Summary

The State’s All Governmental Funds tax collections through the first quarter of the 2014-15 State Fiscal Year (SFY) were $1.3 billion higher than projected in this year’s Enacted Budget Financial Plan, primarily due to increased business tax and Personal Income Tax (PIT) collections. Overall tax collections were higher than expected in both May and June.

While PIT collections through June fell 9.1 percent in comparison to the same period last year, the quarterly results reflect a sharp drop in such receipts that occurred in April. This decline was incorporated in the Enacted Budget Financial Plan released in May. PIT collections in both May and June were lower than collections from the same months in the previous year, but exceeded projections. In addition to stronger-than-anticipated tax collections, the State received $785 million in financial settlements, $510 million more than anticipated in the Enacted Budget Financial Plan for the year.

Other tax categories are growing at a pace more in line with expectations through the first quarter of the fiscal year. Sales tax collections increased 2.7 percent through June 30. Collections in other taxes have increased 9.9 percent through the first quarter. Miscellaneous receipts increased 22.3 percent, primarily due to unanticipated financial settlements and the timing of payments from the State Insurance Fund, partly offset by the timing of bond proceeds.

Higher-than-expected audit collections in business taxes, settlement receipts and other factors contributed to a General Fund balance of $5.1 billion at the end of June, $2.6 billion higher than anticipated. Another $2.2 billion in settlement proceeds from BNP Paribas was received July 20 (during the second quarter of the fiscal year), and an additional $1.4 billion from that settlement is expected in the months ahead.

The Financial Plan released in May projected real U.S. gross domestic product (GDP) growth of 2.5 percent for calendar 2014. This projection is now substantially above the 1.6 percent consensus projection included in the July edition of Blue Chip Economic Indicators and the latest projection of 1.7 percent from IHS Global Insight, both of which reflect more recent GDP estimates from the U.S. Bureau of Economic Analysis.
Tax Collections

Through the first quarter of the fiscal year, All Funds tax collections declined relative to the previous year by 3.3 percent, or $632.3 million, with the entire decline coming from lower PIT collections, offset by increases in other tax categories. Consumption and use tax collections increased 1.7 percent, including sales tax growth of 2.7 percent. Business tax collections increased 20.7 percent, primarily in bank taxes and largely because of audit collections.

The decline in total collections relative to last year was less than expected. As of June 30, All Funds tax collections exceeded projections by over $1.3 billion, led by business tax collections. Figure 1 compares April, May and June actual results for SFY 2012-13 with Enacted Budget Financial Plan projections for SFY 2013-14 and actual results for SFY 2013-14.

Figure 1

All Funds Tax Collections
(in millions of dollars)

Sources: Office of the State Comptroller; Division of the Budget.
Personal Income Tax

All Funds PIT collections through the first quarter totaled $11.7 billion, a decline of $1.2 billion, or 9.1 percent, compared to last year. This drop primarily reflects the fact that April 2014 settlement collections, an important element of quarterly and even annual totals, were significantly lower than those in April 2013. The vast majority of the decline is due to estimated payments on prior year liabilities in April – which had been exceptionally high in 2013 as taxpayers responded to federal changes in the tax law in January 2013 – a factor that would not affect collections in the remainder of the year. The largest component of PIT – withholding – increased 4.7 percent through the first quarter.

Figure 2 compares monthly PIT collections through the first quarter of SFY 2014-15 with the same period last year – illustrating the significant decline from April 2013 to a year later – as well as projections from the Enacted Budget Financial Plan.

Figure 2

![Personal Income Tax Collections](image)

PIT collections, as reported in financial statements and the Financial Plan, are made up of gross collections from taxpayers less refunds to taxpayers. PIT refunds totaled $3.6 billion through the first quarter, representing a decline of $221.7 million, or 5.8 percent, over the same period last year. This is primarily due to prepaid refunds made
in the last quarter of SFY 2013-14 that were initially intended to be paid in the first quarter of SFY 2014-15. These prepayments artificially reduced PIT receipts in SFY 2013-14 and increased receipts in SFY 2014-15. Including prepayments, DOB currently projects that PIT refunds will total almost $7.8 billion by the end of the year, representing growth of 2.5 percent from SFY 2013-14.

Figure 3 illustrates that the year-over-year decline in PIT collections was primarily due to lower prior year estimated payments. It presents total collections for withholding, New York’s largest in-State source of revenue, along with current year estimated payments and prior year estimated payments. The latter primarily occur in April of each year. Collections for these three components over the first quarter of SFY 2014-15 were $1.3 billion lower than last year for the same period, with most of the decline occurring in April. (Total collections for these three components exceed total growth in PIT because they are partly offset by refunds, which also increased.)

**Figure 3**

**Collections for Withholding, Current and Prior Year Estimated Payments**

First Quarter - SFY 2012-13, SFY 2013-14 and SFY 2014-15

(in millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>SFY 2012-13 Actual</th>
<th>SFY 2013-14 Actual</th>
<th>SFY 2014-15 Actual</th>
</tr>
</thead>
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<tr>
<td>Withholding</td>
<td>$6,954</td>
<td>$7,204</td>
<td>$7,543</td>
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<td>Prior Year Estimated</td>
<td>$3,162</td>
<td>$5,142</td>
<td>$3,336</td>
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<tr>
<td>Current Year Estimated</td>
<td>$2,445</td>
<td>$2,559</td>
<td>$2,709</td>
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</tbody>
</table>

Sources: Office of the State Comptroller; Division of the Budget; Department of Taxation and Finance.

Withholding collections are received directly from paychecks and are not as volatile as estimated payments. The only significant timing issue associated with this category of collections is related to the number of pay days in each month. Collections for withholding have increased 4.7 percent from last year; DOB projects year-end growth
of 5.3 percent, so collections need to strengthen over the last nine months of the current fiscal year if that projection is to be realized. Collections for current year estimated payments have grown by 6.1 percent, which is just below the current year-end projection of 6.4 percent. Prior year estimated payments have declined 35.2 percent year-to-date, which is in line with DOB’s latest projection.

**Consumption and Use Taxes**

The SFY 2014-15 Enacted Budget Financial Plan projects All Funds consumption and use tax collections will increase 1.8 percent, or $265 million, from SFY 2013-14 levels. The entire increase is expected from sales tax collections, which are projected to increase $379 million or 3 percent, and a $40 million increase in other consumption and use taxes, offset by a projected $154 million decline in cigarette and tobacco taxes. Through the first quarter, cigarette and tobacco tax collections are down $28.5 million, or 7.7 percent, compared to last year.

**Figure 4**

![Consumption and Use Tax Collections for April, May and June SFY 2013-14 Actual, SFY 2014-15 Plan and SFY 2014-15 Actual](chart.png)

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

As shown in Figure 4, through June 30, 2014, consumption and use tax collections totaled $3.9 billion, representing an increase of $64.2 million, or 1.7 percent, from the previous year, $70.1 million above the projections included in the Enacted Budget
Financial Plan. Sales tax collections have increased $84.5 million, or 2.7 percent, through the first quarter. DOB’s projected growth for sales tax of 3 percent includes base growth of 3.9 percent (absent law changes), offset by previously existing laws (such as the Start-Up NY tax incentive program) and laws enacted in the SFY 2014-15 Budget (such as exemptions for certain vending machine products).

Business Taxes

The SFY 2014-15 Financial Plan projects year-end business tax collections will decline 7.2 percent, or $588 million, from SFY 2013-14 collections. The majority of this decline is expected in Corporate Franchise tax collections, which are expected to decline over $1 billion or 26.6 percent. This is largely offset by an anticipated increase in bank taxes, which are expected to increase $359 million, or 34.2 percent, by the end of the fiscal year. Both tax categories are affected by tax law changes included in the SFY 2014-15 Enacted Budget. DOB projects those changes will reduce business tax collections by $205 million beginning in SFY 2015-16. Figure 5 shows April, May and June actual results for SFY 2013-14, Enacted Budget Financial Plan projections for SFY 2014-15 and actual results for SFY 2014-15. However, most of the positive variance shown is due to audit collections totaling nearly $670 million through June 30, and is not necessarily indicative of continuing growth.

Figure 5

Business Tax Collections for April, May and June
(in millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
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<tbody>
<tr>
<td>SFY 2013-14 Actual</td>
<td>$496</td>
<td>$254</td>
<td>$515</td>
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<tr>
<td>SFY 2014-15 Plan</td>
<td>$273</td>
<td>$222</td>
<td>$1,219</td>
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<tr>
<td>SFY 2014-15 Actual</td>
<td>$1,213</td>
<td>$1,213</td>
<td>$1,548</td>
</tr>
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</table>

Sources: Office of the State Comptroller; Division of the Budget.
Through the first quarter of the fiscal year, year-over-year collections for business taxes have increased 20.7 percent, or $400.1 million, from last year’s levels. This gain is almost entirely from bank taxes (up $677.6 million or 280.9 percent), offset by a decline of $281.3 million or 29.2 percent in corporate franchise taxes. Much of the year-to-date increase is due to increases in audit collections. Through June 30, business tax collections are $761.9 million above projections.

**Miscellaneous Receipts**

Miscellaneous receipts include fees, fines, reimbursements from public authorities, municipalities and other sources, recoveries, Lottery proceeds, tuition revenue, interest earnings, and other non-tax and non-federal revenue (such as certain miscellaneous receipts that are disbursed from federal special revenue funds). The State’s share of Lottery proceeds, both traditional and from Video Lottery Terminals (VLTs), is counted as miscellaneous receipts and is primarily used to finance education, with a portion used for administration of the various Lottery programs.

The SFY 2014-15 Enacted Budget Financial Plan projects miscellaneous receipts will increase 5.9 percent, or $1.4 billion, from SFY 2013-14. The projected increase is largely due to the increased transfer from the State Insurance Fund ($1 billion total, $750 million higher than in SFY 2013-14).

Miscellaneous receipts also include various settlements, fines and penalties. In SFY 2013-14, the State received over $870 million in settlements, most of which benefited the General Fund. Approximately $92 million of the $613 million settlement with JP Morgan Chase will go to the General Fund (to be paid through SFY 2016-17). The SFY 2014-15 Enacted Budget Financial Plan included a projected $275 million in receipts from unspecified settlements. However, in the first quarter of the current fiscal year, the State received $785 million in three different settlements ($50 million from MetLife, $20 million from AXA Equitable and $715 million from Credit Suisse). Another $2.2 billion was received July 20 from a settlement with BNP Paribas, with an additional $1.3 billion expected, of which $298 million is anticipated to be deposited into a chemical dependency fund.

Through June 30, 2014, All Funds miscellaneous receipts totaled $6.5 billion, which was 22.3 percent, or $1.2 billion, higher than the same period in SFY 2013-14. This result was $119.3 million higher than projected, reflecting the $785 million in unanticipated settlement revenue offset by lower-than-anticipated bond proceeds, which are primarily a function of timing. Lottery revenues totaled $808.3 million, reflecting a decrease of $64.6 million from the previous year and $7.7 million below projections through June. Miscellaneous receipts collected in the General Fund were $729.6 million higher than projections, while miscellaneous receipts in capital projects funds were $625 million lower than projections.
Figure 6 illustrates collections in the various funds through the first quarter in SFY 2013-14, SFY 2014-15 and as projected in the SFY 2014-15 Enacted Budget Financial Plan.

Figure 6

Miscellaneous Receipt Collections for April, May and June
(in millions of dollars)

Federal Receipts

Federal receipts are projected to increase approximately $2 billion, or 4.6 percent, to $45.8 billion this fiscal year. Federal receipts typically reflect reimbursements for spending that has already occurred. Year-to-date, federal receipts are just under $11 billion, or 2.5 percent, higher than last year for the same period, which is $236.6 million over projections through June 30.

Figure 7 illustrates federal receipts collections through the first quarter in SFY 2013-14, SFY 2014-15 and as projected in the SFY 2014-15 Enacted Budget Financial Plan.
Between SFY 2004-05 and SFY 2013-14, federal grants financed an average of 23.6 percent of capital spending. This share is expected to decline to 14.7 percent through SFY 2018-19. Federal grants for capital purposes are anticipated to total $2.0 billion in SFY 2014-15, representing a decrease of $193 million or 8.7 percent. Through the first quarter, federal grants collected in capital projects funds totaled $349 million, which is $112.3 million, or 24.3 percent, lower than the same period last year and $62 million below projections through the first quarter.

Federal grants for non-capital purposes are projected to total $43.7 billion, representing an increase of $2.2 billion or 5.4 percent from SFY 2013-14 levels. The largest non-capital program relying on federal funding is Medicaid, which is expected to make up approximately 67 percent of federally funded non-capital spending in SFY 2014-15. Non-capital federal grants totaled $10.6 billion and ended the quarter $381.2
million, or 3.7 percent, higher than last year for the same period and $298.1 million over Financial Plan projections.

**Looking Ahead**

Through the first quarter of the fiscal year, the State’s cash position is stronger than expected when the SFY 2014-15 Budget was enacted in March, as illustrated by June’s General Fund balance of $5.1 billion - $2.6 billion higher than anticipated. Factors in this improved position include audit collections in business taxes, which may be a function of timing, and new settlement revenue with significantly more on the way. In addition, while certain components of April collections were significantly lower than initially anticipated, PIT collections are currently over $500 million higher than projected through June 30.

Conversely, there are large components of the revenue side of the Financial Plan that are currently not at the growth level needed to reach year-end projections. Sales tax collections have increased 2.7 percent, but are projected to increase 3 percent by year-end. PIT withholding has increased 4.7 percent so far, but must rise 5.3 percent by year-end to match Financial Plan projections. After three months of the fiscal year, the pace of economic growth and other factors will determine whether actual collections meet expectations.

The Enacted Budget Financial Plan included economic projections that were largely in line with a broad consensus among economists. However, since the Enacted Budget Financial Plan was released, the Bureau of Economic Analysis (BEA) has significantly reduced its estimate of national economic growth (as measured by Gross Domestic Product) in the first quarter of calendar 2014. According to BEA, the decline is primarily due to a downturn in exports, and decreases in inventory investment, non-residential fixed investment and state and local spending (among others). The decline of 2.9 percent compares to growth of 2.6 percent in the fourth quarter of 2013.

DOB projected GDP would increase 2.5 percent in 2014. In April, when the Enacted Budget Financial Plan was assembled, this was slightly more conservative than the Blue Chip Consensus Forecast of 2.7 percent in April’s Blue Chip report. At that point, the consensus forecast included GDP growth of 1.7 percent in the first quarter, 3 percent in both the second and third quarters and 3.1 percent in the fourth quarter. The consensus forecast for 2015 was 3 percent (as compared to 2.9 percent from DOB).

In the latest Blue Chip report, dated July 10, 2014, the consensus forecast for calendar 2014 declines to 1.6 percent, although growth for the remaining three quarters of the year increases to 3.3 percent, 3.2 percent and 3.1 percent, respectively. IHS Global Insight has also revised its GDP forecast for 2014 downward, to 1.7 percent.

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National economic growth affects State growth and, as a result, revenue collections. While the unanticipated revenue from one-time settlements and from certain tax revenues is clearly positive, economic trends bear watching closely for their impact on the State’s revenues through the remainder of the fiscal year.

Prepared by the Office of Budget and Policy Analysis

This report is available through the Comptroller’s website at www.osc.state.ny.us.