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State revenues beat projections despite pandemic lockdown

Overview: When the pandemic began and the state engaged in the lockdown, prevailing thought was that government revenues would surely suffer for the fiscal year and beyond. Concerns were such that the federal government passed the Coronavirus Aid, Relief and Economic Security Act (CARES), sending $150 billion in direct assistance to state and local governments. Pennsylvania was allocated $4.964 billion of which $3.935 billion went directly to state coffers with the remaining $1.029 being sent to 7 counties with populations greater than 500,000.

For fiscal 2019-20, that was the case as the state's total general fund revenues fell 7 percent below the previous fiscal year. However, for the next, and just completed, fiscal year, 2020-21, general fund revenues rebounded rather quickly as the actual collections exceeded the State Department of Revenues' expectations. This *Brief* examines the collections of general fund revenue streams of the corporate net income, the personal income and the sales taxes as they not only exceeded expectations but leaped past recent results.

Pennsylvania's fiscal year runs from July 1 through June 30. In 2020, the pandemic and the lockdown began in mid-March 2020 and the most severe lockdown restrictions were lifted for most counties in June 2020. Thus, what were the leanest revenue months of the lockdown, mid-March through June, occurred toward the end of the fiscal 2019-20 year (*Policy Brief, Vol. 20, No. 21*).

Total general fund revenues

Total general fund revenues for March (-2.59 percent), April (-50.58 percent), May (-19.52 percent) and June 2020 (-13.11 percent) were well below their 2019 monthly levels to finish out fiscal year 2019-20. The total general fund revenues for that fiscal year came in at $32.26 billion—$2.6 billion below the year earlier total of $34.86 billion.

However, when the 2020-21 fiscal year began, the fortunes began to change as July 2020's total general fund collections were well above that of July 2019 by a whopping 76 percent ($4.1 billion vs. $2.33 billion). It is worth noting that during the pandemic, the federal and state governments delayed the deadlines for collecting income taxes, the corporate net and personal income, from April 15 to July 15, which contributed to the large increase as the corporate net income tax collections were up 154 percent with the personal income tax up 126 percent. August 2020 was also up over its year-ago value by 16.21 percent and September was 2.41 percent better. The first quarter of fiscal 2020-21 was very strong for total general fund revenues as the economy began to heat up with the loosening of business restrictions.

The second quarter of the fiscal year started off slow. October 2020's collections were nearly 3 percent lower than the year-ago amount while November was off by less than 1 percent. December, buoyed by holiday sales (sales tax revenues up over 4 percent), had collections that were 26.63 percent higher than December 2019 despite more restrictions being placed on the leisure and hospitality industry.

The last six months of the 2020-21 fiscal year, which were first six months of 2021, were very strong, despite a slow January (down 13.44 percent from a year-ago). February was up nearly 24 percent and March was 9.2 percent better than March 2020. Comparing April through June 2021 with the same months from 2020, the height of the lockdown, does not provide an accurate measure. It's more appropriate to compare them to the same months in 2019.

The amount collected in April 2021 came in at $3.96 billion. This was 10 percent lower than collected in April 2019 ($4.41 billion), but it is worth noting that, once again, the deadline to file income taxes was pushed from April 15 to May 15. As a result, the collections for May 2021 nearly reached $4 billion or 50.8 percent higher than May 2019. June 2021 had total general fund revenues 22.41 percent higher than June 2019.

In all, fiscal 2020-21's total general fund revenues amounted to $40.39 billion—25 percent higher than fiscal 2019-20. The previous high occurred in fiscal 2018-19 when the commonwealth collected $34.86 billion. The commonwealth benefited from a stronger-than-expected rebound from the pandemic, surpassing the projections of the Department of Revenue ($36.95 billion) by 9.3 percent.

Corporate net income tax

While the corporate net income tax collections represent the smallest amount of the three categories that will be considered here, it had the largest jump from fiscal 2019-20 to 2020-21. For fiscal 2020-21 the commonwealth collected $4.42 billion, which was 56 percent more than fiscal 2019-20 ($2.83 billion) and 30 percent above fiscal 2018-19 which also was the previous high collection with $3.4 billion.

Fiscal 2020-21 contained two corporate net income tax deadlines, July 2020 (up 154 percent from year-ago) and May 2021 (up 34 percent from May 2019), which undoubtedly influenced the high collection totals. Other fiscal 2020-21 months that stand out are August (354 percent from a year-ago, perhaps reflecting late payments), December (44 percent) and January 2021 (59 percent). April 2021's collections were 49 percent greater than April 2019 while both May and June (24 percent) had greater collections than in 2019.

Personal income tax

The personal income tax is the largest of the general fund categories and in fiscal 2020-21 brought in $16.3 billion. Personal income taxes are collected via those opting to have the amount withheld from their paychecks (about two-thirds) and those opting for the non-withholding option. The withholding amount for fiscal 2020-21 was $10.84 billion and the amount of non-withholding was $5.45 billion. The actual amount from the withholding group beat fiscal year expectations by just 1.6 percent. However, those in the non-withholding group outpaced expectations by 14.3 percent.

Despite the high levels of statewide unemployment (see *Policy Brief Vol. 21, No. 6*), the personal income tax collections hit a new high. This perhaps shows the pandemic lockdown affected low-paying sectors such as leisure and hospitality more where the loss of personal income taxes was not as great and offset by those industries containing higher-paying jobs which allowed employees to continue to work from home during the lockdown. It also may reflect the increased value of wealth portfolios that benefitted from a soaring stock market.

With the exceptions of July 2020 and May 2021, outliers to where the deadlines had been moved, the only months with abnormal positive collections were February, up 44 percent over its year-ago amount, March (28 percent) and June 2021 (up 19 percent over June 2019).

There were some months with drops in collections such as October (-12 percent) and November 2020 (-21 percent), January (-30 percent) and April 2021 (down 31 percent from April 2019)—the latter due to the movement of the tax deadline.

Sales and use tax revenue

For the 2019-20 fiscal year, the statewide sales tax revenue predictably fell, but only by 2.5 percent from the previous fiscal year, $10.8 billion vs. $11.1 billion, due to the drops in April and May 2020, down 35 and 26 percent, respectively. June, the month when the most severe restrictions were being eased, had seen a one-half of a percent rise to sales tax revenues over June 2019.

For fiscal 2020-21 the total amount hit $12.8 billion, 19 percent more than fiscal 2019-20 and 16 percent better than fiscal 2018-19. Monthly sales tax collections were strong on a year-over-year basis in fiscal 2020-21, ranging from a high of 36 percent in July 2020 to a low of just 0.2 percent increase in January 2021. April and May 2021 had seen a rise in sales tax collections of more than 22 percent over their 2019 amounts.

Factors impacting revenue

Total general fund revenue collections for fiscal 2020-21 exceeded Department of Revenue estimations by 9.3 percent. This was the result of a couple of things. First, due to the pandemic and lockdown of April 2020, fiscal 2020-21 included two income tax deadlines, the previous fiscal year's (July 2020) and its own. Without that statistical anomaly, the amount would have been closer to the estimated $36.95 billion rather than the $40.39 billion that materialized.

Secondly, the federal government flooded the economy with stimulus payments and enhanced unemployment benefits. While not subject to the personal income tax, it did put money in the hands of consumers who went on a buying spree causing a jump in sales and use tax collections. Clearly, the federal government pumping up incomes through direct payments and unemployment supplements were key elements in retail sales, auto sales and home remodeling.

These increased sales undoubtedly boosted the incomes of businesses that were allowed to remain open and pushed up their corporate net income tax liabilities causing that revenue stream to tick up as well. But there is also the inflation component. Rising prices on consumer and business goods generate more tax revenue.

With the total general fund flush with cash, and $3.935 billion from the CARES Act with additional federal funding through the American Rescue Plan ($7.3 billion), there will be temptation to spend on wasteful pet projects. But these are temporary bumps to the revenue stream and decision makers should carefully consider their use. Pennsylvania lawmakers must not become complacent or careless about spending federal COVID aid money to expand programs or projects that would require an increase in state revenue funding once the federal dollars are used up.

The goal should be to make Pennsylvania more friendly to businesses and taxpayers.

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