

FISCAL UPDATE Article

Fiscal Services Division

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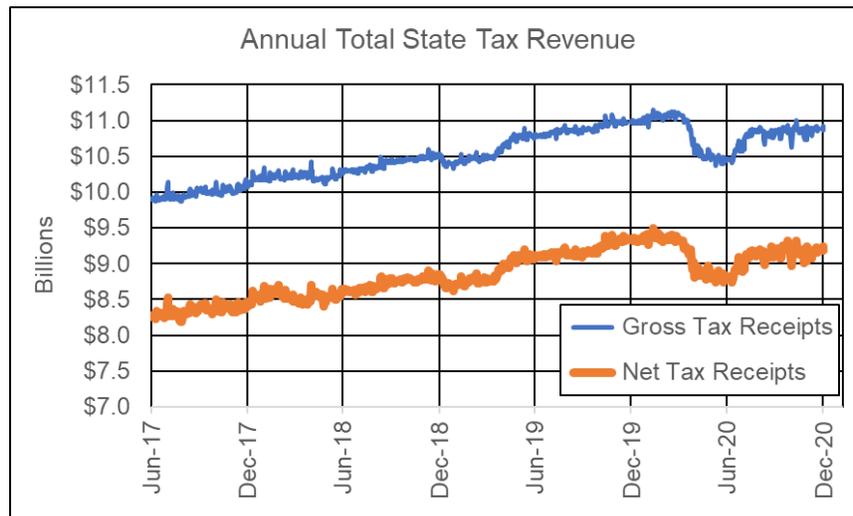
STATE TAX REVENUE UPDATE — COVID-19 IMPACT — DECEMBER 31, 2020

Public Health Emergency. On March 17, 2020, Governor 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 December 31, 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, and began to recover around July 13, 2020. There has been modest positive growth (1.4%, year-over-year) in net tax revenue since the middle of August 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 December 31 for calendar years 2019 and 2020. Over that time frame, net State tax revenue declined \$184.4 million and 2.5% 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 December 31 includes:

- **Individual income tax** net revenue declined \$120.1 million (-3.8%) over the period. The delayed due date of July 31, 2020, has passed, and payments made with filed individual income tax returns declined \$135.1 million (-24.8%) over the period. Since the payments represent tax year 2019 tax payments, this decline is not a result of COVID-19.

Individual income tax withholding increased \$37.7 million (1.3%) over the period. A significant factor keeping withholding tax revenue from experiencing a decrease is the transfer from the Unemployment Trust Fund of income tax withheld from unemployment payment checks. That source has provided an additional \$106.9 million for the State General Fund over the period when compared to last year. In addition, a change to the income tax withholding tables (effective January 1, 2020, and designed to more accurately match income tax withholding to income tax liability) has reduced income tax withholding and trimmed tax revenue growth somewhat.

- **Corporate income tax net revenue** increased \$60.4 million (10.2%) over the period. The growth in corporate income tax net receipts has been in large part due to a reduction in tax refunds issued this year compared to last.
- **Sales/use tax net revenue** increased \$20.3 million (1.0%) over the period.
- **Other General Fund tax revenue** decreased \$27.4 million (-9.1%) over the period. The decline was in insurance premium tax, bank franchise tax, and beer/liquor tax.
- **Fuel tax** revenue declined \$38.0 million (-6.2%) over the period. Statistics from the [U.S. Department of Transportation](#) indicate that national vehicle miles driven over the months of April through October 2020 decreased 11.5% compared to the same period last year.
- **Vehicle sales tax (fee for new registration)** revenue decreased \$8.5 million (-2.7%) over the period. The tax is generally collected by counties when a vehicle is first registered by a new owner and is remitted to the State around the 10th of each month. The decline over the period was concentrated in deposits made during the months of May through July.
- **Gambling tax** revenue declined \$71.6 million (-29.5%). 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, and the first weekly deposit of gambling tax was made to State funds on June 11, 2020. Deposits in 2020 that have been made since the industry reopened totaled \$159.1 million through December 31, 2020. Deposits over the same time frame in 2019 totaled \$170.9 million.

2019 and 2020 State Tax Collections, March 19 to December 31				
Dollars in Millions				
Tax Item	2019	2020	\$ Change	% Change
Individual Income Tax Withholding	\$ 2,928.9	\$ 2,966.6	\$ 37.7	1.3%
Ind. Income Tax Estimate Payments	417.7	389.2	-28.5	-6.8%
Ind. Income Tax Payments with Tax Returns	544.7	409.6	-135.1	-24.8%
Ind. Income Tax, Refunds	-746.2	-740.4	5.8	-0.8%
Individual Income Tax, Net	3,145.1	3,025.0	-120.1	-3.8%
State General Fund				
Corporate Income Tax	674.5	692.9	18.4	2.7%
Corporate Income Tax, Refunds	-84.2	-42.2	42.0	-49.9%
Corporate Income Tax, Net	590.3	650.7	60.4	10.2%
Sales/Use Tax	2,528.8	2,555.5	26.7	1.1%
Sales/Use Tax, Refunds	-50.2	-46.7	3.5	-7.0%
School Infrastructure Transfer	-423.1	-433.0	-9.9	2.3%
Sales/Use Tax, Net	2,055.5	2,075.8	20.3	1.0%
Other Taxes	310.8	289.3	-21.5	-6.9%
Other Taxes, Refunds	-9.6	-15.5	-5.9	61.5%
Other Taxes, Net	\$ 301.2	\$ 273.8	\$ -27.4	-9.1%
General Fund Taxes, Net	<u>\$ 6,092.1</u>	<u>\$ 6,025.3</u>	<u>\$ -66.8</u>	<u>-1.1%</u>
Other Funds				
Fuel Tax	\$ 617.5	\$ 579.5	-38.0	-6.2%
Vehicle Sales Tax	319.2	310.7	-8.5	-2.7%
Gambling Tax	242.8	171.2	-71.6	-29.5%
Cigarette/Tobacco Tax	166.4	167.5	1.1	0.7%
Other Taxes	62.7	58.2	-4.5	-7.2%
Tax Refunds	-50.3	-46.4	3.9	-7.8%
Non-General Fund Taxes	\$ 1,358.3	\$ 1,240.7	-117.6	-8.7%
Total State Taxes, Net	<u>\$ 7,450.4</u>	<u>\$ 7,266.0</u>	<u>\$ -184.4</u>	<u>-2.5%</u>

Net State tax revenue deposits from March 19, 2020, through December 31, 2020, totaled \$7,266.0 million. Had net tax revenue growth over the period equaled 3.4% (the average annual rate of Iowa State net tax revenue growth for the six years beginning July 1, 2013, and ending June 30, 2019, compared to the prior six-year period), revenue for the period would have totaled \$7,703.7 million, meaning that revenue for the period was approximately \$437.7 million below what might have been expected during a normal year. Since the combination of decreased individual income tax payments with tax returns and decreased individual income tax refund payments (totaling a net revenue reduction of \$129.3 million) represents calendar year 2019 activity as the transactions are for tax year 2019 tax returns, the potential COVID-19 revenue impact through December 31, 2020, may be estimated at \$308.4 million across all State tax revenue sources. Significant negative revenue impacts are shown in gambling tax, insurance premium tax, and fuel tax. Growth rates for individual income tax withholding and sales/use tax, although positive for the period, are well below normal. Aided by a reduction in tax refunds issued, corporate income tax net deposits posted a 10.2% gain over the period.

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