OFFICE OF THE STATE COMPTROLLER
Thomas P. DiNapoli, Comptroller

Comptroller's Update: State Fiscal Year 2014-15 Revenue Trends through the Mid-Year

October 2014

Summary

The State ended the first half of State Fiscal Year (SFY) 2014-15 in an improved cash position, due largely to unanticipated settlement revenues and tax receipts. The State collected just under $3.5 billion in various settlements and assessments from the financial industry through September, and an additional $1.6 billion is anticipated. The SFY 2014-15 Enacted Budget Financial Plan projected only $275 million in such receipts. Overall tax collections through September were nearly $610 million higher than the latest Division of the Budget (DOB) projections, and more than $1 billion higher than initially anticipated. The unexpected strength in tax collections was primarily in Personal Income Tax (PIT) and business taxes. While stronger-than-expected tax receipts and settlement revenues are positive developments, continued economic uncertainty suggests the need for caution regarding revenue projections through the remainder of the fiscal year.

All Funds Tax Collections

All Funds tax collections totaled $34.2 billion through the first half of SFY 2014-15, representing a decrease of 0.6 percent, or $216.4 million, from last year. In total, collections for the first six months were $609.7 million higher than the most recent projections in the First Quarterly Update to the SFY 2014-15 Enacted Budget Financial Plan, and $1.1 billion above the original projections from the Enacted Budget Financial Plan.

PIT receipts from both withholding taxes and current-year estimated payments – both of which reflect recent conditions in the economy – are above projections. Year-to-date overall tax collections remain below last year's level primarily because of collections of prior-year estimated PIT payments in April. Outside that area, tax growth through the year has generally been relatively strong. However, this growth in overall tax collections is not entirely due to economic conditions. For example, most of the growth in business taxes is due to the timing of receipts from audits, may not indicate a trend. Business tax collections outside of audits declined year-to-year and were in line with initial projections in the Enacted Budget Financial Plan.

Personal Income Tax Collections

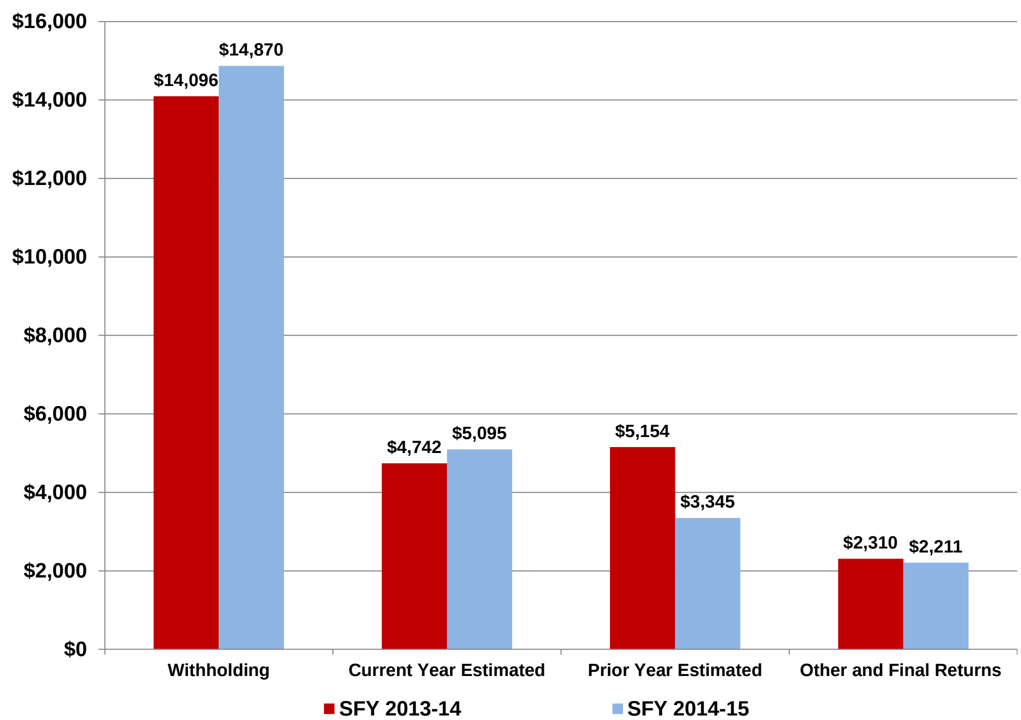
PIT collections in April 2014 fell well below expectations in many states, primarily because of difficulty in projecting the impact on revenues resulting from federal tax changes that took effect in 2013. In New York, April PIT collections were approximately $1 billion lower than initially anticipated by DOB in February. DOB addressed this shortfall in the Enacted Budget Financial Plan by adjusting its estimates for refunds, overall General Fund receipts and certain expenditures.

Compared to a year earlier, collections from PIT withholding through September were up 5.5 percent, or nearly $774 million, as shown in Figure 1. This increase compares to a projected gain of 5.3 percent for the full fiscal year. Collections for current-year estimated payments are up 7.5 percent, the same level of increase projected for the full year. However, receipts from prior-year estimated payments declined from a year earlier by more than $1.8 billion, reflecting an abnormally high level in 2013, followed by an abnormally low level in 2014 – variations caused by taxpayer response to the federal tax changes mentioned above. Factors that may influence collections later in the fiscal year include taxpayer decisions regarding the timing of certain income near the end of the calendar year, the level of end-of-year bonuses in the financial sector, and the amount of tax refunds.

Figure 1

Components of Personal Income Tax Gross Collections – April through September

(before refunds, in millions of dollars)

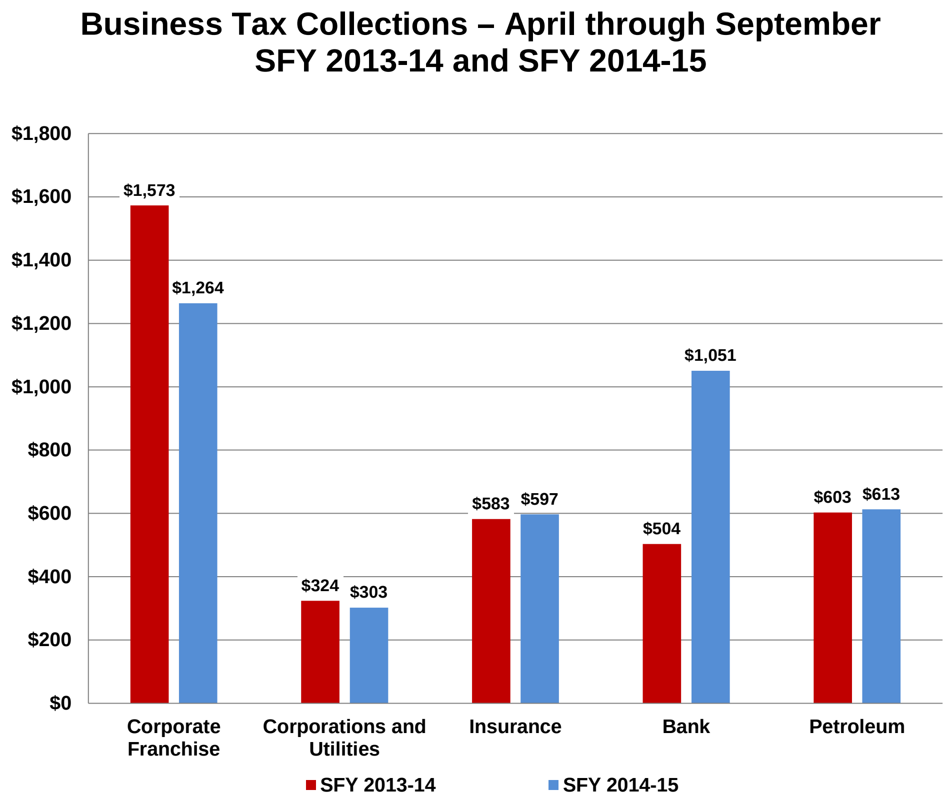


Source: Office of the State Comptroller, Division of the Budget.

Business Taxes

The SFY 2014-15 First Quarterly Update to the Financial Plan projects year-end All Funds business tax collections will decline $547 million or 6.6 percent compared to the previous year. However, through September 30, All Funds business tax collections have increased $241.5 million, or 6.7 percent, compared to the same period last year and are $168 million above projections. Bank tax collections have more than doubled year-over-year, and are up by $547.1 million. This increase is partially offset by lower Corporate Franchise Tax collections. The year-to-date growth in business tax collections reflects receipts from audits (up $318 million or 54.5 percent), which may reflect timing issues. Non-audit collections through September have declined $77 million. Figure 2 illustrates year-to-date collections in the current year and SFY 2013-14.

Figure 2



Source: Office of the State Comptroller, Division of the Budget.

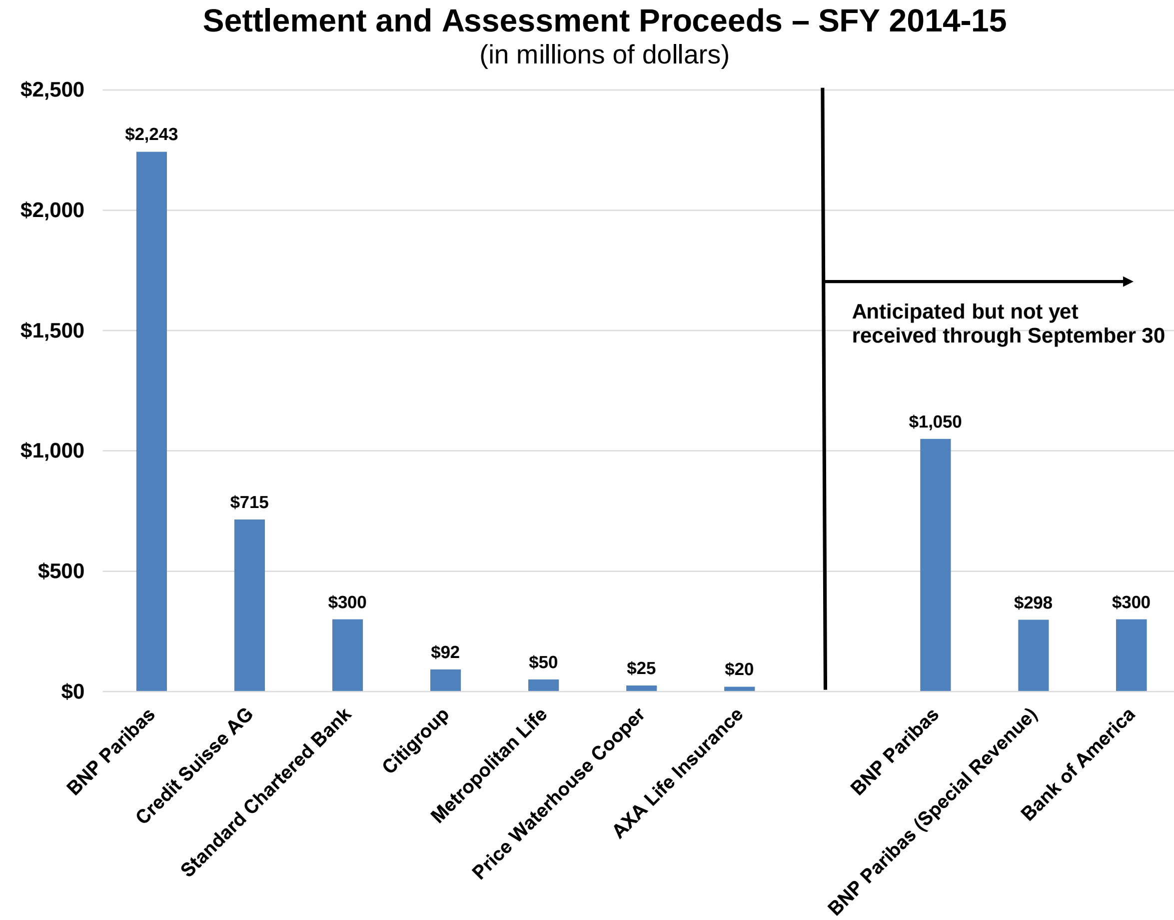
Miscellaneous Receipts

Miscellaneous receipts include fees, fines, reimbursements from public authorities, municipalities and other sources, recoveries, Lottery proceeds, tuition revenue, interest earnings and other revenues that are not classified as taxes or federal receipts (although a small amount of federal miscellaneous receipts is included).

The SFY 2014-15 First Quarterly Update to the Enacted Budget Financial Plan projects miscellaneous receipts will increase 23.1 percent, or $5.6 billion, in SFY 2014-15. This represents an increase of $4.2 billion from the Enacted Budget Financial Plan estimate, representing the addition of the latest assessments and settlements from financial institutions. Through September 30, approximately $3.5 billion has been received and an additional $1.6 billion is anticipated before the end of the fiscal year. DOB has indicated that options for using this unexpected revenue are being developed and a plan will be proposed no later than the SFY 2015-16 Executive Budget.

Through September 30, All Funds miscellaneous receipts totaled $15.1 billion. This was 28.3 percent, or $3.3 billion, higher than collections for the same period in SFY 2013-14, and $292.4 million above Financial Plan projections through September. Figure 3 illustrates settlement and assessment proceeds for the first two quarters of SFY 2014-15.

Figure 3



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

General Fund Balance and the Near-Term Outlook

The General Fund ended September with a balance of $8.1 billion. This is more than two times higher than the projected General Fund closing balance for September contained in the Enacted Budget Financial Plan. Much of this unexpected improvement in the State's cash position is due to nonrecurring settlements and assessments, which will total more than $6 billion from the start of the prior fiscal year to the end of the current. Almost all of this nonrecurring revenue has been or will be deposited in the General Fund. Such one-time resources, while welcome, cannot support ongoing changes in State expenditure or tax policies.

While tax receipts through September were more than $1 billion above April projections, it is by no means certain that such positive news will continue through the fiscal year. Encouraging economic indicators in recent months include improvements in the U.S. employment picture, and declines in unemployment rates both nationally and in New York. Yet there are troubling signs in the economy as well. For example, volatility in the major stock-market indices may have negative implications for the financial sector, which drives a significant share of the State's tax revenues. Along with heightened concerns associated with geopolitical tensions and the potential for a global economic slowdown, such factors suggest the need for caution in projections of State revenues in the months ahead.