
FISCAL TOPICS

Fiscal Services Division

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Summary of Sales Tax Diversions

History and Purpose

The State sales tax and the associated use tax are imposed in Iowa Code chapter [423](#). With certain exceptions, the State sales/use tax rate is 6.0%. The tax generally applies to the purchase of tangible personal property unless a specific exemption is provided, while the purchase of services is generally exempt unless a purchase is specifically listed (enumerated) as taxable. Sales tax exemptions are listed in Iowa Code section [423.3](#), and taxed services are listed in Iowa Code section [423.2](#). A separate listing of use tax exemptions is found in Iowa Code section [423.6](#). Iowa Code chapter [423G](#) creates a water service tax that functions as the State sales tax on water purchased by consumers from water utilities.

All revenues arising under Iowa Code chapter 423, subchapters II and III, and the State water service tax are deposited into the State General Fund. Iowa Code sections [423.2A](#) and [423G.6](#) and several sales/use tax refund provisions provide that after deposit into the State General Fund, specified programs are financed with diversions of sales/use tax revenue as opposed to appropriations from the State General Fund or through some other means. The top portion of **Figure 1** lists the diversions and the annual diverted amounts for FY 2016 through FY 2022. The diversions include the following:

- School Infrastructure — One-sixth of sales/use tax revenue is diverted to the [Secure an Advanced Vision for Education \(SAVE\) Fund](#) created in Iowa Code chapter [423F](#). The SAVE Fund provides financing for local school district infrastructure projects or property tax reductions. This diversion continues through calendar year 2050.
- Flood Mitigation — Iowa Code chapter [418](#) creates a [Flood Mitigation Program](#) financed through an annual diversion of State sales tax revenue. The annual diversion is limited to no more than \$30.0 million per fiscal year.
- Reinvestment Districts — Iowa Code chapter [15J](#) creates a program that diverts State sales tax and State hotel and motel tax revenue to finance local economic development projects called [Reinvestment Districts](#). The diversion is limited to no more than \$200.0 million across all fiscal years for all approved projects.
- Baseball, Softball, and Racetrack Facilities — Iowa Code sections [15F.207](#) and [423.4\(11\)](#) allow for payments to be made to approved baseball, softball, or racetrack facilities directly from State General Fund sales tax receipts. For baseball or softball facilities, the total amount diverted across all fiscal years is limited to no more than \$2.5 million per facility and \$5.0 million for all facilities combined. For racetrack facilities, the diversion is limited to no more than \$1.8 million across all fiscal years. The raceway provision is repealed at the conclusion of FY 2025.
- Biodiesel Production Credits — Iowa Code section [423.4\(9\)](#) creates a [Biodiesel Production Credit](#) for the biodiesel gallons manufactured at facilities within the State. The credit is equal to \$0.02 per gallon and is paid as a sales/use tax refund, but the administration of the credit does not require the biodiesel producer to have paid any sales/use tax in order to receive the credit. A single producer is limited to no more than \$500,000 in credits per year, and the credit expires at the end of calendar year 2024.

More Information

Tax Credit Fiscal Topics: legis.iowa.gov/publications/fiscal/fiscalTopics

Sales and Use Tax Iowa Code chapter 423: legis.iowa.gov/docs/code/423.pdf

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- Economic Development Tax Refunds — Iowa Code section [15.331A](#) provides a sales/use tax refund that may be awarded by the Economic Development Authority as an economic development incentive under specific programs of the Authority. The annual aggregate amount of sales/use tax refunds issued under the economic development programs is tracked and reported by the Department of Revenue.
- Water Quality — Iowa Code chapter 423G creates a water service tax that functions as the State 6.0% sales tax on water delivered or furnished to a consumer by a water utility. Iowa Code section [423G.6](#) diverts a portion of the water service tax to water quality programs.
- Department of Revenue Administration — On a periodic basis, the Department of Revenue transfers funds from the State General Fund to departmental accounts that finance [Tax Gap](#) (Iowa Code section [421.17\(23\)](#)), [centralized tax collections](#) (Iowa Code section [421.17\(27\)](#)), and administration of streamlined sales tax agreements. The Department diverted \$31.6 million in sales/use tax revenue from the State General Fund to pay administrative expenses over the past six years. The sales/use tax total represents a portion of the total tax dollars diverted as individual income, corporate income, and other tax dollars are also diverted each fiscal year. The diversions supplement the annual State General Fund appropriation received by the Department.¹

Figure 1

Iowa General Fund Sales and Use Tax Net Revenues and Diversions from the State General Fund								Seven Year
Dollars in Millions								Total
Sales/Use Tax Diverted to Other Purposes	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	
School Infrastructure	\$ 466.9	\$ 460.4	\$ 480.8	\$ 503.1	\$ 507.6	\$ 560.4	\$ 571.3	\$ 3,550.5
Flood Mitigation	20.9	29.1	24.7	22.8	23.4	27.2	29.8	177.9
Reinvestment Districts	0.0	0.0	0.3	1.5	2.4	0.9	2.4	7.5
Biodiesel Production Credit	4.2	4.1	4.9	4.4	4.2	4.3	4.1	30.2
Economic Development Refunds	16.3	14.0	26.1	28.3	9.4	13.2	10.9	118.2
Baseball, Softball, and Racetracks	0.4	0.3	0.3	0.7	0.2	0.3	0.6	2.8
Water Service Tax Deposited to Water Quality Funds	0.0	0.0	0.0	3.9	11.0	18.4	19.5	52.8
Department of Revenue Administration	4.3	4.3	5.3	4.7	5.8	7.1	8.1	39.6
Total Sales/Use Tax Diverted to Other Purposes	\$ 513.0	\$ 512.2	\$ 542.4	\$ 569.4	\$ 564.0	\$ 631.8	\$ 646.7	\$ 3,979.5
Net Sales/Use Tax Calculation	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Seven Year Total
Sales/Use Gross Tax Revenue	\$2,829.9	\$2,831.5	\$2,949.5	\$3,056.1	\$3,182.3	\$3,574.0	\$3,798.7	\$ 22,222.0
Tax Refunds (Excludes Biodiesel and Econ. Dev. Refunds)	-20.6	-21.6	-51.7	-37.6	-49.3	-41.2	-59.9	-281.9
Water Service Tax Revenue Deposited to the General Fund	0.0	0.0	0.0	18.4	20.4	16.0	17.0	71.8
Diverted to Other Purposes (Excludes School Infrastructure) *	46.1	51.8	61.6	66.3	56.4	71.4	75.4	429.0
Total Sales/Use Net Revenue Paid by Taxpayers	\$2,855.4	\$2,861.7	\$2,959.4	\$3,103.2	\$3,209.8	\$3,620.2	\$3,831.2	\$ 22,440.9
% of Total Sales/Use Net Revenue Diverted	18.0%	17.9%	18.3%	18.3%	17.6%	17.5%	16.9%	17.7%

*School Infrastructure is excluded as that revenue is included in the Sales/Use Gross Tax Revenue line while the other diversion items are not included.

The bottom portion of **Figure 1** provides a calculation of the total amount of sales/use tax remitted, net of tax refunds issued, for each of the past seven fiscal years. From FY 2016 through FY 2022, 17.7% of the sales/use tax remitted to the State was diverted to programs that are not funded through State General Fund appropriations. The line-items included in the bottom portion of **Figure 1** include:

- Sales/Use Tax Gross Revenue — The annual amounts listed are as reported in the State accounting system as gross deposits to the State General Fund. The amounts listed are after the transfer out of local option taxes that were initially remitted to the State and after the transfer out of funds used to finance the diversion programs listed in the top portion of **Figure 1** with the exclusion of those funded through tax refunds (biodiesel and economic development).

¹ The Department of Revenue is also authorized to retain up to \$25,000 annually from moneys diverted to the flood mitigation and reinvestment districts programs.

- **Tax Refunds** — The annual amounts represent an estimate of the tax refunds that are issued to taxpayers who pay sales/use tax but later are granted a refund when it is determined that the purchase did not require payment of the tax. The amounts represent the actual refunds issued for a fiscal year as reported in the State accounting system, minus the amounts that are attributed to the biodiesel and economic development diversions.
- **Water Service Tax** — The water service tax has its own revenue accounting outside of the sales/use tax totals. The amounts shown are the portion of the water service tax that is deposited to the State General Fund revenue.
- **Diverted to Other Purposes** — This line adds back the diversion items that were transferred or refunded directly from State General Fund receipts. The amounts diverted to school infrastructure are not included in this line as those amounts are included within the Sales/Use Tax Gross Revenue line.

Current Budget Impact

This ***Fiscal Topic*** provides a single location for financial information concerning State diversions of sales/use tax collections from the State General Fund. Over the past seven years, the State has diverted 17.7% of sales/use tax collections to projects and programs that are not funded through State General Fund appropriations. The largest diversion program finances local school infrastructure and property tax relief. The remaining programs represent just under 2.0% of State sales/use tax collections. Those diversions finance flood mitigation, water quality programs, State and local economic development programs, and State tax administration.

In future years, several small diversions are scheduled to expire or reach a program maximum. However, the diversion program for reinvestment districts does not have an annual cap and has over \$190.0 million in authorized diversions remaining.

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