

JLBC Staff – Preliminary April 2020 Revenue Update

Given the significant economic changes resulting from the COVID-19 pandemic, the JLBC Staff is reporting more frequently on the state’s revenue performance and economic conditions. The report below summarizes the preliminary April revenue results from the state's largest revenue categories, along with some additional commentary on state spending/Medicaid caseloads and recent economic data. We will still issue our *Monthly Fiscal Highlights* on our normal publication date of May 20th.

Preliminary Summary of the April Revenue Results

- For the state's largest revenue categories, April collections were \$268 million above the 4-sector consensus revenue forecast presented at the April FAC meeting.
- Of this \$268 million amount, \$104 million is from Sales Tax collections and Individual Income Tax (IIT) withholding. The \$104 million reflects higher-than-expected economic activity and represents a potential real gain to the forecast.
- In contrast, the remaining \$164 million of the forecast overage appears to be associated with the timing of revenue collections and will likely be reversed in future months. A substantial portion of this April "timing revenue gain" is related to IIT refunds. We had anticipated only 10% of taxpayers with expected refunds would wait until the extended filing date of July 15, 2020 to send in their returns. A higher percentage of these "refund" tax filers, however, seem to be waiting before submitting their returns. As a result, the revenue loss associated with refunds will be shifted to later months.
- At the April FAC meeting, we projected that the state would have a cumulative \$(1.1) billion shortfall by the end of FY 2021. The \$104 million in Sales Tax and IIT withholding gains could potentially help reduce this gap. Given the continually changing economic landscape, however, these preliminary April figures do not warrant revising the \$(1.1) billion estimate at this time.

| Preliminary April Revenue Estimates - Major Revenue Categories | | | | |
|---|--------------------------------|-------------------------|---|--|
| | April Collections (\$ in M) | % Chg. From April 19 | Year-to-Date % Chg. From FY 19 | \$ Above/(Below) April FAC Forecast |
| Sales Tax | 444.4 | (5.8)% | 6.8% | 53.3 |
| Individual Income Tax | 333.9 | (49.3)% | (3.5)% | 232.3 |
| Corporate Income Tax | 50.4 | (48.5)% | 18.0% | (7.4) |
| Insurance Premium Tax | 27.0 | (29.5)% | (1.3)% | (10.0) |
| | | | April Revenue Forecast Gain/(Loss) | 268.2 |

Revenue Category Results

Based on preliminary data, we have the following observations about the state's major revenue categories' performance in April:

Sales Tax

April Sales Tax deposits, which represent March sales activity, totaled \$444.4 million. This amount is a decline of (5.8)% from the prior year. This drop in Sales Tax revenue was less than the expected (17.1)% decline, resulting in a forecast gain of \$53.3 million for the month. At this time, revenue data for each Sales Tax classification (such as retail, contracting and restaurant/bar) is not yet available, making it difficult to analyze why the decline in Sales Tax was less than expected. We will address this issue more in the *Monthly Fiscal Highlights*.

Individual Income Tax

April net Individual Income Tax (IIT) collections totaled \$333.9 million, which is a decline of (49.3)% from the prior year and \$232.3 million above forecast for the month:

- Withholding – April withholding collections declined by (3.1)%, which was less than the expected decline of (15.0)%. As a result, April withholding generated a forecast gain of \$50.6 million. Potential explanations for April's withholding performance include: 1) As layoffs occur, certain workers with accrued vacation leave receive a lump sum payout, resulting in higher withholding for that last paycheck; 2) Withholding from unemployment insurance (UI) benefit checks. Given the \$600 additional federal UI benefit, some unemployed low-income earners are either held harmless or paid more in UI benefits than before they lost their jobs.
- Estimated and Final Payments – Overall, IIT payments were \$43.7 million above forecast. Final payments declined by (79.3)%, which was expected given the state's delay of the income tax filing deadline to mid-July. Surprisingly, April estimated payments increased by 16.4% during the month rather than falling by a projected (9.9)%. Given that fewer total returns have been filed, the Department of Revenue may have been able to deposit estimated payments more quickly than expected. Otherwise, the reasons behind the increase in estimated payments are unclear in light of current economic conditions.
- Refunds – A substantial portion of the April IIT forecast gain is related to refunds, with the state issuing \$(138.0) million less in refunds than expected. One potential reason is a lack of access to tax preparation services due to COVID-19, as approximately 55% of all electronic tax filings are done with the help of tax preparers. As of late April, the cumulative number of electronic tax filings prepared by tax professionals has declined by (21.8)% compared to the prior year. We anticipate that the refunds will be shifted to the period between May and the July 15 filing deadline.

Corporate Income Tax

April net Corporate Income Tax (CIT) collections totaled \$50.4 million, which is a decline of (48.5)% from the prior year and \$(7.4) million below forecast for the month. The April CIT results are generally consistent with the April FAC revenue forecast, which assumed that CIT revenues would decline by (39.3)% in the 4th quarter of FY 2020.

Insurance Premium Tax

Insurance Premium Tax (IPT) collections totaled \$27.0 million, which is a decline of (29.5)% from the prior year and \$(10.0) million below forecast for the month. Given that April is a smaller month for IPT collections, these results do not provide much information on the overall trend for the category.

April Spending/Caseload Data

AHCCCS caseloads increased by 35,400, or 1.9%, in May above April, bringing total growth since March to 77,700, or 4.3%. The caseload increase is likely attributable to a lower rate of enrollee exits from the Medicaid program, as the Families First Coronavirus Response Act prohibits states from disenrolling Medicaid recipients while the federally-declared COVID-19 public health emergency is in effect. The 4.3% growth, however, is lower than the April FAC spending projections, which assumed 10% growth by May 2020. AHCCCS reports that initial applications for AHCCCS coverage did not increase in March or April above prior months, which could potentially explain the lower-than-estimated caseloads. Given the limited amount of caseload data since the beginning of the COVID-19 pandemic, however, we lack sufficient information to draw any definitive conclusions regarding the lower-than-anticipated growth, and would not adjust our AHCCCS caseload forecast at this time.

Recent Economic Data

In addition to reviewing the most recent revenue and spending information, the JLBC Staff has also published a [summary](#) of recent economic data on the COVID-19 section of the JLBC website.