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The monthly revenue report for January 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 January totaled \$1,822.8 million, which is \$245.4 million (15.6%) above estimate based on the December 16, 2020 revenue forecast and \$235.3 million (14.8%) above revenue in January 2020.

Notably, monthly collections from sales tax, individual income taxes and corporate adjusted gross income tax came in better than expected and above prior year actuals.

End of year economic activity and timing of tax payments and refunds are important volatile dynamics that historically affect January monthly revenues. 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.

With more than 40 percent of revenues projected to be collected from February to June, revenues should be interpreted within the context of the full fiscal year forecast. For instance, with most income tax payments due in April, income tax collections will be better interpreted after April 2021.

- Sales tax collections totaled \$860.2 million for January, which is \$56.9 million (7.1%) above the monthly estimate and \$38.6 million (4.7%) above revenue in January 2020.

Monthly collections attributable to sales tax excluding gasoline use tax were \$59 million above the current year monthly estimate and \$46.4 million above prior year actuals. The January performance continues to show a positive trend

relative to prior year actuals (5.8%), following an 8 percent year-over year growth for the period of July to December.

Overall, monthly fluctuations from July 2020 to January 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. National level data suggests that federal policy actions passed in late December 2020 impacted incomes and the overall economy at the end of December 2020.

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 robust year-over-year growth.

Lower than expected gasoline consumption and gasoline use tax rates continued to weigh on gasoline use tax collections, as has been seen since March 2020. Monthly collections were \$2 million below monthly estimate. 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 \$844.8 million for January, which is \$148.8 million (21.4%) above the monthly estimate and \$195.6 million (30.1%) above revenue in January 2020.

Monthly collections related to tax withholdings came in \$105.1 million above the monthly estimate and \$120.4 million above prior year actuals. Other monthly individual income tax collections, net of refunds, came in \$43.7 million above the monthly estimate and \$75.2 million above prior year actuals.

January withholdings activity has historically been volatile due to multiple factors including end of year bonuses, income recognition and tax payments. On a year-over-year basis, a portion of the strong January performance may be attributable to recent federal policy actions (enhanced assistance programs and more) as well as higher tax collections related to nonresident partnerships.

Other monthly individual income tax collections, which include estimated payments and other non-withholding activity such as refunds, were possibly influenced by trends and tax planning related to various income sources such as business income, capital gains and more. Overall, collections over the coming months and particularly April and June will provide a better perspective as taxpayers file for returns and payment timing becomes less of a factor.

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- Corporate tax collections totaled \$29.5 million for January, which is \$40.2 million (372.9%) above the monthly estimate and \$2.5 million (9.2%) above revenue in January 2020.

Collections attributable to corporate adjusted gross income tax came in \$39.4 million above the current year monthly estimate and \$2.1 million above prior year actuals. While January sees a relatively smaller amount of payment activity compared to other months, payments came in above monthly estimate and prior year actuals whereas refunds came in below monthly estimate but slightly above 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 February and June.

- Riverboat wagering collections totaled \$26.6 million for January, which is \$2.9 million (12.4%) above the monthly estimate but \$4.3 million (14.0%) below revenue in January 2020.

Racino wagering collections totaled \$9.6 million for January, which is \$1.1 million (10.6%) below the monthly estimate and \$2.3 million (19.1%) below revenue in January 2020.

Commentary

Year-to-date sales tax collections totaled \$5,220.2 million, which is \$64.9 million (1.3%) above the December 2020 revenue forecast and \$299.8 million (6.1%) above collections through the same period in the prior fiscal year.

Year-to-date individual income tax collections totaled \$4,321.6 million, which is \$150.9 million (3.6%) above the December 2020 revenue forecast and \$937.8 million (27.7%) above collections through the same period in the prior fiscal year.

Year-to-date corporate tax collections totaled \$613.5 million, which is \$43.5 million (7.6%) above the December 2020 revenue forecast and \$170.2 million (38.4%) above collections through the same period in the prior fiscal year.

Overall, monthly collections for the period of July through January 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 changes in federal policy actions on unemployment insurance benefits, economic impact payments, interest rates and more.

As more than 40 percent of total General Fund revenue forecasted for Fiscal Year 2021 is still to be collected between February and June, fiscal year-to-date revenues should

be interpreted within the context of the full fiscal year forecast. For instance, with most income tax payments due in April, income tax collections will be better interpreted after April 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.