MONTHLY STATE REVENUE HIGHLIGHTS

State Tax Revenues Began to Decline in March 2020, More Declines on The Horizon

Total state taxes declined 1.3 percent in March 2020 compared to a year earlier, according to preliminary data from 45 states. **Personal income taxes declined 4.8 percent, sales taxes grew 2.1 percent, and corporate income taxes declined 0.2 percent**. While responses to the COVID-19 pandemic began in March some places, we are only beginning to see the current declines. Most of the March decline in personal income and overall tax revenues was attributable to two states: California and Oregon. Revenue growth in the median state varied substantially for personal income and overall tax revenues (see table).

Overall, many states saw healthy growth in tax revenue collections between July 2019 and March 2020 (the first nine months of fiscal year 2020 for 46 states), however this is largely before the economic disruptions caused by the COVID-19 pandemic. Over this period total tax revenues grew 5.7 percent, personal income taxes grew 5.5 percent, corporate income taxes grew 11.3 percent, and sales taxes grew 5.6 percent in the first nine months of fiscal year 2020.

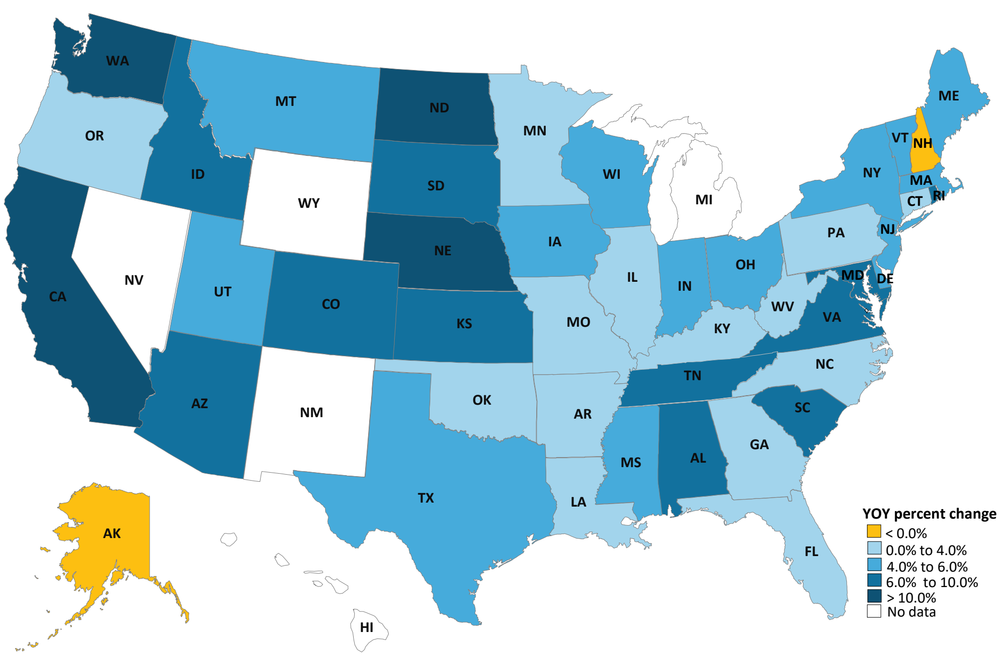
National Trends

Tax source	March 2020 ($ millions)	March 2019 ($ millions)	YOY percent change	YOY median percent change	Fiscal YTD 2020 ($ millions)	Fiscal YTD 2019 ($ millions)	YOY percent change	YOY median percent change
Total state taxes	**$66,529**	**$67,411**	**-1.3%**	**2.0%**	**$636,056**	**$601,838**	**5.7%**	**4.8%**
Personal income	23,883	25,080	(4.8)	2.4	274,680	260,238	5.5	5.3
Corporate income	6,948	6,960	(0.2)	(0.8)	35,587	31,982	11.3	12.3
Sales	21,689	21,239	2.1	2.7	222,857	211,062	5.6	5.3

Note: YOY = year-over-year; YTD = year-to-date.

Percent Change in State Fiscal Year-to-Date Tax Revenues

July 2019 through March 2020, year-over-year percent change



Looking at individual states:

- 43 states reported **total tax** revenue growth from July 2019 to March 2020 while 2 states (Alaska and New Hampshire) reported declines.
- 34 states reported **personal income tax** growth, while 6 states (Connecticut, Iowa, North Dakota, Ohio, Tennessee, and Wisconsin,) reported declines.
- 30 states reported **corporate income tax** growth, while 12 states reported declines.
- 39 states reported **sales tax** growth, while 2 states (Louisiana and Oklahoma) reported declines.

Looking at the next few months, states must address unforeseen revenue shortfalls and sudden growth in spending because of the public health and economic crisis caused by COVID-19. While most states had seen healthy growth in overall tax revenue collections during the first nine months of fiscal year 2020, the picture for the remainder of the fiscal year is bleak. Some states have already announced budget shortfalls for the current fiscal year 2020 and for upcoming fiscal year 2021.

Because the IRS and all states have delayed income tax deadlines from April 15 to July 15, states will collect substantially less income tax revenues this April. Typically, April is the most important month for income tax payments. Usually states collect around 13-15 percent of annual personal income tax revenues in April, with 70-75 percent coming from estimated and final payments. This year large shares of estimated and final payments are likely to come in July.

Second, the shutdown of a wide range of businesses and services across all states means less business activity, less consumer spending, and, therefore, less sales tax revenue collections for states, particularly for the month of April and beyond. While some states are preparing for the gradual relaxing of restrictions and opening back up, it will take a long time until business activity is back to prior levels, with some activities and industries facing a very slow recovery.

Finally, many businesses, especially restaurants, bars, gyms, hair salons and other businesses that are not deemed essential, have laid off employees. Recent unemployment insurance claims have spiked to over 24 million in just five weeks. Even if new claims stabilize, states will continue to see drastic increases in unemployment insurance and health care spending.

These are unprecedented times and no matter how well-prepared states were for weathering a typical economic downturn, no state was prepared for the sudden economic shock of COVID-19; mandating the closing of businesses and staying at home has paralyzed the economy. Congress should step up and provide more direct aid to state and local governments. And any discussions of bankruptcy filings should be off the table because first and foremost it's unconstitutional and is against the **federal bankruptcy code**.

The **State and Local Finance Initiative** at the Urban Institute continues to monitor state tax collections and associated economic indicators and will report results on a monthly basis. For more comprehensive analysis of state tax revenues and underlying economic data by **Lucy Dadayan**, please read the quarterly ***State Tax and Economic Review***.

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