



**MEMORANDUM**

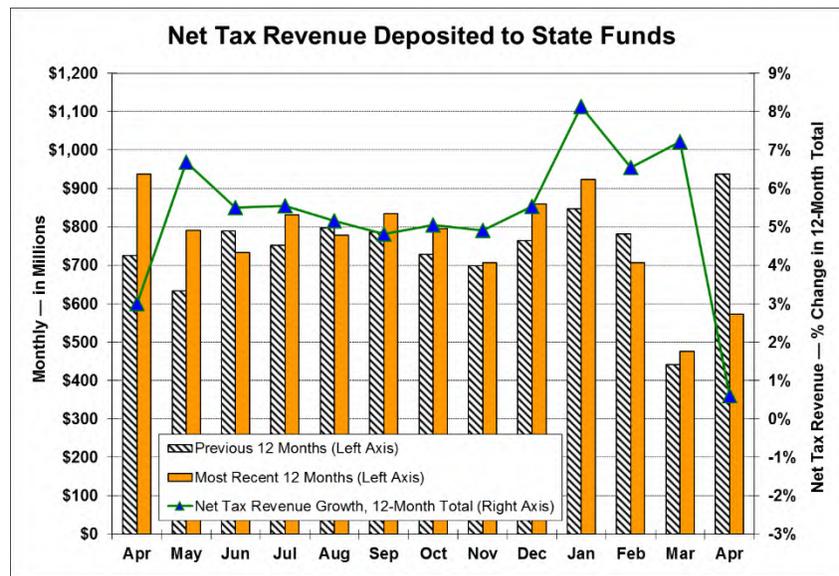
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: May 26, 2020

**Twelve-Month Total Net Tax Receipts Through April 30, 2020**

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending April 30, 2020, with comparisons to the previous 12 months. April 2019 to April 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 \$572.6 million for the month of April 2020, a decrease of \$364.9 million (-38.9%) compared to the previous April. The decrease in net tax revenue for the month was dominated by the economic situation created by the current COVID-19 pandemic. In response to the pandemic, [proclamations](#) issued by Governor Reynolds placed restrictions on specified activities, including the temporary closing of certain retail businesses. In response to the Governor's proclamations, the [Department of Revenue](#) issued orders and other procedural changes that delayed the due dates for various State tax payments. While some actual negative impacts of the economic situation are shown in April revenue deposits,

the majority of the revenue decrease is due to the due date delays. Specifically, actions that delayed the due date for final tax year 2019 individual income and corporate income tax payments until July 31, 2020, significantly lowered April revenue and will in turn increase the revenue deposited at the end of July and early August.

Additional Department actions related to bank franchise tax, beer and wine tax, and corporate income tax estimate payments also have delayed, but not reduced, net tax collections.

The two main drivers of Iowa's total tax revenue, sales/use tax and individual income tax withholding payments, both declined modestly for the month of April. A \$26.0 million decline in fuel tax revenue for April is a deposit timing issue and not an actual reduction. As part of the COVID-19 restrictions, the Governor closed the State's casinos. The \$25.6 million decrease for April represents a true negative impact.

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

During the 12-month period ending April 30, 2020, net revenue from all taxes deposited to State funds totaled \$9.012 billion, an increase of \$54.4 million (0.6%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- **Individual Income Tax (negative \$237.5 million, -5.9%)** — Iowa reduced income tax rates effective January 1, 2019, so some of the revenue reduction over the past 12 months is due to that change. In addition, the due date for individual income tax final payments this year, normally due April 30, was delayed until July 31. This change reduced April individual income tax deposits by approximately \$225.0 million, and this accounts for a large majority of the individual income tax revenue reduction of the past 12 months.
- **Corporate Income Tax (positive \$14.8 million, 2.7%)** — The due date for final tax payments for tax year 2019 has been delayed for many taxpayers until July 31, 2020. April corporate income tax deposits fell almost \$80.0 million compared to April 2019. Most of this decrease is likely just delayed income that will be received at the end of July 2020.
- **Sales/Use Tax (positive \$243.5 million, 8.5%)** — 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 \$29.8 million (7.6%). The negative impact of the current economic situation on vehicle sales tax receipts will first be shown in May receipts.
  - 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 \$185.2 million (6.1%). 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 \$4.8 million.
  - Decreased sales tax payments to the school infrastructure account (recorded as tax refunds) increased net revenue \$2.2 million.
- **Banking Taxes (positive \$38.7 million, 127.3%)** — Over the most recent 12 months, franchise tax deposits increased \$17.2 million, while franchise tax refunds decreased \$21.5 million.
- **Fuel Tax (positive \$16.2 million, 2.4%)** — According to Department of Revenue monthly fuel sales [reports](#), the total gallons<sup>1</sup> subject to fuel tax increased 0.6% over the most recent 12-month period. The gross taxable gallons by fuel type sold over the most recent

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<sup>1</sup> Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.477 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.

12 months, along with the percentage change when compared to the previous 12 months, are as follows:

- Unblended gasoline,<sup>2</sup> 474.4 million gallons, -21.2%.
- Gasoline blended with ethanol, 1.202 billion gallons, 12.8%.
- Diesel, including biodiesel blends, 755.1 million gallons, 1.1%.
- Aviation, jet, and other fuels, 46.2 million gallons, -3.4%.
- **Gambling Tax (negative \$22.3 million, -7.4%)** — Iowa's 19 State-regulated casino/racetrack 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 for the month of March and \$25.6 million for April.
- **Insurance Premium Tax (positive \$7.2 million, 5.0%).**
- **Real Estate Transfer Tax (positive \$1.5 million, 6.4%).**
- **Cigarette and Tobacco Tax (positive \$4.5 million, 2.2%).**

### Tax Spotlight — Cigarette Tax and Tobacco Tax

Tobacco products are taxed under the authority of Iowa Code chapter [453A](#). Based on law changes enacted in 2007:

- Cigarettes and little cigars are taxed at \$0.068 per cigarette (\$1.36 per pack of 20).
- Snuff is taxed at \$1.19 per ounce.
- Cigars are taxed at 50.0% of the wholesale price, not to exceed \$0.50 per cigar.
- All other tobacco products are taxed at 50.0% of the wholesale price.
- Effective July 1, 2012, in addition to the tobacco tax of 50.0% of the wholesale price, roll-your-own (RYO) cigarettes are taxed at \$0.0306 per cigarette (\$0.65 per pack of 20).
- Iowa cigarette and tobacco taxes do not apply to electronic cigarettes. Sales of alternative nicotine and vapor products are subject to the sales/use tax.

The Iowa cigarette tax was first enacted at a rate of \$0.02 per pack of 20 cigarettes ([HF 678](#), Cigarette Tax Act of 1921). The cigarette tax rate was increased periodically and reached \$0.34 per pack in 1988. In 1989 the tax was lowered to \$0.31 per pack, and then increased in 1991 to \$0.36 per pack. The current \$1.36 State tax rates went into effect on March 16, 2007.

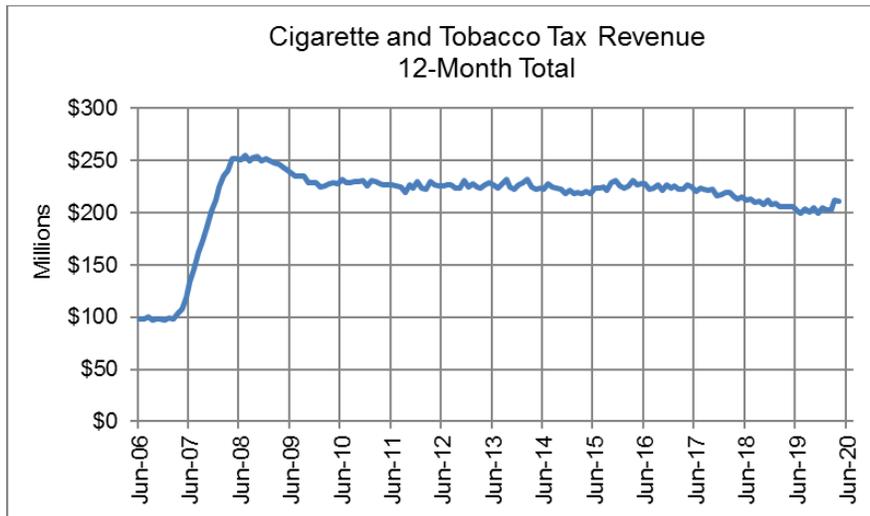
The tobacco tax was enacted in 1967 at a rate of 10.0% of the wholesale price ([HF 702](#), Tax Modification Act of 1967). The tax was increased to 15.0% in 1985, 19.0% in 1988, and 22.0% in 1991. The rate stood at 22.0% of the wholesale price until the 2007 Legislative Session.

The tax imposed on cigarettes must be paid by the person making the first sale in Iowa. Cigarette stamps affixed to the package indicate the tax has been paid. Cigarette tax returns are to be filed by the holder of a permit by the 10th day of each month for the preceding calendar month. Tobacco (other than cigarette) tax returns must be filed by the 20th day of each month for the preceding calendar month. Beginning with FY 2014, all cigarette and tobacco tax revenue is deposited into the [Health Care Trust Fund](#).

The following chart depicts Iowa cigarette and tobacco tax revenue deposited to all funds on a 12-month moving total basis.

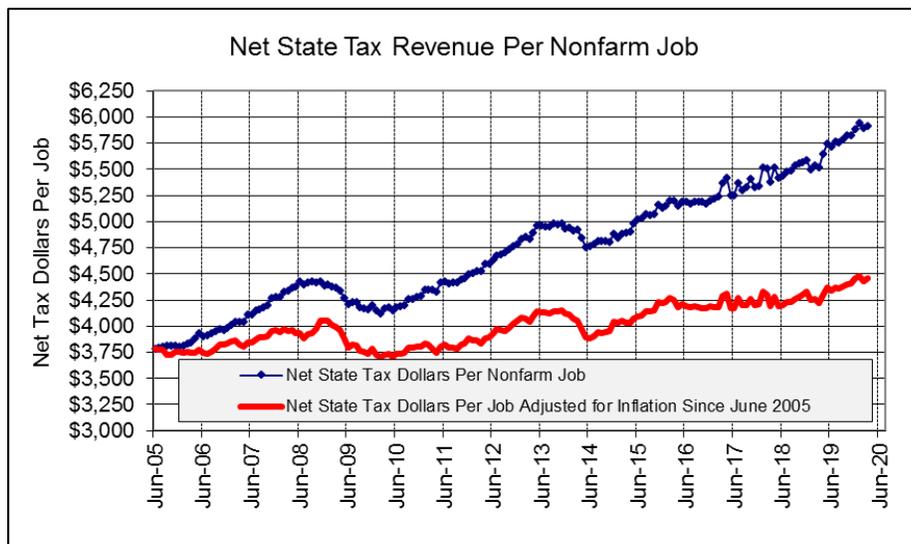
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<sup>2</sup> A portion of the gallons listed as unblended gasoline is later blended with ethanol.

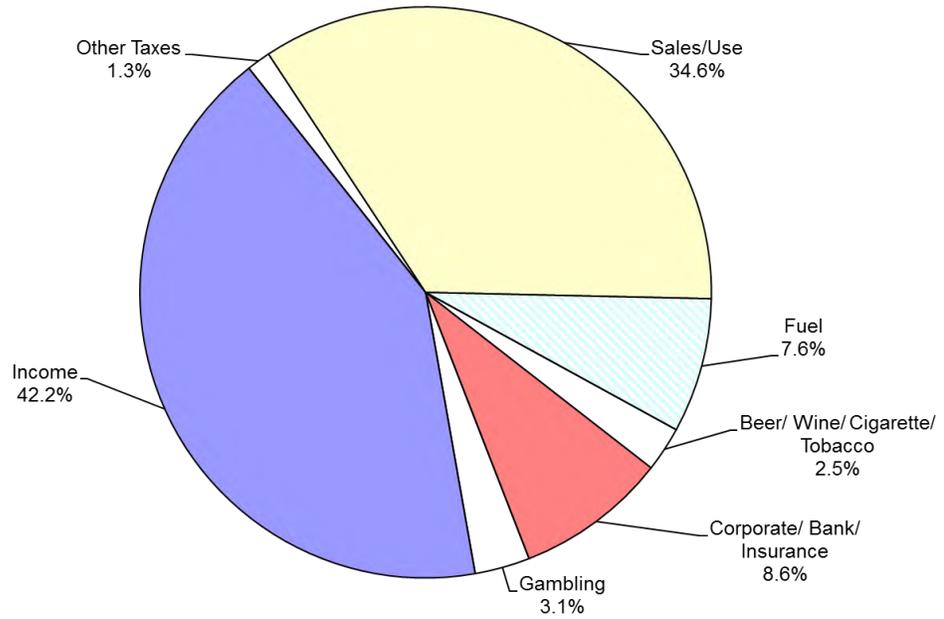


### Tax Revenue and Employment

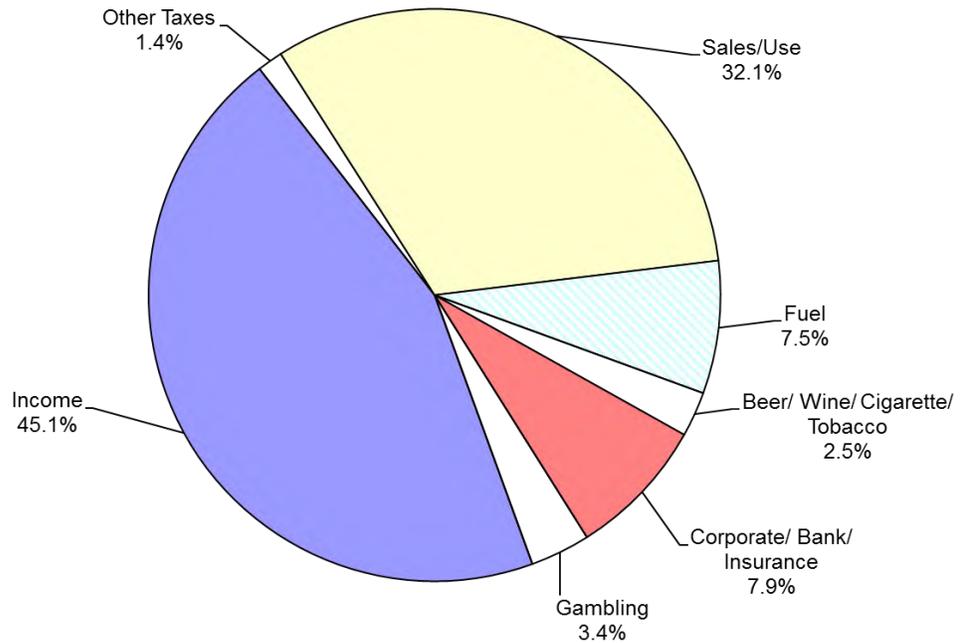
The average reading for Iowa nonfarm employment over the 12 months ending March 2020 was 1,584,200, and net State tax receipts over the same 12 months totaled \$9.377 billion, or \$5,919 per nonfarm job. This is \$2,134 higher than the per-job average for the 12 months ending June 2005. The blue (upper) 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 \$675 since June 2005, and the remainder of the \$2,134 increase (\$1,459) represents the impact of inflation.



**Net State Tax Revenue – 12 Months Ending April 2020**  
**Net Revenue = \$9.012 Billion**  
Percentages may not add to 100% due to rounding



**Net State Tax Revenue – 12 Months Ending April 2019**  
**Net Revenue = \$8.957 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.

<u>Net Tax by Tax Type</u>	<u>Previous 12-Month Period Total</u>	<u>Most Recent 12-Month Period Total</u>	<u>12-Month \$ Change</u>	<u>12-Month % Change</u>	<u>Month of April 2019</u>	<u>Month of April 2020</u>	<u>April \$ Change</u>	<u>March % Change</u>
Banking	\$ 30.4	\$ 69.1	\$ 38.7	127.3%	\$ 14.1	\$ 10.6	\$ - 3.5	-24.8%
Beer & Wine	22.0	19.3	- 2.7	-12.3%	1.6	0.0	- 1.6	-100.0%
Cigarette & Tobacco	205.9	210.4	4.5	2.2%	15.9	14.0	- 1.9	-11.9%
Corporate Income	538.3	553.1	14.8	2.7%	164.0	90.6	- 73.4	-44.8%
Fuel	671.3	687.5	16.2	2.4%	79.1	53.1	- 26.0	-32.9%
Gambling	303.1	280.8	- 22.3	-7.4%	25.7	0.1	- 25.6	-99.6%
Individual Income	4,036.8	3,799.3	- 237.5	-5.9%	399.7	170.3	- 229.4	-57.4%
Inheritance	79.4	79.6	0.2	0.3%	3.8	6.4	2.6	68.4%
Insurance	143.2	150.4	7.2	5.0%	2.5	0.5	- 2.0	-80.0%
Other Taxes	26.7	17.0	- 9.7	-36.3%	- 0.2	- 0.2	0.0	--
Real Estate Transfer	23.4	24.9	1.5	6.4%	1.9	1.8	- 0.1	-5.3%
Sales/Use	2,876.7	3,120.2	243.5	8.5%	229.4	225.4	- 4.0	-1.7%
<b>Total Net Taxes</b>	<b>\$ 8,957.2</b>	<b>\$ 9,011.6</b>	<b>\$ 54.4</b>	<b>0.6%</b>	<b>\$ 937.5</b>	<b>\$ 572.6</b>	<b>\$ - 364.9</b>	<b>-38.9%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 10,651.5	\$ 10,730.7	\$ 79.2	0.7%	\$ 1,257.7	\$ 853.7	\$ - 404.0	-32.1%
Tax Refunds	\$ - 1,694.2	\$ - 1,718.9	\$ - 24.7	1.5%	\$ - 320.2	\$ - 281.2	\$ 39.0	-12.2%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 7,309.8	\$ 7,328.1	\$ 18.3	0.3%	\$ 785.7	\$ 473.5	\$ - 312.2	-39.7%
Road Use Tax Fund	\$ 1,072.2	\$ 1,111.2	\$ 39.0	3.6%	\$ 109.0	\$ 84.0	\$ - 25.0	-22.9%
Non-GF Gambling	\$ 299.2	\$ 277.0	\$ - 22.2	-7.4%	\$ 25.6	\$ 0.1	\$ - 25.5	-99.6%
Other State Funds	\$ 276.1	\$ 295.5	\$ 19.4	7.0%	\$ 17.3	\$ 14.9	\$ - 2.4	-13.9%
<b>Local Option Taxes *</b>	<b>\$ 1,019.7</b>	<b>\$ 1,096.9</b>	<b>\$ 77.2</b>	<b>7.6%</b>	<b>\$ 106.2</b>	<b>\$ 102.3</b>	<b>\$ - 3.9</b>	<b>-3.7%</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 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.