



Legislative Fiscal Bureau

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TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: April, 2020, General Fund Tax Collections

On January 23, 2020, this office distributed projections of general fund revenues for the 2019-21 biennium. That report, when adjusted for tax law changes enacted under the federal CARES Act and 2019 Wisconsin Acts 181 and 185, estimated that tax collections for 2019-20 would increase by 1.75% (\$303 million) over 2018-19 collections and that 2020-21 taxes would increase by 2.0% (\$354 million) over the 2019-20 estimate.

Actual tax collections for the first nine months of the current fiscal year (through March, 2020) increased by 5.1% over the same period for 2018-19. Although this growth was higher than the projected 1.75%, collections were on target with the estimates as the impact of the individual income tax rate reductions of 2019 Acts 9 and 10 will be realized in the remaining months of the 2019-20 fiscal year.

Preliminary information on taxes collected by the Department of Revenue (DOR) for the month of April, 2020, is now available. As anticipated, due to the coronavirus pandemic and its impact on the economy, the April report indicates a significant reduction in collections. Tax collections in the month of April, 2020, were \$1,145 million. This is \$870 million below collections of April, 2019. And, for the 10 months of the current fiscal year, collections are \$313 million below those over the same 10 months of 2018-19.

The reduction in April, 2020, collections reflects two things. First, the coronavirus pandemic has severely impacted the state's economy and tax collections. Second, the extension of income and franchise tax filing deadlines from April to July 15 in 2020 has affected collections. It is important to note, however, that income and franchise tax returns and estimated payments filed by July 15 will accrue to state fiscal year 2019-20 under the state's budgetary cash and modified accrual method of accounting.

Individual Income Tax. Preliminary individual income tax collections for April, 2020, are \$676 million lower than those collected in April, 2019. Year-to-date, individual income tax collections for 2019-20 are lower by a similar amount (\$685 million), or 9.7% lower than the comparable 10-month period in 2018-19. Most of the decline in tax collections is likely caused by the delayed filing dates for estimated payments and final payments.

Approximately 6% of Wisconsin individual income tax filers are required to make estimated payments on a quarterly basis. One of those quarterly payments is due on April 15. That payment date has now been extended to July 15. In April, 2019, estimated payments from individual income tax filers totaled \$472 million. For April, 2020, estimated payments were \$63 million, a reduction of \$409 million from a year ago. Although some of this reduction is undoubtedly due to a decline in the economy, most individuals have likely taken advantage of the filing date extension and will wait to make payments until after the July filing date.

Individual final payments were \$82 million in April, 2020, compared to \$445 million in April, 2019, a reduction of \$363 million from a year ago. This partly reflects lower final payments due to the income tax rate reductions for tax year 2019 enacted under 2019 Acts 9 and 10, but is also skewed by the delayed filing date for individuals. According to DOR, between April 5 and May 2 of 2020, income tax returns filed with the Department were 271,000 fewer than comparable weeks in 2019 (a 39% decline). Final payments and refunds for tax year 2019 will not be known until after the July filing date.

Withholding tax collections for April were relatively flat compared to the prior year, which indicates that the lower withholding collections associated with individuals that have recently become unemployed may not be observed in collections until next month's report.

Corporate Income/Franchise Tax. Preliminary corporate income/franchise tax collections for April, 2020, are \$81 million, which is \$177 million, or 69%, lower than corporate collections of \$258 million in April, 2019. Most corporate tax collections are paid to the state as estimated payments. Similar to individual estimated payments, although some of this reduction is due to a decline in the economy, most corporations have likely taken advantage of the filing date extension and will wait to make payments until the July date. However, year-to-date collections through April, 2020, are \$1,259 million, which is \$195 million (18%) higher than in the comparable 10-month period last year. Corporate collections year-to-date remain above the 11.7% growth rate anticipated in our January economic forecast.

Since the January forecast, a significant amount of unanticipated corporate collections accrued to the state in the form of one-time audit payments and increased collections under the 2017 Act 368 entity-level tax. According to DOR, several large audit-related payments were made to the state in the three months following the January estimates that were \$197 million higher than the comparable three-month period in 2018-19. In addition, partnerships remitting estimated payments under the entity-level tax, rather than the individual tax, were \$30 million higher in March than previously forecast. These unanticipated tax payments may offset the anticipated decline in estimated payments in 2019-20. However, the extent to which the economic decline from the coronavirus pandemic has reduced corporate estimated payments will not be known until after the July filing date.

Sales and Use Taxes. Sales tax collections reported in April generally reflect taxes paid for retail sales occurring in March. The coronavirus pandemic resulted in a number of actions taken by the Governor to impose limits on mass gatherings beginning on March 17, 2020, and the Safer-at-Home order which took effect on March 26, 2020. Sales tax collections for April, 2020, were lower than April collections in the previous year by \$48 million, or 9.9%, reflecting a half-month of reduced economic activity resulting from the coronavirus pandemic. Growth in May, 2020, collections compared to the previous year is expected to be significantly lower than the April report. Year-to-date, sales tax collections through April, 2020, are \$146 million or 3.5% above collections in the comparable 10-month period in 2018-19.

Based on preliminary sales tax data provided by DOR, the economic impact of the coronavirus pandemic and the Safer-at-Home order has impacted retail industries differently. Taxable retail sales were lower in March of 2020 compared to March in the prior year by 46% for clothing and clothing accessories stores, 38% for food services and drinking establishments, and 27% for motor vehicle and parts dealers. Conversely, March taxable sales in 2020 were higher at nonstore retailers (including remote sellers and marketplace providers) by 49%, food and beverage stores by 21%, and building material and garden equipment and supplies stores by 9%.

Under 2019 Act 10, individual income tax rates will be reduced to offset the increased sales and use tax collections attributable to remote sellers and marketplace providers. For tax year 2020 and taxable years thereafter, the tax rate reduction is based on the sales and use tax collected from remote sellers and marketplace providers during the 12-month period from October 1, 2019, to September 30, 2020. To the extent that the coronavirus pandemic results in increased taxable sales made by remote sellers and marketplace providers that would have otherwise been in-person taxable sales at physical stores located in Wisconsin, the sales tax revenue used to offset individual income tax rate reductions for tax year 2020 will have a larger fiscal effect than the \$119 million income tax reduction estimated under Act 10.

2019-20 General Fund Balance

The January 23, 2020, report, adjusted for tax law changes enacted under the federal CARES Act and 2019 Wisconsin Acts 181 and 185, estimated that the gross balance in the state's general fund on June 30, 2020, would be \$1,093 million. That balance will undoubtedly decrease because of reduced tax collections as shown in the April report and the upcoming May and June reports. The extent of the effect of that collection information will not be known until after the July 15 filing deadline for income and franchise taxes. There are, however, some items that might mitigate the decline in the 2019-20 balance.

1. It is unlikely that the \$189 million transfer to the budget stabilization fund identified in the January 23 report will occur. That \$189 million will remain in the general fund and enhance the 2019-20 balance.
2. Last week, DOA Secretary Brennan announced that certain state operations GPR appropriations will be required to lapse 5% to the general fund in the 2019-20 fiscal year. The Secretary indicated that \$70 million will lapse under this directive.

3. Under the federal CARES Act, the state will receive \$2 billion from the Coronavirus Relief Fund (CRF). Funding is to be used for expenditures made in response to the pandemic. The federal guidelines for the CRF indicate that these funds cannot be used to replace state revenue shortfalls. There are, however, ongoing discussions that the guidelines may be modified or that additional federal funds will be made available under subsequent legislation to allow for the replacement of revenue shortfalls.

4. It is estimated that the budget stabilization fund will have a balance of \$655 million at the end of the 2019-20 fiscal year. Legislation is required in order to access any amounts in the stabilization fund.

This office will continue to monitor tax collection reports, economic forecasts, and federal legislation and inform you of findings that might impact the state's budget.

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