



MEMORANDUM

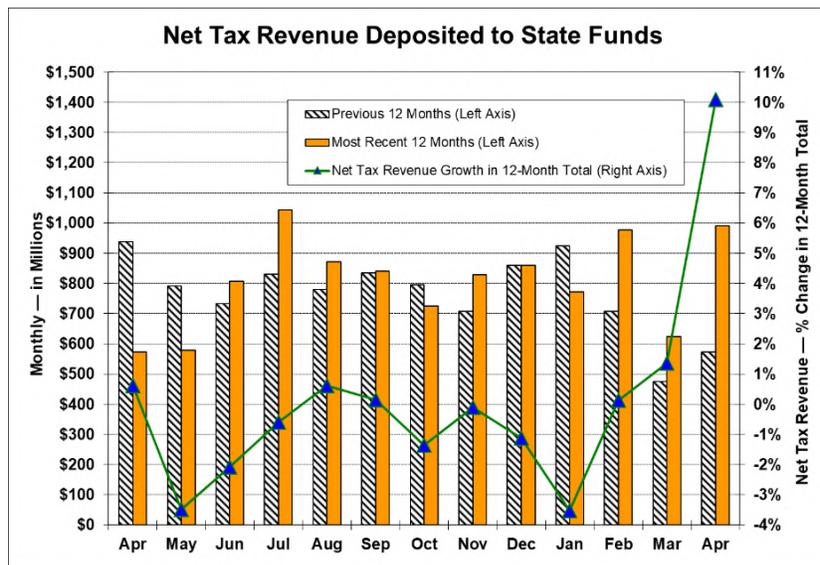
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: May 27, 2021

Twelve-Month Total Net Tax Receipts Through April 30, 2021

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending April 30, 2021, with comparisons to the previous 12 months. April 2020 to April 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 \$990.0 million for the month of April 2021, an increase of \$417.4 million (72.9%) compared to the previous April. Individual income tax, corporate income tax, gambling tax, and sales/use tax all posted very large gains for the month, both in dollar and growth percentage terms.

For the most recent 12 months, net revenue increased \$909.5 million (10.1%). The recent growth relative to last year can generally be traced to the low level of economic activity occurring during the early months of the COVID-19 pandemic that began in early 2020.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending April 30, 2021, net revenue from all taxes deposited to State funds totaled \$9.921 billion, an increase of \$909.5 million (10.1%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- **Individual Income Tax (positive \$476.6 million, 12.5%)** — Individual income tax revenue remained positive over the past year despite the economic turmoil caused by the COVID-19 pandemic. While the year-over-year annual growth was 12.5% through April 2021, individual income tax net growth is up only 5.9% over the past two years.
- **Corporate Income Tax (positive \$277.8 million, 50.2%)** — Gross deposits increased \$233.1 million year-over-year, while corporate tax refunds decreased \$44.7 million. Due to COVID-19 due date delays, a significant amount of corporate income tax was not remitted and deposited last year until July.
- **Sales/Use Tax (positive \$197.6 million, 6.3%)** — 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 \$17.6 million (4.2%). Vehicle sales appear to have recovered from the COVID-19 slump experienced during the summer months of 2020.
 - 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 \$182.3 million (5.7%).
 - Decreased refunds of State General Fund sales/use tax payments increased net revenue \$18.1 million.
 - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$15.3 million.
- **Banking Taxes (negative \$13.3 million, -19.2%)** — Over the most recent 12 months, franchise tax deposits increased \$4.4 million, while franchise tax refunds increased \$17.7 million.
- **Fuel Tax (negative \$42.7 million, -6.2%)** — According to Department of Revenue monthly fuel sales [reports](#), the total gallons¹ subject to fuel tax decreased 7.9% 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,² 376.7 million gallons, -20.6%.
 - Gasoline blended with ethanol, 1.108 billion gallons, -7.8%.
 - Diesel, including biodiesel blends, 765.9 million gallons, 1.4%.
 - Aviation, jet, and other fuels, 32.5 million gallons, -29.7%.
- **Gambling Tax (positive \$10.0 million, 3.6%)** — Iowa's 19 State-regulated casino/racetrack locations temporarily closed on March 17, 2020, in response to Governor'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. Casino activity has flourished over the past two months. The \$42.1 million April 2021 gambling tax deposit was the largest monthly deposit over the past 17 years and the March 2021 deposit was the third largest.

¹ Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.283 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 \$10.4 million, -6.9%)** — 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 \$4.3 million, 17.3%).**
- **Cigarette and Tobacco Tax (positive \$13.7 million, -6.5%)** — Cigarette and tobacco tax deposits were unusually high last March and April as distributors purchased additional tax stamps in case a COVID-19 shutdown might make acquiring stamps more difficult in the future.

Tax Spotlight — Cigarette Tax and Tobacco Tax

Tobacco products are taxed under the authority of Iowa Code chapter [453A](#). Based on law changes enacted in 2007:

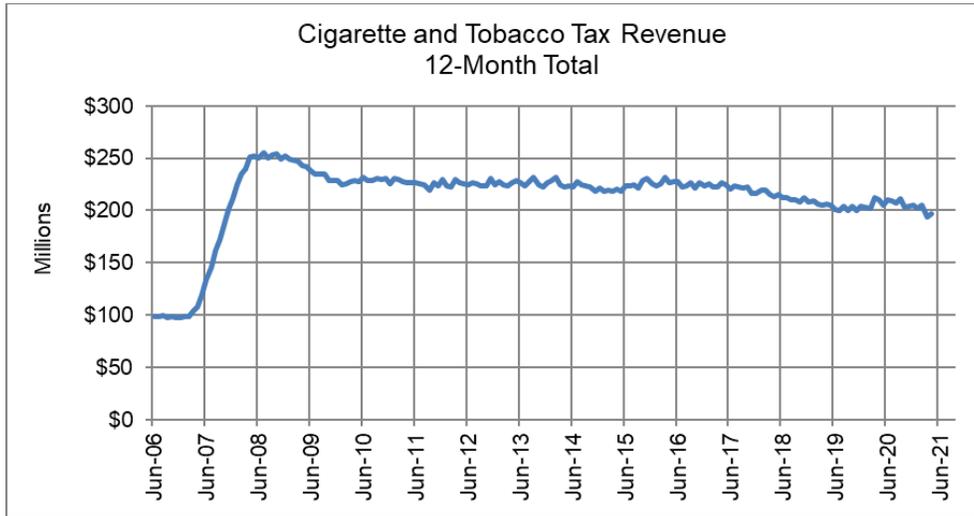
- Cigarettes and little cigars are taxed at \$0.068 per cigarette (\$1.36 per pack of 20).
- Snuff is taxed at \$1.19 per ounce.
- Cigars are taxed at 50.0% of the wholesale price, not to exceed \$0.50 per cigar.
- All other tobacco products are taxed at 50.0% of the wholesale price.
- Effective July 1, 2012, in addition to the tobacco tax of 50.0% of the wholesale price, roll-your-own (RYO) cigarettes are taxed at \$0.0306 per cigarette (\$0.65 per pack of 20).
- Iowa cigarette and tobacco taxes do not apply to electronic cigarettes. Sales of alternative nicotine and vapor products are subject to the sales/use tax.

The Iowa cigarette tax was first enacted at a rate of \$0.02 per pack of 20 cigarettes ([HF 678](#), Cigarette Tax Act of 1921). The cigarette tax rate was increased periodically and reached \$0.34 per pack in 1988. In 1989 the tax was lowered to \$0.31 per pack, and then increased in 1991 to \$0.36 per pack. The current \$1.36 State tax rates went into effect on March 16, 2007.

The tobacco tax was enacted in 1967 at a rate of 10.0% of the wholesale price ([HF 702](#), Tax Modification Act of 1967). The tax was increased to 15.0% in 1985, 19.0% in 1988, and 22.0% in 1991. The rate stood at 22.0% of the wholesale price until the 2007 Legislative Session.

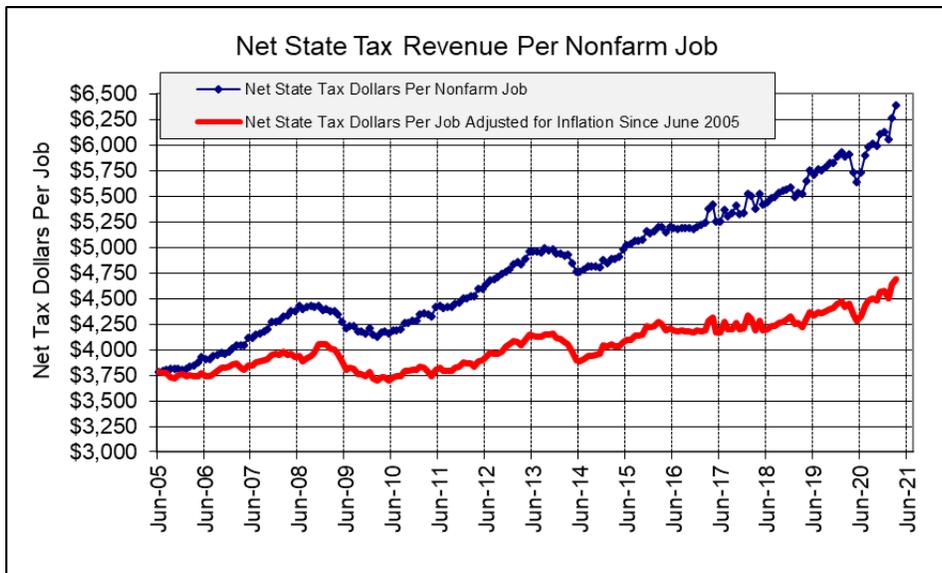
The tax imposed on cigarettes must be paid by the person making the first sale in Iowa. Cigarette stamps affixed to the package indicate the tax has been paid. Cigarette tax returns are to be filed by the holder of a permit by the 10th day of each month for the preceding calendar month. Tobacco (other than cigarette) tax returns must be filed by the 20th day of each month for the preceding calendar month. Beginning with FY 2014, all cigarette and tobacco tax revenue is deposited into the [Health Care Trust Fund](#).

The following chart depicts Iowa cigarette and tobacco tax revenue deposited to all funds on a 12-month moving total basis.

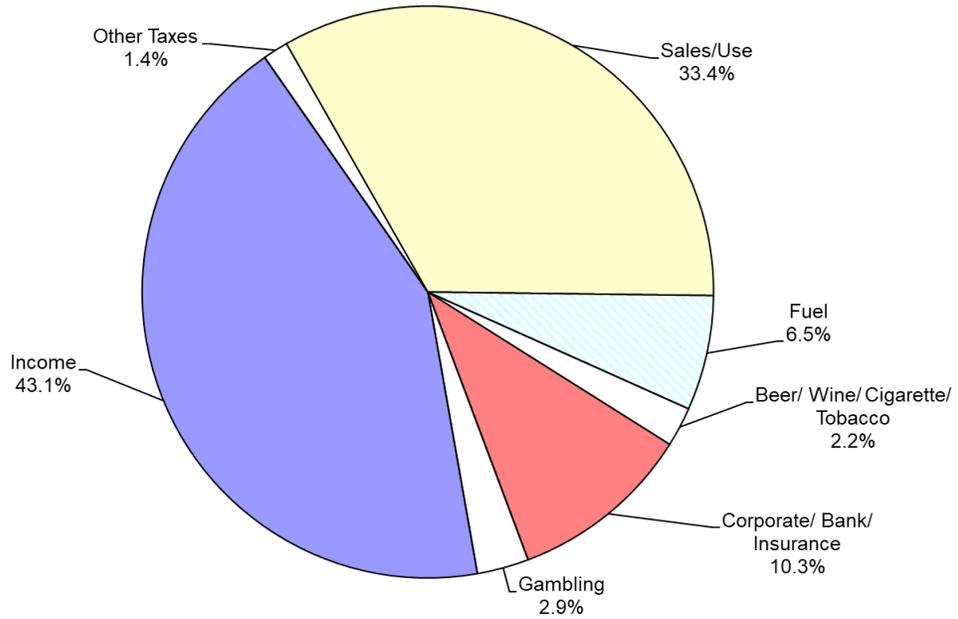


Tax Revenue and Employment

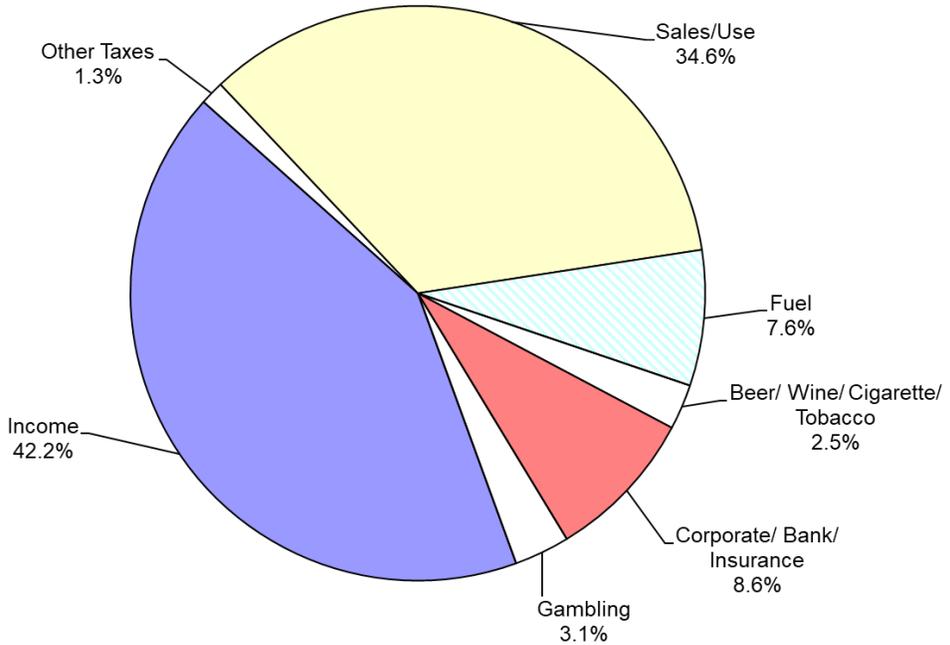
The average reading for Iowa nonfarm employment over the 12 months ending March 2021 was 1,488,000, and net State tax receipts over the same 12 months totaled \$9.504 billion, or \$6,387 per nonfarm job. This is \$2,602 higher than the per-job average for the 12 months ending June 2005. The blue (upper) 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 \$905 since June 2005, and the remainder of the \$2,602 increase (\$1,697) represents the impact of inflation.



Net State Tax Revenue – 12 Months Ending April 2021
Net Revenue = \$9.921 Billion
 Percentages may not add to 100% due to rounding



Net State Tax Revenue – 12 Months Ending April 2020
Net Revenue = \$9.012 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 April 2020	Month of April 2021	April \$ Change	April % Change
	12-Month Period Total	12-Month Period Total						
Banking	\$ 69.1	\$ 55.8	\$ - 13.3	-19.2%	\$ 10.6	\$ 18.5	\$ 7.9	74.5%
Beer & Wine	19.3	25.9	6.6	34.2%	0.0	2.5	2.5	--
Cigarette & Tobacco	210.4	196.7	- 13.7	-6.5%	14.0	16.7	2.7	19.3%
Corporate Income	553.1	830.9	277.8	50.2%	90.6	197.9	107.3	118.4%
Fuel	687.5	644.8	- 42.7	-6.2%	53.1	49.5	- 3.6	-6.8%
Gambling	280.8	290.8	10.0	3.6%	0.1	42.1	42.0	42000.0%
Individual Income	3,799.3	4,275.9	476.6	12.5%	170.3	315.8	145.5	85.4%
Inheritance	79.6	90.1	10.5	13.2%	6.4	10.0	3.6	56.3%
Insurance	150.4	140.0	- 10.4	-6.9%	0.5	0.6	0.1	20.0%
Other Taxes	17.0	23.2	6.2	36.5%	- 0.2	- 0.4	- 0.2	--
Real Estate Transfer	24.9	29.2	4.3	17.3%	1.8	2.7	0.9	50.0%
Sales/Use	3,120.2	3,317.8	197.6	6.3%	225.4	334.1	108.7	48.2%
Total Net Taxes	\$ 9,011.6	\$ 9,921.1	\$ 909.5	10.1%	\$ 572.6	\$ 990.0	\$ 417.4	72.9%
Gross Tax & Refunds								
Gross Tax	\$ 10,730.7	\$ 11,502.5	\$ 771.8	7.2%	\$ 853.7	\$ 1,265.9	\$ 412.2	48.3%
Tax Refunds	\$ - 1,718.9	\$ - 1,581.2	\$ 137.7	-8.0%	\$ - 281.2	\$ - 275.9	\$ 5.3	-1.9%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 7,328.1	\$ 8,262.3	\$ 934.2	12.7%	\$ 473.5	\$ 836.0	\$ 362.5	76.6%
Road Use Tax Fund	\$ 1,111.2	\$ 1,083.8	\$ - 27.4	-2.5%	\$ 84.0	\$ 94.5	\$ 10.5	12.5%
Non-GF Gambling	\$ 277.0	\$ 287.0	\$ 10.0	3.6%	\$ 0.1	\$ 41.9	\$ 41.8	41800.0%
Other State Funds	\$ 295.5	\$ 288.3	\$ - 7.2	-2.4%	\$ 14.9	\$ 17.7	\$ 2.8	18.8%
Local Option Taxes *	\$ 1,096.9	\$ 1,150.0	\$ 53.1	4.8%	\$ 86.1	\$ 102.0	\$ 15.9	18.5%

* 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 Dataset: The dataset 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.