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U.S. Income Tax Delay to Strain States.

Many state budgets run from July 1 to June 30, so new July 15 filing date means officials can't count on that money for current fiscal year

The Trump administration's decision to move the deadline for filing income taxes to July 15 because of the new coronavirus crisis is creating a cash crunch for state governments that were counting on an infusion of state income-tax revenue next month to pay bills.

Many state budgets run from July 1 through June 30, so the new filing date—instead of April 15—means state officials can't count on that tax money for the current fiscal year. States could have to borrow in volatile financial markets or cut into their budgets between now and the end of June. The agreement reached early Wednesday between lawmakers and the Trump administration could also help if it includes general aid for state governments. Unlike the federal government, states must balance their budgets.

So far this week, states including Delaware, Colorado and Alabama have announced they would extend their filing deadline in line with the federal shift.

"You can have unintended consequences with the best of intentions," said Verenda Smith, deputy director of the Federation of Tax Administrators. "The choices that it left the state officials are all so gruesome," she said.

The Treasury Department's decision caught states by surprise. Although the move was intended to help struggling households and businesses, it left state officials in a bind, she said.

In most cases, taxpayers need to know how much they will pay in federal income tax before filing their state income taxes—and many states tie their deadlines to the federal government calendar. So postponing the federal filing deadline effectively postpones the filing deadline for state income taxes as well.

That means states can no longer count on that tax revenue coming in before the fiscal year ends on June 30. Last year, states collected $65 billion in income tax revenue in the month of April, almost 18% of the annual total.

Income-tax dollars make up about a third of total state and local tax collections in California, New York and Massachusetts and even more in Oregon and Maryland, according to a Tax Foundation analysis. Overall, about 23.5% of total state and local tax dollars came from income taxes in 2016, the most recent year for which data was available. Roughly the same amount came from sales taxes, which analysts also expect will be hit hard amid the slowdown in consumption. A handful of states—including Florida, Texas and Nevada—don't have a state income tax.

Over the past few days, states have been scrambling to figure out how to relieve that budget pressure. One option is to cut programs or furlough state workers, something officials are loath to do, especially now that so many people are out of work due to the coronavirus-related layoffs.

Another option would be to issue short-term debt.

“April 15 is just around the corner, that’s when they would have counted on a big infusion of cash from income taxes, that’s going to be pushed off for three months so that puts them in a big bind,” said Don Boyd, co-director of the State and Local Government Finance Project at Rockefeller College.

The income-tax dollars most states and some big cities collect on a continuing basis from workers’ paychecks are likely to begin declining even sooner, Mr. Boyd said, as companies lay off employees and workers’ income falls. He expects the sales taxes that states and many cities rely on will also fall beginning in April when vendors generally send in taxes collected on transactions in March.

“They are going to be strapped for cash,” he said.

Borrowing against future revenues could also be costly. Prices have jumped in the municipal-bond market as investors have fled to cash and Treasurys, causing a spike in short-term interest rates last week. Rates fell somewhat after the announcement of a Federal Reserve liquidity program Monday but remained well above normal levels.

Compounding the problem is the fact that many state legislatures, whose approval is often required to make major spending decisions, have been sent home as a precautionary measure. So far, statehouses in 22 states have shut down due to coronavirus concerns.

The new filing deadline means Rhode Island could run out of cash in weeks, said Seth Magaziner, the state’s treasurer. State officials are exploring short-term borrowing and moving pots of money from one state account to another to make up the shortfall, Mr. Magaziner said.

Since Rhode Island lawmakers aren’t meeting because of the virus, a special emergency board will convene this week to authorize the moves.

“Our immediate concern is on solving our cash flow issues in the coming weeks and months and then we will turn our attention to those longer-term issues,” Mr. Magaziner said.

Last year, about 16.4% of the state’s personal income tax revenue came during the month of April.

Pennsylvania is also anticipating that the tax-filing delay will push “a significant amount” of revenue out of this fiscal year into the next, said Matthew Knittel, director of the state’s Independent Fiscal Office. The office anticipates an immediate, large reduction in motor vehicle sales tax following the closure of car dealerships.

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