
FISCAL UPDATE Article

Fiscal Services Division

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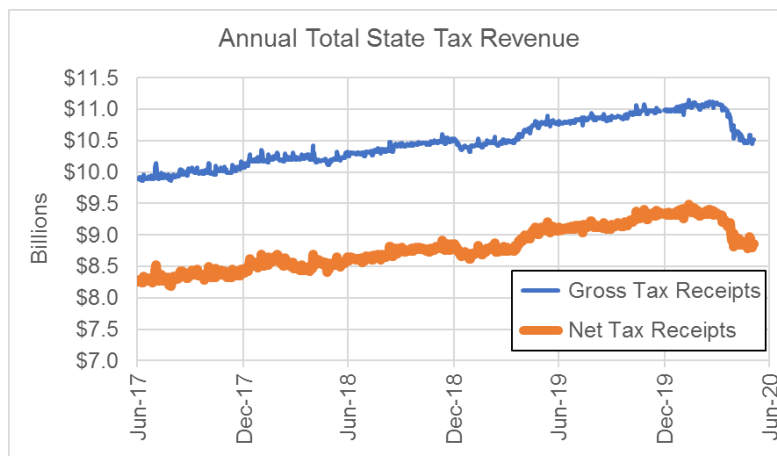
STATE TAX REVENUE UPDATE — COVID-19 IMPACT — JUNE 2, 2020

Public Health Emergency. On March 17, 2020, Governor Kim Reynolds issued a [State of Public Health Disaster Emergency Proclamation](#) in response to the COVID-19 pandemic. Among other actions, the proclamation closed restaurants, bars, fitness centers, theaters, and casinos and prohibited public gatherings of more than 10 unrelated people.

Department of Revenue Actions. On March 19, 2020, and in response to the Governor's proclamation, the Iowa Department of Revenue issued an [order](#) granting deadline extensions for filing several types of annual State tax returns and also delayed the tax payment due dates associated with the tax returns. That delay applied to individual income and business income tax final payments.

The Department also initiated an [application process](#) by which businesses could apply to the Department for a delay in remitting to the State the individual income tax the business had withheld from its employees and the sales tax the business had collected from its customers. In addition, on April 9, 2020, the Department issued an order that temporarily reduced the amount of quarterly estimate payments that some individual and certain business taxpayers are required to make. The order applied to quarterly estimate payments due from April 30, 2020, through July 31, 2020.

State Tax Revenue Update. The following chart depicts Iowa annual gross and net (gross tax receipts minus tax refunds issued) tax revenue calculated as a 365-day moving total. The time period depicted is June 30, 2017, through June 2, 2020. All State General Fund tax revenue is included, along with tax revenue deposited to other State funds like the Rebuild Iowa Infrastructure Fund (gambling tax) and the Road Use Tax Fund (motor fuel tax and the sales tax on vehicle purchases). Tax refunds also include the transfer of one-sixth of the State sales tax to finance local school infrastructure. The graph shows that annual tax revenue, both gross and net, began to decline around April 8, 2020.



The following table provides a breakdown of major revenue and refund sources. The data used to develop the table includes State tax deposits and tax refunds issued from March 19 through June 2 for calendar years 2019 and 2020. Over that time frame, net State tax revenue declined \$538.9 million and 28.2% year-over-year. Six State tax components (indicated by bold and italics in the table) individually

decreased at least \$10.0 million and 10.0% over the time period and, combined, contributed more than 100.0% to the overall net tax decrease. Much of the significant decrease experienced over the time frame resulted not from the business closures, job losses, and other impacts of COVID-19, but instead from the tax due date delays. A brief explanation of the change in State tax revenue over the period includes:

- **Individual Income Tax Estimate Payments** — Estimate payment deposits are due on a quarterly basis for taxpayers with income sources that are subject to State income taxation but not subject to income tax withholding. The estimate payment for the first quarter of 2020 was due on April 30. A Department of Revenue order providing a temporary alternative method of calculating the minimum amount of an estimate payment may have caused the first quarter reduction, or the reduction may have been the result of taxpayers adjusting payments to reflect lower tax year 2020 income expectations.
- **Individual Income Tax Payments with Returns** — The Department's order issued on March 19, 2020, delayed the due date for tax year 2019 individual income tax final payments from April 30, 2020, to July 31, 2020. Traditionally, the State has received a large influx of these payments starting around April 15. This year, the payment deposits were limited, and this is likely the result of the due date delay. Since the payments represent tax year 2019 activity, the revenue reduction is not the result of the recent economic situation.
- **Corporate Income Tax** — The Department's order issued on March 19, 2020, delayed the due date for tax year 2019 corporate income tax final payments from April 30, 2020, to July 31, 2020. Since the payments represent tax year 2019 activity, the revenue reduction is not the result of the recent economic situation.
- **Other Taxes** — Franchise (bank) tax has declined \$7.1 million (-30.7%) over the period. The franchise tax has been impacted by the delayed due dates. Insurance premium tax revenue decreased \$14.2 million (-21.6%) over the period. The State is currently in the process of depositing semiannual insurance premium tax payments, so the actual change for the period will not be known for another week. The current payment amount due from each insurance company is based on calendar year 2019 premiums, so any change in the payment is not the result of the current economic situation.
- **Vehicle Sales Tax (Fee for New Registration)** — May 10, 2020, was the due date for counties to remit the tax collected from the sale of vehicles, which is paid by vehicle purchasers when the vehicle is first registered. That deposit represents vehicles registered in April 2020. The May 10 deposit in 2020 was \$22.9 million, while the same deposit in 2019 was \$35.5 million.
- **Gambling Tax** — The Governor's March 17, 2020, order closed Iowa's State-regulated gambling casinos. The \$50.9 million reduction in gambling revenue is a direct result of this action. The gambling revenue loss will continue at a rate of around \$6.0 million for each week the casinos remain closed.
- **Individual Income Tax Withholding and Sales/Use Tax** — Revenues from the State sales/use tax have decreased 6.8%, and the decline is likely a result of the economic slowdown. Individual income tax withholding increased a modest 2.5% over the period. Two factors have combined to keep withholding growth positive. First, a tax due date situation that occurs several times each year is providing a positive boost of \$15.0 to \$20.0 million to comparisons. This boost will reverse with the June 10, 2020, due date. Second, tax revenue has been aided over the period by a \$31.2 million increase in income tax withholding received from Unemployment Insurance payments.

2019 and 2020 State Tax Collections, March 19 to June 2				
Dollars in Millions				
Tax Item	2019	2020	\$ Change	% Change
Individual Income Tax Withholding	\$ 748.1	\$ 767.1	\$ 19.0	2.5%
Ind. Income Tax Estimate Payments	91.2	80.6	-10.6	-11.6%
Ind. Income Tax Payments with Tax Returns	428.5	62.0	-366.5	-85.5%
Ind. Income Tax, Refunds	-537.8	-478.9	58.9	-11.0%
Corporate Income Tax	237.2	125.0	-112.2	-47.3%
Corporate Income Tax, Refunds	-26.9	-11.8	15.1	-56.1%
Sales/Use Tax	648.8	604.8	-44.0	-6.8%
Sales/Use Tax, Refunds	-11.4	-19.1	-7.7	67.5%
School Infrastructure Transfer	-126.1	-124.0	2.1	-1.7%
Other Taxes	109.5	96.0	-13.5	-12.3%
Other Taxes, Refunds	-1.5	-2.5	-1.0	66.7%
General Fund Taxes, Net	<u>\$ 1,559.6</u>	<u>\$ 1,099.2</u>	<u>\$ -460.4</u>	<u>-29.5%</u>
Fuel Tax	\$ 159.9	\$ 159.0	\$ -0.9	-0.6%
Vehicle Sales Tax	67.9	55.2	-12.7	-18.7%
Gambling Tax	70.6	6.2	-64.4	-91.2%
Cigarette/Tobacco	43.2	42.6	-0.6	-1.4%
Other Taxes	19.7	18.9	-0.8	-4.1%
Tax Refunds	-13.0	-12.1	0.9	-6.9%
Non-General Fund Taxes	<u>\$ 348.3</u>	<u>\$ 269.8</u>	<u>\$ -78.5</u>	<u>-22.5%</u>
Total State Taxes, Net	<u>\$ 1,907.9</u>	<u>\$ 1,369.0</u>	<u>\$ -538.9</u>	<u>-28.2%</u>

Some portion of the revenue reduction experienced between mid-March and the end of July will be a real reduction in tax collections, while some portion will be the result of tax due date delays initiated by the State. It will not be until the delayed tax payments have been deposited that the economic impact of recent events can be reasonably calculated.

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