



MEMORANDUM

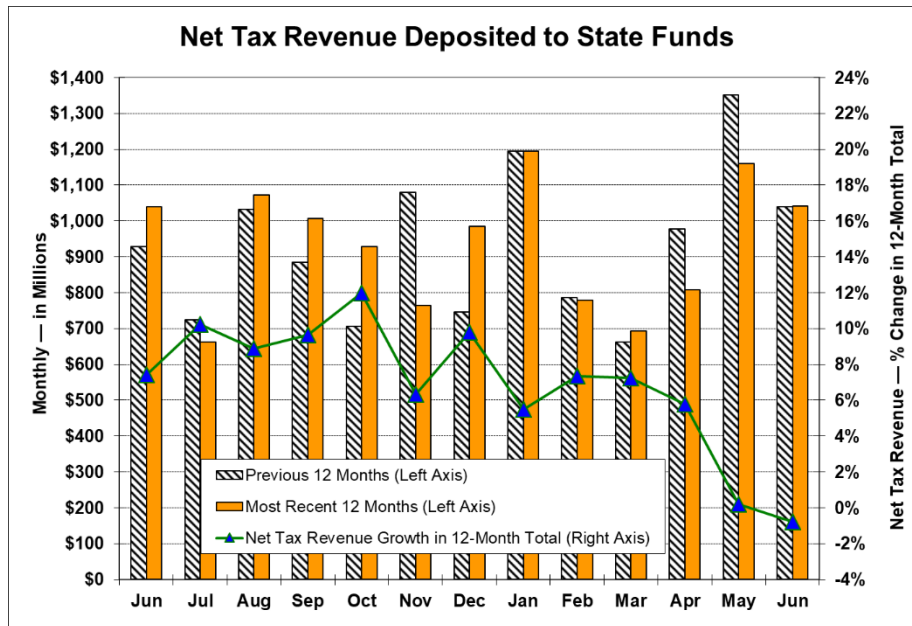
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Eric M. Richardson

DATE: July 12, 2023

Twelve-Month Total Net Tax Receipts Through June 30, 2023

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending June 30, 2023, with comparisons to the previous 12 months. June 2022 to June 2023 one-month comparisons are also presented. The source of the information is the State Accounting System and includes both General Fund and 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 \$1,042.1 million for the month of June 2023, an increase of \$1.6 million (0.2%) compared to the previous June. Corporate income tax decreased compared to the previous June, while Other Taxes increased due to accounting procedures.

Over the most recent 12-month period, net tax revenue decreased \$88.3 million (-0.8%). The recent weakness in individual income tax and the real estate transfer tax has weighed heavily on year-over-year tax revenue growth.

Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending June 30, 2023, net revenue from all taxes deposited to State funds totaled \$11,097.7 million, a decrease of \$88.3 million (-0.8%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include the following:

- **Individual Income Tax (negative \$294.7 million, -6.0%)** — Individual income tax revenue has declined, when compared to the same month the previous year, in eight of the past nine months, and growth is now negative over the past 12 months. Beginning January 1, 2023, Iowa decreased individual income tax rates and reduced the income tax base through a full exemption for retirement income.
- **Corporate Income Tax (positive \$76.3 million, 9.2%)** — Gross deposits increased \$65.1 million year over year, while corporate tax refunds decreased \$11.2 million. Iowa corporate income tax rates were reduced at the beginning of calendar year 2021 and were reduced further beginning January 1, 2023. The reduction in refunds issued may be the result of slower processing of corporate income tax refunds.
- **Sales/Use Tax (negative \$5.4 million, -0.1%)** — The sales/use net tax growth breakdown for the most recent 12 months is as follows:
 - Gross tax receipts from the sale of vehicles (deposited to the Road Use Tax Fund) increased \$31.4 million (6.5%).
 - Sales/use tax transferred to other State funds (mainly the Flood Mitigation Fund, Reinvestment District Fund, and two water quality funds) decreased \$5.2 million.
 - Sales/use tax deposited to the General Fund increased \$86.2 million (2.2%).
 - Increased refunds of General Fund sales/use tax payments decreased net revenue \$17.1 million.
 - Increased sales tax payments to the school infrastructure account (recorded as tax refunds) decreased net revenue \$100.5 million.
- **Banking Taxes (positive \$3.7 million, 5.3%)** — Over the most recent 12 months, bank franchise tax deposits increased \$21.2 million, while franchise tax refunds increased \$17.5 million.
- **Fuel Tax (positive \$18.2 million, 2.7%)** — According to Department of Revenue monthly fuel sales [reports](#), the total gallons¹ subject to Iowa fuel tax decreased 1.7% over the most recent 12-month period. The gross taxable gallons by fuel type sold over the most recent 12 months, along with the percentage change when compared to the previous 12 months, are as follows:
 - Unblended gasoline,² 348.6 million gallons, -7.5%.
 - Gasoline blended with ethanol, 1,285.5 million gallons, 0.0%.
 - Diesel, including biodiesel blends, 801.5 million gallons, -1.7%.
 - Aviation, jet, and other fuels, 49.0 million gallons, -1.1%.
- **Gambling Tax (negative \$12.6 million, -3.3%)** — The annual gambling tax total has decreased each of the past five months.
- **Insurance Premium Tax (positive \$23.4 million, 15.5%).**
- **Real Estate Transfer Tax (negative \$7.1 million, -17.8%)** — After more than two years of strong increases, real estate transfer tax revenue growth has slowed, and the recent year-over-year decline in the 12-month total is the first since December 2019.

¹ Taxable gallons distributed in Iowa (all fuel types) over the last 12 months totaled 2,484.4 million 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.

- **Cigarette Tax and Tobacco Tax (negative \$6.9 million, -3.6%).**

Tax Spotlight — Sales and Use Tax

Sales of goods and services to the final user are taxed under the authority of Iowa Code chapter [423](#). The sale of all tangible property to the final user is subject to tax unless the tangible property is specifically made exempt in Iowa Code section [423.3](#). The sale of services is exempt unless specifically enumerated in Iowa Code section [423.1\(6\)](#). With a few exceptions, items that are exempt from sales tax are also exempt from use tax.

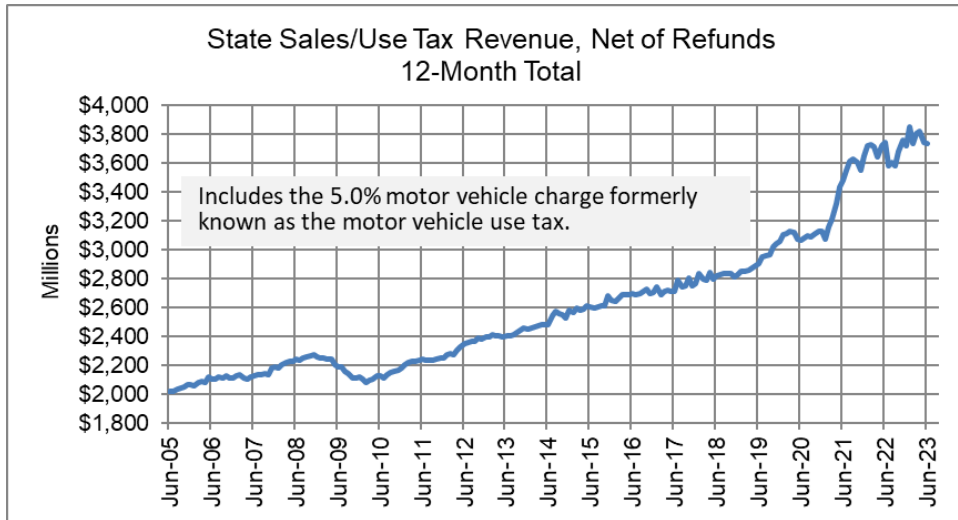
The State sales tax rate was increased in 2008 to 6.0%, with one-sixth of the tax devoted to school infrastructure. With the increase in the State sales tax rate, the school infrastructure local option (SILO) sales tax was repealed (this local option tax was initiated in [HF 2282](#), Local Option Sales Tax for School Infrastructure Act of 1998). In addition to the State sales tax, with voter approval, local jurisdictions can impose a local option sales tax (LOST) of up to 1.0% (see [SF 395](#), Local Option Sales Tax Act of 1985).

The use tax (consumer and retailer) rate was also increased to 6.0% in 2008, with one-sixth of the tax devoted to school infrastructure. The motor vehicle use tax (fee for new registration) remains at 5.0%. The use tax is not subject to LOST (except for transactions involving natural gas, natural gas services, electricity, or electric service). In general, the use tax includes:

- Tax collected by out-of-state firms making sales of tangible personal property or certain services purchased for use in Iowa (retailer's use tax).
- Tax on goods or services purchased by consumers without tax and subsequently used in Iowa (consumer's use tax).
- Tax (fee for new registration) collected by Iowa county treasurers or the Iowa Department of Transportation on the sale of vehicles subject to registration in Iowa.

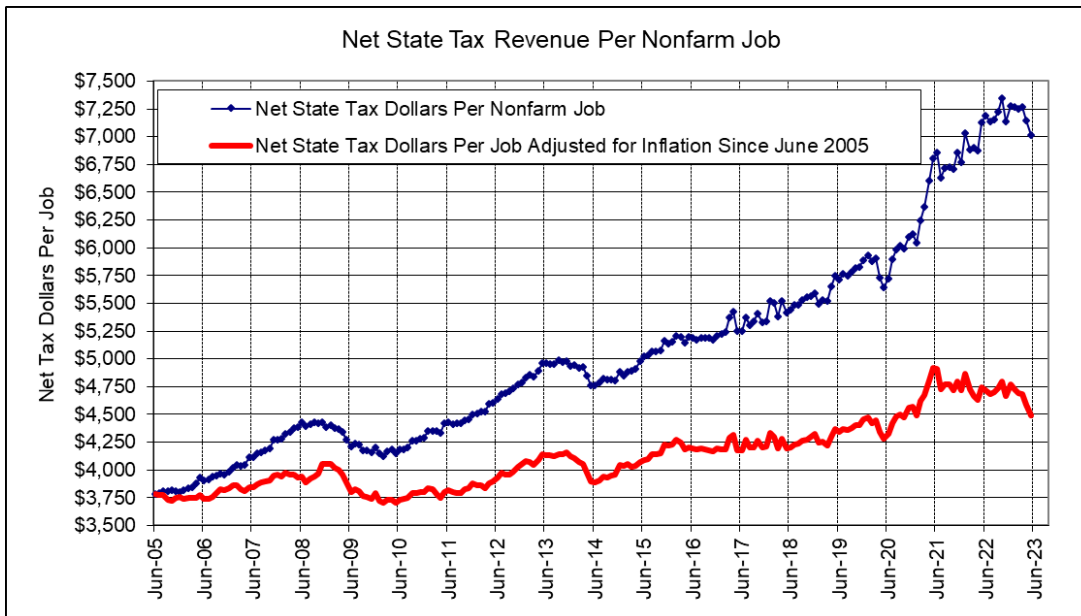
The Iowa sales tax was first imposed in 1934 in [HF 1](#) (Net Income and Retail Sales Tax Act) for a three-year period at a rate of 2.0%. The tax was made permanent in 1937 with the passage of [SF 316](#) (Sales Tax Act). The Iowa use tax was enacted in 1937 ([SF 317](#), Use Tax Act) in conjunction with the permanent adoption of the sales tax at the 2.0% rate. The tax rate was increased to 2.5% in 1955, lowered to 2.0% in 1957, and increased to 3.0% in 1967 and 4.0% in 1983. The rate was increased to 5.0% in 1992. During the 2008 Legislative Session, the SILO sales tax was repealed and replaced with a 1.0 percentage point increase in the State sales/use tax in [HF 2663](#) (State Sales/Use Tax for School Infrastructure Act of 2008). During the 2018 Legislative Session, the sales/use tax base was expanded in [SF 2417](#) (Income and Sales Tax Modernization Act) to include additional types of items and services. The expansion was effective January 1, 2019.

Retailers selling tangible personal property or taxable services are responsible for collecting the State sales tax and any LOST. The retailers are required to hold a retail permit and file a tax return. Depending on the amount of tax collected, deposits are due annually, quarterly, monthly, or semimonthly. State sales/use tax is deposited in the State General Fund. State sales/use tax revenue for flood mitigation, water quality, school infrastructure, and LOST is initially deposited in the State General Fund and is subsequently transferred to special funds near the end of the month.

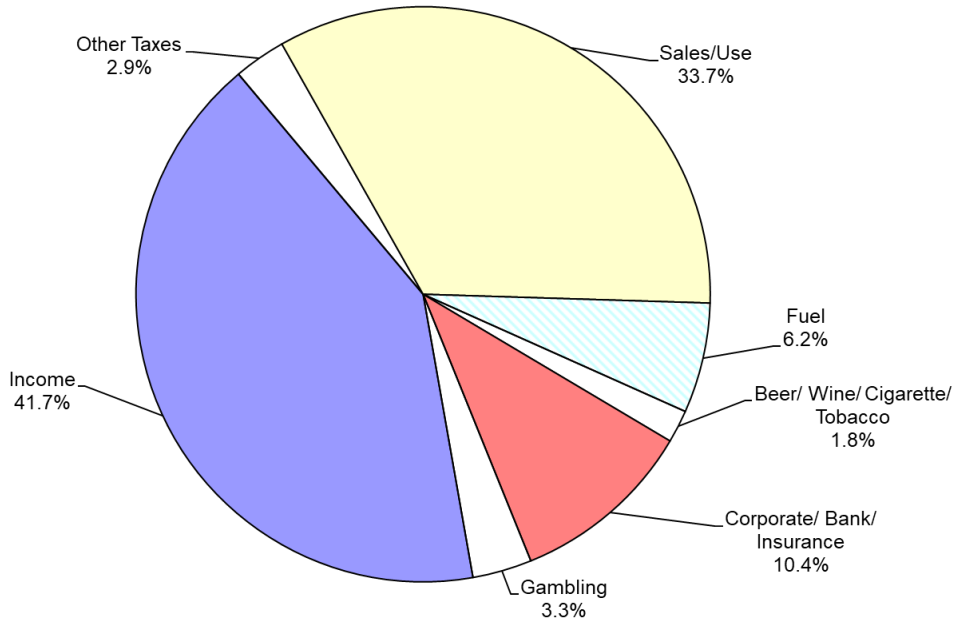


Tax Revenue and Employment

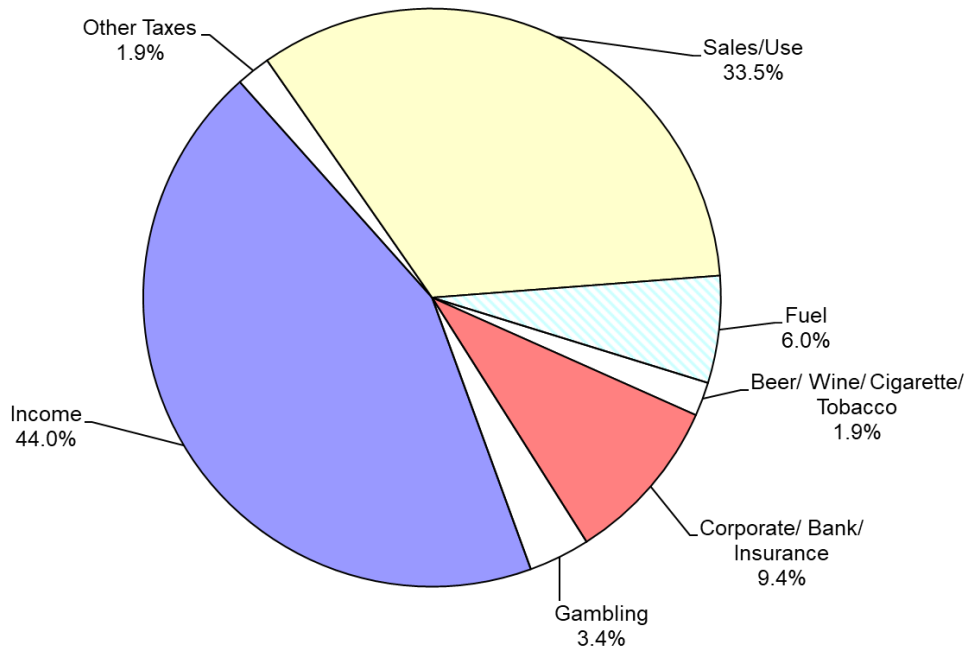
The average reading for Iowa nonfarm employment over the 12 months ending May 2022 was 1,581,800, and net State tax receipts over the same 12 months totaled \$11,096.1 million, or \$7,015 per nonfarm job. This is \$3,230 higher than the per-job average for the 12 months ending June 2005. The blue (upper) 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 \$701 since June 2005, and the remainder of the \$3,230 increase (\$2,529) can be considered the impact of inflation.



Net State Tax Revenue — 12 Months Ending June 2023
Net Revenue = \$11.098 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue — 12 Months Ending June 2022
Net Revenue = \$11.186 Billion
Percentages may not add to 100% due to rounding



Cash Basis Net Tax Revenue Deposited to State Funds

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 June 2022	Month of June 2023	June \$ Change	June % Change
Banking	\$ 70.4	\$ 74.1	\$ 3.7	5.3%	\$ 10.4	\$ 1.4	\$ - 9.0	-86.5%
Beer and Wine	22.3	21.4	- 0.9	-4.0%	2.0	2.0	0.0	0.0%
Cigarette and Tobacco	189.9	183.0	- 6.9	-3.6%	19.2	22.1	2.9	15.1%
Corporate Income	824.9	901.2	76.3	9.2%	163.1	118.0	- 45.1	-27.7%
Fuel	668.9	687.1	18.2	2.7%	60.6	49.1	- 11.5	-19.0%
Gambling	383.5	370.9	- 12.6	-3.3%	36.5	35.6	- 0.9	-2.5%
Individual Income	4,918.0	4,623.3	- 294.7	-6.0%	393.7	396.5	2.8	0.7%
Inheritance	95.1	90.7	- 4.4	-4.6%	11.9	13.4	1.5	12.6%
Insurance	151.0	174.4	23.4	15.5%	53.3	29.0	- 24.3	-45.6%
Other Taxes	79.5	201.6	122.1	153.6%	- 2.6	88.4	91.0	--
Real Estate Transfer	39.9	32.8	- 7.1	-17.8%	3.4	2.5	- 0.9	-26.5%
Sales/Use	3,742.6	3,737.2	- 5.4	-0.1%	289.0	284.1	- 4.9	-1.7%
Total Net Taxes	\$ 11,186.0	\$ 11,097.7	\$ - 88.3	-0.8%	\$ 1,040.5	\$ 1,042.1	\$ 1.6	0.2%
Gross Tax & Refunds								
Gross Tax	\$ 12,903.9	\$ 13,054.2	\$ 150.3	1.2%	\$ 1,155.6	\$ 1,195.4	\$ 39.8	3.4%
Tax Refunds	\$ - 1,717.9	\$ - 1,956.4	\$ - 238.5	13.9%	\$ - 115.2	\$ - 153.3	\$ - 38.1	33.1%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 9,337.7	\$ 9,223.9	\$ - 113.8	-1.2%	\$ 880.9	\$ 886.9	\$ 6.0	0.7%
Road Use Tax Fund	\$ 1,157.0	\$ 1,208.4	\$ 51.4	4.4%	\$ 102.9	\$ 96.5	\$ - 6.4	-6.2%
Non-GF Gambling	\$ 379.2	\$ 366.7	\$ - 12.5	-3.3%	\$ 36.3	\$ 35.4	\$ - 0.9	-2.5%
Other State Funds	\$ 312.1	\$ 298.8	\$ - 13.3	-4.3%	\$ 20.3	\$ 23.2	\$ 2.9	14.3%
Local Option Taxes *	\$ 1,390.5	\$ 1,481.8	\$ 91.3	6.6%	\$ 98.2	\$ 120.1	\$ 21.9	22.3%

* Sales, income surtax, and hotel/motel tax. 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 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 97.50% of the revenue, and the credit union tax provides 2.50%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the 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 revenues were deposited in the 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 General Fund. Beginning with FY 2014, all revenue from the cigarette and tobacco tax is deposited in the Health Care Trust Fund.

Corporate Income Tax: All corporate income tax is deposited in the 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. Funds receiving deposits of gambling tax revenue over the past two fiscal years include the General Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, the Sports Wagering Receipts Fund, the Iowa Skilled Worker and Job Creation Fund, and the Water Quality Infrastructure Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the General Fund. A total of \$7.8 million per year 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 General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (General Fund), utility replacement property tax (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, the Composite Tax, 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, 5.00% is deposited in the Shelter Assistance Fund, the lesser of 30.00% or \$7.0 million to the Housing Trust Fund, and the remainder in the General Fund.

Sales/Use Tax: General sales/use tax is deposited in the 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 1.00% sales/use tax, and the revenue from that statewide tax is transferred out of the 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 the Sales Tax Increment Fund and used for local flood mitigation projects. Beginning FY 2019, a portion of State sales/use tax revenue is deposited in the Reinvestment District Fund and used for local economic development projects. Also beginning FY 2019, a new Water Excise Tax is deposited in the General Fund and two water quality funds.

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 1.00% statewide tax and was eliminated. To allow for continuity of data, the transfers from the General Fund as a result of the 1.00% 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 Dataset: The dataset 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.