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# FISCAL UPDATE Article

Fiscal Services Division

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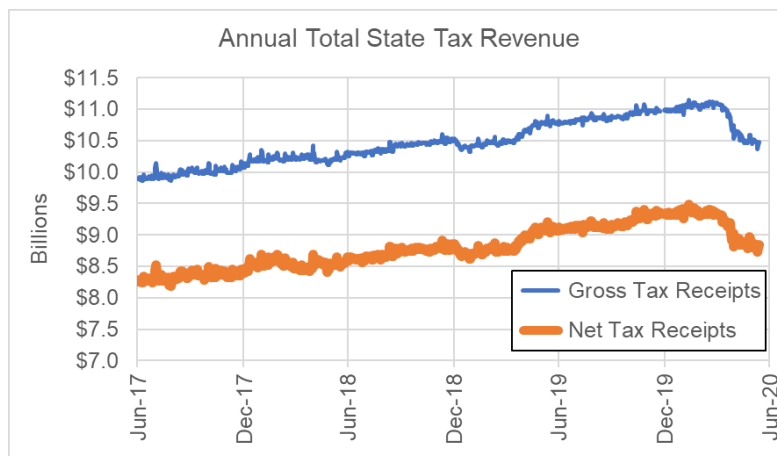
## STATE TAX REVENUE UPDATE — COVID-19 IMPACT — JUNE 11, 2020

**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 11, 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 June 11 for calendar years 2019 and 2020. Over that time frame, net State tax revenue declined \$559.0 million and 25.6% year-over-year. Five 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 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 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 during the period generally represent tax year 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.
- **Other Taxes** — Franchise (bank) tax has declined \$6.2 million (-26.4%) over the period. The franchise tax has been impacted by the delayed due dates but also could be negatively impacted by the current economic situation. Insurance premium tax revenue decreased \$14.4 million (-21.4%) over the period. 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.
- **Vehicle Sales Tax (Fee for New Registration)** — May 10, 2020, and June 10, 2020, were the due dates for counties to remit the tax collected from the sale of vehicles, which is paid by vehicle purchasers when the vehicle is first registered. Those deposits represent vehicles registered in April and May 2020. 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.
- **Gambling Tax** — The Governor's March 17, 2020, order closed Iowa's State-regulated gambling casinos. The \$65.1 million reduction in gambling revenue is a direct result of this action. The casinos began to reopen starting June 1, 2020, and the first deposit of gambling tax for the reopening period occurred on June 11.
- **Individual Income Tax Withholding and Sales/Use Tax** — Individual income tax withholding decreased a modest 1.6% over the period. The single factor keeping withholding tax revenue from experiencing a more significant decrease is the transfer from the Unemployment Trust Fund of income tax withheld from unemployment payment checks. That source has provided an additional \$42.2 million for the State General Fund over the period when compared to last year. Gross revenue generated by the State sales/use tax has decreased 6.3% over the period, and the decline is likely a result of the economic slowdown.

<b>2019 and 2020 State Tax Collections, March 19 to June 11</b>				
Dollars in Millions				
Tax Item	2019	2020	\$ Change	% Change
Individual Income Tax Withholding	\$ 875.4	\$ 861.2	\$ -14.2	-1.6%
Ind. Income Tax Estimate Payments	101.4	92.2	-9.2	-9.1%
<b>Ind. Income Tax Payments with Tax Returns</b>	<b>433.2</b>	<b>74.0</b>	<b>-359.2</b>	<b>-82.9%</b>
Ind. Income Tax, Refunds	-559.6	-485.7	73.9	-13.2%
<b>Corporate Income Tax</b>	<b>245.7</b>	<b>143.0</b>	<b>-102.7</b>	<b>-41.8%</b>
Corporate Income Tax, Refunds	-29.2	-11.8	17.4	-59.6%
Sales/Use Tax	734.1	688.0	-46.1	-6.3%
Sales/Use Tax, Refunds	-15.4	-20.3	-4.9	31.8%
School Infrastructure Transfer	-126.1	-124.0	2.1	-1.7%
<b>Other Taxes</b>	<b>114.7</b>	<b>100.1</b>	<b>-14.6</b>	<b>-12.7%</b>
Other Taxes, Refunds	-1.5	-2.6	-1.1	73.3%
General Fund Taxes, Net	\$ 1,772.7	\$ 1,314.1	\$ -458.6	-25.9%
Fuel Tax	\$ 174.0	\$ 159.5	\$ -14.5	-8.3%
<b>Vehicle Sales Tax</b>	<b>105.6</b>	<b>83.2</b>	<b>-22.4</b>	<b>-21.2%</b>
<b>Gambling Tax</b>	<b>76.7</b>	<b>11.6</b>	<b>-65.1</b>	<b>-84.9%</b>
Cigarette/Tobacco	47.6	48.0	0.4	0.8%
Other Taxes	19.9	18.9	-1.0	-5.0%
Tax Refunds	-15.5	-13.3	2.2	-14.2%
Non-General Fund Taxes	\$ 408.3	\$ 307.9	\$ -100.4	-24.6%
Total State Taxes, Net	<u>\$ 2,181.0</u>	<u>\$ 1,622.0</u>	<u>\$ -559.0</u>	<u>-25.6%</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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