
FISCAL UPDATE Article

Fiscal Services Division

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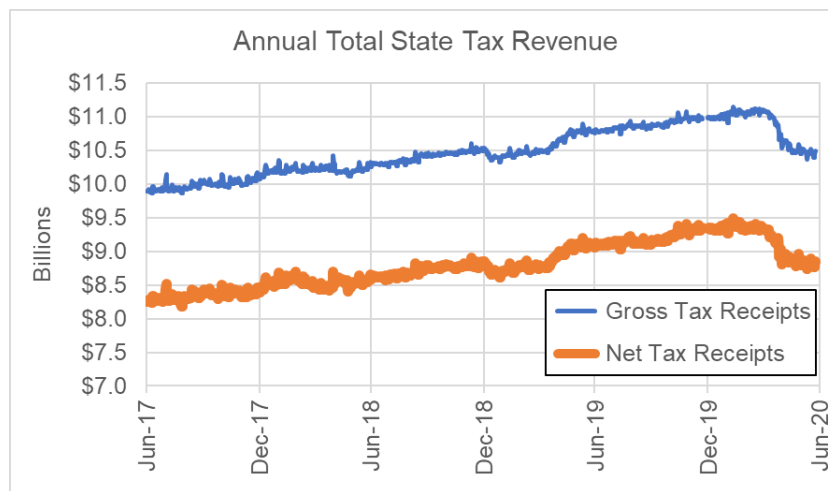
STATE TAX REVENUE UPDATE — COVID-19 IMPACT — JUNE 23, 2020

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 23, 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 23 for calendar years 2019 and 2020. Over that time frame, net State tax revenue declined \$563.6 million and

22.6% 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 \$314.7 million (-32.3%) over the period. The large decline is due to the delay in the due date for final FY 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 deposits were limited, and this is likely the result of the due date delay. Since the payments represent tax year (TY) 2019 activity, the revenue reduction is not the result of the recent economic situation. Individual income tax withholding decreased a modest 1.5% 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. Tax refunds for the period were lower by \$68.2 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 \$101.6 million (-36.3%) 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 a moderate \$29.2 million (-4.2%) over the period.
- **Other General Fund taxes** declined \$11.5 million (-9.3%) over the period. 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.
- **Fuel tax** declined \$13.2 million (-7.5%) over the period. The actual decline in this revenue source is larger than what is currently shown in State accounts. Fuel tax payments are generally due from wholesalers at the end of each month and the payment represents wholesale fuel sales for the previous month. The first fuel tax due date that was significantly impacted by the reduced travel and shipping brought on by the current health and economic situation was due at the end of May 2020. Additional impacts for reduced fuel sales in the month of May and after will show up in future fuel tax deposits.
- **Vehicle sales tax (Fee for New Registration)** declined \$22.4 million (-21.2%) over the period. 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** declined \$71.9 million (-81.0%). 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. Two weekly deposits (June 11 and June 18) have been made since the industry reopened and they totaled \$10.6 million. Deposits on similar dates in 2019 totaled \$11.8 million.

2019 and 2020 State Tax Collections, March 19 to June 23				
Dollars in Millions				
Tax Item	2019	2020	\$ Change	% Change
Individual Income Tax Withholding	\$ 968.3	\$ 953.9	\$ -14.4	-1.5%
Ind. Income Tax Estimate Payments	138.4	120.0	-18.4	-13.3%
Ind. Income Tax Payments with Tax Returns	438.1	88.0	-350.1	-79.9%
Ind. Income Tax, Refunds	-570.8	-502.6	68.2	-11.9%
Individual Income Tax, Net	974.0	659.3	-314.7	-32.3%
State General Fund				
Corporate Income Tax	311.5	193.4	-118.1	-37.9%
Corporate Income Tax, Refunds	-31.8	-15.3	16.5	-51.9%
Corporate Income Tax, Net	279.7	178.1	-101.6	-36.3%
Sales/Use Tax	831.0	803.6	-27.4	-3.3%
Sales/Use Tax, Refunds	-17.3	-21.1	-3.8	22.0%
School Infrastructure Transfer	-126.1	-124.0	2.1	-1.7%
Sales/Use Tax, Net	687.6	658.5	-29.1	-4.2%
Other Taxes	126.4	115.4	-11.0	-8.7%
Other Taxes, Refunds	-2.2	-2.7	-0.5	22.7%
Other Taxes, Net	\$ 124.2	\$ 112.7	\$ -11.5	-9.3%
General Fund Taxes, Net	<u>\$ 2,065.5</u>	<u>\$ 1,608.6</u>	<u>\$ -456.9</u>	<u>-22.1%</u>
Other Funds				
Fuel Tax	\$ 175.2	\$ 162.0	-13.2	-7.5%
Vehicle Sales Tax	105.6	83.2	-22.4	-21.2%
Gambling Tax	88.8	16.9	-71.9	-81.0%
Cigarette/Tobacco	53.4	54.9	1.5	2.8%
Other Taxes	21.9	19.1	-2.8	-12.8%
Tax Refunds	-16.8	-14.7	2.1	-12.5%
Non-General Fund Taxes	\$ 428.1	\$ 321.4	-106.7	-24.9%
Total State Taxes, Net	<u>\$ 2,493.6</u>	<u>\$ 1,930.0</u>	<u>\$ -563.6</u>	<u>-22.6%</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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