

MEMORANDUM

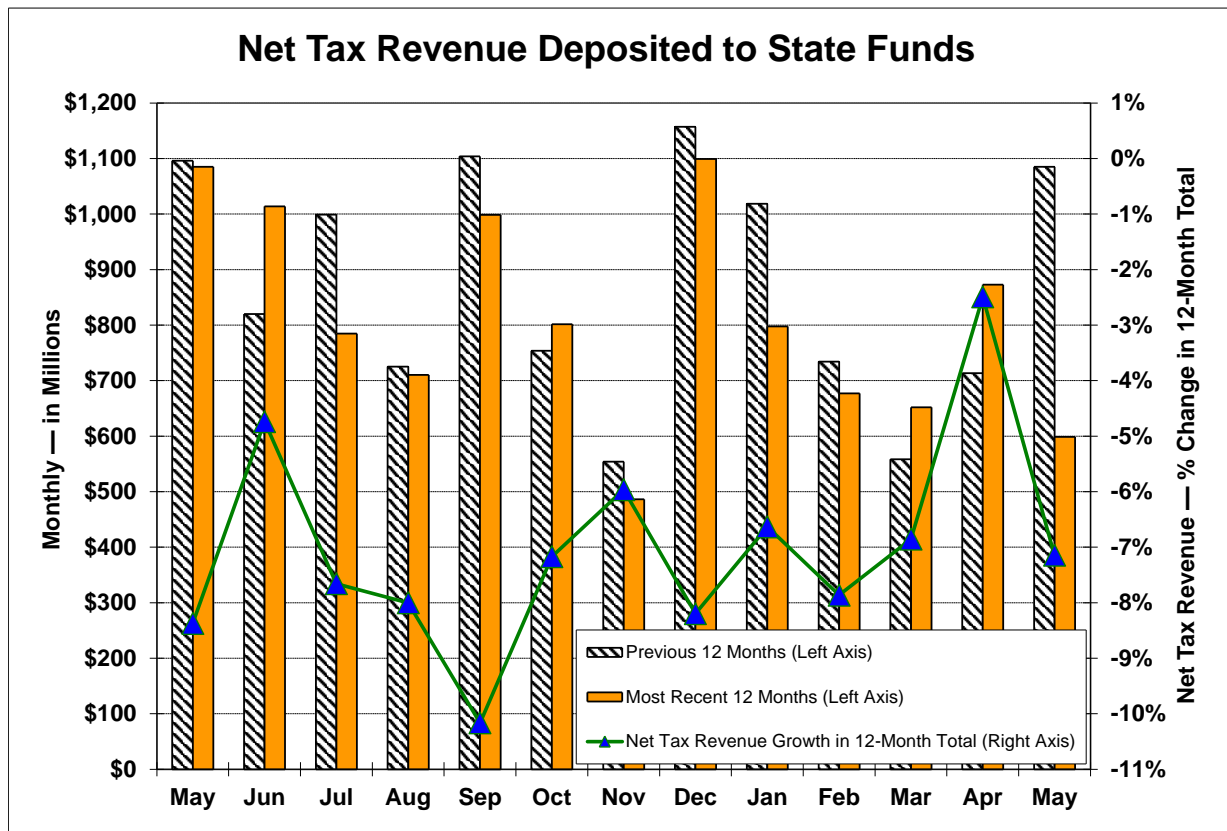
TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives

FROM: Eric M. Richardson

DATE: June 15, 2026

Twelve-Month Total Net Tax Receipts Through May 31, 2026

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending May 31, 2026, with comparisons to the previous 12 months. May 2025 to May 2026 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 \$598.4 million for the month of May 2026, a decrease of \$486.7 million (-44.9%) compared to the previous May. Sales/use tax and real estate transfer tax increased compared to the previous May, while all other revenue types decreased.

Over the most recent 12-month period, net tax revenue decreased \$730.0 million (-7.1%). The recent decline in individual income tax, other taxes, and corporate income tax has been offset by an increase in sales/use tax and real estate transfer tax. 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 during the previous 12-month period. Other taxes are expected to decrease during the most recent 12-month period as PTET revenue decreases and PTET tax credits are claimed.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending May 31, 2026, net revenue from all taxes deposited to State funds totaled \$9,492.1 million, a decrease of \$730.0 million (-7.1%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include the following:

- **Individual Income Tax (negative \$603.9 million, -16.0%)** — Beginning January 1, 2023, Iowa reduced individual income tax rates and reduced the income tax base through a full exemption for retirement income. Individual income tax rates were reduced further for tax year (TY) 2024 and reduced to a flat 3.8% as of January 1, 2025. Individual income tax revenue growth has been negative over a 12-month period for 37 consecutive months.
- **Corporate Income Tax (negative \$141.4 million, -23.3%)** — Gross deposits decreased \$142.8 million year over year, while corporate tax refunds decreased \$1.4 million. Iowa corporate income tax rates were reduced at the beginning of calendar year 2021 and were further reduced beginning January 1, 2024.
- **Sales/Use Tax (positive \$256.8 million, 6.4%)** — 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 \$0.3 million (0.1%).
 - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, the Reinvestment District Fund, and two water quality funds) increased \$1.5 million.
 - Sales/use tax deposited into the General Fund increased \$288.9 million (6.9%).
 - Lower refunds of General Fund sales/use tax payments increased net revenue \$7.6 million.
 - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$41.5 million.
- **Banking Taxes (negative \$50.7 million, -45.9%)** — Over the most recent 12 months, bank franchise tax deposits decreased \$40.9 million, while franchise tax refunds increased \$9.8 million.
- **Beer and Wine Tax (negative \$0.7 million, -3.6%).**
- **Fuel Tax (negative \$7.8 million, -1.2%)** — According to Iowa Department of Revenue (IDR) monthly fuel sales [reports](#), the total gallons¹ subject to Iowa fuel tax increased 0.3% 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:

¹ Taxable gallons distributed in Iowa (all fuel types) over the last 12 months totaled 2,479.7 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,² 437.2 million gallons, 2.0%.
- Gasoline blended with ethanol, 1,200.0 million gallons, -0.4%.
- Diesel, including biodiesel blends, 791.2 million gallons, 0.6%.
- Aviation, jet, and other fuels, 52.0 million gallons, -0.2%.
- **Gambling Tax (negative \$0.4 million, -0.1%)** — The annual gambling tax total has now decreased in 39 or the prior 40 months.
- **Inheritance Tax (negative \$30.4 million, -70.9%)** — The inheritance tax was reduced by 20.0% per year starting in 2021 until all rates were 0.0% in TY 2025.
- **Insurance Premium Tax (negative \$30.2 million, -11.5%)** — The insurance premium tax rate decreased from 0.975% in TY 2024 to 0.950% in TY 2025 due to 2023 Iowa Acts, chapter [107](#) (Captive Insurance Act), and will further decrease annually to 0.900% in TY 2027. A managed care organization (MCO) premium tax was enacted in 2023 Iowa Acts, chapter [158](#) (Medicaid, Liens, and Third-Party Recovery Act), paid by an MCO contracting with the Iowa Department of Health and Human Services (HHS) for Medicaid services. The MCO premium tax is levied for payments received by the MCO for insurance premiums, services, and other benefits and for payments made by the MCO to other providers, insurers, or corporations for insurance premiums, services, and other benefits. The first MCO premium tax payments, categorized as insurance premium tax in the State Accounting System, were due by March 1, 2025. Upon receipt by the State, payments are deposited into the Medicaid MCO Premiums Fund.
- **Real Estate Transfer Tax (positive \$3.1 million, 9.9%)** — Real estate transfer tax revenue growth slowed beginning in October 2022 due to existing homeowners maintaining low-interest rate mortgages. However, homebuying has increased since the Federal Reserve began lowering the federal funds rate in September 2024. With the increase in the real estate transfer tax in May 2026, the annual total has now increased for 19 consecutive months.
- **Cigarette Tax and Tobacco Tax (negative \$10.4 million, -6.9%)**.
- **Other Taxes (negative \$114.0 million, -57.0%)** — On November 30, 2023, the IDR created a new revenue classification for the PTET, which was enacted in 2023 Iowa Acts, [House File 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. As a significant amount of retroactive PTET revenue was collected during the prior 12-month period, other taxes are being collected at a relatively normal level during the current 12-month period, causing a decrease in year-over-year revenue.

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

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

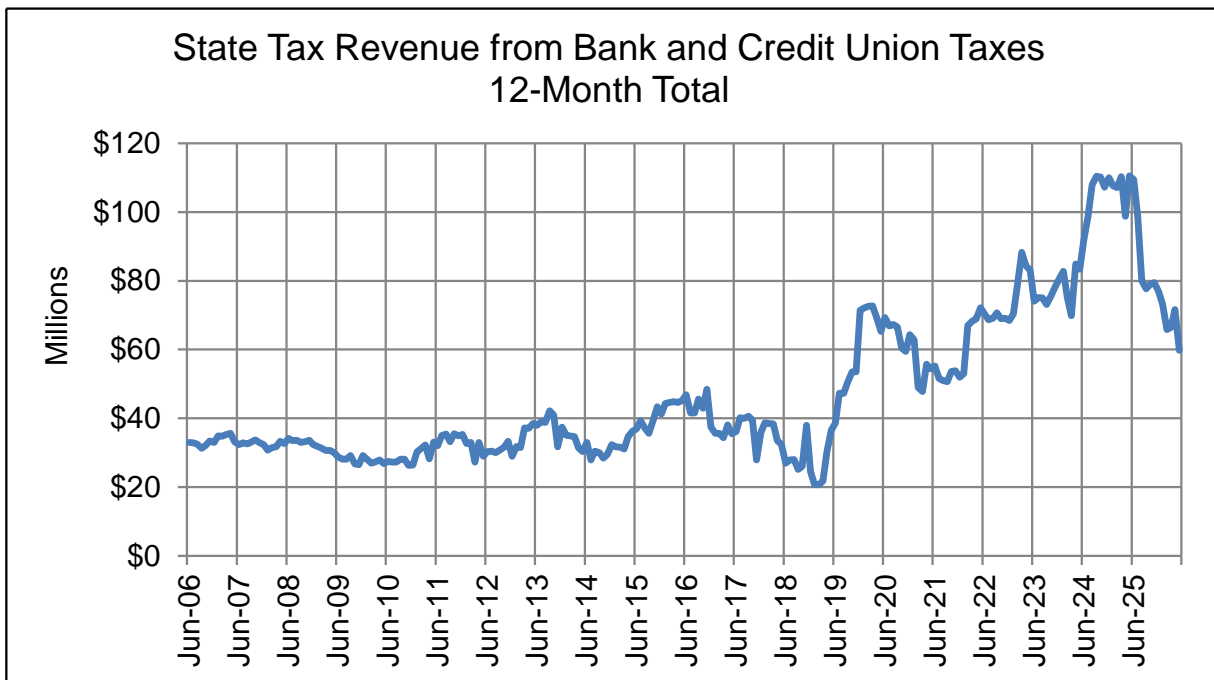
The taxation of banks and financial institutions in Iowa dates back to at least 1851. Prior to 1970 Iowa Acts, chapter [1204](#) (Taxation of Financial Institutions Act), the bank tax was essentially a property tax, collected and retained at the local level.

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%. 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 2022 Iowa Acts, chapter [1138](#) (Department of Revenue Operations and Tax Reduction Act), the franchise tax rate will be reduced to 3.5% over five tax years, beginning with tax year 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 TY 1995 that prohibits the deduction of those types of transfers, however 2024 Iowa Acts, chapter [1094](#) (Individual Income Tax Rate Act) rescinded the prohibition.

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.

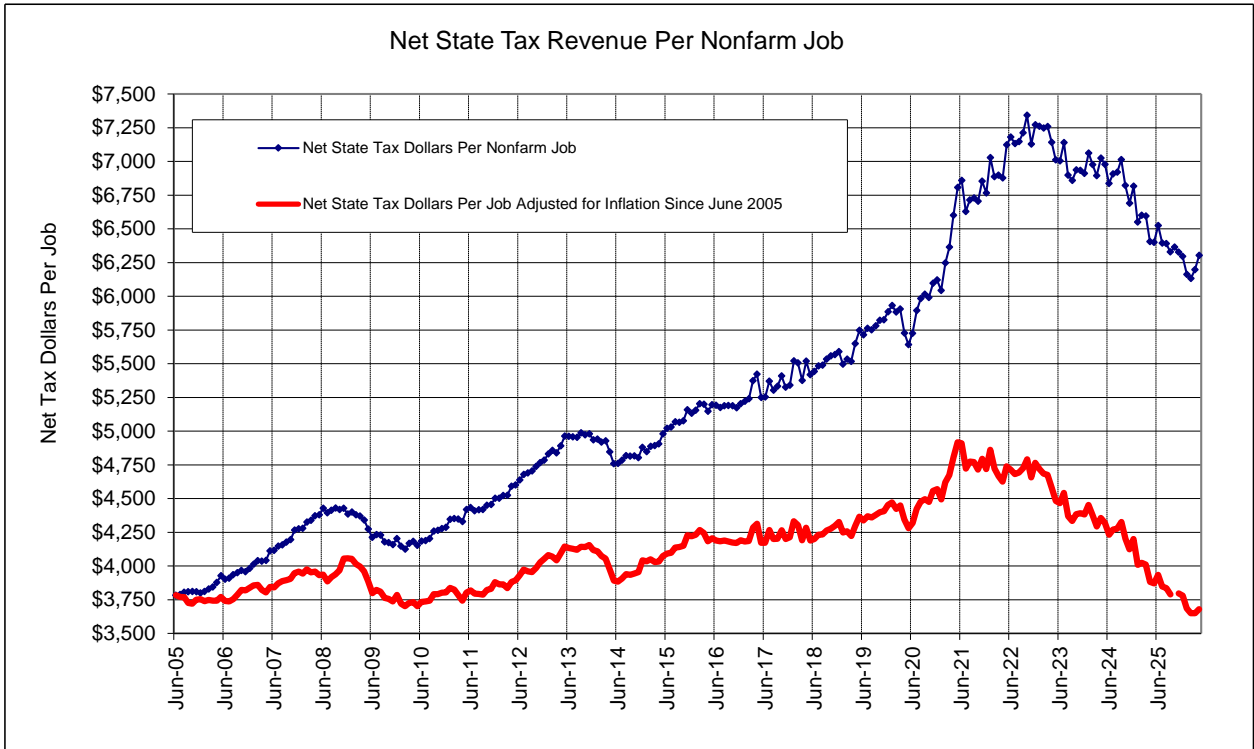
Credit unions are taxed at a rate of 0.5% of “legal and special reserves” (Iowa Code section [533.329](#)). Prior to FY 2020,³ the tax was imposed by the county board of supervisors. The revenue derived from the tax is divided among the county, city, and State, with the State share equal to 50.0% of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



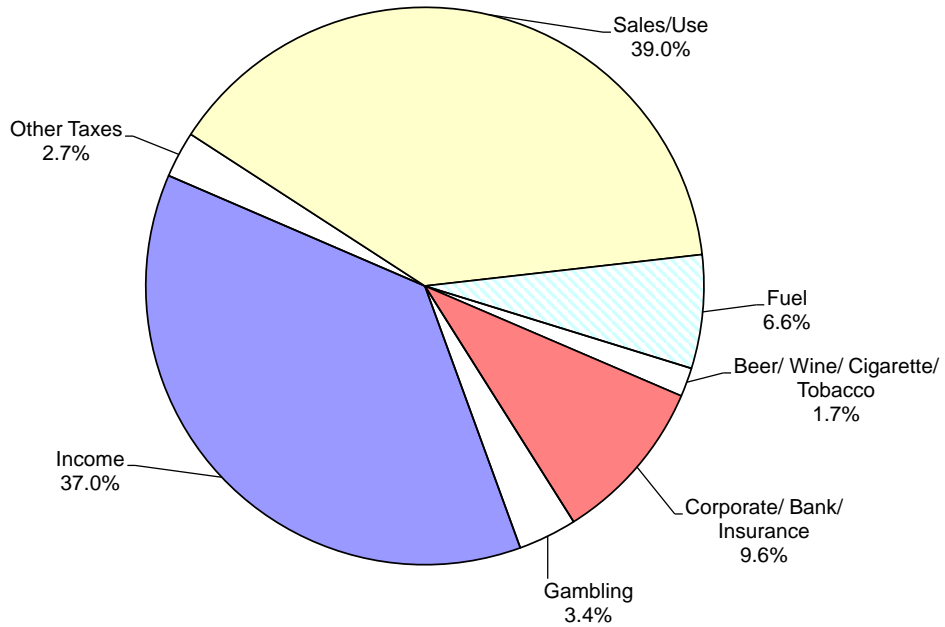
³ See section 70 of 2019 Iowa Acts, [House File 779](#) (Tax Code Changes Act).

Tax Revenue and Employment

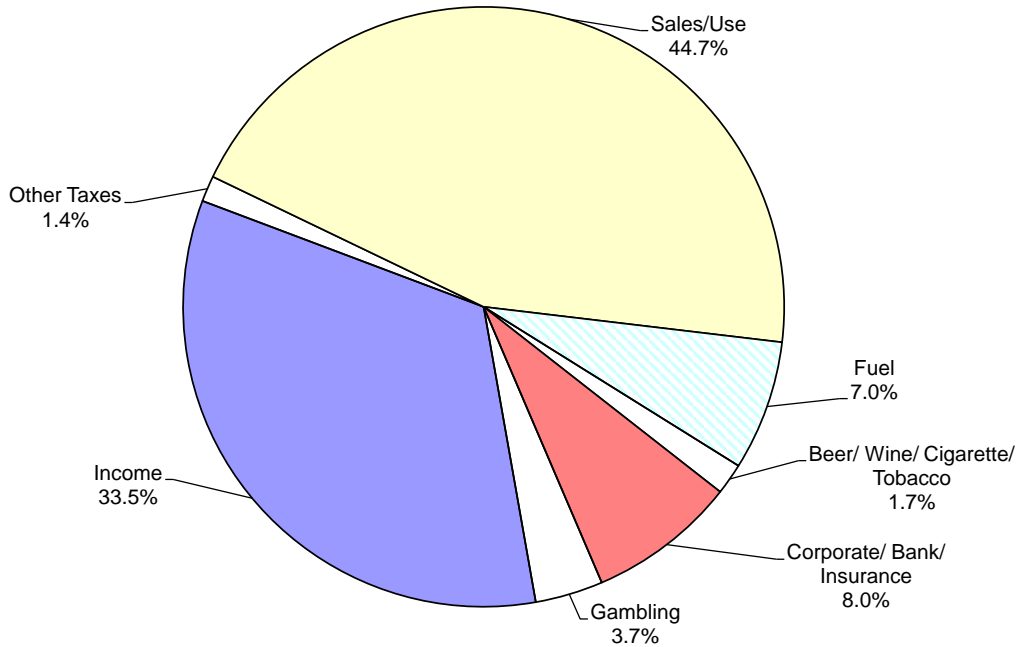
The average reading for Iowa nonfarm employment over the 12 months ending April 2026 was 1,583,200, and net State tax receipts over the same 12 months totaled \$9,978.5 million, or \$6,303 per nonfarm job. This is \$2,519 higher than the per-job average for the 12 months ending June 2005. The blue (upper) 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 decreased \$103 since June 2005, and the remainder of the \$2,519 increase (\$2,622) can be considered the impact of inflation.



Net State Tax Revenue — 12 Months Ending May 2025
Net Revenue = \$10.222 Billion
 Percentages may not add to 100% due to rounding



Net State Tax Revenue — 12 Months Ending May 2026
Net Revenue = \$9.492 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.

<u>Net Tax by Tax Type</u>	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of May 2025	Month of May 2026	May \$ Change	May % Change
Banking	\$ 110.5	\$ 59.8	\$ - 50.7	-45.9%	\$ 14.8	\$ 2.9	\$ - 11.9	-80.4%
Beer and Wine	19.7	19.0	- 0.7	-3.6%	1.7	1.2	- 0.5	-29.4%
Cigarette and Tobacco	151.8	141.4	- 10.4	-6.9%	12.9	12.1	- 0.8	-6.2%
Corporate Income	606.7	465.3	- 141.4	-23.3%	21.6	18.0	- 3.6	-16.7%
Fuel	672.7	664.9	- 7.8	-1.2%	54.5	34.1	- 20.4	-37.4%
Gambling	346.9	346.5	- 0.4	-0.1%	33.8	28.0	- 5.8	-17.2%
Individual Income	3,786.1	3,182.2	- 603.9	-16.0%	570.2	246.0	- 324.2	-56.9%
Inheritance	42.9	12.5	- 30.4	-70.9%	4.6	0.3	- 4.3	-93.5%
Insurance Premium	263.5	233.3	- 30.2	-11.5%	72.0	22.8	- 49.2	-68.3%
Other Taxes	199.9	85.9	- 114.0	-57.0%	- 46.4	- 123.5	- 77.1	--
Real Estate Transfer	31.4	34.5	3.1	9.9%	2.6	2.8	0.2	7.7%
Sales/Use	3,990.0	4,246.8	256.8	6.4%	342.8	353.7	10.9	3.2%
Total Net Taxes	\$ 10,222.1	\$ 9,492.1	\$ - 730.0	-7.1%	\$ 1,085.1	\$ 598.4	\$ - 486.7	-44.9%
Gross Tax & Refunds								
Gross Tax	\$ 12,557.2	\$ 11,627.3	\$ - 929.9	-7.4%	\$ 1,223.6	\$ 896.1	\$ - 327.5	-26.8%
Tax Refunds	\$ - 2,334.8	\$ - 2,135.3	\$ 199.5	-8.5%	\$ - 138.6	\$ - 297.5	\$ - 158.9	114.6%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 8,333.7	\$ 7,651.5	\$ - 682.2	-8.2%	\$ 900.0	\$ 465.7	\$ - 434.3	-48.3%
Road Use Tax Fund	\$ 1,200.8	\$ 1,192.7	\$ - 8.1	-0.7%	\$ 108.8	\$ 83.8	\$ - 25.0	-23.0%
Non-GF Gambling	\$ 342.8	\$ 342.5	\$ - 0.3	-0.1%	\$ 33.6	\$ 27.9	\$ - 5.7	-17.0%
Other State Funds	\$ 345.0	\$ 305.3	\$ - 39.7	-11.5%	\$ 42.5	\$ 21.1	\$ - 21.4	-50.4%
Local Option Taxes *	\$ 1,470.3	\$ 1,525.2	\$ 54.9	3.7%	\$ 127.0	\$ 126.0	\$ - 1.0	-0.8%

* 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 and 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 FY 2011, all cigarette and tobacco product tax revenues were deposited in the General Fund. Beginning FY 2014, all revenue from the [cigarette and tobacco tax](#) is legally required to be 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 Revenue Bond Debt and Subsidy Holdback Funds, the Sports Wagering Receipts Fund, the Iowa Skilled Worker and Job Creation Fund, the Water Quality Infrastructure Fund, the Iowa Horse Racing Fund, and the Levee Improvement Fund.

Individual Income Tax: Most individual income tax revenue is deposited into 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: Most insurance premium tax revenue is deposited in the General Fund. Beginning FY 2025, an MCO premium tax was collected from organizations that administer the State's Medicaid program and placed into the Medicaid MCO Premiums Fund for federal reimbursement.

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), device excise tax (Specialty Courts and Diversion 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, PTET, 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 82.75% to the State, of which 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. The revenue from that statewide tax is transferred from the General Fund monthly through a refund appropriation, which is 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 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 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.