

## MONTHLY STATE REVENUE HIGHLIGHTS

### State Tax Revenues Showed Weak Growth in August 2020 Compared to a Year Earlier, But Cumulatively Still Remain Depressed Over COVID-19 Period

By Lucy Dadayan

**Total state taxes increased 1.1 percent** in August 2020 compared to a year earlier, according to preliminary data from 44 states. **Personal income taxes increased 3.8 percent, sales taxes increased 0.4 percent, and corporate income taxes increased 45.4 percent.** Overall tax revenue increases in the median state were stronger (see table).

State economies remain depressed despite the weak growth in state tax revenues in August. Growth in state tax revenues is likely related to the slower transit of receipts, because of the extension of tax deadlines. As mentioned previously, the federal government had extended the income tax filing deadline from April 15th to July 15th and all states 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 and processing from earlier months into July and to a lesser extent to August. In addition, about half of the states had also extended filing and remittance deadlines for sales tax payments by retailers.

Growth in personal income tax collections reported for August is in stark contrast to the 6.9 percent decline in total employment, compared to August 2019. Some states indicated that growth in personal income tax collections was partially due to backlogged payments of unemployment insurance benefits, which in many places is subject to withholding tax. While growth in corporate income tax revenues was strong in August compared to a year earlier, corporate income tax revenues in the month of August typically represent less than 2 percent of the fiscal year total.

Due to the shifting in timing of tax receipts this past year, it is crucial to view August year-over-year revenue gains and fiscal year to date data with caution. Due to these shifts, it is important to deviate from standard comparisons and examine how revenues over the entire pandemic compared to the year prior. Cumulative revenues over the March-August period compared to a year prior, remain depressed.

#### National Trends

Tax source	August 2020 (\$ millions)	August 2019 (\$ millions)	YOY percent change	YOY median percent change	March- August 2020 (\$ millions)	March- August 2019 (\$ millions)	YOY percent change	YOY median percent change
<b>Total state taxes</b>	<b>\$ 65,989</b>	<b>\$ 65,269</b>	<b>1.1%</b>	<b>3.1%</b>	<b>\$ 447,079</b>	<b>\$ 477,799</b>	<b>-6.4%</b>	<b>-3.6%</b>
Personal income	26,772	25,784	3.8	6.0	201,686	212,585	(5.1)	(1.3)
Corporate income	1,162	799	45.4	25.3	30,776	34,404	(10.5)	(10.8)
Sales	27,852	27,743	0.4	3.9	144,797	153,553	(5.7)	(2.6)

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 August 2020, total tax revenues declined 6.4 percent, personal income taxes declined 5.1 percent, corporate income taxes declined 10.5 percent, and sales taxes declined 5.7 percent.

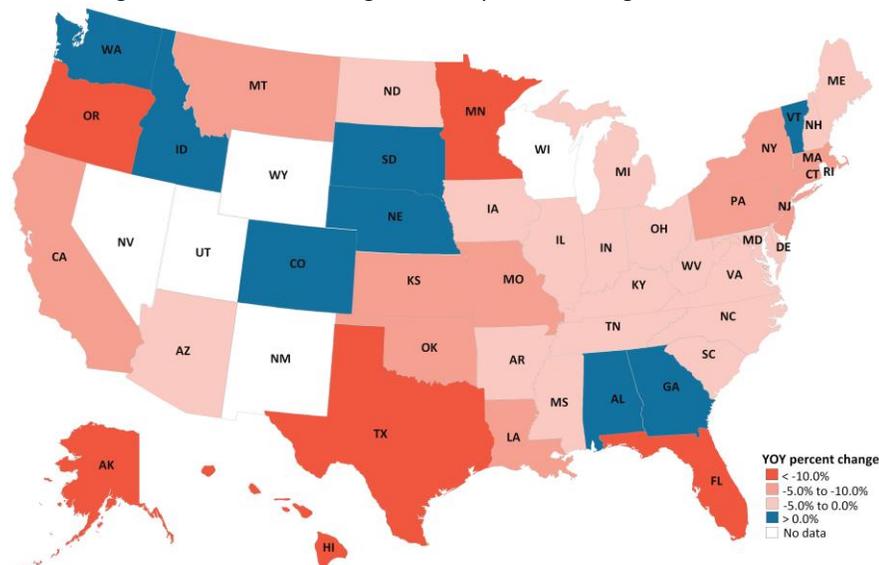
Looking at the 44 individual states that have reported complete data for the March – August period:

- 36 states reported **total tax** revenue declines for the period between March and August 2020 and only 8 states (Alabama, Colorado, Georgia, Idaho, Nebraska, South Dakota, Vermont, and Washington) reported growth.
- 27 states reported declines in **personal income tax** revenues, while 12 states reported growth.

- 33 states reported declines in **corporate income tax** revenues, while 9 states reported growth.
- 27 states reported declines in **general sales tax** revenues, while 13 states reported growth.

### Percent Change in State Tax Revenues Since The Start of COVID-19

March-August 2020 vs March-August 2019, percent change



Preliminary figures from 44 states indicate that total state tax revenues were down by about \$31 billion in the first six months of the pandemic (between March and August) compared to the same period a year earlier. Revenue declines can be even steeper in the months ahead. While unemployment rates have fallen potentially increasing income tax revenues from earned wages, with 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 income tax revenues related to these benefits are likely to fall. The additional \$600 weekly unemployment insurance benefit not only helped many Americans continue to pay for their everyday necessities, it also could have bolstered state income tax revenues in the 35 states that tax unemployment compensation.

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 and some consumption, for example travel and entertainment purchases for the last six months will not be replaced.

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 3.9 percent in FY 2020 compared to FY 2019, personal income tax revenues declined by 5.7 percent, corporate income tax revenues by 12.7 percent, and sales tax revenues reported less than 0.1 percent growth. Most states are forecasting large revenue shortfalls for the current fiscal year 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](#).