Highlights

- General Fund collections through March are $12.1 million above the revenue target of $14.5 billion.
- Sales and Corporate Income tax revenue are the main reason collections are on target. Wage and salary income tax withholdings are below target.
- New tax law changes have made it difficult to time the patterns of base broadening and rate reductions. The most noticeable impact of this timing has been on the personal income tax.
- As always April holds the potential for a surprise in collections when volatile sources of income can significantly rise or fall below expectations.
- A steady, moderate growth pattern is expected to be with us throughout 2014. Most forecasters are not projecting economic growth to accelerate in 2015.
FY 2013-14 Revenue Through March

- General Fund revenue was on target with collections running $12.1 million above the $14.5 billion target through the first three quarters of the fiscal year.
- The third quarter of the fiscal year (Jan.-Mar.) was essentially on target.
  - Net Corporate Income tax revenue is up almost $90 million this year. Gross collections are slightly below target, but refunds are 30% lower than last year.
  - Total Personal Income collections are now $221.4 million below target (see pages 7-8).
  - Sales Tax collections held steady this past quarter and were $102.0 million over target for the year; gross collections were up 4.2 percent over last year.
  - Other tax revenues were on target, but have been bolstered by unanticipated revenue of $16.0 million in Estate tax collections. The revenue represents settlements from previous tax years. The Estate tax was repealed beginning with the 2013 tax year.
## FY 2013-14 Revenue Through March

### FISCAL YEAR-TO-DATE (millions)

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Individual Income</td>
<td>$7,872.1</td>
<td>$7,650.8</td>
<td>($221.3)</td>
<td>$7,799.7</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Sales and Use</td>
<td>$4,007.8</td>
<td>$4,109.7</td>
<td>$101.9</td>
<td>$3,897.3</td>
<td>5.4%</td>
</tr>
<tr>
<td>Corporate Income</td>
<td>$717.4</td>
<td>$806.3</td>
<td>$88.9</td>
<td>$638.5</td>
<td>26.3%</td>
</tr>
<tr>
<td>Franchise</td>
<td>$481.8</td>
<td>$500.5</td>
<td>$18.8</td>
<td>$481.7</td>
<td>3.9%</td>
</tr>
<tr>
<td>Other Tax Revenue</td>
<td>$755.5</td>
<td>$777.4</td>
<td>$21.9</td>
<td>$808.6</td>
<td>-3.9%</td>
</tr>
<tr>
<td><strong>Total Tax Revenue</strong></td>
<td><strong>$13,834.6</strong></td>
<td><strong>$13,844.8</strong></td>
<td><strong>$10.2</strong></td>
<td><strong>$13,625.8</strong></td>
<td><strong>1.6%</strong></td>
</tr>
<tr>
<td>Nontax Revenue &amp; Transfers</td>
<td>$664.6</td>
<td>$666.6</td>
<td>$2.0</td>
<td>$782.8</td>
<td>-14.8%</td>
</tr>
<tr>
<td><strong>Total General Fund Revenue</strong></td>
<td><strong>$14,499.2</strong></td>
<td><strong>$14,511.3</strong></td>
<td><strong>$12.1</strong></td>
<td><strong>$14,408.6</strong></td>
<td><strong>0.7%</strong></td>
</tr>
</tbody>
</table>
FY 2013-14 Revenue Through March

• Growth in key economy-based taxes has been mixed:
  – Baseline Sales Tax growth established solid growth earlier in the summer and during the first two quarters of the fiscal year. Baseline growth slipped a little last quarter, but did meet the growth target of 2.9%.
  – Net Personal Income withholding (total collections less refunds and transfers) are now 1.9 percent below net collections from last year. Higher than expected estimated and final payments and lower than expected refunds have offset some of the drop in withholding collections.
In the third quarter baseline growth slowed to 2.9 percent, matching the growth expected in the consensus forecast for the fiscal year. The first half of the fiscal year saw stronger growth at 3.9 percent and 4.1 percent for the respective quarters.
The already weaker than expected withholding collections (the income tax on wages and salaries) declined significantly this quarter as the new withholding schedule took effect. The withholding schedule reflects the lower, flat tax rate of 5.8 percent plus the higher standard deduction.
Withholding – three reasons why personal income withholding has not met expectations

1. Changes to the Personal Income tax from the recently enacted tax changes in S.L. 2013-316 (H.B. 998):
   - H.B. 998 lowered the income tax rate and broadened the tax base. The timing of when those changes will take affect has been difficult to gauge. It appears the offsetting growth in revenue from base broadening will not be realized until taxpayers file their 2014 taxes on April 15, 2015.
   - Meanwhile withholding is reduced because of the rate reduction; from a graduated rate (6, 7, 7.75 percent) to a flat rate of 5.8 percent.
   - The result is withholding collections will lag behind original expectations throughout 2014, and will only realign with estimates when taxpayers file next year.
Withholding – three reasons why personal income withholding has not met expectations

2. Wage and salary growth has lagged slightly behind expectations throughout the fiscal year. Withholding was projected to grow at 4.3 percent this year, but has been tracking closer to 3.3 percent.

3. The weather this winter has been harsher than in the recent past. There is not a precise measure for the effect of the numerous snow and ice closings, but it has played a small role in reducing withholding collections this quarter.
April Surprise

• April is the biggest collection month of the fiscal year. Last fiscal year April’s collections were 67% greater than the average amount collected in the other 11 months.

• April is also the most volatile.
  – Final payments on the previous tax year are due for both personal and corporate taxpayers.
  – Additionally, many taxpayers will be making an estimated payment based on their expectations for the current tax year.

• Finally, taxpayers will be filing for their refunds, which can add to the upswing or downswing in revenues.

• These combined factors often swing collections well-above or below targeted expectations – thus the April Surprise!
Economic and Revenue Outlook

- The national economy continues to strengthen, yet the pace of growth remains stubbornly below average. Despite some slowdown in the economy this past quarter, the economy continues down the path of slow, steady growth. Little change in this scenario is expected over the next twelve months.

- The State’s economic conditions have mirrored the national slow, steady growth scenario. This was consistent with the expectations of the revenue forecast.

- Current economic projections for the rest of this fiscal year and into the next suggest revenues should continue to track close to the expectations built into the consensus revenue forecast.
Economic and Revenue Outlook

- The new tax laws enacted this past session (S.L. 2013-316) will increase the difficulty in gauging economy-based changes in revenue, adding greater uncertainty to the revenue picture. For example, it will be more difficult to gauge whether tax changes or economic conditions are affecting Personal and Corporate estimated income payments this April and June.

- While staff has worked to anticipate the fiscal impact of these changes, it nonetheless, will be trickier to discern movements in tax payments that are economy-based and not a result of the new tax changes.

- The added uncertainty will warrant even greater caution when assessing the General Fund revenue picture for the remainder of this fiscal year and potential revisions to the next.