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S&P: Tax Filing Extensions Create Liquidity Issues For U.S. States

Key Takeaways

- Every state that levies an income tax has adjusted the tax filing date.
- With 25 states receiving more than 50% of operating revenues from income taxes, any interruption could be meaningful.
- The full extent of lost revenues will not be known for months, but will be felt in state budgets for years.

Postponement of state April 15 income tax filing deadlines, announced by every state that imposes an income tax, creates a temporary deferral of revenue that for at least some states is likely to be near in magnitude to the separate amount of potential permanent tax loss caused by the pandemic related economic slowdown. Unfortunately, this will create additional problems for state liquidity, creating uncertainty and challenges in revising fiscal 2020 and 2021 revenue forecasts, as separating out temporary income tax deferrals compared to the permanent loss due to economic activity will be difficult.

Primarily derived from the calendar year 2019 tax filing period, fiscal 2020 income tax payments are not likely to change much, aside from the time of receipt. However, receipts in the three remaining months of most states' fiscal 2020 will not be immune to recessionary pressures, as the monthly wage withholding receipts will be reduced in the current fiscal year due to the sudden spike in unemployment induced by the social distancing measures throughout the economy. The full effect of the permanent loss of income tax revenue collections caused by the recession will not be known for months, but will primarily be reflected in fiscal 2021.

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