

Initial Revenue Estimate

FY 2019-20
Independent Fiscal Office



May 20, 2019

Main Themes

PA economy performs as expected in 2018

- GDP, wage and jobs growth close to forecast

Other factors drive large revenue gains for FY 2018-19

- Taxation of internet sales (permanent gain)
- Corporate profits (both permanent and temporary)
- Income shifting and gaming expansion (temporary)

Economic fundamentals remain solid, but decelerating

- Evidence in labor market and consumer sales

Economic Growth Close to Projections

	Forecast	2016	2017	2018	2019
Real GDP	June 2018	0.6%	1.8%	2.3%	2.2%
	May 2019	1.1%	1.7%	2.1%	1.9%
Wages-Salaries	June 2018	1.3%	3.8%	4.3%	4.2%
	May 2019	1.3%	4.0%	4.0%	4.0%
New Jobs (000s)	June 2018	50.0	62.9	62.5	57.1
	May 2019	48.8	58.8	65.6	57.7
U.S. Corp Profits	June 2018	-4.1%	3.1%	6.3%	4.5%
	May 2019	-5.4%	1.2%	10.7%	4.3%

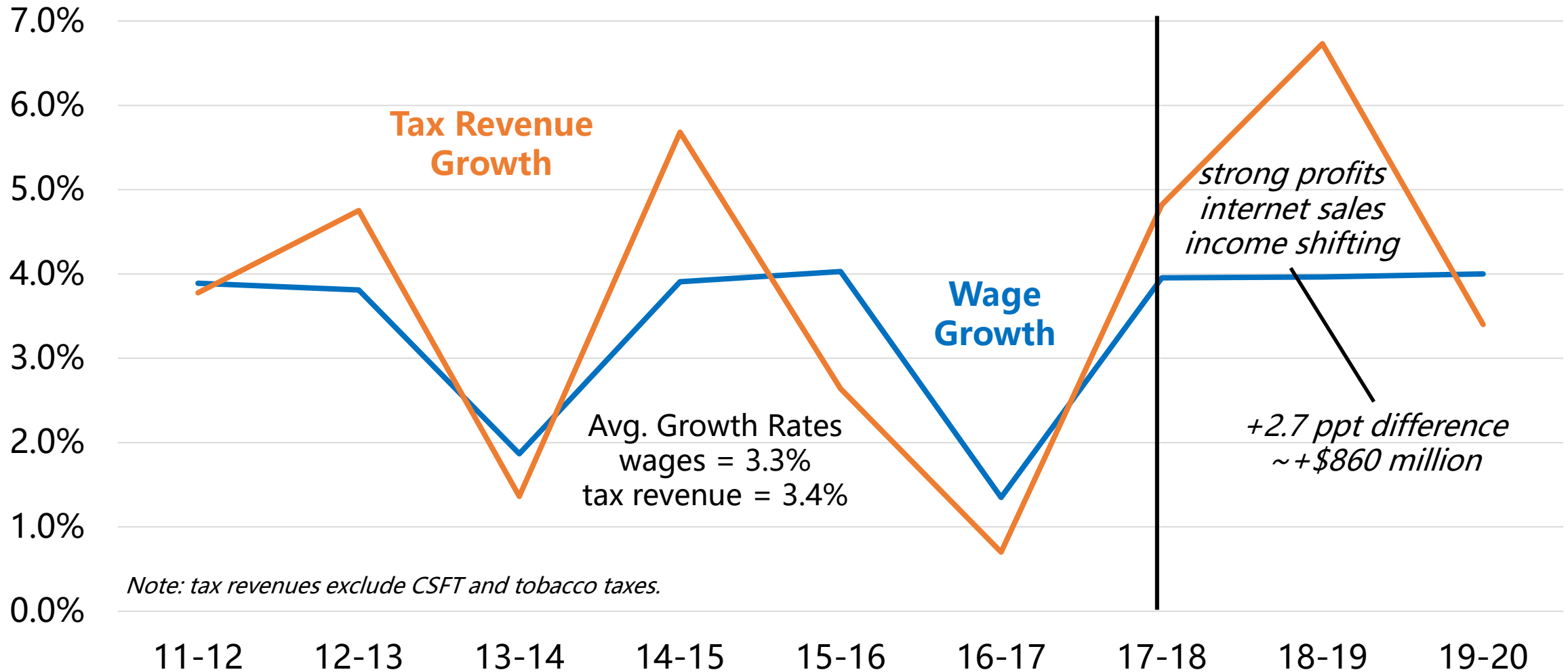
Note: Data in blue are preliminary or forecasts. Corporate profits are non-financial, domestic profits.
Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics.

PA Economic Forecast vs Long-Run Growth

	2013-18	2018	2019	2020
Real GDP	1.8%	2.1%	1.9%	1.9%
Wages-Salaries	3.4%	4.0%	4.0%	4.1%
New Jobs (000s)	46.8	65.6	57.7	54.6
Philadelphia CPI-U	0.9%	1.3%	1.6%	2.0%
U.S. Corporate Profits	1.8%	10.7%	4.3%	4.5%

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics. Corporate profits are domestic, non-financial profits only.

Wages vs Tax Revenue Growth



Recent PA Economic Growth Rates

	2018.1	2018.2	2018.3	2018.4	2019.1
Real GDP	0.7%	4.0%	3.2%	2.5%	n.a.
Wages-Salaries	4.1%	4.0%	3.5%	4.2%	3.8%
Net New Jobs (000s)	69.6	68.4	64.1	60.4	50.8
Philadelphia CPI-U	0.5%	1.6%	1.7%	1.3%	1.5%
Mid-Atlantic Gasoline	13.7%	22.8%	7.7%	-5.3%	-0.8%
Home Price Index	6.2%	5.4%	4.6%	5.0%	n.a.
Zillow Home Sales	0.9%	6.1%	7.2%	-0.4%	-1.5%

Note: All growth rates are year-over-year except real GDP. All GDP data are preliminary. Other data largely final.
Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Federal Housing Finance Authority, Zillow.

Change in PA Payroll Employment (000s)

	2016	2017	2018	2019 Q1
Mining-Logging	-9.0	1.7	1.9	1.2
Construction	3.7	9.9	7.0	8.6
Manufacturing	-8.0	2.0	6.3	0.6
Wholesale-Retail	-4.5	-7.8	-2.9	-10.1
Transportation-Storage	9.2	7.3	9.1	10.0
Professional Services	14.2	5.3	3.5	-0.8
Healthcare-Social Assistance	22.4	26.4	27.2	27.1
Leisure-Hospitality	12.4	9.1	4.9	7.8
State-Federal Government	1.1	-0.2	-1.3	1.0
Local Government	-2.3	0.5	1.0	-0.7
All Other Sectors	<u>9.6</u>	<u>4.5</u>	<u>8.9</u>	<u>6.1</u>
Total Change	48.8	58.8	65.6	50.8

Note: Professional Services includes the Management and Administrative sectors. Value for 2019 Q1 is annualized change for the first quarter.
Source: U.S. Bureau of Labor Statistics.

FYTD Revenues Through April

	April 2018	April 2019	Dollar Change	Growth Rate
General Fund Revenues	\$29,027	\$29,163	\$136	0.5%
Corporate Net Income	2,053	2,513	460	22.4%
Gross Receipts	1,141	1,209	68	5.9%
Sales – Non-Motor	7,408	7,957	549	7.4%
Sales – Motor Vehicle	1,133	1,229	96	8.5%
PIT – Withholding	8,387	8,707	320	3.8%
PIT – Other	2,920	3,219	298	10.2%
All Tobacco	1,077	1,025	-52	-4.8%
All Other Tax	2,453	2,536	82	3.4%
All Non-Tax	2,456	769	-1,687	-68.7%

Note: Dollar amounts are in millions. PIT is personal income tax.

Actual Revenues vs. IFO Estimate

	FY 2018-19 (through April)		
	Actual	Estimate	\$ Diff
General Fund Revenues	\$29,163	\$28,273	\$890
Corporate Net Income	2,513	2,190	323
Gross Receipts	1,209	1,197	12
Sales – Non-Motor	7,957	7,748	209
Sales – Motor Vehicle	1,229	1,165	64
PIT – Withholding	8,707	8,724	-17
PIT – Other	3,219	3,078	140
All Tobacco	1,025	1,027	-2
All Other Tax	2,536	2,469	66
All Non-Tax	769	674	94

Note: Dollar amounts are in millions. PIT is personal income tax.

Revised Revenue Estimate FY 2018-19

Revised Forecast: \$34,765 million

Net Revision to IFO Official: +\$866 million

Gains to Forecast		Losses to Forecast	
Corporate Net Income	\$318	Escheats	-\$30
Non-Motor Sales	\$245	Other Losses	-\$25
Personal Income	\$99		
Gaming Expansion	\$81		
Motor-Vehicle Sales	\$66		
Other Gains	\$110		
Subtotal	\$921	Subtotal	-\$55

Note: Dollar amounts are in millions.

Strong March-April Revenue Growth Rates

	Personal Income	Sales and Use	Corporate Net Income	Personal Income Federal Conformity?
Pennsylvania	31.1%	6.8%	15.5%	does not conform
New Jersey	56.8%	4.7%	n.a.	does not conform
New York	49.2%	4.9%	28.9%	rolling conformity
Ohio	53.6%	3.4%	n.a.	static conformity
North Carolina	41.6%	6.1%	26.4%	static conformity
Michigan	39.7%	2.1%	16.8%	rolling conformity
Massachusetts	58.6%	6.7%	43.5%	static pre-TCJA conf

Note: Growth rates compare collections for March and April 2019 to 2018.
Sources: Various state agency websites. Conformity status from Tax Foundation.

Corporate Income and Sales Drive Large Gains

	Annual Dollar Change			
	15-16	16-17	17-18	18-19
Total Tax Revenues	\$766	\$495	\$1,251	\$1,980
Non-Motor Vehicle Sales	281	190	351	580
Corporate Net Income	31	-91	128	514
PIT Withholding	319	223	422	391
PIT Non-Withheld	79	-65	313	289
Motor Vehicle Sales	21	20	26	101
Capital Stock + Tobacco	-107	316	-61	-57
All Other Taxes	141	-99	73	161

Note: Dollar amounts are in millions. PIT is personal income tax. Excludes non-tax revenues.

Other Notes from FY 2018-19

Not all revenue gains are carried forward

- Income shifting, gaming expansion, consumer behavior (TCJA)

Other factors break positive to boost revenues

- Federal Reserve does not increase rates (talk of rate reduction)
- Temporary gas price dip, large volume of stock buybacks
- Wayfair court decision
- Low medical care inflation

PA consumers do not appear to be overextended

- Modest growth in 2018 total consumer debt (+0.9%)
- Mortgage debt declines slightly, but student loan debt continues to grow

PIT Forecast Underpredicts FY 18-19

	June 2018 Projected	May 2019 Revised	\$ Diff		
Withholding	\$10,450	\$10,427	-\$23		
Non-Withholding	\$3,530	\$3,652	<u>\$122</u>		
Underprediction			\$99		
Stronger Income Shifting			\$49		
Stronger Fundamentals			\$50		
<u>Growth Rates for Personal Income Tax Data Fields</u>					
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Business Profits	4.6%	6.9%	0.3%	0.5%	12.0%
Capital Gains	22.8%	1.5%	-11.9%	25.0%	10.0%
Dividends	28.9%	-2.7%	-13.4%	16.4%	12.0%
Note: Dollar amounts are in millions. Data in blue are preliminary or projections. Shaded area denotes income shifting.					

Sales Tax Forecast Underpredicts FY 18-19

	June 2018 Projected	May 2019 Revised	Difference
Non-Motor Vehicle	\$9,324	\$9,569	\$245
Motor Vehicle	\$1,427	\$1,493	<u>\$66</u>
Underprediction			\$312
Stronger Internet Revenues (permanent)			\$165
Mix of Vehicle Purchases (unclear)			\$50
Stronger Effect TCJA of 2017 (temporary)			\$25
Strong Consumer Confidence (unclear)			\$73

Note: Dollar amounts are in millions.

Breakdown of Non-Motor Sales Tax Growth

	AAGR FYE 12-18	Growth 18-19	Growth 19-20
Non-Motor Sales Tax	2.8%	6.5%	3.8%
Base/Normal Growth	2.2%	2.8%	2.8%
All Internet Sales	0.6%	2.2%	0.8%
Federal TCJA Impact	---	0.8%	---
Residual Growth	---	0.7%	0.2%

Note: Base Non-Motor Vehicle growth for FY 18-19 and FY 19-20 determined by historical relationship between income and sales tax revenues and income levels for those two fiscal years. AAGR is average annual growth rate.

Sales and Use Tax Base Expansion

	14-15	15-16	16-17	17-18	18-19	19-20
Total Sales and Use	\$9,493	\$9,795	\$10,004	\$10,381	\$11,063	\$11,470
Growth Rate	4.0%	3.2%	2.1%	3.8%	6.6%	3.7%
Less: Internet Sales Collections	\$143	\$221	\$284	\$378	\$602	\$696
Adjusted Sales and Use	\$9,350	\$9,574	\$9,720	\$10,003	\$10,460	\$10,774
Growth Rate	3.2%	2.4%	1.5%	2.9%	4.6%	3.0%

Note: Dollar amounts are in millions. Internet Sales Collections includes (1) e-commerce/nexus, (2) digital downloads and (3) marketplace sales (Act 43 of 2017).

CNIT Forecast Underpredicts FY 18-19

	AAGR FYE 11-18	Growth 18-19			
U.S. Corporate Profits	3.2%	10.7%			
PA Corp Net Income Revenues	<u>4.4%</u>	<u>17.9%</u>			
Growth Rate Differential	+1.2%	+7.2%			
Underprediction		\$311			
Stronger Profits		\$150			
Income Shifting/NOL changes/Base Expansion		\$161			
Estimated Tax Payments (Annual Growth)	<u>March</u>	<u>June</u>	<u>Sept</u>	<u>Dec</u>	
2018	9.0%	5.5%	20.0%	25.7%	
2019	-1.8%				

Note: Profits are domestic, non-financial profits on a calendar year basis. FYE is fiscal year ending. Millions of dollars.
Source: Corporate profits data from U.S. Bureau of Labor Statistics, NIPA Table 6.16D.

Initial Estimate for FY 2019-20

	Dollar Amount	Dollar Change	Growth Rate
General Fund	\$35,759	\$993	2.9%
Total Tax Revenue	35,164	1,181	3.5%
Corporate Net Income	3,512	119	3.5%
Gross Receipts	1,225	1	0.1%
Sales and Use	11,470	407	3.7%
PIT – Withholding	10,852	424	4.1%
PIT – Other	3,806	154	4.2%
All Tobacco	1,222	-39	-3.1%
All Other Tax	3,077	114	3.8%
All Non-Tax	595	-187	-23.9%

Note: Dollar amounts are in millions. PIT is personal income tax.

New Data That Could Impact FY 19-20 Forecast

Significant deposits will be received

- May sales tax
- June personal income and corporate net income (2nd payment)

Does labor market maintain strength?

- Some deceleration in growth
- April jobs numbers look solid, withholding growth stable at 4%

Economic factors

- Overseas economies. Interest rates. Stock market volatility.
- 2019 Q1 profits number end of month
- Business investment slowdown (WSJ May 19)?

Summary

Increase to IFO Official Estimate of +\$866 million

- Translate to Executive Budget Official Estimate: +\$790 million

FY 19-20 tax revenue growth rate of 3.5%

- Somewhat weaker than wage growth at 4.0%
- Certain forecasts revert to historical (lower growth) relationships
- Exact magnitude of income shifting not known
- International issues loom larger than normal