



MEMORANDUM

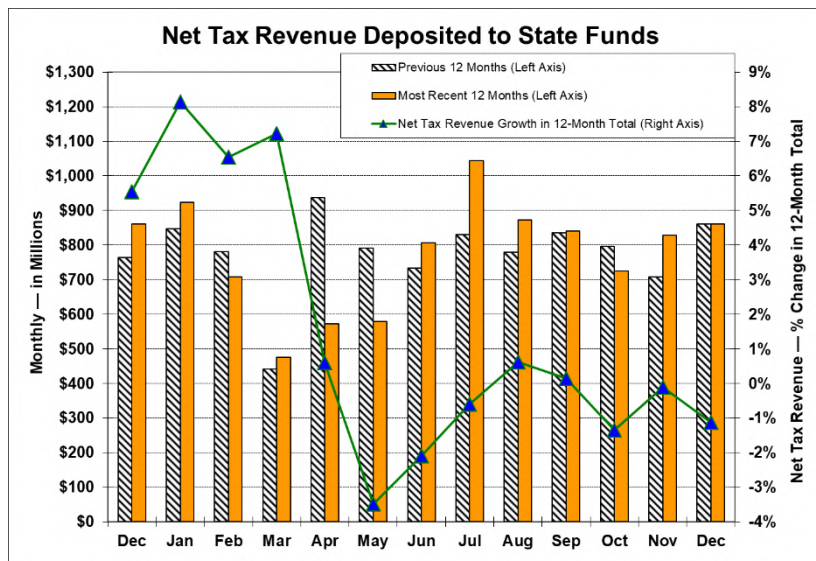
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: January 27, 2021

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

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending December 31, 2020, with comparisons to the previous 12 months. December 2019 to December 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 \$860.4 million for the month of December 2020, an increase of \$0.5 million (0.1%) compared to the previous December. Net corporate income tax revenue increased in December due to strong deposits and lower tax refunds. The \$45.5 million decrease in fuel tax revenue was due to a monthly deposit of approximately \$48.0 million occurring on November 30 this year. Last year, the deposit occurred on December 2.

For the most recent 12 months, net revenue decreased \$105.1 million (-1.1%). Over the period, corporate income tax growth was strong, while gambling tax, fuel tax, insurance premium tax, and individual income tax net deposits have declined year-over-year.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending December 31, 2020, net revenue from all taxes deposited to State funds totaled \$9.235 billion, a decrease of \$105.1 million (-1.1%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- **Individual Income Tax (negative \$128.3 million, -3.1%)** — Over the last year, individual income tax revenue has been subjected to three large negative forces. First, the COVID-19 pandemic and the resulting economic slowdown have resulted in a significant number of job losses. Second, tax year 2019 individual income tax returns, filed in the spring, summer, and fall of 2020, appear to be weaker than 2018 tax returns. Third, Iowa reduced income tax withholding tables effective January 1, 2020. This action reduced the amount withheld from Iowa paychecks and will also decrease the amount of tax refunds issued during the spring of 2021.
- **Corporate Income Tax (positive \$74.4 million, 12.0%)** — Gross deposits increased \$35.7 million year-over-year, while corporate tax refunds decreased \$38.7 million.
- **Sales/Use Tax (positive \$75.5 million, 2.5%)** — 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 \$3.6 million (0.9%).
 - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, Reinvestment District Fund, and two water quality funds) decreased \$3.0 million.
 - Sales/use tax deposited to the State General Fund increased \$81.7 million (2.6%).
 - Decreased refunds of State General Fund sales/use tax payments increased net revenue \$4.0 million.
 - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$10.8 million.
- **Banking Taxes (negative \$7.1 million, -9.9%)** — Over the most recent 12 months, franchise tax deposits increased \$2.4 million, while franchise tax refunds increased \$4.7 million.
- **Fuel Tax (negative \$35.5 million, -5.2%)** — According to Department of Revenue monthly fuel sales [reports](#), the total gallons¹ subject to fuel tax decreased 4.8% 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,² 367.1 million gallons, -32.1%.
 - Gasoline blended with ethanol, 1.172 billion gallons, 4.0%.
 - Diesel, including biodiesel blends, 762.9 million gallons, 1.2%.
 - Aviation, jet, and other fuels, 36.2 million gallons, -21.6%.
- **Gambling Tax (negative \$64.5 million, -21.0%)** — Iowa's 19 State-regulated casino/racetrack locations temporarily closed on March 17, 2020, in response to Governor Reynolds's 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 through December 2020, the decline was \$6.4 million.

¹ Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.338 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.

- **Insurance Premium Tax (negative \$29.0 million, -17.2%)** — 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 \$3.2 million, 13.6%).**
- **Cigarette and Tobacco Tax (positive \$0.7 million, 0.3%).**

Tax Spotlight — Other Taxes

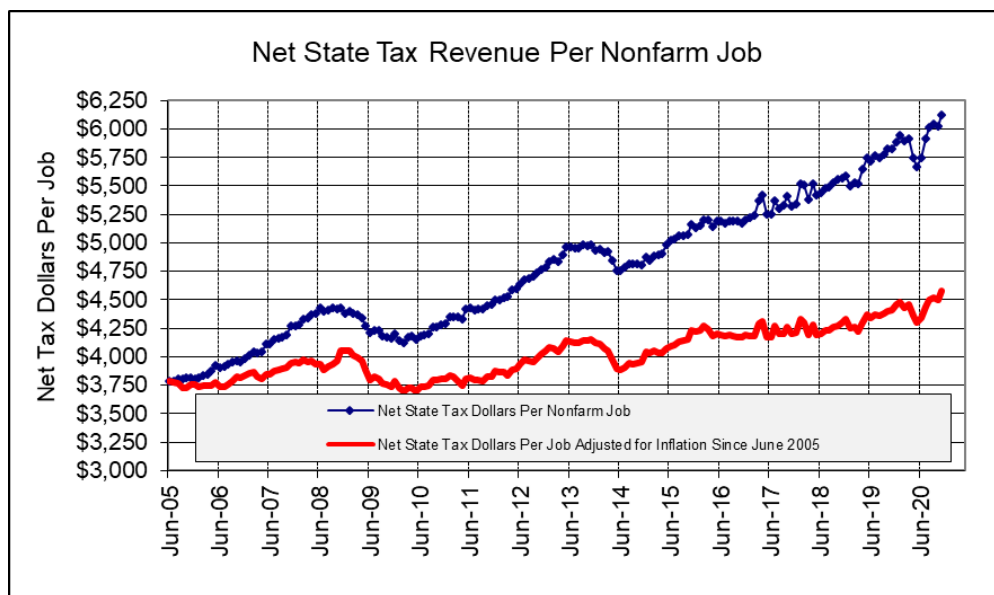
The “Other Taxes” category includes the following net tax collections:

- **Brucellosis Eradication Property Tax** — This statewide property tax is administered under the authority of Iowa Code section [165.18](#). The Secretary of Agriculture sets a property tax rate not to exceed \$0.3375 per \$1,000 of taxable valuation to cover expenses estimated to be paid through the Brucellosis and Tuberculosis Eradication Fund for the following fiscal year. For FY 2021, the property tax rate is \$0.0027 per \$1,000 of taxable valuation. Funds received from the tax are credited to the Brucellosis and Tuberculosis Eradication Fund. The tax raised \$500,000 during FY 2020.
- **Drug Stamp Tax** — This tax is administered by the Department of Revenue under the authority of Iowa Code chapter [453B](#). The tax is imposed on dealers of marijuana and other controlled substances. Rates range from \$5.00 per gram of marijuana to \$750,000 for each unprocessed marijuana plant. Funds received from the Drug Stamp Tax are deposited in the General Fund. The tax raised \$153,000 during FY 2020.
- **Utility Replacement Property Tax** — This statewide property tax is administered under the authority of Iowa Code section [437A.18](#). The tax rate is established at \$0.03 per \$1,000 of taxable utility company property valuation in the State. Funds generated from this property tax are deposited in the General Fund. The tax raised \$610,000 during FY 2020. An additional amount of utility replacement tax is collected each year under the provisions of Iowa Code section [437A.15\(3\)\(f\)](#). Taxes collected by the State under this provision totaled \$1.2 million during FY 2020. Over the years, the tax revenue has been deposited in the Property Tax Relief Fund, the Mental Health and Disability Services Redesign Fund, and has been used to supplement the Department of Human Services Medical Assistance State General Fund appropriation.
- **Car Rental Tax** — This tax is administered by the Department of Revenue under the authority of Iowa Code chapter [423C](#). The tax rate of 5.0% is imposed on the rental price of a vehicle. Funds received from the car rental tax are credited to the Statutory Allocations Fund. The tax raised \$268,000 during FY 2020.
- **Tax Gap Program** — The Department of Revenue transfers tax revenue on a monthly basis to fund the tax collection activities of the Tax Gap Program. The Tax Gap Program is a Department initiative designed to improve tax compliance through utilization of technology. A total of \$20.8 million in tax revenue was credited to the Tax Gap Program during FY 2020. Although the money is withdrawn as tax receipts from a specific tax source, the Department deposits the money in a nonspecific, multi-tax revenue category. This report includes the transferred dollars as Other Taxes revenue.
- **Department of Revenue Operating Appropriation Transfers** — Each month, the Department of Revenue transfers tax revenue out of the State General Fund and deposits the money to the Department’s operations account. The money is used in the operations budget to fund collections (FY 2020 = \$9.9 million) and streamlined sales tax activities (FY 2020 = \$0.2 million). Although the money is withdrawn as tax receipts, the Department does not redeposit the money as tax revenue, instead depositing the money

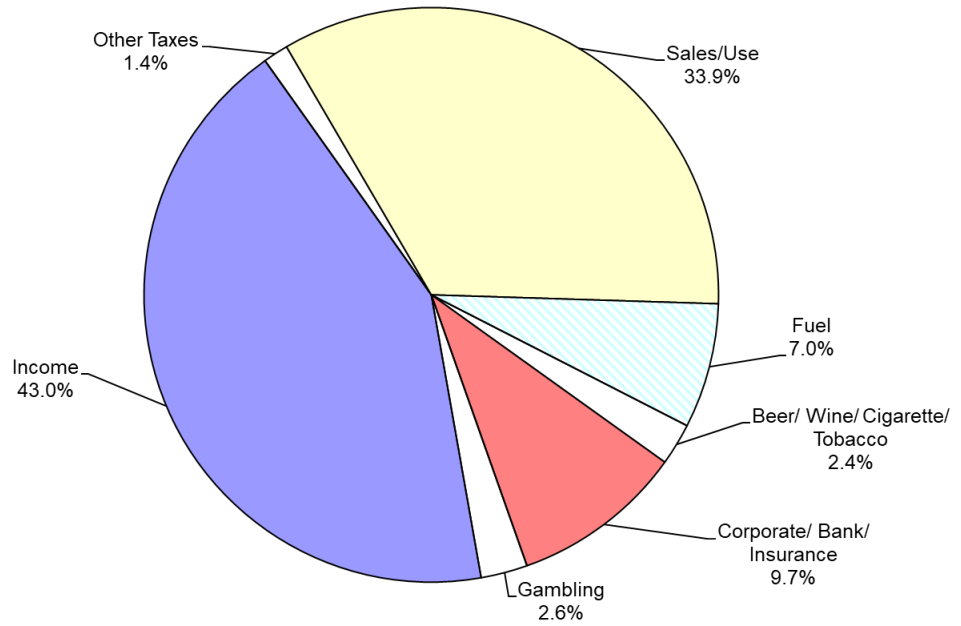
as “intrastate transfers.” During FY 2020, these transactions artificially reduced reported State tax receipts by a total of \$10.1 million. This report does not include the transferred dollars as tax revenue. As a result, total tax collections are underreported by \$9.5 million to \$12.0 million per year.

Tax Revenue and Employment

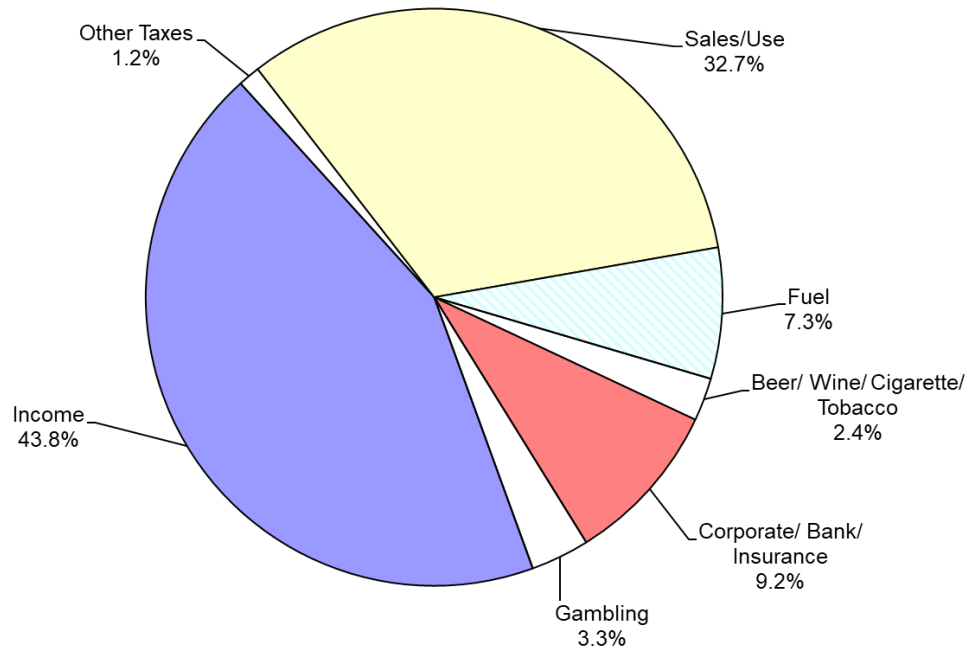
The average reading for Iowa nonfarm employment over the 12 months ending November 2020 was 1,506,900, and net State tax receipts over the same 12 months totaled \$9.235 billion, or \$6,128 per nonfarm job. This is \$2,343 higher than the per-job average for the 12 months ending June 2005. The blue (upper) 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 \$795 since June 2005, and the remainder of the \$2,343 increase (\$1,548) represents the impact of inflation.



Net State Tax Revenue – 12 Months Ending December 2020
Net Revenue = \$9.235 Billion
 Percentages may not add to 100% due to rounding



Net State Tax Revenue – 12 Months Ending December 2019
Net Revenue = \$9.340 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	Most Recent	12-Month	12-Month	Month of	Month of	December \$	December %
	12-Month Period Total	12-Month Period Total	12-Month \$ Change	12-Month % Change	December 2019	December 2020	Change	Change
Banking	\$ 71.4	\$ 64.3	\$ - 7.1	-9.9%	\$ 8.5	\$ 13.2	\$ 4.7	55.3%
Beer & Wine	21.7	14.2	- 7.5	-34.6%	1.6	3.0	1.4	87.5%
Cigarette & Tobacco	204.1	204.8	0.7	0.3%	17.6	18.6	1.0	5.7%
Corporate Income	617.6	692.0	74.4	12.0%	104.9	137.3	32.4	30.9%
Fuel	684.7	649.2	- 35.5	-5.2%	100.8	55.3	- 45.5	-45.1%
Gambling	307.1	242.6	- 64.5	-21.0%	26.8	28.3	1.5	5.6%
Individual Income	4,094.9	3,966.6	- 128.3	-3.1%	369.7	368.6	- 1.1	-0.3%
Inheritance	73.0	81.2	8.2	11.2%	8.1	5.6	- 2.5	-30.9%
Insurance	168.4	139.4	- 29.0	-17.2%	0.0	0.0	0.0	--
Other Taxes	18.4	23.2	4.8	26.1%	- 3.9	- 0.5	3.4	--
Real Estate Transfer	23.6	26.8	3.2	13.6%	1.9	2.5	0.6	31.6%
Sales/Use	3,055.6	3,131.1	75.5	2.5%	223.9	228.5	4.6	2.1%
Total Net Taxes	\$ 9,340.5	\$ 9,235.4	\$ - 105.1	-1.1%	\$ 859.9	\$ 860.4	\$ 0.5	0.1%
Gross Tax & Refunds								
Gross Tax	\$ 10,989.3	\$ 10,919.2	\$ - 70.1	-0.6%	\$ 941.1	\$ 935.1	\$ - 6.0	-0.6%
Tax Refunds	\$ - 1,648.8	\$ - 1,683.9	\$ - 35.1	2.1%	\$ - 81.2	\$ - 74.6	\$ 6.6	-8.1%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 7,656.2	\$ 7,643.1	\$ - 13.1	-0.2%	\$ 684.6	\$ 724.5	\$ 39.9	5.8%
Road Use Tax Fund	\$ 1,096.9	\$ 1,061.0	\$ - 35.9	-3.3%	\$ 129.4	\$ 86.8	\$ - 42.6	-32.9%
Non-GF Gambling	\$ 303.1	\$ 238.9	\$ - 64.2	-21.2%	\$ 26.7	\$ 28.2	\$ 1.5	5.6%
Other State Funds	\$ 284.2	\$ 292.4	\$ 8.2	2.9%	\$ 19.2	\$ 21.1	\$ 1.9	9.9%
Local Option Taxes *	\$ 1,086.8	\$ 1,153.2	\$ 66.4	6.1%	\$ 68.8	\$ 82.1	\$ 13.3	19.3%

* 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 past two fiscal years 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, the Iowa Skilled Worker and Job Creation Fund, and the Water Quality Infrastructure 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.