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The monthly revenue report for March 2021 state tax collections was released today.

Note to readers: The monthly revenue estimates are based on the December 16, 2020 revenue forecast which considers revenue developments and the economic outlook presented on that date. This includes previously discussed changes in tax deadlines, payment timing, as well as assumptions related to federal and state policy actions leading up to the release of the forecast.

Information on the latest forecast is available at <https://www.in.gov/sba/2837.htm>

Fiscal Year 2021 begins on July 1, 2020 and ends June 30, 2021.

Results

- General Fund revenues for March totaled \$1,161.3 million, which is \$29.4 million (2.6%) above the monthly estimate based on the December 16, 2020 revenue forecast and \$63.7 million (5.8%) above revenue in March 2020.

Notably, monthly collections from sales tax and corporate adjusted gross income tax came in above monthly estimates while monthly collections from individual income tax and other sources such as gaming taxes, insurance and interest came in below monthly estimates.

As more individual income tax returns and refunds than usual were processed in March, mostly due to the later opening of tax season by the federal government in February 2021 compared to late January in 2020, individual income tax collections came in below the monthly estimate largely due to higher-than-expected refunds.

Overall, significant fluctuations are expected and deviations from monthly estimates and prior year actuals are likely as the rapidly changing economic outlook and federal policy actions will most likely impact monthly collections. For instance, the extension of Indiana's tax filing and payment due date for individuals for the 2020 tax year from April 15, 2021 to May 17, 2021 will affect the timing of individual income tax payments and refunds.

As the year-to-date trend is currently affected by some of the abovementioned timing factors and with about 30 percent of FY 2021 projected revenues potentially coming between April and end of June, General Fund revenues should be interpreted within the context of the full fiscal year forecast.

The next revenue forecast is scheduled to be released in April 2021.

- Sales tax collections totaled \$646.6 million for March, which is \$30.6 million (5.0%) above the monthly estimate and \$44.3 million (7.4%) above revenue in March 2020.

Monthly collections attributable to sales tax excluding gasoline use tax were \$28.7 million above the monthly estimate and \$49.5 million above prior year actuals. The March performance, which mostly reflects February economic activity, continues to show a positive trend relative to prior year actuals (8.4%), following an 8.1 percent year-over year growth for the period of July to February.

Overall, monthly fluctuations from July 2020 to March 2021 may have been influenced by unusual factors including the changing restrictions related to the pandemic and recent federal policy actions on assistance programs, economic impact payments, interest rates, and more.

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 year-to-date tax collections, some data on revenue collections attributable to compliance from marketplace facilitators suggest robust year-over-year growth.

Gasoline use tax monthly collections came \$1.8 million above the monthly estimate but \$5.2 million below prior year actuals. Notably, gasoline consumption and gasoline use tax rates continued to trend below prior year, as has been seen since March 2020. Additionally, monthly collections to the General Fund are also lower than prior year actuals because the statutory share of total gasoline use tax collections distributed to the General Fund in FY 2021 is lower than in FY 2020.

- Individual income tax collections totaled \$386.5 million for March, which is \$12.8 million (3.2%) below the monthly estimate but \$0.2 million (0.1%) above revenue in March 2020.

Monthly collections related to tax withholdings came in \$33.6 million above the monthly estimate and \$37.7 million above prior year actuals. Other monthly individual income tax collections, net of refunds, came in \$46.3 million below the monthly estimate and \$37.4 million below prior year actuals.

While refunds are historically high in March, the later opening of tax season by the federal government in February 2021 compared to late January in 2020 most likely impacted the timing of refunds issued between January and end of March.

Monthly individual income tax refunds were about \$65 million above the monthly estimate and about \$85 million above prior year actuals. This is in contrast to February when individual income tax refunds were more than a \$130 million below the monthly estimate and about \$125 million below prior year actuals. As

more returns are processed, refunds may come in above monthly estimates in April and converge back towards the projected trend on a year-to-date basis.

Going into the high revenue activity period of April to end of June, the extension of Indiana's tax filing and payment due date for individuals for the 2020 tax year from April 15, 2021, to May 17, 2021 will affect the timing of individual income tax payments and refunds relative to monthly estimates and prior year actuals.

- Corporate tax collections totaled \$43.4 million for March, which is \$28.1 million (184.1%) above the monthly estimate and \$18.5 million (74.2%) above revenue in March 2020.

Collections attributable to corporate adjusted gross income tax came in \$27.8 million above the monthly estimate and \$18.2 million above prior year actuals. While March sees a relatively smaller amount of payment activity compared to other months such as April and June, payments came in above the monthly estimate and prior year actuals, whereas refunds came in below the monthly estimate and prior year actuals.

As mentioned above with individual income taxes, corporate taxes will be better interpreted in the coming months as a large portion of revenue and refund activity happens between April and end of June.

- Riverboat wagering collections totaled \$31.3 million for March, which is \$4.9 million (13.5%) below the monthly estimate but \$4.9 million (18.6%) above revenue in March 2020.

Racino wagering collections totaled \$12.7 million for March, which is \$1.2 million (8.4%) below the monthly estimate but \$3.2 million (33.7%) above revenue in March 2020.

Overall, gaming related tax collections are likely to be impacted by the various reopening measures since the onset of the pandemic as well as other factors including recent legislative changes and various federal policy actions.

Commentary

Year-to-date General Fund revenues totaled \$12,874.9 million, which \$426.3 million (3.4%) above the December 2020 revenue forecast and \$1,474.5 million (12.9%) above revenues through the same period in the prior fiscal year.

Year-to-date sales tax collections totaled \$6,562.0 million, which is \$157.8 million (2.5%) above the December 2020 revenue forecast and \$406.1 million (6.6%) above collections through the same period in the prior fiscal year.

Year-to-date individual income tax collections totaled \$4,986.5 million, which is \$228.8 million (4.8%) above the December 2020 revenue forecast and \$1,023.6 million (25.8%) above collections through the same period in the prior fiscal year.

Year-to-date corporate tax collections totaled \$630.6 million, which is \$70.6 million (12.6%) above the December 2020 revenue forecast and \$173.6 million (38.0%) above collections through the same period in the prior fiscal year.

As previously noted, monthly collections for the period of July through March were atypically impacted by more than \$900 million in 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 changes in federal policy actions on unemployment insurance benefits, economic impact payments, interest rates, federal tax processing schedules, and more.

Going into the rest of the fiscal year and the high revenue activity period of April to end of June, monthly collections and the year-to-date trend should be interpreted within the context of the full fiscal year forecast as significant fluctuations are expected, and deviations from monthly estimates are likely.

In addition to the rapidly changing economic outlook and federal policy actions, timing related aspects such as the later opening of tax season in February 2021 instead of January 2021 and the extension of Indiana's tax filing and payment due date for individuals for the 2020 tax year from April 15, 2021 to May 17, 2021 will affect the timing of individual income tax payments and refunds.