



MEMORANDUM

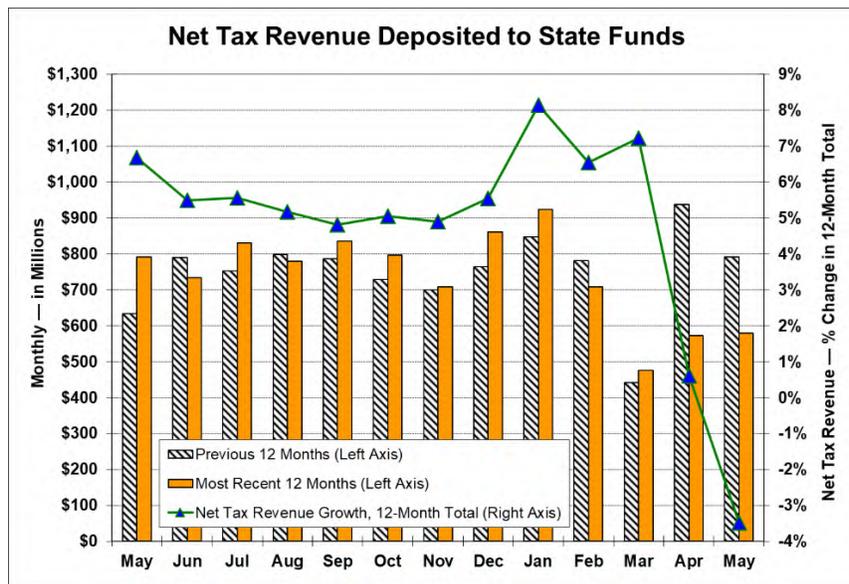
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: June 26, 2020

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

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending May 31, 2020, with comparisons to the previous 12 months. May 2019 to May 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 \$578.2 million for the month of May 2020, a decrease of \$213.3 million (-26.9%) compared to the previous May. The decrease in net tax revenue for the month was in part due to May 2020 ending on a weekend, with the largest relative impact shown in insurance premium and fuel tax deposits. This pushed between \$85.0 million and \$105.0 million of gross tax revenue from May into June. The remainder of the decrease was due to 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 and May 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 and May 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 for the month of May. Revenues from the fuel tax and the sales tax on motor vehicles (fee for new registration) also declined. As part of the COVID-19 restrictions, the Governor closed the State's casinos, and the \$31.9 million May decrease in gambling tax revenue represents a true negative impact.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending May 31, 2020, net revenue from all taxes deposited to State funds totaled \$8.798 billion, a decrease of \$317.4 million (-3.5%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- **Individual Income Tax (negative \$331.3 million, -8.1%)** — 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 April 30, was delayed until July 31. For the months of April and May 2020, the deposit of payments made with filed individual income tax returns was \$363.7 million below the same months of 2019. The actual decrease in final tax return payments, if any, will not be known until the delayed due date of July 31 passes.
- **Corporate Income Tax (negative \$23.7 million, -4.3%)** — The due date for final tax payments for tax year 2019 has been delayed for many taxpayers until July 31, 2020. For the months of April and May 2020, the deposit of corporate income tax payments was \$108.9 million below the same months of 2019. The actual decrease in corporate income tax payments, if any, will not be known until the delayed due date of July 31 passes.
- **Sales/Use Tax (positive \$182.2 million, 6.3%)** — 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 \$12.4 million (3.1%). The negative impact of the current economic situation on vehicle sales tax receipts first appeared in May 2020 receipts, with deposits totaling \$24.2 million for the month versus \$38.2 million for May 2019.
 - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, Reinvestment District Fund, and two water quality funds) increased \$24.7 million.
 - Sales/use tax deposited to the State General Fund increased \$142.2 million (4.7%). 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 \$2.5 million.
 - Decreased sales tax payments to the school infrastructure account (recorded as tax refunds) increased net revenue \$0.4 million.
- **Banking Taxes (positive \$28.7 million, 78.4%)** — Over the most recent 12 months, franchise tax deposits increased \$7.7 million, while franchise tax refunds decreased \$21.0 million.

- **Fuel Tax (negative \$25.7 million, -3.8%)** — 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,² 455.7 million gallons, -23.7%.
 - Gasoline blended with ethanol, 1.207 billion gallons, 13.0%.
 - Diesel, including biodiesel blends, 756.5 million gallons, 1.2%.
 - Aviation, jet, and other fuels, 46.1 million gallons, -2.3%.
- **Gambling Tax (negative \$61.7 million, -19.9%)** — 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. The casinos reopened with restrictions in early June. The gambling tax revenue deposits declined \$64.2 million over the months of March, April, and May when compared to the same months last year.
- **Insurance Premium Tax (negative \$64.8 million, -35.1%)** — The significant decline in insurance premium tax receipts is not related to the current economic situation. The decline is due to the unusually large level of tax deposits that occurred in the first six months of calendar year 2019 and to the fact that May 2020 ended on a weekend. The 2020 deposits represent a return to a more normal level of insurance premium tax revenue.
- **Real Estate Transfer Tax (positive \$1.7 million, 7.3%).**
- **Cigarette and Tobacco Tax (negative \$0.5 million, -0.2%).**

Tax Spotlight — Franchise (Bank) Tax and Credit Union Tax

The taxation of banks and financial institutions in Iowa dates back to at least 1851. Prior to [HF 1294](#) (Taxation of Financial Institutions Act of 1970), the bank tax was essentially a property tax, collected and retained at the local level.

The current franchise tax (Iowa Code chapter [422, division V](#)) is imposed on the net income of State banks, national banking associations, trust companies, federal and State-chartered savings and loan associations, financial institutions chartered by the Federal Home Loan Bank Board, and production credit associations, at a rate of 5.0%. An alternative minimum tax may be applicable to financial institutions at an effective rate of 3.0%. Credit unions are subject to a different tax discussed below.

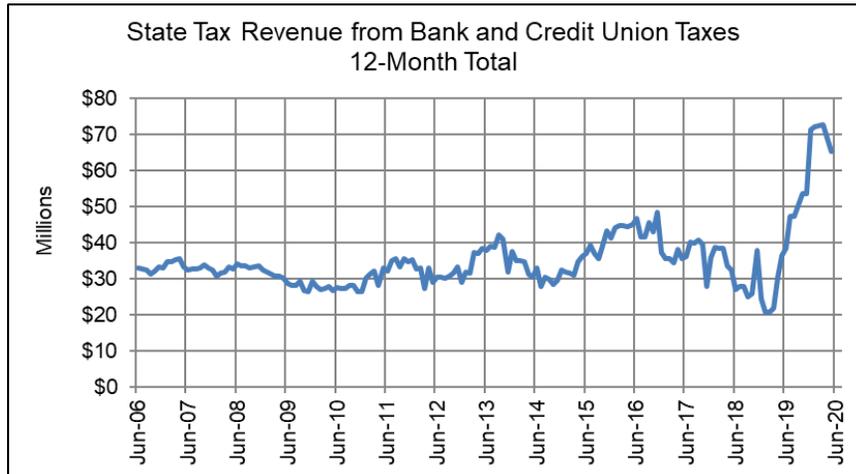
The Iowa franchise tax enacted in 1970 provided for rates ranging from 5.0% to 8.0% of net income. The franchise tax rate was reduced to a flat 5.0% in 1980. Prior to 1995, financial institutions could transfer income-producing assets to nonbank subsidiaries, reducing the franchise tax owed. Legislation was enacted beginning with tax year 1995 that prohibits the deduction of those types of transfers.

Tax returns for franchise tax are required to be filed by the last day of the fourth month after the end of the tax year. Estimate payments from most financial institutions are due on a quarterly basis. Revenue received from the franchise tax is deposited in the State General Fund.

¹ Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.465 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.

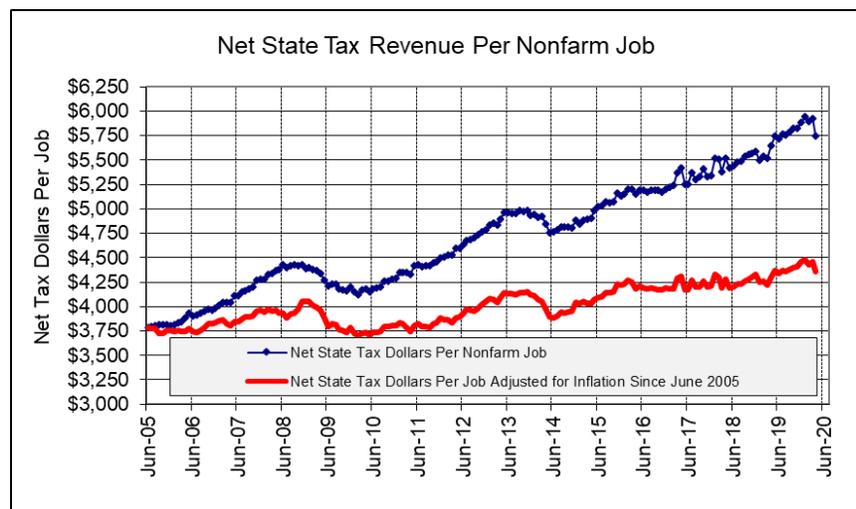
² A portion of the gallons listed as unblended gasoline is later blended with ethanol.

Credit unions are taxed at a rate of 0.5% of “legal and special reserves” (Iowa Code section [533.329](#)). Prior to FY 2020,³ the tax was imposed by the county board of supervisors. The revenue derived from the tax is divided among the county, city, and State, with the State share equal to 50.0% of revenue collected. The State revenue is deposited in the General Fund.



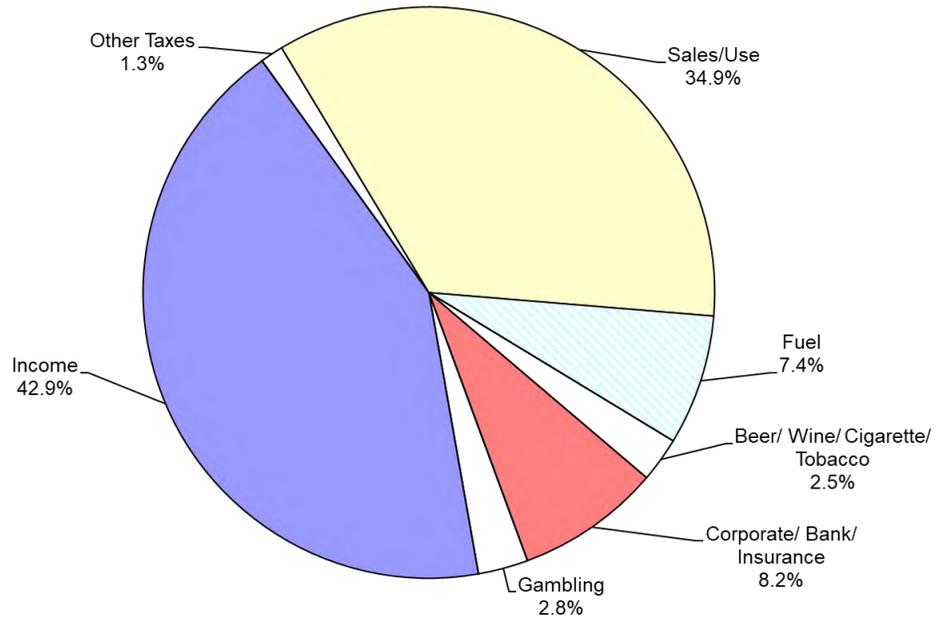
Tax Revenue and Employment

The average reading for Iowa nonfarm employment over the 12 months ending April 2020 was 1,567,600, and net State tax receipts over the same 12 months totaled \$9.012 billion, or \$5,749 per nonfarm job. This is \$1,964 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 \$576 since June 2005, and the remainder of the \$1,964 increase (\$1,388) represents the impact of inflation.

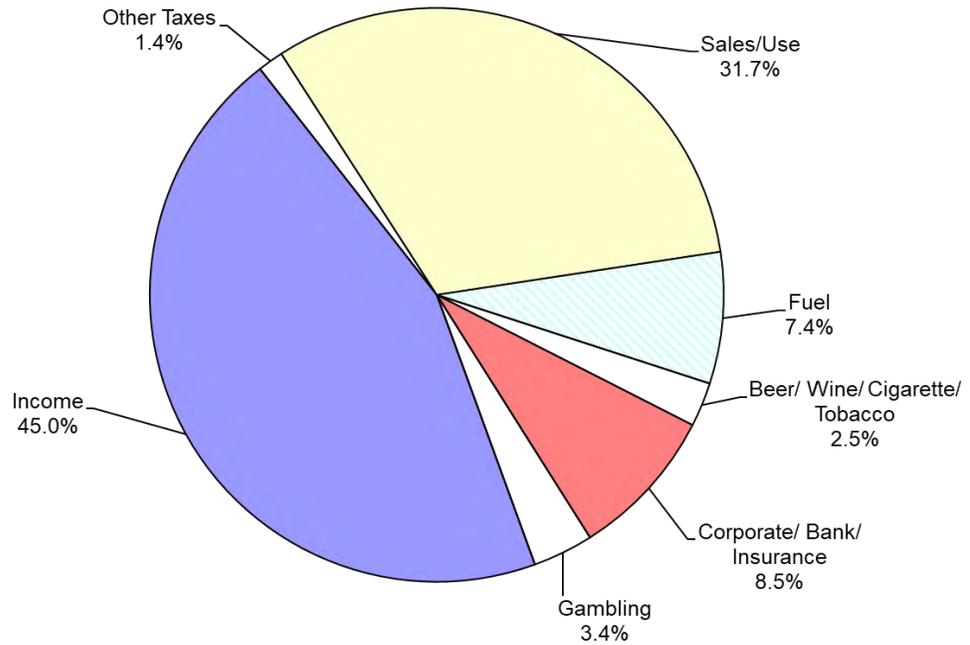


³ See section 70 of [HF 779](#) (2019 Tax Code Changes Act).

Net State Tax Revenue – 12 Months Ending May 2020
Net Revenue = \$8.798 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue – 12 Months Ending May 2019
Net Revenue = \$9.116 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 May 2019	Month of May 2020	May \$ Change	March % Change
Banking	\$ 36.6	\$ 65.3	\$ 28.7	78.4%	\$ 8.0	\$ 4.2	\$ - 3.8	-47.5%
Beer & Wine	22.1	18.1	- 4.0	-18.1%	1.8	0.5	- 1.3	-72.2%
Cigarette & Tobacco	205.5	205.0	- 0.5	-0.2%	19.3	13.9	- 5.4	-28.0%
Corporate Income	557.1	533.4	- 23.7	-4.3%	35.0	15.3	- 19.7	-56.3%
Fuel	674.9	649.2	- 25.7	-3.8%	56.2	17.9	- 38.3	-68.1%
Gambling	310.7	249.0	- 61.7	-19.9%	31.9	0.0	- 31.9	-100.0%
Individual Income	4,101.4	3,770.1	- 331.3	-8.1%	270.9	241.8	- 29.1	-10.7%
Inheritance	78.9	77.8	- 1.1	-1.4%	8.9	7.1	- 1.8	-20.2%
Insurance	184.8	120.0	- 64.8	-35.1%	58.9	28.5	- 30.4	-51.6%
Other Taxes	29.8	12.6	- 17.2	-57.7%	3.7	- 0.7	- 4.4	-118.9%
Real Estate Transfer	23.3	25.0	1.7	7.3%	1.8	1.9	0.1	5.6%
Sales/Use	2,890.7	3,072.9	182.2	6.3%	295.1	247.8	- 47.3	-16.0%
Total Net Taxes	\$ 9,115.8	\$ 8,798.4	\$ - 317.4	-3.5%	\$ 791.5	\$ 578.2	\$ - 213.3	-26.9%
Gross Tax & Refunds								
Gross Tax	\$ 10,797.8	\$ 10,449.7	\$ - 348.1	-3.2%	\$ 1,052.9	\$ 772.0	\$ - 280.9	-26.7%
Tax Refunds	\$ - 1,682.0	\$ - 1,651.4	\$ 30.6	-1.8%	\$ - 261.3	\$ - 193.8	\$ 67.5	-25.8%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 7,452.5	\$ 7,203.9	\$ - 248.6	-3.3%	\$ 631.6	\$ 507.4	\$ - 124.2	-19.7%
Road Use Tax Fund	\$ 1,082.5	\$ 1,055.2	\$ - 27.3	-2.5%	\$ 98.3	\$ 42.4	\$ - 55.9	-56.9%
Non-GF Gambling	\$ 306.7	\$ 245.3	\$ - 61.4	-20.0%	\$ 31.7	\$ 0.0	\$ - 31.7	-100.0%
Other State Funds	\$ 274.1	\$ 293.9	\$ 19.8	7.2%	\$ 29.9	\$ 28.3	\$ - 1.6	-5.4%
Local Option Taxes *	\$ 1,028.1	\$ 1,082.7	\$ 54.6	5.3%	\$ 119.7	\$ 105.5	\$ - 14.2	-11.9%

* 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 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.