



MEMORANDUM

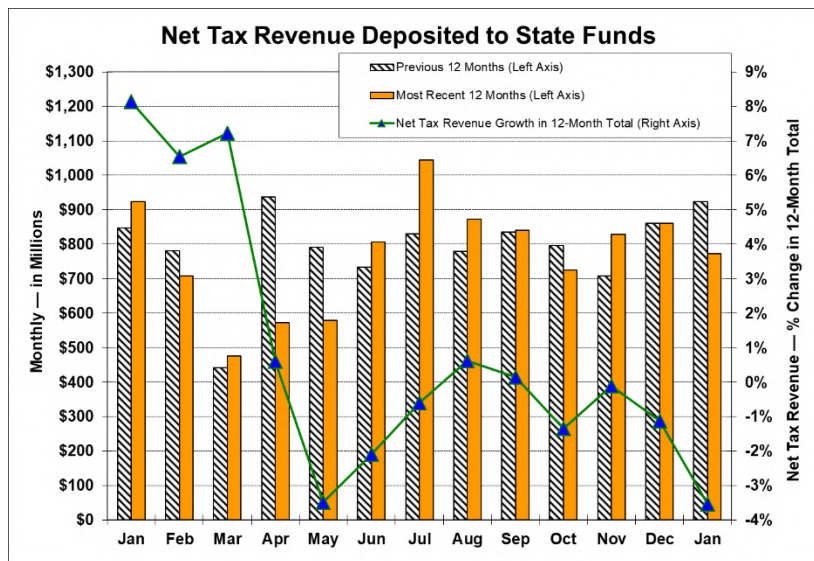
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: February 16, 2021

Twelve-Month Total Net Tax Receipts Through January 31, 2021

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending January 31, 2021, with comparisons to the previous 12 months. January 2020 to January 2021 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 \$773.1 million for the month of January 2021, a decrease of \$150.7 million (-16.3%) compared to the previous January. Each year, January 31 is a major due date for income tax withholding, fuel tax, and sales/use tax. Since January ended on a weekend this year, a significant amount of revenue was not deposited until the first few days of February. As an additional result, February 2021 net revenue will show a significant increase.

For the most recent 12 months, net revenue decreased \$332.9 million (-3.5%), with the deposit timing issue contributing approximately \$250.0 million to the decrease. Beyond this

issue, the impact of COVID-19 has been noticeable on gambling and fuel tax revenues.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending January 31, 2021, net revenue from all taxes deposited to State funds totaled \$9.085 billion, a decrease of \$332.9 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 \$180.3 million, -4.4%)** — The January 31 due date for quarterly withholding tax deposits fell on a weekend this year, causing approximately \$160.0 million in deposits to occur in February instead of January. As a result, January 2021 deposits were low and February 2021 deposits will be strong.
- **Corporate Income Tax (positive \$52.9 million, 8.3%)** — Gross deposits increased \$25.7 million year-over-year, while corporate tax refunds decreased \$27.2 million.
- **Sales/Use Tax (negative \$31.8 million, -1.0%)** — 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 \$1.7 million (0.4%).
 - 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 decreased \$26.7 million (-0.8%). The quarterly sales/use tax due date fell on a weekend this year and the situation will reverse in February.
 - Decreased refunds of State General Fund sales/use tax payments increased net revenue \$4.7 million.
 - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$8.6 million.
- **Banking Taxes (negative \$9.3 million, -12.9%)** — Over the most recent 12 months, franchise tax deposits decreased \$4.7 million, while franchise tax refunds increased \$4.6 million.
- **Fuel Tax (negative \$70.3 million, -10.3%)** — According to Department of Revenue monthly fuel sales [reports](#), the total gallons¹ subject to fuel tax decreased 6.2% 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,² 370.0 million gallons, -28.9%.
 - Gasoline blended with ethanol, 1.147 billion gallons, 0.2%.
 - Diesel, including biodiesel blends, 760.4 million gallons, 0.7%.
 - Aviation, jet, and other fuels, 35.6 million gallons, -22.2%.
- **Gambling Tax (negative \$72.3 million, -23.2%)** — 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 2020 through January 2021, the decline was \$11.1 million.

¹ Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.313 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.

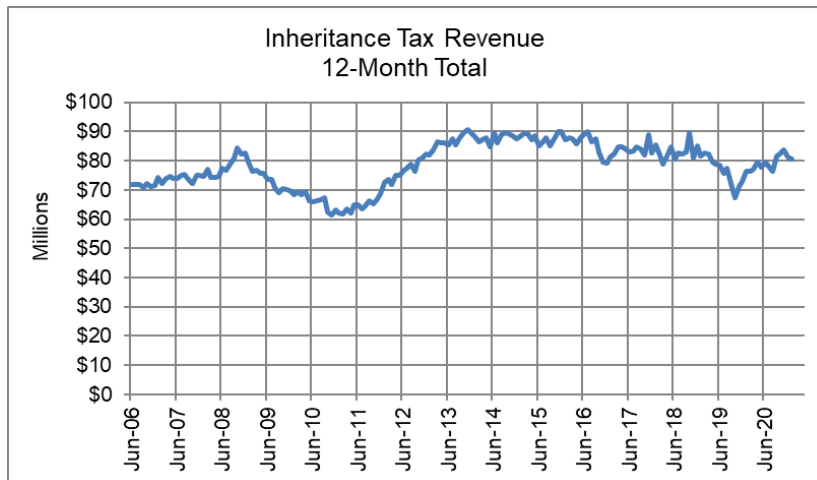
² A portion of the gallons listed as unblended gasoline is later blended with ethanol.

- **Insurance Premium Tax (negative \$28.3 million, -16.9%)** — 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 \$4.1 million, 17.1%).**
- **Cigarette and Tobacco Tax (negative \$1.4 million, 0.7%).**

Tax Spotlight — Inheritance Tax

The inheritance tax is imposed under the authority of Iowa Code chapter [450](#). Tax rates range from 5.0% to 15.0% depending on the amount of the inheritance and the relationship of the beneficiary to the decedent. To be subject to the tax, the estate must exceed \$25,000 in value. Spouses were exempted fully from the inheritance tax with the passage of [SF 356](#) (Department of Revenue and Finance Tax Administration Act of 1991). [Senate File 35](#) (Inheritance Tax Act of 1997) expanded the full tax exemption to include lineal ascendants and descendants.

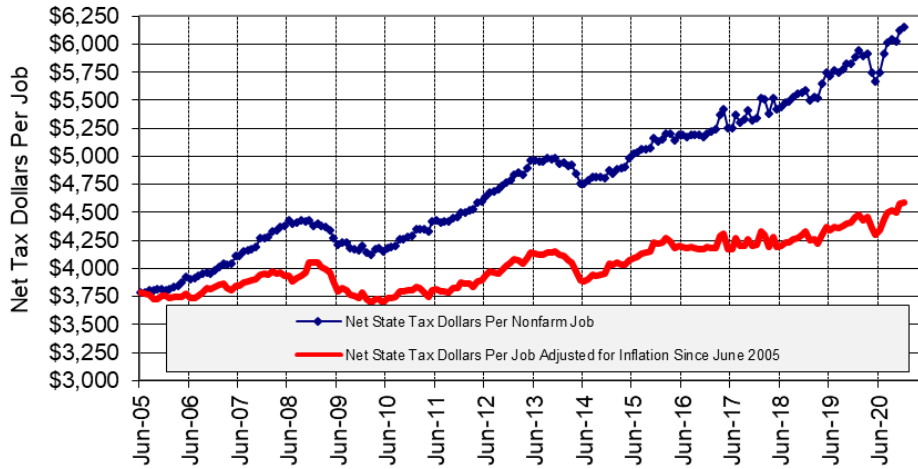
The qualified use inheritance tax is imposed under the authority of Iowa Code chapter [450B](#). A qualifying heir for federal tax purposes may forego inheritance tax on property used in farming or business if the heir maintains the business for up to 10 years. However, if the farm or other business is sold to a nonrelative before the 10-year period ends, the heir may be required to pay inheritance tax.



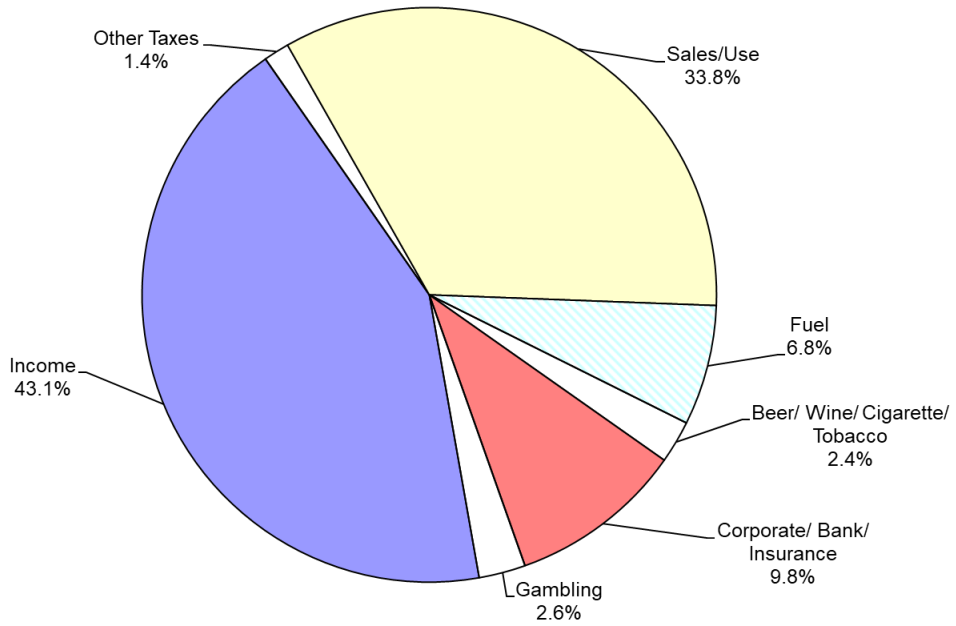
Tax Revenue and Employment

The average reading for Iowa nonfarm employment over the 12 months ending December 2020 was 1,501,600, and net State tax receipts over the same 12 months totaled \$9.235 billion, or \$6,150 per nonfarm job. This is \$2,365 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 \$807 since June 2005, and the remainder of the \$2,365 increase (\$1,558) represents the impact of inflation.

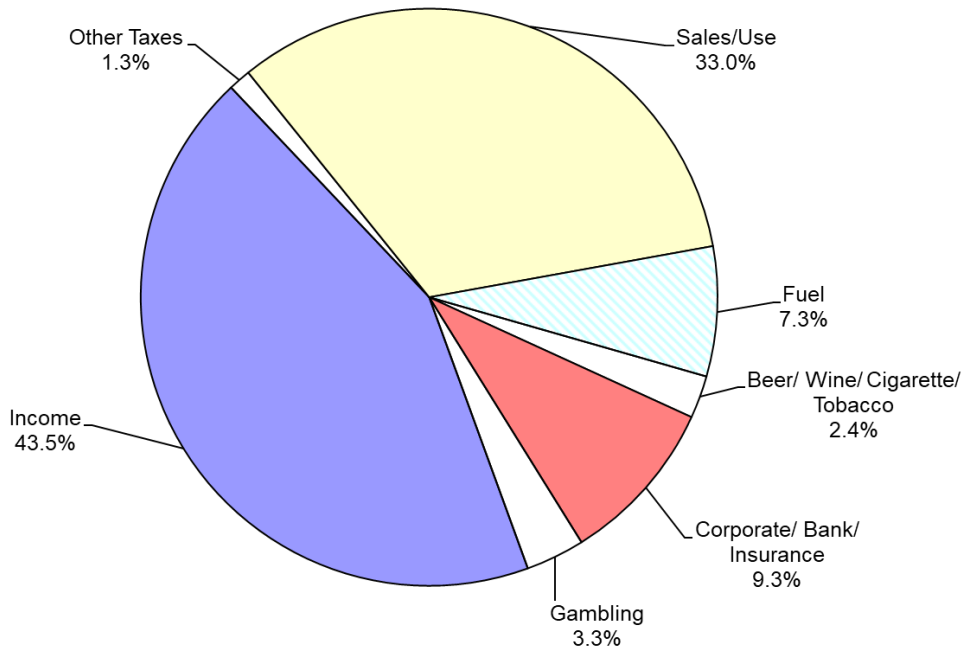
Net State Tax Revenue Per Nonfarm Job



Net State Tax Revenue – 12 Months Ending January 2021
Net Revenue = \$9.085 Billion
 Percentages may not add to 100% due to rounding



Net State Tax Revenue – 12 Months Ending January 2020
Net Revenue = \$9.417 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 \$ Change	12-Month % Change	Month of January 2020	Month of January 2021	January \$ Change	January % Change
	12-Month Period Total	12-Month Period Total						
Banking	\$ 72.2	\$ 62.9	\$ - 9.3	-12.9%	\$ 3.8	\$ 2.4	\$ - 1.4	-36.8%
Beer & Wine	22.0	16.9	- 5.1	-23.2%	2.3	5.1	2.8	121.7%
Cigarette & Tobacco	202.9	201.5	- 1.4	-0.7%	16.0	12.7	- 3.3	-20.6%
Corporate Income	638.2	691.1	52.9	8.3%	26.5	25.5	- 1.0	-3.8%
Fuel	684.5	614.2	- 70.3	-10.3%	55.9	20.9	- 35.0	-62.6%
Gambling	311.0	238.7	- 72.3	-23.2%	30.6	26.7	- 3.9	-12.7%
Individual Income	4,096.8	3,916.5	- 180.3	-4.4%	470.1	420.0	- 50.1	-10.7%
Inheritance	76.2	80.4	4.2	5.5%	8.1	7.4	- 0.7	-8.6%
Insurance	167.7	139.4	- 28.3	-16.9%	0.3	0.3	0.0	0.0%
Other Taxes	18.4	23.1	4.7	25.5%	- 0.3	- 0.3	0.0	--
Real Estate Transfer	24.0	28.1	4.1	17.1%	2.5	3.8	1.3	52.0%
Sales/Use	3,103.5	3,071.7	- 31.8	-1.0%	308.0	248.6	- 59.4	-19.3%
Total Net Taxes	\$ 9,417.4	\$ 9,084.5	\$ - 332.9	-3.5%	\$ 923.8	\$ 773.1	\$ - 150.7	-16.3%
Gross Tax & Refunds								
Gross Tax	\$ 11,065.3	\$ 10,765.6	\$ - 299.7	-2.7%	\$ 1,011.3	\$ 857.8	\$ - 153.5	-15.2%
Tax Refunds	\$ - 1,647.8	\$ - 1,681.2	\$ - 33.4	2.0%	\$ - 87.5	\$ - 84.8	\$ 2.7	-3.1%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 7,725.0	\$ 7,529.2	\$ - 195.8	-2.5%	\$ 786.6	\$ 672.7	\$ - 113.9	-14.5%
Road Use Tax Fund	\$ 1,101.8	\$ 1,029.2	\$ - 72.6	-6.6%	\$ 91.4	\$ 59.6	\$ - 31.8	-34.8%
Non-GF Gambling	\$ 307.0	\$ 235.1	\$ - 71.9	-23.4%	\$ 28.2	\$ 24.4	\$ - 3.8	-13.5%
Other State Funds	\$ 283.7	\$ 291.0	\$ 7.3	2.6%	\$ 17.7	\$ 16.3	\$ - 1.4	-7.9%
Local Option Taxes *	\$ 1,098.4	\$ 1,156.5	\$ 58.1	5.3%	\$ 85.7	\$ 89.1	\$ 3.4	4.0%

* 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.