



**MEMORANDUM**

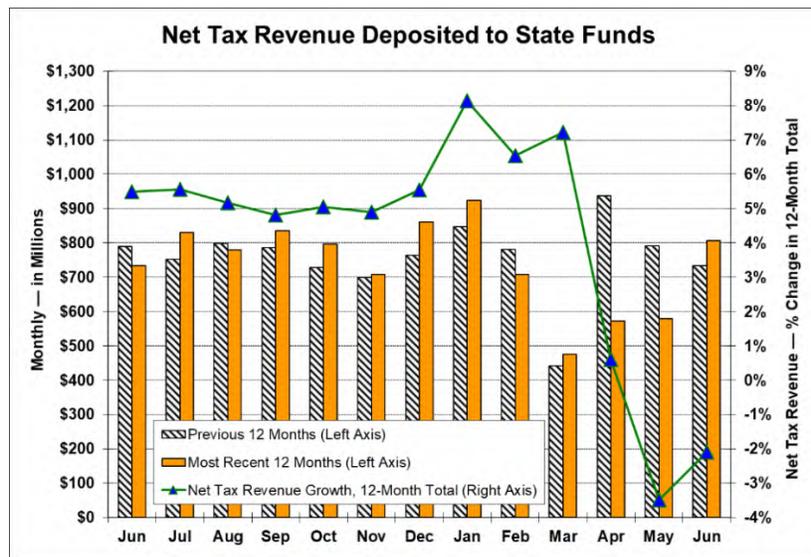
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: July 24, 2020

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

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending June 30, 2020, with comparisons to the previous 12 months. June 2019 to June 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 \$807.0 million for the month of June 2020, an increase of \$73.3 million (10.0%) compared to the previous June. The increase for the month was due to May 2020 ending on a weekend. This pushed between \$85.0 million and \$105.0 million of gross tax revenue from May 2020 into June.

For the most recent 12 months, net revenue decreased \$189.1 million (-2.1%). A significant factor causing this decline was the delay in the due date for tax year 2019 individual and corporate income tax returns and final payments. The due date for most taxpayers was moved from April 30, 2020, to July 31, 2020.

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

During the 12-month period ending June 30, 2020, net revenue from all taxes deposited to State funds totaled \$8.872 billion, a decrease of \$189.1 million (-2.1%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- **Individual Income Tax (negative \$334.7 million, -8.2%)** — 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 through June 2020, the deposit of payments made with filed individual income tax returns was \$336.9 million below the same months of 2019. The actual decrease in final tax return payments, if any, will not be known until the delayed tax due date of July 31 passes.
- **Corporate Income Tax (negative \$9.7 million, -1.8%)** — 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 through June 2020, the deposit of corporate income tax payments was \$104.3 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 \$166.7 million, 5.7%)** — 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 \$0.3 million (0.1%).
  - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, Reinvestment District Fund, and two water quality funds) increased \$22.1 million.
  - Sales/use tax deposited to the State General Fund increased \$139.6 million (4.6%). 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 \$6.1 million.
  - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$1.3 million.
- **Banking Taxes (positive \$30.7 million, 79.5%)** — Over the most recent 12 months, franchise tax deposits increased \$9.8 million, while franchise tax refunds decreased \$20.9 million.
- **Fuel Tax (positive \$41.0 million, 6.2%)** — According to Department of Revenue monthly fuel sales [reports](#), the total gallons<sup>1</sup> subject to fuel tax decreased 1.9% 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> 428.2 million gallons, -28.5%.
  - Gasoline blended with ethanol, 1.194 billion gallons, 11.5%.
  - Diesel, including biodiesel blends, 755.8 million gallons, 0.6%.
  - Aviation, jet, and other fuels, 43.5 million gallons, -10.6%.
- **Gambling Tax (negative \$62.0 million, -20.3%)** — 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. Most casinos reopened with restrictions in early June. State gambling tax revenue deposits declined

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<sup>1</sup> Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.421 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.

\$64.2 million over the months of March, April, and May 2020 when compared to the same months last year. For the month of June 2020, the decline was \$6.2 million.

- **Insurance Premium Tax (negative \$10.0 million, -6.5%)** — The 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. The 2020 deposits represent a return to a more normal level of insurance premium tax revenue.
- **Real Estate Transfer Tax (positive \$1.2 million, 5.2%).**
- **Cigarette and Tobacco Tax (positive \$9.0 million, 4.5%).**

### **Tax Spotlight — Sales and Use Tax**

Sales of goods and services to the final user are taxed under the authority of Iowa Code chapter [423](#). The sale of all tangible property to the final user is subject to tax unless the tangible property is specifically made exempt in Iowa Code section [423.3](#). The sale of services is exempt unless specifically enumerated in Iowa Code section [423.1\(6\)](#). With a few exceptions, items that are exempt from sales tax are also exempt from use tax.

The State sales tax rate was increased in 2008 to 6.0%, with one-sixth of the tax devoted to school infrastructure. With the increase in the State sales tax rate, the school infrastructure local option (SILO) sales tax was repealed (this local option tax was initiated in [HF 2282](#), Local Option Sales Tax for School Infrastructure Act of 1998). In addition to the State sales tax, with voter approval, local jurisdictions can impose a local option sales tax (LOST) of up to 1.0% (see [SF 395](#), Local Option Sales Tax Act of 1985).

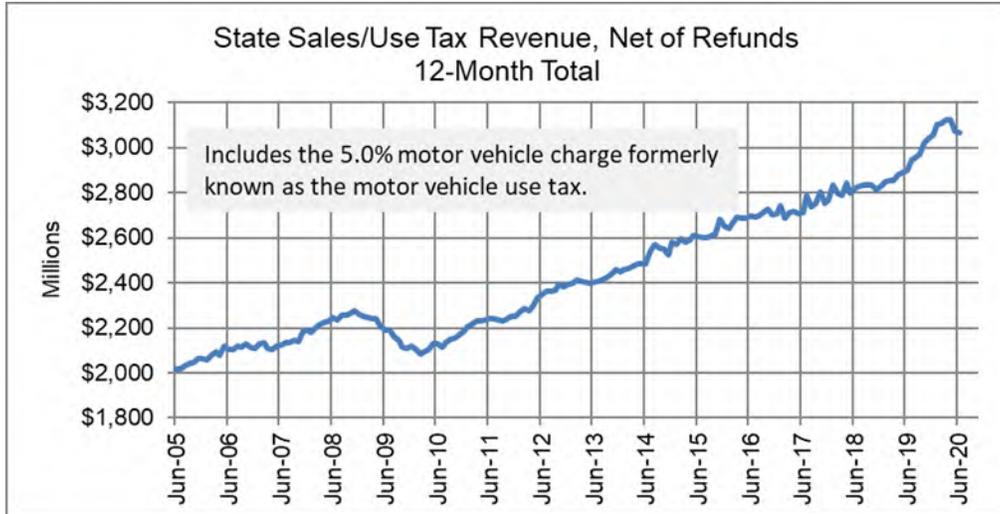
The use tax (consumer and retailer) rate was also increased to 6.0% in 2008, with one-sixth of the tax devoted to school infrastructure. The motor vehicle use tax (fee for new registration) remains at 5.0%. The use tax is not subject to LOST (except for transactions involving natural gas, natural gas services, electricity, or electric service). In general, the use tax includes:

- Tax collected by out-of-state firms making sales of tangible personal property or certain services purchased for use in Iowa (retailer's use tax).
- Tax on goods or services purchased by consumers without tax and subsequently used in Iowa (consumer's use tax).
- Tax (fee for new registration) collected by Iowa county treasurers or the Iowa Department of Transportation on the sale of vehicles subject to registration in Iowa.

The Iowa sales tax was first imposed in 1934 in [HF 1](#) (Net Income and Retail Sales Tax Act) for a three-year period at a rate of 2.0%. The tax was made permanent in 1937 with the passage of [SF 316](#) (Sales Tax Act). The Iowa use tax was enacted in 1937 ([SF 317](#), Use Tax Act) in conjunction with the permanent adoption of the sales tax at the 2.0% rate. The tax rate was increased to 2.5% in 1955, lowered to 2.0% in 1957, and increased to 3.0% in 1967 and 4.0% in 1983. The rate was changed to 5.0% in 1992. During the 2008 Legislative Session, the SILO sales tax was repealed and replaced with the 1.0 percentage point increase in the State sales/use tax in [HF 2663](#) (State Sales/Use Tax for School Infrastructure Act of 2008). During the 2018 Legislative Session, the sales/use tax base was expanded in [SF 2417](#) (Income and Sales Tax Modernization Act) to include additional types of items and services. The expansion was effective January 1, 2019.

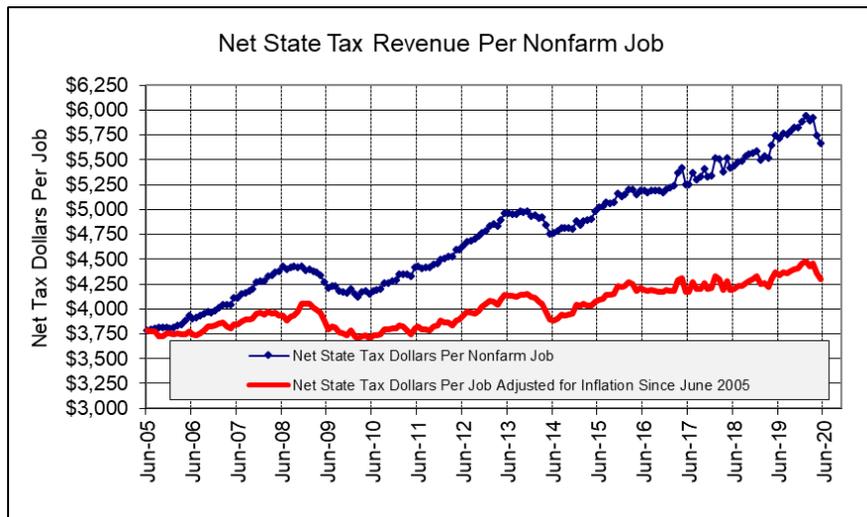
Retailers selling tangible personal property or taxable services are responsible for collecting the State sales tax and any local option sales tax. The retailers are required to hold a retail permit and file a tax return. Depending on the amount of tax collected, deposits are due annually, quarterly, monthly, or semimonthly. State sales tax is deposited in the State General Fund. State sales/use tax revenue for flood mitigation, water quality, school

infrastructure, and LOST is initially deposited in the State General Fund and is subsequently transferred to special funds near the end of the month.

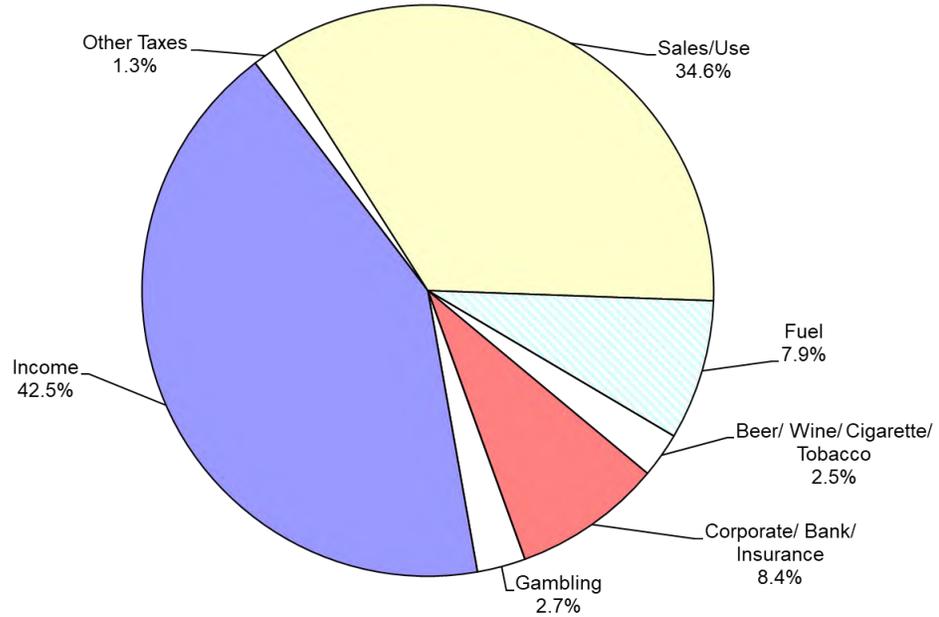


**Tax Revenue and Employment**

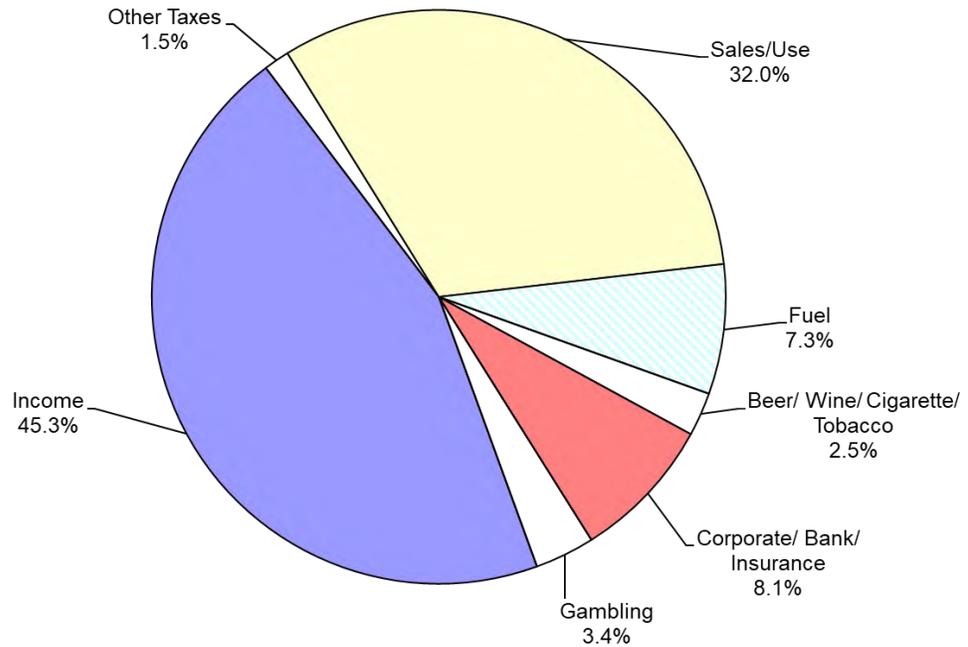
The average reading for Iowa nonfarm employment over the 12 months ending May 2020 was 1,552,900, and net State tax receipts over the same 12 months totaled \$8.798 billion, or \$5,666 per nonfarm job. This is \$1,881 higher than the per-job average for the 12 months ending June 2005. The blue (upper) 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 \$513 since June 2005, and the remainder of the \$1,881 increase (\$1,368) represents the impact of inflation.



**Net State Tax Revenue – 12 Months Ending June 2020**  
**Net Revenue = \$8.872 Billion**  
Percentages may not add to 100% due to rounding



**Net State Tax Revenue – 12 Months Ending June 2019**  
**Net Revenue = \$9.061 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 June 2019</b>	<b>Month of June 2020</b>	<b>June \$ Change</b>	<b>March % Change</b>
Banking	\$ 38.6	\$ 69.3	\$ 30.7	79.5%	\$ 7.3	\$ 11.3	\$ 4.0	54.8%
Beer & Wine	22.0	16.0	- 6.0	-27.3%	2.0	0.0	- 2.0	-100.0%
Cigarette & Tobacco	201.2	210.2	9.0	4.5%	14.7	19.8	5.1	34.7%
Corporate Income	545.2	535.5	- 9.7	-1.8%	94.7	96.8	2.1	2.2%
Fuel	662.5	703.5	41.0	6.2%	22.2	76.6	54.4	245.0%
Gambling	304.8	242.8	- 62.0	-20.3%	23.6	17.4	- 6.2	-26.3%
Individual Income	4,100.9	3,766.2	- 334.7	-8.2%	335.7	331.8	- 3.9	-1.2%
Inheritance	78.3	79.6	1.3	1.7%	4.0	5.8	1.8	45.0%
Insurance	153.4	143.4	- 10.0	-6.5%	2.7	26.0	23.3	863.0%
Other Taxes	29.8	13.2	- 16.6	-55.7%	- 0.5	0.2	0.7	--
Real Estate Transfer	23.3	24.5	1.2	5.2%	2.3	1.8	- 0.5	-21.7%
Sales/Use	2,900.7	3,067.4	166.7	5.7%	225.0	219.5	- 5.5	-2.4%
<b>Total Net Taxes</b>	<b>\$ 9,060.7</b>	<b>\$ 8,871.6</b>	<b>\$ - 189.1</b>	<b>-2.1%</b>	<b>\$ 733.7</b>	<b>\$ 807.0</b>	<b>\$ 73.3</b>	<b>10.0%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 10,751.0	\$ 10,526.8	\$ - 224.2	-2.1%	\$ 833.2	\$ 910.2	\$ 77.0	9.2%
Tax Refunds	\$ - 1,690.2	\$ - 1,655.2	\$ 35.0	-2.1%	\$ - 99.4	\$ - 103.2	\$ - 3.8	3.8%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 7,416.3	\$ 7,235.4	\$ - 180.9	-2.4%	\$ 633.3	\$ 664.8	\$ 31.5	5.0%
Road Use Tax Fund	\$ 1,072.5	\$ 1,100.0	\$ 27.5	2.6%	\$ 59.9	\$ 104.7	\$ 44.8	74.8%
Non-GF Gambling	\$ 300.9	\$ 239.1	\$ - 61.8	-20.5%	\$ 23.4	\$ 17.3	\$ - 6.1	-26.1%
Other State Funds	\$ 271.1	\$ 297.0	\$ 25.9	9.6%	\$ 17.1	\$ 20.2	\$ 3.1	18.1%
<b>Local Option Taxes *</b>	<b>\$ 1,029.3</b>	<b>\$ 1,092.0</b>	<b>\$ 62.7</b>	<b>6.1%</b>	<b>\$ 75.6</b>	<b>\$ 85.0</b>	<b>\$ 9.4</b>	<b>12.4%</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.