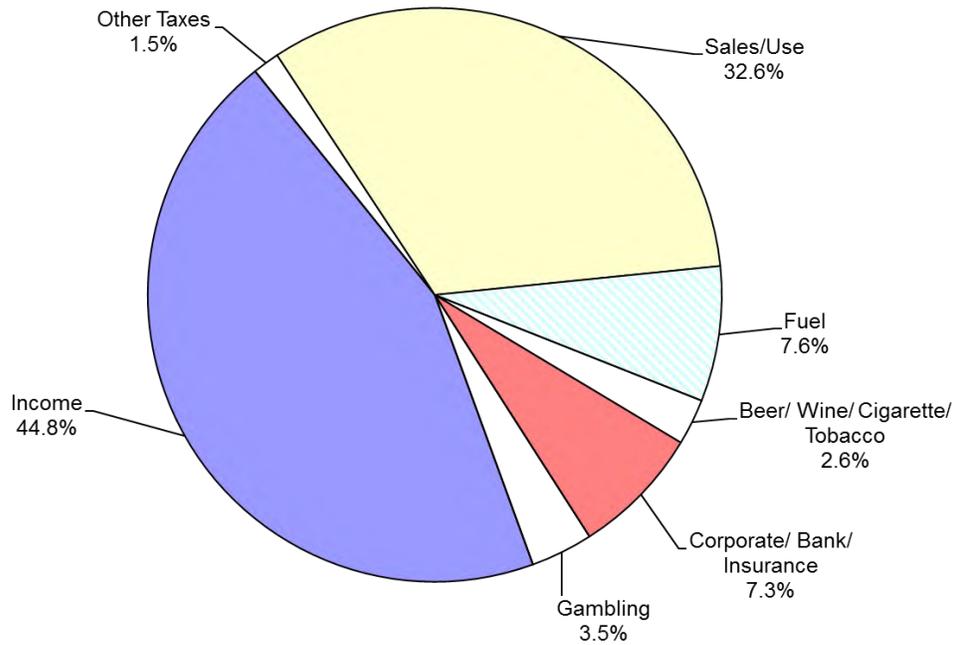
The average reading for Iowa nonfarm employment over the 12 months ending February 2020 was 1,585,200, and net State tax receipts over the same 12 months totaled \$9.343 billion, or \$5,894 per nonfarm job. This is \$2,109 higher than the per-job average for the 12 months ending June 2005. The blue (upper) 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 \$647 since June 2005, and the remainder of the \$2,109 increase (\$1,462) represents the impact of inflation.



Net State Tax Revenue – 12 Months Ending March 2020
Net Revenue = \$9.377 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue – 12 Months Ending March 2019
Net Revenue = \$8.746 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 March 2019	Month of March 2020	March \$ Change	March % Change
Banking	\$ 21.7	\$ 72.7	\$ 51.0	235.0%	\$ 2.1	\$ 2.2	\$ 0.1	4.8%
Beer & Wine	22.1	20.9	- 1.2	-5.4%	1.5	0.3	- 1.2	-80.0%
Cigarette & Tobacco	205.5	212.3	6.8	3.3%	16.1	26.0	9.9	61.5%
Corporate Income	478.3	626.6	148.3	31.0%	20.3	30.9	10.6	52.2%
Fuel	665.9	713.5	47.6	7.1%	18.6	79.9	61.3	329.6%
Gambling	306.5	306.4	- 0.1	0.0%	26.9	20.2	- 6.7	-24.9%
Individual Income	3,916.8	4,028.6	111.8	2.9%	166.7	115.4	- 51.3	-30.8%
Inheritance	82.3	77.0	- 5.3	-6.4%	4.9	5.4	0.5	10.2%
Insurance	140.9	152.5	11.6	8.2%	11.6	6.1	- 5.5	-47.4%
Other Taxes	26.3	17.0	- 9.3	-35.4%	0.0	0.0	0.0	--
Real Estate Transfer	23.7	25.0	1.3	5.5%	1.2	1.7	0.5	41.7%
Sales/Use	2,855.4	3,124.2	268.8	9.4%	171.4	187.1	15.7	9.2%
Total Net Taxes	\$ 8,745.4	\$ 9,376.7	\$ 631.3	7.2%	\$ 441.3	\$ 475.2	\$ 33.9	7.7%
Gross Tax & Refunds								
Gross Tax	\$ 10,460.9	\$ 11,134.7	\$ 673.8	6.4%	\$ 706.1	\$ 809.0	\$ 102.9	14.6%
Tax Refunds	\$ - 1,715.4	\$ - 1,757.9	\$ - 42.5	2.5%	\$ - 264.7	\$ - 333.7	\$ - 69.0	26.1%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 7,098.0	\$ 7,640.3	\$ 542.3	7.6%	\$ 352.5	\$ 317.6	\$ - 34.9	-9.9%
Road Use Tax Fund	\$ 1,069.9	\$ 1,136.1	\$ 66.2	6.2%	\$ 42.1	\$ 108.2	\$ 66.1	157.0%
Non-GF Gambling	\$ 302.6	\$ 302.5	\$ - 0.1	0.0%	\$ 26.8	\$ 20.1	\$ - 6.7	-25.0%
Other State Funds	\$ 275.0	\$ 297.9	\$ 22.9	8.3%	\$ 20.0	\$ 29.3	\$ 9.3	46.5%
Local Option Taxes *	\$ 1,008.9	\$ 1,100.8	\$ 91.9	9.1%	\$ 86.6	\$ 86.1	\$ - 0.5	-0.6%

* 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 revenues were 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 revenue from the cigarette and tobacco tax 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, the Sports Wagering Receipts 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 \$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.