

MEMORANDUM

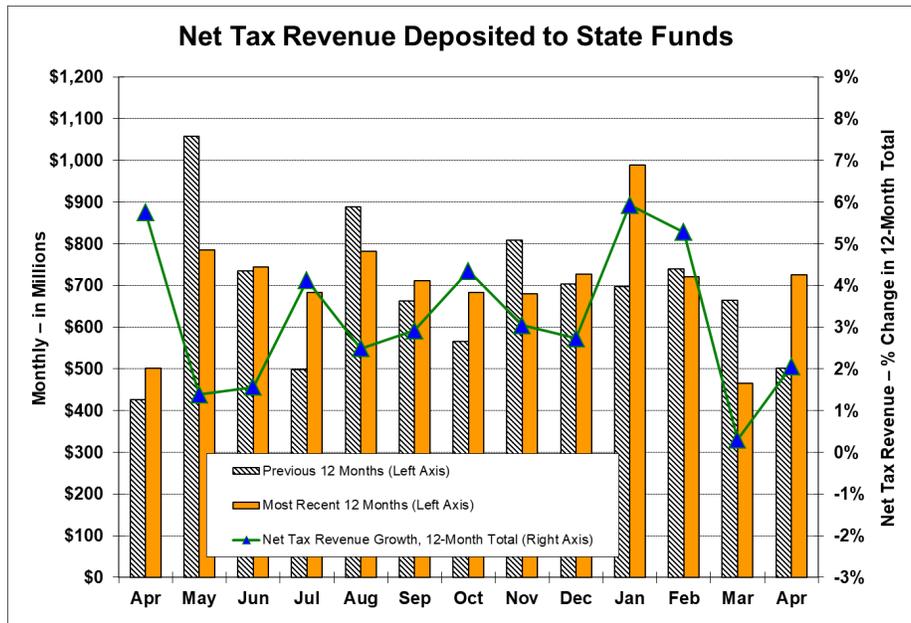
TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: May 23, 2018

Twelve-Month Total Net Tax Receipts Through April 30, 2018

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending April 30, 2018, with comparisons to the previous 12 months. April 2017 to April 2018 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 revenue totaled \$725.7 million for April 2018, an increase of \$225.0 million (44.9%) compared to the previous April. Over the most recent 12 months, net tax revenue increased \$175.5 million (2.1%). Taxpayer reaction to recent federal tax law changes, differences in withholding and sales/use tax deposit dates, and a different timetable for the issuance of income tax refunds have all contributed to recent month-to-month variability in net tax deposits.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending April 30, 2018, net revenue from all taxes deposited to State funds totaled \$8.695 billion, an increase of \$175.5 million (2.1%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$50.2 million, -1.3%) – Changes in the timing of tax refund processing over the past two years has altered the individual income tax net revenue stream, and this has caused significant swings in the annual growth calculation.
- Corporate Income Tax (positive \$80.4 million, 21.2%) – After being generally down year-over-year for the months of October 2015 through May 2017, annual growth in corporate income tax revenue turned positive this past June.
- Sales/Use Tax (positive \$124.0 million, 4.6%) – Sales/use net tax growth breakdown for the most recent 12 months:
 - Gross tax receipts from the sale of vehicles (deposited to the Road Use Tax Fund) increased \$2.1 million (0.5%).
 - Sales/use tax deposited to other State funds, mainly the Flood Mitigation Fund, increased \$3.8 million.
 - Sales/use tax deposited to the State General Fund increased \$148.0 million (5.2%).
 - Refunds of State General Fund sales/use tax payments increased \$40.6 million.
 - Sales tax payments to the school infrastructure account (recorded as tax refunds) decreased \$10.7 million.
- Bank Franchise Tax (negative \$4.5 million, -11.8%) – Over the most recent 12 months, tax deposits decreased \$3.0 million, while tax refunds increased \$1.5 million.
- Fuel Tax (positive \$36.8 million, 5.4%) – According to Department of Revenue monthly fuel sales [reports](#), the total gallons¹ subject to fuel tax increased 1.5% over the most recent 12-month period. The numbers of gross taxable gallons sold over the most recent 12 months, along with the percentage change when compared to the previous 12 months, are as follows:
 - Unblended gasoline,² 619.0 million gallons, 1.5%.
 - Gasoline blended with ethanol, 1.144 billion gallons, -1.8%.
 - Diesel, including biodiesel blends, 725.0 million gallons, 3.0%.
 - Aviation, jet, and other, 46.6 million gallons, 3.5%.
- Gambling Tax (positive \$2.9 million, 1.0%) – According to Racing and Gaming Commission statistics, 11 of Iowa's 19 State-regulated casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending April 30, 2018. The combined AGR change for the 19 facilities was positive 0.9% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.460 billion, an amount that is 0.7% below the annual AGR peak (December 2012).
- Real Estate Transfer Tax (positive \$0.5 million, 2.3%).
- Cigarette and Tobacco Tax (negative \$13.1 million, -5.8%).

¹ Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.535 billion 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 Department's monthly report.

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

Tax Spotlight — Cigarette Tax and Tobacco Tax

Tobacco products are taxed under the authority of Iowa Code chapter [453A](#). Based on law changes enacted in 2007:

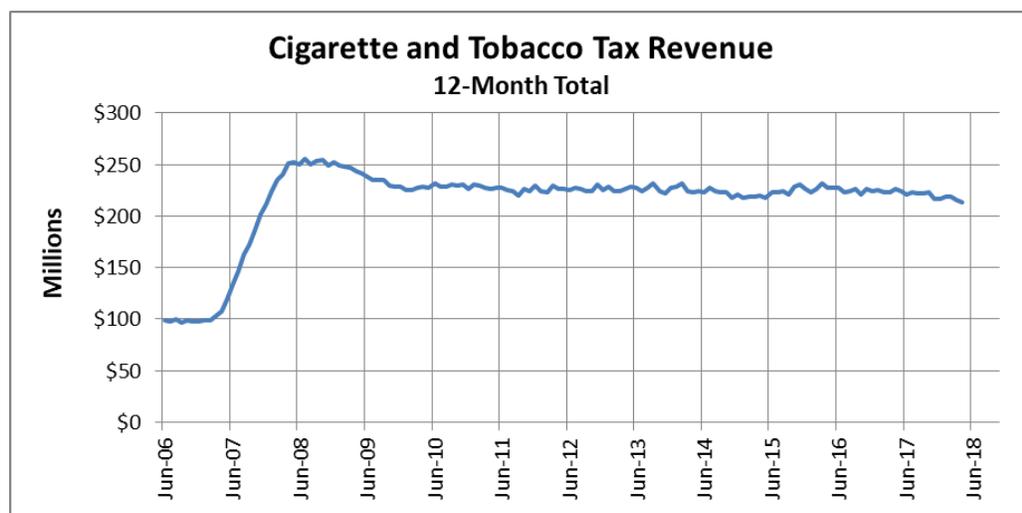
- Cigarettes and little cigars are taxed at \$0.068 per cigarette (\$1.36 per pack of 20).
- Snuff is taxed at \$1.19 per ounce.
- Cigars are taxed at 50.0% of the wholesale price, not to exceed \$0.50 per cigar.
- All other tobacco products are taxed at 50.0% of the wholesale price.
- Effective July 1, 2012, in addition to the tobacco tax of 50.0% of the wholesale price, roll-your-own (RYO) cigarettes are taxed at \$0.0306 per cigarette (\$0.65 per pack of 20).
- Iowa cigarette and tobacco taxes do not apply to electronic cigarettes. Sales of alternative nicotine and vapor products are subject to the sales/use tax.

The Iowa cigarette tax was first enacted at a rate of \$0.02 per pack of 20 cigarettes ([HF 678](#), Cigarette Tax Act of 1921). The cigarette tax rate was increased periodically, and reached \$0.34 per pack in 1988. In 1989 the tax was lowered to \$0.31 per pack, and then increased in 1991 to \$0.36 per pack. The current \$1.36 State tax rates went into effect on March 16, 2007.

The tobacco tax was enacted in 1967 at a rate of 10.0% of the wholesale price ([HF 702](#), Tax Modification Act of 1967). The tax was increased to 15.0% in 1985, 19.0% in 1988, and 22.0% in 1991. The rate stood at 22.0% of the wholesale price until the 2007 Legislative Session.

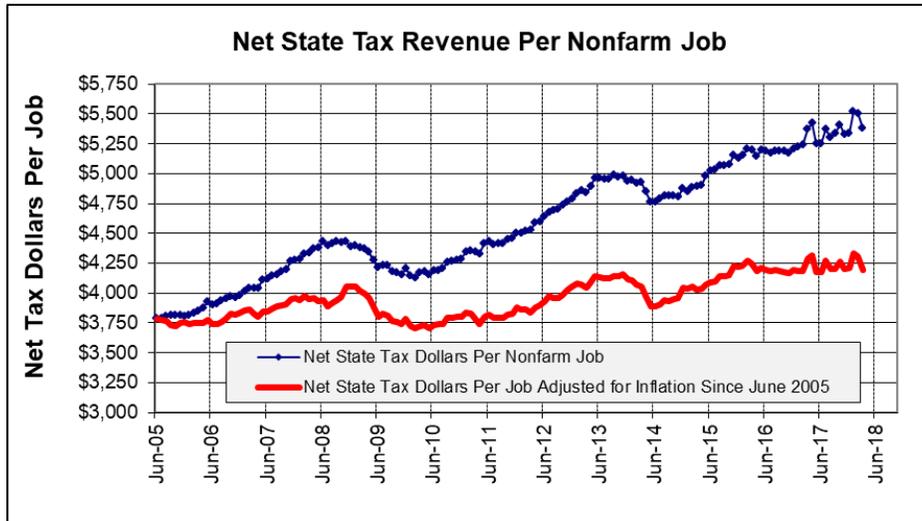
The tax imposed on cigarettes must be paid by the person making the first sale in Iowa. Cigarette stamps affixed to the package indicate the tax has been paid. Cigarette tax returns are to be filed by the holder of a permit by the tenth day of each month for the preceding calendar month. Tobacco (other than cigarette) tax returns must be filed by the twentieth day of each month for the preceding calendar month. Beginning with FY 2014, all cigarette and tobacco tax revenue is deposited into the [Health Care Trust Fund](#).

The following chart depicts Iowa cigarette and tobacco tax revenue deposited to all funds, on a 12-month moving total basis.

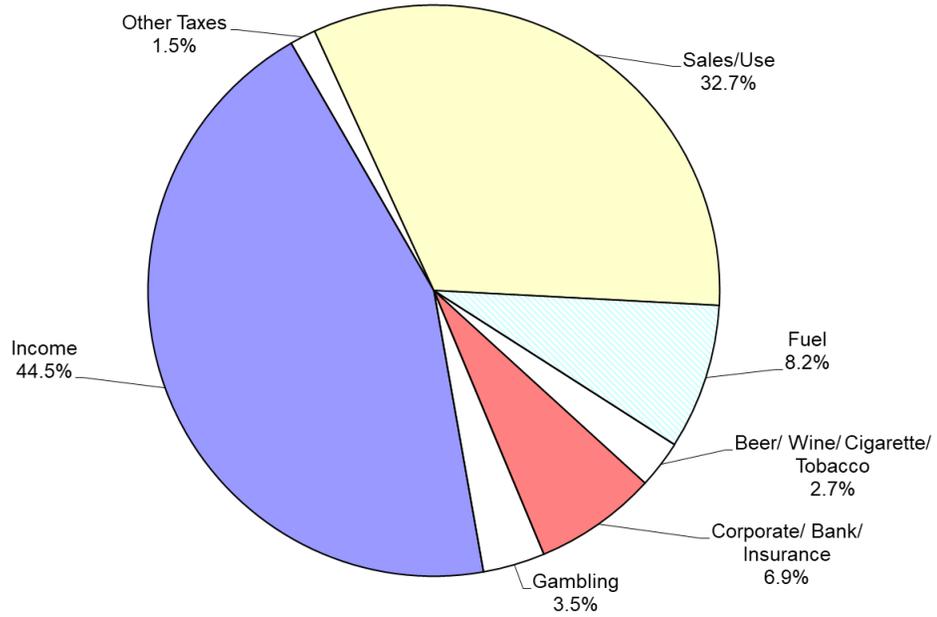


Tax Revenue and Employment

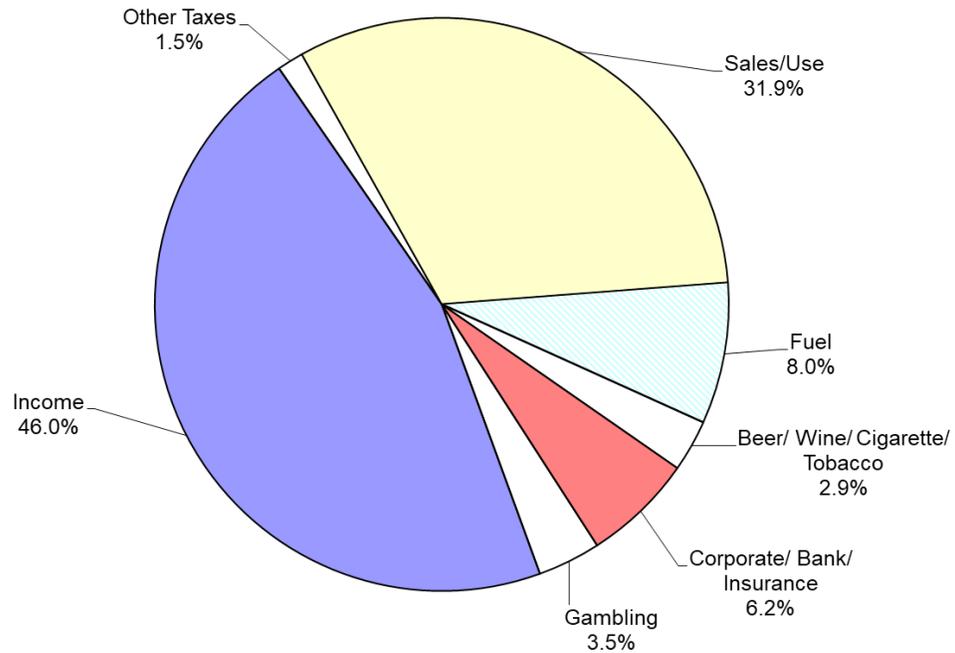
The average reading for Iowa nonfarm employment over the 12 months ending March 2018 is 1,575,200, and net State tax receipts over the same 12 months totaled \$8.470 billion, or \$5,377 per nonfarm job. This is \$1,592 higher than the per-job average for the 12 months ending June 2005. The blue (upper) line on the following chart 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 \$406 since June 2005, and the remainder of the \$1,592 increase (\$1,186) represents the impact of inflation. Note that the recent variability in both lines displayed in the following chart is due to changes in State procedures related to tax refunds and to tax deposit dates. The variability is not due to any tax changes or differences in taxpayer behavior.



Net State Tax Revenue – Twelve Months Ending April 2018
Net Revenue = \$8.695 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue – Twelve Months Ending April 2017
Net Revenue = \$8.520 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 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of April 2017	Month of April 2018	April \$ Change	April % Change
Banking	\$ 38.0	\$ 33.5	\$ - 4.5	-11.8%	\$ 10.4	\$ 5.5	\$ - 4.9	-47.1%
Beer & Wine	22.4	22.3	- 0.1	-0.4%	1.7	1.6	- 0.1	-5.9%
Cigarette & Tobacco	226.2	213.1	- 13.1	-5.8%	17.6	15.5	- 2.1	-11.9%
Corporate Income	378.6	459.0	80.4	21.2%	61.4	104.1	42.7	69.5%
Fuel	679.1	715.9	36.8	5.4%	28.5	73.8	45.3	158.9%
Gambling	302.1	305.0	2.9	1.0%	24.8	29.1	4.3	17.3%
Individual Income	3,915.5	3,865.3	- 50.2	-1.3%	195.2	279.7	84.5	43.3%
Inheritance	84.9	81.7	- 3.2	-3.8%	3.8	6.7	2.9	76.3%
Insurance	113.5	111.3	- 2.2	-1.9%	0.0	0.2	0.2	--
Other Taxes	19.5	23.7	4.2	21.5%	- 0.6	- 0.6	0.0	--
Real Estate Transfer	22.0	22.5	0.5	2.3%	2.0	2.0	0.0	0.0%
Sales/Use	2,718.1	2,842.1	124.0	4.6%	155.9	208.1	52.2	33.5%
Total Net Taxes	\$ 8,519.9	\$ 8,695.4	\$ 175.5	2.1%	\$ 500.7	\$ 725.7	\$ 225.0	44.9%
Gross Tax & Refunds								
Gross Tax	\$ 9,926.9	\$ 10,427.4	\$ 500.5	5.0%	\$ 841.8	\$ 1,067.1	\$ 225.3	26.8%
Tax Refunds	\$ - 1,407.0	\$ - 1,732.2	\$ - 325.2	23.1%	\$ - 341.2	\$ - 341.4	\$ - 0.2	0.1%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 6,867.9	\$ 7,009.9	\$ 142.0	2.1%	\$ 394.1	\$ 573.9	\$ 179.8	45.6%
Road Use Tax Fund	\$ 1,063.2	\$ 1,102.8	\$ 39.6	3.7%	\$ 63.5	\$ 106.6	\$ 43.1	67.9%
Non-GF Gambling	\$ 300.4	\$ 303.3	\$ 2.9	1.0%	\$ 24.7	\$ 29.0	\$ 4.3	17.4%
Other State Funds	\$ 288.5	\$ 279.3	\$ - 9.2	-3.2%	\$ 18.3	\$ 16.1	\$ - 2.2	-12.0%
Local Option Taxes *	\$ 945.7	\$ 948.6	\$ 2.9	0.3%	\$ 89.8	\$ 95.4	\$ 5.6	6.2%

* Sales, income surtax, hotel/motel, and flood mitigation. 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 State 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 98.5% of the revenue and the credit union tax provides 1.5%.

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 product tax revenue was deposited in the State 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 State General Fund. Beginning with FY 2014, all cigarette and tobacco tax revenue is deposited in the Health Care Trust 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. Beginning with FY 2014, the State no longer deposits gambling tax revenue to the State General Fund. Funds receiving deposits of gambling tax revenue over the last 24 months include the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, and the Iowa Skilled Worker and Job Creation Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) 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 revenue type, 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, 65.0% is deposited in the State General Fund, 30.0% in the Housing Trust Fund, and 5.0% in 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. Beginning FY 2014, a portion of State sales/use tax revenue is deposited in a new Sales Tax Increment Fund and used for local flood mitigation projects.

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 1.0% statewide tax and 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. Flood mitigation sales tax increment transfers to local governments were added beginning July 2014.

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.