



OFFICE OF THE STATE COMPTROLLER

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Comptroller's Fiscal Update: Tax Collections Through the Third Quarter

January 2014

Summary

All Governmental Funds tax collections through the third quarter of State Fiscal Year (SFY) 2013-14 were \$534 million lower than projected in the most recent update to the SFY 2013-14 Enacted Budget Financial Plan released in November 2013. While consumption tax receipts through December 31, 2013 were near projected levels, collections from both the Personal Income Tax (PIT) and business taxes were lower than expected. Trends suggest that receipts from some taxes may be higher than projected in the remaining months of the fiscal year.

PIT receipts, by far the State's most significant source of tax revenue, were \$225 million below the latest projections as of December 31, 2013. Business tax collections were \$465 million below updated Financial Plan estimates, while receipts from other taxes (primarily estate and real estate transfer taxes) were \$144 million above projections. Consumption taxes were \$12 million over projections through December.

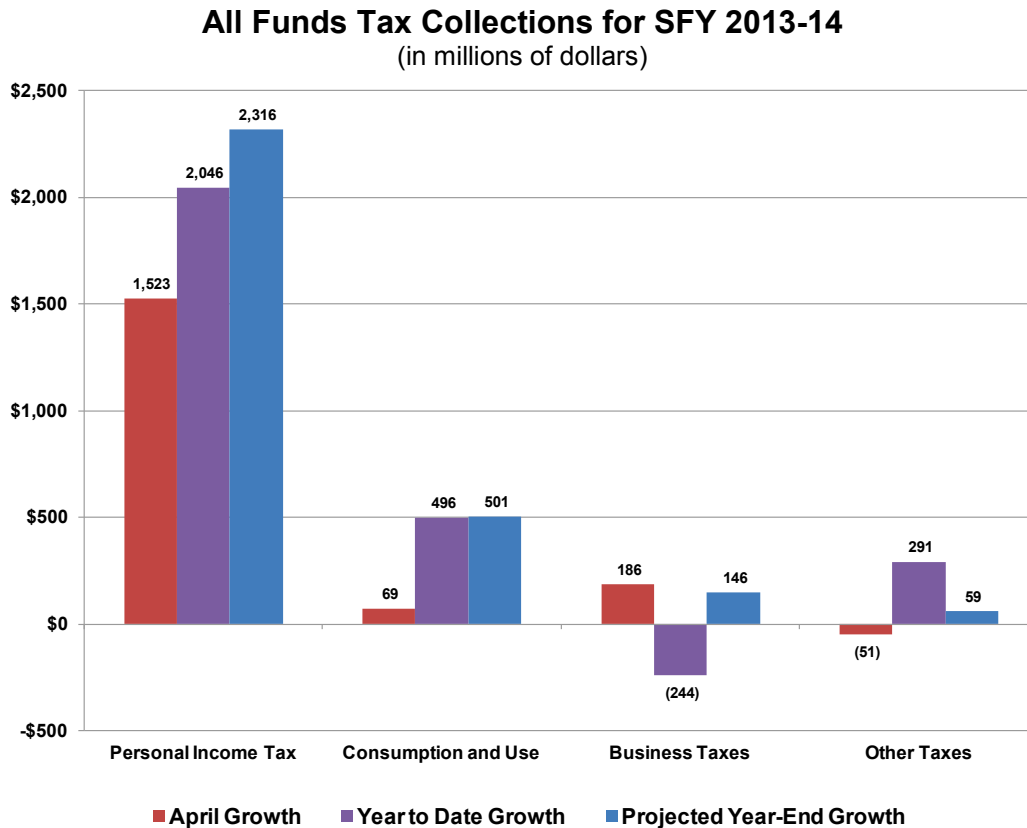
Within the Personal Income Tax, collections from withholding have grown only 3 percent through December 31, 2013, somewhat lower than the year-end projection of 3.5 percent. Receipts in certain other tax categories have shown strong growth through the first three quarters. Collections in two other subsets within the PIT, estimated payments for both the current and prior years, have been exceptionally strong, and may be enough to offset the potential for lower-than-anticipated PIT withholding collections. Similarly, corporate franchise tax collections, up 20.7 percent through December 31, could be enough to offset lower-than-anticipated bank tax receipts.

Total Tax Collections

Through the first three quarters of the fiscal year, All Funds tax collections increased 5.6 percent, or \$2.6 billion, with the majority of the increase (79 percent) coming from PIT collections.

The Mid-Year Update to the SFY 2013-14 Enacted Budget Financial Plan, released in November 2013, projected that annual All Funds Tax collections would increase just over \$3 billion, or 4.6 percent, compared to last year. The majority of that growth (just over \$2.3 billion, or 76.6 percent) was projected from PIT collections, as illustrated by the "Projected Year-End Growth" bars shown in Figure 1.

Figure 1



Sources: Office of the State Comptroller; Division of the Budget.

Note: April Growth represents the month of April 2013 compared to the month of April 2012.

Personal Income Tax

As shown in Figure 1, All Funds PIT collections through December 31 totaled \$29.8 billion – an increase of just over \$2.0 billion, or 7.4 percent, compared to last year. This growth primarily reflects the fact that April 2013 settlement collections were significantly higher than such collections in April 2012.

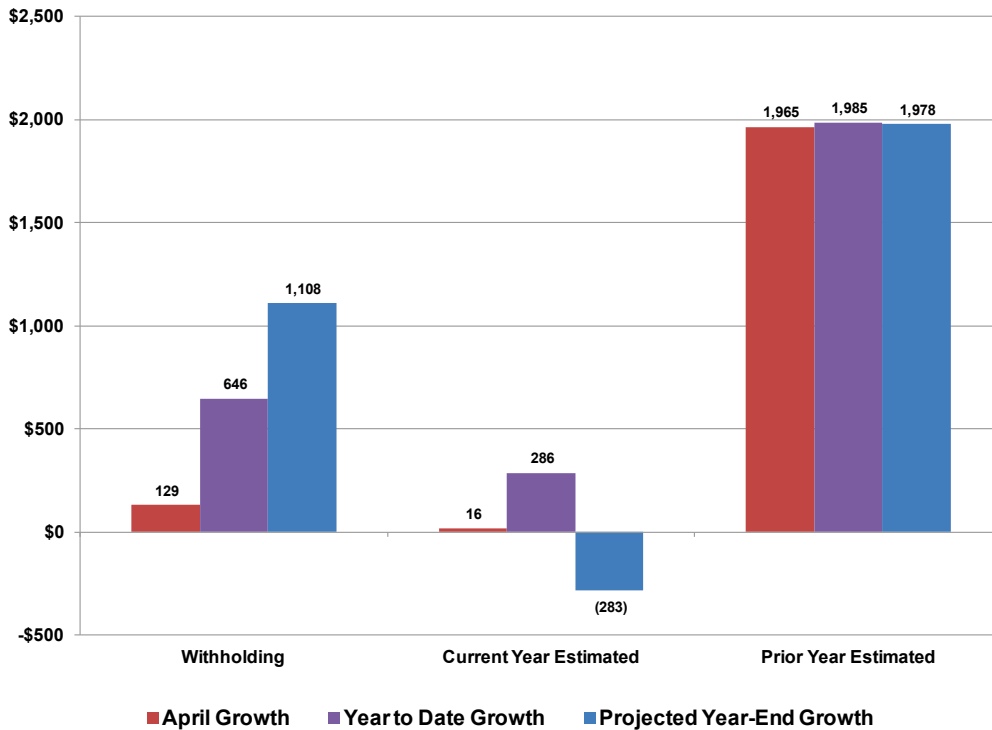
Figure 2 shows collections for three major categories within the Personal Income Tax (PIT): withholding, current year estimated payments, and prior year estimated payments. Collections for these three components over the first three quarters were \$2.9 billion higher than last year for the same period, \$2.1 billion of which occurred in April largely due to prior year estimated payments. (Total collections for these three components exceed total growth in PIT because these three components are partly offset by refunds, which also increased.)

Collections for prior year estimated payments totaling \$5.2 billion have already almost met year-end projections, and are not expected to change significantly in the three remaining months of the fiscal year. Collections for current year estimated payments have grown by 5.1 percent. In a typical fiscal year, the majority of such payments are received by mid-January, so minimal changes to these figures are expected in February or March. The 5.1 percent growth in these collections to date contrasts with

the Division of the Budget's (DOB) projection that full-year collections for current year estimated payments would decline 3.2 percent from the previous year. Thus, receipts in this category may end the year several hundred million dollars higher than currently expected.

Figure 2

**Personal Income Tax Collections for Withholding, Current Year
and Prior Year Estimated Payments for SFY 2013-14**
(in millions of dollars)



Sources: Office of the State Comptroller; Division of the Budget.

Withholding collections are received directly from paychecks and are not as volatile as estimated payments. Through the first three quarters, withholding collections have increased 3.0 percent, lower than the 3.5 percent projected for the year.

PIT collections, as reported in the State's financial statements and the Financial Plan, are made up of gross collections less refunds. PIT refunds totaled \$5.7 billion through December 31, 2013 representing an increase of 15.9 percent over the same period last year. DOB projects that refunds will total almost \$7.5 billion by the end of the State fiscal year, representing growth of 7.9 percent from SFY 2012-13.

Consumption and Use Taxes

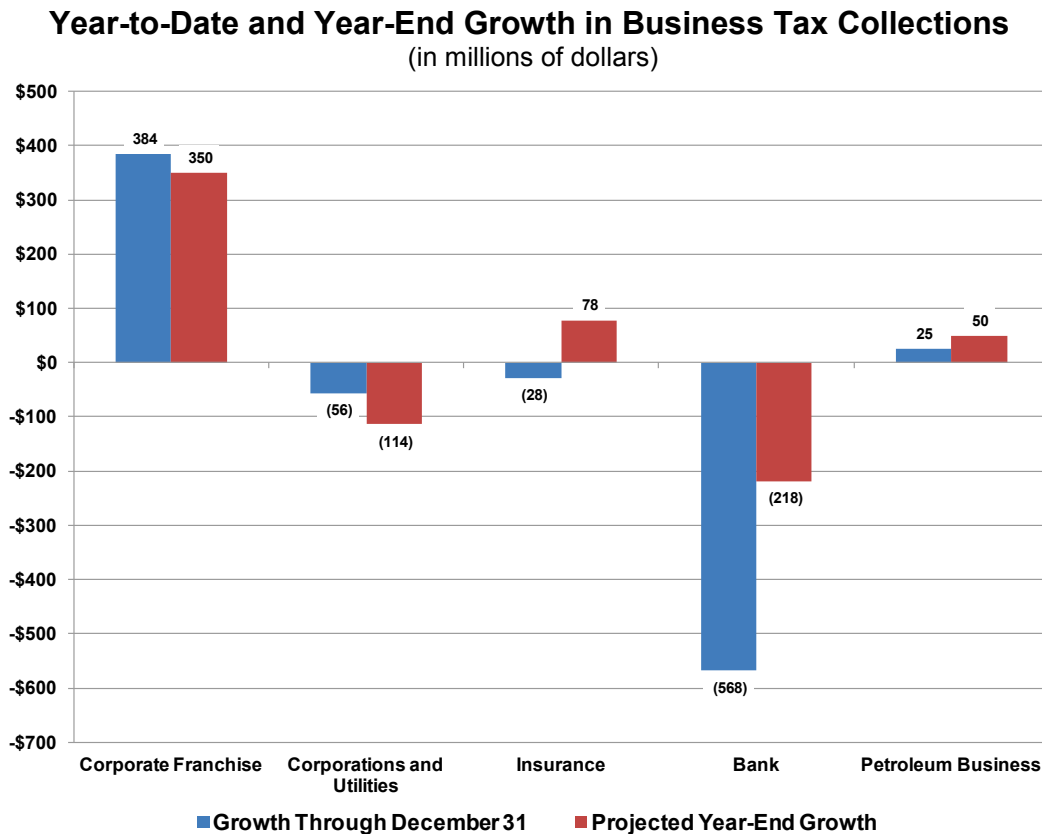
The Mid-Year Update to the SFY 2013-14 Enacted Budget Financial Plan projects All Funds consumption and use tax collections will increase 3.4 percent, or \$501 million, from SFY 2012-13 levels. As shown in Figure 1, the State has already realized nearly all of this projected growth, with three months left in the fiscal year.

Through December 31, 2013, consumption and use tax collections totaled \$11.5 billion, representing an increase of \$496 million, or 4.5 percent, from the previous year. Sales tax collections have increased \$556 million, or 6.2 percent, through the first three quarters. DOB indicates that some of this projected growth is due to prior year actions requiring clearinghouse banks to report credit card transactions and new enforcement initiatives, along with base growth of 3.2 percent that is partly due to strong vehicle sales. This anticipated growth is partly offset by a decline of \$60 million or 5.0 percent in cigarette and tobacco tax collections through the first three quarters.

Business Taxes

Through the first three quarters of the fiscal year, collections for business taxes declined 4.5 percent, or \$244 million, from last year's levels and are \$465 million lower than the latest projections through December 31. However, the State's latest projections include an increase of 1.7 percent, or \$146 million, for the full fiscal year. Corporate franchise tax receipts have already generated more growth than expected for the full year, while bank tax collections are substantially below projected levels, which were projected to decrease by more than \$200 million from the previous year. Figure 3 compares actual growth year-to-date and projected year-end growth.

Figure 3



Sources: Office of the State Comptroller; Division of the Budget.