



MEMORANDUM

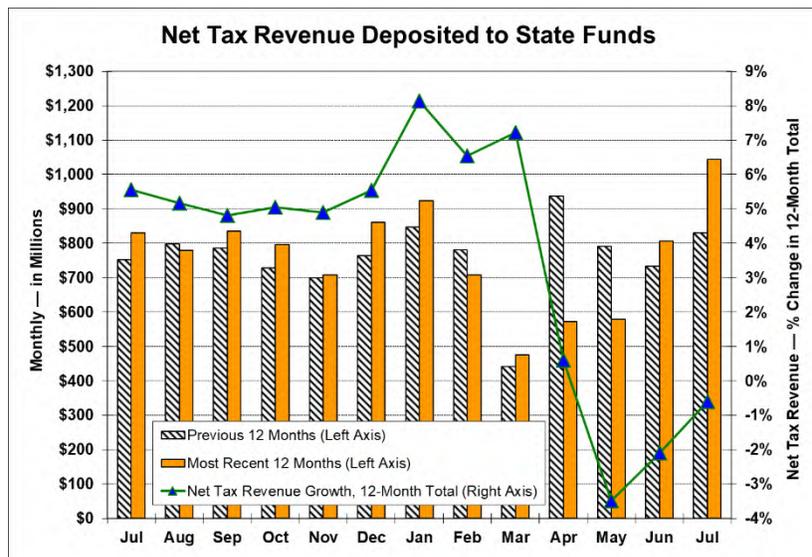
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: August 24, 2020

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

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending July 31, 2020, with comparisons to the previous 12 months. July 2019 to July 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 \$1,044.0 million for the month of July 2020, an increase of \$213.0 million (25.6%) compared to the previous July. The increase for the month was due to delayed due dates for corporate and individual income tax payments. In response to the COVID-19 pandemic and federal decisions to delay federal tax due dates, Iowa delayed income tax due dates until July 31, 2020. This action reduced deposits in April and May of this year and increased deposits in July.

For the most recent 12 months, net revenue decreased \$54.8 million (-0.6%). Over the period, bank franchise, corporate income, and sales/use tax net deposits experienced strong

growth, while gambling and individual income tax net deposits declined.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending July 31, 2020, net revenue from all taxes deposited to State funds totaled \$9.085 billion, a decrease of \$54.8 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 \$158.4 million, -3.9%)** — 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.
- **Corporate Income Tax (positive \$48.1 million, 8.6%).**
- **Sales/Use Tax (positive \$133.4 million, 4.5%)** — Iowa applied the sales/use tax to additional transactions (expanded the tax base) effective January 1, 2019, so some of the revenue increase over the past 12 months is due to that change. 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 \$10.7 million (2.7%).
 - 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 \$103.7 million (3.3%). 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 \$0.1 million.
 - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$3.2 million.
- **Banking Taxes (positive \$19.6 million, 41.4%)** — Over the most recent 12 months, franchise tax deposits increased \$1.3 million, while franchise tax refunds decreased \$18.3 million.
- **Fuel Tax (negative \$16.3 million, -2.4%)** — According to Department of Revenue monthly fuel sales [reports](#), the total gallons¹ subject to fuel tax decreased 3.3% 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,² 405.3 million gallons, -31.9%.
 - Gasoline blended with ethanol, 1.183 billion gallons, 10.8%.
 - Diesel, including biodiesel blends, 751.9 million gallons, 0.2%.
 - Aviation, jet, and other fuels, 41.6 million gallons, -13.9%.
- **Gambling Tax (negative \$59.0 million, -19.3%)** — 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 \$64.2 million over the months of March, April, and May 2020 when compared to the same months last year. For the months of June and July 2020, the decline was \$2.6 million.
- **Insurance Premium Tax (negative \$11.6 million, -7.5%)** — The decline in insurance premium tax receipts is not related to the current economic situation. The decline is due to

¹ Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.382 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.

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 \$9.8 million, 4.9%).**

Tax Spotlight — Motor Vehicle Fuel Tax

Motor vehicle fuel is taxed under Iowa Code chapter [452A](#). The tax is imposed on each gallon of fuel sold in Iowa for use in most motor vehicles and aircraft. Tax rates for July 1, 2020, through June 30, 2021, are:

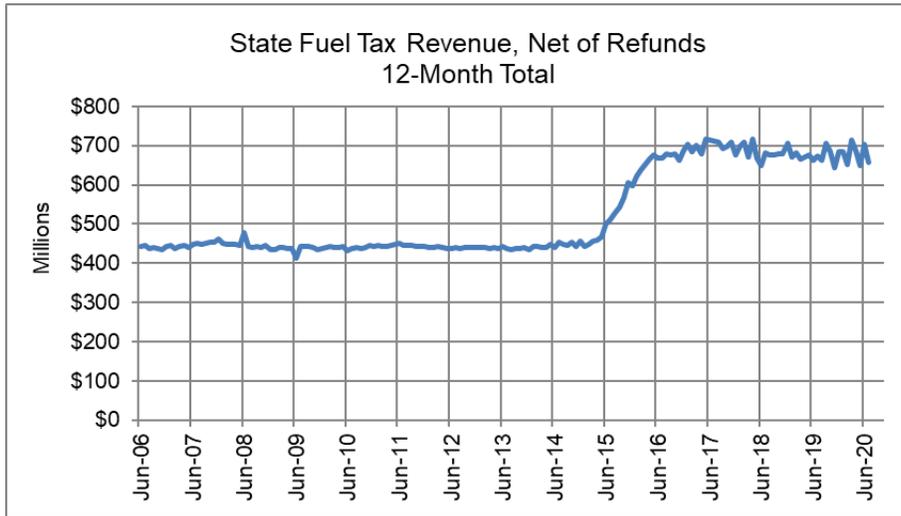
- Gasoline — \$0.300 per gallon.
- Ethanol Blended Gasoline (E-10 to E-14) — \$0.300 per gallon.
- E-15 or higher — \$0.240 per gallon.
- Diesel Fuel (including biodiesel B10 and lower) — \$0.325 per gallon.
- Diesel Fuel (biodiesel B11 and higher) — \$0.301 per gallon.
- Aviation Gasoline — \$0.080 per gallon.
- Aviation Jet Fuel — \$0.050 per gallon.
- Liquefied Petroleum Gas (LPG) — \$0.300 per gallon.
- Compressed Natural Gas — Taxed on a gasoline gallon equivalent basis designed to equal \$0.310 per gallon.
- Liquefied Natural Gas — Taxed on a diesel gallon equivalent basis designed to equal \$0.325 per gallon.
- Hydrogen — \$0.650 per gallon.

Tax rates for gasoline and ethanol blended gasoline (including E-85) are subject to adjustment each fiscal year by the Department of Revenue and are based on the previous calendar year's ethanol blended gasoline sales.

The Iowa motor fuel tax was imposed in 1925 in [SF 312](#) (Gasoline License Fee Act) at a rate of \$0.02 per gallon. The tax rates for gasoline and diesel fuel have increased periodically since enactment. Effective March 1, 2015, tax rates were increased to the present rates ([SF 257](#), Transportation Funding Act of 2015).

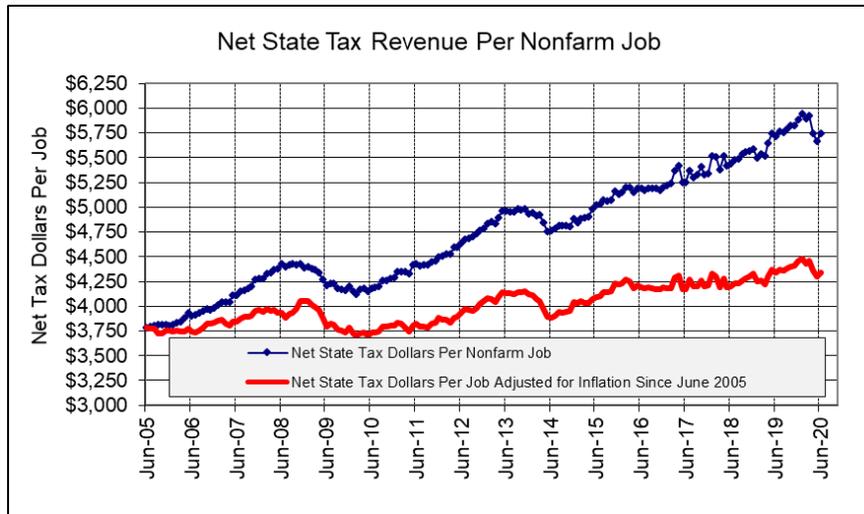
[House File 716](#) (Ethanol Blended Gasoline and Related Taxes Act of 2001) established a motor vehicle fuel tax schedule. As originally established, the fuel tax schedule was subject to a statutory sunset in 2007. The schedule was extended through legislation several times, and replaced in 2020 by a different schedule established in [SF 2403](#) (Biofuels Excise Tax Act). According to the 2020 law and through July 1, 2026, the Department of Revenue establishes the per-gallon tax rate on gasoline and ethanol blended gasoline based on the new tax schedule. The market share of ethanol blended gasoline sold as E-15 or higher (at least 15.0% ethanol by volume) during a calendar year determines the tax rate on gasoline and ethanol blended gasoline for the following fiscal year.

Motor vehicle fuel tax returns are filed by the licensee and are due by the last day of the month following the month when the fuel was withdrawn from its terminal. Aviation fuel tax receipts are credited to the State Aviation Fund (Iowa Code section [452A.82](#)). Beginning in FY 2008, tax receipts from the sale of gasoline used in watercraft have been deposited in the Marine Fuel Tax Fund (Iowa Code section [452A.84](#)). The remainder of the motor fuel tax revenue is credited to the Road Use Tax Fund.

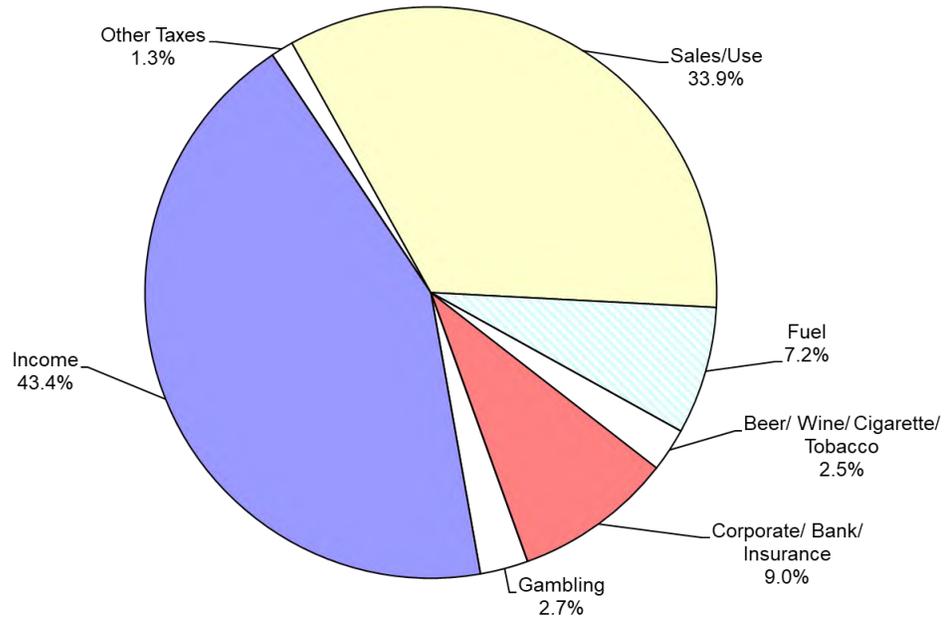


Tax Revenue and Employment

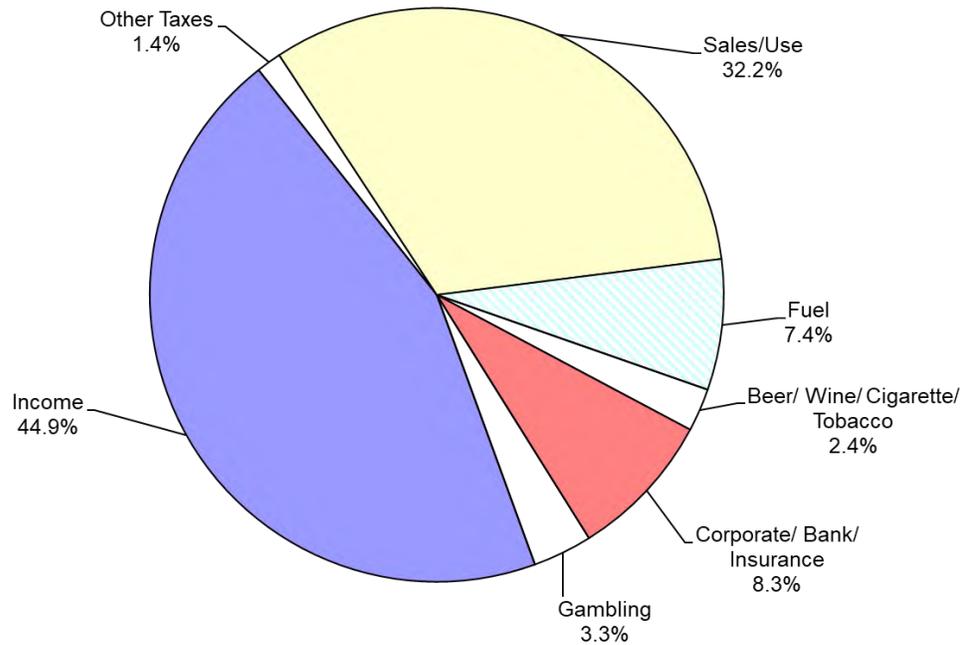
The average reading for Iowa nonfarm employment over the 12 months ending June 2020 was 1,543,100, and net State tax receipts over the same 12 months totaled \$8.872 billion, or \$5,749 per nonfarm job. This is \$1,964 higher than the per-job average for the 12 months ending June 2005. The blue (upper) 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 \$552 since June 2005, and the remainder of the \$1,964 increase (\$1,412) represents the impact of inflation.



Net State Tax Revenue – 12 Months Ending July 2020
Net Revenue = \$9.085 Billion
 Percentages may not add to 100% due to rounding



Net State Tax Revenue – 12 Months Ending July 2019
Net Revenue = \$9.140 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 July 2019	Month of July 2020	July \$ Change	July % Change
Banking	\$ 47.3	\$ 66.9	\$ 19.6	41.4%	\$ 10.9	\$ 8.5	\$ - 2.4	-22.0%
Beer & Wine	21.9	14.6	- 7.3	-33.3%	2.0	0.6	- 1.4	-70.0%
Cigarette & Tobacco	199.8	209.6	9.8	4.9%	18.3	17.7	- 0.6	-3.3%
Corporate Income	558.5	606.6	48.1	8.6%	42.0	113.1	71.1	169.3%
Fuel	672.7	656.4	- 16.3	-2.4%	95.9	48.7	- 47.2	-49.2%
Gambling	305.4	246.4	- 59.0	-19.3%	18.3	21.9	3.6	19.7%
Individual Income	4,103.0	3,944.6	- 158.4	-3.9%	342.3	520.7	178.4	52.1%
Inheritance	75.8	78.2	2.4	3.2%	6.5	5.0	- 1.5	-23.1%
Insurance	154.6	143.0	- 11.6	-7.5%	2.9	2.6	- 0.3	-10.3%
Other Taxes	30.1	13.4	- 16.7	-55.5%	- 0.2	0.0	0.2	--
Real Estate Transfer	23.3	24.5	1.2	5.2%	2.4	2.4	0.0	0.0%
Sales/Use	2,947.1	3,080.5	133.4	4.5%	289.7	302.8	13.1	4.5%
Total Net Taxes	\$ 9,139.5	\$ 9,084.7	\$ - 54.8	-0.6%	\$ 831.0	\$ 1,044.0	\$ 213.0	25.6%
Gross Tax & Refunds								
Gross Tax	\$ 10,828.2	\$ 10,771.8	\$ - 56.4	-0.5%	\$ 912.7	\$ 1,157.7	\$ 245.0	26.8%
Tax Refunds	\$ - 1,688.7	\$ - 1,687.3	\$ 1.4	-0.1%	\$ - 81.7	\$ - 113.7	\$ - 32.0	39.2%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 7,487.5	\$ 7,484.7	\$ - 2.8	0.0%	\$ 663.6	\$ 912.9	\$ 249.3	37.6%
Road Use Tax Fund	\$ 1,080.9	\$ 1,061.4	\$ - 19.5	-1.8%	\$ 130.1	\$ 91.5	\$ - 38.6	-29.7%
Non-GF Gambling	\$ 301.4	\$ 242.7	\$ - 58.7	-19.5%	\$ 18.1	\$ 21.7	\$ 3.6	19.9%
Other State Funds	\$ 269.7	\$ 295.8	\$ 26.1	9.7%	\$ 19.2	\$ 18.0	\$ - 1.2	-6.3%
Local Option Taxes *	\$ 1,032.0	\$ 1,110.1	\$ 78.1	7.6%	\$ 74.1	\$ 92.1	\$ 18.0	24.3%

* 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.