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“Grim, bloody:” State revenue picture after federal deadline extensions

FTA has received requests to explain how the recent federal extensions in the individual income tax April 15 filing deadline and the payment deadline have affected state revenues.

It is too early to be able to put a solid estimate on the amount of harm, but the situation generally was summed up this week by a tax agency head when the payment deadline was moved: “We definitely can’t afford that ... [It would mean] plenty of bloodshed here.”

The majority of the 42 states with a broad income tax have statutes that automatically tie to the federal deadlines. Most of their fiscal years end between March and June 30, so the shift from April 15 to July 15 is pushing revenues from the current fiscal year, where they have already been budgeted, into the next fiscal year.

That budget issue is difficult, but the loss of cash flow is creating the larger crisis. States had counted on receiving many billions of dollars in income tax reconciliation payments during April, money that had been budgeted for everything from paying taxpayer refunds to paying the state’s share of Medicaid. That loss of cash on hand cannot be replaced easily or cheaply.

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Sun Apr 19, 2020

Indeed, we now anticipate that large amounts of it will not be collected ever. We expect many sole proprietorships and individuals will no longer have the cash to make their tax payments by mid-July, and after that we will be dealing with bankruptcies and the permanent loss of those revenues.

To put the data in some perspective, in the past two years the total cash received in tax revenues from quarterly payments and final payments in April has ranged from \$36 billion to \$50 billion.

This is the grim tax revenue reality.

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