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The monthly revenue report for August 2020 state tax collections was released today.

Note to readers: The monthly revenue estimates are based on the December 20, 2019 revenue forecast and include the estimated impact of legislative actions taken by the General Assembly in the 2019 legislative session, prior to the onset of the pandemic. The monthly revenue estimates have not been adjusted for any developments since December 2019.

In addition, the reader is reminded that income tax payments with due dates starting April 15 through June 30 were extended through executive orders to July 15, 2020 within FY 2021.

The Fiscal Year starts on July 1 and ends on June 30th of the following calendar year.

Results

- General Fund revenues for August totaled \$1,360.2 million, which is \$121.6 million (9.8%) above estimate based on the December 20, 2019 revenue forecast and \$246.1 million (22.1%) above revenue in August 2019.

Notably, an estimated \$106 million of individual income tax payments, attributable to recent federal policy actions on unemployment insurance benefits not assumed in the December 2019 Forecast, were collected in August. About \$80 million of those payments were due before August - \$50 million of which was estimated to be due in FY 2020.

On a fiscal year-to-date basis, General Fund revenues are lower than expected when excluding payments that were either deferred or late. As of end of August, an estimated \$900 million of income tax payments, initially due in April and June, and about \$50 million of individual income tax payments, attributable to late payments associated with recent federal policy actions on assistance programs, were collected in FY 2021.

- Sales tax collections totaled \$734.3 million for August, which is \$30.7 million (4.4%) above the monthly estimate and \$40.8 million (5.9%) above revenue in August 2019.

Notably, monthly collections attributable to sales tax (excluding gasoline use tax) continued to grow at above historical level growth rates relative to prior year actuals. Because it is difficult to interpret month to month fluctuations, particularly due to the recent federal policy actions and the resulting economic dynamics,

trends in sales tax collections will be better interpreted over the next couple of months in the context of the full year outlook.

While it is difficult to identify the specific impact of the state enforcement of the recent changes in the taxation of remote sales on the fiscal year-to-date tax collections, some data on revenue collections attributable to compliance from marketplace facilitators suggest continued year-over-year growth.

Overall, August monthly collections, which mostly reflect July economy activity, may have been influenced by unusual factors including the phased reopening of the economy in June as well as recent federal policy actions on assistance programs, economic impact payments, interest rates and more.

On gasoline use tax, gasoline consumption and gasoline use tax rates were lower than monthly estimates and prior year actuals. Additionally, the statutory share of total gasoline use tax collections distributed to the General Fund has decreased from last fiscal year.

- Individual income tax collections totaled \$568.3 million for August, which is \$86.0 million (17.8%) above the monthly estimate and \$202.0 million (55.1%) above revenue in August 2019.

In particular, collections related to tax withholdings came in \$84.4 million above the monthly estimate and \$201.0 million above prior year actuals. August individual income tax collections are better interpreted relative to the current year monthly estimate because August 2020 was positively impacted by the 5 Fridays effect while August 2019 was not. Historically, the number of Fridays affects the timing of payments from month to month and the revenue impact has typically been between 10 to 20 percent whenever a month has one more Friday than the more frequent 4 Fridays in a month.

While monthly fluctuations are expected and differences relative to monthly estimates are typical on a month to month basis for income taxes, August 2020 was particularly impacted by a one-time payment associated with taxes that were due between May and July for income attributable to recent federal policy actions on unemployment insurance benefits. It is estimated that about \$80 million of those payments were due before August - \$50 million of which was estimated to be due in FY 2020.

- Corporate tax collections totaled \$12.0 million for August, which is \$23.2 million (206.0%) above the monthly estimate and \$20.4 million (241.5%) above revenue in August 2019.

Overall, corporate adjusted gross income tax collections came in above the monthly estimate due to higher than expected payments and lower than expected refunds for August.

While monthly fluctuations are expected and differences relative to monthly estimates are typical on a month to month basis for income taxes, it is estimated that about \$10 million of payments received in August were deferred from FY 2020 due to the alignment of Indiana's tax filing and payment due dates with the federal deferral to July 15.

- Riverboat wagering collections totaled \$5.0 million for August, which is \$4.0 million (43.9%) below the monthly estimate and \$2.8 million (35.7%) below revenue in August 2019.

Racino wagering collections totaled \$9.4 million for August, which is \$1.6 million (14.3%) below the monthly estimate but \$0.8 million (9.8%) above revenue in August 2019.

With the reopening of casinos and recent legislative changes impacting Indiana gaming activity, gaming collections will be better interpreted in the coming months relative to the full fiscal year outlook.

Commentary

Year-to-date sales tax collections totaled \$1,498.0 million, which is \$69.9 million (4.9%) above the December 2019 revenue forecast and \$129.0 million (9.4%) above collections through the same period in the prior fiscal year.

Year-to-date individual income tax collections totaled \$1,589.7 million, which is \$704.9 million (79.7%) above the December 2019 revenue forecast and \$837.2 million (111.2%) above collections through the same period in the prior fiscal year. About \$700M of individual income tax payments are estimated to have been deferred from FY 2020 to FY 2021 due to the alignment of Indiana's tax filing and payment due dates with the federal deferral to July 15.

Year-to-date corporate tax collections totaled \$182.4 million, which is \$175.3 million (2478.0%) above the December 2019 revenue forecast and \$172.4 million (1727.6%) above collections through the same period in the prior fiscal year. About \$200 million of corporate tax payments are estimated to have been deferred from FY 2020 to FY 2021 due to the alignment of Indiana's tax filing and payment due dates with the federal deferral to July 15.

Overall, July and August monthly collections were atypically impacted by deferred and late payments initially attributable to FY 2020 and may have been influenced by unusual factors including the phased reopening of the economy in June as well as recent federal policy actions on unemployment insurance benefits, economic impact payments, interest rates and more. For instance, most of the income tax collections deferred from FY 2020 to FY 2021, due to the alignment of Indiana's tax filing and payment due dates

with the federal deferral to July 15, are attributable to tax year 2019 and income earned prior to March 2020.

As most of the General Fund revenues come in between December and June, revenues will be better interpreted in the coming months within the context of the longer trend for fiscal year 2021. Going into the rest of the fiscal year, significant fluctuations are expected and deviations from monthly estimates are likely as the rapidly changing economic outlook and federal policy actions will most likely impact monthly collections.