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**MEMORANDUM**

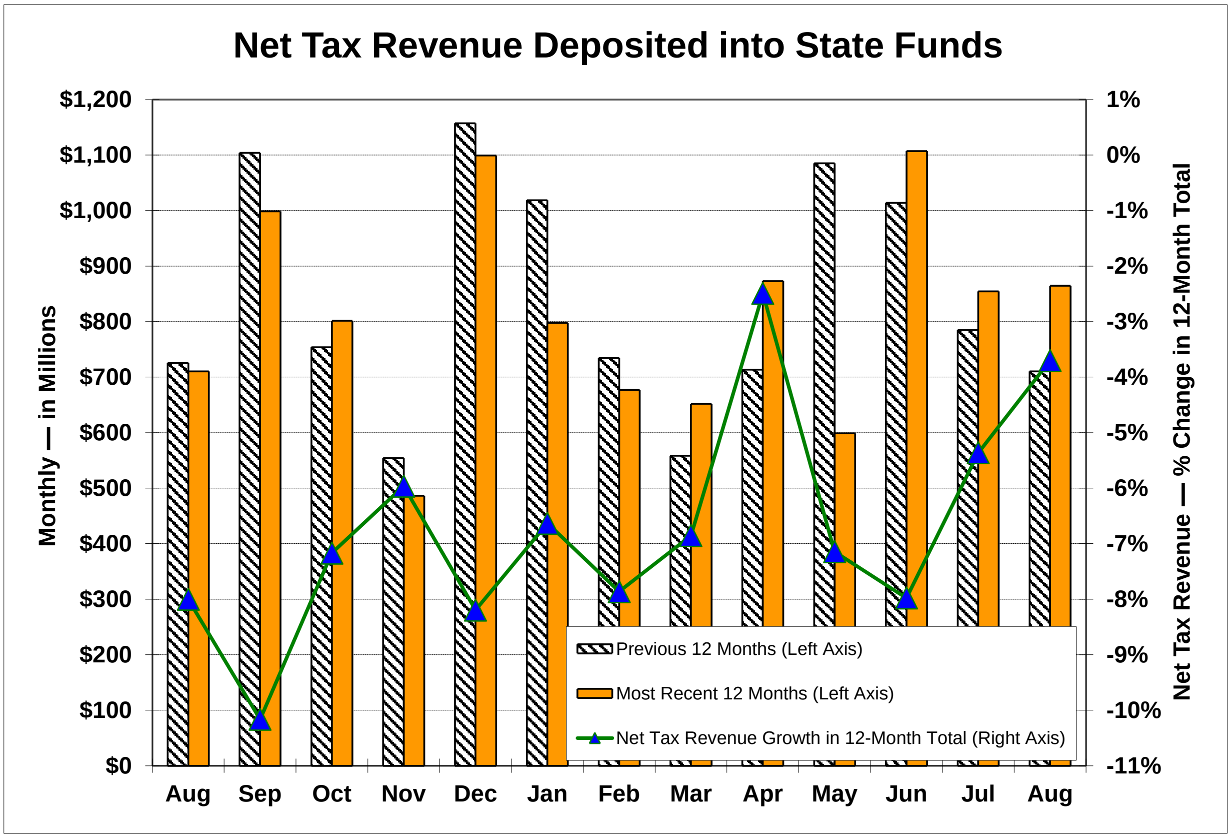
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Eric M. Richardson

DATE: September 11, 2026

**Twelve-Month Total Net Tax Receipts Through August 31, 2026**

The attached spreadsheet presents net tax revenue deposited into State funds for the 12-month period ending August 31, 2026, with comparisons to the previous 12 months. August 2025 to August 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 $864.6 million for the month of August 2026, an increase of $154.4 million (21.7%) compared to the previous August. Individual income tax, sales/use tax, and other taxes increased compared to the previous August, while inheritance tax, corporate income tax, and insurance premium tax decreased.

Over the most recent 12-month period, net tax revenue decreased $377.2 million (-3.7%). The recent decrease in individual income tax, insurance premium tax, and corporate income tax has been offset by an increase in sales/use tax, fuel tax, and other taxes.

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

During the 12-month period ending August 31, 2026, net revenue from all taxes deposited to State funds totaled $9,809.5 million, a decrease of $377.2 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 $538.4 million, -14.5%)** — 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 40 consecutive months.
- **Corporate Income Tax (negative $124.8 million, -21.3%)** — Gross deposits decreased $153.3 million year over year, while corporate tax refunds decreased $28.5 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 $308.7 million, 7.5%)** — 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 into the Road Use Tax Fund) decreased $2.1 million (-0.4%).
  - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, the Reinvestment District Fund, and two water quality funds) increased $1.6 million.
  - Sales/use tax deposited into the General Fund increased $352.9 million (8.3%).
  - Lower refunds of General Fund sales/use tax payments increased net revenue $15.8 million.
  - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue $59.6 million.
- **Banking Taxes (negative $9.6 million, -12.0%)** — Over the most recent 12 months, bank franchise tax deposits decreased $8.9 million, while franchise tax refunds increased $0.6 million.
- **Beer and Wine Tax (positive $1.8 million, 9.7%)**.
- **Fuel Tax (positive $30.2 million, 4.5%)** — According to Iowa Department of Revenue (IDR) monthly fuel sales reports, the total gallons[1] subject to Iowa fuel tax increased 1.6% 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] 441.4 million gallons, 2.4%.
  - Gasoline blended with ethanol, 1,208.6 million gallons, 0.6%.

[1] Taxable gallons distributed in Iowa (all fuel types) over the last 12 months totaled 2,512.7 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.
[2] A portion of the gallons listed as unblended gasoline is later blended with ethanol.

- Diesel, including biodiesel blends, 811.0 million gallons, 2.7%.
- Aviation, jet, and other fuels, 51.9 million gallons, 2.3%.

- **Gambling Tax (positive $0.6 million, 0.2%)** — The annual gambling tax total has increased in three of the last five months after decreasing for 38 straight months.
- **Inheritance Tax (negative $25.8 million, -80.1%)** — 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 $74.7 million, -21.6%)** — 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 was 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 were deposited into the Medicaid MCO Premiums Fund. A new Hospital Management Organizations (HMO) tax was enacted in 2026 Iowa Acts, chapter 1003 (Health Maintenance Organization Taxes, Supplemental Appropriations, and Transfers Act), that replaced the MCO premium tax, as of January 1, 2026, and renamed the Medicaid MCO Premiums Fund to the Health Care Tax Fund (HCTF).
- **Real Estate Transfer Tax (positive $3.7 million, 11.5%)** — Real estate transfer tax revenue growth slowed beginning in October 2022 due to existing homeowners maintaining low-interest rate mortgages. However, homebuying increased when the Federal Reserve began lowering the federal funds rate in September 2024. With the increase in the real estate transfer tax in August 2026, the annual total has now increased for 22 consecutive months.
- **Cigarette Tax and Tobacco Tax (positive $1.8 million, 1.3%)**.
- **Other Taxes (positive $49.3 million, 38.3%)** — Because August 31, 2025, fell on a weekend, the monthly due date for a number of tax types that are deposited into the suspense account, including sales/use taxes, fuel tax, and individual income tax, was delayed until September 2025. Because August 31, 2026, fell on a weekday, other tax receipts over the most recent 12-month period have been inflated compared to the previous 12-month period.

### Tax Spotlight — Corporate Income Tax

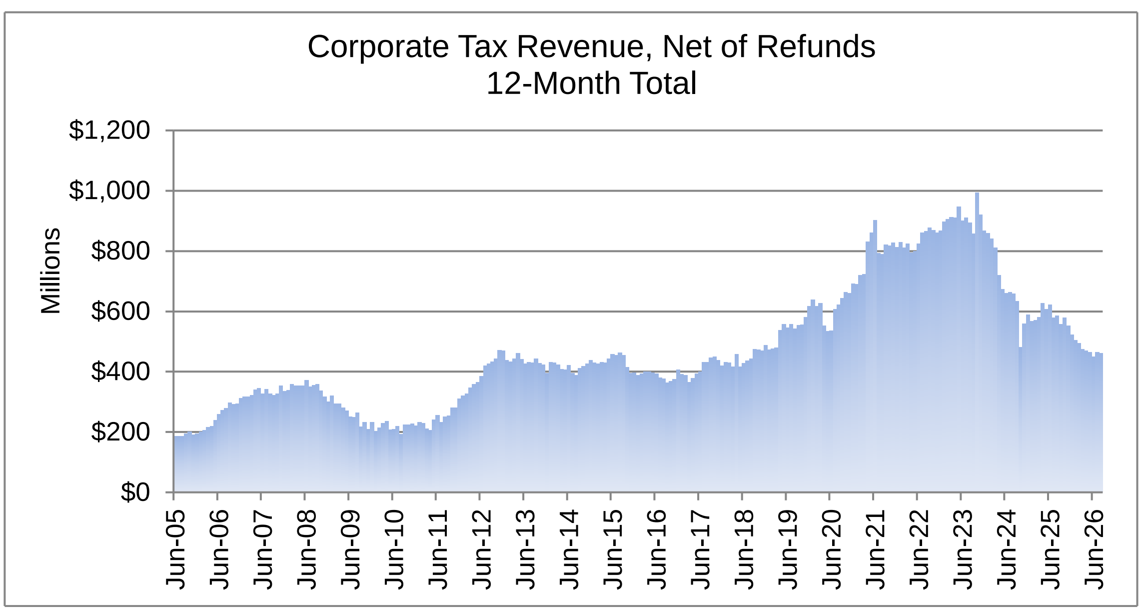
The income of C corporations is taxed under the authority of Iowa Code chapter 422, subchapter III. The tax is imposed on the net income of corporations doing business in Iowa or receiving income from property located in Iowa. Taxation of corporate income by the State of Iowa is based on the share of total company sales occurring within Iowa. Iowa's taxation of the income of corporations changed significantly for tax years beginning on or after January 1, 2021. Current corporate income tax rates apply as follows:

- 5.5% on the first $100,000 of net income.
- 7.1% on amounts in excess of $100,000.

The Iowa alternative minimum tax was repealed for tax years beginning on or after January 1, 2021, as was the ability of corporations to deduct 50.0% of federal corporate income tax paid prior to calculating State corporate income tax liability.

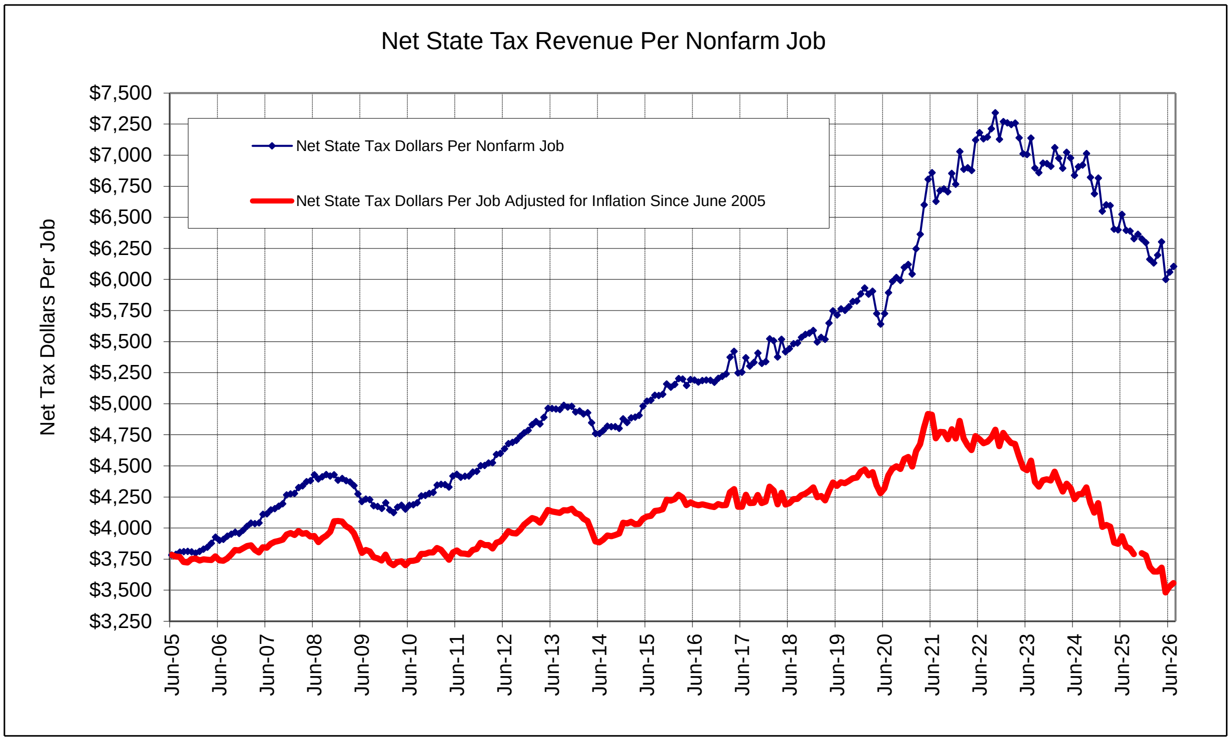
Through legislation enacted in 2022, Iowa's current two top tax rates will be reduced over time, with a single flat rate of 5.5% possible in the future if corporate income tax revenue targets are met. Based on net corporate income tax receipts for FY 2023, the initial rate reduction was effective beginning January 1, 2023 (TY 2023).

The Iowa corporate income tax was first imposed in 1934 at a single rate of 2.0% with the passage of 1933 Iowa Acts, chapter 82 (Net Income and Retail Sales Act). The rate remained at 2.0% until 1955, when it was increased to 3.0%. The rate decreased to 2.0% in 1957, increased to 3.0% in 1959, and increased again to 4.0% in 1965. With the passage of 1967 Iowa Acts, chapter 348 (Tax Modifications Act), the corporate income tax rate was changed from a single rate to varying rates at different income levels, starting at 4.0% on the first $25,000, 6.0% on the next $75,000, and 8.0% for amounts in excess of $100,000. 1971 Iowa Acts, chapter 165 (School Finance Act), increased the rates 2.0 percentage points (6.0%, 8.0%, and 10.0%). The tax rates and brackets in place prior to TY 2021 were established in 1982 Iowa Acts, chapter 1023 (Taxation Act of 1982). The rates and brackets in place for TY 2021 and TY 2022 were enacted in 2018 Iowa Acts, chapter 1161 (Income and Sales Tax Modifications Act). A new system of automatic corporate income tax rate reductions when net corporate income tax revenue targets are met was established in 2022 Iowa Acts, chapter 1002 (Tax Modifications Act). The new system could result in a single Iowa corporate income tax rate of 5.5% in the future.



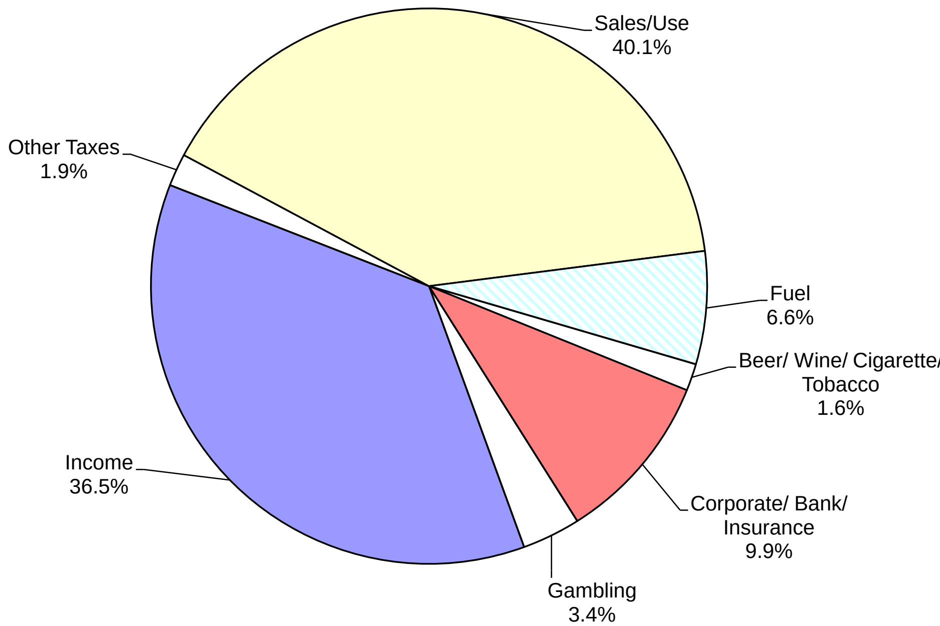
## Tax Revenue and Employment

The average reading for Iowa nonfarm employment over the 12 months ending July 2026 was 1,581,500, and net State tax receipts over the same 12 months totaled $9,654.9 million, or $6,105 per nonfarm job. This is $2,321 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 $228 since June 2005, and the remainder of the $2,321 increase ($2,549) can be considered the impact of inflation.



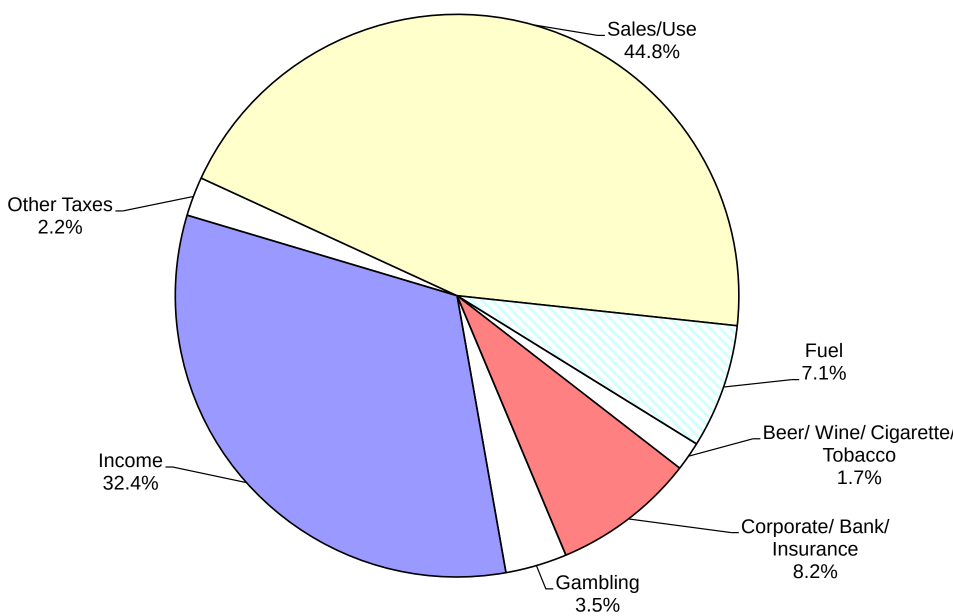
## Net State Tax Revenue — 12 Months Ending August 2025
## Net Revenue = $10.187 Billion

Percentages may not add to 100% due to rounding




## Net State Tax Revenue — 12 Months Ending August 2026
## Net Revenue = $9.810 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 August 2025 | Month of August 2026 | August $ Change | August % Change |
|---|---|---|---|---|---|---|---|---|
| Banking | $ 80.1 | $ 70.5 | $ - 9.6 | -12.0% | $ - 9.2 | $ - 2.5 | $ 6.7 | -- |
| Beer and Wine | 18.5 | 20.3 | 1.8 | 9.7% | 0.6 | 1.7 | 1.1 | 183.3% |
| Cigarette and Tobacco | 141.8 | 143.6 | 1.8 | 1.3% | 11.7 | 11.6 | - 0.1 | -0.9% |
| Corporate Income | 586.0 | 461.2 | - 124.8 | -21.3% | 2.0 | - 0.4 | - 2.4 | -120.0% |
| Fuel | 669.1 | 699.3 | 30.2 | 4.5% | 33.4 | 45.0 | 11.6 | 34.7% |
| Gambling | 345.8 | 346.4 | 0.6 | 0.2% | 26.3 | 26.8 | 0.5 | 1.9% |
| Individual Income | 3,716.5 | 3,178.1 | - 538.4 | -14.5% | 325.9 | 344.2 | 18.3 | 5.6% |
| Inheritance | 32.2 | 6.4 | - 25.8 | -80.1% | 2.4 | 0.1 | - 2.3 | -95.8% |
| Insurance Premium | 346.0 | 271.3 | - 74.7 | -21.6% | 111.7 | 104.0 | - 7.7 | -6.9% |
| Other Taxes | 128.7 | 178.0 | 49.3 | 38.3% | - 105.4 | - 26.7 | 78.7 | -- |
| Real Estate Transfer | 32.3 | 36.0 | 3.7 | 11.5% | 3.0 | 3.2 | 0.2 | 6.7% |
| Sales/Use | 4,089.7 | 4,398.4 | 308.7 | 7.5% | 307.8 | 357.6 | 49.8 | 16.2% |
| Total Net Taxes | $ 10,186.7 | $ 9,809.5 | $ - 377.2 | -3.7% | $ 710.2 | $ 864.6 | $ 154.4 | 21.7% |
| | | | | | | | | |
| **Gross Tax & Refunds** | | | | | | | | |
| Gross Tax | $ 12,419.0 | $ 11,931.1 | $ - 487.9 | -3.9% | $ 831.4 | $ 978.3 | $ 146.9 | 17.7% |
| Tax Refunds | $ - 2,232.3 | $ - 2,121.6 | $ 110.7 | -5.0% | $ - 121.3 | $ - 113.6 | $ 7.7 | -6.3% |
| | | | | | | | | |
| **Net Tax Receipts by Fund** | | | | | | | | |
| State General Fund (GF) | $ 8,247.5 | $ 7,901.8 | $ - 345.7 | -4.2% | $ 562.2 | $ 686.8 | $ 124.6 | 22.2% |
| Road Use Tax Fund | $ 1,203.8 | $ 1,232.2 | $ 28.4 | 2.4% | $ 81.4 | $ 98.1 | $ 16.7 | 20.5% |
| Non-GF Gambling | $ 341.8 | $ 342.3 | $ 0.5 | 0.1% | $ 26.1 | $ 26.5 | $ 0.4 | 1.5% |
| Other State Funds | $ 393.7 | $ 333.2 | $ - 60.5 | -15.4% | $ 40.4 | $ 53.3 | $ 12.9 | 31.9% |
| | | | | | | | | |
| **Local Option Taxes*** | $ 1,461.9 | $ 1,555.2 | $ 93.3 | 6.4% | $ 111.5 | $ 126.2 | $ 14.7 | 13.2% |

* 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 w here 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 into 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 and Liquor Tax:** Taxes on beer, liquor, and wine are deposited into the General Fund and the Liquor Control Fund, and a small amount is deposited into an Iowa Economic Development Authority fund for wine promotion.

**Cigarette and 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 into 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 into 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 into the General Fund.

**Insurance Premium Tax:** Most insurance premium tax revenue is deposited in the General Fund. Beginning FY 2026, an HMO tax was collected from managed care organizations that administer the State's Medicaid program along with State HMOs and placed into the Health Care Tax 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.

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