MONTHLY STATE REVENUE HIGHLIGHTS

State Tax Revenues Surged in July 2020, But Cumulatively Are Down During COVID-19 Period

Total state taxes increased 82.1 percent in July 2020 compared to a year earlier, according to preliminary data from 40 states. Personal income taxes increased 155.1 percent, sales taxes increased 10.7 percent, and corporate income taxes increased 360.2 percent. Overall tax revenue increases in the median state were weaker (see table).

This sudden increase in state tax revenues is not an indication of sudden improvement in state economies, but due to timing changes. The surge observed in July is primarily related to the delay in income tax filing deadlines and was largely expected. To mitigate the impact of the COVID-19 on taxpayers, the federal government had extended the income tax filing deadline from April 15th to July 15th and all states with broad-based income taxes extended their deadlines as well. Thirty-seven of the 41 states extended filing deadlines to July 15, while Virginia extended to June 1, Idaho extended to June 15, Hawaii to July 20 and Iowa to July 31. These deadline extensions have shifted income tax payments from earlier months into July. In addition, about half of the states had also extended filing and remittance deadlines for sales tax payments by retailers.

Thus it is crucial to view the revenue surge in July with caution, and examine what revenues look like over the last few months. The July surge is temporary and while revenues were stronger than many states expected, states still are experiencing large declines in their fiscal and economic health. If we look at the cumulative changes in the March-July period, state tax revenues remain depressed because of the impact of the pandemic, which caused large disruptions in economic activity, left millions of Americans without employment, and forced many businesses to close either temporarily or permanently.

### National Trends

<table>
<thead>
<tr>
<th>Tax source</th>
<th>July 2020 ($ millions)</th>
<th>July 2019 ($ millions)</th>
<th>YOY percent change</th>
<th>YOY median percent change</th>
<th>March-July 2020 ($ millions)</th>
<th>March-July 2019 ($ millions)</th>
<th>YOY percent change</th>
<th>YOY median percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total state taxes</td>
<td>$107,051</td>
<td>$58,802</td>
<td>82.1%</td>
<td>58.7%</td>
<td>$347,235</td>
<td>$375,464</td>
<td>-7.5%</td>
<td>-4.9%</td>
</tr>
<tr>
<td>Personal income</td>
<td>62,215</td>
<td>24,386</td>
<td>155.1%</td>
<td>102.6%</td>
<td>158,193</td>
<td>169,411</td>
<td>(6.6)%</td>
<td>(2.6)%</td>
</tr>
<tr>
<td>Corporate income</td>
<td>9,010</td>
<td>1,958</td>
<td>360.2%</td>
<td>251.3%</td>
<td>25,645</td>
<td>28,999</td>
<td>(11.6)%</td>
<td>(11.8)%</td>
</tr>
<tr>
<td>Sales</td>
<td>25,149</td>
<td>22,722</td>
<td>10.7%</td>
<td>9.6%</td>
<td>108,513</td>
<td>116,256</td>
<td>(6.7)%</td>
<td>(3.5)%</td>
</tr>
</tbody>
</table>

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

In this brief report, we provide analysis of tax revenue trends since the spread of the pandemic in the US. Between March 2020 and July 2020, total tax revenues declined 7.5 percent, personal income taxes declined 6.6 percent, corporate income taxes declined 11.3 percent, and sales taxes declined 6.7 percent.

Looking at the 40 individual states that have reported complete data for the March – July period:

- 33 states reported **total tax** revenue declines for the period between March and July 2020 and only 7 states (Colorado, Georgia, Idaho, Nebraska, North Dakota, South Dakota, and Vermont) reported growth.
- 25 states reported declines in **personal income tax** revenues, while 10 states reported growth.
- 31 states reported declines in **corporate income tax** revenues, while 7 states reported growth.
- 25 states reported declines in **general sales tax** revenues, while 11 states reported growth.
Preliminary figures from 40 states indicate that total state tax revenues were down by about $28.2 billion in the first five months of the pandemic (between March and July) compared to the same period a year earlier. Revenue declines will likely be even steeper in the months ahead. Personal income tax revenues are poised to see larger declines due to the expiration of the $600 weekly federal supplement to unemployment benefits at the end of July and delays in implementation of a smaller ($300) supplement. The additional $600 weekly unemployment insurance benefit not only helped many Americans continue to pay for their everyday necessities, it also bolstered state income tax revenues in the 35 states that tax unemployment compensation. (Among the 41 states with a broad-based income tax, only 6 do not include unemployment compensation in their taxable income base: Alabama, California, Montana, New Jersey, Pennsylvania, and Virginia.)

Sales tax revenues will also continue to remain depressed. While states have been re-opening their economies, it will take a long time for business activity to return to pre-pandemic levels, with some activities and industries facing a very slow recovery.

Looking at the next few months, states must address unforeseen revenue shortfalls and sudden increases in spending needs. Many states have already closed their budget books for FY 2020, which ended on June 30th in 46 states. Preliminary figures from 32 states indicate that overall state revenues declined by 4.4 percent in FY 2020 compared to FY 2019. Most states are forecasting large revenue shortfalls for FY 2021.

As we have indicated in our latest State Tax and Economic Review quarterly report, the damage of the COVID-19 pandemic on state governments is already substantial, and, sadly, this is just the beginning of the fiscal and economic pain ahead.

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.

To learn more about gaining access to the full datasets, please read about our subscription service here.