

## MEMORANDUM

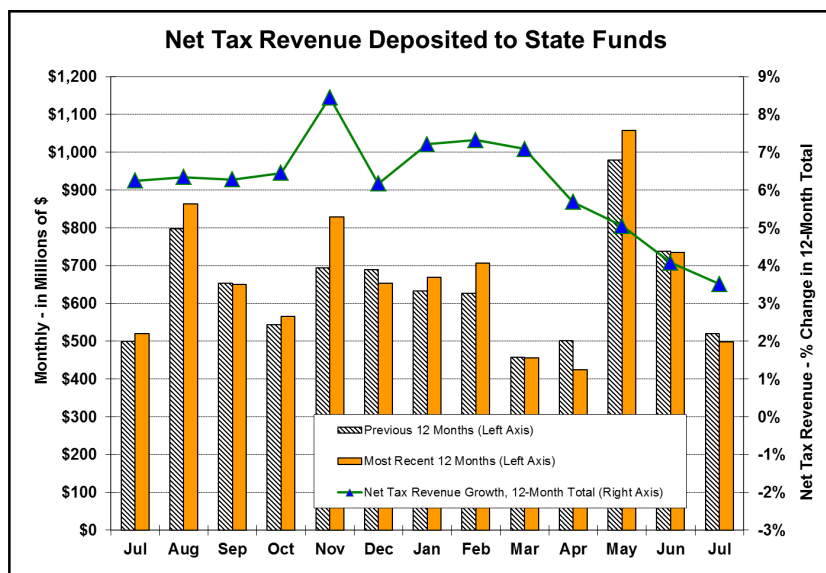
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: August 25, 2016

### Twelve-Month Total Net Tax Receipts Through July 31, 2016

The attached spreadsheet presents net tax revenue deposited to state funds for the 12-month period ending July 2016 with comparisons to the previous 12 months. July 2015 to July 2016 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

Tax revenue growth for the month of July was negative, although much of the decrease was the result of the month ending on a weekend. Large corporate and bank franchise tax refunds also weighed on the month's net revenue. The 12-month revenue rate of increase continues to decline, and has dropped from 7.8% in February to 3.5% in July. Going forward, the rate of tax revenue growth may continue to slow as the one-year anniversary of the fuel tax increase has passed.

## Month of July 2016

July 2016 net tax receipts totaled \$497.5 million, a decrease of \$22.9 million (-4.4%) compared to July 2015. Due mainly to large tax refunds issued this month, corporate and bank franchise tax net revenue declined a combined \$19.9 million. The decrease in sales/use tax net deposits was the result of July 2016 ending on a weekend. Individual income tax net deposits increased 5.9% in July.

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

During the 12-month period ending July 2016, net revenue from all taxes deposited to state funds totaled \$8.108 billion, an increase of \$275.1 million (3.5%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$88.5 million, 2.6%) – The processing of tax year 2015 income tax returns significantly lowered the annual individual income tax revenue growth rate. One year ago, annual individual income tax growth equaled \$259.1 million and 8.1%.
- Corporate Income Tax (negative \$75.5 million, -16.6%) – Monthly net corporate income tax revenue has been negative in five of the past seven months.
- Sales/Use Tax (positive \$91.0 million, 3.5%) – Sales/use 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 \$14.7 million (4.1%).
  - Sales tax deposited to other state funds, mainly the Flood Mitigation Fund, increased \$10.7 million.
  - Sales/use tax deposited to the State General Fund increased \$40.0 million (1.5%).
  - Refunds of General Fund sales/use tax payments, including the payments to local school districts for school infrastructure, decreased \$25.6 million.
- Bank Tax (positive \$2.1 million, 5.3%) – Over the most recent 12 months, tax deposits increased \$0.8 million, while tax refunds decreased \$1.3 million.
- Fuel Tax (positive \$157.3 million, 30.9%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 1.0%, and taxable diesel sales decreased 0.9%. The combination of gasoline and diesel taxable fuel gallons increased 0.4% over the period. Due to the Iowa gas tax increase (effective March 1, 2015), fuel tax net deposits increased 30.9% over the past 12 months.
- Gambling Tax (positive \$1.7 million, 0.6%) – According to Racing and Gaming Commission statistics, 11 Iowa casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending July 2016. The combined AGR change for the 19 facilities was positive 1.4% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.443 billion, an amount that is 1.8% below the annual AGR peak (December 2012).
- Insurance Premium Tax (positive \$5.7 million, 5.1%)
- Real Estate Transfer Tax (positive \$1.4 million, 7.2%)
- Cigarette and Tobacco Tax (negative \$0.6 million, -0.3%)

## Tax Spotlight – Motor Vehicle Fuel Tax

Motor vehicle fuel is taxed under [Iowa Code chapter 452A](#). The tax is imposed on each gallon of fuel sold in Iowa for use in most motor vehicles and aircraft. Tax rates for July 1, 2016, through June 30, 2017, are:

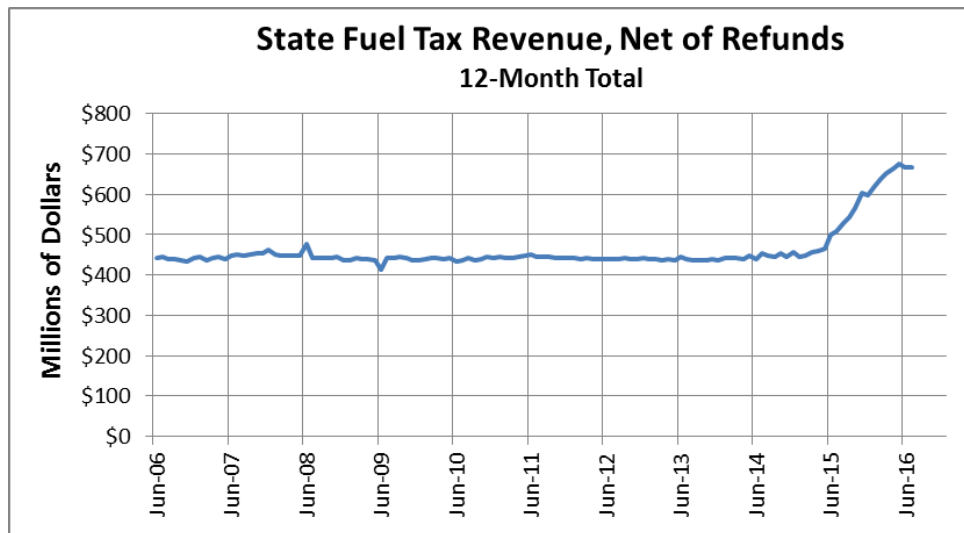
- Gasoline – \$0.307 per gallon
- Ethanol Blended Gasoline – \$0.290 per gallon
- E-85 – \$0.290 per gallon
- Aviation Gasoline – \$0.080 per gallon
- Diesel Fuel (including biodiesel B10 and lower) – \$0.325 per gallon
- Diesel Fuel (biodiesel B11 and higher) – \$0.295 per gallon
- Liquefied Petroleum Gas (LPG) – \$0.300 per gallon
- Aviation Jet Fuel – \$0.050 per gallon
- Compressed Natural Gas – Taxed on a gasoline gallon equivalent basis designed to equal \$0.310 per gallon
- Liquefied Natural Gas – Taxed on a diesel gallon equivalent basis designed to equal \$0.325 per gallon

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

The Iowa motor fuel tax was imposed in 1925 in SF 312 (Gasoline License Fee Act) at a rate of \$0.02 per gallon. The tax rates for gasoline and diesel fuel have increased periodically since enactment. Effective March 1, 2015, tax rates were increased to the present rates ([SF 257](#), Transportation Funding Act of 2015).

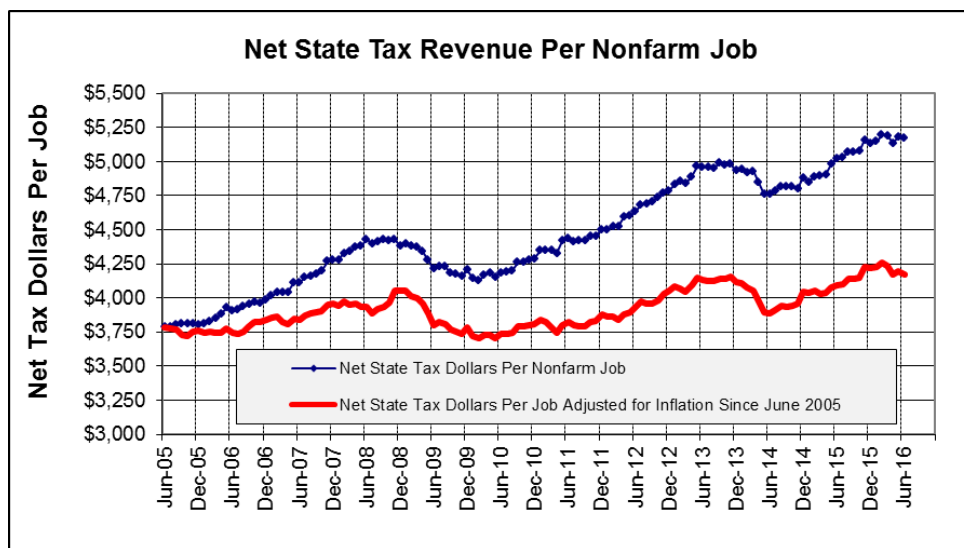
House File 716 (Ethanol Blended Gasoline and Related Taxes Act of 2001) established a motor vehicle fuel tax schedule. Within an allowed tax rate range, the Department of Revenue establishes the per-gallon tax rate on gasoline and ethanol blended gasoline based on the tax schedule. The market share of ethanol blended gasoline during a calendar year determines the tax rate on gasoline and ethanol blended gasoline for the following fiscal year. The use of the tax schedule was scheduled to sunset after FY 2007; however, the General Assembly has extended the use of the tax schedule several times.

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 credited to the State Aviation Fund ([Iowa Code chapter 452A.82](#)). Beginning in FY 2008, tax receipts from the sale of gasoline used in water craft have been deposited in the Marine Fuel Tax Fund ([Iowa Code chapter 452A.84](#)). The remainder of the motor fuel tax revenue is credited to the Road Use Tax Fund.



## Tax Revenue and Employment

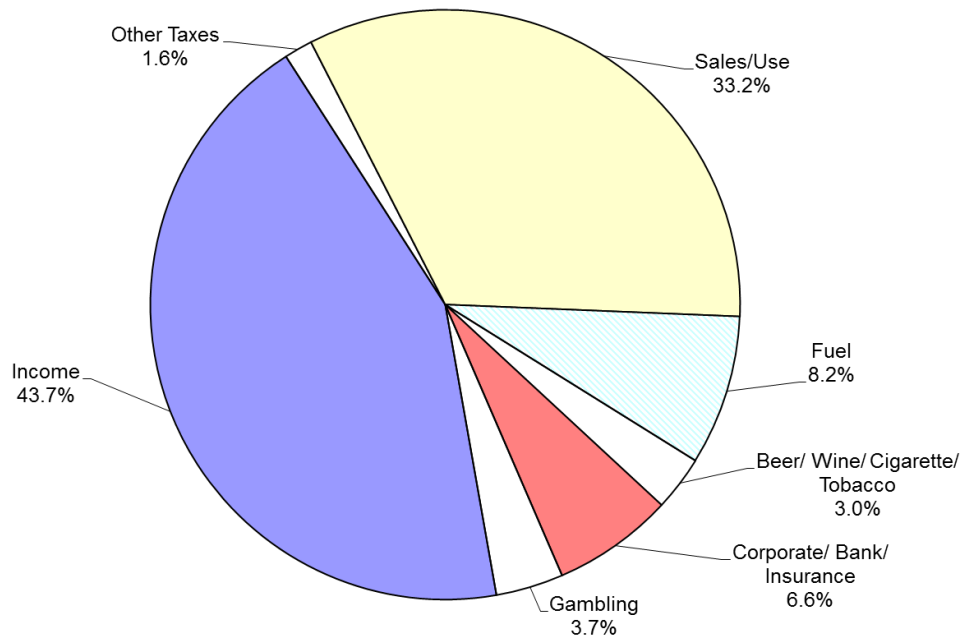
The average reading for Iowa nonfarm employment over the 12 months ending June 2016 is 1,572,300, and net state tax receipts over the same 12 months totaled \$8.131 billion, or \$5,171 per nonfarm job. This is \$1,386 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the state per job, calculated monthly. The red line 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 \$388 since June 2005, and the remainder of the \$1,386 increase (\$998) represents the impact of inflation.



## Net State Tax Revenue - Twelve Months Ending July 2016

**Net Revenue = \$8.108 Billion**

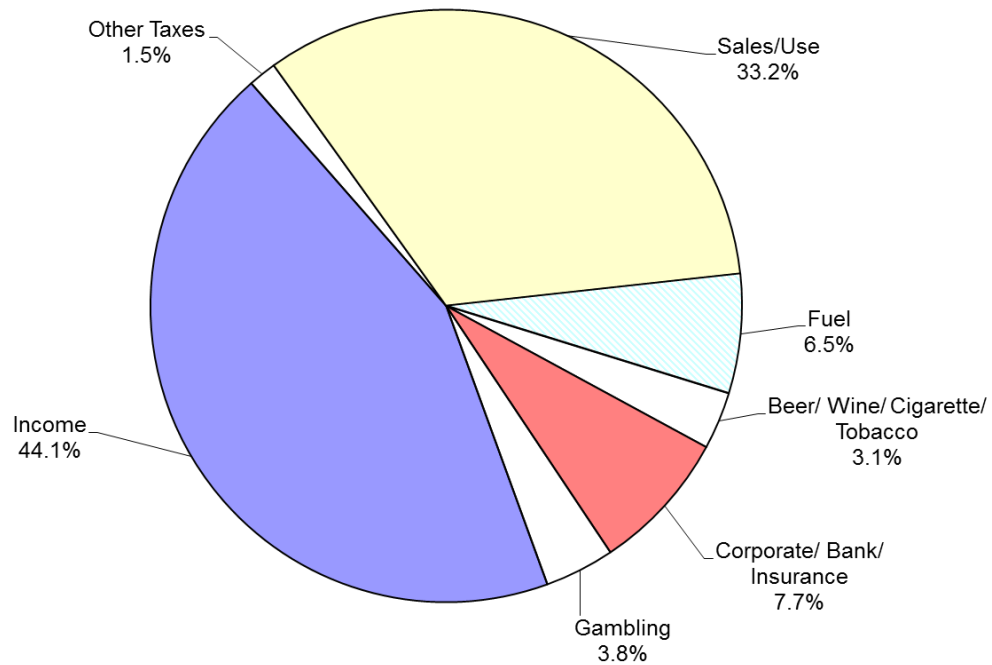
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending July 2015

**Net Revenue = \$7.833 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 2015</b>	<b>Month of July 2016</b>	<b>July \$ Change</b>	<b>July % Change</b>
Banking	\$ 39.4	\$ 41.5	\$ 2.1	5.3%	\$ 2.5	\$ - 2.8	\$ - 5.3	-212.0%
Beer & Wine	22.6	22.3	- 0.3	-1.3%	2.1	2.2	0.1	4.8%
Cigarette & Tobacco	223.1	222.5	- 0.6	-0.3%	20.9	16.2	- 4.7	-22.5%
Corporate Income	454.2	378.7	- 75.5	-16.6%	4.0	- 10.6	- 14.6	-365.0%
Fuel	509.7	667.0	157.3	30.9%	56.9	57.3	0.4	0.7%
Gambling	298.8	300.5	1.7	0.6%	22.2	17.3	- 4.9	-22.1%
Individual Income	3,454.2	3,542.7	88.5	2.6%	232.4	246.1	13.7	5.9%
Inheritance	86.5	90.0	3.5	4.0%	5.8	6.7	0.9	15.5%
Insurance	111.4	117.1	5.7	5.1%	2.9	0.4	- 2.5	-86.2%
Other Taxes	15.3	15.6	0.3	2.0%	- 0.8	- 0.1	0.7	--
Real Estate Transfer	19.4	20.8	1.4	7.2%	2.2	2.3	0.1	4.5%
Sales/Use	2,598.4	2,689.4	91.0	3.5%	169.3	162.5	- 6.8	-4.0%
<b>Total Net Taxes</b>	<b>\$ 7,833.0</b>	<b>\$ 8,108.1</b>	<b>\$ 275.1</b>	<b>3.5%</b>	<b>\$ 520.4</b>	<b>\$ 497.5</b>	<b>\$ - 22.9</b>	<b>-4.4%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 9,331.1	\$ 9,675.0	\$ 343.9	3.7%	\$ 609.4	\$ 594.4	\$ - 15.0	-2.5%
Tax Refunds	\$ - 1,497.9	\$ - 1,566.8	\$ - 68.9	4.6%	\$ - 89.0	\$ - 96.8	\$ - 7.8	8.8%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 6,389.1	\$ 6,480.2	\$ 91.1	1.4%	\$ 386.8	\$ 372.5	\$ - 14.3	-3.7%
Road Use Tax Fund	\$ 873.1	\$ 1,042.0	\$ 168.9	19.3%	\$ 89.9	\$ 90.7	\$ 0.8	0.9%
Non-GF Gambling	\$ 297.1	\$ 298.8	\$ 1.7	0.6%	\$ 22.0	\$ 17.1	\$ - 4.9	-22.3%
Other State Funds	\$ 273.8	\$ 287.2	\$ 13.4	4.9%	\$ 21.7	\$ 17.4	\$ - 4.3	-19.8%
<b>Local Option Taxes *</b>	<b>\$ 943.2</b>	<b>\$ 952.3</b>	<b>\$ 9.1</b>	<b>1.0%</b>	<b>\$ 69.2</b>	<b>\$ 66.4</b>	<b>\$ - 2.8</b>	<b>-4.0%</b>

\* Sales, income surtax, hotel/motel, and flood mitigation. 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 also included in this line. 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 product tax revenue was deposited in the State General Fund. For FY 2012 and FY 2013, the first \$106.0 million of revenue from cigarette and tobacco taxes has been deposited in the Health Care Trust Fund and the remainder is deposited in the State General Fund. Beginning in 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 in 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 Day Care 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 the 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 the state portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% for 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. 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 the SILO tax 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.