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Monthly
REPORT
TO THE
PEOPLE
on the
Fiscal Status
of the
Commonwealth

From the
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APPROPRIATIONS
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Charting the Commonwealth's Surplus

Through the end of November, state tax collections are \$176 million above official estimates. The current overage is 2.1% above estimate. The year-end surplus, however, will probably be much higher.

The largest component of the overage is licenses, fees and miscellaneous income. A large influx of escheated property prior to November is responsible for this overage. This is one-time unexpected money that won't continue to add to the surplus.

**Revenue Surplus
thru end of November:
\$176 million**
**Estimated Final:
\$500 million**

Much more promising for further surplus-building are the total business tax collections. The majority of corporate taxes are received in September, December, March, April and June. It was collections in October, however, that were most instrumental in creating the current overage, as collections were \$42 million over official estimates. According to the Governor's mid-year briefing, most of that was due to a \$35 million settlement of prior year taxes, not from collections from this year. Regardless, there was still a \$19 million overage in September. If

collections are as strong in the remaining months as they have been, business taxes will be a solid contributor to the ending surplus.

Personal income tax collections are currently \$47 million over estimates, but that is only 1.6% ahead of the expected pace. Unless job growth picks up substantially, it does not appear that PIT collections will be a huge contributor to the final surplus, except that gains in the stock market have resulted in higher collections in non-withholding PIT. This bodes well for collections in April as well. Realty transfer tax collections are \$32 million over estimates, which is 18% more than expected. It is anticipated that the housing market will cool over the next few months, but experts have been predicting a cooling of the housing market for the last six years and it hasn't occurred yet.

Not all of the revenue sources are above estimate. Sales tax, inheritance tax and cigarette tax collections are not contributing much to the surplus. While there is an overage of \$16 million in sales tax collections, they are essentially even with estimates, since \$16 million is equal to only 0.5 percent in that category. If, as predicted, the

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Christmas season is slow, sales tax could fall into a deficit. Cigarette tax collections are \$24 million below estimates. The shortage is probably due to loss of tax revenue from cross-border and internet sales. Inheritance tax collections are \$27 million below estimates. It isn't clear whether this shortfall is due to a greater loss of revenue from the state's acceptance of federal inheritance tax changes, or merely temporary because the timing of inheritance tax receipts is notoriously difficult.

With the most vital tax collection months still to come, a substantial revenue surplus now appears likely. Readers of the *Monthly Report* will remember that a substantial surplus was not anticipated just two months ago. Collections have been better than expected, and it would take a significant economic collapse to not have a surplus of at least \$350 million. The final figure will more likely be in the \$500 to \$550 million range.

Below is a chart showing the percentage of tax collections

received by November of 2002. (Due to the tax changes in the 2003-04 fiscal year, November 2003 is not a fair representation of normal pace of tax collection at this stage.) November is the fifth month of the fiscal year, and if revenues came in at a level rate each month, then 42% of the revenues would have been collected by now. Actually, however, only sales tax, the realty transfer tax and small taxes such as liquor and cigarette taxes traditionally come in at 42%. Only 37% of PIT collections were received by the end of November in fiscal year 2002-03. Business taxes are distributed even more disparately over the year, as only about 19% were collected by November 2002. Fully 44.5% of business taxes came in March of that fiscal year.

The bottom line is that if historical patterns hold true, the big collection months are yet to come for the taxes that will provide most of the surplus this year. Therefore, the final surplus will grow rapidly when those months' revenues come in.

