
FISCAL UPDATE Article

Fiscal Services Division

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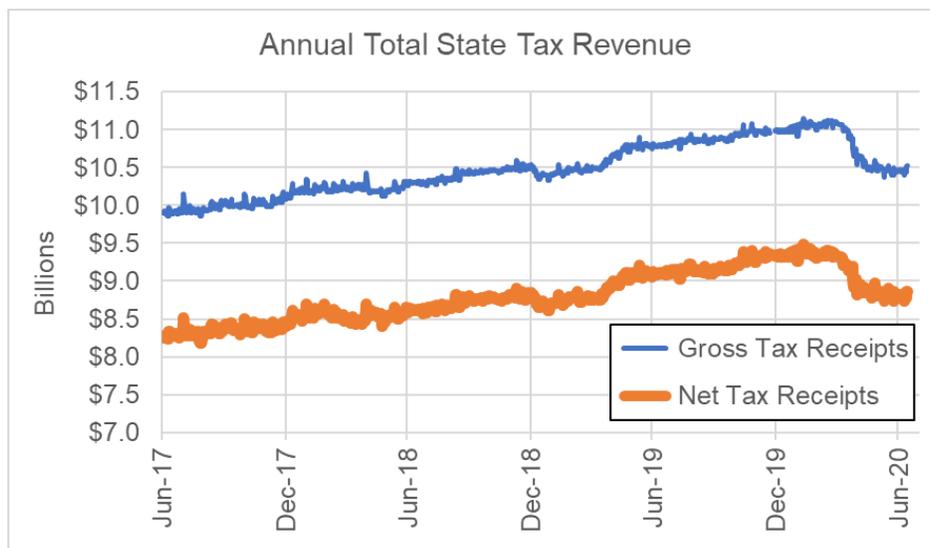
STATE TAX REVENUE UPDATE — COVID-19 IMPACT — JULY 14, 2020

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 July 14, 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 total 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 July 14 for calendar years 2019 and 2020. Over that time frame, net State tax revenue declined \$535.9 million and 18.2% year-over-year. Much of the significant decrease experienced over the period 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 significant changes in State tax revenue over the period includes:

- **Individual income tax** declined \$283.8 million (-23.6%) over the period. The large decline is due to the delay in the due date for final tax year (TY) 2019 tax return forms and payments from the usual date of 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 deposit amounts have been lower, and this is likely the result of the due date delay. With the delayed federal income tax due date of July 15 now approaching, deposits of Iowa individual income tax final payments have been coming in higher than usual since the beginning of July, and this situation is expected to continue through early August.

Individual income tax withholding increased 0.1% over the period. The single factor keeping withholding tax revenue from experiencing a significant decrease is the transfer from the Unemployment Trust Fund of income tax withheld from unemployment payment checks. That source has provided an additional \$63.0 million for the State General Fund over the period when compared to last year. Tax refunds for the period were lower by \$54.6 million, providing a boost to net individual income tax receipts. This year, the Department of Revenue issued tax refunds earlier than last year, so more tax refunds were issued prior to March 19 and fewer after that date.

- **Corporate income tax** declined \$92.4 million (-27.4%) over the period. The Department's order delayed the due date for TY 2019 corporate income tax final payments to July 31, 2020. Since payment during the period generally represents TY 2019 activity, the majority of the revenue reduction is not the result of the recent economic situation. However, a portion of the decline in corporate income tax could be the result of the current economic situation as corporations may have lowered TY 2020 estimate payments made during the period.
- **Sales/use tax** declined \$28.9 million (-4.1%) over the period.
- **Other General Fund taxes** declined \$23.5 million (-16.5%) over the period. The majority of the decline was in insurance premium tax receipts. Since the recent biannual payment due from insurance companies is based on calendar year 2019 activity, the decrease in insurance premium tax is not the result of the current economic situation. Bank franchise tax deposits have also declined over the period.
- **Fuel tax** declined \$24.2 million (-10.2%) over the period.
- **Vehicle sales tax (fee for new registration)** declined \$13.8 million (-9.9%) over the period. The tax is generally collected by counties when the vehicle is first registered by the new owner and is remitted to the State around the 10th of each month. The May 10 deposit in 2020 was \$22.9 million, while the same deposit in 2019 was \$35.5 million. The June 10 deposit in 2020 was \$28.0 million, while the same deposit in 2019 was \$37.6 million. The July 2020 deposit made up for some of the reduction over the previous two months, as the July 10 deposit in 2020 was \$42.6 million while the same deposit in 2019 was \$34.1 million.
- **Gambling tax** declined \$70.8 million (-68.9%). The Governor's March 17, 2020, order closed Iowa's State-regulated gambling casinos. The reduction in gambling revenue is a direct result of this action. The casinos began to reopen starting June 1, 2020. Five weekly deposits have been made since the industry reopened, totaling \$26.0 million. Deposits on similar dates in 2019 totaled \$25.6 million.

2019 and 2020 State Tax Collections, March 19 to July 14				
Dollars in Millions				
Tax Item	2019	2020	\$ Change	% Change
Individual Income Tax Withholding	\$ 1,153.5	\$ 1,154.3	\$ 0.8	0.1%
Ind. Income Tax Estimate Payments	199.1	168.5	-30.6	-15.4%
Ind. Income Tax Payments with Tax Returns	442.1	133.5	-308.6	-69.8%
Ind. Income Tax, Refunds	-593.8	-539.2	54.6	-9.2%
Individual Income Tax, Net	1,200.9	917.1	-283.8	-23.6%
State General Fund				
Corporate Income Tax	367.8	264.2	-103.6	-28.2%
Corporate Income Tax, Refunds	-30.9	-19.7	11.2	-36.2%
Corporate Income Tax, Net	336.9	244.5	-92.4	-27.4%
Sales/Use Tax	899.4	874.6	-24.8	-2.8%
Sales/Use Tax, Refunds	-19.2	-22.3	-3.1	16.1%
School Infrastructure Transfer	-167.8	-168.8	-1.0	0.6%
Sales/Use Tax, Net	712.4	683.5	-28.9	-4.1%
Other Taxes	145.2	123.8	-21.4	-14.7%
Other Taxes, Refunds	-2.4	-4.5	-2.1	87.5%
Other Taxes, Net	\$ 142.8	\$ 119.3	\$ -23.5	-16.5%
General Fund Taxes, Net	<u>\$ 2,393.0</u>	<u>\$ 1,964.4</u>	<u>\$ -428.6</u>	<u>-17.9%</u>
Other Funds				
Fuel Tax	\$ 237.7	\$ 213.5	-24.2	-10.2%
Vehicle Sales Tax	139.7	125.9	-13.8	-9.9%
Gambling Tax	102.7	31.9	-70.8	-68.9%
Cigarette/Tobacco Tax	67.0	67.4	0.4	0.6%
Other Taxes	22.3	19.3	-3.0	-13.5%
Tax Refunds	-20.4	-16.3	4.1	-20.1%
Non-General Fund Taxes	\$ 549.0	\$ 441.7	-107.3	-19.5%
Total State Taxes, Net	<u>\$ 2,942.0</u>	<u>\$ 2,406.1</u>	<u>\$ -535.9</u>	<u>-18.2%</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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