

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

REMARKS BY DAVID DRESCHER, SECTION CHIEF - REVENUE, FINANCE, AND APPROPRIATIONS

MAY 16, 2022

Before I begin, I would like to thank the committee members for the opportunity to provide an update on revenues for Fiscal Years 2022 and 2023. This update follows the critical April collection period, which includes quarterly and annual corporate and personal income tax filing deadlines for most of the State's taxpayers. For most of the taxes we forecast, April was in line with expectations, and we have made relatively minor adjustments that net to \$150 million over two years. The outlier is the Gross Income Tax (GIT), which saw an unprecedented April surge over its already historically elevated base. Accordingly, we have increased our GIT forecast by \$3.6 billion over the two years. This would leave the State considerably better positioned than we originally envisioned – \$6.9 billion, or 7.7%, over the Executive's forecast of just a few months ago.

To call this surge in the GIT a surprise would be an understatement. April final payments alone totaled \$4.4 billion, which was roughly \$1.2 billion more than the comparison period last fiscal year. If we combine the GIT and the Pass-Through Business Alternative Income Tax (PT-BAIT) to create a fairer comparison to past years, total collections for last year were nearly 20% over the year before. Previously we thought this high rate of growth was indicative of one-time behavior, so we expected that collections this year would revert closer to the historical norm. Instead, actual collections are now likely to grow another 20% over the already elevated base.

This information leaves us even more puzzled than we were last month. Neighboring states such as Pennsylvania, Massachusetts, and New York, as well as the federal government, saw an unexpected and historical spike in April payments. Revenue reports for those states have not offered more than a cursory explanation. The best explanations we can offer that fit the data are all related to the boom in financial markets and overheated economy over the past 12 months – retail investment gains, mergers and acquisitions, and conventional capital gains are all high. In

light of the dive in stock markets since the start of this year, we should not expect this kind of revenue gain to continue.

The major question is: to what extent is the tremendous revenue growth we have witnessed over the past two years sustainable into the future; or by contrast, to what extent was it a temporary deviation from the norm that will see revenues regressing in the coming years? Based on the mismatch of estimated and final payments, the enormity of this surge, and its likely connection to markets that have since turned downward, we think this is mostly a one-time effect. Our forecast for FY 2023 is higher than our previous forecast, but it is flat compared to the updated FY 2022.

Nonetheless, I want to conclude on a positive note. The State has plenty of resources that will help to weather whatever future disruption may be on the horizon. While many economists and other commentators have noted an increased likelihood of a recession occurring within the next year or two, most are quick to hedge that any recession will likely be mild. Most of our economic fundamentals are strong – employment and wages are high, businesses are generally profitable and have strong balance sheets, and there are no clear signs of weakness in our major financial institutions. Broadly speaking, much of the drop in the stock markets was predictable in light of the Federal Reserve’s actions to rein in inflation. If rate hikes have the desired effect, then inflation will come down in the coming months, helping to preserve the value of the money we have. At that point, monetary policy can begin to return to normal and, hopefully, we will return to a normal pattern of growth and predictability.

Detailed Fiscal Year 2022 Revenue Estimates

Millions of \$

<u>Revenue Source</u>	<u>Executive Est.</u> <u>(Mar. 2022)</u>	<u>Executive Est.</u> <u>(May 2022)</u>	<u>Executive</u> <u>Change</u>	<u>OLS Est.</u> <u>(May 2022)</u>	<u>Diff: OLS -</u> <u>Executive</u>
Major Taxes:					
Sales Tax, Total	\$12,025.3	\$12,241.5	\$216.3	\$12,331.4	\$89.9
<i>Sales Tax, Base</i>	12,140.0	12,333.9	194.0	12,437.2	103.3
<i>Dedicated Transfer to PTRF</i>	-954.7	-972.4	-17.7	-985.8	-13.4
<i>Sales Tax, Energy</i>	51.5	91.5	40.0	91.5	0.0
<i>Sales Tax, Energy Tax Receipts</i>	788.5	788.5	0.0	788.5	0.0
Corporation Business Tax, Total	\$5,189.8	\$5,507.7	\$317.9	\$5,525.3	\$17.6
<i>Corporation Business Tax, Base</i>	5,179.8	5,495.7	315.9	5,513.3	17.6
<i>Corporation Business Tax, Energy</i>	10.0	12.0	2.0	12.0	0.0
Pass-through Business Alternative Income Tax	3,100.0	3,700.0	600.0	3,600.0	-100.0
Inheritance Taxes*	527.5	557.3	29.8	564.7	7.4
Motor Fuels Tax	467.5	467.5	0.0	465.2	-2.3
Insurance Premiums Tax	540.0	640.0	100.0	678.8	38.8
Realty Transfer Fee	626.0	673.0	46.9	653.9	-19.1
Motor Vehicle Fees	448.6	439.1	-9.5	439.1	0.0
Cigarette Tax	41.9	34.8	-7.1	47.8	13.0
Petroleum Products Gross Receipts Tax	1,573.5	1,573.5	0.0	1,566.2	-7.3
<i>Less: Petroleum Products GR Capital Reserves</i>	-770.6	-770.6	0.0	-761.1	9.5
Corp. Business Tax - Banking and Financial	95.0	105.0	10.0	112.3	7.3
Alcoholic Beverage Excise Tax	141.4	137.8	-3.6	140.7	2.9
Tobacco Products Wholesale Tax	42.3	41.2	-1.1	41.9	0.7
Public Utilities Excise Tax	19.5	19.5	0.0	19.5	0.0
Adult Use Cannabis	4.0	4.0	0.0	4.0	0.0
Subtotal, Major Taxes	\$24,071.6	\$25,371.1	\$1,299.5	\$25,429.69	\$58.6
Misc. Taxes, Fees and Revenues					
Medicaid Uncomp. Care Reimbursement	419.7	469.8	50.1	469.8	0.0
Public Utility Taxes (State Retention)	150.0	150.0	0.0	150.0	0.0
Assessment on Property Sold Over \$1 Million	248.2	271.7	23.5	263.5	-8.2
Hotel Occupancy Tax	117.8	117.8	0.0	117.8	0.0
Fringe Benefit Recoveries (Interdepartmental)	1,001.3	1,009.3	8.1	1,009.3	0.0
Other	1,602.7	1,675.4	72.7	1,675.4	0.0
Subtotal, Misc. Revenues	\$3,539.7	\$3,694.1	\$154.4	\$3,685.8	-\$8.2
Interfund Transfers					
Subtotal, Interfund Transfers	\$480.4	\$478.7	-\$1.8	\$478.7	\$0.0
TOTAL GENERAL FUND	\$28,091.7	\$29,543.9	\$1,452.1	\$29,594.2	\$50.4
Property Tax Relief Fund (Income Tax)	\$17,370.0	\$20,346.0	\$2,976.0	\$20,017.9	-\$328.1
<i>PTRF Transfer from GF (Sales Tax)</i>	<i>\$975.1</i>	<i>\$993.8</i>	<i>\$18.7</i>	<i>\$1,006.2</i>	<i>\$12.4</i>
Casino Revenue Fund (CRF)	\$397.9	\$454.9	\$57.0	\$427.7	-\$27.2
Casino Control Fund	\$61.7	\$61.6	\$0.0	\$61.6	\$0.0
Gubernatorial Elections Fund	\$0.7	\$0.7	\$0.0	\$0.7	\$0.0
GRAND TOTAL, ALL FUNDS	\$46,897.1	\$51,400.9	\$4,503.8	\$51,108.4	-\$292.6

* The Office of Legislative Services (OLS) includes both the inheritance tax and the estate tax in this line.

* The Gross Income Tax estimates include the Executive's policy initiatives for the Child and Dependent Care Credit and the Earned Income Tax Credit.

Detailed Fiscal Year 2023 Revenue Estimates

Millions of \$

<u>Revenue Source</u>	<u>Executive Est. (Mar. 2022)</u>	<u>Executive Est. (May 2022)</u>	<u>Executive Change</u>	<u>OLS Est. (May 2022)</u>	<u>Diff: OLS - Executive</u>
Major Taxes:					
Sales Tax, Total	\$12,265.8	\$12,478.8	\$213.0	\$12,627.7	\$148.9
<i>Sales Tax, Base</i>	12,380.3	12,580.6	200.3	12,748.1	167.5
<i>Dedicated Transfer to PTRF</i>	-974.4	-991.8	-17.4	-1,010.4	-18.6
<i>Sales Tax, Energy</i>	71.5	101.5	30.0	101.5	0.0
<i>Sales Tax, Energy Tax Receipts</i>	788.5	788.5	0.0	788.5	0.0
Corporation Business Tax, Total	\$5,010.0	\$5,235.0	\$225.0	\$5,438.1	\$203.1
<i>Corporation Business Tax, Base</i>	5,000.0	5,225.0	225.0	5,428.1	203.1
<i>Corporation Business Tax, Energy</i>	10.0	10.0	0.0	10.0	0.0
Pass-through Business Alternative Income Tax	2,700.0	3,400.0	700.0	3,300.0	-100.0
Inheritance Taxes	393.3	385.0	-8.3	425.4	40.4
Motor Fuels Tax	480.0	480.0	0.0	475.4	-4.6
Insurance Premiums Tax	550.0	585.0	35.0	686.7	101.7
Realty Transfer Fee	532.1	572.0	39.9	587.1	15.1
Motor Vehicle Fees	392.5	382.7	-9.7	382.7	0.0
Cigarette Tax	99.4	91.6	-7.8	112.8	21.2
Petroleum Products Gross Receipts Tax	1,515.7	1,515.7	0.0	1,507.0	-8.7
<i>Less: Petroleum Products GR Capital Reserves</i>	-654.8	-654.8	0.0	-641.5	13.3
Corp. Business Tax - Banking and Financial	100.0	95.0	-5.0	115.7	20.7
Alcoholic Beverage Excise Tax	136.7	130.0	-6.8	140.7	10.7
Tobacco Products Wholesale Tax	40.6	35.0	-5.6	40.6	5.6
Public Utilities Excise Tax	19.5	19.5	0.0	19.5	0.0
Adult Use Cannabis	19.1	19.1	0.0	19.1	0.0
Subtotal, Major Taxes	\$23,599.9	\$24,769.70	\$1,169.8	\$25,237.00	\$467.3
Misc. Taxes, Fees and Revenues					
Medicaid Uncomp. Care Reimbursement	375.2	421.4	46.2	421.4	0.0
Public Utility Taxes (State Retention)	155.0	155.0	0.0	155.0	0.0
Assessment on Property Sold Over \$1 Million	211.0	231.0	20.0	236.4	5.4
Hotel Occupancy Tax	124.6	124.6	0.0	124.6	0.0
Fringe Benefit Recoveries (Interdepartmental)	1,140.0	1,148.1	8.1	1,148.1	0.0
Other	1,541.9	1,635.6	93.7	1,635.6	0.0
Subtotal, Misc. Revenues	\$3,547.7	\$3,715.7	\$168.0	\$3,721.1	\$5.4
Interfund Transfers					
Subtotal, Interfund Transfers	\$436.6	\$437.4	\$0.8	\$437.4	\$0.0
TOTAL GENERAL FUND	\$27,584.2	\$28,922.8	\$1,338.6	\$29,395.5	\$472.7
Property Tax Relief Fund (Income Tax)*	\$18,155.0	\$20,085.0	\$1,930.0	\$19,357.4	-\$727.6
<i>PTRF Transfer from GF (Sales Tax)</i>	<i>\$994.8</i>	<i>\$1,013.2</i>	<i>\$18.4</i>	<i>\$1,030.8</i>	<i>\$17.6</i>
Casino Revenue Fund (CRF)	\$425.1	\$465.1	\$39.9	\$421.3	-\$43.8
Casino Control Fund	\$68.1	\$68.1	\$0.0	\$68.1	\$0.0
Gubernatorial Elections Fund	\$0.7	\$0.7	\$0.0	\$0.7	\$0.0
GRAND TOTAL, ALL FUNDS	\$47,227.9	\$50,554.9	\$3,327.0	\$50,273.8	-\$281.1

* The Office of Legislative Services (OLS) includes both the inheritance tax and the estate tax in this line.