

# **Legislative Services Agency Fiscal Services Division**

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## **Revenue Estimating and Revenue Volatility**

March 22, 2017

House Appropriations Committee

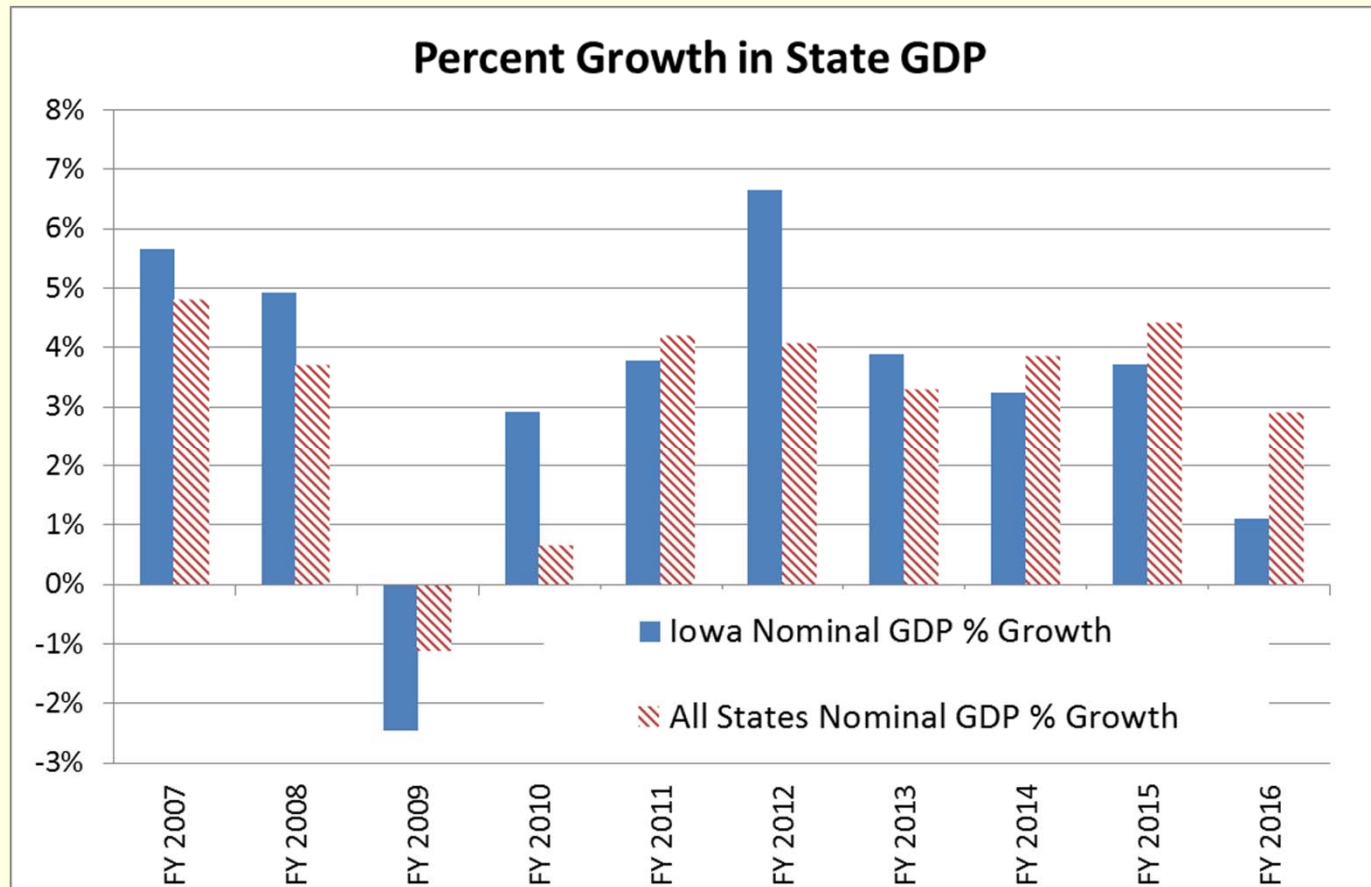
Jeff Robinson, Senior Legislative Analyst

# Challenges to the Revenue Estimating Process

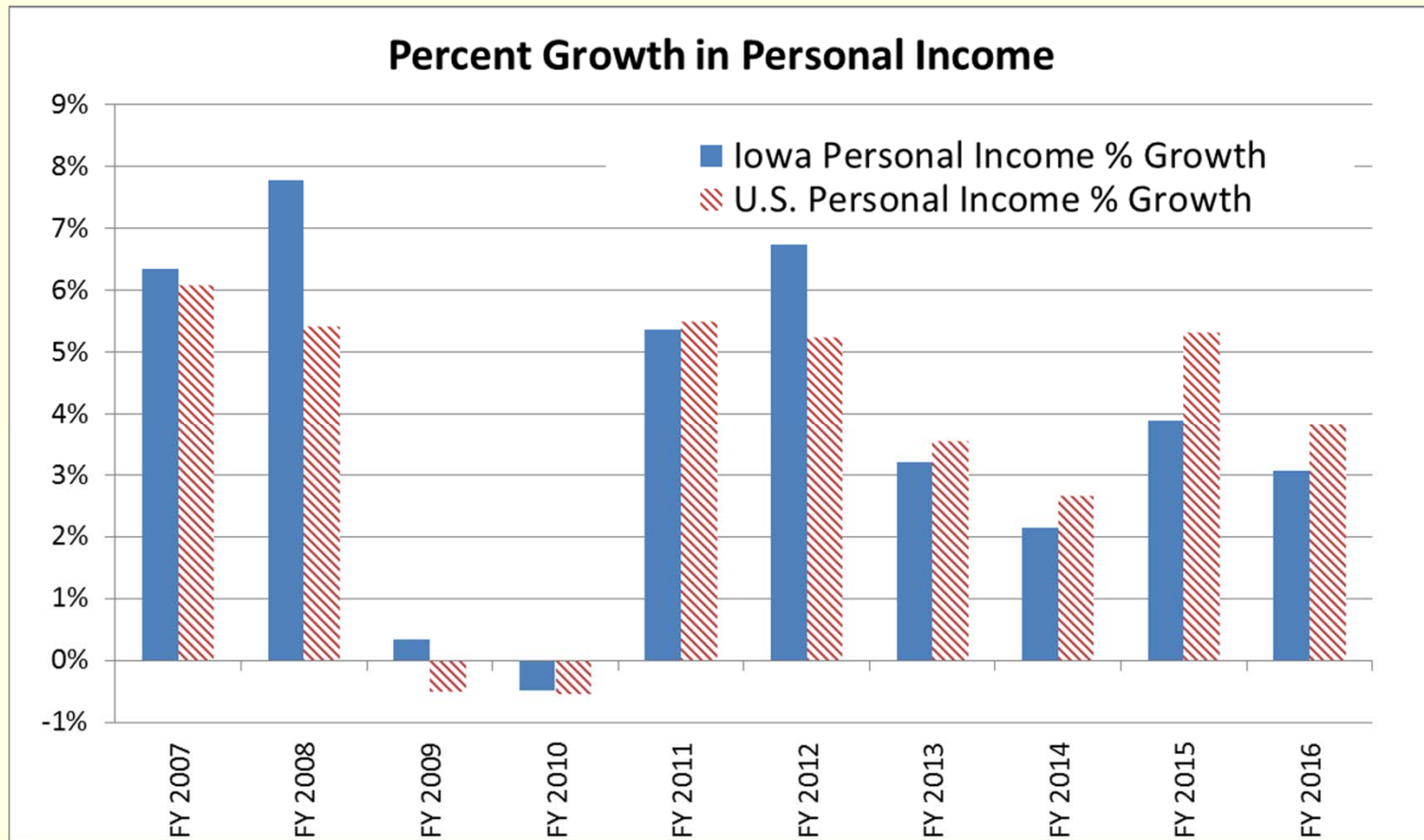
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- **The economic cycle**
- **Federal income tax law changes**
- **State tax law changes**
- **Revenue processing differences**
- **Volatile tax credit redemptions**
- **Paying for programs directly through the revenue stream**
- **High tax rates with a narrow tax base**
- **Economic indicators are not available in a timely manner**
- **Economic indicators are revised**
- **Over-withholding of income taxes. Iowa does not index its income tax withholding tables**

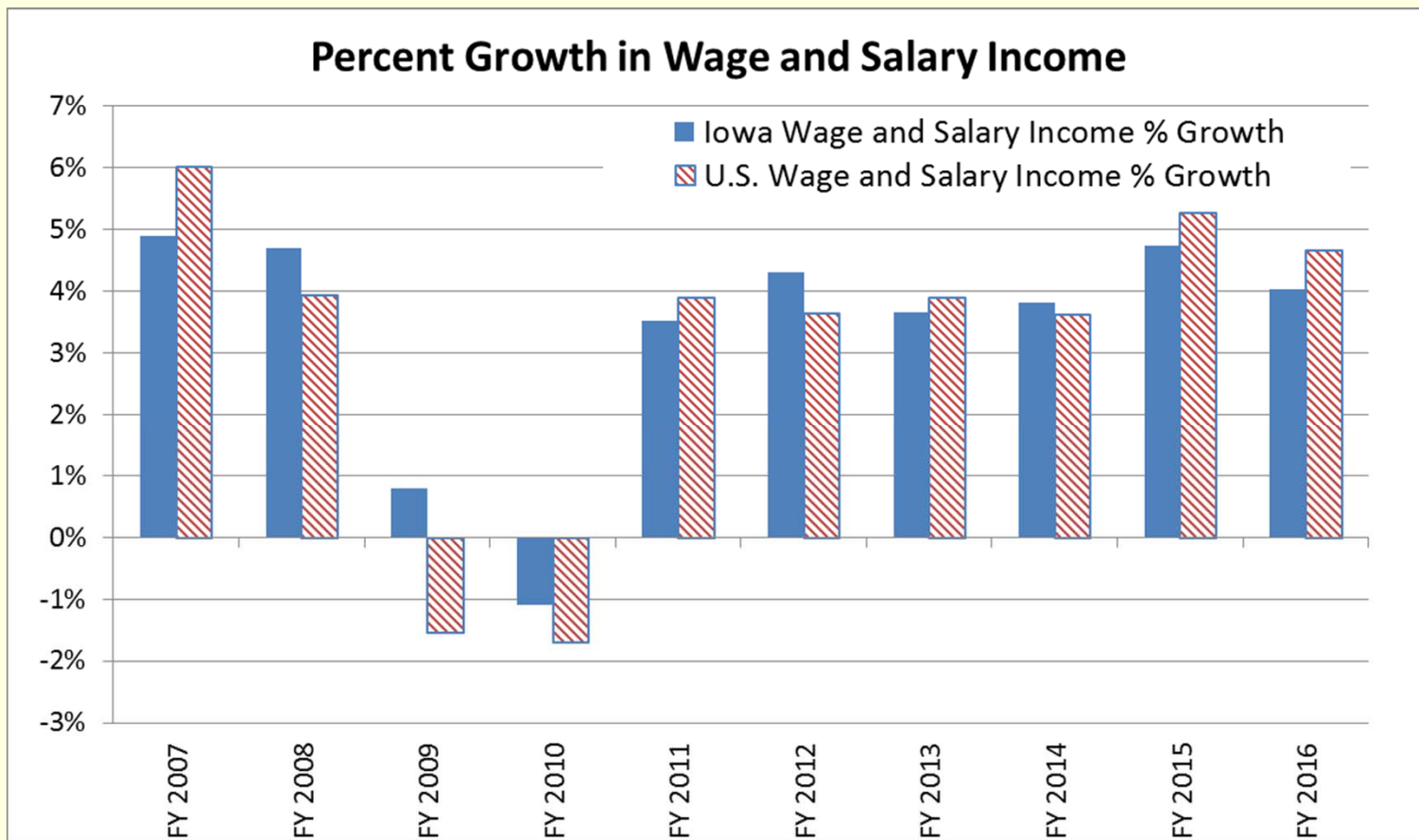
# Iowa Gross State Product (GDP) – Significantly less growth in FY 2016.



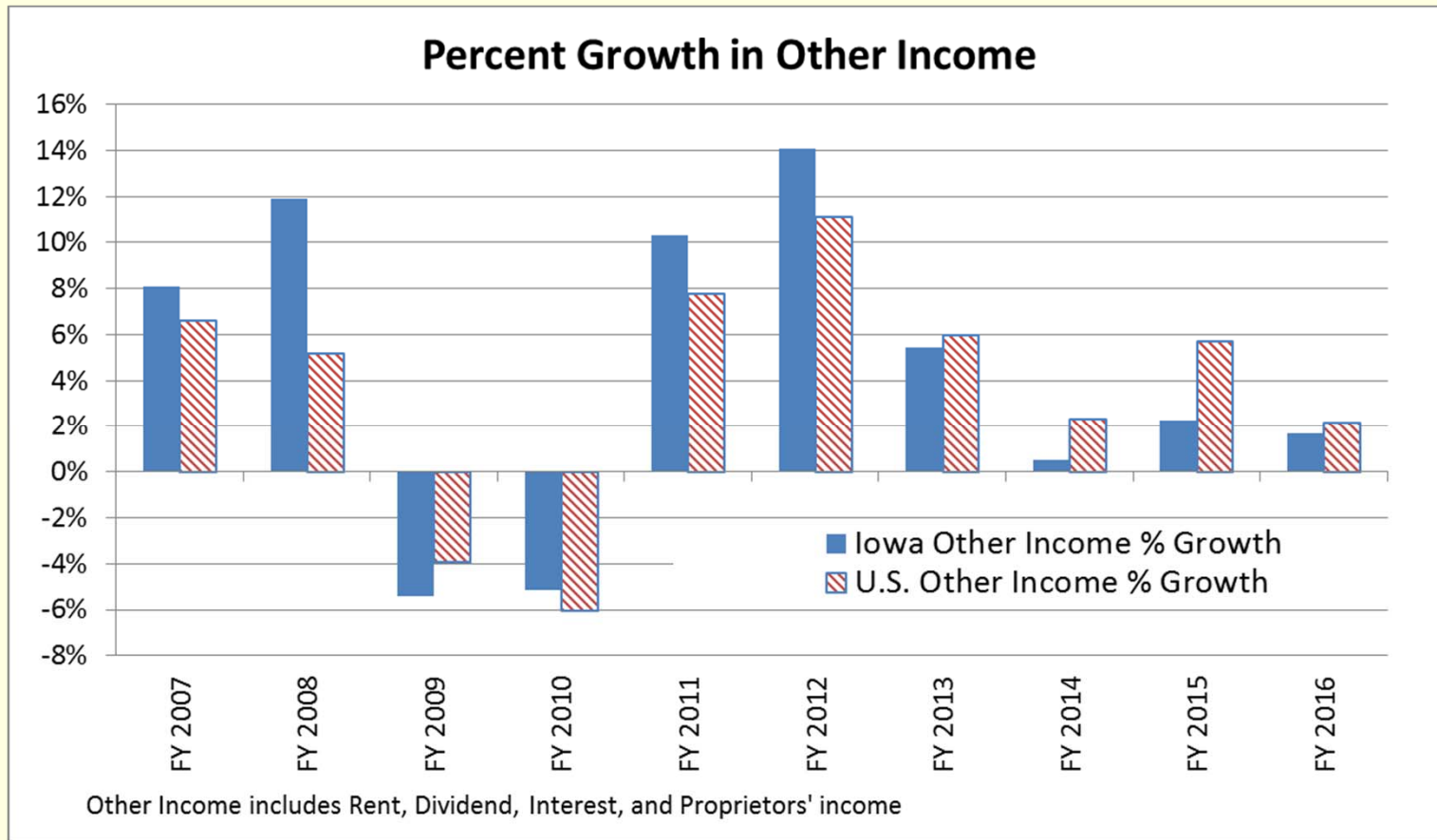
# Iowa Personal Income – Good, but not great growth.



# Iowa Wage and Salary Income – Good growth in FY 2016.



# Iowa Other Income – Recent years have provided little growth.

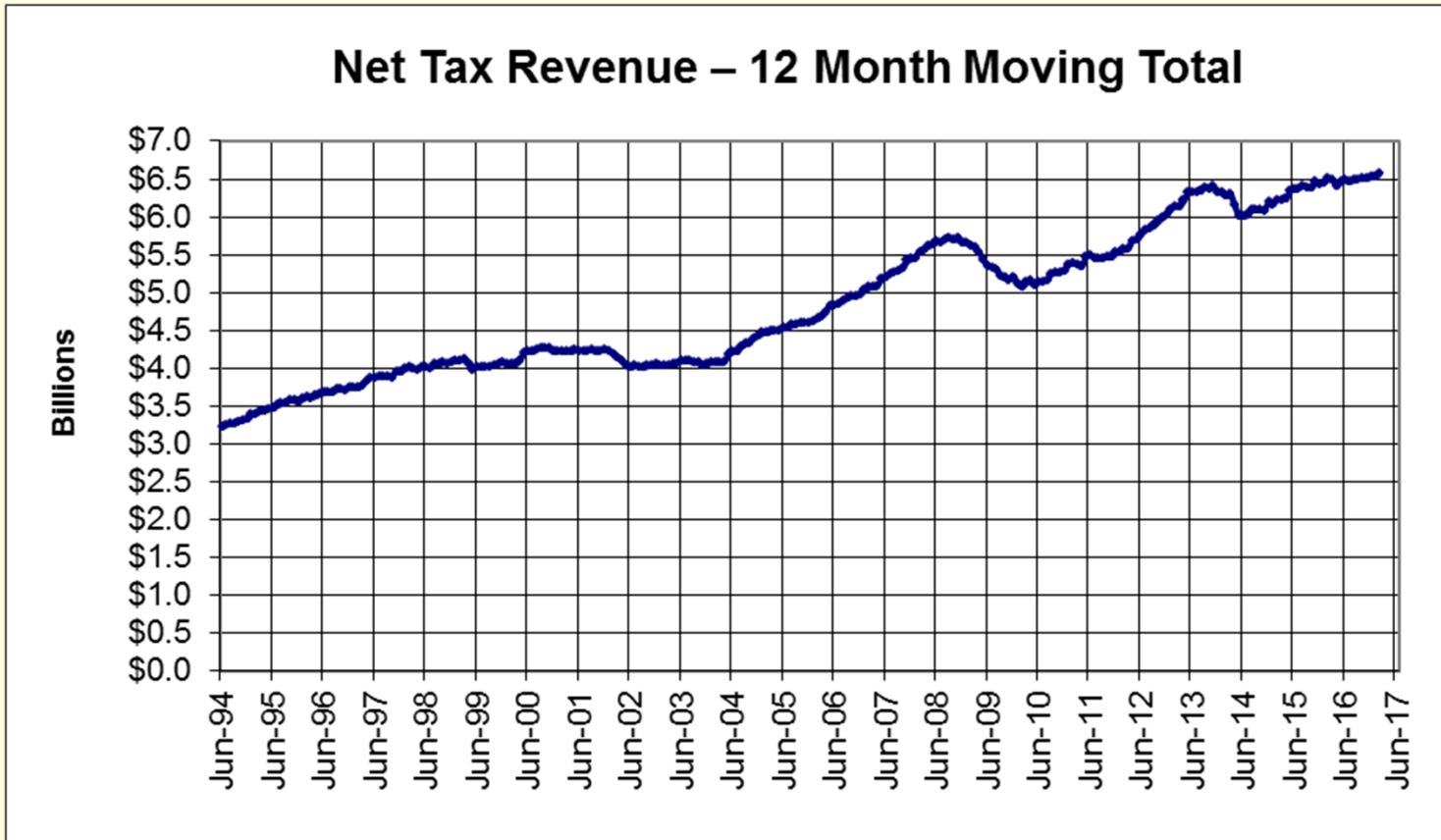


# Background

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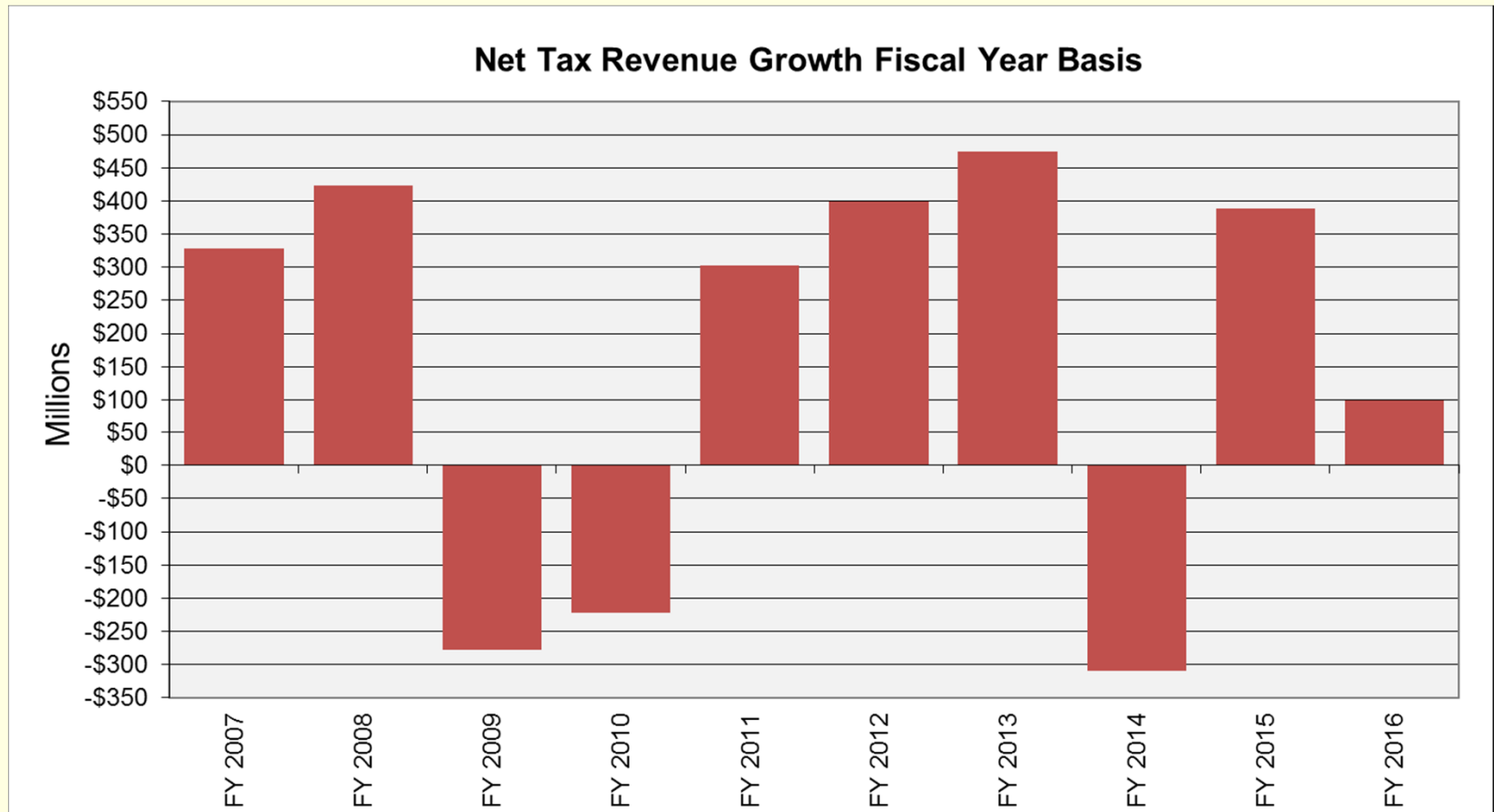
- **All percent growth calculations completed on a four-quarter moving average.**
- **Fiscal years calculated as of the end of the second calendar quarter.**
- **Other income includes rent, interest, dividends, and proprietors' income.**
- **Proprietors' income includes farm income.**
- **Federal personal income statistics do not include capital gains income.**
- **All numbers are subject to future revision by federal agencies.**

# General Fund Net Tax Revenue History

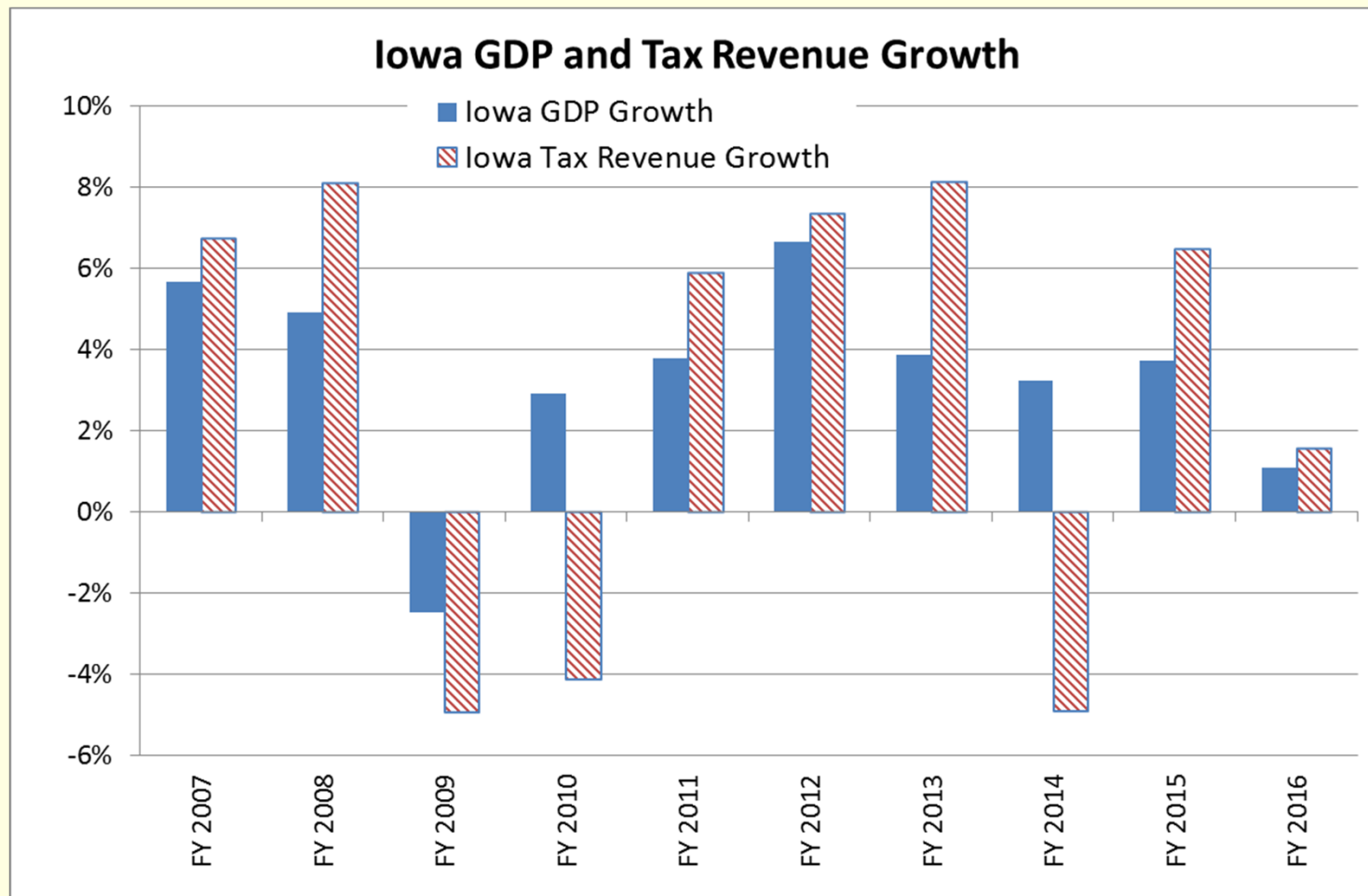




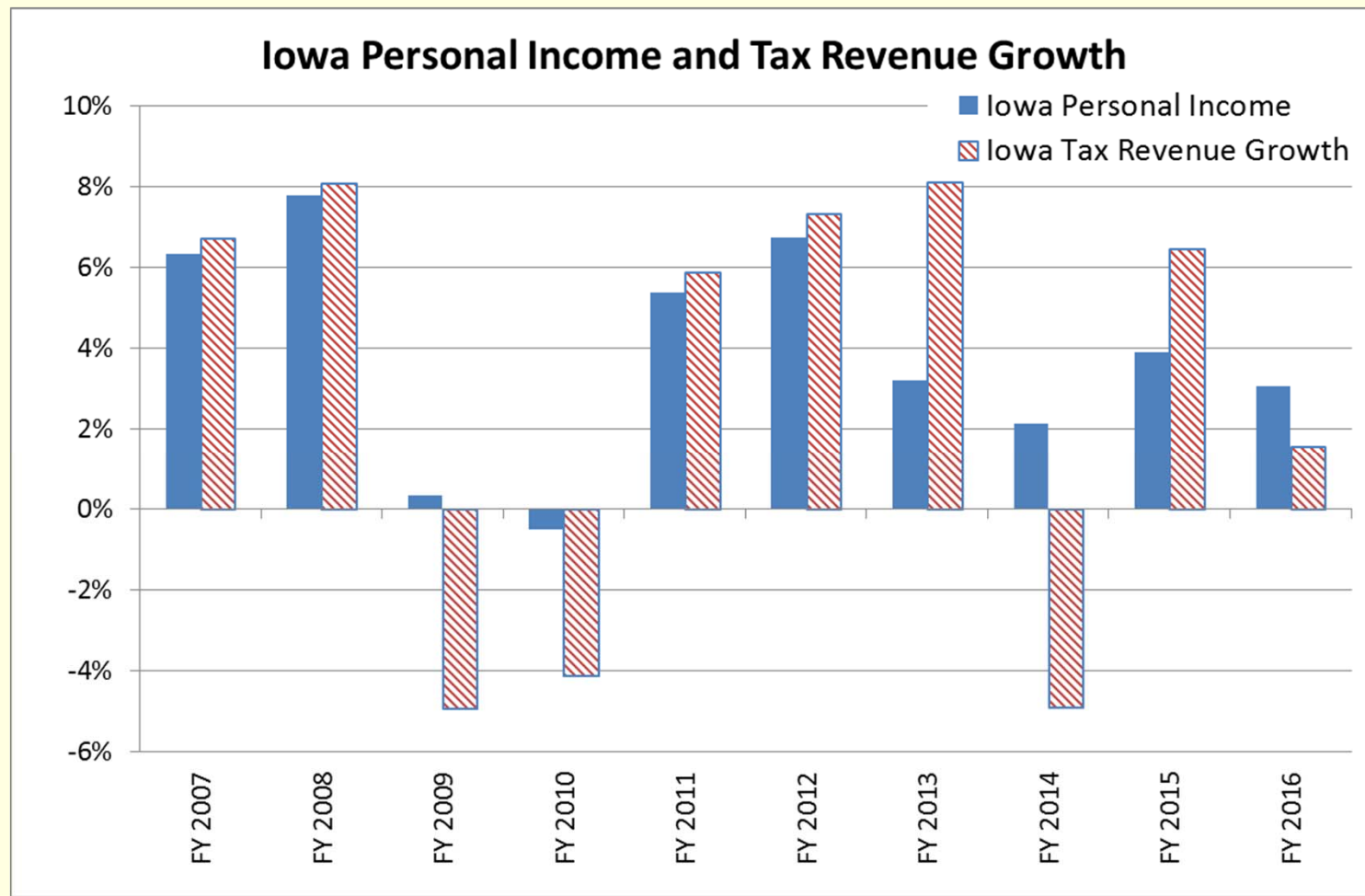
# General Fund Net Tax Revenue – Growth is highly variable.



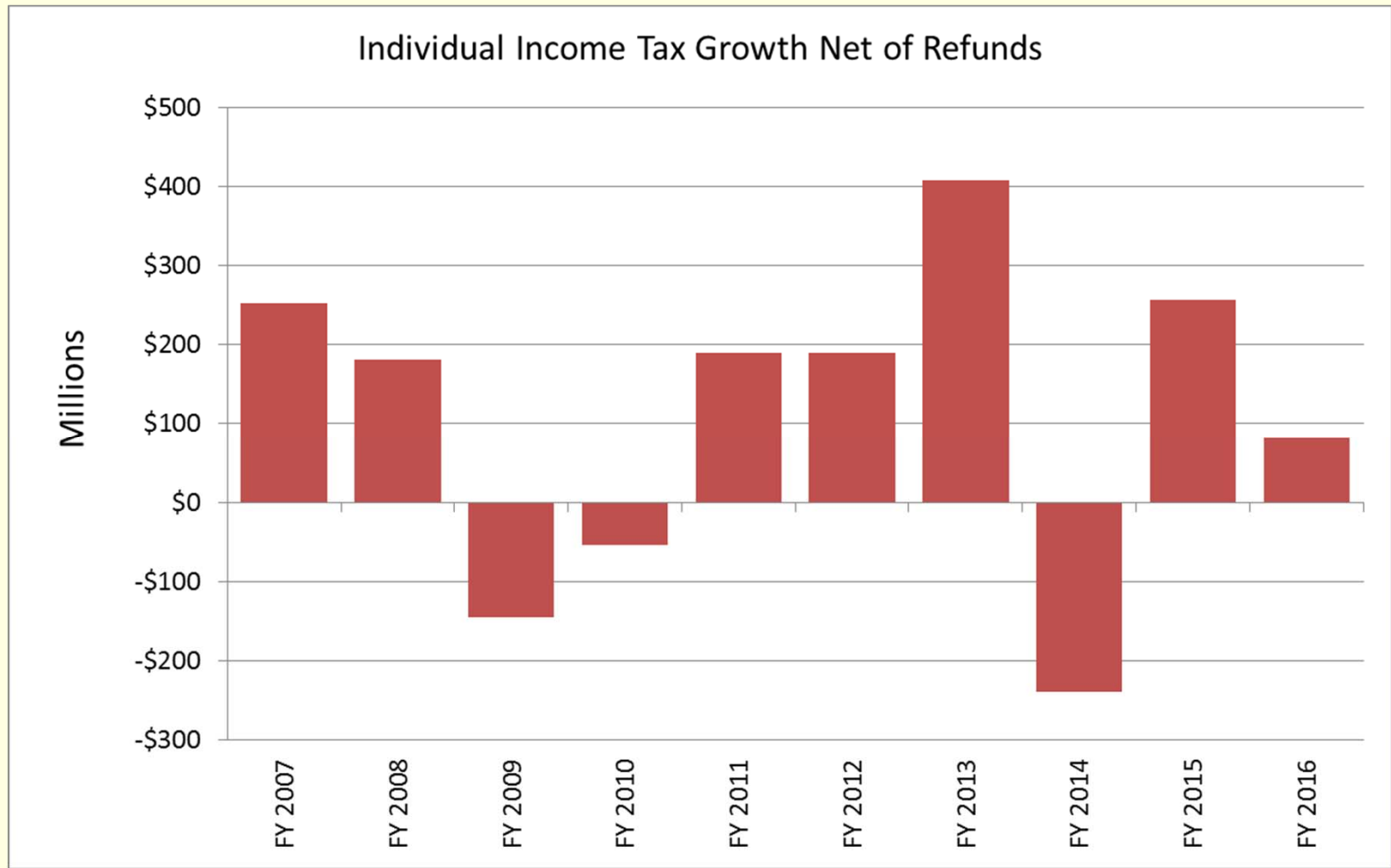
# Iowa GDP and Iowa General Fund tax revenue growth are not well correlated.



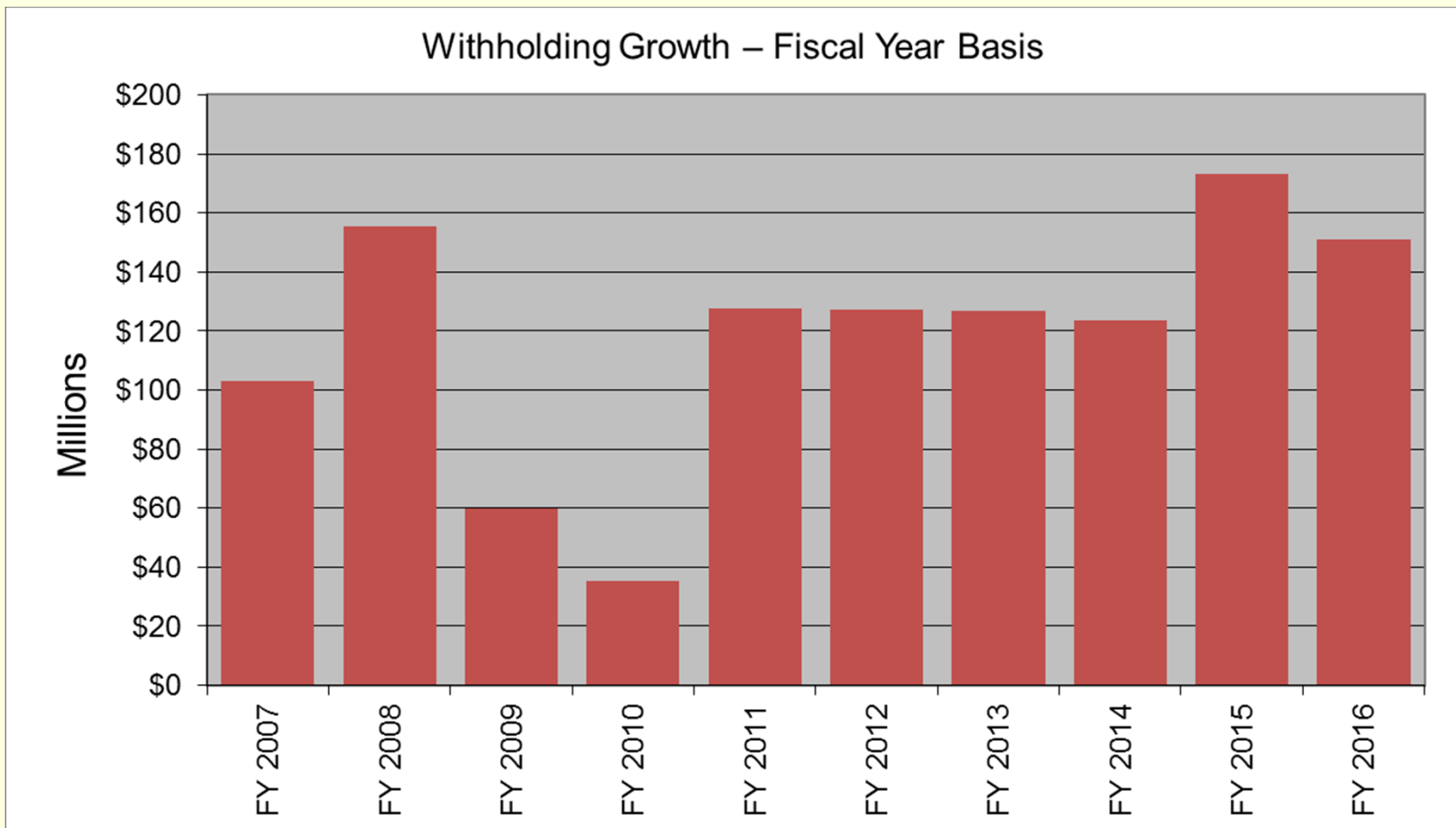
# Iowa Personal Income and Iowa General Fund tax revenue growth are also not well correlated.



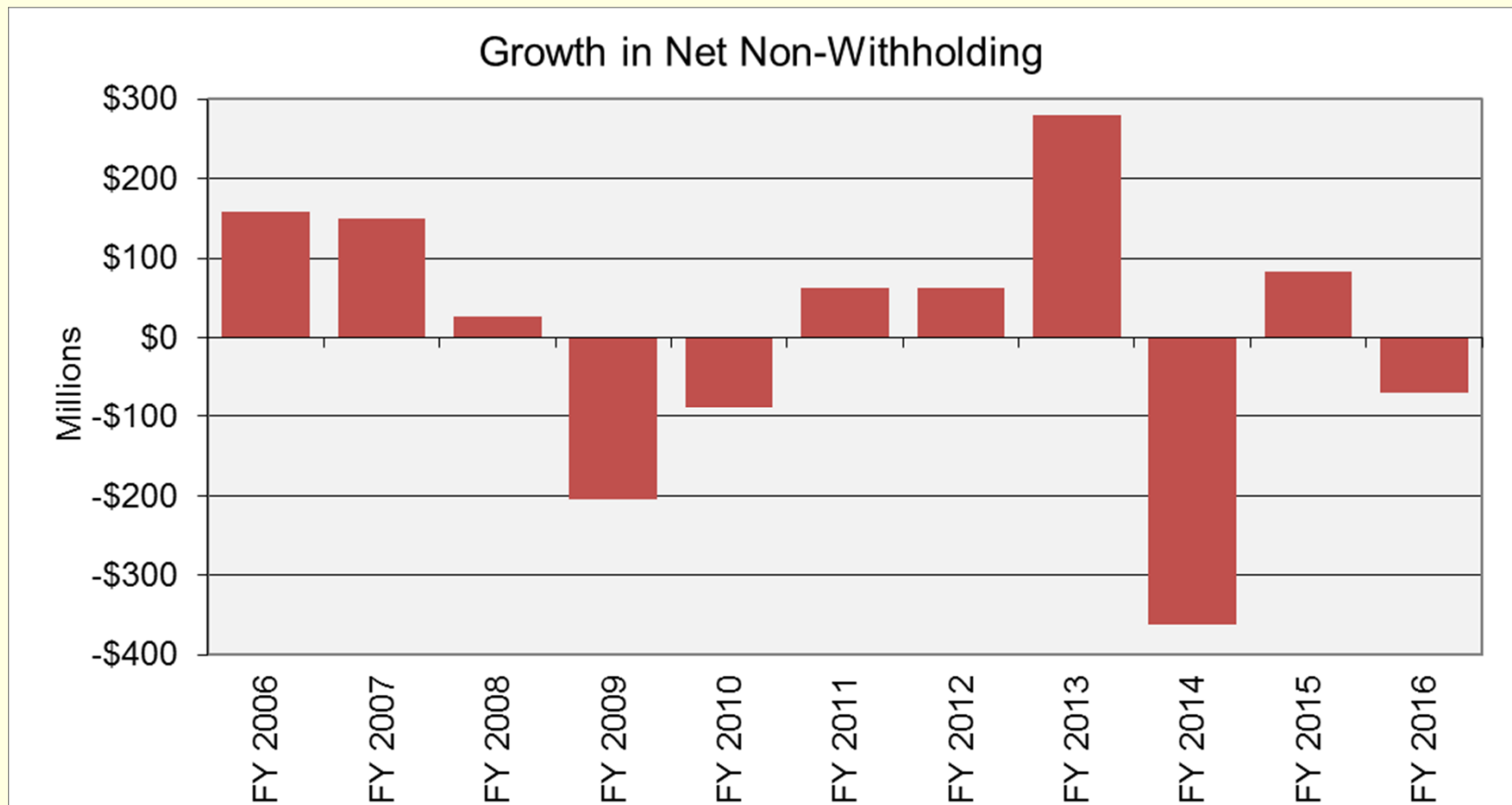
# Individual Income Tax Revenue – The main driver of General Fund revenue and the main source of annual volatility.



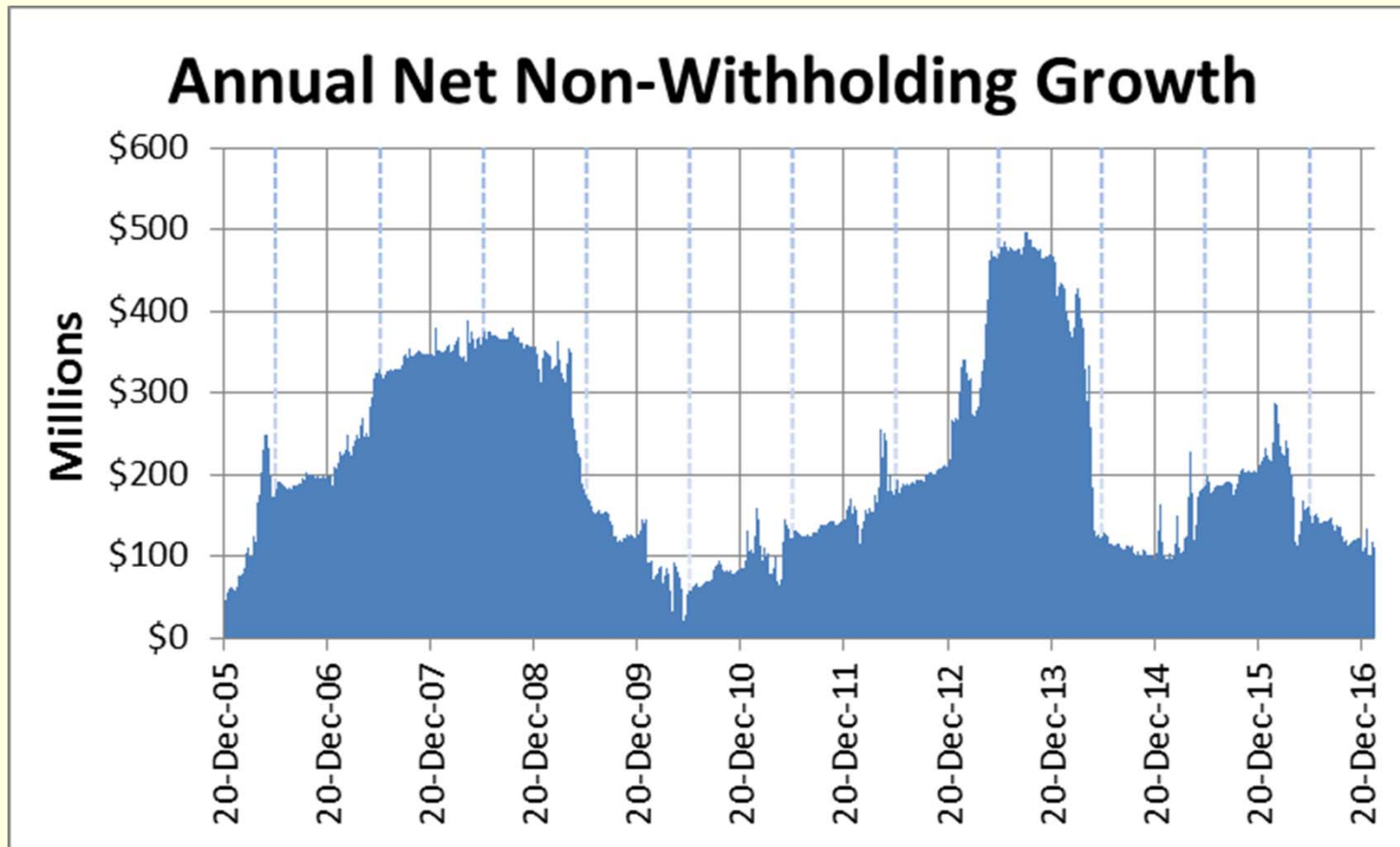
# Individual Income Tax Revenue – The source of volatility is not withholding tax.



**Individual Income Tax Revenue – Net non-withholding is the combination of estimate payments, payments with tax returns, and tax refunds. This is where individual income tax volatility resides.**



**Net non-withholding volatility arrives in the last half of the fiscal year, making it particularly difficult to predict and also causing a significant problem for the budgeting process.**



**Tax year 2015 individual income tax returns show good growth in wage income, but large negatives for capital gains, farm income, and the deduction for federal taxes paid. This shows why FY 2016 ended poorly.**

**Tax Years 2014 and 2015 Matched Electronic Tax Returns**  
Dollars In Millions

	<u>TY 2014</u>	<u>TY 2015</u>	<u>\$ Change</u>	<u>% Change</u>
<u>Adjusted Gross Income</u>	\$ 64,663	\$ 66,611	\$ 1,948	3.0%
Wage Income	49,503	51,817	2,314	4.7%
Taxed Pension/IRA	6,095	6,377	282	4.6%
Other Income	10,845	10,899	54	0.5%
Cap & Other Gains	3,331	2,941	-390	-11.7%
Sched. F (Farm)	485	133	-352	-72.6%
<u>Total of Items</u>	<u>\$ 70,259</u>	<u>\$ 72,167</u>	<u>\$ 1,908</u>	<u>2.7%</u>
Federal Tax Deduction	\$ 10,662	\$ 11,417	\$ 755	7.1%



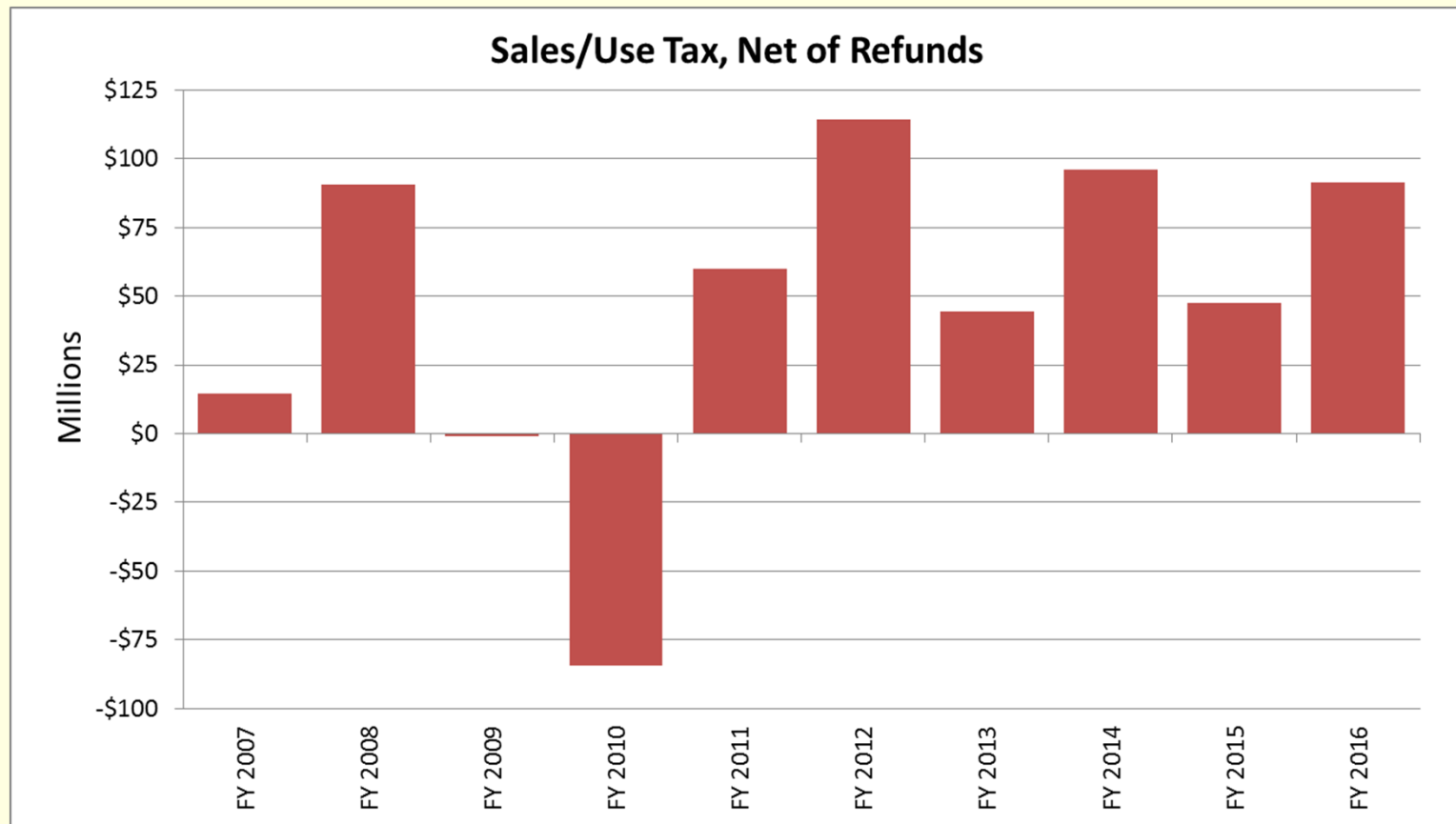
**Compare the tax year 2015 on the last slide to the results from the previous tax year. This shows why FY 2015 ended well.**

**Tax Years 2013 and 2014 Matched Electronic Tax Returns**

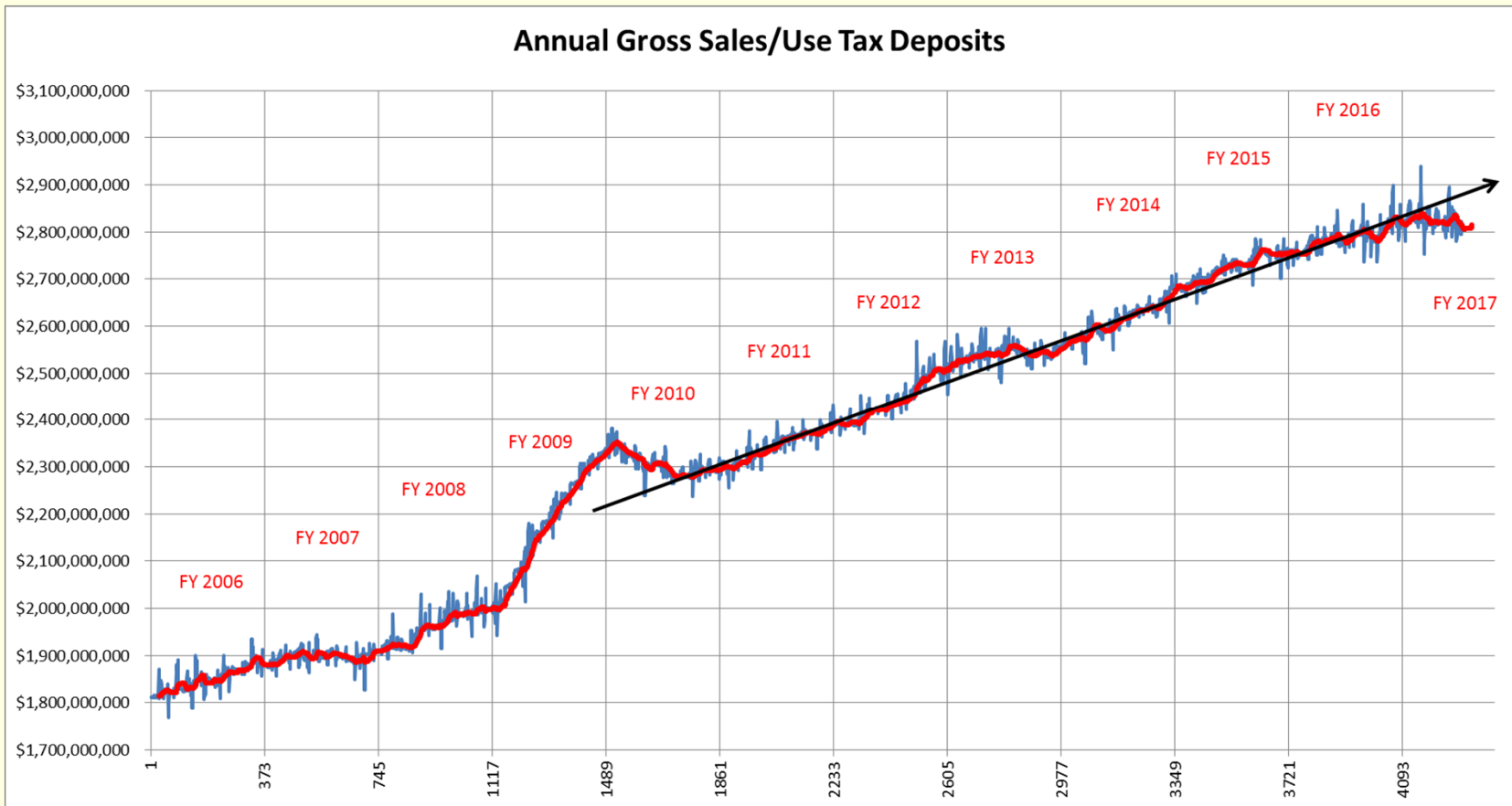
Dollars In Millions

	<u>TY 2013</u>	<u>TY 2014</u>	<u>\$ Change</u>	<u>% Change</u>
<u>Adjusted Gross Income</u>	\$ 62,295	\$ 65,569	\$ 3,274	5.3%
Wage Income	48,330	50,426	2,096	4.3%
Taxed Pension/IRA	5,703	6,169	466	8.2%
Other Income	10,274	10,824	550	5.4%
Cap & Other Gains	2,313	3,330	1,017	44.0%
Sched. F (Farm)	897	480	-417	-46.5%
<u>Total of Items</u>	<u>\$ 67,517</u>	<u>\$ 71,229</u>	<u>\$ 3,712</u>	<u>5.5%</u>
Federal Tax Deduction	\$ 10,280	\$ 10,778	\$ 498	4.8%

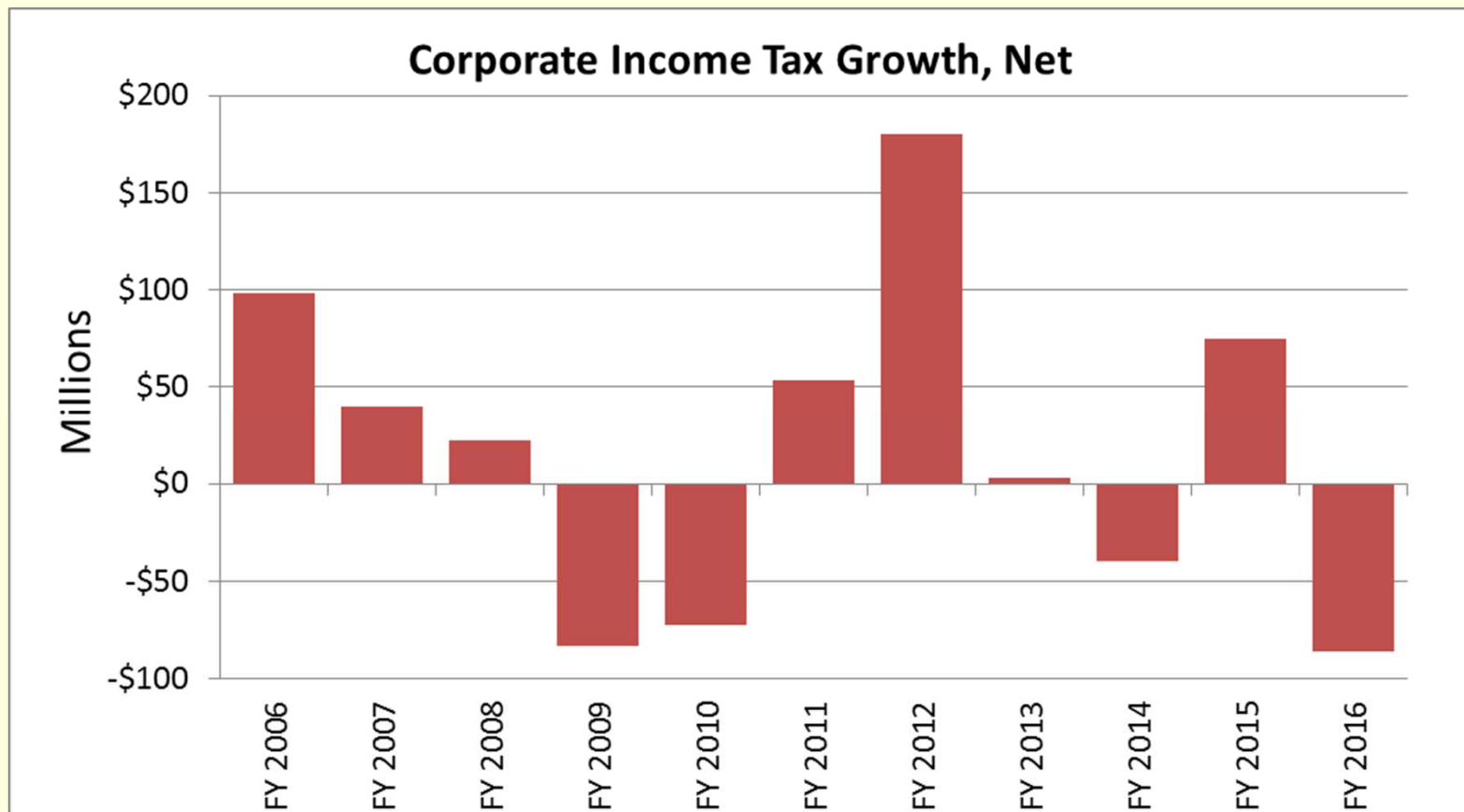
# Sales/Use Tax Revenue, Net of Refunds and School Infrastructure Transfer – The recent volatility here is not readily explainable.



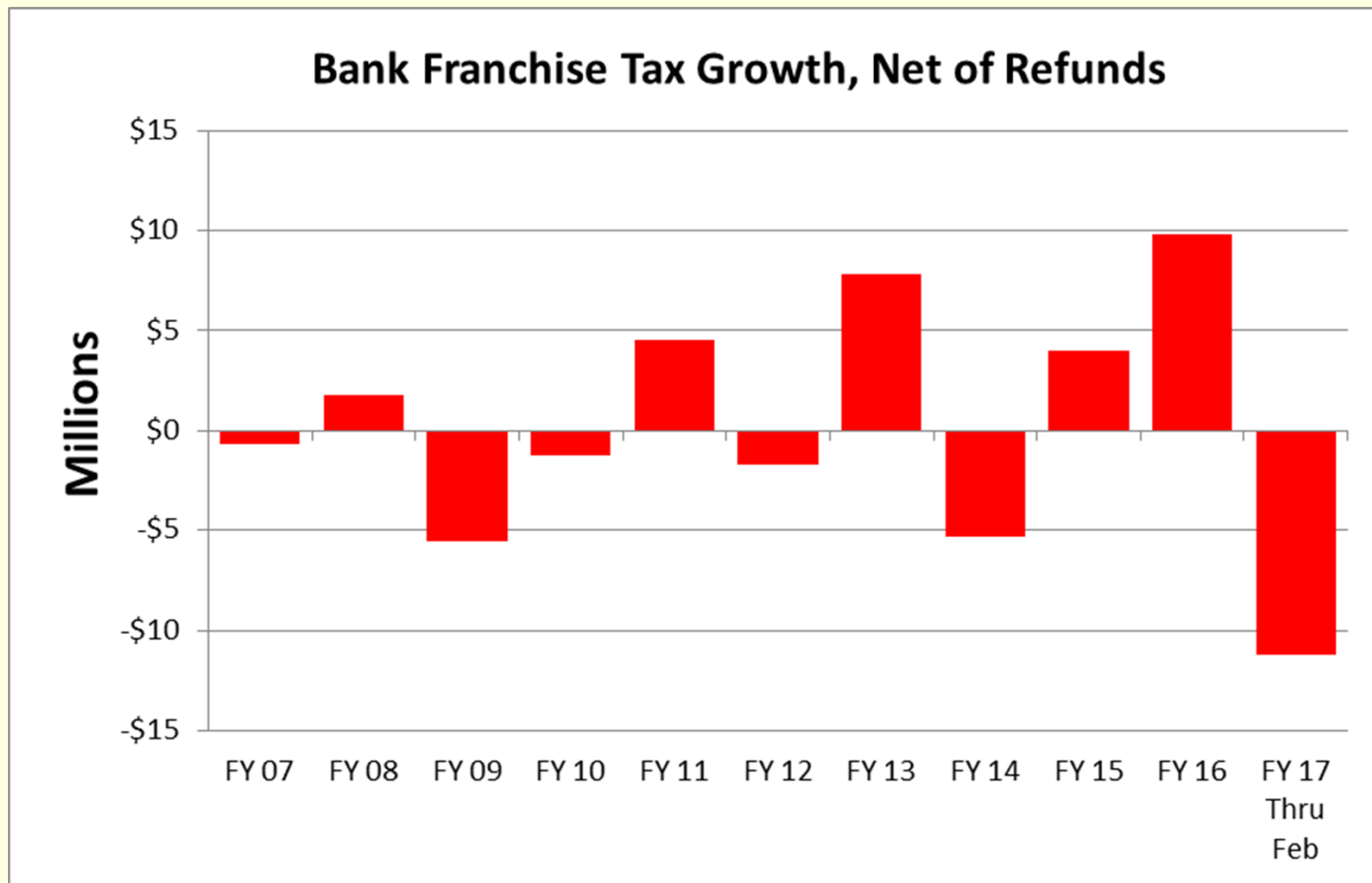
# Sales/Use Tax Revenue – The trend in place since the end of the last recession broke down last August.



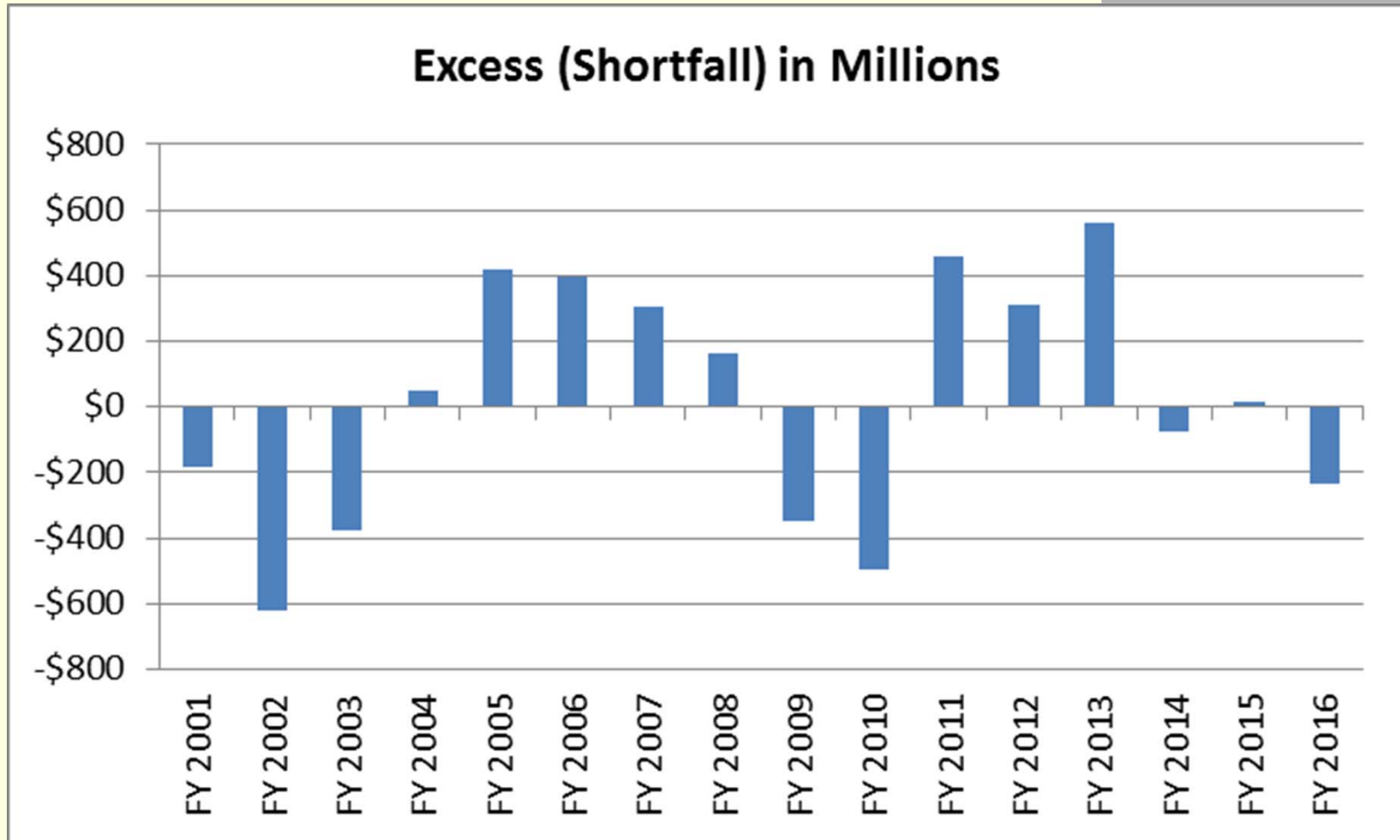
# Corporate Income Tax, Net of Revenue – Also volatile, perhaps partly due to year-to-year tax credit redemption differences.



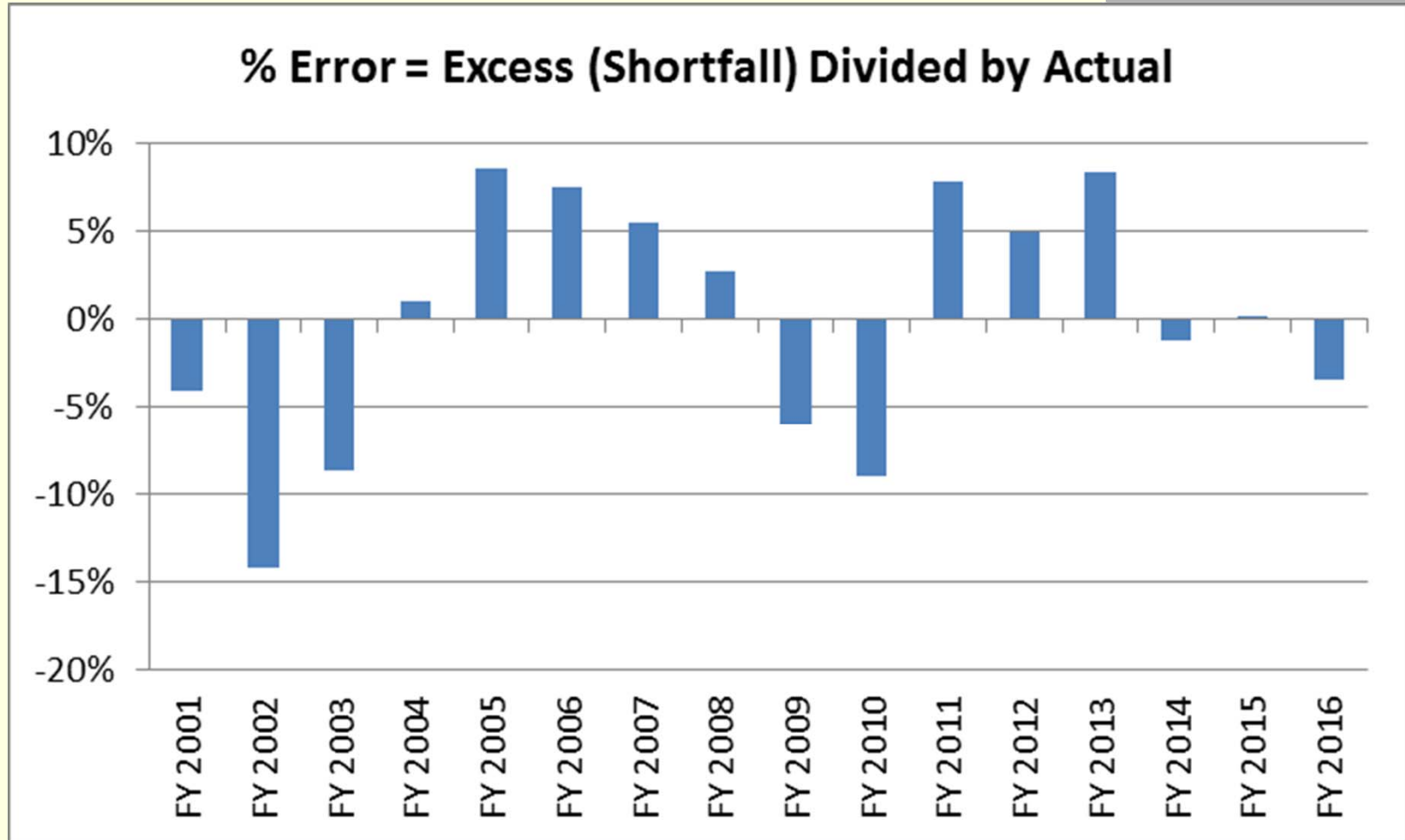
# Bank Franchise Tax, Net of Revenue – Some portion of this volatility is due to tax credit redemptions.



# REC Accuracy – Comparing the December estimate for the future year, adjusted for law changes, to actual revenue.



# REC Accuracy – The average absolute value of the projection error for the future fiscal year is 5.9%.



# Fiscal Services Division Website

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Daily Receipts:

[www.legis.iowa.gov/publications/fiscal/dailyReceipts](http://www.legis.iowa.gov/publications/fiscal/dailyReceipts)

Iowa Economic Trends:

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