



## **MEMORANDUM FOR THE RECORD**

**Date:** May 20, 2025, 10:00 a.m.

**Location:** Revenue and Fiscal Affairs Office, Conference Room 417/Web Conference

**Subject:** Minutes of Board of Economic Advisors Meeting

**Participants:** *Board Members* – Edward Grimball - Chairman, Dr. Michael Mikota, and Hartley Powell (*in person*); Curtis Hutto (*via web conference*). Frank Rainwater – Executive Director, *Staff* – Morgan Daigle, Lisa Jolliff, Dr. Marian Manic, and Karl Vesely; **Attendees:** RFA – Paul Athey, Chris Finney, Kathryn Kelley, and Emily Prosser; **Guests:** Meredith Cleland (SCDOR), Nancy Lee (*Habitat for Humanity*). *One hundred thirteen additional participants via web conference.*

Note: Guests were invited to attend in-person or virtually. An email invitation was sent to the Distribution list and Working Group list members, and the meeting notification was posted on the RFA website and in the Rembert Dennis Building. Meeting information and log-in instructions were posted online. Meeting materials were posted online 15 minutes prior to the start of the meeting, and the documents were also shared via web conference.

- I. Chairman Grimball welcomed everyone to the meeting at 10:00 a.m.
- II. Chairman Grimball presented the April 10, 2025, meeting minutes, which previously had been shared with the Members, and asked if any Member had edits or questions. Hearing no amendments or objections, Chairman Grimball declared the minutes approved as written. ([See minutes](#))

*Chairman Grimball recognized Morgan Daigle and her husband, Everett, on their recent nuptials and wished them the best in their lives together.*

- III. Review of General Fund Revenues and Forecasts ([See materials](#))

*Mr. Rainwater began the presentation by noting the two main purposes of the meeting: 1) to provide an update on revenue collections through April, which includes an initial review of tax season; and 2) to provide a recommendation for increasing the revenue estimates, given recent performance.*

Mr. Rainwater then presented the General Fund revenue FY 2024-25 (FY 25) results through April and highlighted the following points:

- In April, tax filing season resulted in higher-than-expected revenues in several ways, and for the month, revenues exceeded expectations by \$265 million. The primary reasons were:
  - Corporate Income tax remained flat, which accounted for \$92 million.
  - Individual Income tax refunds declined and were \$99 million below expectations.
  - Bank tax benefited from audit payments.
  - Sales tax growth continued to accelerate.
- For the fiscal year through April, revenues are now ahead of expectations by \$772 million and outside our target range of 3.0 percent.

- These revenue results are good news, but still a bit surprising given that economic performance is still close to expectations.
- Nevertheless, the stronger revenue performance this late in the fiscal year is allowing more notable changes to this year's estimate; the ongoing tariff discussions, however, are tempering expectations about growth in FY 2025-26 (FY 26).
- Economic assumptions are not formally changing as the final results and impact of the tariffs are unknown; lower growth and activity will be incorporated into working estimates.

Staff presented their detailed analyses and estimates for items with recommended changes.

Dr. Manic discussed Individual Income tax categories. His key points included:

Withholdings:

- Withholdings collections are doing better than expected. Fiscal year-to-date Withholdings are \$91.6 million ahead of expectations despite slower April collections that were \$23.8 million behind the estimate.
- The remainder of FY 25 is expected to continue with solid wage growth of about 4.9 percent. However, econometric models indicate slower wage growth of only 4.0 percent in FY 26.
- Given the strong growth in collections through April of 6.6 percent versus the 5.0 percent that was expected, the working estimate for FY 25 reflects an increase of approximately \$79.1 million.
- The working estimate for FY 26 also reflects an increase based on the higher FY 25 base. However, growth in FY 26 is expected to moderate to a below normal rate of 3.8 percent, mainly due to the anticipated slower economic activity.

Non-withholdings:

- Non-withholdings rebounded significantly in April, bringing in \$51.7 million more for the month than expected. Year-to-date Non-withholdings are approximately \$17.7 million ahead of the estimate.
- Although Non-withholdings are currently ahead of the estimate, the remainder of the fiscal year continues to be a potential concern.
- The slight downward revision noted in the FY 25 working estimate reflects the increased financial market risk, and FY 26 expectations are for more volatility for the remainder of the year.
- The working estimate for FY 25, therefore, reflects a slight decrease in the current estimate of approximately \$30.8 million.
- Based on the anticipated increase in economic uncertainty and financial market volatility in the remainder of the year, collections in FY 26 are expected to grow slower at 2.9 percent.

#### Refunds:

- Refunds are now \$336.1 million behind the forecast, with more than half of this gap resulting from lower-than-expected refunds in March and April.
- Refunds processing will continue to be closely monitored to better understand what is happening to this category. The number of returns processed is slightly above 2024 and appears to be in line with expectations. Although there was an increase in total refunds in the first week of May, this increase is still lower than anticipated.
- The working estimate for FY 25 refunds reflects a downward revision mostly due to year-to-date dynamics in refunds. FY 26 refunds have also been revised below the previous estimate; however, the growth in refunds is expected to be slightly higher at 9.1 percent due to the better-than-expected Withholdings in FY 25.

Ms. Daigle discussed Consumption taxes. Her key points included:

#### Sales Tax:

- Sales tax continued to accelerate as April collections grew 6.1 percent for the month over last year. Fiscal year-to-date collections are growing 4.6 percent and are \$79.6 million above the February estimate.

#### US Imports of Goods:

- US imports of goods rose sharply in the first quarter of 2025 as shipments were accelerated forward amid tariff uncertainty. This timing shift contributed to a decline in GDP and may delay the impact of tariffs on prices, which has yet to significantly appear in consumer inflation figures.

#### US Retail Sales:

- Wells Fargo's May national retail sales expectations have improved slightly from the sharp drop in April's growth projections that followed the initial tariff announcements. The updated outlook now projects growth of 2.0 percent in 2025 and 0.8 percent in 2026, up from April's expectations of 1.5 percent and 0.4 percent, respectively.

#### Sales Tax Assumptions and Working Estimates:

- FY 25 collections exceeded expectations, driven by strong growth in retail sales and a declining savings rate observed over the past two quarters. FY 25 collections are translating into a higher base for FY 26, prompting upward revisions to both years.
- Revisions to the FY 25 working estimate reflect better-than-expected collections.
  - The recommendation is an increase of \$87 million to Sales tax for FY 25, which translates into an increase from 2.1 percent growth to 3.9 percent growth.
- The FY 26 working estimate revisions consider the risks of higher prices due to tariffs and uncertainty surrounding how businesses and consumers will react to higher prices.

- The recommendation is an increase of approximately \$108 million, reflecting a change from 2.1 percent growth to 2.5 percent growth over FY 25.

Deed Recording Fees – Working Estimates:

- Deed Recording fees have been running close to the February estimate, and therefore, no revisions to the FY 25 estimate are recommended. FY 26 collections may fare better, but the working estimate reflects slower growth due to uncertainty surrounding changes in the housing market.
- The recommendation is a decrease of approximately \$3.6 million to Deed Recording fees for FY 26.

Ms. Jolliff discussed Corporate Income tax and License fees. Her main points were:

- Corporate Income tax collections did not decline as forecasted and continue to exceed expectations by a total of \$167.4 million.
- Concerns about a potential decline in collections remain an issue for FY 26 as retail sales growth is expected to slow during FY 26 and increased uncertainty and delayed investment may stifle growth.
- Collections are outpacing growth in the retail trade sector and US corporate profits, both of which are used to estimate Corporate Income tax. As such, the forecast remains cautious given the historical volatility in this category and the discrepancy in revenue performance versus the economic modeling projections.
- The recommendation is to increase the FY 25 estimate by \$209 million based on current performance but only increase FY 26 by \$73 million to guard against a potential downturn in collections and a negative budgetary impact.
- Corporate License fee collections are ahead of expectations, and the working estimate increase of \$7 million for FY 25 reflects this improved performance. However, no change is recommended to FY 26 given the overall uncertainty in business expectations.

Mr. Vesely discussed Bank tax, Earnings on Investments, and Other Source Revenues. His key points included:

Bank Tax:

- Through April, there has been \$79.2 million in Bank tax revenue collected, \$34.1 million above the estimate as a result of both higher-than-anticipated regular revenue deposits as well as \$22.6 million in audit deposits.
- The working estimate for Bank tax in FY 25 recommends an increase of \$33 million to account for the excess revenue. However, no increase to the estimate for FY 26 is recommended due to macroeconomic uncertainty.

Other Categories:

- The State Treasurer's Office recommends no change to the estimate for Earnings on Investments, at \$450 million expected in FY 25 and FY 26. Earnings on Investments year-to-date through April totaled \$405.8 million.

- Other Source Revenues working estimates include an increase of \$5 million for FY 25 and \$3 million for FY 26.

IV. Discussion and Consideration of Updates to the FY 2024-25 and FY 2025-26 Forecasts

Mr. Rainwater concluded the staff analysis by asking the Board to consider changes to the estimate as outlined on pages 44 and 45 of the presentation. In summary:

- \$669 million increase to the FY 25 estimate, due largely to the continued growth in Corporate Income tax, fewer than expected Individual Income tax refunds, and an acceleration in Sales tax growth.
- \$377 million increase to the FY 26 estimate, which is the result of a higher base (FY 25) and lower growth expectations for FY 26.

*Chairman Grimball noted that the Board Members individually coordinated thoughts and feedback on analysis with Frank and staff prior to the meeting.*

***Dr. Mikota motioned to approve the General Fund Revenue Forecast outlined on pages 44 and 45 of the presentation. Mr. Hutto seconded the motion, all voted aye, and the revised forecast was adopted.***

*Members asked questions throughout the presentation, which generated further discussions between Members and staff.*

*Chairman Grimball commended staff on the detailed information presented.*

V. Reports from Working Group Members  
*No Working Group members offered comments.*

VI. Other Items for Discussion

VII. The next scheduled meeting is June 26, 2025.

VIII. Dr. Mikota moved to adjourn the meeting, and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 10:49 a.m.

Public notice of this meeting was posted at <http://rfa.sc.gov> and the Rembert Dennis Building.

These minutes were approved on 6/26/2025

Emily Prosser *Emily Prosser*