

Quarterly Revenue Review

Fiscal Year 2014-15

April to June 2015

Introduction

The Independent Fiscal Office (IFO) produces this report to facilitate comparison of its quarterly revenue estimates with actual revenue collections. The report also provides context for the variances between estimates and actual collections.

The revenue estimates in this report are taken from *Fiscal Year 2014-15 Quarterly Revenue Estimates* published by the IFO. That document is available at www.ifo.state.pa.us. The scope of this report does not include any analysis of the FY 2014-15 revenue estimate certified by the Governor.

General Fund Overview

General Fund revenues for the second quarter of 2015 were \$166 million above estimate.¹ Table 1 shows that corporate net income tax collections were \$38 million above estimate, sales and use tax deposits were \$19 million below estimate and personal income tax revenues were \$51 million above estimate. All other General Fund revenues were \$96 million above estimate.²

For the fiscal year, General Fund revenues were \$635 million above estimate. Corporate net income collections \$328 million above estimate, sales and use tax deposits were \$30 million above estimate and personal income tax revenues were \$81 million above estimate. All other revenues were \$197 million above

Table 1
General Fund Snapshot
(\$ millions)

Revenue Source	Second Quarter - 2015			Fiscal Year-to-Date		
	Actual ^a	Estimate ^b	Difference ^c	Actual ^a	Estimate ^b	Difference ^c
Total General Fund	\$8,881	\$8,716	\$166	\$30,593	\$29,957	\$635
Corporate Net Income	913	875	38	2,811	2,484	328
Sales and Use	2,502	2,521	-19	9,493	9,463	30
Personal Income	3,993	3,942	51	12,107	12,027	81
All Other	1,473	1,377	96	6,181	5,983	197

^a The Commonwealth's revenue accounting system.

^b *Fiscal Year 2014-15 Quarterly Revenue Estimates*, Independent Fiscal Office, August 14, 2014.

^c Computations are based on the unrounded values. Detail may not sum to the total due to rounding.

¹ For consistency, references to quarters in this report are based on the calendar quarter. The second quarter of calendar year 2015 is the fourth quarter of FY 2014-15.

² See the [Revenue Trends Report](#) published by the Independent Fiscal Office for more detail on revenue growth rates by month, fiscal year and the most recent three or twelve-month periods.

estimate. Additional detail on specific revenue sources can be found in Table 4. The following text provides a brief overview of the performance of the revenue estimates for the fiscal year, along with a discussion of the major revenue sources.

Fiscal Year-End Analysis

The \$635 million amount by which actual revenue exceeded estimate for the fiscal year is detailed further in the table below. Nearly all of the variance can be attributed to seven revenue sources, with more than 90 percent of the fiscal year overage associated with corporate net income tax and escheats.

Detail for Fiscal Year Variance	
(\$ millions)	
Description	Amount¹
Corporate Net Income Tax	\$328
Motor Vehicle Sales Tax	51
Quarterly Personal Income Tax	55
Inheritance Tax – Large Payment	100
Casino Licensing Fees	-50
Escheats – Change in Holding Period	242
<u>Transfers – Oil & Gas Lease Fund</u>	<u>-95</u>
Subtotal – Major Sources	631
<u>All Other Sources</u>	<u>4</u>
General Fund Total	635

¹ Actual revenues minus the estimate.

The seven items accounting for the fiscal year variance are explained below.

- Corporate net income tax final payments unexpectedly surged by 27 percent, greatly exceeding the estimate. The strength was evident in months associated with final payments for tax years 2013 and 2014. The reason has not been identified.
- Motor vehicle sales displayed strong growth for the second year in a row. The estimate anticipated that growth would continue, but at a more moderate rate.

- Quarterly personal income tax payments increased by 15 percent in the second quarter of 2015, accounting for nearly all of the fiscal year overage.
- A \$100 million inheritance tax payment was received from a single estate in October. That payment was not anticipated at the time the revenue estimate was finalized.
- The estimate assumed that the slots license for a second Philadelphia casino would be issued and the license fee paid before the end of the fiscal year. Litigation delayed issuance of the license and the collection of the \$50 million licensing fee.
- A statutory change to reduce the holding period for unclaimed property from five years to three years was originally estimated to increase annual revenues by \$150 million. Actual collections exceeded estimates by \$242 million, suggesting that collections attributable to the shorter holding period were close to \$400 million.
- The enacted budget package anticipated a transfer of \$95 million from the Oil and Gas Lease Fund to the General Fund. The transfer did not occur because the Oil and Gas Lease Fund did not have sufficient resources.

In total, the remaining General Fund revenue collections were within \$4 million of the projected amount. The two largest revenue sources, nonmotor vehicle sales tax and personal income tax withholding, were within 0.3 percent of estimate. Annual payments for personal income tax, which have experienced significant variability in recent years, were just 0.4 percent above estimate.

Corporate Net Income Tax

Corporate net income tax collections exceeded estimate by \$38 million for the quarter. Estimated payments were below estimate by \$36

million, while final payments exceeded estimate by \$74 million.

For the fiscal year, collections were \$328 million above estimate. Estimated payments exceeded estimate by \$15 million, and the remainder of the overage, or \$313 million, was attributable to final payments.

Corporate Net Income Tax Growth Rates				
	Quarter		FYTD	
	Actual	Proj.	Actual	Proj.
Estimated	-6.4%	1.2%	4.6%	3.7%
Final	<u>23.2</u>	<u>3.7</u>	<u>27.0</u>	<u>-9.0</u>
Total	6.8	2.3	12.4	-0.7

FYTD – fiscal-year-to-date. Proj. – projected.

Sales and Use Tax

Sales and use tax deposits were \$19 million below estimate for the quarter. Nonmotor vehicle collections were \$19 million below estimate. Motor vehicle collections were less than \$1 million above estimate.

Sales and Use Tax Growth Rates				
	Quarter		FYTD	
	Actual	Proj.	Actual	Proj.
Nonmotor	2.6%	3.5%	3.5%	3.8%
Motor	<u>2.0</u>	<u>1.9</u>	<u>7.2</u>	<u>3.0</u>
Total	2.5	3.3	4.0	3.7

FYTD – fiscal-year-to-date. Proj. – projected.

For the fiscal year, deposits were \$30 million above estimate. Nonmotor vehicle collections were \$21 million below estimate and motor vehicle collections were \$51 million above estimate.

Personal Income Tax

Personal income tax revenues exceeded estimate by \$51 million for the quarter. Employer withholding remittances were less than \$1 million above estimate. Quarterly estimated payments were \$55 million above estimate.

Annual payments were \$4 million below estimate.

For the fiscal year, revenues were \$81 million above estimate. Employer withholding was \$20 million above estimate. Quarterly estimated payments and annual payments were \$55 million and \$6 million above estimate, respectively.

Personal Income Tax Growth Rates				
	Quarter		FYTD	
	Actual	Proj.	Actual	Proj.
Withhold.	3.7%	3.7%	3.8%	3.5%
Quarterly	15.2	5.4	9.9	6.2
Annual	<u>19.5</u>	<u>20.0</u>	<u>16.2</u>	<u>15.7</u>
Total	9.5	8.1	5.9	5.2

FYTD – fiscal-year-to-date. Proj. – projected.

Other General Fund

All other General Fund deposits were \$96 million above estimate for the quarter. The gross receipts tax was \$8 million above estimate. Insurance premium and financial institution taxes were \$21 million and \$5 million above estimate, respectively. Minor and repealed revenues were \$11 million below estimate. License, fee and miscellaneous revenues were above estimate by \$79 million.

For the fiscal year, all other General Fund revenues were \$197 million above estimate. These fiscal year-to-date revenues include: (1) an unexpected \$100 million inheritance tax payment and (2) escheats collections that were \$242 million above estimate. The overages were partially offset by certain estimated revenues that failed to materialize, including: (1) a \$95 million transfer from the Oil and Gas Lease Fund and (2) a \$50 million slot machine license fee from a second Philadelphia casino.

Motor License Fund Overview

The \$711 million in revenues deposited into the Motor License Fund during the second quarter of 2015 were \$24 million below estimate. Fiscal year 2014-15 revenues totaled \$2,612 million and were \$58 million higher than expected. This overage was primarily the result of Treasury collections which exceeded estimate by \$60 million in February 2015. (Treasury collections are reported under Other Motor Receipts.) The unusual deposit was related to capital gains resulting from the liquidation of certain long-term investments. Table 2 provides additional detail on quarterly and fiscal year-to-date revenues.

The Liquid Fuels Taxes category generated \$391 million for the quarter and \$1,562 million for the fiscal year. These revenues were below estimate by \$38 million for the quarter and above estimate by \$15 million for the fiscal year.

Total oil company franchise tax collections totaled \$374 million for the quarter and \$1,482 million for the fiscal year. Revenues for this category were below estimate by \$43 million for the quarter and \$18 million for the fiscal year.

Quarterly receipts for the Motor Licenses and Fees category totaled \$305 million and were \$15 million above estimate. For the fiscal year, receipts of \$951 million were \$4 million below estimate.

Other Motor Receipts of \$14 million for the quarter were \$1 million below estimate. Fiscal year receipts of \$98 million were \$47 million above estimate.

Table 2
Motor License Fund - Comparison of Estimates and Reported Collections
(\$ millions)

	Second Quarter - 2015			Fiscal Year-to-Date		
	Actual	Estimate	Difference	Actual	Estimate	Difference
<u>Total Motor License Fund</u>	<u>\$710.5</u>	<u>\$734.3</u>	<u>-\$23.8</u>	<u>\$2,611.5</u>	<u>\$2,553.7</u>	<u>\$57.8</u>
<u>Liquid Fuels Taxes</u>	<u>391.5</u>	<u>429.0</u>	<u>-37.5</u>	<u>1,562.4</u>	<u>1,547.5</u>	<u>14.9</u>
Liquid Fuels	0.0	0.0	0.0	4.5	0.0	4.5
Fuels	0.0	0.0	0.0	0.0	0.0	0.0
<u>Total - OCF</u>	<u>373.7</u>	<u>416.3</u>	<u>-42.6</u>	<u>1,482.4</u>	<u>1,500.1</u>	<u>-17.7</u>
Oil Company Franchise	227.5	209.7	17.8	747.4	734.1	13.3
Act 89 OCF - Liquid Fuels	108.1	168.6	-60.5	577.7	609.0	-31.3
Act 89 OCF - Fuels	38.1	38.0	0.1	157.2	157.0	0.2
Other Liquid Fuels Taxes	17.8	12.7	5.1	75.5	47.4	28.1
<u>Motor Licenses and Fees</u>	<u>305.3</u>	<u>290.7</u>	<u>14.6</u>	<u>950.8</u>	<u>954.9</u>	<u>-4.1</u>
<u>Other Motor Receipts</u>	<u>13.8</u>	<u>14.6</u>	<u>-0.8</u>	<u>98.3</u>	<u>51.3</u>	<u>47.0</u>

Lottery Fund Overview

Lottery Fund gross ticket sales and miscellaneous revenues were \$955 million for the second quarter of 2015. Those revenues were \$5 million (0.5%) higher than the prior year and below estimate by \$54 million. For the fiscal year, gross ticket sales and miscellaneous revenues of \$3,984 million were \$16 million (0.4%) higher than the prior year and \$97 million below estimate. Table 3 provides additional detail.

Second quarter sales of instant games totaled \$664 million, about \$24 million (3.8%) above the prior year and \$10 million below estimate. For the fiscal year, instant games sales of \$2,592 million were \$147 million (6.0%) above the prior year and \$14 million above estimate.

Sales of jackpot games (Powerball, Powerplay, Mega Millions and Megaplier) were \$83 million in the second quarter, about \$2 million (2.6%) above the prior year and \$34 million below estimate. For the fiscal year, jackpot games sales of \$381 million were \$66 million (-14.8%) below the prior year and \$86 million below estimate.

Sales of all other games totaled \$208 million, about \$21 (-9.3%) million below the prior year and \$9 million below estimate. For the fiscal year, all other games sales of \$847 million were \$61 million (-6.7%) below the prior year and \$21 million below estimate.

Table 3
Lottery Fund - Comparison of Estimates and Reported Collections
(\$ millions)

	Second Quarter - 2015			Fiscal Year-to-Date		
	Actual	Estimate	Difference	Actual	Estimate	Difference
<u>Total Lottery Fund Revenue</u> ^a	<u>\$955.0</u>	<u>\$1,008.8</u>	<u>-\$53.8</u>	<u>\$3,984.1</u>	<u>\$4,081.5</u>	<u>-\$97.4</u>
<u>Gross Ticket Sales</u>	<u>954.6</u>	<u>1,008.0</u>	<u>-53.4</u>	<u>3,819.6</u>	<u>3,912.5</u>	<u>-92.9</u>
Instant Games	663.8	673.9	-10.1	2,591.6	2,577.5	14.1
Jackpot Games	82.7	116.9	-34.2	381.1	467.3	-86.2
All Others	208.1	217.2	-9.1	847.0	867.7	-20.7
<u>Miscellaneous Revenues</u>	<u>0.4</u>	<u>0.8</u>	<u>-0.4</u>	<u>164.5</u>	<u>169.0</u>	<u>-4.5</u>

^a Quarterly and fiscal year-to-date amounts are not adjusted for field paid prizes and commissions.

Table 4
General Fund Detail
Comparison of Estimates and Reported Collections
(\$ millions)

	Second Quarter - 2015			Fiscal Year-to-Date		
	Actual	Estimate	Difference	Actual	Estimate	Difference
<u>Total General Fund</u>	<u>\$8,881.3</u>	<u>\$8,715.5</u>	<u>\$165.8</u>	<u>\$30,592.5</u>	<u>\$29,957.1</u>	<u>\$635.4</u>
<u>Total Tax Revenue</u>	<u>8,340.9</u>	<u>8,250.0</u>	<u>90.9</u>	<u>29,492.3</u>	<u>28,922.9</u>	<u>569.4</u>
<u>Total Corporation Taxes</u>	<u>1,126.6</u>	<u>1,052.9</u>	<u>73.7</u>	<u>5,116.9</u>	<u>4,769.6</u>	<u>347.3</u>
Corporate Net Income	913.3	875.4	37.9	2,811.5	2,483.8	327.7
Capital Stock & Franchise	91.9	76.4	15.5	241.6	242.6	-1.0
Gross Receipts	23.8	16.3	7.5	1,261.8	1,270.3	-8.5
Utility Property	36.1	37.0	-0.9	38.2	40.0	-1.8
Insurance Premiums	59.7	38.4	21.3	454.3	443.0	11.3
Financial Institutions	13.2	8.4	4.8	294.1	287.9	6.2
Other Selective Business ^a	-11.4	1.0	-12.4	15.5	2.0	13.5
<u>Total Consumption Taxes</u>	<u>2,838.4</u>	<u>2,861.9</u>	<u>-23.5</u>	<u>10,779.2</u>	<u>10,775.7</u>	<u>3.5</u>
<u>Sales and Use</u>	<u>2,502.2</u>	<u>2,521.2</u>	<u>-19.0</u>	<u>9,493.1</u>	<u>9,463.3</u>	<u>29.8</u>
Nonmotor	2,141.0	2,160.5	-19.5	8,166.9	8,188.2	-21.3
Motor Vehicle	361.2	360.7	0.5	1,326.2	1,275.1	51.1
Cigarette	248.3	252.1	-3.8	927.2	951.9	-24.7
Malt Beverage	6.7	6.5	0.2	24.5	24.8	-0.3
Liquor	81.2	82.1	-0.9	334.4	335.7	-1.3
<u>Total Other Taxes</u>	<u>4,375.8</u>	<u>4,335.2</u>	<u>40.6</u>	<u>13,596.2</u>	<u>13,377.6</u>	<u>218.6</u>
<u>Personal Income</u>	<u>3,992.9</u>	<u>3,942.3</u>	<u>50.6</u>	<u>12,107.4</u>	<u>12,026.6</u>	<u>80.8</u>
Withholding	2,239.6	2,239.2	0.4	9,071.7	9,051.9	19.8
Quarterly	642.9	588.4	54.5	1,641.7	1,586.4	55.3
Annuals	1,110.3	1,114.7	-4.4	1,394.0	1,388.3	5.7
Realty Transfer	111.4	107.0	4.4	413.8	402.0	11.8
Inheritance	262.8	266.5	-3.7	1,002.3	905.1	97.2
Table Games	24.4	23.7	0.7	95.9	92.9	3.0
Minor and Repealed ^b	-15.6	-4.3	-11.3	-23.1	-49.0	25.9
<u>Total Nontax Revenue</u>	<u>540.4</u>	<u>465.5</u>	<u>74.9</u>	<u>1,100.2</u>	<u>1,034.2</u>	<u>66.0</u>
Liquor Store Profits	0.0	0.0	0.0	80.0	80.0	0.0
Licenses, Fees and Misc.	533.8	455.0	78.8	950.0	880.7	69.3
Fines, Penalties and Interest	6.6	10.5	-3.9	70.2	73.5	-3.3

^a Includes undistributed clearing account.

^b Includes tavern games.