Iowa State Taxes and Fee Changes, 2000 – 2016:
An Analysis of the Sources of State Revenue Problems

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Executive Summary

Over the past two years Iowa has experienced minimal growth in tax collections, while at the same time having one of the strongest economies of the past two decades. The budget enacted this past legislative session and staff cuts at state executive branch agencies over the over the past several years are comparable to what one would expect to occur during a deep recession. So what gives?

Iowa's tax system is suffering from severe structural problems. The following paper explores how dozens of tax law changes have undermined the ability of Iowa's tax system to generate enough revenues to meet the state's basic funding needs. Although problems with the state tax system date back over two decades, this paper focuses on the years from 2000 through 2016. This is because of the availability of data and the fact that legislative actions undermining the tax system began to accelerate after 2000.

The primary source for data for this study is the U.S. Census Bureau's Census of Government data on state tax collections. This source summarizes state tax and fee collections data by 25 categories. This data set is maintained for all states. The data included in the summaries is reported quarterly by each state and regularly revised to reflect updates and corrections as reported by the states. Other sources of data include studies published by the Iowa Department of Revenue and Legislative Services Agency publications.

The major findings of this analysis are:

- Between 2015 and 2016 total Iowa tax and fee collections increased by $234 million (2.5%). The General Fund portion of these collections increased by only $112 million (1.5%). Collections during 2017 are not likely to be much better.

- Iowa's revenue problem is to a great extent policy driven and it has resulted from numerous actions taken over the past two decades.

- During 2016 personal income tax accounted for 37.2% and sales and use taxes accounted for 32.9% of total tax and fee revenues. The corresponding shares during 2000 equaled 36.9% and 33.9%. These two taxes accounted for 70.8% of total taxes and fees in 2000 and for70.1% of the total in 2016.

- The share of total revenues accounted for by taxes and fees imposed on businesses equaled 8.0% in both 2000 and 2016. In both 2000 and 2016 Iowa is much less reliant on business taxes and fees than are all states in aggregate. For 2000 the Iowa and all states business taxes and fees shares equal 8.0% and 13.9%. For 2016 the Iowa and all states shares equal 8.0% and 12.7%.

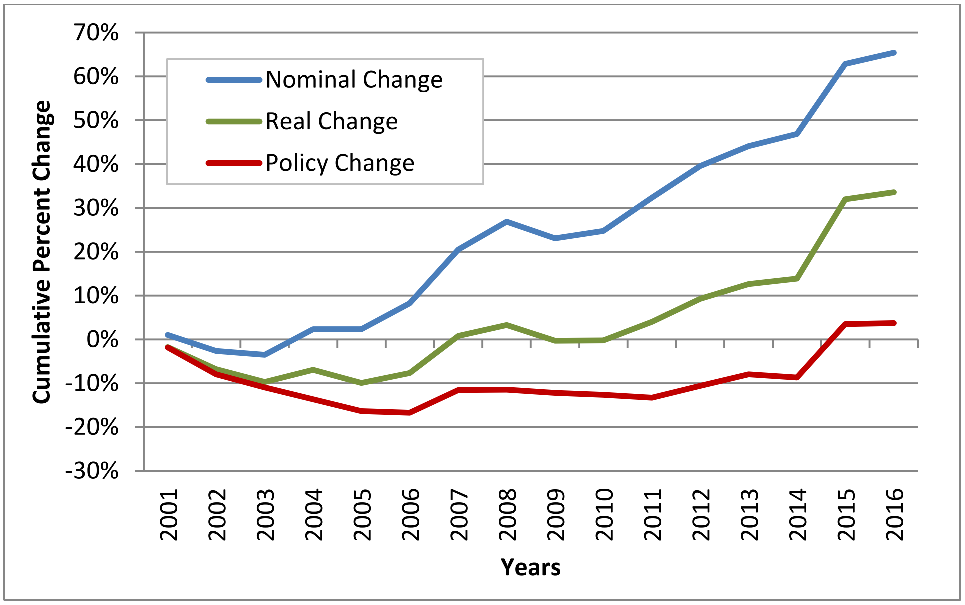
- Iowa's shares of revenues derived from gaming taxes and fees are noticeably higher in both 2000 and 2016 than the average for all states. In 2000, gaming revenues equaled 3.7% of total Iowa revenues but only 0.8% of total revenues for all states. In 2016, the Iowa and all states gaming revenue shares equaled 3.4% and 0.9%.

- The all states average shares for miscellaneous taxes and fees are substantially higher than the Iowa shares for both 2000 and 2016 and the difference increased over the 17 years. For 2000, the Iowa and all states shares are 2.0% and 5.5%, which equals a spread of 3.5 percentage points. By 2016, Iowa's share of revenues accounted for by this group of taxes and fees declined to 1.8%, while the all states share increased to 7.0%, which widened the spread to 5.2 percentage points. One tax included in this revenue group that distinguishes Iowa from other states is the severance tax. Thirty-five states impose some form of severance tax related to the extraction of oil or minerals. Iowa is one of the 15 states with no severance tax revenues.

- In Iowa revenues derived from motor fuel sales, motor vehicle registrations and operator licenses are deposited in the Road Use Tax Fund (RUTF) rather than the General Fund. Consequently, the use of these funds is restricted to transportation related purposes. For 2000 and 2016 Iowa's share of total state revenues derived from the three RUTF sources equaled 13.2% and 14.0%. This is substantially more than for all states for which the 2000 and 2016 shares equaled 8.5% and 7.9%.

- Adjusted for inflation, total tax and fee revenues collected by Iowa increased by $2.4 billion (33.6%) from 2000 to 2016. For all states the increase equaled $165.4 billion (21.5%). So, Iowa accounted for about 1.5% of the nationwide increase. Iowa's increase has mostly occurred since 2010.

- Total nominal Iowa tax and fee revenues increased by 65.4% from 2000 to 2016. Adjusted for inflation, growth equaled 33.6% over the 17 years. Netting out population and real economic growth Iowa's tax and fee revenue growth equaled only 3.7%. This last figure can be thought of as the revenue growth driven by policy changes. The following figure shows the year-by-year cumulative change for these three measures of Iowa revenue growth.



- Between 2000 and 2016 the General Assembly enacted 176 tax bills. This analysis focuses on the legislation that has had the most significant impact on state revenues. These impacts are summarized in the following table in terms of their 2016 estimated impacts.

Major Tax Law Changes	2016 Impact ($ million)
General Fund:	
Social Security Tax Exemption	-$99.0
Earned Income Tax Credit	-$57.3
Sales and Use Tax Exemptions	-$292.3
Insurance Premium Tax Rate Reduction	-$119.0
Business Tax Credits and Refunds	-$131.4
General Fund Subtotal	-$699.0
Non-General Fund:	
School Infrastructure Sales Tax Increase	$ 82.0
Motor Fuel Tax Increase	$242.0
Tobacco Products Tax Increase	$124.8
Non-General Fund Subtotal	$448.8

- From 2007 through 2014 Iowa phased-out personal income tax on social security income. Prior to 2007 up to 50 percent of social security income was subject to Iowa personal income tax. The law change has reduced 2016 Iowa tax revenue by an estimated $99 million compared to what would have been collected under pre-2007 law.

- Iowa first enacted a state earned income tax credit (EITC) in 1990. Until 2007 the Iowa EITC equaled 6.5% of the federal EITC and the credit was not refundable. In 2007 the Iowa EITC amount was increased to 7.0% of the federal EITC and the credit was made refundable. In 2013, the Iowa EITC increased to equal 14% of the federal EITC amount. In 2014, the Iowa EITC increased to equal 15% of the federal EITC amount. Although statistics for 2016 tax returns will not be available until about May 2018, a reasonable estimate of the amount of claims for 2016 is $72.7 million. Adjusting for the percentage change and for making the tax credit refundable, the amount of total claims for tax year 2016 will likely be about $57.3 million greater than if the credit had remained the same as in 2006.

- From 2000 through 2016 the Iowa General Assembly enacted 29 sales and use tax exemptions and rebates. This legislation reduced tax revenues during 2016 by an estimated $292 million. Another way of looking at the erosion of the tax base for sales and use taxes is by comparing the ratio of taxable sales to gross sales made by permitted businesses over the seventeen years. In 2000, the ratio for all categories of businesses with sales tax permits equaled 43.4%. In 2016, the overall ratio equaled only 29.7%.

- The tax rate for the insurance premium tax was reduced from 2% to 1% with the change phased-in over the years 2003 through 2007. Insurance premium tax revenues topped out at $158.1 million in 2005. In 2009, insurance premium tax revenues bottomed out at $80.6 million. In 2016, revenues from this source equaled $119.0 million. Thus, the reduction in the insurance premium tax rate has reduced the amount of revenue from this tax by about $119 million. However, it is possible that slightly more taxable insurance is being sold in Iowa today than otherwise would have been sold if the tax rate remained at 2%. Also, due to a feature of insurance premium taxes in Iowa and elsewhere commonly referred to as the "retaliatory tax," there are likely more insurance carriers and insurance industry jobs in Iowa than would have existed without the tax rate reduction.

- The greatest impact on business tax revenues has resulted from the increase in tax credits and rebates enacted by the Iowa legislature since 2000. Over the last seventeen years 22 tax credits that apply primarily to businesses have been enacted. Credit claim amounts only exist by credit back to 2005. That year the amount of business tax credit claims equaled $128.3 million. By 2016 business tax credit claims increased to $242.6 million, or by $114.3 million (89.1%). In addition, a number of business incentives involve sales tax rebates, which in 2016 equaled about $17.1 million.

- Since 2000, the General Assembly has also enacted some tax increases. The most significant of these and there estimated 2016 impacts are:

- The School Infrastructure Local Option Sales Tax was replaced by raising the state sales and use tax rate from 5% to 6% in 2008. The total value of this increase in 2016 is about $470 million, but only the use tax part represents a tax increase. So, the net impact equals $82 million. All of the revenue from the 1 percentage point increase goes to school districts and not the state General Fund.
- The increase of motor fuel tax rates by 10-cents per gallons in 2015 added an estimated $242 million to the Road Use Tax Fund in 2016.
- The 2007 increase in cigarette and tobacco products taxes increased revenues by about $125 million in 2016 compared to what they would have been under the old rates. All of the cigarette and tobacco products tax revenues go to the Health Care Trust Fund.

- In summary, major tax legislation since 2000 resulted in an estimated $699 million reduction in General Fund revenues. A number of tax increases have increased 2016 revenues by about $449 million, but all of these increases are dedicated to Non-General Fund funds. Consequently, the state is experiencing substantial problems meeting the funding needs for most of its important General Fund programs.

Introduction

Iowa's state revenue growth has been very weak over the past two years and prospects for the coming year do not look promising. Iowa is not the only state experiencing fiscal problems. Sixteen states collected less revenues during 2016 than during 2015 and 26 states had revenue growth of less than 2% during 2016. For Iowa, state tax and fee collections increased by 2.5% during 2016.

There are some common economic factors that have resulted in a slowdown in revenue growth across most states. These include:

- Slow real wage and salary growth
- A decline in the civilian labor force participation rate
- Increased concentration of income and wealth
- Slow real economic growth

But in addition, there are factors unique to individual states or to specific regions of the country that have depressed the growth of tax and fee revenues. Most notably the decline in oil prices has caused severe revenue declines in "energy" states. For example, North Dakota has seen its revenue growth drop from 4.5% in 2014 to -29.2% in 2016. The same is true for Oklahoma, New Mexico, Texas and Wyoming. Midwestern states have similarly suffered due to low agricultural commodity prices, although not nearly to as great an extent as have the energy states.

Beyond the national and regional economic factors, the fiscal performance of the states has varied due to a variety of differences in their tax structures and recent policy changes enacted by their legislatures. This paper focuses on Iowa's tax structure and policy actions over the years from 2000 through 2016. The intent of this focus is to identify long-term structural challenges that policy-makers must address if they desire to restore the state's fiscal health.

Data Source

Each quarter states and the District of Columbia report their tax and fee collections to the U.S. Census Bureau. Because the fiscal structures of the different states vary, the Census Bureau standardizes the reported data by summarizing it into 25 categories. Consequently, the data presented by the Census Bureau does not always match up exactly with the amounts reported by states in their own publications.

Two other factors further complicate making comparisons between data published by the Census Bureau and data reported in state annual reports. First, most states report tax and fee collections on a fiscal year basis.[1] The Census Bureau data used in this report is summarized on a calendar year basis to better accommodate comparisons with economic data. Second, public accounting rules require states to report revenues on an accrual basis.[2] The Census Bureau quarterly data are reported on a cash basis.

Regardless of these issues the Census Bureau maintains the only comprehensive and consistent data readily available for all states. Therefore, the Census Bureau data provide the basis for the analysis presented in this report.[3]

Scope of the Analysis

This report focuses on major features of the Iowa's tax and fee structure. It covers the years from 2000 through 2016. And it only addresses major law changes. Nevertheless, it provides sufficient coverage to reveal the nature and sources of problems confronting the state's long-term fiscal health.

The first section provides an overview of Iowa's tax and fee structure. The second section presents a comparison to the nation as a whole. This section looks at changes in revenues over the entire 17 year period. Section three presents Iowa and all states comparisons on an inflation adjusted basis. Section four presents state trends adjusted for population and economic growth. The report concludes with a discussion of the impact that major state legislation enacted since 2000 has had on the revenue generating capacity of the state's tax and fee structure.

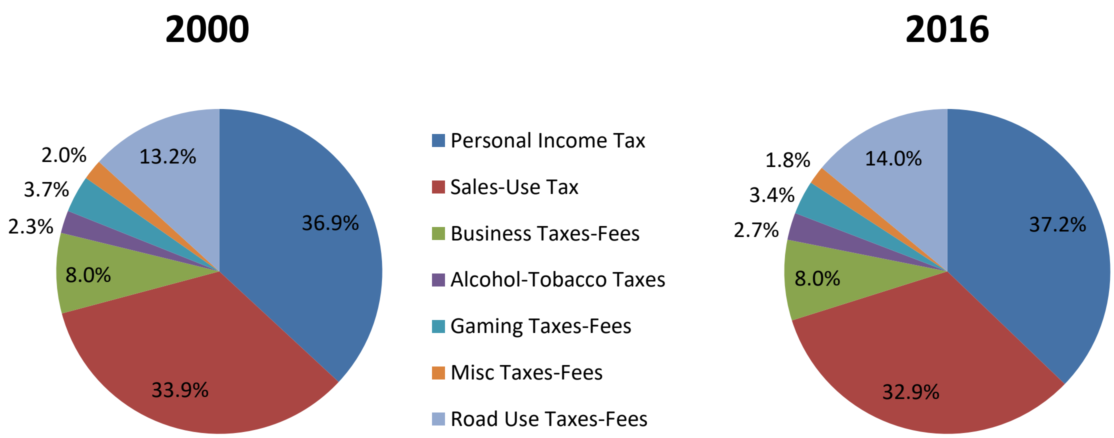
Overview of Iowa's Tax and Fee Structure

Personal income tax and sales and use tax provide most state revenues in Iowa. During 2016 personal income tax accounted for 37.2% and sales and use taxes accounted for 32.9% of total tax and fee revenues. The corresponding shares during 2000 equaled 36.9% and 33.9%. These two taxes accounted for 70.8% of total taxes and fees in 2000 and for70.1% of the total in 2016.

Figure 1 shows the distribution of all Iowa taxes and fees collected by state government for 2000 and 2016 summarized into seven groups. These seven groups are:

- Individual Income Tax
- Sales and Use Tax
- Business Taxes and Fees
- Alcohol and Tobacco Taxes
- Gaming Taxes and Fees
- Miscellaneous Taxes and Fees
- Road Use Taxes and Fees

Figure 1: Iowa Tax and Fee Revenue Shares, 2000 and 2016



Road use taxes and fees represent the third largest amount of revenues collected by the State of Iowa. But in Iowa these revenues cannot be used except for activities related to the construction, maintenance and management of the state's transportation system. The share of total revenues accounted for by road use taxes and fees increased from 13.2% to 14.0% from 2000 to 2016. The increased share reflects a motor fuel tax rate increase that took effect March 1, 2015. Prior to that increase the Iowa motor fuel tax rate had remained largely unchanged since 1989. This category also includes motor vehicle registration and operator license fees.

The share of total revenues accounted for by taxes and fees imposed on businesses equaled 8.0% in both 2000 and 2016. However, the business share of Iowa tax and fee revenues did fluctuate over the 17 years dropping to a low of 6.6% in 2002 and rising to a high of 9.4% in 2006.

The three primary taxes that Iowa imposes on businesses are corporate income tax, bank franchise tax and insurance premium tax. The basic statutory features – rates and bracket amounts – of the corporate income tax and the bank franchise tax rate have remained unchanged over the 17 years. The tax rate for insurance premium tax was cut in half over five years beginning in 2003. This category also includes business and occupation license fees.

Revenues derived from alcoholic beverages include taxes imposed on the sale of wine and beer and license fees. It does not include profits derived from the state's wholesale liquor monopoly. Wine and beer tax rates remained unchanged over the 17 years. Revenues from the sale of tobacco products include cigarette and tobacco products taxes. The tax rate for cigarettes increased on March 16, 2007 from 36-cents to $1.36 per package. The tax rates for cigars, snuff and other tobacco products increased on the same date. Overall, the share of state revenues derived from alcoholic beverages and tobacco products increased from 2.3% in 2000 to 2.7% in 2016.

The share of state revenues generated by gaming activities decreased from 3.7% to 3.4% of the total in spite of the fact that the number of gaming facilities expanded in the state over the period. The number of state licensed casinos increased from 13 to 19 and several facilities expanded the size of their gaming areas. Lottery profits are not counted as tax or fee revenues by the Census Bureau.

The final category – miscellaneous taxes and fees – includes inheritance taxes, hunting and fishing license fees, real estate transfer taxes and other fees. These revenue sources contributed 2.0% of total revenues in 2000 and 1.8% in 2016.

Comparison of Iowa and National Tax and Fee Structures

During 2000, Iowa collected $5.2 billion in taxes and fees, which equaled about 0.9% of the $551.9 billion collected by all 50 states. During 2016, Iowa tax and fee collections increased to $9.6 billion, which equaled 1.0% of the 50 state total of $934.6 billion.

Table 1 presents tax and fee collections for Iowa and for all 50 states by the seven revenue source groups previously identified. The top two sections of the table present collection amounts for 2000 and 2016 and the changes and percentage changes between 2000 and 2016 for each revenue group. The bottom section of the table presents the shares of tax and fee collections for each of the seven groups for Iowa and all states for the years 2000 and 2016.

The shares of total Iowa revenues accounted for by personal income tax almost exactly equals the shares for all states for both 2000 and 2016. The Iowa and all states personal income tax shares in 2000 equal 36.9% and 36.8%, respectively. In 2016, the Iowa and all states shares for this revenue source equal 37.2% and 37.3%.

The share of revenues derived from sales and use taxes during both 2000 and 2016 appears to be slightly higher for Iowa than for all states. The Iowa and all states shares in 2000 are 33.9% and 32.3%. For 2016 the Iowa and all states shares equal 32.9% and 31.5%. However, the 2016 share comparisons are deceiving because Iowa raised its sales and use tax rates from 5.0% to 6.0% on July 1, 2008, but all of the increase goes to local school districts and not to the state General Fund. And in fact, this was not really much of a rate increase because the extra 1-cent of state tax replaced a 1-cent local option school infrastructure sales tax.[4]

In both 2000 and 2016 Iowa is much less reliant on business taxes and fees than are all states in aggregate. For 2000 the Iowa and all states business taxes and fees shares equal 8.0% and 13.9%, respectively. For 2016 the Iowa and all states shares equal 8.0% and 12.7%.

Table 1: Iowa and All States Taxes and Fees Amounts, Changes and Shares, 2000 and 2016

	Iowa ($ million)			
	2000	2016	Change	% Change
Personal Income Tax	$1,901.5	$3,566.8	$1,665.3	87.6%
Sales-Use Tax	$1,746.8	$3,157.2	$1,410.4	80.7%
Business Taxes-Fees	$411.4	$768.5	$357.2	86.8%
Alcohol-Tobacco Taxes	$116.0	$260.1	$144.1	124.2%
Gaming Taxes-Fees	$189.6	$322.3	$132.7	69.9%
Misc. Taxes-Fees	$104.9	$173.1	$68.2	65.0%
Road Use Taxes-Fees	$680.6	$1,341.9	$661.3	97.2%
Total Taxes and Fees	$5,150.7	$9,589.9	$4,439.2	86.2%

	All States ($ million)			
	2000	2016	Change	% Change
Personal Income Tax	$203,129.0	$348,650.9	$145,522.0	71.6%
Sales-Use Tax	$178,103.0	$294,327.3	$116,224.3	65.3%
Business Taxes-Fees	$76,606.6	$118,998.2	$42,391.6	55.3%
Alcohol-Tobacco Taxes	$12,619.9	$25,313.1	$12,693.2	100.6%
Gaming Taxes-Fees	$4,344.2	$8,199.8	$3,855.5	88.7%
Misc. Taxes-Fees	$30,440.0	$65,584.4	$35,144.3	115.5%
Road Use Taxes-Fees	$46,670.0	$73,549.2	$26,879.2	57.6%
Total Taxes and Fees	$551,912.8	$934,622.9	$382,710.2	69.3%

	Iowa Shares		All States Shares	
	2000	2016	2000	2016
Personal Income Tax	36.9%	37.2%	36.8%	37.3%
Sales-Use Tax	33.9%	32.9%	32.3%	31.5%
Business Taxes-Fees	8.0%	8.0%	13.9%	12.7%
Alcohol-Tobacco Taxes	2.3%	2.7%	2.3%	2.7%
Gaming Taxes-Fees	3.7%	3.4%	0.8%	0.9%
Misc. Taxes-Fees	2.0%	1.8%	5.5%	7.0%
Road Use Taxes-Fees	13.2%	14.0%	8.5%	7.9%

On average the shares of Iowa's and all states' taxes and fees accounted for by alcoholic beverage and tobacco sales are the same for both 2000 and 2016. Many states, including Iowa, enacted higher cigarette and tobacco products taxes over this period.

Iowa's shares of revenues derived from gaming taxes and fees are noticeably higher in both 2000 and 2016 than the average for all states. Iowa began relying on gaming revenues to plug a hole in the state budget during the farm crisis of the 1980s. However, even though the number and size of casinos have increased since 2000, the share of total state revenues derived from this source has declined. This suggests that Iowa's gaming industry has reached a point of saturation given the state's modest growth of population and income.

The all states average shares for miscellaneous taxes and fees are substantially higher than the Iowa shares for both 2000 and 2016 and the difference increased over the 17 years. For 2000, the Iowa and all states shares are 2.0% and 5.5%, which equals a spread of 3.5 percentage points. By 2016, Iowa's share of revenues accounted for by this group of taxes and fees declined to 1.8%, while the all states share increased to 7.0%, which widened the spread to 5.2 percentage points. One tax included in this revenue group that distinguishes Iowa from other states is the severance tax. Thirty-five states impose some form of severance tax related to the extraction of oil or minerals, but for all but ten states the share of revenues derived from this source was less than 1 percent during 2016. Alaska is the state most dependent on severance tax revenues with this source accounting for 49.9% of total revenues in 2000 and for 44.7% in 2016. In North Dakota the share of total revenues derived from severance taxes jumped from 14.9% in 2000 to 37.5% in 2016. Iowa is one of the 15 states with no severance tax revenues.

Also, other states derive much more revenue from selective sales taxes than does Iowa. In 2016, Iowa's share of total revenue derived from selective sales taxes equaled only 0.3%, while for all states the share equaled 4.1%.[5]

In Iowa revenues derived from motor fuel sales, motor vehicle registrations and operator licenses are deposited in the Road Use Tax Fund (RUTF) rather than the General Fund. Consequently, the use of these funds is restricted to transportation related purposes. For 2000 and 2016 Iowa's share of total state revenues derived from the three RUTF sources equaled 13.2% and 14.0%. This is substantially more than for all states for which the 2000 and 2016 shares equaled 8.5% and 7.9%. One reason for the difference is that Iowa has the fourteenth highest miles of roadways among the 50 states. Also, road maintenance and repair is more expensive in north states than in southern states due to differences in weather conditions.

Inflation Adjusted Changes in Tax and Fee Revenues

Beyond looking at the relative importance of the different sources of Iowa tax and fee revenues, it is important to see how the amounts of revenue derived from the different sources have changed over time. Table 1 presents the changes and percent changes by revenue group from 2000 to 2016 in current dollars. Table 2 repeats the top two parts of Table 1 adjusted for inflation. Also, Table 2 presents a similar comparison for all states in aggregate.

Adjusted for inflation, total tax and fee revenues collected by Iowa increased by $2.4 billion (33.6%) from 2000 to 2016. For all states the increase equaled $165.4 billion (21.5%). So, Iowa accounted for about 1.5% of the nationwide increase. Iowa's increase has mostly occurred since 2010. Figure 2 shows the cumulative percent changes by year from 2000 through 2016 for Iowa and for all states. The reasons for the Iowa changes will be explored later in the paper.

Figure 2 shows that from 2000 until 2009 the cumulative percent increase nationally substantially exceeded the increase for Iowa. But because the Great Recession had a much greater negative impact nationally than in Iowa, the cumulative rate of growth of tax and fee revenues dropped back to about zero in 2009 for both Iowa and all states in aggregate.

Table 2: Iowa and All States Tax and Fee Revenues Adjusted for Inflation, 2000 and 2016

	Iowa ($2016 million)			
	2000	2016	Change	% Change
Personal Income Tax	$2,650.3	$3,566.8	$916.6	34.6%
Sales-Use Tax	$2,434.6	$3,157.2	$722.6	29.7%
Business Taxes-Fees	$573.3	$768.5	$195.2	34.0%
Alcohol-Tobacco Taxes	$161.7	$260.1	$98.4	60.9%
Gaming Taxes-Fees	$264.3	$322.3	$58.0	21.9%
Misc. Taxes-Fees	$146.2	$173.1	$26.9	18.4%
Road Use Taxes-Fees	$948.6	$1,341.9	$393.3	41.5%
Total Taxes and Fees	$7,178.9	$9,589.9	$2,411.0	33.6%

	All States ($2016 million)			
	2000	2016	Change	% Change
Personal Income Tax	$283,114.8	$348,650.9	$65,536.1	23.1%
Sales-Use Tax	$248,234.4	$294,327.3	$46,092.9	18.6%
Business Taxes-Fees	$106,771.9	$118,998.2	$12,226.3	11.5%
Alcohol-Tobacco Taxes	$17,589.3	$25,313.1	$7,723.9	43.9%
Gaming Taxes-Fees	$6,054.9	$8,199.8	$2,144.9	35.4%
Misc. Taxes-Fees	$42,426.4	$65,584.4	$23,158.0	54.6%
Road Use Taxes-Fees	$65,047.2	$73,549.2	$8,502.0	13.1%
Total Taxes and Fees	$769,238.8	$934,622.9	$165,384.1	21.5%

From 2009 through 2014 both Iowa and all states experienced about equal rates of tax and fee revenues growth. In 2015 Iowa’s cumulative rate of tax and fee revenues growth jumped above the national rate of change and widened the gap slightly during 2016.

There are a variety of factors that contributed to the jump in Iowa tax and fee revenues during 2015. That year the legislature enacted a 10-cent per gallon increase in motor fuel taxes. Also, 2015 marked the first year following the completion of the phase-out of Iowa individual income tax on social security income, which had been depressing revenue growth for this tax since the phase-out began in 2007. Furthermore, sales tax revenues experienced a large increase, which was at least partially due to a sizable drop in business incentive related refunds.

Figure 2: Real Cumulative Percent Change in Iowa and All States Taxes and Fees, 2000 – 2016

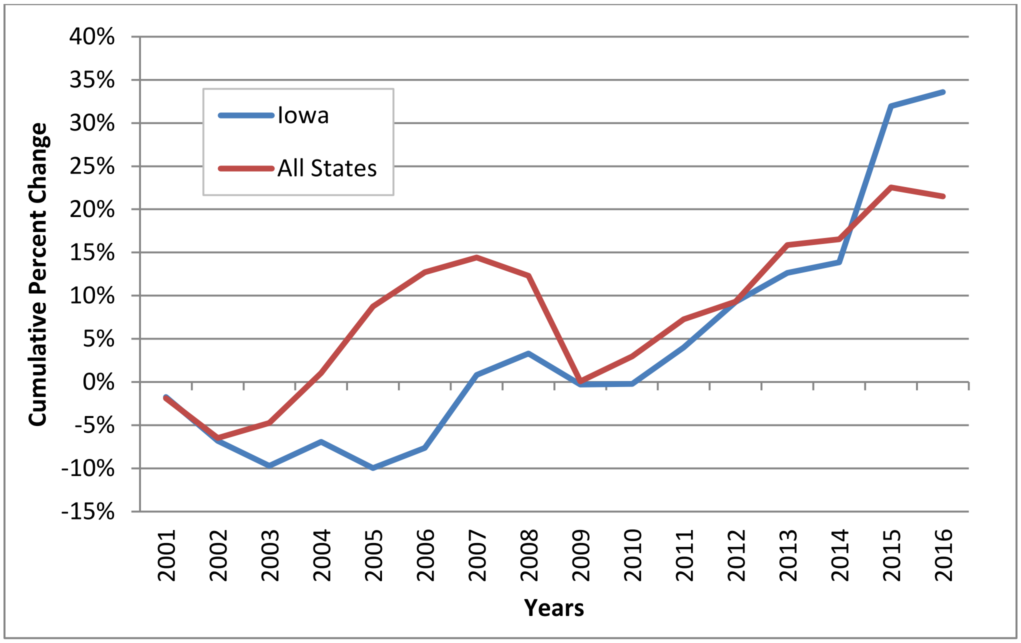


Figure 3: Revenue Source Shares of Growth, 2000 – 2016

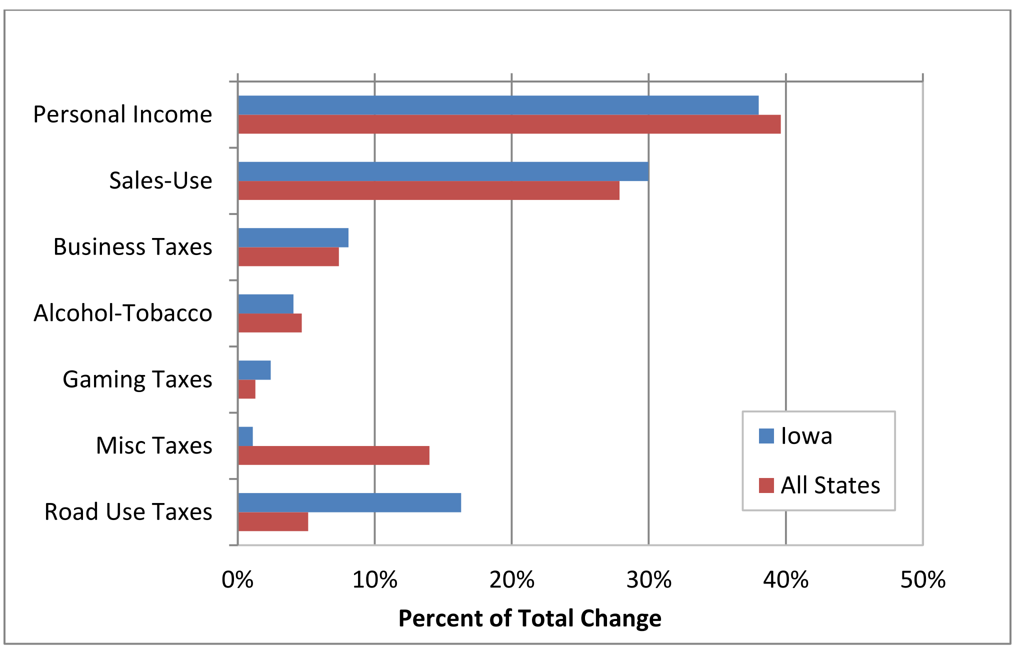


Figure 3 presents a comparison of the shares of total change in tax and fee revenues from 2000 to 2016 for Iowa and for all states by the seven revenue groups. This comparison shows that for both Iowa and for all states personal income taxes accounted for the greatest share of the growth. For this revenue source the all states growth share exceeded the Iowa growth share by

1.6 percentage points. General sales and use tax accounted for the second largest growth shares for both Iowa and for all states. For this revenue source the Iowa growth share exceeded the all states growth share by 2.1 percentage points.

The greatest differences between the Iowa and all states cumulative growth shares were for miscellaneous taxes and for road use taxes. The all states growth of miscellaneous taxes (i.e., selective sales, severance, death and gift, and document and stock transfer taxes) accounted for 14.0% of total tax and fee revenue growth, but for Iowa these revenue sources accounted for only 1.1% of total revenue growth. On the other hand, road use taxes and fees accounted for 16.3% of Iowa's total revenue growth, but they accounted for only 5.1% of total revenue growth for all states.

Further understanding of how Iowa's revenue growth experience compared to all states is obtained by looking at yearly inflation adjusted cumulative growth for the major revenue sources – personal income tax, sales and use tax, and business taxes and fees. Figure 4 presents the comparison for personal income tax. From 2000 through 2007 the cumulative growth was about equal, but since 2007 Iowa personal income tax revenue growth has exceeded the growth for all states by about 10 percentage points. This appears to be entirely due to Iowa coming through the last recession in much better shape than the nation as a whole.

Figure 4: Real Iowa and All States Personal Income Tax Cumulative Percent Change, 2000 – 2016

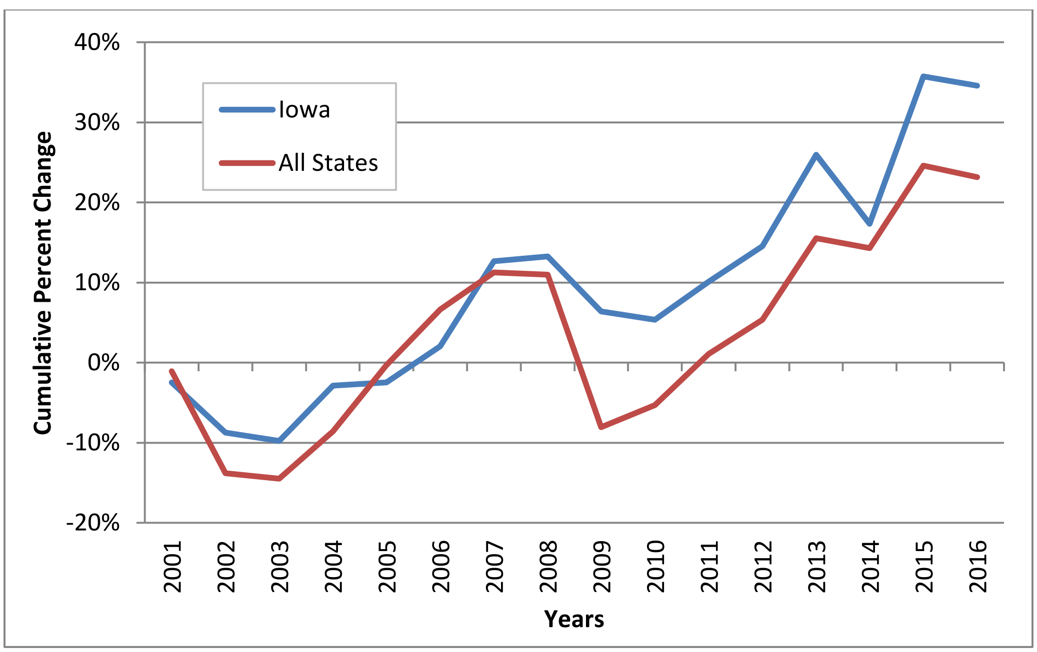


Figure 5 presents the comparison of cumulative percentage growth for sales and use tax revenues by year from 2000 to 2016 for Iowa and for all states. This figure shows how nationally sales and use tax revenues adjusted for inflation grew by 12.5% from 2000 through 2006, but then lost all of the gain by 2009. After 2009 growth picked up slowly through 2012 and then accelerated through 2015 rising to 17.8% above the 2000 level. But during 2016 growth slowed to only 0.8%.

In Iowa, real sales and use tax revenues took a dive from 2001 to 2005. This can largely be attributed to the 5-year phase-out of sales tax on residential electricity, natural gas and other fuel purchases that began in 2002. Even with the 1 percentage point tax rate increase that took effect July 1, 2008, Iowa's cumulative sales and use tax revenue growth did not come back to the zero point until 2013. But then during 2014 and 2015 cumulative growth jumped up to 28.5%. There was no rate increase during these two years that drove this growth. The growth appears to be due exclusively to a strong state economy and the reduction of business incentive refund claims. Business segments that experienced large increases in taxable sales between 2013 and 2015 include utilities and transportation, construction contractors, manufacturing, service enterprises, and bars and restaurants.

Figure 5: Real Iowa and All States Sales and Use Tax Cumulative Percent Change, 2000 – 2016

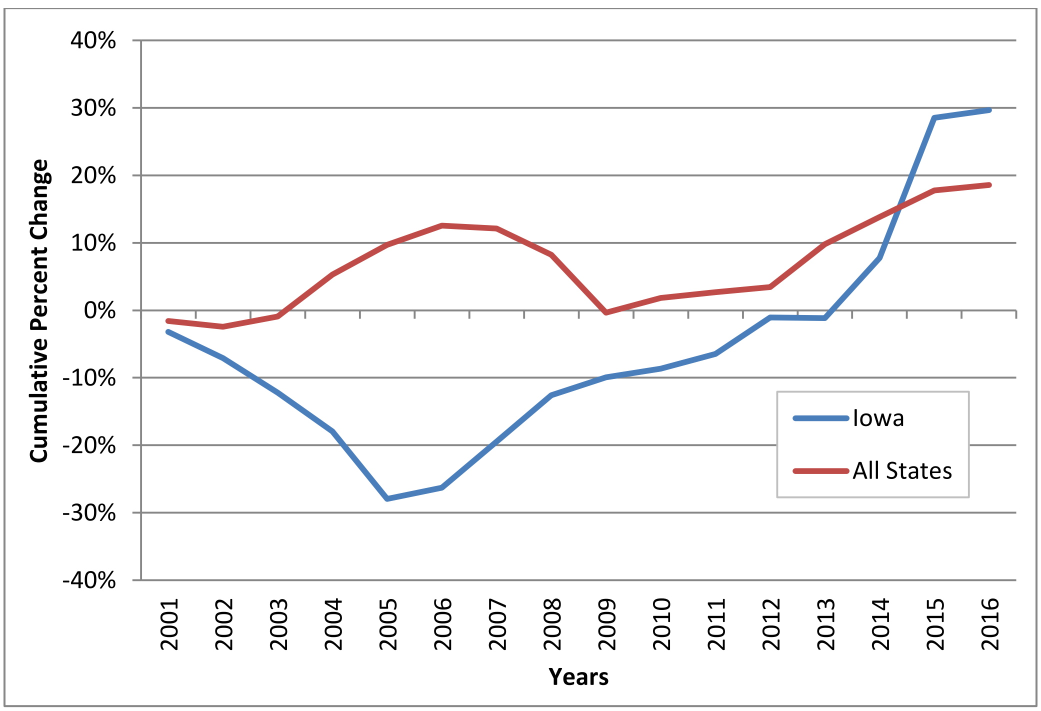
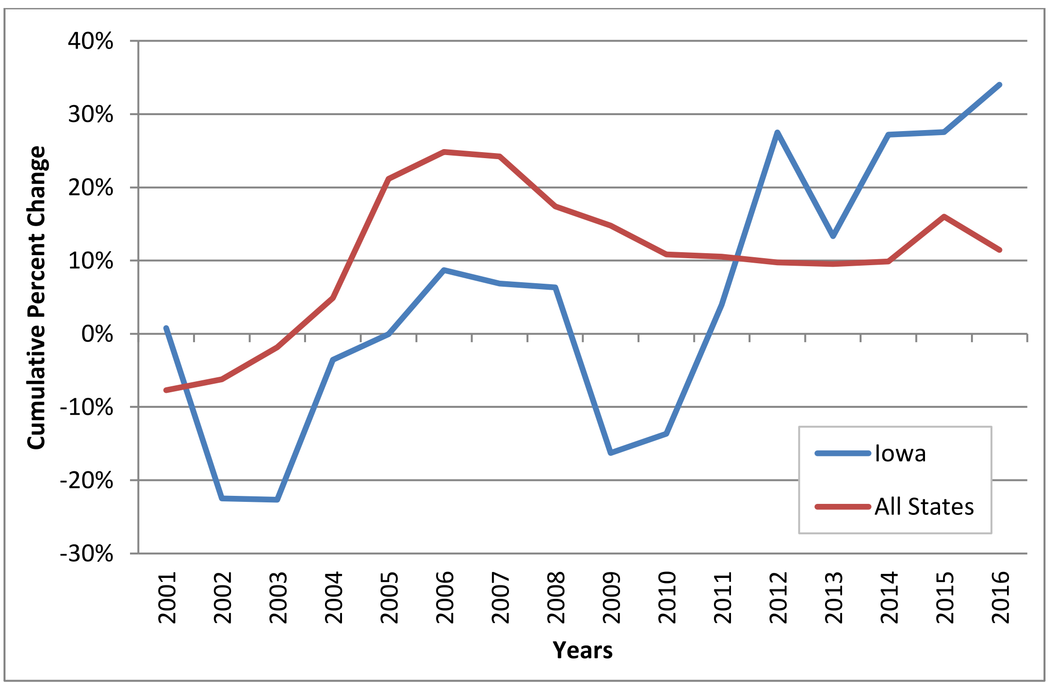


Figure 6 shows the inflation adjusted cumulative percentage growth in business tax and fee revenues. Coming out of the 2001 recession at -7.7% growth, business tax and fee revenues for all states rose to 24.8% cumulative growth by 2006. Then, after staying flat during 2007, growth declined to 10.8% by 2010 and stayed at about the 10.0% level through 2014. During 2015, cumulative growth rose to 16.0%, but it fell back to 11.5% in 2016.

Iowa's business tax and fee collections from 2000 to 2002 dropped by 22.5%. Then they recovered to 8.7% cumulative growth by 2006. With the advent of the Great Recession they again dropped sharply to -16.3% in 2009, even though Iowa came through the recession in much better shape than did most of the nation. By 2011 Iowa business tax and fee revenues recovered and since then they have exceeded the cumulative growth from these sources nationally. During 2016 Iowa's business tax and fee revenues stood at a level 34.0% above their 2000 level.

Iowa's business tax and fee collections exhibit much greater volatility than did collections from these sources nationally. The primary explanation for the difference is that relatively few non-financial corporations, banks and insurance companies account for most business source revenues in Iowa. Also, these businesses are concentrated in a small number of industry sectors. Nationally the population of businesses is much more diverse and as a result when some experience declines in profits this is at least partially offset by growth in other businesses. Another reason for the Iowa increase is a jump in business and occupation license fees that began in 2008.

Figure 6: Real Iowa and All States Business Taxes and Fees Cumulative Percent Change, 2000 – 2016

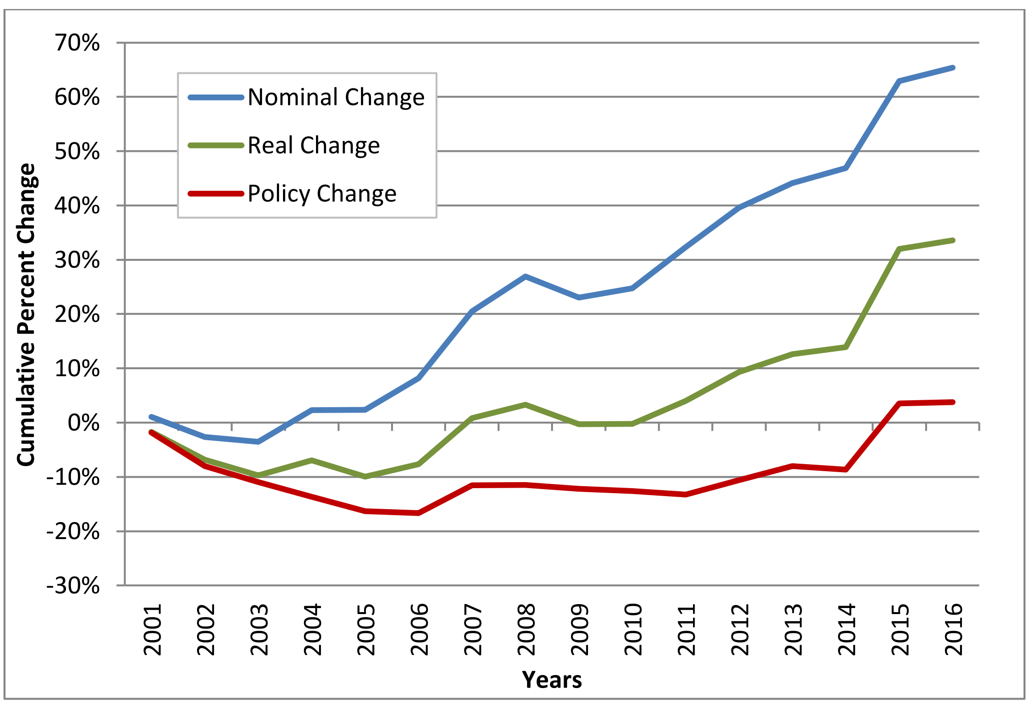


These comparisons of inflation adjusted cumulative growth rates for personal income tax, sales and use tax, and business taxes and fees show that on average other states out performed Iowa up until the great Recession and through the early recovery years. But over the past several years revenue growth for Iowa has jumped ahead of the nation as a whole. The next section of the paper investigates the extent to which Iowa's revenue growth may be explained by filtering out the impacts of population and economic growth. This is accomplished by looking at nominal cumulative growth rates adjusted for personal income growth for total tax and fee revenues, the three major revenue sources discussed over, for road use taxes and fees, and for alcohol and tobacco taxes and fees. Personal income growth is used as the filter for these comparisons because it incorporates population, per capita income, and general economic growth.

Personal Income Adjusted Tax and Fee Revenue Growth Comparisons

Total nominal Iowa tax and fee revenues increased by 65.4% from 2000 to 2016. Adjusted for inflation, growth equaled 33.6% over the 17 years. Netting out population and real economic growth Iowa's tax and fee revenue growth equaled only 3.7%. This last figure can be thought of as the revenue growth driven by policy changes. Figure 7 shows the year-by-year cumulative change for these three measures of Iowa revenue growth.

Figure 7: Alternative Measures of Total Iowa Tax and Fee Revenue Cumulative Percent Changes, 2000 – 2016

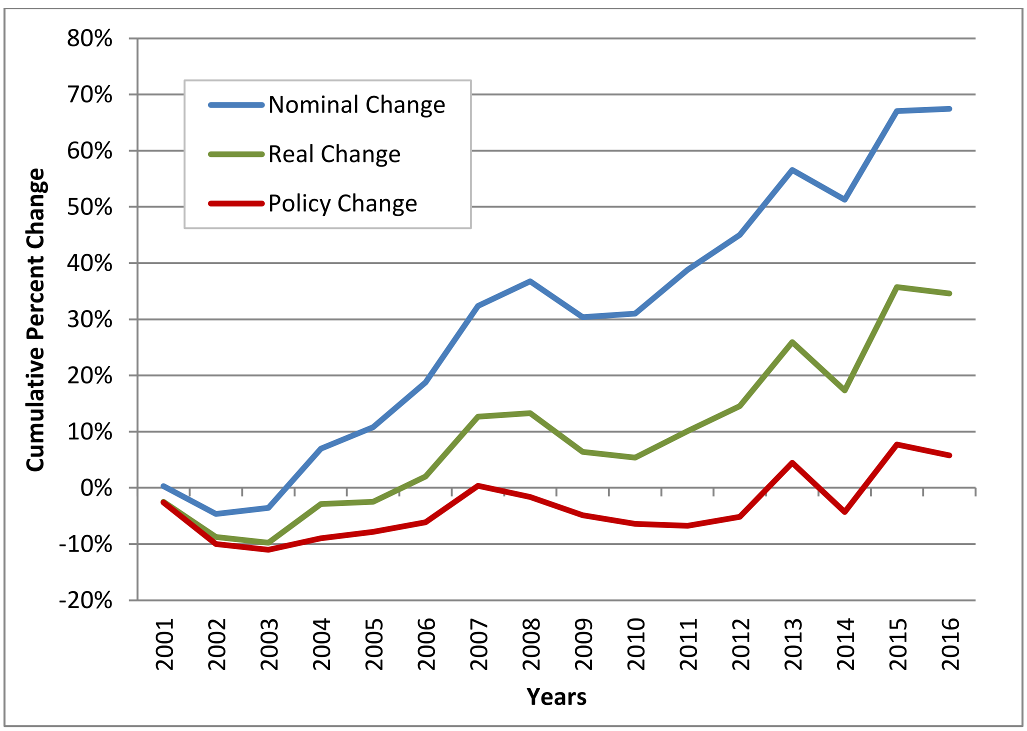


Policy changes, as used here, include impacts resulting from legislation, regulatory changes and administrative actions. In addition, policy related impacts include long-term structural features of different taxes, such as the graduated brackets and marginal rates for personal income tax, and special provisions related to the exercise of tax incentives. Also, due to the linkage between Iowa's personal and corporate income taxes with their federal counterparts, federal law and regulatory changes impacted state tax revenues.

As Figure 7 shows policy driven total tax and fee revenue growth remained negative from 2000 through 2014. One factor that pulled policy driven revenue growth into positive territory in 2015 was an increase in Iowa's motor fuel tax rates and other road use fund fees. Another factor was the end of the phase-out period for the taxation of social security benefits.

Figures 8 – 12 separately illustrate nominal, real and policy driven cumulative revenue growth percentages for personal income tax, sales and use tax, business taxes and fees, road use taxes and fees, and alcohol and tobacco taxes and fees. The next section of the paper provides impact estimates for major policy changes that have impacted state tax and fee revenues.

Figure 8: Alternative Measures of Iowa Personal Income Tax Revenue Cumulative Percent Changes, 2000 - 2016



As shown in Figure 8, from 2000 to 2003 there is little distance between the inflation adjusted (real) and the personal income adjusted (policy) cumulative personal income tax growth curves. The Iowa legislature did not enact any significant personal income tax legislation over this period. However, Congress enacted two large tax reductions in 2001 (Economic Growth and Tax Relief Reconciliation Act – EGTRRA) and in 2003 (Jobs and Growth Tax Relief Reconciliation Act – JGTRRA).

Among the major provisions of the 2001 legislation were the lowering of marginal tax rates, such as reducing the top marginal rate from 39.6% to 35.0%, and lowering the capital gains tax rate for property and stock held for more than five years. However, the major provisions of 2001 legislation were intended to be phased-in over five years. Consequently, they provided little initial economic stimulus and thus the 2003 legislation was enacted to speed up the impact of the tax cuts.

This second round of federal tax cuts does appear to have stimulated personal income tax revenue growth in Iowa beginning in 2004. The reason the federal tax cuts caused a rise in Iowa personal income tax revenue is because Iowa allows a 100 percent deduction for federal personal income taxes paid by Iowa taxpayers. This means the lowering of one's federal tax liability causes an increase in one's Iowa tax liability.

Because the Bush Era tax cuts were enacted in reconciliation bills, they were limited to a 10 year life. Through a compromise between the Obama Administration and the Republican controlled House of Representatives only the top marginal tax rate returned to its pre-2001 level beginning with tax year 2013. Also, the temporary 2 percentage point reduction in Social Security payroll taxes was allowed to expire. These changes in federal law at least partially explain the changes in the policy-driven cumulative change in Iowa personal income tax revenues after 2012.

Between 2007 and 2014 the most significant state law change that impacted Iowa personal income tax revenues was the enactment during 2006 of the phase-in of the full exemption of Social Security income from state taxation. This phase-in began with tax year 2007 and corresponds with the decline in the cumulative growth in Iowa personal income tax revenues that began that year and extended through 2011. After 2011, the cumulative growth in Iowa personal income tax revenue began to increase, which likely reflects the impact of the federal law changes that offset the state tax reduction that only applied to elderly taxpayers.

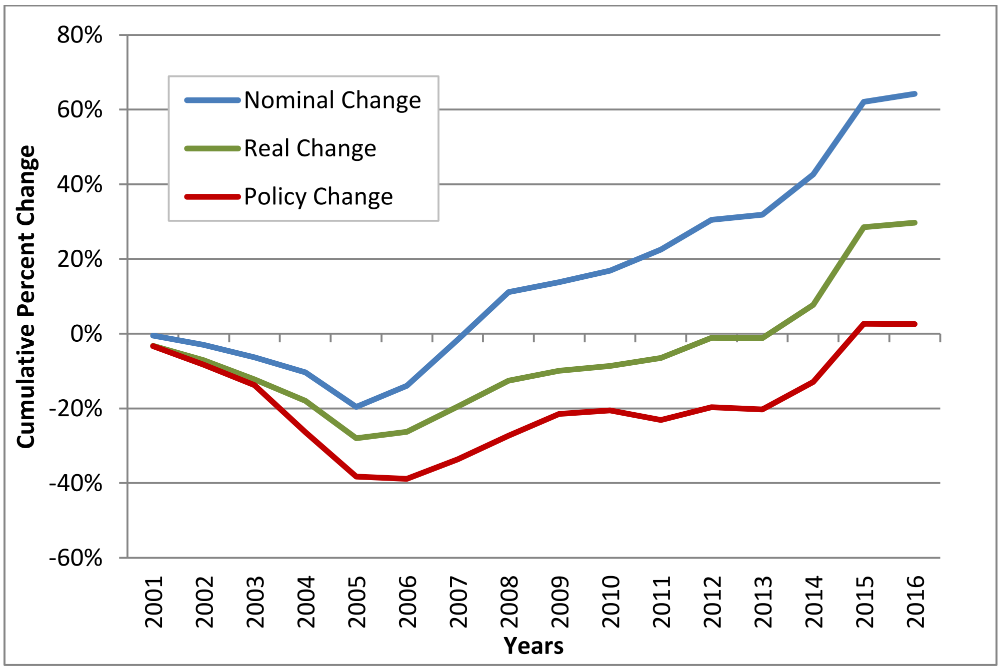
An additional state law change that had a noticeable impact on personal income tax revenues was the increase in the Iowa Earned Income Tax Credit (EITC) from 7% to 15% of the federal EITC amount. This change went into effect beginning with tax year 2013.[6] Previously, legislation enacted during 2007 had increased the Iowa EITC percentage from 6.5% to 7% of the federal amount, and more significantly, had made the credit refundable.

There were many other federal and state changes that have impacted Iowa personal income tax revenues since 2000. But the law changes discussed above were the major ones that explain the policy-driven changes in the cumulative growth percentages for Iowa personal income tax revenue.

Figure 9 presents the nominal, real and policy-driven cumulative percentage changes in sales and use tax revenues. This figure shows that from 2000 to 2005 Iowa's sales and use tax collections took a large dive. The primary explanation for this large decline is the enactment in

2001 of legislation that phased-out sales tax on residential purchases of electricity, natural gas and other fuels used for home heating and power. The phase-out extended over five years beginning January 1, 2002.

Figure 9: Alternative Measures of Iowa Sales and Use Tax Revenue Cumulative Percent Changes, 2000 – 2016



By 2006 all three measures of sales and use tax collections began to recover. However, there is a noticeable difference between the policy change curve and the other two curves over the years 2009 through 2013. Over these years the nominal and real change curves exhibit upward slopes. On the other hand, the policy change curve remains flat. This is surprising given that effective July 1, 2008, the state sales tax rate increased from 5% to 6%, which absent of other law changes should have caused a sizable increase in the policy change curve. In fact, between 2005 and 2013 the Iowa General Assembly enacted 17 bills that provided sales and use tax exemptions or rebates to different classes of businesses, nonprofit organizations, products and services. For example, in 2006 the legislature enacted exemptions for purchases of central office and transmission equipment by telecommunications companies, solar energy equipment, and agricultural diesel fuel trailers and seed tenders. Also, that year a sales tax rebate was enacted for the Iowa Speedway that was under construction in Newton.

The strong rise in all three curves during 2014 and 2015 likely resulted from a number of factors. At least part of the rise appears to be due to an exceptional number of large construction projects in the state, such as a $1.9 billion wind farm. Also, several large data centers were constructed during these two years. Iowa has become a very attractive location for both of these types of development projects. In fact, the availability of low cost wind generated electricity is one reason large data centers are locating in Iowa. Also, both federal and state tax policy have induced these types of developments. Federal Renewable Electricity Production Tax Credits have encouraged the construction of large scale wind energy facilities. Iowa has attracted data centers through the provision of very generous income, property and sales and use tax incentives.

Over the entire period from 2000 through 2016 the cumulative growth of sales and use tax revenues rose by only 2.5% relative to the growth of personal income in the state. As recently as 2013 the cumulative growth of sales and use tax revenues net of personal income growth was 20.3% below the 2000 level. Whether the sizable growth during 2014 and 2015 was unusual and unlikely to be repeated cannot be answered at this time. However, there was no growth during 2016.

Figure 10 presents the comparison of nominal, real, and policy-driven changes in the cumulative growth of business taxes and fees. All three curves show a pattern that clearly reflects the impact of economic cycles. From 2000 through 2006 the real change and policy change curves nearly coincide. This indicates that from the 2001 through near the end of the pre-Great Recession expansion policy changes had little impact on business tax and fee revenues in Iowa. This is not surprising. State laws pertaining to Iowa business taxes have remained largely unchanged since the early 1980s. Corporate income tax marginal rates and bracket amounts have not changed since 1981. The franchise tax has been imposed at a flat rate of 5% since 1980. The only exception is a reduction in the insurance premium tax rate from 2% to 1% that phased-in between 2003 and 2007. Insurance premium tax revenues bottomed out in 2009.

After 2006, a small spread opened up between the cumulative growth rates for the real and policy driven curves. This spread remained fairly constant until 2013 averaging about 6.8 percentage points, but since then it has widened to 16.3 percentage points in 2016. One likely explanation for the widening spread between the real and policy change curves is the growth of tax credits awarded to and exercised by businesses. Data on the amount of tax credit claims only becomes available several years after the tax year for which the tax credits are claimed. Currently such data are only available through 2013. These data show that from 2006 through 2013 the amounts of tax credits claimed against corporation income tax and franchise tax have increased from $75.5 million to $119.2 million, or by $43.7 million (57.9%).

Figure 11 shows the cumulative change in nominal, real and policy-driven measures of road use taxes and fees. Focusing first on the real growth curve, from 2002 through 2012 road use revenues adjusted for inflation exhibited no growth. Actually the average cumulative growth over these years equaled -0.6%.

Figure 10: Alternative Measures of Iowa Business Tax and Fee Revenue Cumulative Percent Changes, 2000 – 2016

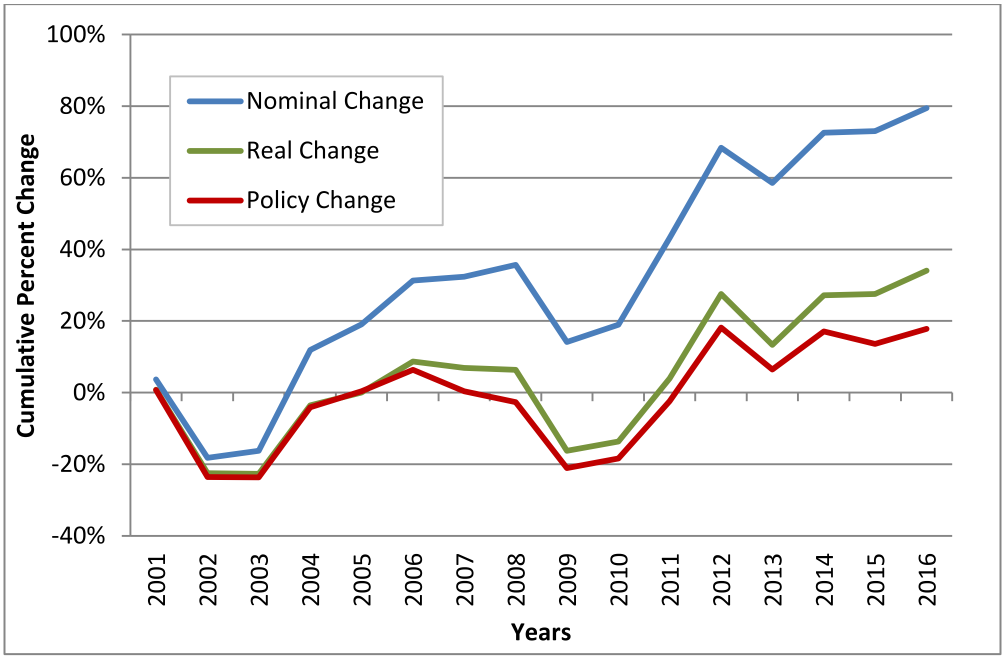
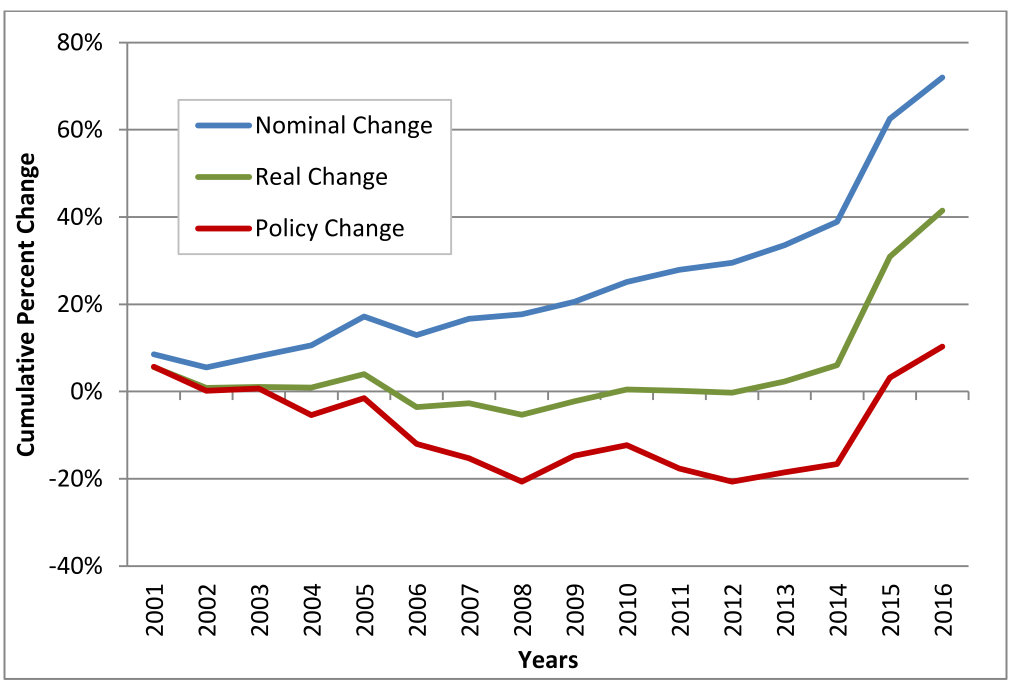


Figure 11: Alternative Measures of Iowa Road Use Tax and Fee Revenue Cumulative Percent Changes, 2000 – 2016

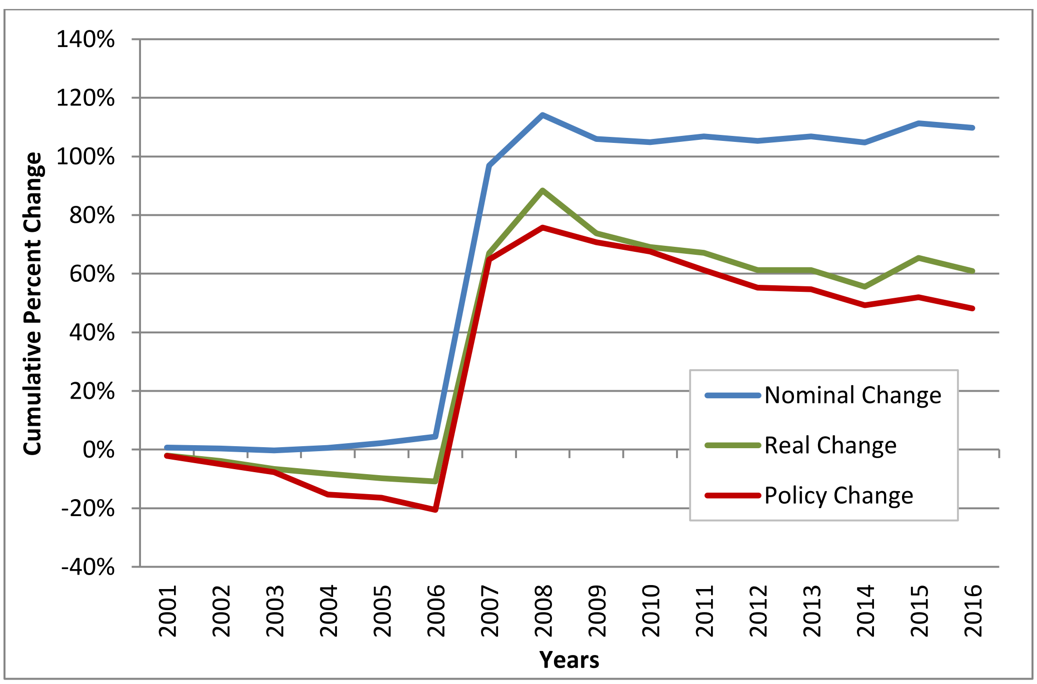


The policy change curve shows a downward trajectory from 2000 through 2008. Then, from 2008 to 2010 the cumulative growth increased from -20.7% to -12.3%. The growth corresponds with the enactment of increased motor vehicle registration fees in 2008. From 2011 to 2014 the curve exhibits a slight downward movement from -12.3% to -20.6% followed by a slight upward movement to -16.7%.

During the 2015 the Iowa General Assembly enacted 10-cent per gallon tax increases for motor fuel and diesel fuel. These rate changes took effect March 1st of that year. The increased revenues generated by these rate increases pushed the cumulative policy change growth curve up to 3.2% in 2015 and to 10.3% in 2016.

Figure 12 shows the nominal, real and policy driven changes in alcohol and tobacco taxes and fees. Taxes and fees imposed on the retail sales of alcohol beverages have remained largely unchanged since 2000. Also, the taxes and fees statistics compiled by the U.S. Census Bureau do not include profits earned by the Iowa wholesale liquor monopoly. Therefore the most dramatic changes in all three curves reflect the increases in cigarette and other tobacco products taxes that took effect during March 2007.

Figure 12: Alternative Measures of Iowa Alcohol and Tobacco Tax and Fee Revenue Cumulative Percent Changes, 2000 – 2016



Effective March 16, 2007, the Iowa cigarette tax jumped from $0.36 to $1.36 per package. Tobacco products taxes also experienced increases on that date. Since then the nominal curve shows that cumulative revenue growth has stayed nearly constant. Other the other hand, both the real and policy cumulative change curves have trended downward. Because cigarette and tobacco products taxes are excise taxes imposed at a set statuary rate per unit of product sold the downward trend reflects the impact of inflation. In addition, the slight negative difference between the real and policy change curves reflects that the number of cigarette and tobacco product users has been decreasing over time.

The preceding five figures illustrate the impact of inflation, economic factors and policy changes on five major categories of Iowa state level tax and fee revenues. The most revealing of the curves in all cases are the policy change curves. These curves plot the cumulative percent changes in nominal tax and fee revenues net of the cumulative percent changes in Iowa personal income. Personal income was used as the filter to reveal policy change impacts on tax and fee revenues because personal income incorporates population, per capita income, and cyclical and secular economic trends. The prior discussion of the correspondence of variations in the policy change curves with major legislative actions supports the usefulness of this technique in revealing the impact of policy actions on state tax and fee revenues.

The final section of this paper discusses how major state legislation has impacted the revenue generating capacity of Iowa's tax and fee structure. This final section also distinguishes between changes that have impacted General Fund and Non-General Fund revenue sources.

Impact of Major Law Changes on State Tax and Fee Revenues

The prior section discussed the correspondence between legislative actions and the revenues generated by five major categories of taxes and fees. This section identifies the most significant tax legislation enacted since 2000 and develops estimates of their impact on state revenues. In addition, the analysis presented in this section will distinguish between General Fund and non-General Fund impacts.

Personal Income Tax

Iowa's personal income generally parallels federal personal income tax in terms of the definition of income and in terms of the exemptions and deductions allowed. This correspondence between federal and state tax law is maintained by the Iowa legislature most years enacting legislation that updates Iowa law references to the Internal Revenue Code (IRC). Over the period from 2000 to 2016 the Iowa legislature only failed to enact an IRC Update bill during 2009 and 2010. These were years when state revenues were adversely affected by recession and enacting the IRC Update bills those years would have caused additional revenue losses. Because the IRC Update legislation enacted in different years impact revenues across many years and often result in interacting impacts, this paper does not attempt to estimate the impact of these law changes between 2000 and 2016.

There are a number of features of Iowa's personal income tax that are similar to the federal personal income tax, but Iowa does depart from federal law in some significant ways. Two of these features that experienced significant changes between 2000 and 2016 relate to the treatment of social security income and the earned income tax credit.

Generally up to 50 percent of social security benefits are subject to federal personal income tax. However, for single taxpayers with modified adjusted gross income that exceeds $34,000 and for married taxpayers that exceeds $44,000 up to 85 percent of social security benefits may be subject to federal personal income tax. Iowa never adopted the higher 85 percent taxable income amount for social security income for higher income taxpayers. More importantly, beginning in 2007, Iowa started phasing out the inclusion of social security benefits in the computation of taxable income and the phase-out became complete with tax year 2014. This law change has resulted in about a $99 million reduction is personal income tax revenues in 2016.

Iowa first enacted a state earned income tax credit (EITC) in 1990. Until 2007 the Iowa EITC equaled 6.5% of the federal EITC and the credit was not refundable. In 2007 the Iowa EITC amount was increased to 7.0% of the federal EITC and the credit was made refundable. Refundability means a taxpayer is able to receive the full benefit of the credit even if the amount of the credit exceeds the amount of tax owed by the taxpayer. When the amount of the refundable tax credit exceeds the taxpayer's tax liability the state provides a refund equal to the difference between the credit amount and the taxpayer's tax liability.

During 2006, the last year before the Iowa EITC was made refundable, 116,500 taxpayers claimed the credit and the total amount of credits claimed equaled $10.7 million, or about $92 per qualifying taxpayer. During 2007, when the tax credit became refundable the number of claimants jumped to 202,100 and the amount of claims increased to $23.6 million, or about $117 per claim.

In 2013, the Iowa EITC increased to equal 14% of the federal EITC amount. The number of Iowa EITC claims that year equaled 241,522 and the amount of claims equaled $65.6 million, or about $272 per claim. In 2014, the Iowa EITC increased to equal 15% of the federal EITC amount. The number of Iowa EITC claims for 2014 equaled 238,422 and the total amount of the claims equaled $71.1 million, or about $298 per claim.

Current law provides for no additional increases in the Iowa EITC rate. Based on statistics for tax years 2014 and 2015 the number of claimants and the total amount of claims seem to have stabilized. Although statistics for 2016 tax returns will not be available until about May 2018, a reasonable estimate of the amount of claims for 2016 is $72.7 million. Adjusting for the percentage change and for making the tax credit refundable, the amount of total claims for tax year 2016 will likely be about $57.3 million greater than if the credit had remained the same as in 2006.

Sales and Use Taxes
From 2000 through 2016 the Iowa General Assembly enacted 29 sales and use tax exemptions and rebates. Based on estimates obtained from fiscal notes prepared by the Legislative Services Agency and the 2015 Tax Expenditure Study prepared by the Iowa Department of Revenue this legislation reduced tax revenues during 2016 by almost $300 million.

Another way of looking at the erosion of the tax base for sales and use taxes is by comparing the ratio of taxable sales to gross sales made by permitted businesses over the seventeen years. In 2000, the ratio for all categories of businesses with sales tax permits equaled 43.4%. In 2016, the overall ratio equaled only 29.7%.

The exemption of residential energy utility purchases had the greatest impact on sales and use tax revenues. The estimated impact of this exemption is about a $127 million reduction in tax revenue.[7] This exemption was enacted in 2002 and phased-in over five years. From 2001 to 2006 the ratio of taxable to gross sales for the transportation and utilities group of sales tax permit holders dropped from 79.1% to 41.9%.

Other exemptions that have had a large impact on sales and use tax revenues include:

- Manufacturing consumables (-$42 million)
- Data center equipment and electricity (-$35 million)
- Digitally delivered goods (-$17 million)

Also, during this period the General Assembly enacted a one percentage point increase in the state sales and use taxes. This increase took effect July 1, 2008. However, this was not really much of an increase because it replaced a one percentage point school infrastructure local option sales and services tax. The total value of the increase during 2016 equaled $470 million. However, only the use tax portion actually resulted in a tax increase because local option taxes do not apply to out-of-state purchases by Iowa residents and businesses, while such purchases are subject to the state taxes. The use tax portion of the increase equaled about $82 million in 2016. More importantly, none of the addition revenue from this tax increase is available for state programs. All of the funds from this 1 percentage point of sales and use taxes go to local school districts for infrastructure projects.

Business Taxes and Fees
Iowa's three major business taxes are the corporate income tax, insurance premium tax, and the franchise tax. Neither the corporate income tax, nor the franchise tax experienced any significant changes between 2000 and 2016. The tax rate for the insurance premium tax was reduced from 2% to 1% with the change being phased-in over the years 2003 through 2007.

Insurance premium tax revenues topped out at $158.1 million in 2005. In 2009, insurance premium tax revenues bottomed out at $80.6 million. In 2016, revenues from this source equaled $119.0 million. Thus, the reduction in the insurance premium tax rate has reduced the amount of revenue from this tax by about $119 million.

However, it is possible that slightly more taxable insurance is being sold in Iowa today than otherwise would have been sold if the tax rate remained at 2%. Also, due to a feature of insurance premium taxes in Iowa and elsewhere commonly referred to as the “retaliatory tax,” there are likely more insurance carriers and insurance industry jobs in Iowa than would have existed without the tax rate reduction. This is because insurance premium taxes are generally imposed either at the statuary rate imposed where policies are sold or at the statuary rate of the rate of the insurance carrier’s home state, whichever is higher. This favors insurance companies locating in states with lower insurance premium tax rates.

The greatest impact on business tax revenues has resulted from the increase in tax incentives enacted by the Iowa legislature since 2000. Over the last seventeen years 22 tax credits that apply primarily to businesses have been enacted. Credit claim amounts only exist by credit back to 2005. That year the amount of business tax credit claims equaled $128.3 million. By 2016 business tax credit claims increased to $242.6 million, or by $114.3 million (89.1%).[8]

Also, during fiscal year 2016, the Iowa Department of Revenue issued $17.1 million in sales and use tax refunds associated with business tax incentive awards. The amount of such refunds issued during fiscal year 2000 equaled only $141 thousand.[9]

Road Use Tax Fund Taxes and Fees

After remaining unchanged since 1989, the General Assembly enacted a motor fuel tax increase during 2015. On March 1, 2015, the tax rate for gasoline increased from 21-cents to 31-cents per gallon. On the same date the tax rate on ethanol (E-10) motor fuel increased from 19-cents to 29-cents per gallon and for diesel fuel the tax rate increased from 22.5-cents to 32.5-cents per gallon. Unlike some other states, motor fuel taxes in Iowa are set at a specific rate and do not adjust for inflation. Also, unlike some other states motor fuel purchases are not subject to the state’s sales tax, except in those cases where the motor fuel taxes do not apply.

During 2016, the higher motor fuel tax rates generated an additional $242 million in tax revenue for the Road Use Tax Fund compared to what would have been generated under the old tax rates.[10] Road Use Tax Fund revenues are distributed among the state, counties and cities according to the following formula:

- Primary Road Fund (Interstate and Primary Highways), 47.5%
- Secondary Road Fund (Counties), 24.5%
- Cities, 20%
- Farm-to-Market Road System (Counties), 8%

According to U.S. Census Bureau statistics, during 2014 Iowa collected $393.7 million in fuel taxes. By 2016, Iowa motor fuel tax collections increased to $697.3 million. The increase reflects both the tax rate increases and the growth in fuel consumption. Changes in motor vehicle registrations also boosted the amount of funds available for transportation system maintenance and improvements in the state. Between 2014 and 2016 motor vehicle registration fee collections increased from $575.8 million to $629.7 million. These sizable increases in taxes and fees all went into Iowa's Road Use Tax Fund. These tax and fee revenues are not available for use on non-transportation related programs.

Cigarette and Tobacco Taxes

The Iowa General Assembly enacted cigarette and tobacco tax rate increases during its 2007 session. The tax rate for cigarettes increased from $0.36 to $1.36 per pack on March 16, 2007. On the same date the tax rates for other tobacco products were increased from 22% of the wholesale price to as follows:

- Cigars: $0.50 per cigar or 50% of the wholesale price, whichever is lower
- Snuff: $1.19 per ounce
- Other tobacco products: 50% of the wholesale price

During 2006, tax collections for all tobacco products equaled $96.7 million. By 2008, the first full year during which the higher tax rates applied, Iowa collected $249.5 million. During 2016 tobacco products taxes yielded $221.5 million. The decline in tobacco tax revenues between 2008 and 2016 does show that the consumption of these products is declining in Iowa.

Tax revenue from tobacco products is deposited in the state's Health Care Trust Fund and not in the General Fund. Although the Health Care Trust Fund does pay for some medical services that otherwise would be funded from the General Fund.

Summary of Major Tax Law Changes

Between 2000 and 2016 the Iowa General Assembly enacted 176 tax bills. This section has focused only on tax law changes that have had significant revenue impacts. The law changes that have had the largest revenue impacts are summarized in Table 3. In addition, these law changes are divided between those that have impacted Iowa's General Fund and Non-General Fund funds.

As Table 3 shows, over the period analyzed for this report the sum of the major tax increases amounted to $449 million, which is $250 million less than the amount of the tax decreases. Also, the major tax decreases all impacted the General Fund resulting in $699 million dollars less for those programs and services funded by General Fund revenues. The major tax increases impacted Non-General Fund funds.

There are many other factors that have also degraded General Fund revenues that have not been analyzed for this paper. Some of these include:

- The growth of Internet sales and associated tax evasion
- More aggressive tax strategies employed by businesses
- More aggressive tax avoidance strategies employed by high income households
- Changes in the structure of the state's economy and failure of tax law to respond to these changes
- Increases in other personal income tax credits and exemptions

Table 3: Impact of Major Tax Law Changes on 2016 State Tax Revenues

	2016 Impact ($ million)
General Fund	
Social Security Tax Exemption	-$99.0
Earned Income Tax Credit	-$57.3
Sales and Use Tax Exemptions	-$292.3
Insurance Premium Tax Rate Reduction	-$119.0
Business Tax Credits and Refunds	-$131.4
General Fund Subtotal	-$699.0
Non-General Fund	
School Infrastructure Sales Tax Increase	$ 82.0
Motor Fuel Tax Increase	$242.0
Tobacco Products Tax Increase	$124.8
Non-General Fund Subtotal	$448.8

[1] Most states have fiscal years that run from July 1st to June 30th. Alabama and Michigan have fiscal years that run from October 1st to September 30th, which is the same as the federal fiscal year. New York's fiscal year runs from April 1st to March 31st, and the Texas fiscal year runs from September 1st to August 31st.

[2] Iowa's official accounting is done on a "modified" accrual basis. This means that revenues received and bills paid during July and August each year that can be attributed to activities that occurred during the prior fiscal year are credited back to the prior fiscal year.

[3] The quarterly state tax collections data series is used for the report. The quarterly rather than annual data is used because the 2016 annual series is not yet available. Also, since most law changes take effect at the beginning of a fiscal year, the quarterly data permit more accurate adjustments for law changes. The quarterly data may be found at https://www.census.gov/govs/qtax/.

[4] Technically, this law change did result in a slight tax increase because local option sales taxes due not have complementary use taxes imposed on goods and services purchased outside Iowa for use and consumption within local Iowa jurisdictions. But once the local option tax was replaced by the state tax, the state use tax did apply to out of state purchases.

[5] These are taxes imposed on specific businesses, goods or services not elsewhere classified separately in the U.S. Census data. Types of transactions included in this group are activities related to lodging and tourism and environmental protection. This category does not include taxes on alcoholic beverages, amusements, tobacco products, gaming activities, motor fuel or public utilities. Taxes imposed on these goods and services are accounted for separately by the Census Bureau.

[6] The Iowa earned income tax credit increased to 14% of the federal EITC in 2013 and to 15% of the federal EITC in 2014.

[7] 2015, Iowa Tax Expenditure Study, Sales and Use Tax Estimates

[8] Tax credit claim amounts were obtained from various issues of the Iowa Department of Revenue, Tax Credit Contingent Liability Reports.

[9] Iowa Department of Revenue, Tax Credit Contingent Liabilities Report (March 14, 2017)

[10] Motor fuel tax increase was computed by multiplying the gallons of taxable gasoline, E-10 gasohol, E-85 gasohol and diesel fuel delivered by wholesalers according to Iowa Department of Revenue Monthly Motor Fuel Reports by the pre-and post-March 1, 2015 tax rates and then taking the difference.

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