



**MEMORANDUM**

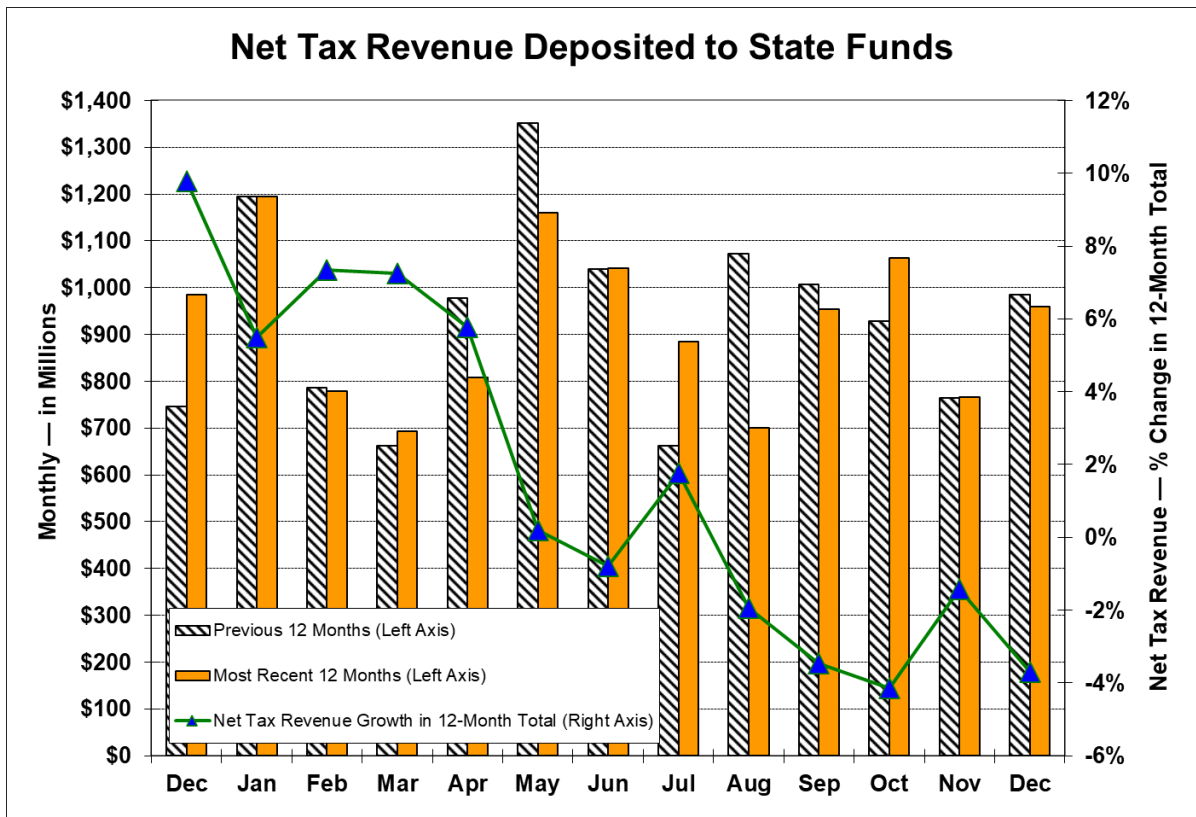
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Eric M. Richardson

DATE: January 15, 2024

**Twelve-Month Total Net Tax Receipts Through December 31, 2023**

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending December 31, 2023, with comparisons to the previous 12 months. December 2022 to December 2023 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 \$960.3 million for the month of December 2023, a decrease of \$24.1 million (-2.4%) compared to the previous December. Individual income tax, corporate income tax, fuel tax, gambling tax, and the real estate transfer tax decreased compared to the previous December, while sales/use taxes, other taxes, and banking tax increased.

Over the most recent 12-month period, net tax revenue decreased \$422.8 million (-3.7%). The recent declines in individual income tax, inheritance tax, and the real estate transfer tax have been offset by an increase in sales and use tax, banking tax, insurance premium tax, and other taxes. During November 2023, the introduction of the pass-through entity tax (PTET) into the State Accounting System on a retroactive basis to January 1, 2022, increased other taxes significantly for the most recent 12-month period.

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

During the 12-month period ending December 31, 2023, net revenue from all taxes deposited to State funds totaled \$11,009.9 million, a decrease of \$422.8 million (-3.7%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include the following:

- **Individual Income Tax (negative \$866.0 million, -17.0%)** — Individual income tax revenue has declined in 14 of the past 15 months when compared to the same month the previous year, and growth is now negative over the past 12 months. Beginning January 1, 2023, Iowa reduced individual income tax rates and reduced the income tax base through a full exemption for retirement income.
- **Corporate Income Tax (negative \$0.7 million, -0.1%)** — Gross deposits increased \$44.4 million year over year, while corporate tax refunds increased \$45.1 million. Iowa corporate income tax rates were reduced at the beginning of calendar year 2021 and were reduced further beginning January 1, 2023.
- **Sales/Use Tax (positive \$217.5 million, 5.8%)** — 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 \$61.4 million (12.8%).
  - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, the Reinvestment District Fund, and two water quality funds) decreased \$35.3 million.
  - Sales/use tax deposited to the General Fund increased \$219.2 million (5.6%).
  - Increased refunds of General Fund sales/use tax payments decreased net revenue \$8.5 million.
  - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$19.3 million.
- **Banking Taxes (positive \$11.9 million, 17.4%)** — Over the most recent 12 months, bank franchise tax deposits increased \$33.4 million, while franchise tax refunds increased \$21.5 million.
- **Beer Tax (negative \$1.0 million, -4.6%).**
- **Fuel Tax (negative \$25.8 million, -3.7%)** — According to Iowa Department of Revenue (IDR) monthly fuel sales [reports](#), the total gallons<sup>1</sup> subject to Iowa fuel tax decreased 1.3% 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:

---

<sup>1</sup> Taxable gallons distributed in Iowa (all fuel types) over the last 12 months totaled 2,473.8 million 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 IDR's monthly report.

- Unblended gasoline,<sup>2</sup> 381.5 million gallons, 9.8%.
- Gasoline blended with ethanol, 1,254.6 million gallons, -2.8%.
- Diesel, including biodiesel blends, 778.6 million gallons, -3.9%.
- Aviation, jet, and other fuels, 51.1 million gallons, 1.8%.
- **Gambling Tax (negative \$6.9 million, -1.8%)** — The annual gambling tax total has decreased in each of the past 10 months.
- **Inheritance Tax (negative \$23.3 million, -24.6%)** — The inheritance tax is currently being phased out by 20.0% per year over multiple years, until all rates are 0.0% in tax year (TY) 2025.
- **Insurance Premium Tax (positive \$39.3 million, 26.0%).**
- **Real Estate Transfer Tax (negative \$9.5 million, -24.5%)** — After more than two years of strong increases, real estate transfer tax revenue growth slowed beginning in October 2022. The recent year-over-year decline in the 12-month total is the first since December 2019.
- **Cigarette Tax and Tobacco Tax (negative \$15.4 million, -8.3%).**
- **Other Taxes (positive \$257.1 million, 269.5%)** — On November 30, 2023, the IDR created a new revenue classification for the PTET, which was enacted in 2023 Iowa Acts, [HF 352](#) (Pass-Through Business Entity Tax and Deduction Act). The PTET creates a voluntary election for a partnership or S corporation to be subject to Iowa income tax at the entity level and was applied retroactively beginning on or after January 1, 2022. In previous months, the PTET was categorized as corporate income tax. With the creation of the PTET, a \$-138.5 million entry of corporate income tax was reflected in the State Accounting System for the month of November 2023, while a corresponding \$138.5 million entry in Other Taxes was made.

---

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

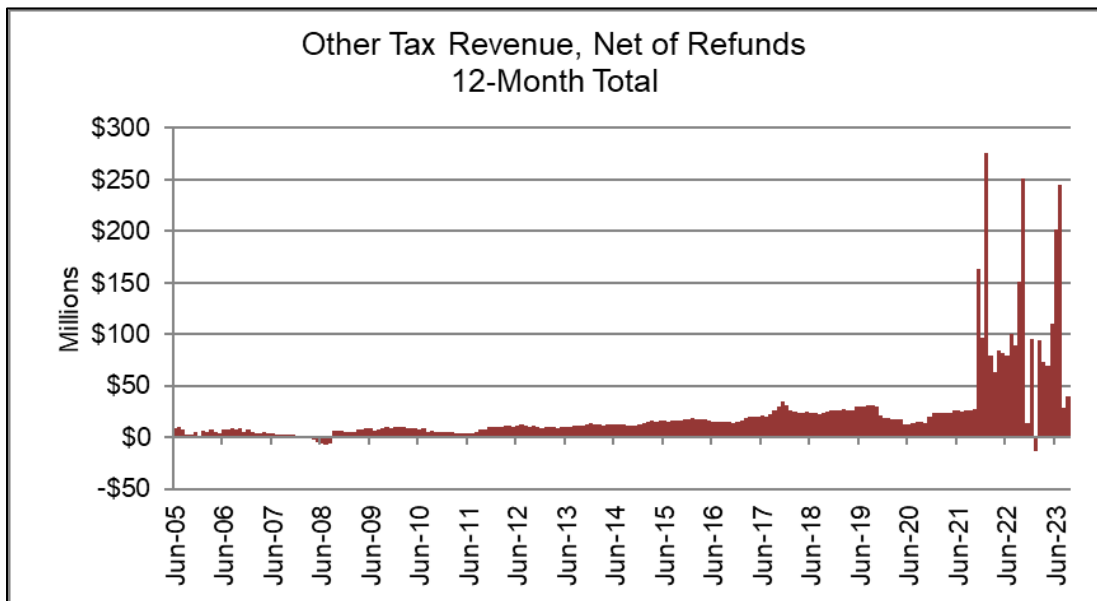
## Tax Spotlight — Other Taxes

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

- Beginning November 15, 2021, the IDR instituted a new tax remittance and deposit system. Among the changes instituted as part of the new system, the initial deposit of income withholding tax, sales tax, and fuel tax is now deposited to a suspense clearing account without a designation as to what type of tax is being deposited. At a later date, the IDR transfers funds from the suspense account to the proper accounts for the tax type remitted by the taxpayer. This procedure has resulted in significant daily swings in the amount of revenue recorded in the “other taxes” category, and it delays the recognition within the accounting system of withholding, corporate, sales, and fuel tax deposits. The General Fund suspense account held \$79.8 million in uncategorized tax receipts at the conclusion of FY 2023.
- 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 2023, the property tax rate was \$0.0024 per \$1,000 of taxed valuation. Funds received from the tax are credited to the Brucellosis and Tuberculosis Eradication Fund. The tax raised \$454,000 during FY 2023.
- Drug Stamp Tax — This tax is administered by the IDR under the authority of Iowa Code chapter [453B](#). The tax is imposed on dealers of marijuana and other controlled substances. Rates range from \$5 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 \$129,000 during FY 2023.
- 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 \$775,000 during FY 2023. An additional amount of utility replacement tax is collected each year under the provisions of Iowa Code section [437A.15\(3\)\(f\)](#). Over the years, the tax revenue has been deposited in the Property Tax Relief Fund and the Mental Health and Disability Services Redesign Fund and has been used to supplement the Department of Health and Human Services Medical Assistance State General Fund appropriation.
- Car Rental Tax — This tax is administered by the IDR under the authority of Iowa Code chapter [423C](#). The tax rate of 5.0% is imposed on the vehicle rental price. Funds received from the car rental tax are credited to the Statutory Allocations Fund. The tax raised \$7.0 million during FY 2023.
- Tax Gap Program — The IDR transfers tax revenue on a monthly basis to fund the tax collection activities of the Tax Gap Program. The Tax Gap Program is an IDR initiative designed to improve tax compliance through utilization of technology. A total of \$32.5 million in tax revenue was credited to the Tax Gap Program during FY 2023. Although the moneys are withdrawn as tax receipts from a specific tax source, the IDR deposits the funds in a nonspecific, multi-tax revenue category. This report includes the transferred dollars as Other Taxes revenue.
- IDR Operating Appropriation Transfers — Each month, the IDR transfers tax revenue out of the State General Fund and deposits the moneys to the IDR’s operations account. The funds are used in the operations budget to finance collections and streamlined sales tax activities. Although the money is withdrawn as tax receipts, the IDR does not redeposit the funds as tax revenue, but instead the transactions are coded as “intrastate transfers.”

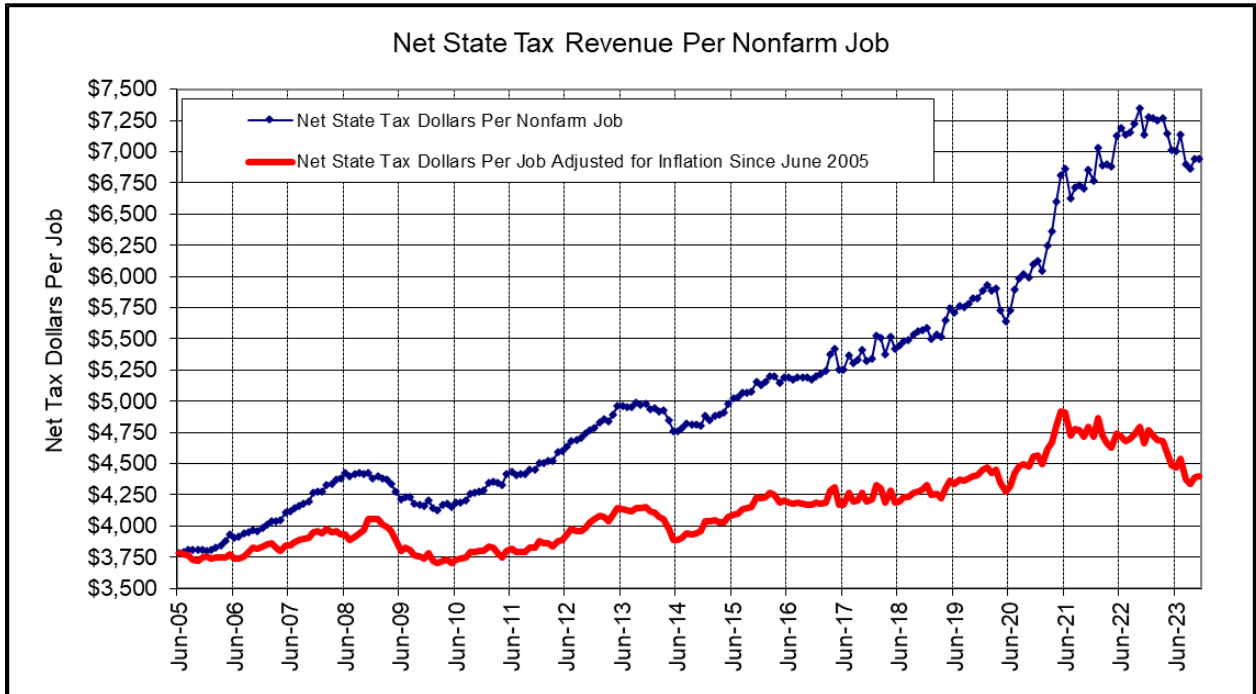
During FY 2023, these transactions artificially reduced reported State tax receipts by a total of \$19.0 million. This report does not include the transferred dollars as tax revenue. As a result, FY 2023 total tax collections are underreported by that amount.

- The PTET was enacted in 2023 Iowa Acts, [HF 352](#) (Pass-Through Business Entity Tax and Deduction Act), and created in the State Accounting System on November 30, 2023. The PTET creates a voluntary election for a partnership or S corporation to be subject to Iowa income tax at the entity level and was applied retroactively beginning on or after January 1, 2022. This report includes the PTET as Other Taxes revenue.
- The Composite Tax was enacted with 2021 Iowa Acts, [chapter 151](#) (Taxation, Penalties Act). The tax requires pass-through entities with nonresident members to pay Iowa income or franchise tax on the nonresident members' Iowa-source income from the pass-through entity. The Composite Tax created \$87.9 million in net revenue in FY 2023 and is included in this report as Other Taxes revenue.

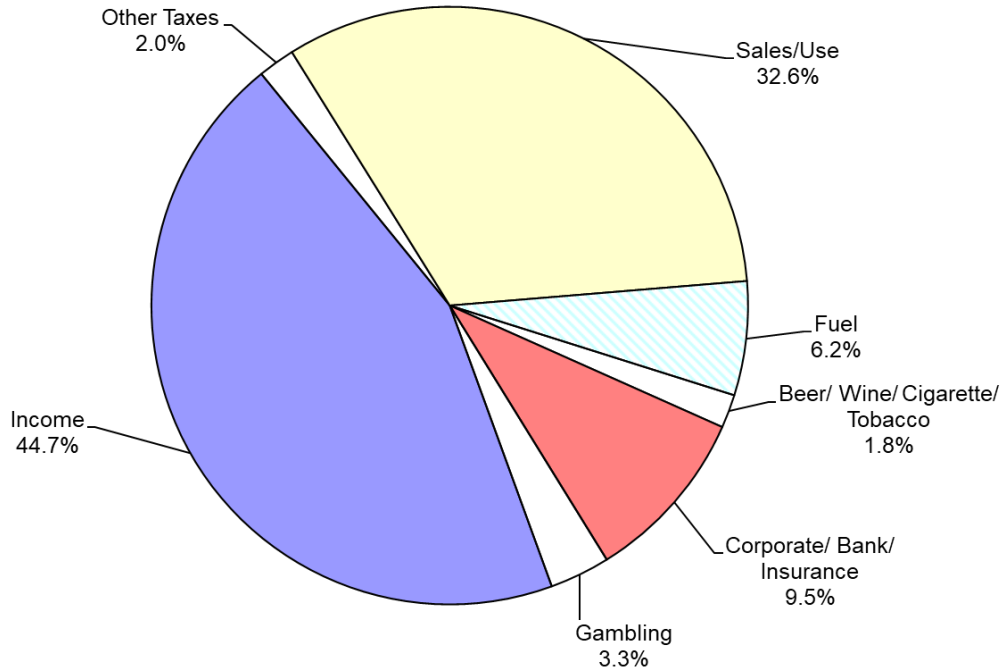


## Tax Revenue and Employment

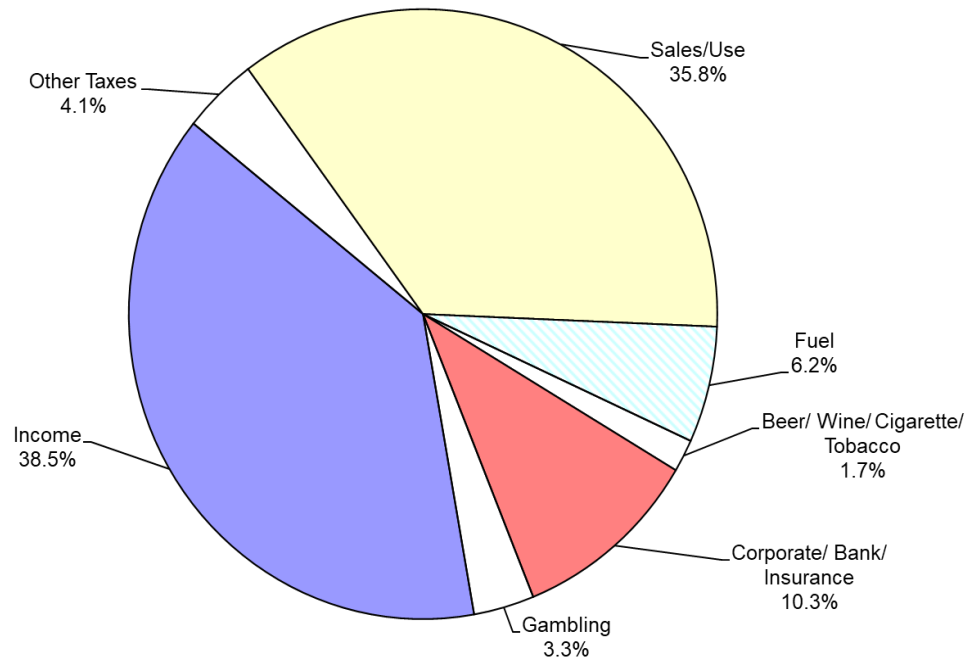
The average reading for Iowa nonfarm employment over the 12 months ending November 2023 was 1,589,000, and net State tax receipts over the same 12 months totaled \$11,034.2 million, or \$6,944 per nonfarm job. This is \$3,159 higher than the per-job average for the 12 months ending June 2005. The blue (upper) line on the following figure 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 \$614 since June 2005, and the remainder of the \$3,159 increase (\$2,545) can be considered the impact of inflation.



**Net State Tax Revenue — 12 Months Ending December 2022**  
**Net Revenue = \$11.433 Billion**  
 Percentages may not add to 100% due to rounding



**Net State Tax Revenue — 12 Months Ending December 2023**  
**Net Revenue = \$11.010 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.

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of December 2022</b>	<b>Month of December 2023</b>	<b>December \$ Change</b>	<b>December % Change</b>
Banking	\$ 68.5	\$ 80.4	\$ 11.9	17.4%	\$ 10.7	\$ 13.0	\$ 2.3	21.5%
Beer and Wine	21.8	20.8	- 1.0	-4.6%	1.8	1.7	- 0.1	-5.6%
Cigarette and Tobacco	185.4	170.0	- 15.4	-8.3%	16.7	11.3	- 5.4	-32.3%
Corporate Income	867.7	867.0	- 0.7	-0.1%	128.6	75.3	- 53.3	-41.4%
Fuel	704.7	678.9	- 25.8	-3.7%	60.6	60.4	- 0.2	-0.3%
Gambling	373.6	366.7	- 6.9	-1.8%	33.7	26.4	- 7.3	-21.7%
Individual Income	5,107.9	4,241.9	- 866.0	-17.0%	414.1	348.0	- 66.1	-16.0%
Inheritance	94.7	71.4	- 23.3	-24.6%	5.6	4.5	- 1.1	-19.6%
Insurance Premium	151.2	190.5	39.3	26.0%	0.6	0.0	- 0.6	-100.0%
Other Taxes	95.4	352.5	257.1	269.5%	13.3	103.1	89.8	675.2%
Real Estate Transfer	38.8	29.3	- 9.5	-24.5%	2.9	2.3	- 0.6	-20.7%
Sales/Use	3,723.0	3,940.5	217.5	5.8%	295.8	314.3	18.5	6.3%
<b>Total Net Taxes</b>	<b>\$ 11,432.7</b>	<b>\$ 11,009.9</b>	<b>\$ - 422.8</b>	<b>-3.7%</b>	<b>\$ 984.4</b>	<b>\$ 960.3</b>	<b>\$ - 24.1</b>	<b>-2.4%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 13,226.3	\$ 13,052.1	\$ - 174.2	-1.3%	\$ 1,069.7	\$ 1,075.0	\$ 5.3	0.5%
Tax Refunds	\$ - 1,793.6	\$ - 2,042.2	\$ - 248.6	13.9%	\$ - 85.2	\$ - 114.7	\$ - 29.5	34.6%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 9,531.9	\$ 9,133.3	\$ - 398.6	-4.2%	\$ 850.1	\$ 817.4	\$ - 32.7	-3.8%
Road Use Tax Fund	\$ 1,191.0	\$ 1,226.8	\$ 35.8	3.0%	\$ 81.8	\$ 99.7	\$ 17.9	21.9%
Non-GF Gambling	\$ 371.6	\$ 360.2	\$ - 11.4	-3.1%	\$ 33.6	\$ 24.0	\$ - 9.6	-28.6%
Other State Funds	\$ 338.1	\$ 289.7	\$ - 48.4	-14.3%	\$ 19.0	\$ 19.1	\$ 0.1	0.5%
<b>Local Option Taxes *</b>	<b>\$ 1,389.6</b>	<b>\$ 1,466.8</b>	<b>\$ 77.2</b>	<b>5.6%</b>	<b>\$ 104.8</b>	<b>\$ 106.5</b>	<b>\$ 1.7</b>	<b>1.6%</b>

\* 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 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 97.50% of the revenue, and the credit union tax provides 2.50%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the 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 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 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 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 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 General Fund. A total of \$7.8 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 General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (General Fund), utility replacement property tax (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, Composite Tax, Pass Through Entity Tax, 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, 5.00% is deposited in the Shelter Assistance Fund, the lesser of 30.00% or \$7.0 million to the Housing Trust Fund, and the remainder in the General Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the 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 1.00% sales/use tax, and the revenue from that statewide tax is transferred out of the 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 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 1.00% statewide tax and was eliminated. To allow for continuity of data, the transfers from the General Fund as a result of the 1.00% 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.