



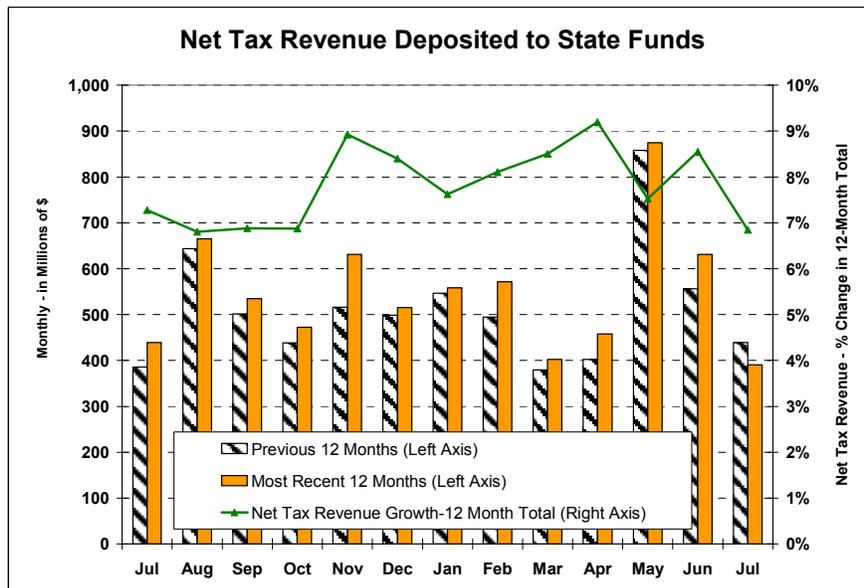
TO: Members of the Iowa Senate and  
 Members of the Iowa House of Representatives

FROM: Jeff Robinson  
 Shawn Snyder

DATE: August 26, 2008

**Twelve-month Total Net Tax Receipts Through July 31, 2008**

The attached spreadsheet presents net State tax receipts for the 12-month period ending July 2008 with comparisons to the previous 12 months. July 2008 to July 2007 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 collected, along with the refunds issued against those taxes.



**Month of July Comparison**

July net tax receipts totaled \$390.5 million, a decrease of \$48.6 million (- 11.1%) compared to July 2007. Two significant deposit timing issues produced most of the negative result for the month. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$13.1 million, 7.1%) – Gross receipts were up \$11.1 million while Income Tax refunds were \$2.0 million lower for the month.
- Corporate Income Tax (negative \$21.3 million, - 65.1%) – Gross receipts decreased \$14.5 million and refunds increased \$6.8 million.

- Sales/Use Tax (negative \$10.4 million, - 8.2%) – General Fund Sales/Use Tax receipts decreased \$4.7 million and Use Tax deposited to the Road Use Fund decreased \$1.6 million. General Fund gross Sales Tax receipts were negatively impacted by the reversal of a \$10.0 million transfer error that occurred in June. General Fund refunds increased \$4.1 million for the month.
- Fuel Tax (negative \$34.7 million, - 82.4%) – Gross Fuel Tax revenue decreased \$34.8 million while refunds processed in the month decreased \$0.1 million. The majority of the Fuel Tax decrease was due to a deposit timing issue that inflated June receipts by about \$32.6 million and decreased July deposits by the same amount.
- Cigarette & Tobacco Taxes (positive \$4.8 million, 24.2%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased. The July increase reverses a decrease experienced in June.

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

During the 12-month period ending July 2008, net revenue from all taxes deposited to State funds totaled \$6.705 billion, an increase of \$429.7 million (6.8%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual Income Tax (positive \$197.9 million, 7.4%) – Individual Income Tax receipt growth has generally been strong over the past year, but the growth rate has declined somewhat since April.
- Corporate Tax (positive \$9.9 million, 2.9%) – Corporate Tax has shown strong growth since April 2003. The rate of growth has tapered off over the last nine months.
- Sales/Use Tax (positive \$100.9 million, 4.7%) – Despite high gas prices, reduced home building and home equity withdrawals, as well as slowing national retail sales statistics, Iowa Sales/Use Tax receipts continue to show year-over-year strength. General Fund and Road Use Tax Funds Sales/Use Tax receipts were both significantly positive over the past 12 months.
- Motor Fuel Tax (negative \$7.3 million, - 1.6%) – Net Motor Fuel tax revenue has been weak the past seven months, likely the result of higher fuel prices reducing the growth in fuel demand.
- Gambling Tax (positive \$19.0 million, 6.8%) – The Isle Casino in Waterloo, open just over a year, is providing a year-over-year boost to statewide Gambling Tax growth.
- Cigarette and Tobacco Tax (positive \$109.1 million, 74.8%) – The tax rates for cigarettes and other tobacco products were increased March 16, 2007. The year-over-year rate of revenue increase will continue to decline over the next nine months.
- Insurance Premium Tax (positive \$7.7 million, 7.3%) – The Insurance Premium Tax rate was reduced over multiple years and is now fully implemented.

### **Tax Spotlight – Motor Vehicle Fuel Tax**

Motor vehicle fuel is taxed under the authority of Chapter 452A, Code of Iowa. The tax is imposed on each gallon of fuel sold in Iowa for use in motor vehicles or aircraft. Tax rates for July 1, 2008, through June 30, 2009, are:

- Gasoline – \$0.210 per gallon
- Ethanol Blended Gasoline - \$0.19 per gallon
- E-85 Ethanol Blend - \$0.19 per gallon
- Aviation Gasoline - \$0.08 per gallon

- Diesel Fuel - \$0.225 per gallon
- Liquefied Petroleum Gas (LPG) - \$0.20 per gallon
- Aviation Jet Fuel - \$0.03 per gallon
- Compressed Natural Gas - \$0.16 per 100 cubic feet

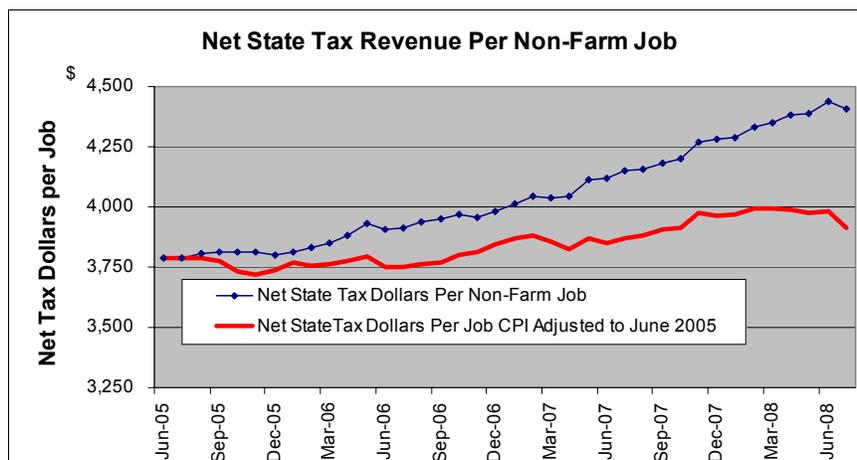
Tax rates for gasoline and ethanol-blended gasoline including E-85 are adjusted each fiscal year by the Department of Revenue and are based on the previous calendar year's ethanol-blended gasoline sales.

The Iowa Motor Vehicle Fuel Tax was first imposed in SF 312 (Gasoline License Fee Act of 1925) at a rate of \$0.02 per gallon. The tax rates for gasoline and diesel fuel have increased periodically since enactment. In 1989, the tax rate on diesel fuel was increased to its present rate of \$0.225 per gallon and the tax rate on gasoline was increased to \$0.20 per gallon. During the 2001 Legislative Session, HF 716 (Ethanol-Blended Gasoline and Related Taxes Act) established a Motor Vehicle Fuel Tax schedule. The Department of Revenue establishes the per-gallon tax rate on gasoline and ethanol-blended gasoline based on the tax schedule. The market-share of ethanol-blended gasoline during a calendar year determines the tax rate on gasoline and ethanol-blended gasoline for the following fiscal year. The tax rate per gallon could range from \$0.19 to \$0.20 on ethanol-blended gasoline and \$0.20 to \$0.21 on gasoline. The use of the tax schedule was to end after FY 2007; however the 2007 General Assembly extended the use of the tax schedule through FY 2012 in SF 601 (Standing Appropriations Act). Starting in FY 2013, the tax rate on gasoline and ethanol blended gasoline will be \$0.20 per gallon.

Sellers of motor vehicle fuel must be licensed by the Department of Revenue. Motor Vehicle Fuel Tax returns are filed by the licensee and are due by the last day of the month following the month when the fuel was withdrawn from its terminal. Aviation fuel tax receipts are deposited in the State Aviation Fund (Chapter 452A.82, Code of Iowa). Starting in FY 2008, tax receipts from the sale of gasoline used in water craft are deposited in the Marine Fuel Tax Fund (Chapter 452A.84, Code of Iowa). The remaining Motor Vehicle Fuel Tax revenue is credited to the Road Use Tax Fund.

### Tax Revenue and Employment

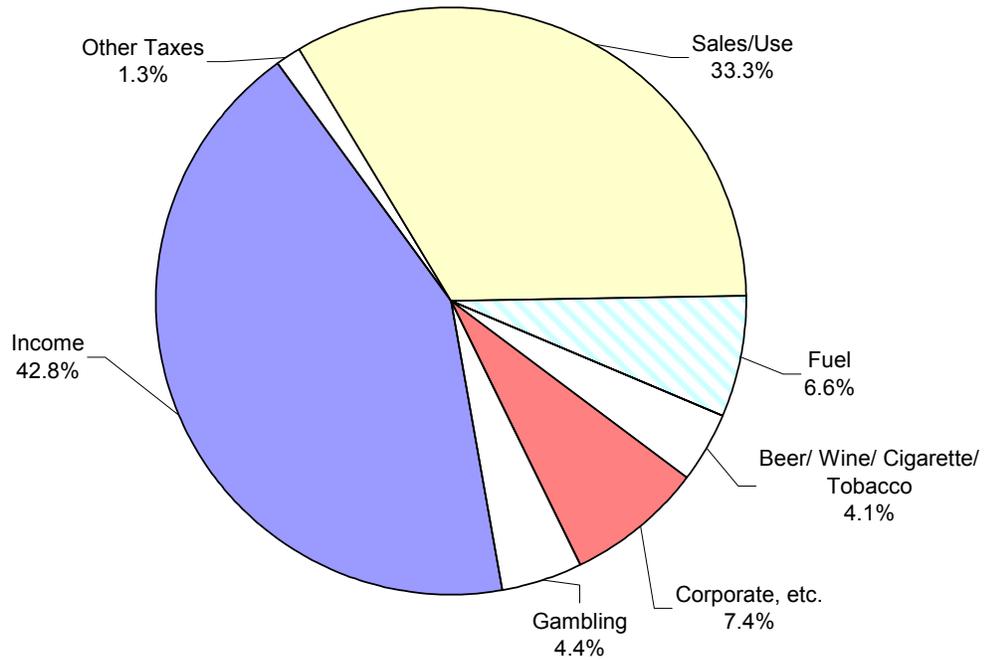
The average reading for Iowa non-farm employment over the 12 months ending July 2008 is 1,522,200, and net State tax receipts over the same 12 months totaled \$6.705 billion, or \$4,404 per non-farm job. This is \$620 (16.4%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 13.1%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.1% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



## Net State Tax Revenue - Twelve Months Ending July 2008

Net Revenue = \$6.705 Billion

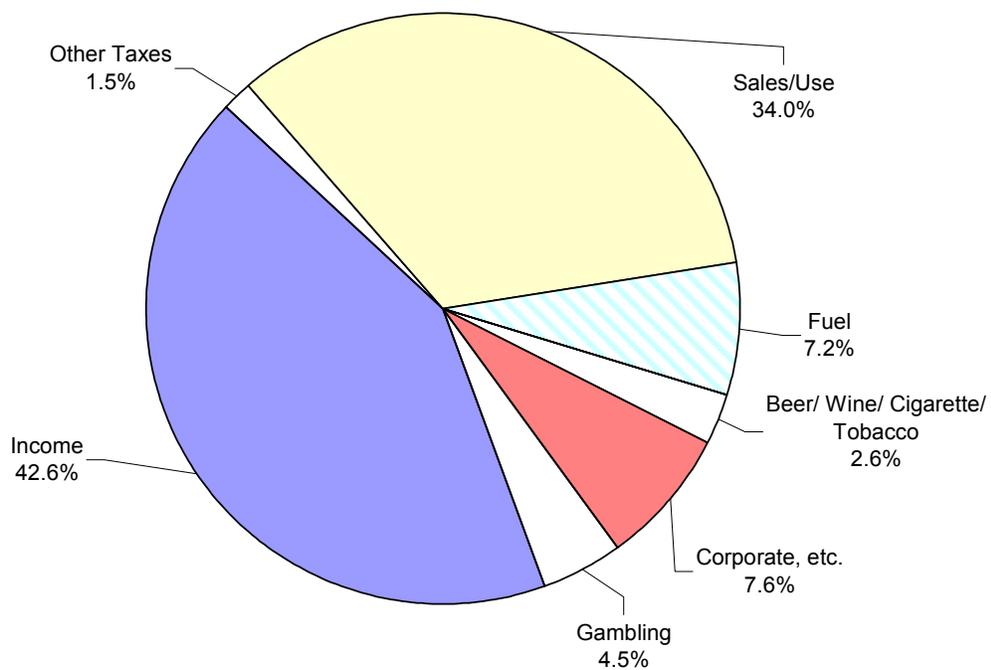
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending July 2007

Net Revenue = \$6.275 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

<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 July 2007</b>	<b>Month of July 2008</b>	<b>July \$ Change</b>	<b>July % Change</b>
Banking	\$ 32.8	\$ 33.5	\$ 0.7	2.1%	\$ 2.6	\$ 2.0	\$ -0.6	-23.1%
Beer & Wine	20.2	20.7	0.5	2.5%	1.9	1.9	0.0	0.0%
Cigarette & Tobacco	145.9	255.0	109.1	74.8%	19.8	24.6	4.8	24.2%
Corporate Income	340.7	350.6	9.9	2.9%	32.7	11.4	-21.3	-65.1%
Fuel	449.8	442.5	-7.3	-1.6%	42.1	7.4	-34.7	-82.4%
Gambling	279.3	298.3	19.0	6.8%	17.9	19.7	1.8	10.1%
Individual Income	2,672.4	2,870.3	197.9	7.4%	183.3	196.4	13.1	7.1%
Inheritance	75.1	76.7	1.6	2.1%	6.9	6.2	-0.7	-10.1%
Insurance	104.8	112.5	7.7	7.3%	1.0	1.9	0.9	90.0%
Other Taxes	2.3	-6.8	-9.1	-395.7%	1.5	0.4	-1.1	-73.3%
Real Estate Transfer	18.3	17.1	-1.2	-6.6%	2.0	1.6	-0.4	-20.0%
Sales/Use	2,133.2	2,234.1	100.9	4.7%	127.4	117.0	-10.4	-8.2%
<b>Total Net Taxes</b>	<b>\$ 6,274.8</b>	<b>\$ 6,704.5</b>	<b>\$ 429.7</b>	<b>6.8%</b>	<b>\$ 439.1</b>	<b>\$ 390.5</b>	<b>\$ -48.6</b>	<b>-11.1%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 6,927.2	\$ 7,430.8	\$ 503.6	7.3%	\$ 462.5	\$ 422.7	\$ -39.8	-8.6%
Tax Refunds	\$ -652.3	\$ -726.3	\$ -74.0	11.3%	\$ -23.3	\$ -32.2	\$ -8.9	38.2%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,316.5	\$ 5,740.0	\$ 423.5	8.0%	\$ 363.4	\$ 350.7	\$ -12.7	-3.5%
Road Use Tax Fund	\$ 700.3	\$ 703.5	\$ 3.2	0.5%	\$ 67.0	\$ 30.8	\$ -36.2	-54.0%
Non-GF Gambling	\$ 220.1	\$ 236.4	\$ 16.3	7.4%	\$ 6.0	\$ 7.8	\$ 1.8	30.0%
Other State Funds	\$ 38.0	\$ 24.6	\$ -13.4	-35.3%	\$ 2.8	\$ 1.2	\$ -1.6	-57.1%
<b>Local Option Taxes *</b>	<b>\$ 661.8</b>	<b>\$ 724.4</b>	<b>\$ 62.6</b>	<b>9.5%</b>	<b>\$ 50.1</b>	<b>\$ 65.7</b>	<b>\$ 15.6</b>	<b>31.1%</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.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All Corporate Tax is deposited to the State General Fund.

**Motor Vehicle Fuel Tax:** All Motor Vehicle Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited 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 Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

**Individual Income Tax:** Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). 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 to a State fund. That revenue is not included here.

**Inheritance Tax:** All Inheritance Tax is deposited to the State General Fund.

**Insurance Premium Tax:** All Insurance Premium Tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include Brucellosis Eradication Property Tax (deposited to 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 a separate account to fund tax collection activities (tax gap).

**Real Estate Transfer Tax:** Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund.

**Sales/Use Tax:** General Sales/Use Tax is deposited to the State General Fund, while most Vehicle Use Tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle Use Tax is deposited to the Underground Storage Tank Program.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include School Infrastructure Local Option Sales Tax (SILO), Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax.

## 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.