



MEMORANDUM

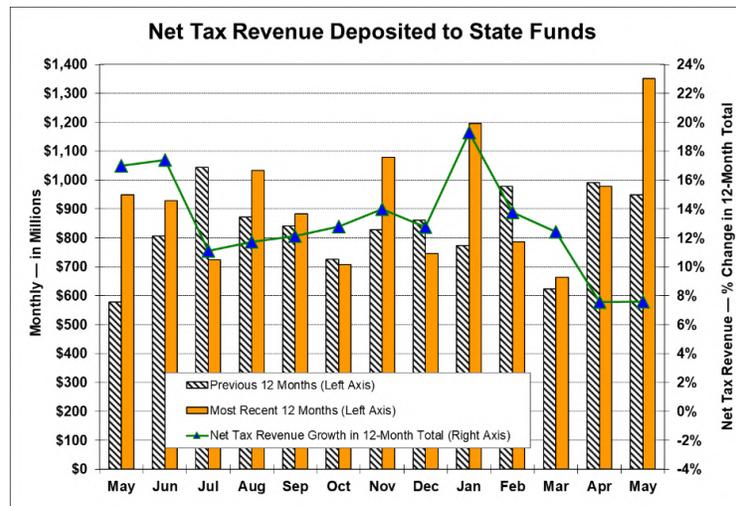
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: June 28, 2022

Twelve-Month Total Net Tax Receipts Through May 31, 2022

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending May 31, 2022, with comparisons to the previous 12 months. May 2021 to May 2022 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 \$1,350.9 million for the month of May 2022, an increase of \$401.9 million (42.3%) compared to the previous May. April 30 is Iowa’s most significant tax due date, with individual income, corporate income, sales/use, and fuel taxes all due on that date. With April 30, 2022, falling on a weekend, this year’s due date was pushed into May, significantly lowering month-to-month and 12-month total comparison amounts at the close of April. The significant May increase is largely related to this deposit timing issue.

Additionally, an accounting practice change that began in November 2021 has created considerable uncertainty as to the actual amounts and rates of revenue growth, both monthly and year over year, for sales/use, fuel, and individual income tax. It appears that this uncertainty will continue to varying degrees for the foreseeable future. At the conclusion of

May 2022, \$50.7 million in tax revenue remained in a General Fund suspense account with the revenues not yet allocated to the appropriate tax type. Transfers out of the suspense account that took place on June 1, 2022, indicate that \$41.9 million of the uncategorized revenue in the State General Fund at the end of May was fuel tax.

For the most recent 12 months, net revenue increased \$781.6 million (7.6%). The growth relative to last year can be attributed to the low level of economic activity that occurred during the initial months of the COVID-19 pandemic that began in early calendar year 2020, combined with a recent surge in consumer spending financed through pent-up demand and federal stimulus payments. With the exception of insurance premium tax (a deposit timing issue), all major tax revenue categories increased year over year.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending May 31, 2022, net revenue from all taxes deposited to State funds totaled \$11,073.6 million, an increase of \$781.6 million (7.6%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- **Individual Income Tax (positive \$423.9 million, 9.5%)** — The current annual rate of growth is very strong at 9.5%, and despite the COVID-19 pandemic, individual income tax net growth has averaged 5.9% over the past three years. This has occurred despite a significant decrease in the number of employed Iowans since the start of the pandemic.
- **Corporate Income Tax (negative \$61.8 million, -7.2%)** — Gross deposits decreased \$46.2 million year over year, while corporate tax refunds increased \$15.6 million. Iowa corporate income tax rates were reduced at the beginning of calendar year 2021 and tax returns for tax year (TY) 2021 are currently being filed and processed.
- **Sales/Use Tax (positive \$286.8 million, 8.4%)** — 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 \$24.0 million (5.2%). Vehicle sales have more than recovered from the COVID-19 related 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) increased \$21.1 million.
 - Sales/use tax deposited to the State General Fund increased \$354.1 million (10.1%). The pandemic-related economic slowdown, combined with recent spending fueled by pent-up demand and federal stimulus payments and a shift away from the purchase of services that are not subject to the sales tax, likely created the current large year-over-year increase in sales/use tax revenue.
 - Increased refunds of State General Fund sales/use tax payments decreased net revenue \$21.7 million.
 - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$90.6 million.
- **Banking Taxes (positive \$17.8 million, 32.7%)** — Over the most recent 12 months, bank franchise tax deposits increased \$1.9 million, while franchise tax refunds decreased \$15.9 million.
- **Fuel Tax (positive \$60.0 million, 9.3%)** — According to Department of Revenue monthly fuel sales [reports](#), the total gallons¹ subject to fuel tax increased 9.8% over the most recent 12-month period (the 12-month total now exceeds the prepandemic level). The

¹ Taxable gallons distributed in Iowa (all fuel types) over the last 12 months totaled 2.522 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.

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,² 380.6 million gallons, 0.3%.
- Gasoline blended with ethanol, 1.276 billion gallons, 14.5%.
- Diesel, including biodiesel blends, 817.1 million gallons, 6.1%.
- Aviation, jet, and other fuels, 48.1 million gallons, 48.9%.
- **Gambling Tax (positive \$56.8 million, 17.7%)** — Iowa's 19 State-regulated casino/racetrack locations temporarily closed on March 17, 2020, as a result of the Governor's declaration of the COVID-19 State public health emergency. Most casinos reopened in early June 2020. The closure resulted in a significant decrease in casino gambling during calendar year 2020. In contrast, gambling activity over the most recent 12 months has experienced a large increase when compared to an average year.
- **Insurance Premium Tax (negative \$55.5 million, -34.4%)** — This reduction was caused by a deposit timing issue. The first insurance tax payment for a calendar year is due June 1, and those payments are deposited in May and June. Last year, a significant portion of the payment was deposited in May, while this year, the largest portion was deposited in June.
- **Real Estate Transfer Tax (positive \$9.4 million, 31.4%)** — Real estate transfer tax revenue growth has been strong for more than two years.
- **Cigarette and Tobacco Tax (negative \$7.4 million, -3.7%).**

Tax Spotlight — Franchise (Bank) Tax and Credit Union Tax

The taxation of banks and financial institutions in Iowa dates back to at least 1851. Prior to [HF 1294](#) (Taxation of Financial Institutions Act of 1970), the bank tax was essentially a property tax, collected and retained at the local level.

The current franchise tax (Iowa Code chapter [422](#), division V) is imposed on the net income of State banks, national banking associations, trust companies, federal and State-chartered savings and loan associations, financial institutions chartered by the Federal Home Loan Bank Board, and production credit associations at a rate of 5.0%. An alternative minimum tax may be applicable to financial institutions at an effective rate of 3.0%. Credit unions are subject to a different tax discussed below.

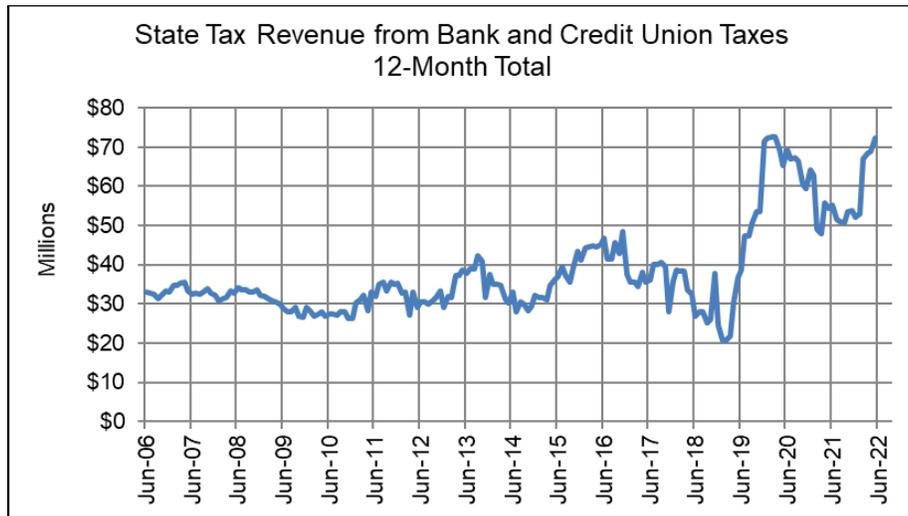
The Iowa franchise tax enacted in 1970 provided for rates ranging from 5.0% to 8.0% of net income. The franchise tax rate was reduced to a flat 5.0% in 1980. Under provisions of [SF 2367](#) (Department of Revenue Operations and Tax Reduction Act), the franchise tax rate will be reduced to 3.5% over five tax years, beginning with TY 2023. Prior to 1995, financial institutions could transfer income-producing assets to nonbank subsidiaries, reducing the franchise tax owed. Legislation was enacted beginning with tax year 1995 that prohibits the deduction of those types of transfers.

Tax returns for franchise tax are required to be filed by the last day of the fourth month after the end of the tax year. Estimate payments from most financial institutions are due on a quarterly basis. Revenue received from the franchise tax is deposited in the State General Fund.

Credit unions are taxed at a rate of 0.5% of "legal and special reserves" (Iowa Code section [533.329](#)). Prior to FY 2020,³ the tax was imposed by the county board of supervisors. The revenue derived from the tax is divided among the county, city, and State, with the State share equal to 50.0% of revenue collected. The State revenue is deposited in the General Fund.

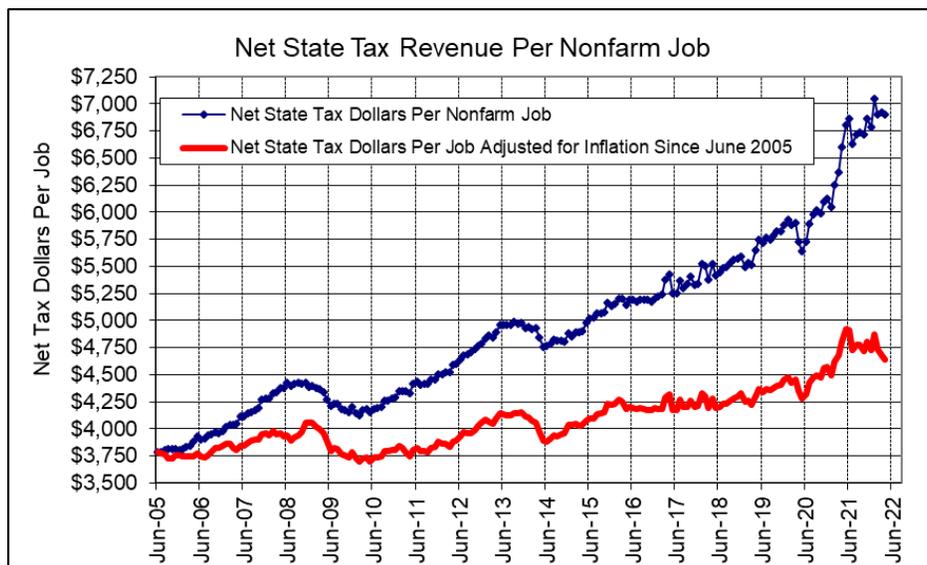
² A portion of the gallons listed as unblended gasoline is later blended with ethanol.

³ See section 70 of [HF 779](#) (2019 Tax Code Changes Act).

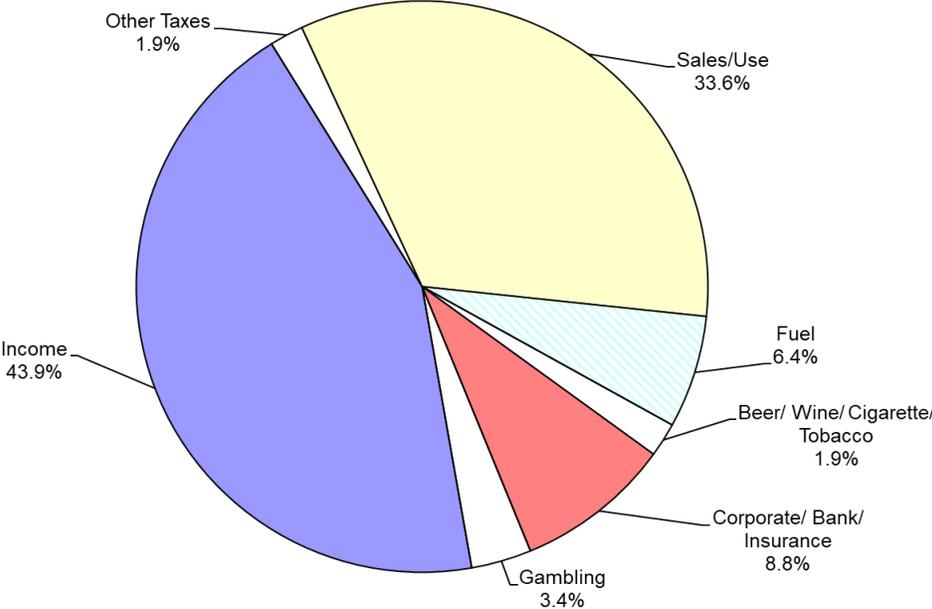


Tax Revenue and Employment

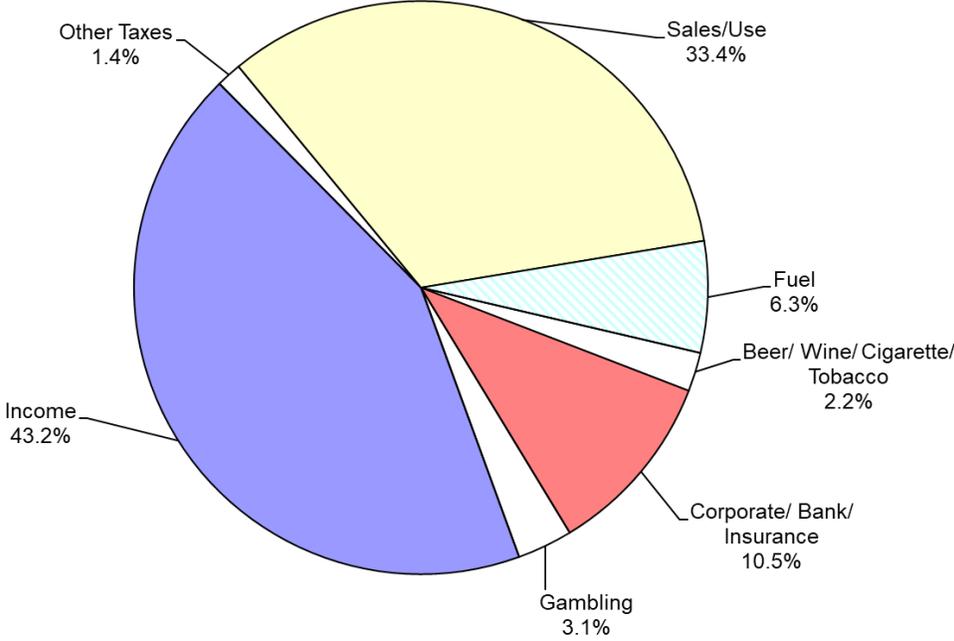
The average reading for Iowa nonfarm employment over the 12 months ending May 2022 was 1,547,100, and net State tax receipts over the same 12 months totaled \$10,671.4 million, or \$6,898 per nonfarm job. This is \$3,113 higher than the per-job average for the 12 months ending June 2005. The blue (upper) 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 \$856 since June 2005, and the remainder of the \$3,113 increase (\$2,257) can be considered the impact of inflation.



Net State Tax Revenue — 12 Months Ending May 2022
Net Revenue = \$11.074 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue — 12 Months Ending May 2021
Net Revenue = \$10.292 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 | May \$ | May % |
|---------------------------------|--------------------|--------------------|-----------------|--------------|-----------------|-------------------|-----------------|--------------|
| | 12-Month | 12-Month | \$ Change | % Change | May 2021 | May 2022 | Change | Change |
| | Total | Period Total | | | | | | |
| Banking | \$ 54.4 | \$ 72.2 | \$ 17.8 | 32.7% | \$ 2.8 | \$ 6.1 | \$ 3.3 | 117.9% |
| Beer and Wine | 27.1 | 22.3 | - 4.8 | -17.7% | 1.7 | 1.6 | - 0.1 | -5.9% |
| Cigarette and Tobacco | 199.3 | 191.9 | - 7.4 | -3.7% | 16.5 | 14.9 | - 1.6 | -9.7% |
| Corporate Income | 861.4 | 799.6 | - 61.8 | -7.2% | 45.7 | 50.8 | 5.1 | 11.2% |
| Fuel | 646.4 | 706.4 | 60.0 | 9.3% | 19.5 | 51.4 | 31.9 | 163.6% |
| Gambling | 320.7 | 377.5 | 56.8 | 17.7% | 29.9 | 30.3 | 0.4 | 1.3% |
| Individual Income | 4,442.2 | 4,866.1 | 423.9 | 9.5% | 408.1 | 743.8 | 335.7 | 82.3% |
| Inheritance | 90.8 | 91.1 | 0.3 | 0.3% | 7.9 | 0.4 | - 7.5 | -94.9% |
| Insurance | 161.5 | 106.0 | - 55.5 | -34.4% | 50.0 | 7.9 | - 42.1 | -84.2% |
| Other Taxes | 25.9 | 82.0 | 56.1 | 216.6% | 2.0 | - 0.5 | - 2.5 | -125.0% |
| Real Estate Transfer | 29.9 | 39.3 | 9.4 | 31.4% | 2.6 | 2.8 | 0.2 | 7.7% |
| Sales/Use | 3,432.4 | 3,719.2 | 286.8 | 8.4% | 362.3 | 441.4 | 79.1 | 21.8% |
| Total Net Taxes | \$ 10,292.0 | \$ 11,073.6 | \$ 781.6 | 7.6% | \$ 949.0 | \$ 1,350.9 | \$ 401.9 | 42.3% |
| Gross Tax & Refunds | | | | | | | | |
| Gross Tax | \$ 11,922.4 | \$ 12,885.4 | \$ 963.0 | 8.1% | \$ 1,191.9 | \$ 1,614.9 | \$ 423.0 | 35.5% |
| Tax Refunds | \$ - 1,630.6 | \$ - 1,811.8 | \$ - 181.2 | 11.1% | \$ - 243.1 | \$ - 264.0 | \$ - 20.9 | 8.6% |
| Net Tax Receipts by Fund | | | | | | | | |
| State General Fund (GF) | \$ 8,569.2 | \$ 9,187.7 | \$ 618.5 | 7.2% | \$ 814.3 | \$ 1,193.5 | \$ 379.2 | 46.6% |
| Road Use Tax Fund | \$ 1,111.9 | \$ 1,198.8 | \$ 86.9 | 7.8% | \$ 70.5 | \$ 97.0 | \$ 26.5 | 37.6% |
| Non-GF Gambling | \$ 316.7 | \$ 373.2 | \$ 56.5 | 17.8% | \$ 29.7 | \$ 30.1 | \$ 0.4 | 1.3% |
| Other State Funds | \$ 294.1 | \$ 313.9 | \$ 19.8 | 6.7% | \$ 34.2 | \$ 30.2 | \$ - 4.0 | -11.7% |
| Local Option Taxes * | \$ 1,158.9 | \$ 1,389.3 | \$ 230.4 | 19.9% | \$ 114.3 | \$ 137.3 | \$ 23.0 | 20.1% |

* Sales, income surtax, and hotel/motel tax. 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, 5.0% is deposited in the Shelter Assistance Fund, the lesser of 30.0% or \$7.0 million to the Housing Trust Fund, and the remainder in the State General 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.