



**MEMORANDUM**

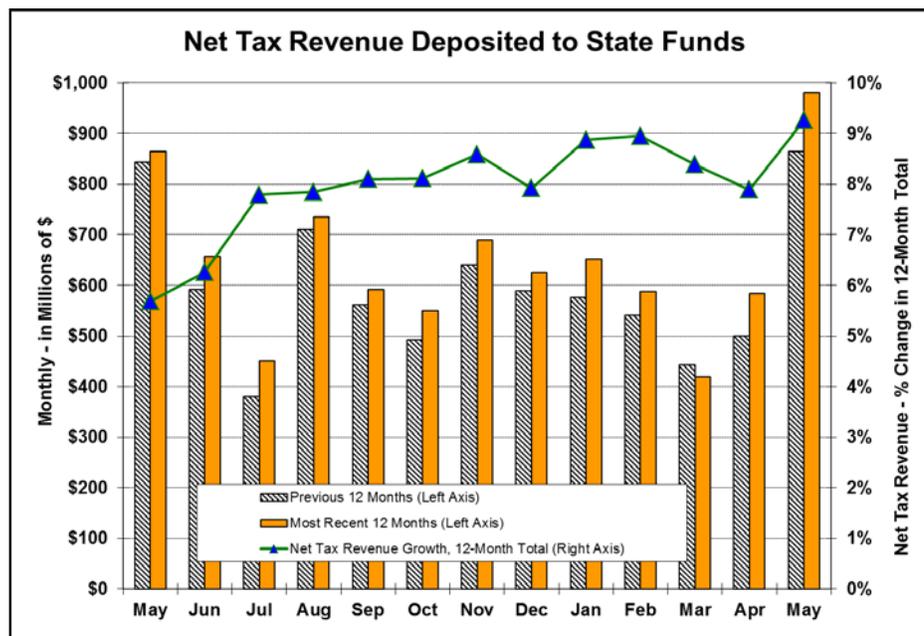
**TO:** Members of the Iowa Senate and  
 Members of the Iowa House of Representatives

**FROM:** Jeff Robinson  
 Shawn Snyder

**DATE:** June 20, 2013

**Twelve-month Total Net Tax Receipts Through May 31, 2013**

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending May 2013 with comparisons to the previous twelve months. May 2012 to May 2013 one-month comparisons are also presented. The source of the information is the State accounting system, including 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 receipts increased significantly in May (\$116.9 million) and this comes on the heels of April's \$86.4 million gain. Of the \$201.3 million increase in the past two months, \$194.2 million (96.5%) is from the individual income tax. While income tax receipts have been very strong, sales/use tax, fuel tax, and gambling tax receipts have been weak the past few months. At

9.3%, the annual net tax revenue growth rate is now higher than any time since at least April 2006.

### **Month of May Comparison**

May net tax receipts totaled \$981.2 million, an increase of \$116.9 million (13.5%) compared to May 2012. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$126.5 million, 33.1%) – Gross income tax deposits increased \$139.2 million in May while individual income tax refunds issued increased \$12.7 million. Income tax transactions since mid-December have been heavily influenced by the timing and results of the recent federal debate concerning income tax rate changes. The U.S. Congress enacted significant changes January 1, 2013. To avoid potential federal tax consequences caused by that legislation, some taxpayers recognized taxable income in calendar year 2012 instead of 2013 or later. Iowa's individual income tax filing deadline is April 30 and this results in significant tax return payment deposits during the month of May.
- Sales/Use Tax (negative \$5.1 million, - 1.6%)
  - Road Use Tax Fund use tax (fee for new vehicle registration) increased \$2.2 million (7.7%).
  - Gross General Fund sales/use tax receipts decreased \$3.6 million (- 1.1%). Regular sales tax refunds increased \$3.6 million and school infrastructure transfers out increased \$0.1 million in May.
- Corporate Income Tax (negative \$20.3 million, - 36.9%) – Deposits of corporate income tax receipts decreased \$10.7 million in May, while corporate tax refunds increased \$9.6 million.
- Fuel Tax (negative \$2.8 million, - 7.7%) – Gross fuel tax deposits decreased \$2.5 million for the month while tax refunds increased \$0.3 million.
- Cigarette and Tobacco Taxes (positive \$2.4 million, 13.3%)
- Gambling Tax (negative \$0.9 million, - 2.9%)

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending May 2013, net revenue from all taxes deposited to State funds totaled \$7.521 billion, an increase of \$637.3 million (9.3%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$448.8 million, 15.1%) – Individual income tax continues to post significant year-over-year annual growth with much of the gain the result of very positive tax year 2012 income tax final returns.
- Sales/Use Tax (positive \$66.9 million, 2.9%) – Sales/use tax receipts show gains over the past 12 months. However, the most recent three months have each posted negative results.
- Corporate Income Tax (positive \$77.0 million, 21.1%) – Corporate income tax revenue has shown significant strength since May 2011.
- Fuel Tax (negative \$1.5 million, - 0.3%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 4.9% while taxable diesel sales increased 0.9%. Taxable total gallons

decreased in each of the past 14 months when compared to the same month the prior year. Taxable diesel sales over the most recent 12-month period are 3.5% lower than the March 2008 peak diesel sales level.

- Gambling Tax (negative \$7.6 million, - 2.5%) – According to Racing and Gaming Commission statistics, 12 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-month period ending May 2013. The combined AGR growth for the 18 facilities was negative 0.8% over the previous 12-month period. Across all facilities, the AGR for the most recent 12 months totaled \$1.448 billion. The annual AGR total has now declined in six of the past nine months and is 1.5% below the November 2012 peak.
- Real Estate Transfer Tax (positive \$3.4 million, 21.9%) – Annual real estate transfer tax receipts peaked in June 2006 at \$19.2 million and bottomed in May 2010 at \$12.8 million. A new annual peak was achieved in January, 2013. However, there has been a \$0.4 million decline from that new peak over the past four months.
- Cigarette and Tobacco Tax (positive \$2.9 million, 1.3%).

### **Tax Spotlight – Franchise (Bank) Tax and Credit Union Tax**

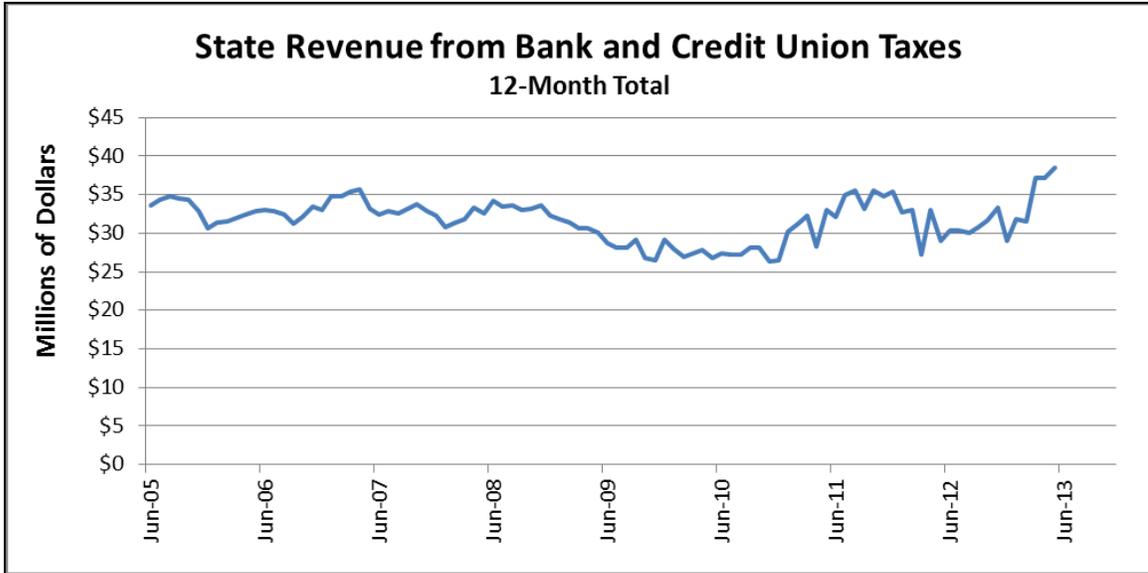
The taxation of banks and financial institutions in Iowa dates back to at least 1851. Prior to HF 1294 (Taxation of Financial Institutions Act of 1970), the bank tax was essentially a property tax, collected and retained at the local level.

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. 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.

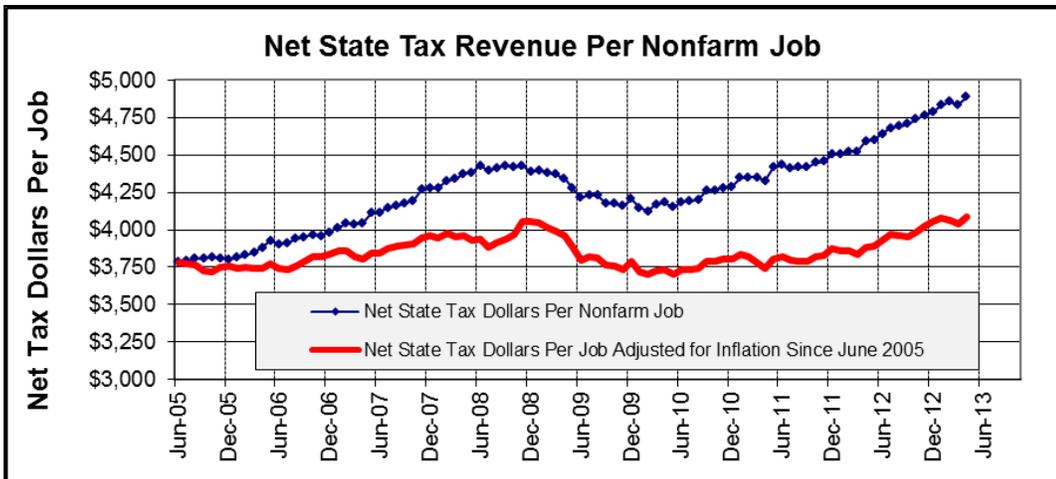
Tax returns for franchise tax are required to be filed by the last day of the fourth month after the end of the tax year. Estimate payments from most financial institutions are due on a quarterly basis. Revenue received from the franchise tax is deposited in the State General Fund.

Credit unions are taxed at a rate of five mills (0.5%) of "legal and special reserves" (see [Iowa Code Section 533.329](#)). The tax is imposed by the County Board of Supervisors and the revenue from the tax is divided between the county, city, and State, with the State share equal to 50.0% of revenue collected. The State revenue is deposited to the General Fund.



### Tax Revenue and Employment

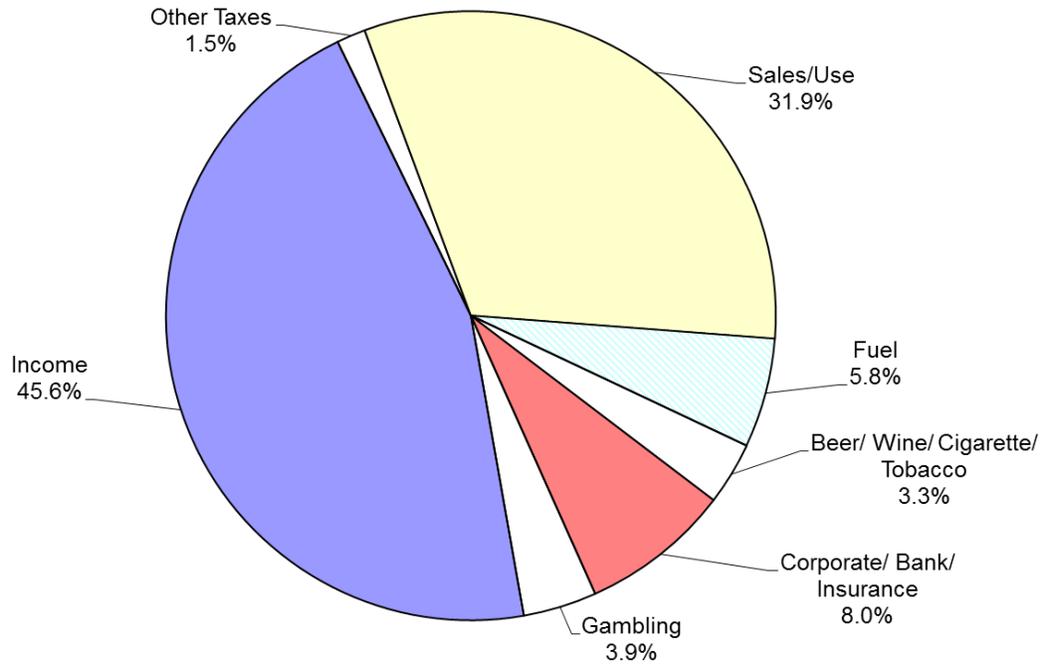
The average reading for Iowa nonfarm employment over the 12 months ending April 2013 is 1,514,700 and net State tax receipts over the same 12 months totaled \$7.404 billion, or \$4,888 per nonfarm job. This is \$1,103 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line on the graph adjusts the June 2005 net tax revenue per job for inflation, and indicates inflation-adjusted tax revenue per job has increased since June 2005 by \$337 and the remainder of the \$1,103 increase represents the impact of inflation.



## Net State Tax Revenue - Twelve Months Ending May 2013

Net Revenue = \$7.521 Billion

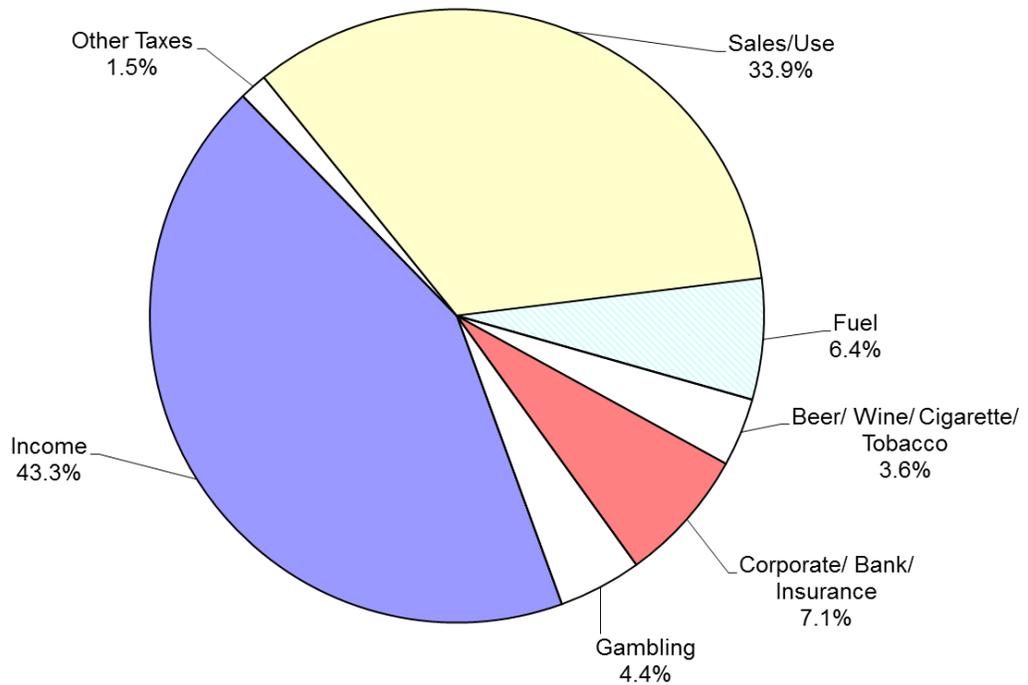
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending May 2012

Net Revenue = \$6.884 Billion

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

| Net Tax by Tax Type             | Previous<br>12-Month<br>Period<br>Total | Most Recent<br>12-Month<br>Period Total | 12-Month<br>\$ Change | 12-Month<br>% Change | Month of<br>May 2012 | Month of<br>May 2013 | May \$<br>Change | May %<br>Change |
|---------------------------------|---|---|-----------------------|----------------------|----------------------|----------------------|------------------|-----------------|
| Banking                         | \$ 29.0                                 | \$ 38.5                                 | \$ 9.5                | 32.8%                | \$ 2.9               | \$ 4.3               | \$ 1.4           | 48.3%           |
| Beer & Wine                     | 21.7                                    | 22.0                                    | 0.3                   | 1.4%                 | 1.7                  | 1.8                  | 0.1              | 5.9%            |
| Cigarette & Tobacco             | 225.7                                   | 228.6                                   | 2.9                   | 1.3%                 | 18.1                 | 20.5                 | 2.4              | 13.3%           |
| Corporate Income                | 364.3                                   | 441.3                                   | 77.0                  | 21.1%                | 55.0                 | 34.7                 | - 20.3           | -36.9%          |
| Fuel                            | 438.5                                   | 437.0                                   | - 1.5                 | -0.3%                | 36.5                 | 33.7                 | - 2.8            | -7.7%           |
| Gambling                        | 301.4                                   | 293.8                                   | - 7.6                 | -2.5%                | 30.7                 | 29.8                 | - 0.9            | -2.9%           |
| Individual Income               | 2,978.9                                 | 3,427.7                                 | 448.8                 | 15.1%                | 382.4                | 508.9                | 126.5            | 33.1%           |
| Inheritance                     | 75.1                                    | 86.3                                    | 11.2                  | 14.9%                | 7.2                  | 7.4                  | 0.2              | 2.8%            |
| Insurance                       | 92.6                                    | 119.0                                   | 26.4                  | 28.5%                | 11.9                 | 26.3                 | 14.4             | 121.0%          |
| Other Taxes                     | 10.3                                    | 10.3                                    | 0.0                   | 0.0%                 | - 1.0                | 0.0                  | 1.0              | --              |
| Real Estate Transfer            | 15.5                                    | 18.9                                    | 3.4                   | 21.9%                | 1.4                  | 1.4                  | 0.0              | 0.0%            |
| Sales/Use                       | 2,330.5                                 | 2,397.4                                 | 66.9                  | 2.9%                 | 317.5                | 312.4                | - 5.1            | -1.6%           |
| <b>Total Net Taxes</b>          | <b>\$ 6,883.5</b>                       | <b>\$ 7,520.8</b>                       | <b>\$ 637.3</b>       | <b>9.3%</b>          | <b>\$ 864.3</b>      | <b>\$ 981.2</b>      | <b>\$ 116.9</b>  | <b>13.5%</b>    |
| <b>Gross Tax &amp; Refunds</b>  |   |   |                       |                      |                      |                      |                  |                 |
| Gross Tax                       | \$ 8,192.0                              | \$ 8,801.7                              | \$ 609.7              | 7.4%                 | \$ 952.2             | \$ 1,093.8           | \$ 141.6         | 14.9%           |
| Tax Refunds                     | \$ - 1,308.5                            | \$ - 1,280.9                            | \$ 27.6               | -2.1%                | \$ - 88.0            | \$ - 112.7           | \$ - 24.7        | 28.1%           |
| <b>Net Tax Receipts by Fund</b> |   |   |                       |                      |                      |                      |                  |                 |
| State General Fund (GF)         | \$ 5,776.0                              | \$ 6,381.5                              | \$ 605.5              | 10.5%                | \$ 768.3             | \$ 886.6             | \$ 118.3         | 15.4%           |
| Road Use Tax Fund               | \$ 743.2                                | \$ 757.7                                | \$ 14.5               | 2.0%                 | \$ 64.7              | \$ 64.1              | \$ - 0.6         | -0.9%           |
| Non-GF Gambling                 | \$ 232.6                                | \$ 251.1                                | \$ 18.5               | 8.0%                 | \$ 30.4              | \$ 29.5              | \$ - 0.9         | -3.0%           |
| Other State Funds               | \$ 131.8                                | \$ 130.6                                | \$ - 1.2              | -0.9%                | \$ 1.0               | \$ 1.0               | \$ 0.0           | 0.0%            |
| <b>Local Option Taxes *</b>     | <b>\$ 854.0</b>                         | <b>\$ 872.3</b>                         | <b>\$ 18.3</b>        | <b>2.1%</b>          | <b>\$ 67.6</b>       | <b>\$ 79.4</b>       | <b>\$ 11.8</b>   | <b>17.5%</b>    |

\* Sales, income, and hotel/motel. Distributed to local governments - 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 was zero or negative so no meaningful percentage change can 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 included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

**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 products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General 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, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 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 type for the money 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% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and 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.

**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 1.0% statewide tax and the SILO 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.

## Report Database

The database 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.