
FISCAL UPDATE Article

Fiscal Services Division

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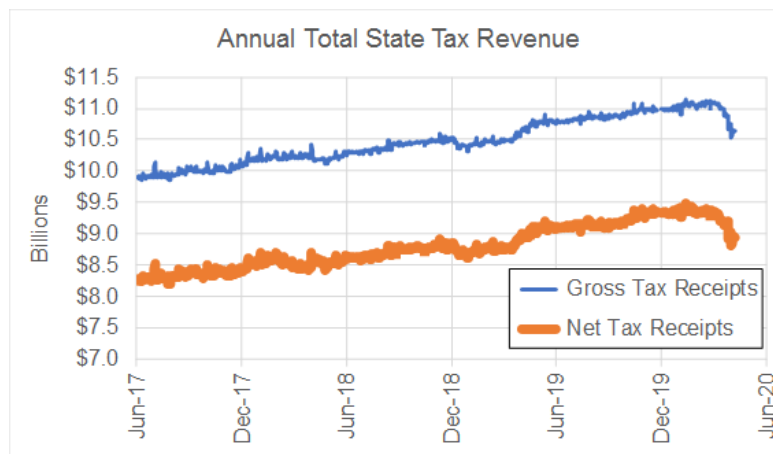
STATE TAX REVENUE UPDATE — COVID-19 IMPACT — MAY 5, 2020

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

Department of Revenue Order. 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. 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). The subtraction of tax refunds also includes 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.



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 May 5 for calendar years 2019 and 2020. Over that time frame, net State tax revenue declined \$442.3 million and 33.8% year-over-year. Three State tax components (indicated by bold and italics in the table) contributed

a combined \$410.5 million (92.8%) to the 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 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.
- **Gambling Tax** — The Governor's March 17, 2020, order closed Iowa's State-regulated gambling casinos. The \$39.0 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 both of these sources are beginning to show weakness, with decreases of 4.7% and 6.2%, respectively. The negative tax revenue consequences of the business closures, restrictions on gathering, and other aspects of the pandemic, combined with the Department's withholding and sales tax remittance deferral program, are likely to increase in the coming weeks and months.

Tax Item	2019	2020	\$ Change	% Change
Individual Income Tax Withholding	\$ 500.2	\$ 476.7	\$ -23.5	-4.7%
Ind. Income Tax Estimate Payments	78.2	64.7	-13.5	-17.3%
Ind. Income Tax Payments with Tax Returns	336.5	48.9	-287.6	-85.5%
Ind. Income Tax, Refunds	-377.1	-360.0	17.1	-4.5%
Corporate Income Tax	194.4	110.5	-83.9	-43.2%
Corporate Income Tax, Refunds	-21.7	-8.5	13.2	-60.8%
Sales/Use Tax	323.7	303.5	-20.2	-6.2%
Sales/Use Tax, Refunds	-9.3	-10.8	-1.5	16.1%
School Infrastructure Transfer	-84.4	-79.1	5.3	-6.3%
Other Taxes	154.9	146.3	-8.6	-5.6%
Other Taxes, Refunds	-1.3	-1.5	-0.2	15.4%
General Fund Taxes, Net	\$ 1,094.1	\$ 690.7	\$ -403.4	-36.9%
Fuel Tax	\$ 112.1	\$ 109.7	\$ -2.4	-2.1%
Vehicle Sales Tax	29.9	31.1	1.2	4.0%
Gambling Tax	45.2	6.2	-39.0	-86.3%
Other Taxes	31.9	32.7	0.8	2.5%
Tax Refunds	-5.7	-5.2	0.5	-8.8%
Non-General Fund Taxes	\$ 213.4	\$ 174.5	\$ -38.9	-18.2%
Total State Taxes, Net	\$ 1,307.5	\$ 865.2	\$ -442.3	-33.8%

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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