
FISCAL UPDATE Article

Fiscal Services Division

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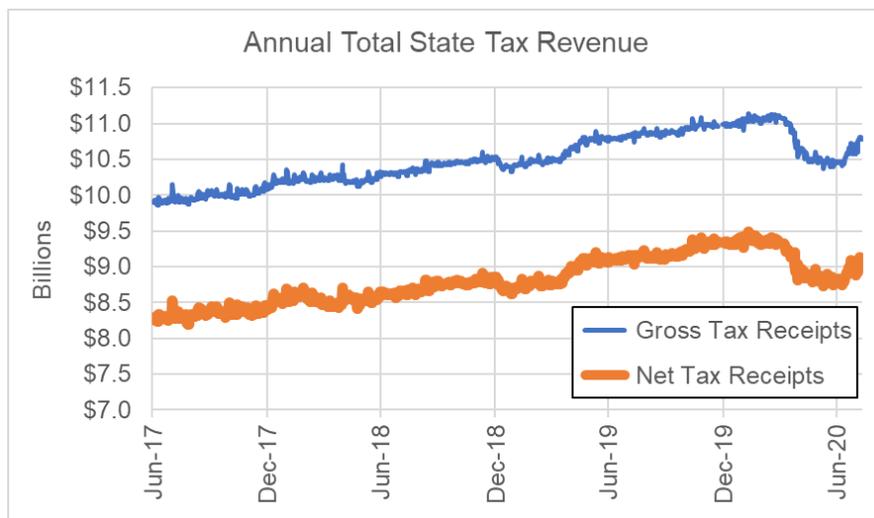
STATE TAX REVENUE UPDATE — COVID-19 IMPACT — AUGUST 9, 2020

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 August 9, 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 August 9 for

calendar years 2019 and 2020. Over that time frame, net State tax revenue declined \$337.6 million and 9.1% year-over-year. Much of the significant decline experienced beginning around April 8, 2020, was the result of tax due date delays. A partial recovery that began in mid-July is likewise due to individual and corporate income tax payments made as the delayed due date for those tax payments approached. A brief explanation of the significant changes in State tax revenue from March 19 through August 9 includes:

- **Individual income tax** declined \$108.3 million (-7.3%) over the period. Although the delayed due date of July 31, 2020, has passed, payments with tax returns remain a significant drag on net individual income tax revenue for the period. It is possible that payments have been received by the State that are not yet deposited to the State accounting system. If that is true, then the \$115.1 million deficit in this revenue source will shrink. If significant additional deposits do not remain to be made, then the decline in this tax revenue source is real. However, since the payments represent tax year 2019 tax payments, the final decline would not be a result of COVID-19.

Individual income tax withholding increased 0.8% 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 \$84.0 million for the State General Fund over the period when compared to last year. Tax refunds for the period were lower by \$7.4 million, providing a modest boost to net individual income tax receipts.

- **Corporate income tax** declined \$15.7 million (-4.6%) over the period.
- **Sales/use tax** declined \$46.7 million (-4.4%) over the period.
- **Other General Fund taxes** declined \$49.5 million (-26.1%) 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. As of August 9, the insurance premium tax issue has been compounded by the slower deposit of revenue resulting from the August due date for insurance premium tax compared to the pace of deposits last year.
- **Fuel tax** declined \$27.4 million (-9.1%) over the period.
- **Vehicle sales tax (fee for new registration)** declined \$13.7 million (-9.8%) 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 \$73.3 million (-59.3%). 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. Nine weekly deposits have been made since the industry reopened, totaling \$44.4 million. Deposits on similar dates in 2019 totaled \$47.3 million.

2019 and 2020 State Tax Collections, March 19 to August 9				
Dollars in Millions				
Tax Item	2019	2020	\$ Change	% Change
Individual Income Tax Withholding	\$ 1,427.1	\$ 1,438.2	\$ 11.1	0.8%
Ind. Income Tax Estimate Payments	211.5	199.8	-11.7	-5.5%
Ind. Income Tax Payments with Tax Returns	456.1	341.0	-115.1	-25.2%
Ind. Income Tax, Refunds	-619.6	-612.2	7.4	-1.2%
Individual Income Tax, Net	1,475.1	1,366.8	-108.3	-7.3%
State General Fund				
Corporate Income Tax	385.8	345.9	-39.9	-10.3%
Corporate Income Tax, Refunds	-42.4	-18.2	24.2	-57.1%
Corporate Income Tax, Net	343.4	327.7	-15.7	-4.6%
Sales/Use Tax	1,307.9	1,267.1	-40.8	-3.1%
Sales/Use Tax, Refunds	-25.7	-27.4	-1.7	6.6%
School Infrastructure Transfer	-212.0	-216.2	-4.2	2.0%
Sales/Use Tax, Net	1,070.2	1,023.5	-46.7	-4.4%
Other Taxes	192.1	144.4	-47.7	-24.8%
Other Taxes, Refunds	-2.8	-4.6	-1.8	64.3%
Other Taxes, Net	\$ 189.3	\$ 139.8	\$ -49.5	-26.1%
General Fund Taxes, Net	<u>\$ 3,078.0</u>	<u>\$ 2,857.8</u>	<u>\$ -220.2</u>	<u>-7.2%</u>
Other Funds				
Fuel Tax	\$ 301.4	\$ 274.0	-27.4	-9.1%
Vehicle Sales Tax	139.7	126.0	-13.7	-9.8%
Gambling Tax	123.6	50.3	-73.3	-59.3%
Cigarette/Tobacco Tax	84.5	82.7	-1.8	-2.1%
Other Taxes	23.1	19.6	-3.5	-15.2%
Tax Refunds	-24.4	-22.1	2.3	-9.4%
Non-General Fund Taxes	\$ 647.9	\$ 530.5	-117.4	-18.1%
Total State Taxes, Net	<u>\$ 3,725.9</u>	<u>\$ 3,388.3</u>	<u>\$ -337.6</u>	<u>-9.1%</u>

Some portion of the revenue reduction experienced since mid-March 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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