



**MEMORANDUM**

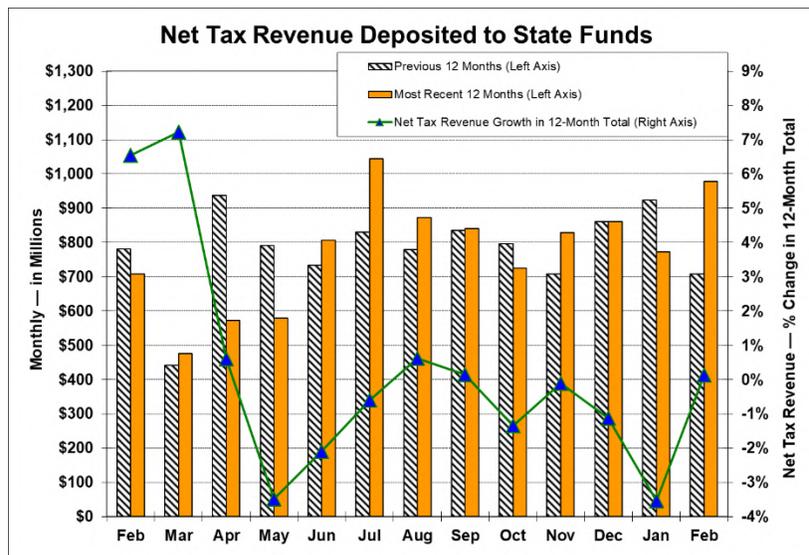
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: March 25, 2021

**Twelve-Month Total Net Tax Receipts Through February 28, 2021**

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending February 28, 2021, with comparisons to the previous 12 months. February 2020 to February 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 \$978.0 million for the month of February 2021, an increase of \$270.9 million (38.3%) compared to the previous February. 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 a result, February 2021 net revenue was significantly higher this year.

For the most recent 12 months, net revenue increased \$12.3 million (0.1%). Over the 12 months, the impact of COVID-19 was most noticeable on gambling and fuel tax revenues.

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

During the 12-month period ending February 28, 2021, net revenue from all taxes deposited to State funds totaled \$9.355 billion, an increase of \$12.3 million (0.1%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- **Individual Income Tax (negative \$30.4 million, -0.7%)** — Over the past 12 months, withholding tax deposits increased \$96.8 million (2.6%), while estimate payments and tax refunds posted little change from the previous 12 months. Payments with tax returns decreased \$130.0 million (20.3%), indicating that the low and negative rate of individual income tax growth over the past months is the result of tax year 2019 tax returns.
- **Corporate Income Tax (positive \$103.6 million, 16.8%)** — Gross deposits increased \$43.6 million year-over-year, while corporate tax refunds decreased \$60.0 million.
- **Sales/Use Tax (positive \$49.2 million, 1.6%)** — 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) decreased \$24.5 million (-5.9%). While COVID-19 did negatively impact vehicle sales during the summer months of 2020, the current decrease appears to be the result of a February deposit not occurring until early March this year.
  - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, Reinvestment District Fund, and two water quality funds) decreased \$5.1 million.
  - Sales/use tax deposited to the State General Fund increased \$81.3 million (2.5%).
  - Decreased refunds of State General Fund sales/use tax payments increased net revenue \$7.4 million.
  - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$9.9 million.
- **Banking Taxes (negative \$23.6 million, -32.5%)** — Over the most recent 12 months, franchise tax deposits decreased \$5.3 million, while franchise tax refunds increased \$18.3 million.
- **Fuel Tax (negative \$7.7 million, -1.2%)** — According to Department of Revenue monthly fuel sales [reports](#), the total gallons<sup>1</sup> subject to fuel tax decreased 6.7% 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> 373.0 million gallons, -26.3%.
  - Gasoline blended with ethanol, 1.133 billion gallons, -2.4%.
  - Diesel, including biodiesel blends, 763.7 million gallons, 0.9%.
  - Aviation, jet, and other fuels, 34.8 million gallons, -24.2%.
- **Gambling Tax (negative \$76.5 million, -24.4%)** — 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 2020. 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 February 2021, the decline was \$13.2 million.
- **Insurance Premium Tax (negative \$18.9 million, -12.0%)** — The decline in insurance premium tax receipts is not related to the current economic situation. The decline is due to

<sup>1</sup> Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.305 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.

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 \$3.8 million, 15.5%).**
- **Cigarette and Tobacco Tax (positive \$2.2 million, 1.1%).**

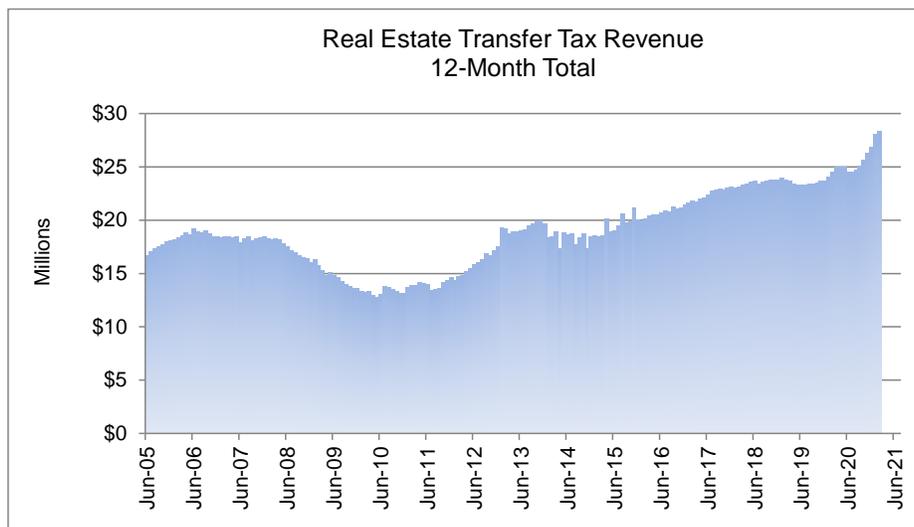
### Tax Spotlight — Real Estate Transfer Tax

The transfer of real estate is taxed under the authority of Iowa Code chapter [428A](#). The tax was first effective July 1965, and the current tax rate became effective beginning July 1991. The tax rate is \$0.80 per \$500, including any fractional part of \$500, of consideration paid for real property transferred.

The real estate transfer tax is payable when the instrument conveying the real property is presented for recording. The tax payment is noted on the instrument of transfer (usually a deed) at the time the instrument is recorded. The county recorder must file tax returns with the State Treasurer by the 10th day of each month for tax collected during the preceding month.

The county retains 17.25% of the real estate transfer tax collected. Of the remaining 82.75%, 65.0% is deposited in the State General Fund, 30.0% to the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The real estate transfer tax dollars reflected in this report do not include the portion retained by counties.

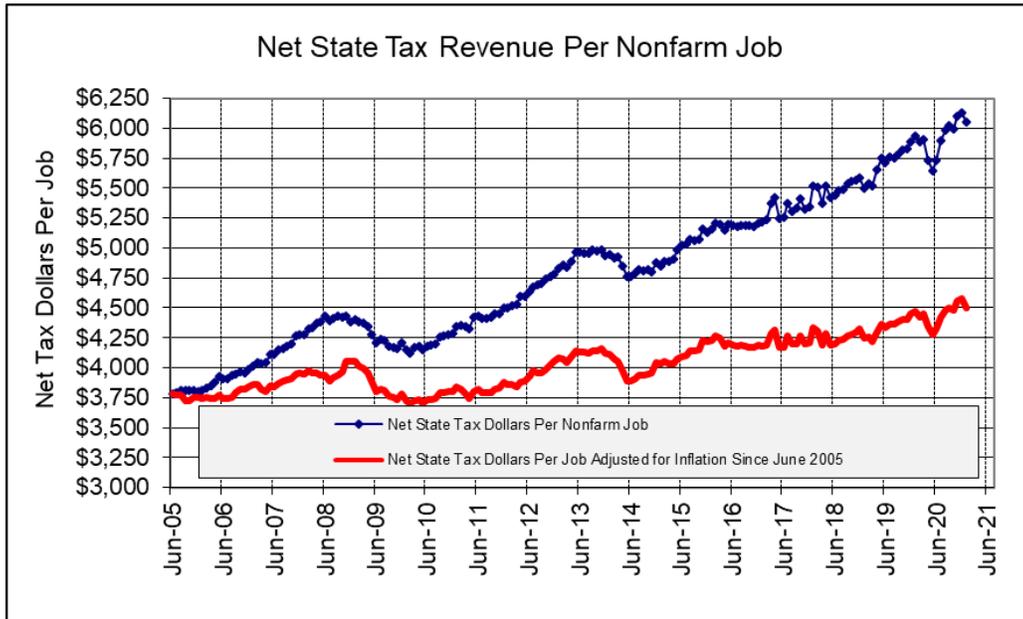
The Shelter Assistance Fund is administered by the Iowa Finance Authority (see Iowa Code section [16.41](#)). Financial assets of the Fund may be used for the cost of operation of homeless and domestic violence shelters and for essential services, evaluation, and reporting of services for the homeless. Grants to shelters are awarded on a competitive basis. The Housing Trust Fund is administered by the Iowa Finance Authority (Iowa Code section [16.181](#)). The Housing Trust Fund is to be used for the development and preservation of affordable housing for low-income Iowans and for the Iowa Mortgage Help initiative.



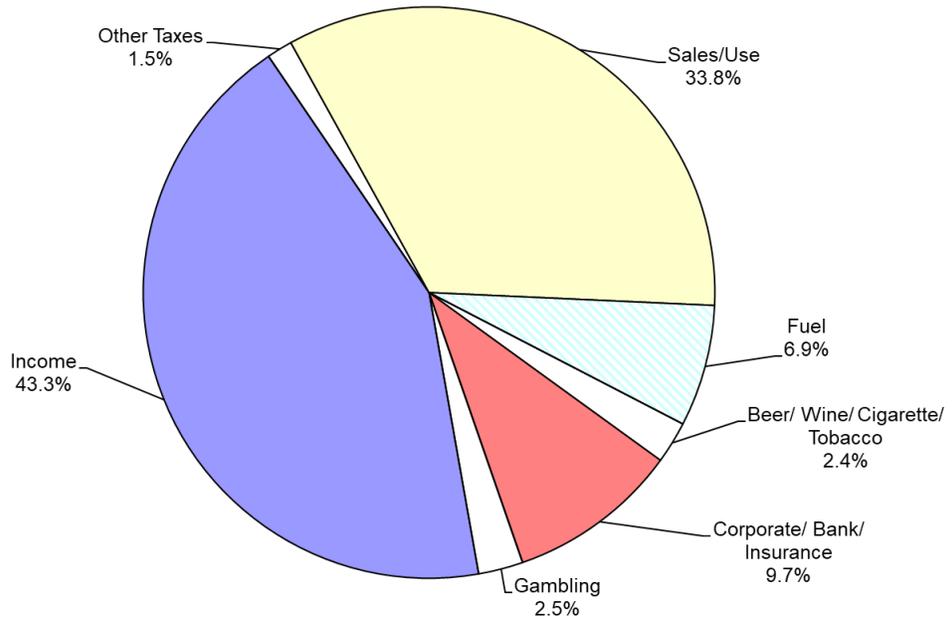
### Tax Revenue and Employment

The average reading for Iowa nonfarm employment over the 12 months ending January 2021 was 1,500,000, and net State tax receipts over the same 12 months totaled \$9.084 billion, or \$6,056 per nonfarm job. This is \$2,271 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

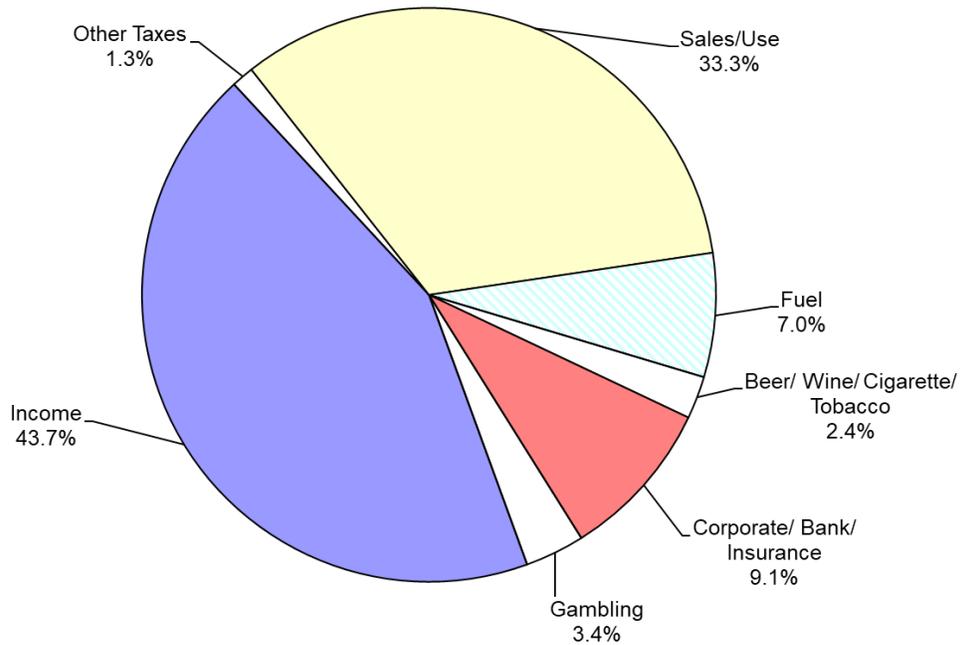
revenue per job has increased \$718 since June 2005, and the remainder of the \$2,271 increase (\$1,553) represents the impact of inflation.



**Net State Tax Revenue – 12 Months Ending February 2021**  
**Net Revenue = \$9.355 Billion**  
 Percentages may not add to 100% due to rounding



**Net State Tax Revenue – 12 Months Ending February 2020**  
**Net Revenue = \$9.343 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 February 2020	Month of February 2021	February \$ Change	February % Change
Banking	\$ 72.6	\$ 49.0	\$ - 23.6	-32.5%	\$ 0.7	\$ - 13.2	\$ - 13.9	-1985.7%
Beer & Wine	22.1	18.2	- 3.9	-17.6%	1.6	2.8	1.2	75.0%
Cigarette & Tobacco	202.5	204.7	2.2	1.1%	12.3	15.5	3.2	26.0%
Corporate Income	616.0	719.6	103.6	16.8%	- 9.7	18.8	28.5	--
Fuel	652.1	644.4	- 7.7	-1.2%	22.0	52.3	30.3	137.7%
Gambling	313.1	236.6	- 76.5	-24.4%	25.6	23.5	- 2.1	-8.2%
Individual Income	4,079.9	4,049.5	- 30.4	-0.7%	357.4	490.4	133.0	37.2%
Inheritance	76.5	84.9	8.4	11.0%	6.1	10.6	4.5	73.8%
Insurance	158.0	139.1	- 18.9	-12.0%	11.3	11.0	- 0.3	-2.7%
Other Taxes	17.0	23.1	6.1	35.9%	- 0.3	- 0.2	0.1	--
Real Estate Transfer	24.5	28.3	3.8	15.5%	2.0	2.3	0.3	15.0%
Sales/Use	3,108.5	3,157.7	49.2	1.6%	278.1	364.2	86.1	31.0%
<b>Total Net Taxes</b>	<b>\$ 9,342.8</b>	<b>\$ 9,355.1</b>	<b>\$ 12.3</b>	<b>0.1%</b>	<b>\$ 707.1</b>	<b>\$ 978.0</b>	<b>\$ 270.9</b>	<b>38.3%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 11,031.8	\$ 11,006.7	\$ - 25.1	-0.2%	\$ 815.3	\$ 1,056.3	\$ 241.0	29.6%
Tax Refunds	\$ - 1,688.9	\$ - 1,651.4	\$ 37.5	-2.2%	\$ - 108.2	\$ - 78.4	\$ 29.8	-27.5%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 7,675.2	\$ 7,792.5	\$ 117.3	1.5%	\$ 586.5	\$ 849.8	\$ 263.3	44.9%
Road Use Tax Fund	\$ 1,070.0	\$ 1,035.4	\$ - 34.6	-3.2%	\$ 57.4	\$ 63.6	\$ 6.2	10.8%
Non-GF Gambling	\$ 309.1	\$ 233.0	\$ - 76.1	-24.6%	\$ 25.5	\$ 23.4	\$ - 2.1	-8.2%
Other State Funds	\$ 288.5	\$ 294.3	\$ 5.8	2.0%	\$ 37.8	\$ 41.1	\$ 3.3	8.7%
<b>Local Option Taxes *</b>	<b>\$ 1,101.3</b>	<b>\$ 1,150.5</b>	<b>\$ 49.2</b>	<b>4.5%</b>	<b>\$ 84.3</b>	<b>\$ 78.2</b>	<b>\$ - 6.1</b>	<b>-7.2%</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 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.