



EDWARD B. GRIMBALL, Chairman
HOWELL CLYBORNE, JR.
EMERSON F. GOWER, JR.

SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

FRANK A. RAINWATER
Executive Director

BOARD OF ECONOMIC ADVISORS AND WORKING GROUP MEETING AGENDA

May 22, 2019, 11:00am

Bowers Conference Room, Room 417, Rembert C. Dennis Building

- I. Welcome
- II. Adoption of Meeting Minutes for April 8, 2019
- III. Review of Revenues and Economic Conditions
 - A. Overview of April 2019 (F. Rainwater)
 - B. Detailed Review of Monthly and Revenue Activity (R. Martin)
 - C. Review of Tax Conformity (L. Jolliff)
- IV. Other Business
- V. Reports from Working Group Members
 - A. Governor's Office
 - B. Senate Finance Committee
 - C. Ways & Means Committee
 - D. Treasurer's Office
 - E. Comptroller General's Office
 - F. Executive Budget Office
- VI. Future Meeting Schedule
 - A. June 13, 2019, 1:30 - Economic and Revenue Update
 - B. July 25, 2019, 1:30 - **If necessary**, *GoToMeeting* for Members
 - C. August 29, 2019, 1:30 - **If necessary**, *GoToMeeting* for Members
 - D. September 16, 2019, 1:30 - Fiscal Year-End Report, Update on New Fiscal Year
 - E. 2019 Calendar at <http://rfa.sc.gov/meetings?y=2019>
- VI. Adjournment

Please note that the Agenda is subject to change.

For further information, please contact Karen Rhinehart at (803) 734-2265,
or visit the RFA webpage at www.rfa.sc.gov



South Carolina Revenue and Fiscal Affairs Office

OVERVIEW OF REVENUES THROUGH APRIL

May 22, 2019

 South Carolina Revenue and Fiscal Affairs Office



Board of Economic Advisors General Fund Revenue Monitor

Revenues vs. 2/14/19 BEA Revenue Estimate of \$8,994.7 Million in FY 2018-19 1/

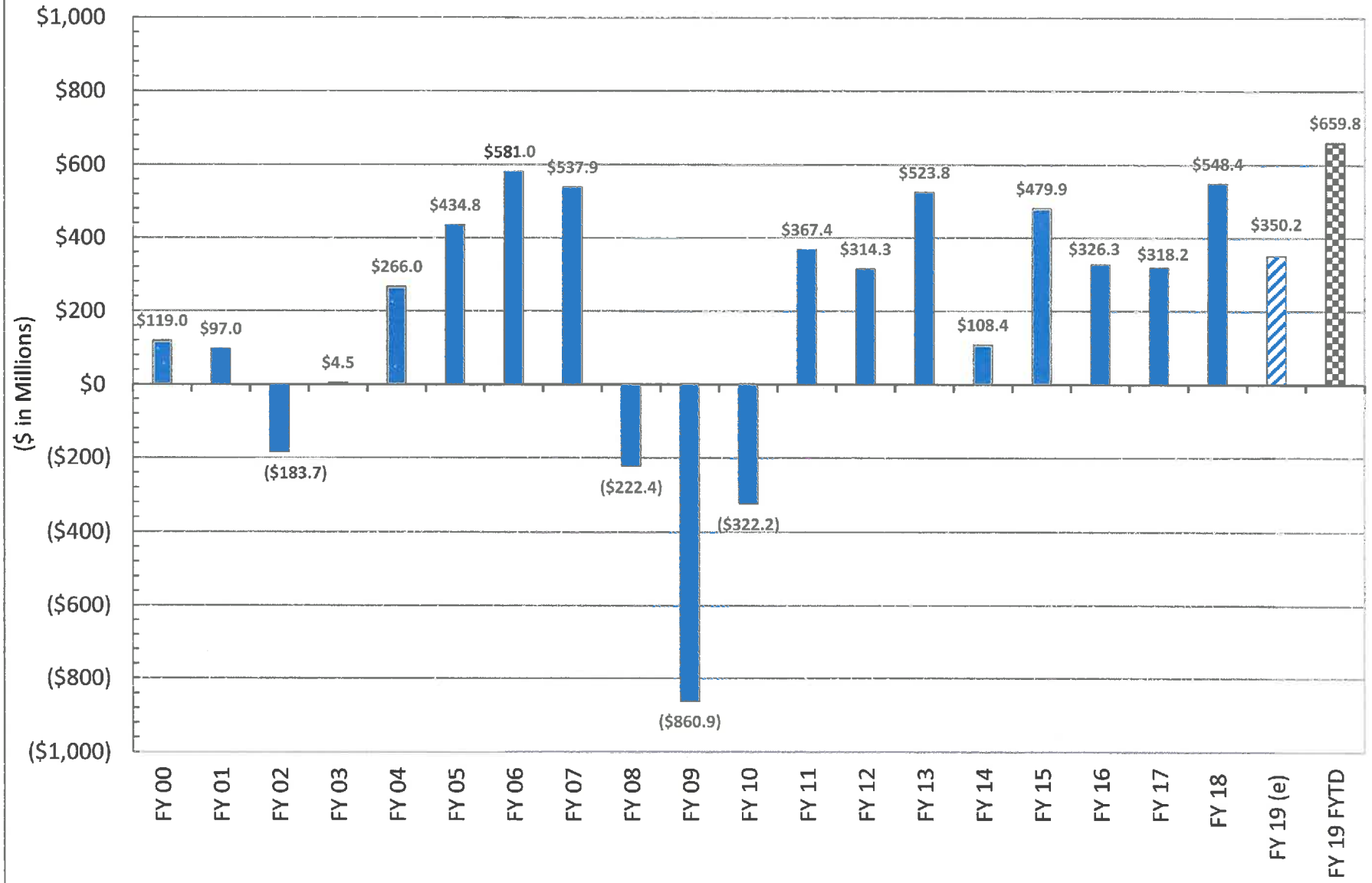
	JULY - APRIL FY 2018-19			Revenue Growth Rates (%)	
	(\$ in Millions)			Estimate	Actual
	Actual Revenues	Expected Revenues	Excess / (Shortfall)	Full Fiscal Yr.	Yr. to Date
Total General Fund Revenue	7,250.7	6,878.7	372.1	3.3	10.0
Sales Tax	2,316.3	2,307.2	9.1	4.2	4.6
Individual Income Tax	3,747.7	3,526.7	221.0	1.4	9.5
Corporate Income Tax	397.4	294.1	103.3	8.0	51.0
Other Revenue Sources	789.3	750.7	38.6	7.9	14.5
Select Tax Revenues, Sub-Total	678.1	641.4	36.7	10.1	17.6
Admissions Tax - Total	18.9	18.4	0.5	2.7	5.5
Alcoholic Liquors Tax	60.0	58.2	1.8	4.1	7.2
Bank Tax	58.0	37.1	20.9	7.0	67.3
Beer and Wine Tax	80.4	79.1	1.3	1.4	3.1
Corporation License Tax	108.7	99.1	9.5	(7.4)	1.5
Documentary Tax	57.5	57.8	(0.3)	5.8	5.3
Earnings on Investments	70.8	53.5	17.3	74.5	131.1
Insurance Tax	202.7	216.4	(13.8)	18.6	14.2
Tobacco Tax	21.1	18.8	2.3	(5.9)	5.6
Residual Revenue, Sub-Total 2/	111.2	109.3	2.0	(3.4)	(1.6)

1/: BEA format - includes certified adjustments and excludes non-recurring cash transfers and certain "other source" revenues, where applicable.

2/: Refer to "Residual Revenue" on page 15 for a list of components in this subcategory.

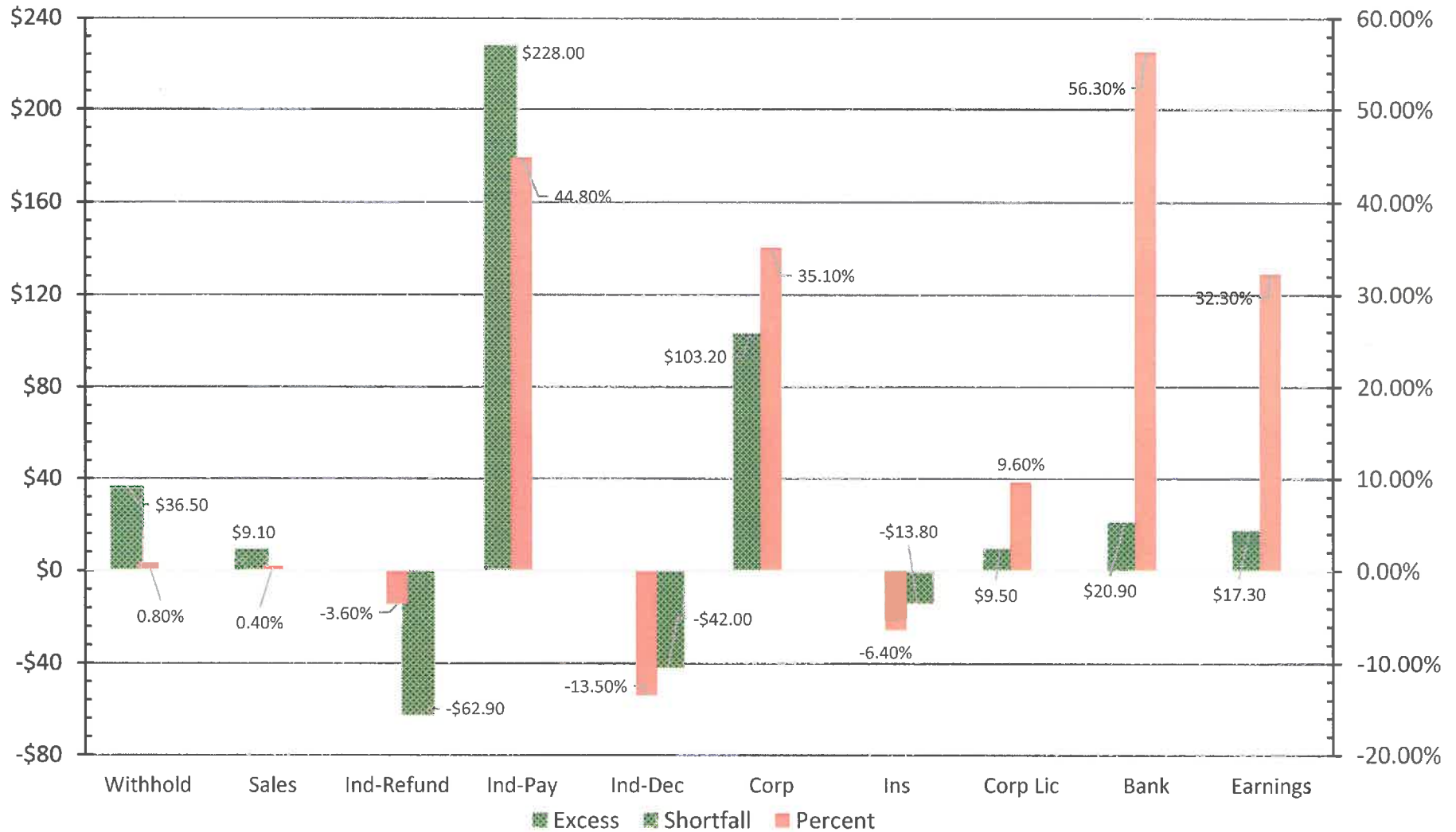
Note: Detail may not sum to total due to independent rounding of individual revenue categories.

ANNUAL GENERAL FUND REVENUE GROWTH COMPARED TO FY 19



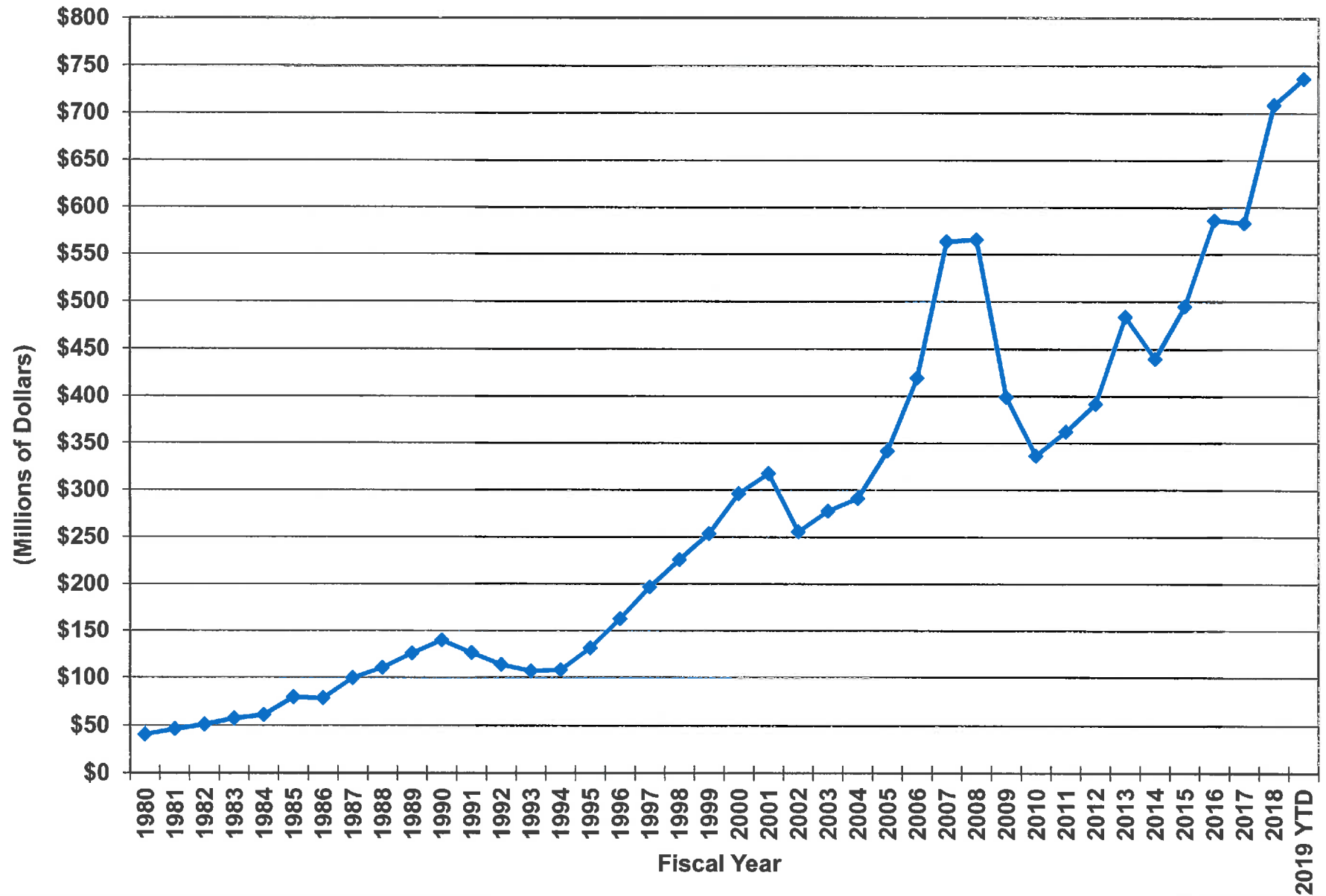
Source: Revenue and Fiscal Affairs - 169D/EMM/5/15/19

FY 2018-19 GENERAL FUND REVENUE THROUGH APRIL Surplus/Shortfall in Dollars and Percent



Source: SC RFA/FR/KR/05/15/19/256

General Fund Income Tax Paid With Returns in South Carolina



Source: Board of Economic Advisors/BEA/RWM/05/22/19

Key Points for April 2019

- Revenues in “excess” of the estimate rose from \$106.1 million in March (\$61.4 million of which was the lottery withholdings) to over \$372 million in April. There seem to be a variety of factors affecting this, which are being explored.
- FY 2018-19 revenue growth may be the largest ever in a fiscal year.

Key Points for April 2019

Reasons for the surplus include the following:

- Corporate Income Tax had a \$17 million audit deposit and is now \$103 million over the estimate. However, given the volatility of this tax, it may decline over the next two years.
- Bank Tax received a single large payment of \$14 million and netted \$30 million for the month. The total amount received in FY15 or FY16 was \$30 million.
- Earnings on Investment is \$17 million above estimates.
- Apart from the Lottery, withholding is \$36.5 million above estimate, but there was one more deposit day in April this year as opposed to last year. June will have one less deposit day.

Key Points for April 2019

- Sales Tax is close to estimates - revenues are \$9 million ahead, but that surplus is due to the Wayfair decision.
- The largest increase was seen in Income Tax payments made for April 15th, and this category is over \$200 million above expectations.

Key Points for April 2019

- The funds in the supplemental bill are solid and the budget for next session (FY 2020-21) will most likely be in better shape than this year.
- Some concerns remain and include:
 - Impact of tariffs
 - Corporate Income is at a record high and has a volatile history. Given the volatility of this tax, it may decline over the next two years.
 - Need more study on ITT payments as the last two years have had extremely high growth.



April 2019

Presentation Agenda

- **Review of General Fund Revenues – April 2019**
- **Contingencies and Other Items of Concern**



April 2019

Total General Fund Revenue

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Total General Fund	\$7,250.7	\$6,878.7	\$372.1	3.3	10.0

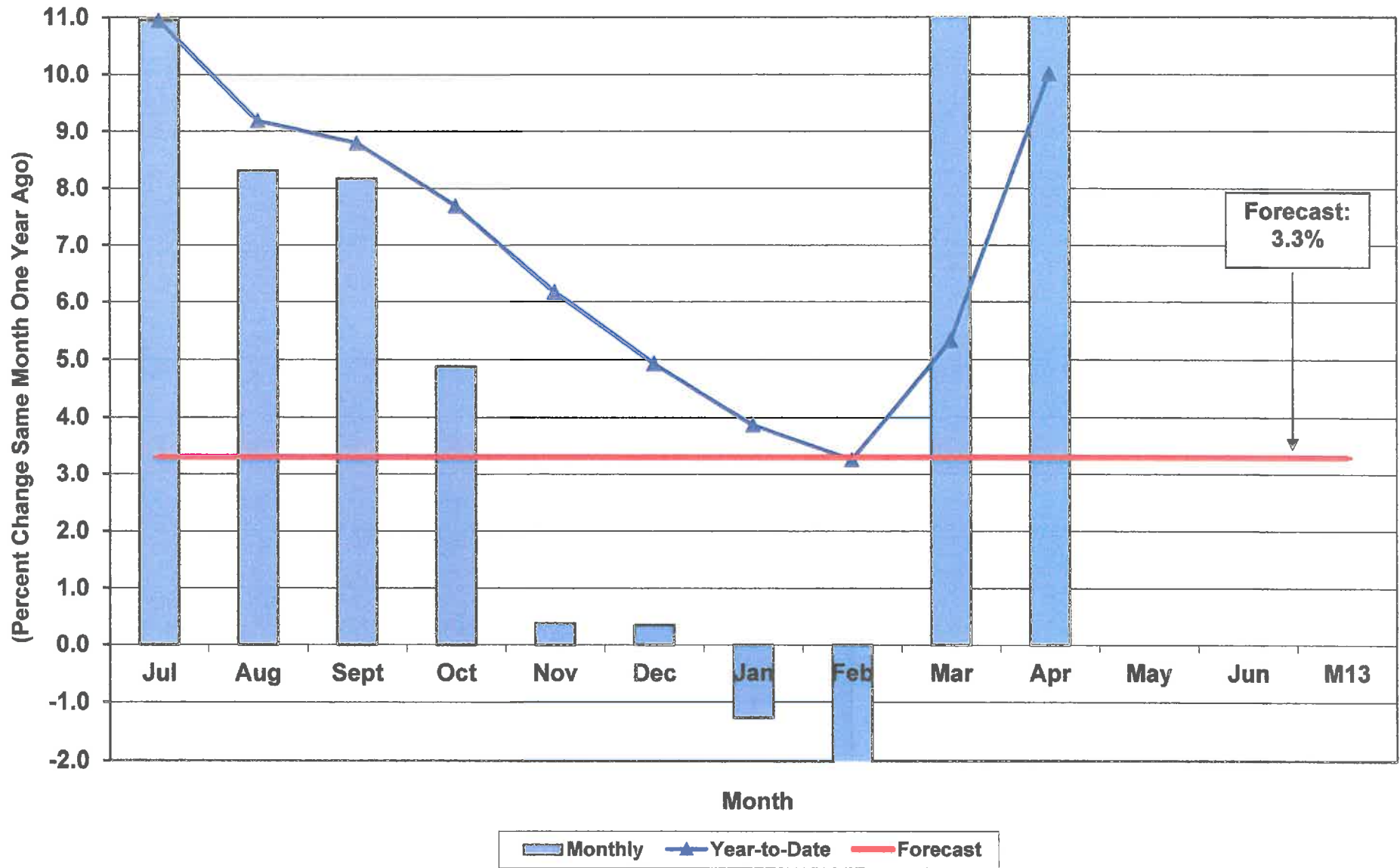
- General Fund revenue increased 57.4 percent, or \$340.4 million, during the month of April 2019 from April 2018 as the income tax season provided an unexpected surprise
- The Individual Income and Corporate Income tax payments with tax returns caused the majority of the increase for April 2019 as their growth totaled \$301.2 million



April 2019

- Revenues through April 2019 have grown 10.0 percent, or \$659.8 million, year-to-date and are exceeding the revised 3.3 percent growth rate required to meet the General Fund revenue estimate for FY2018-19

Growth in Total General Fund Revenue Collections FY2019 Monthly and Year-to-Date





April 2019

Sales Tax Revenue

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Sales Tax	\$2,316.3	\$2,307.2	\$9.1	4.2	4.6

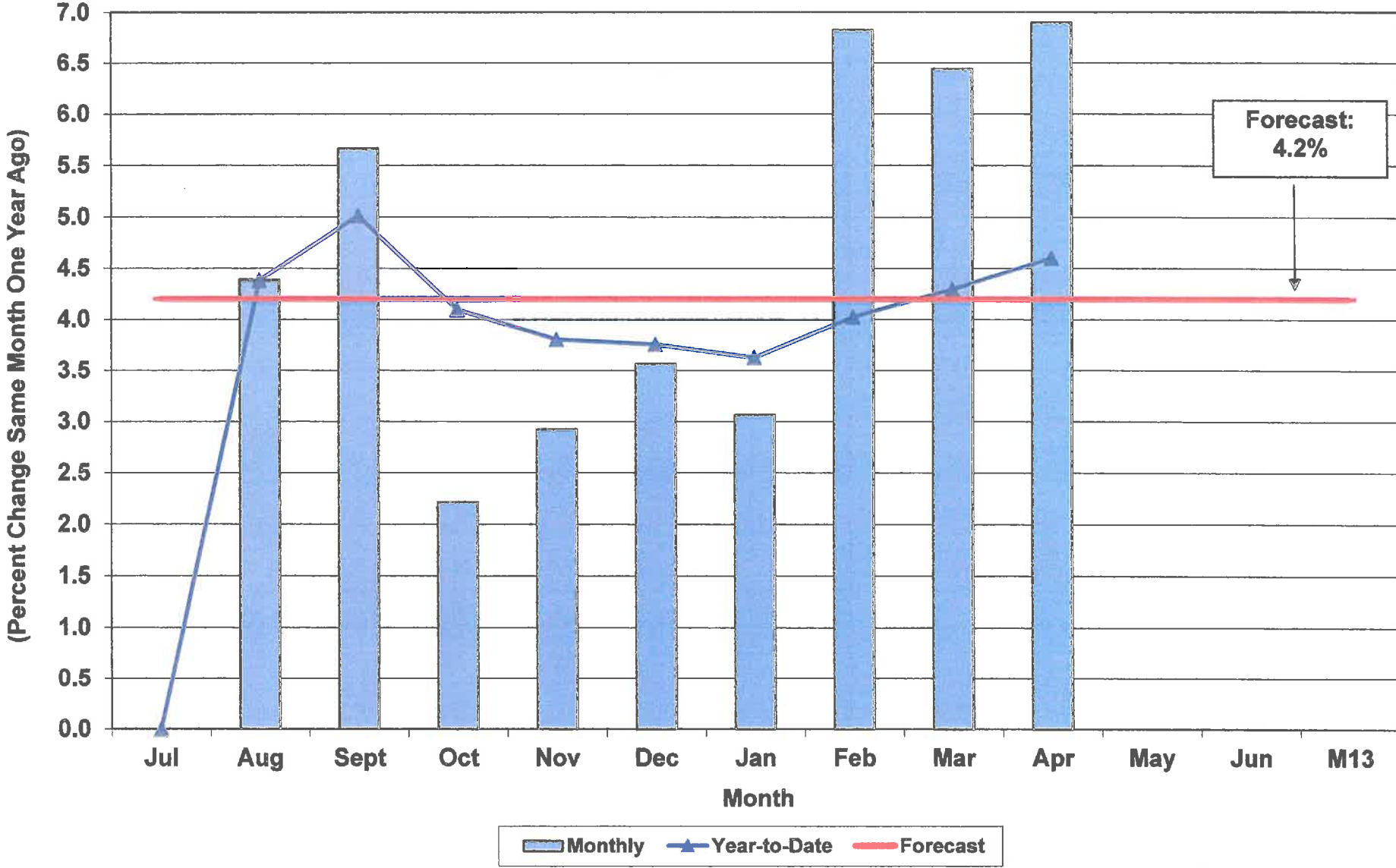
- Sales and Use tax revenue increased \$18.0 million, or 6.9 percent, for the month of April resulting in year-to-date growth of 4.6 percent
- During the last three months, the Sales and Use tax has grown 6.7 percent over the same three months last fiscal year after getting off to a slow start this fiscal year



April 2019

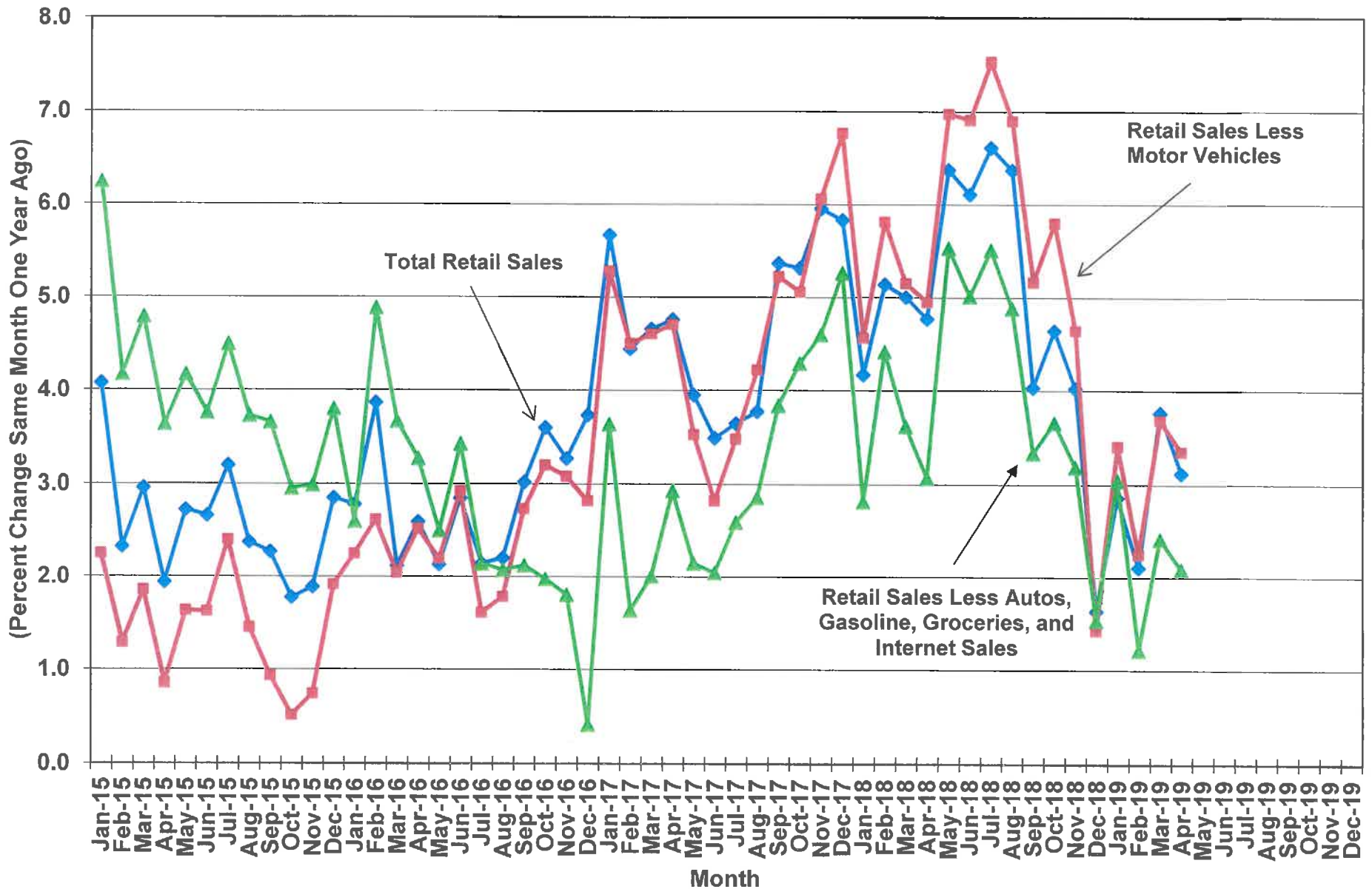
- Retail sales grew by 3.6 percent during the first half of FY2018-19
- The State has received \$13.6 million in remote internet sales taxes under the *Wayfair* decision thus far
- Without the added revenue from the *Wayfair* decision, Sales tax collections would be slightly below forecast
- The cumulative Sales and Use tax revenue growth of 4.6 percent through April 2019 is running slightly above the 4.2 percent revenue forecast for FY2018-19 by \$9.1 million

Growth in Total Sales & Use Tax Revenue Collections FY2019 Monthly and Year-to-Date



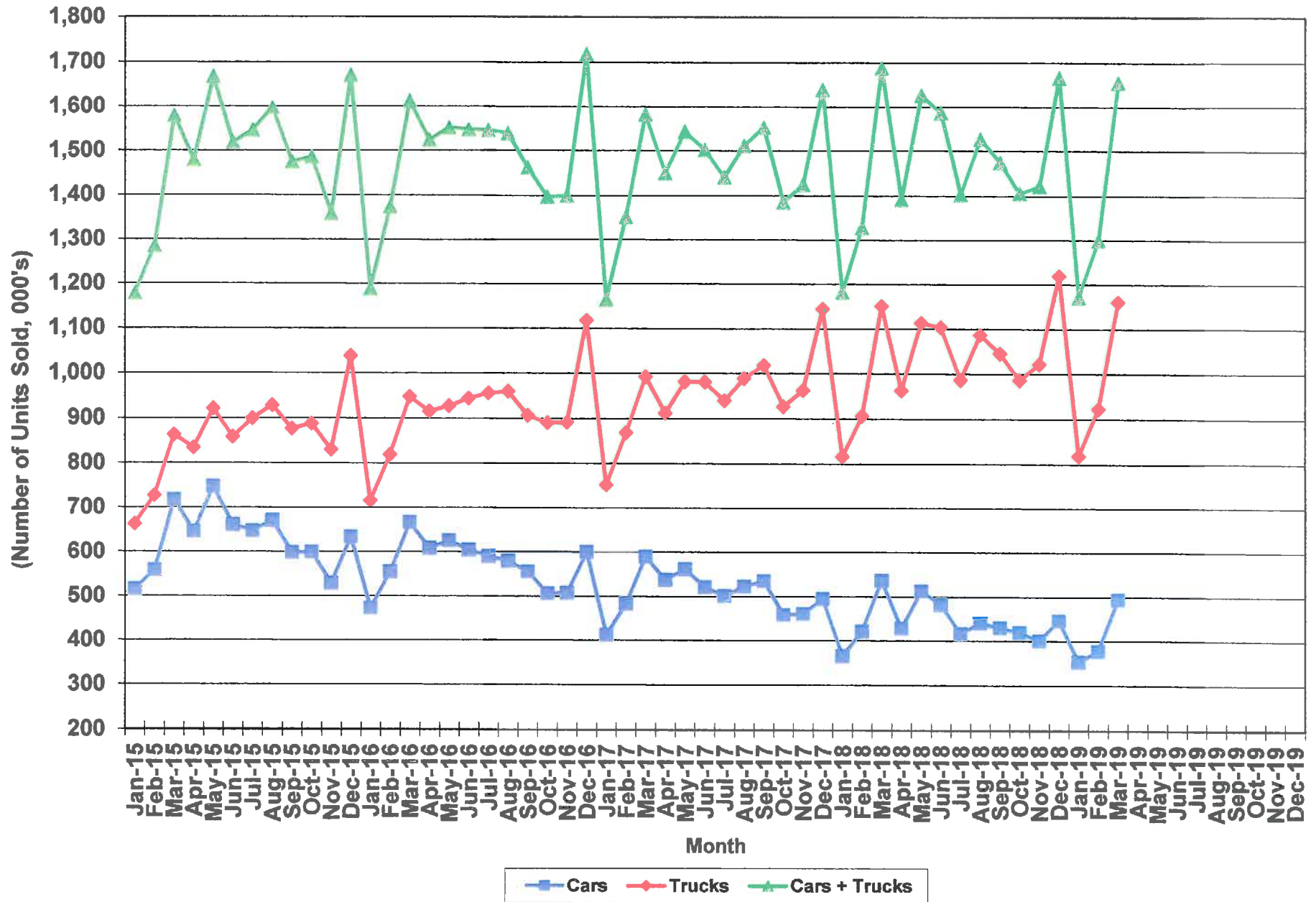
Source: Board of Economic Advisors
BEA/RWM/05/22/19

U.S. Retail & Food Service Sales

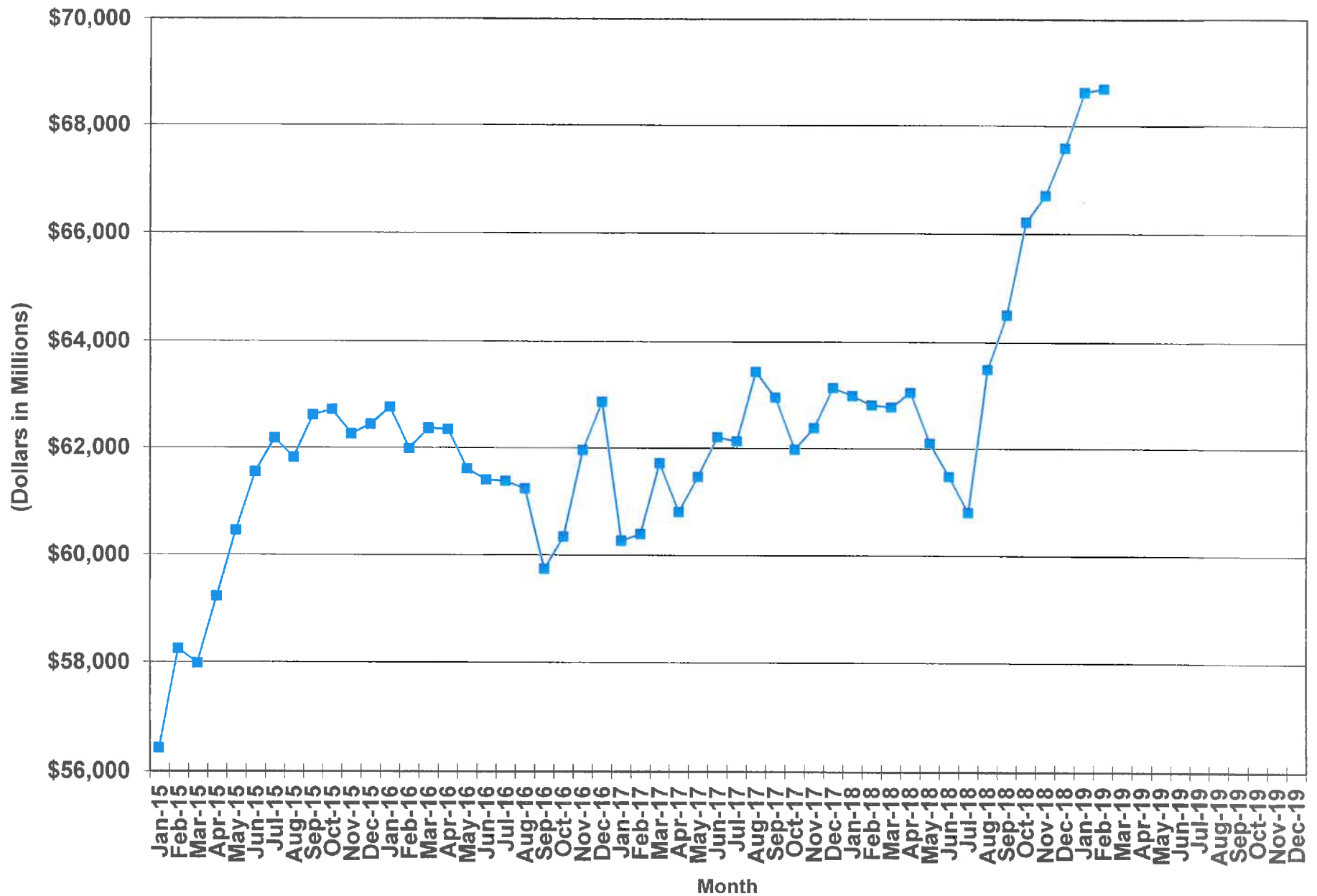


Source: U.S. Department of Commerce, Bureau of the Census, Washington, D.C.

Total New Car and Light Truck Sales in the U.S.



Automotive Inventories in the United States



Source: U.S. Department of Commerce, Bureau of the Census, Washington, D.C.



April 2019

Individual Income Tax Revenue

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Individual Income Tax	\$3,747.7	\$3,526.7	\$221.0	1.4	9.5

- The Individual Income tax revenue increased \$168.5 million, or 133.1 percent, during the month of April 2019
- A sizeable increase in Individual Income tax payment with tax returns ballooned by \$111.1 million in April 2019



April 2019

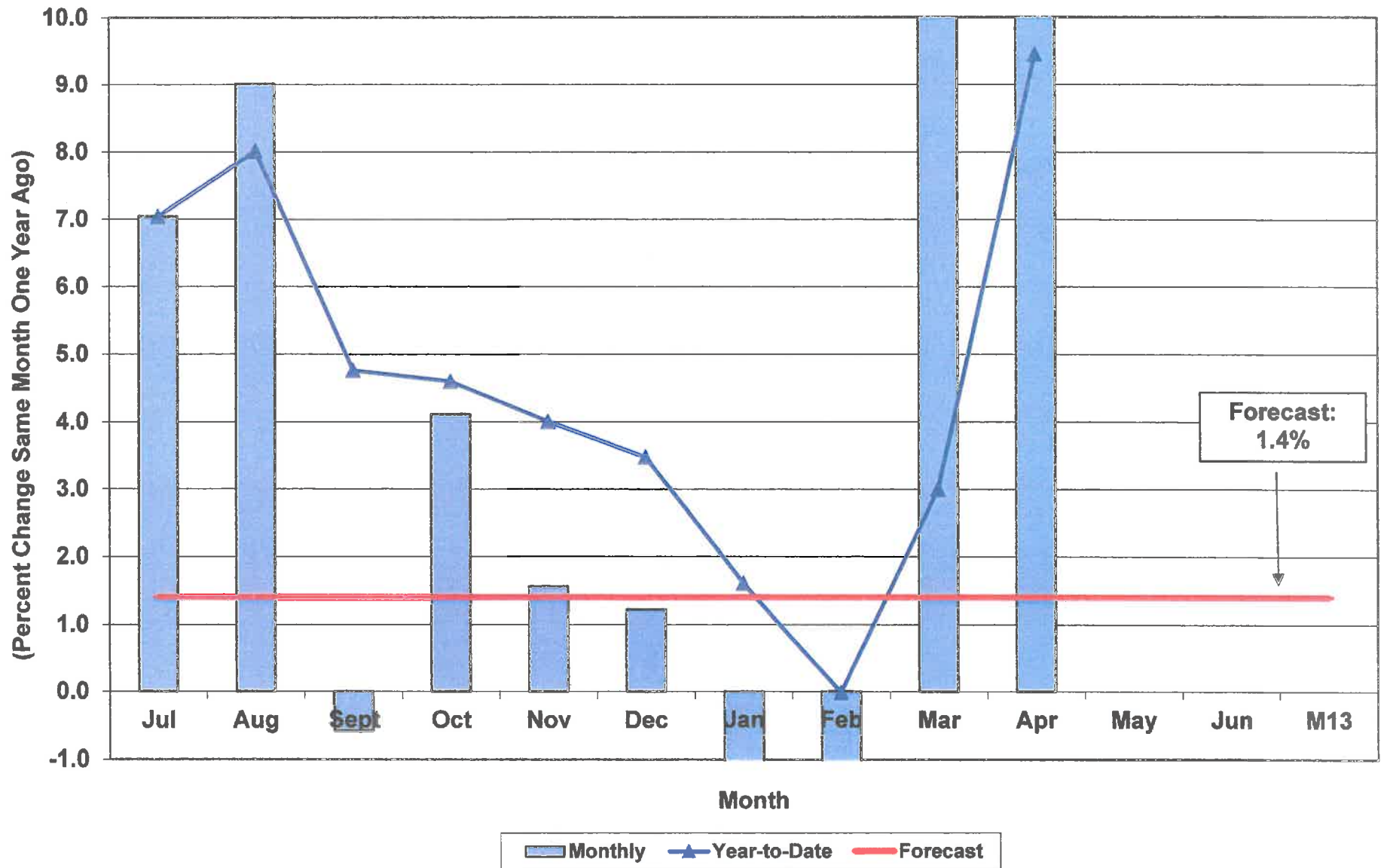
- The number of tax returns and dollar amounts of tax payments exceeded forecast projections, despite a forecast increase of 23.8 percent, or \$54.7 million, in tax payments in April 2019
- It is unclear at this time if timing of receipts contributed to this monthly growth
- Individual Income tax withholdings grew by \$46.4 million in April and have grown 6.2 percent through April 2019
- Income tax withholdings are exceeding the 3.9 percent revenue forecast by 97.9 million for FY2018-19 reflecting the lottery winner and continued strong employment growth in the State



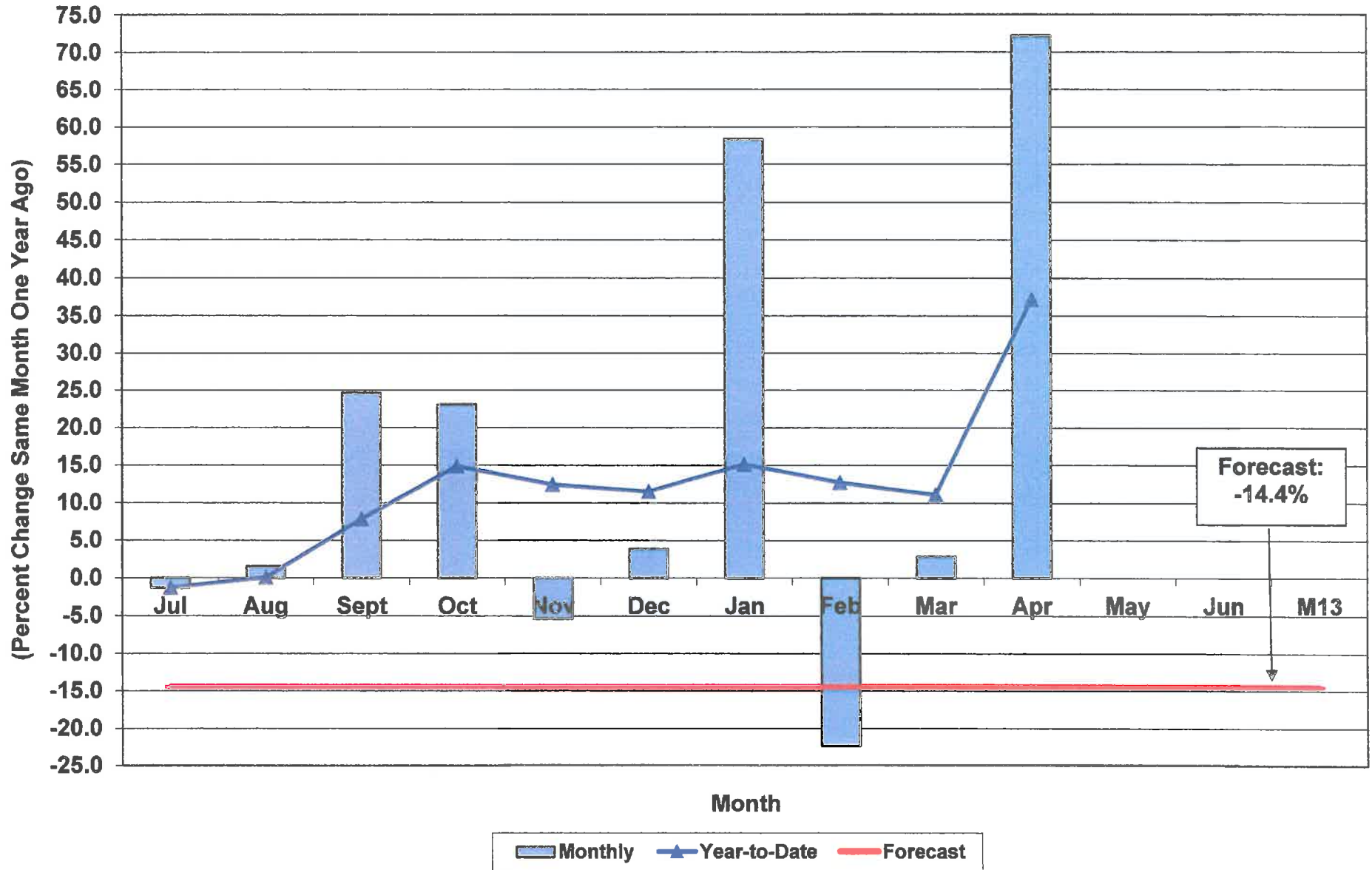
April 2019

- The Individual Income tax refunds were close to the forecast target in April 2019 and were a non-issue in the total Individual Income tax category in April
- This combination added to the strong monthly revenue gain in the Individual Income tax
- Total Individual Income tax revenue growth is increasing 9.5 percent year-to-date through April 2019 and is running above the revised 1.4 percent revenue forecast for FY2018-19
- As a reminder, the relatively low forecast of 1.4 percent growth is due to the one-time increase realized last year in capital gains taxes that we did not expect to repeat again this fiscal year

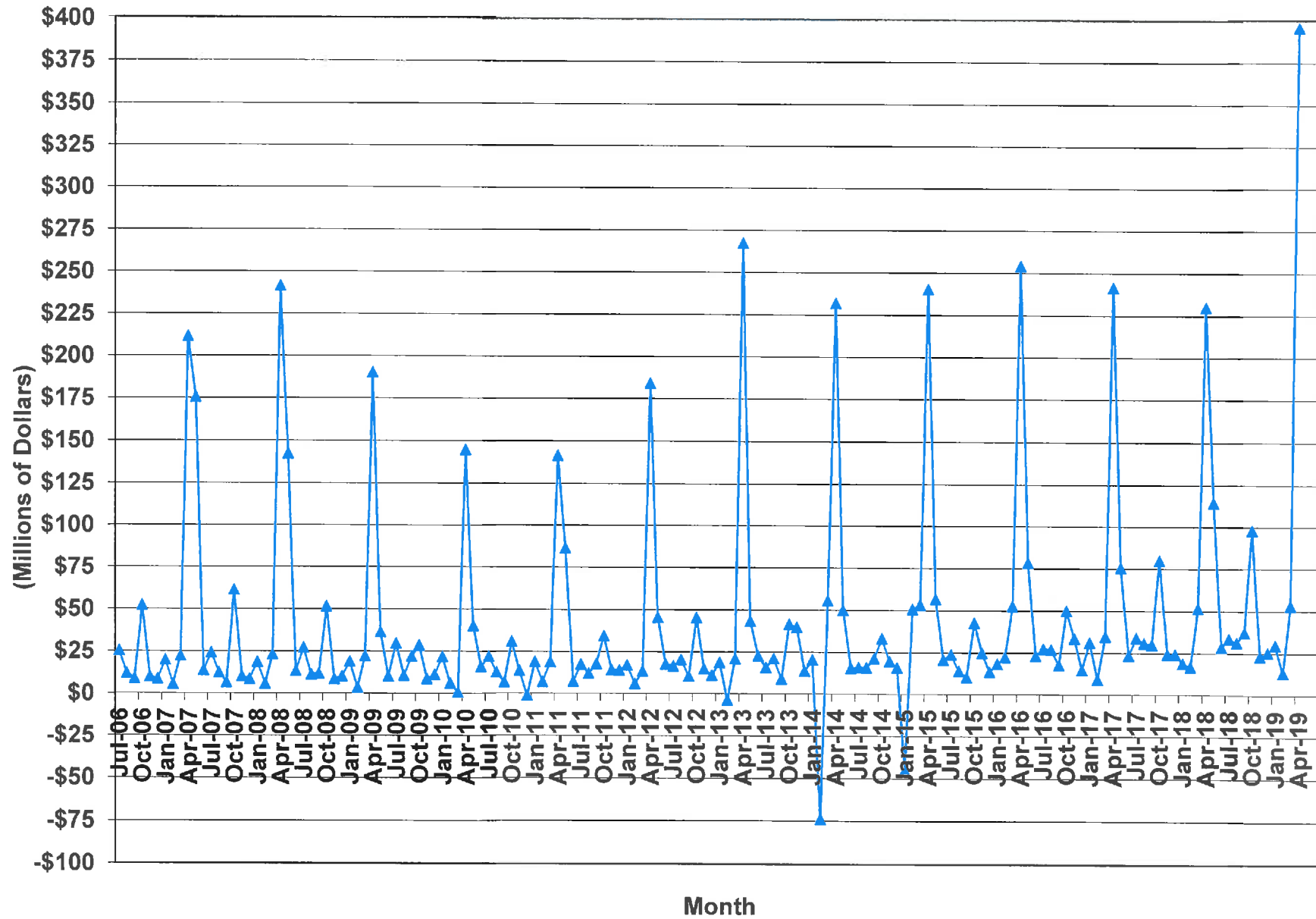
Growth in Total Individual Income Tax Revenue Collections FY2019 Monthly and Year-to-Date



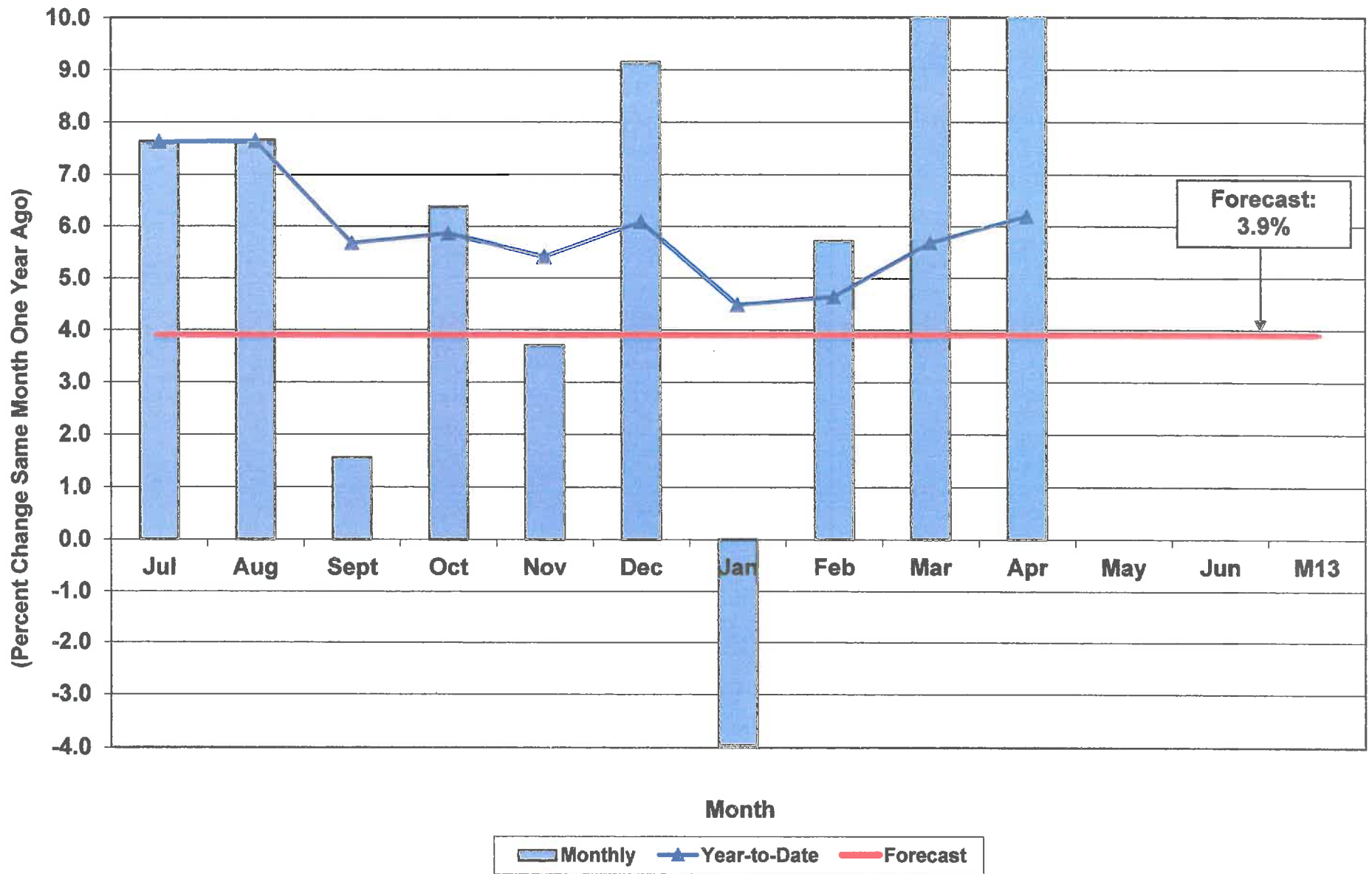
Growth in Individual Income Tax Paid With Returns in South Carolina FY2019 Monthly and Year-to-Date



Individual Income Tax Paid With Returns in SC



Growth in Individual Income Tax Withholding Revenue FY2019 Monthly and Year-to-Date





April 2019

Corporate Income Tax Revenue

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Corporation Income Tax	\$397.4	\$294.1	\$103.3	8.0	51.0

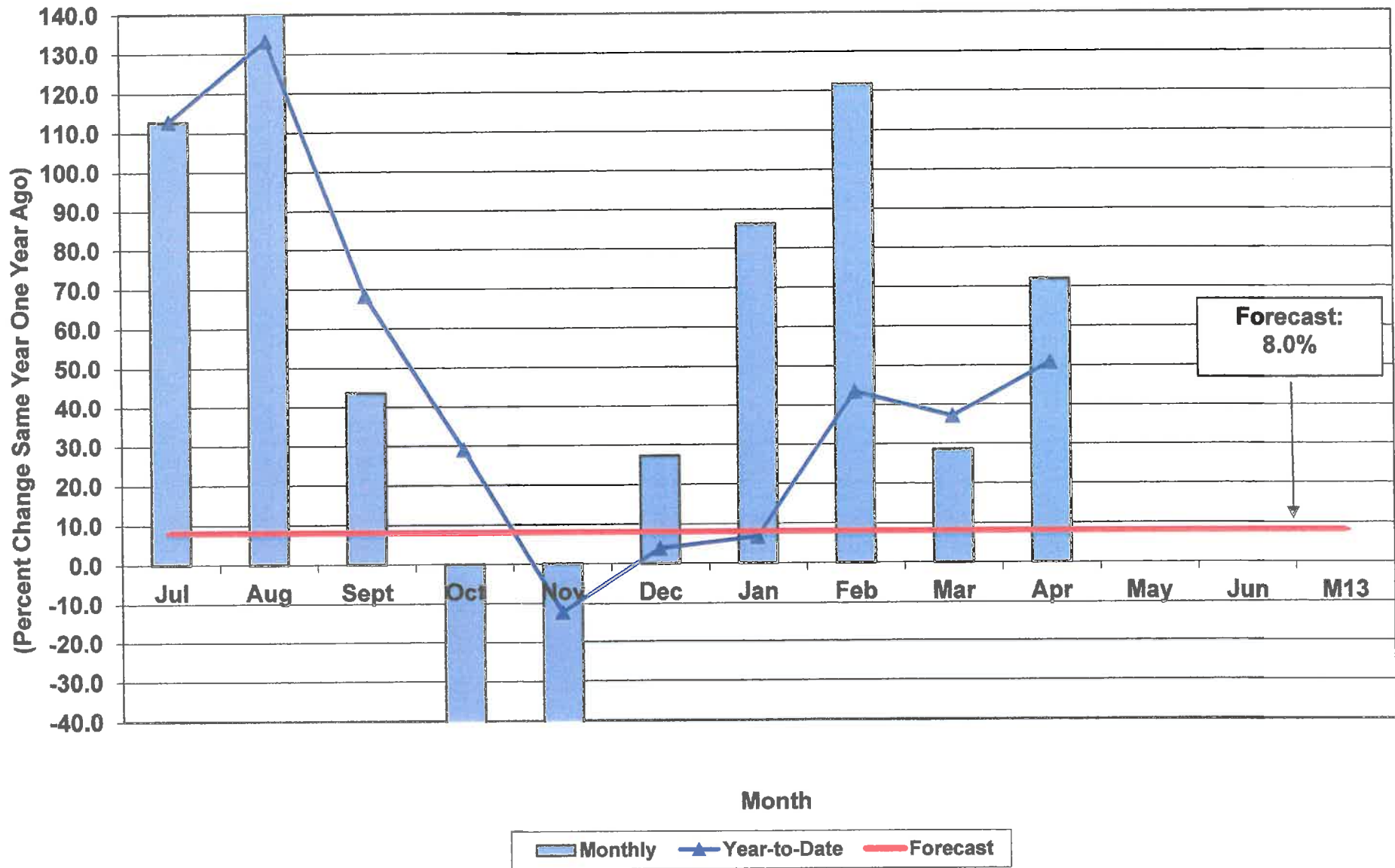
- The Corporation Income tax, the most volatile of the largest revenue categories, increased 72.0 percent in April 2019 compared to the same month one year ago resulting in a monthly revenue excess of \$75.3 million
- A single corporate tax audit payment for \$17.5 million was deposited in April 2018



April 2019

- The corporate sector continues to experience strong earnings and economic growth and outperforming most sectors of the economy
- Overall, the Corporate Income tax has increased 51.0 percent year-to-date through April 2019 and is running above the 8.0 percent revenue forecast for FY2018-19, or by \$103.3 million

Growth in Total Corporation Income Tax Revenue Collections FY2019 Monthly and Year-to-Date





April 2019

Other Revenue

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Other Revenues	\$789.3	\$750.7	\$38.6	7.9	14.5

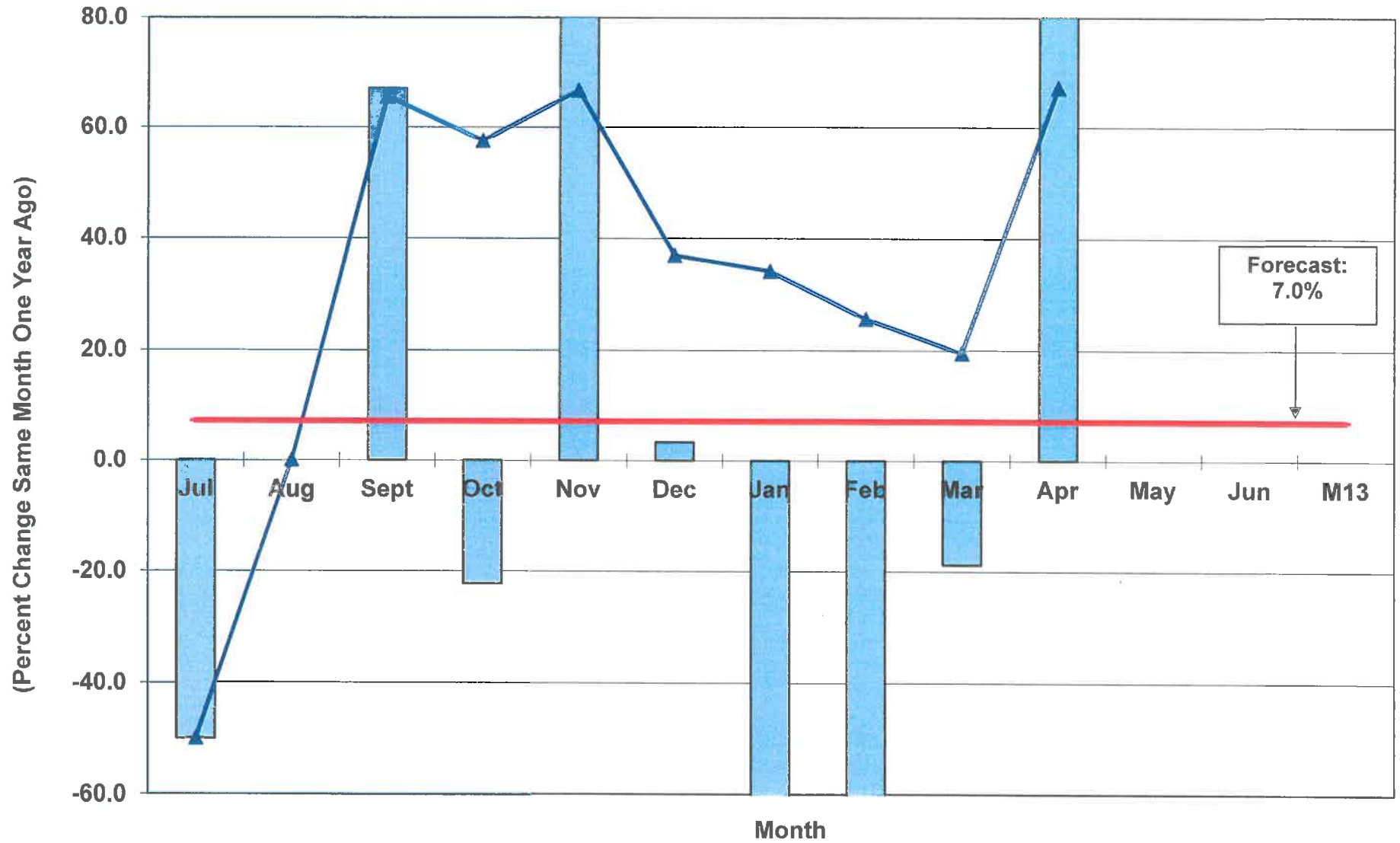
- Other Revenues increased 47.6 percent in April 2019 from one year ago and have increased 14.5 percent year-to-date from a variety of sources and timing of receipts
- One anomaly was a single bank tax payment for \$14.0 million deposited in April 2019



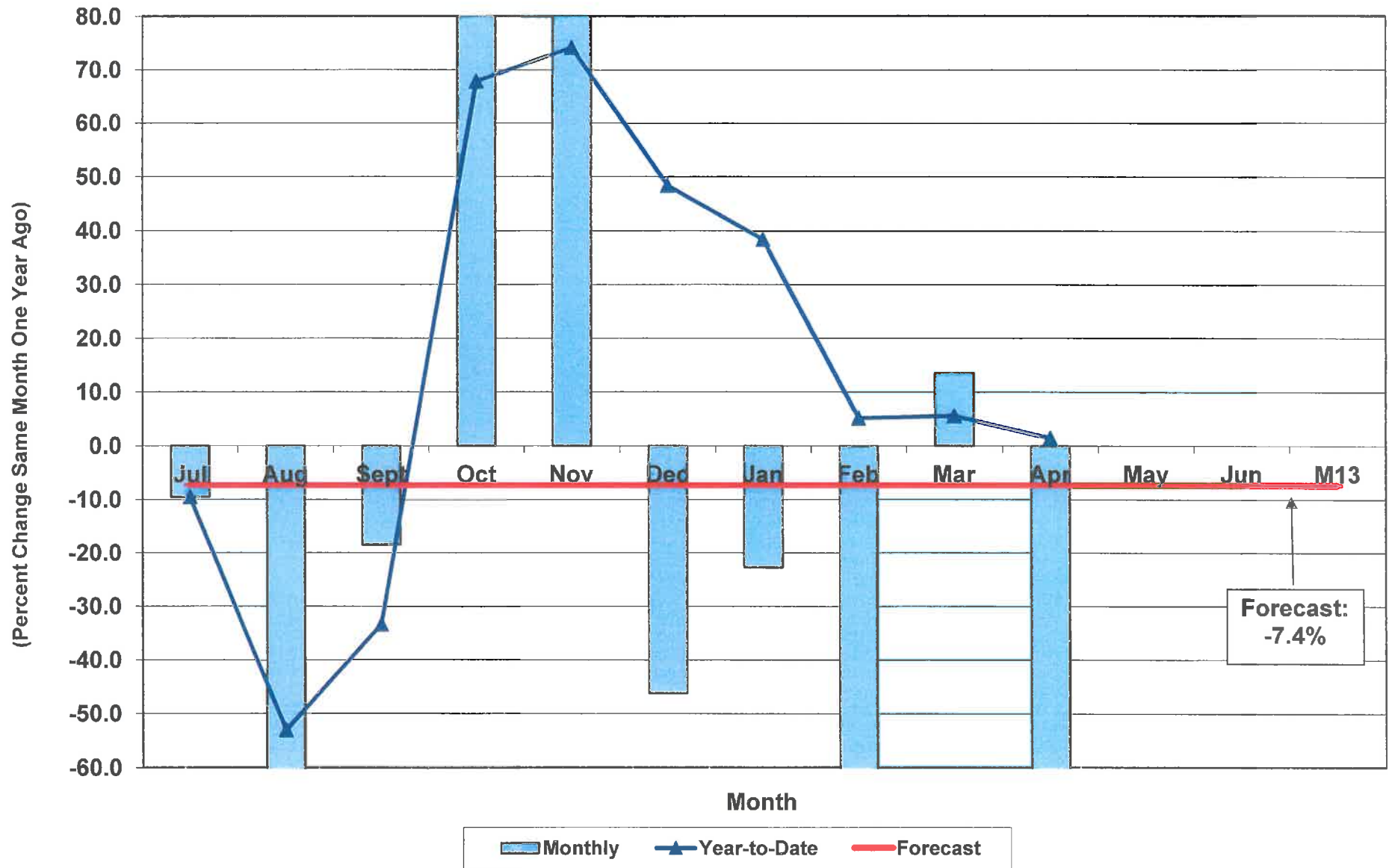
April 2019

- The \$30.4 million received in April 2019 was more than the state collected in commercial bank taxes in all of FY2015-16
- The recent rise in interest rates may be a contributing factor

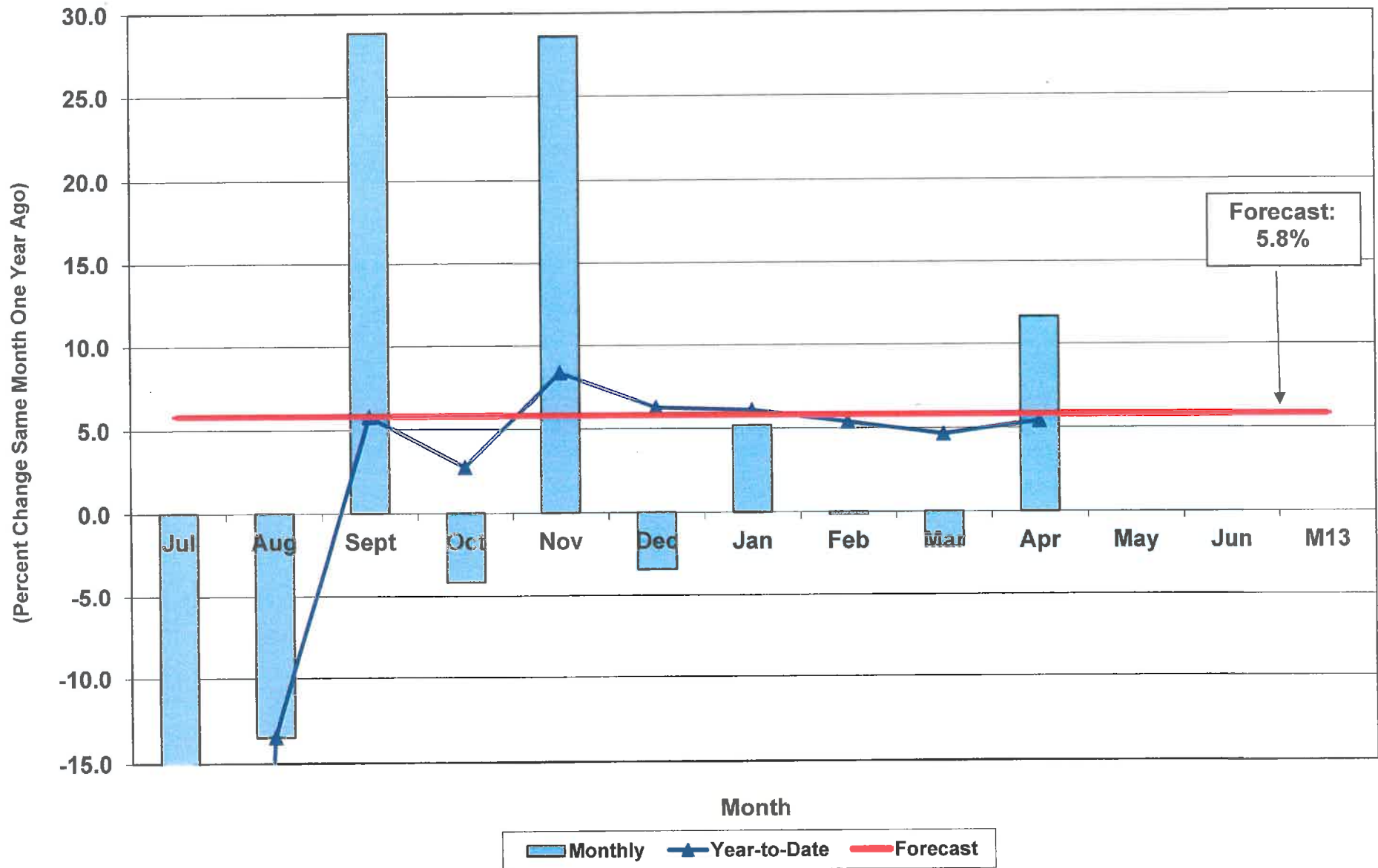
Growth in Bank Tax Revenue in South Carolina FY2019 Monthly and Year-to-Date



Growth in Total Corporate License Tax Revenue in South Carolina FY2019 Monthly and Year-to-Date



Growth in Documentary Stamp Tax Revenue in South Carolina FY2019 Monthly and Year-to-Date





April 2019

Summary

- Through the first ten months of FY2018-19, General Fund revenues have increased 10.0 percent and are trending above current forecast projections by an estimated \$372.1 million
- This surplus is due to a one-time, non-recurring deposit of Individual Income tax withholdings from the winner of a Mega Million lottery drawing of \$61.5 million, a one-time Corporation income tax audit payment of \$17.5 million, interest earnings on state General Fund investments exceeding interest earnings by \$17.3 million, and an unexpected Bank tax deposit of \$14.0 million totaling \$110.3 million, or 29.6 percent of the revenue surplus



April 2019

- To date, the state economy is closely tracking the forecast growth rates of employment and personal income
- In November 2018, the Board of Economic Advisors adopted an employment growth rate of 1.8 percent and a personal income growth rate of 4.25 percent in FY2018-19
- Revised employment figures show that job growth is expanding at an average rate of growth of 2.0 percent through the ten months of the fiscal year
- Personal income is growing at a revised annual rate of 4.4 percent based on the latest available figures



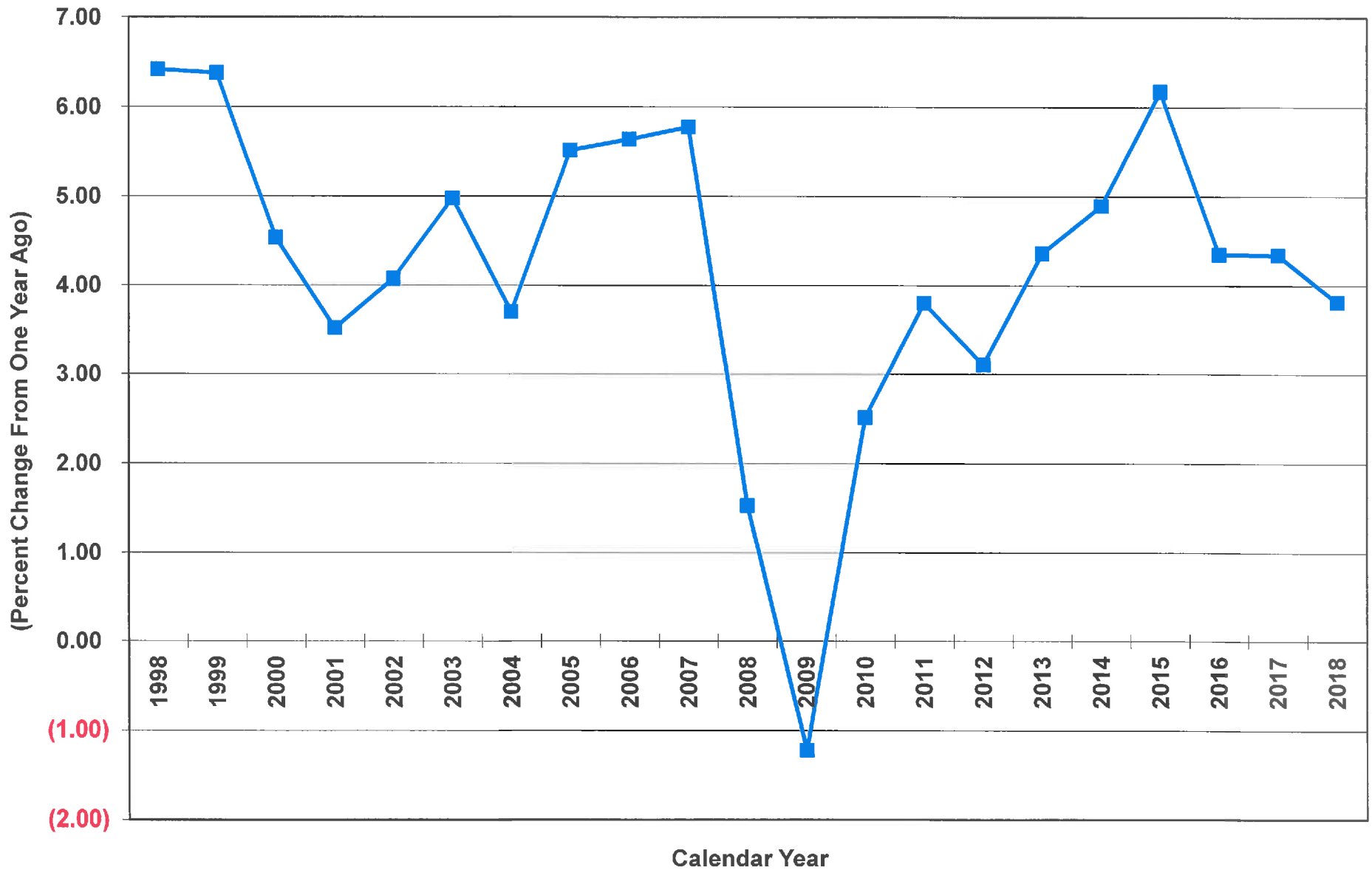
April 2019

Contingencies and Other Items of Concern

South Carolina

- State employment was revised higher
- State Personal Income revised slightly upward – CY18: 3.9%
- SC GDP figures show a slowing economy – at odds with reality

Growth in Gross Domestic Product in South Carolina Total All Industries



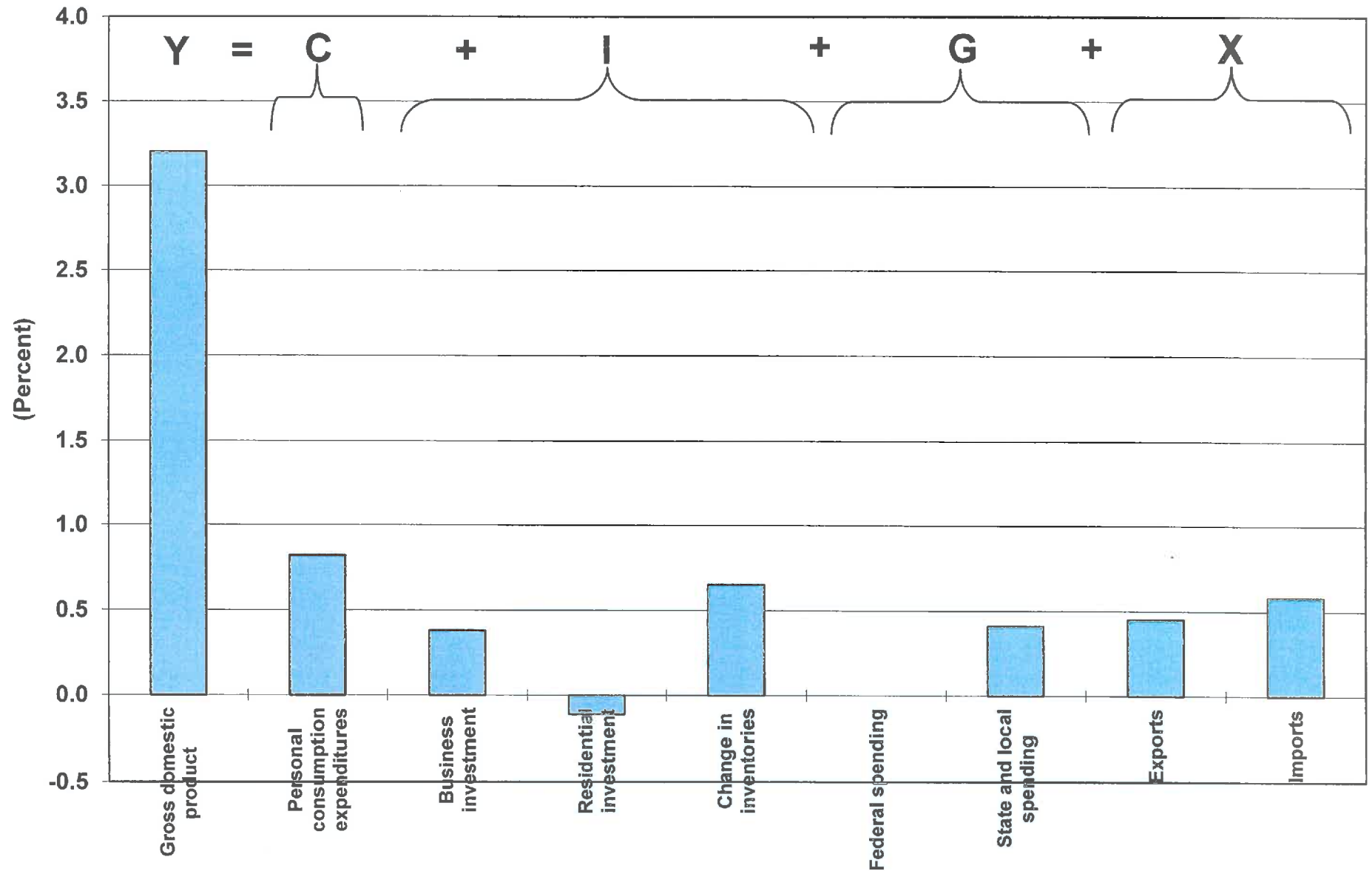


April 2019

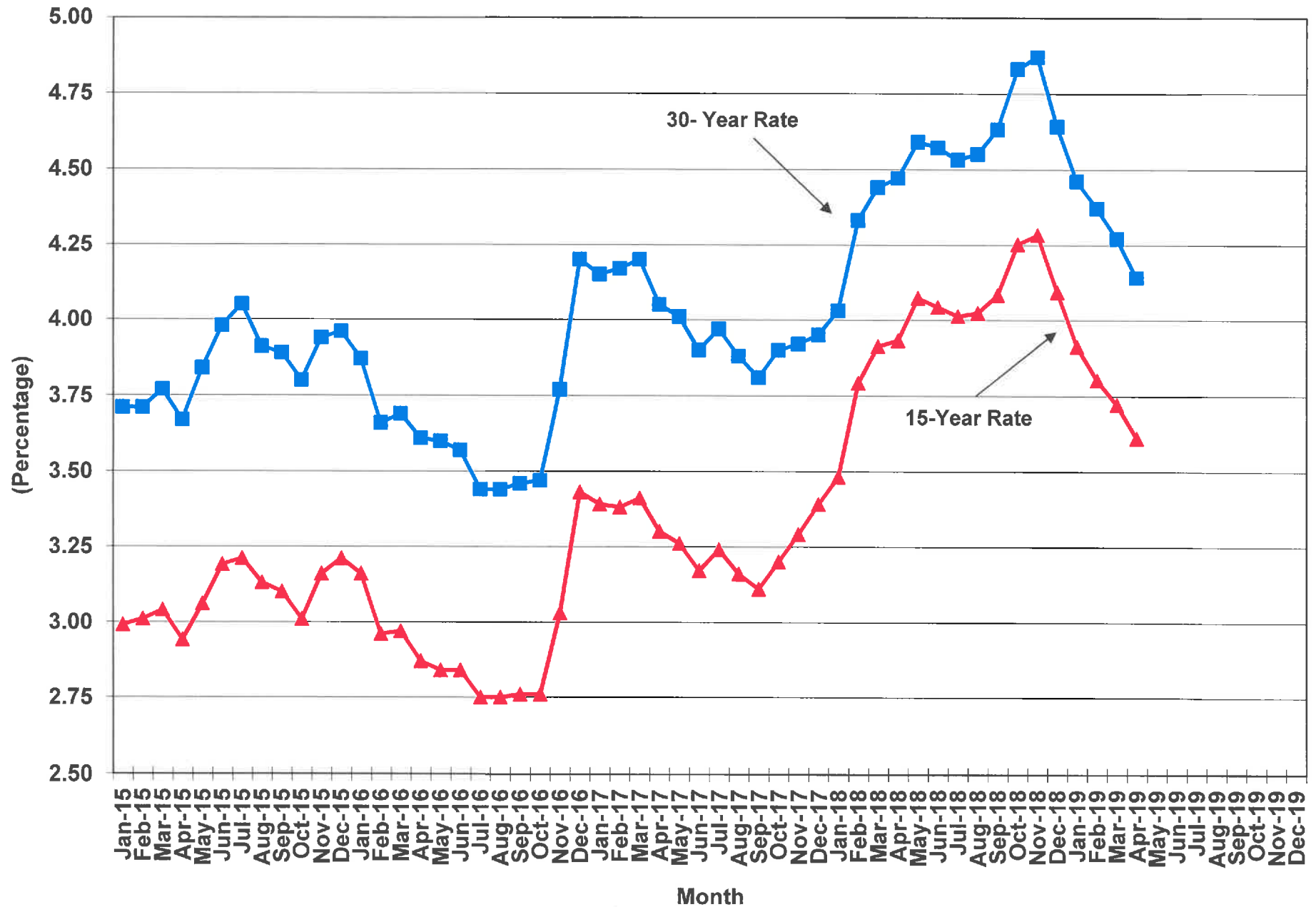
United States

- Sluggish retail sales
- Uncertainty over Federal Reserve policy
- U.S. trade uncertainty
- Tariffs on steel & aluminum lifted for Canada and Mexico
- Tariffs increased to 25% on China imports
- Will lead to increased inflation
- Temporary effects of the federal tax changes to diminish
- Economic growth to slow
- Stock market volatility

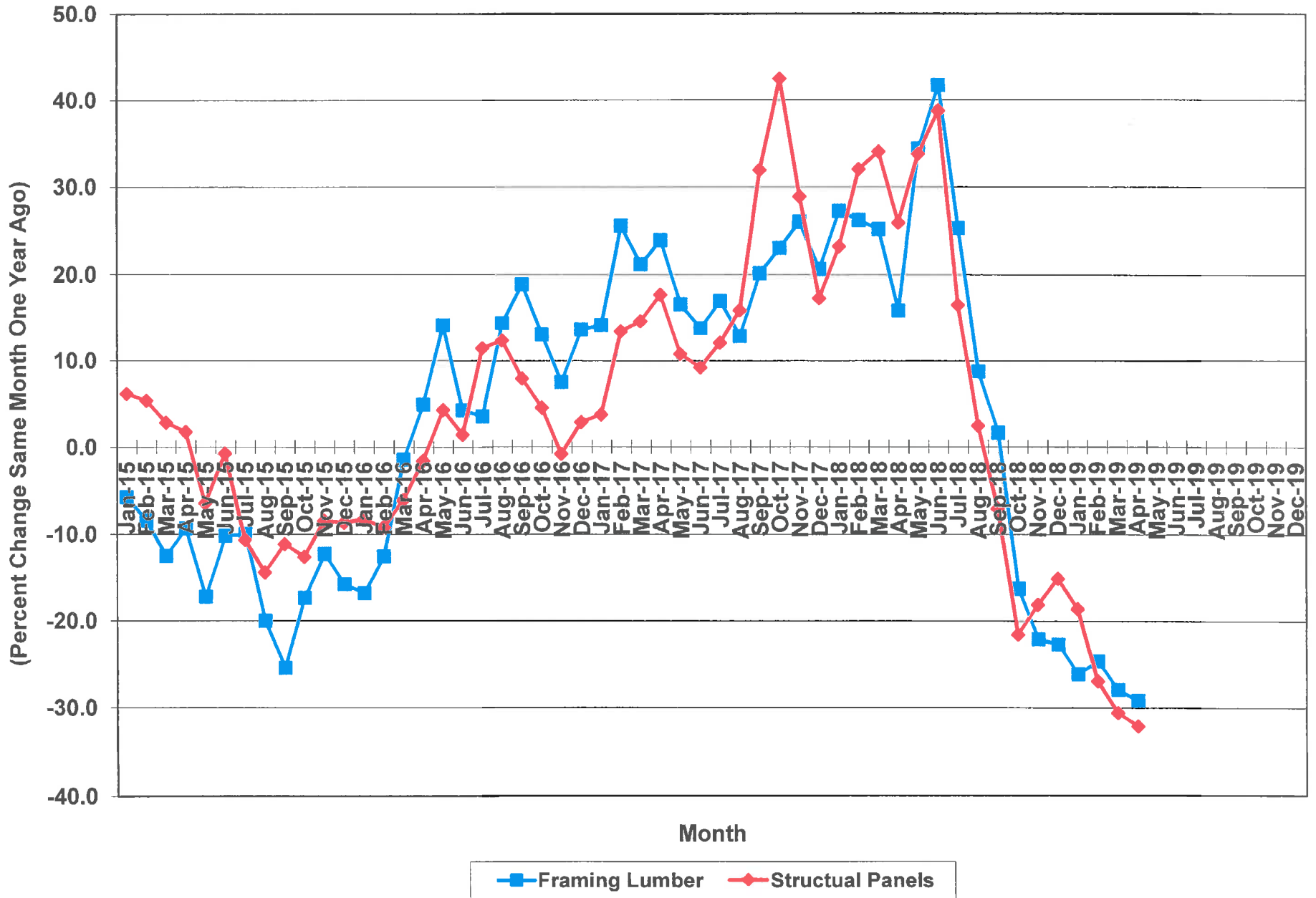
Contributions to Real Gross Domestic Product in the U.S. 2019, First Quarter, (Advance Estimate)



Mortgage Rates



Growth in Building Supply Prices in the United States



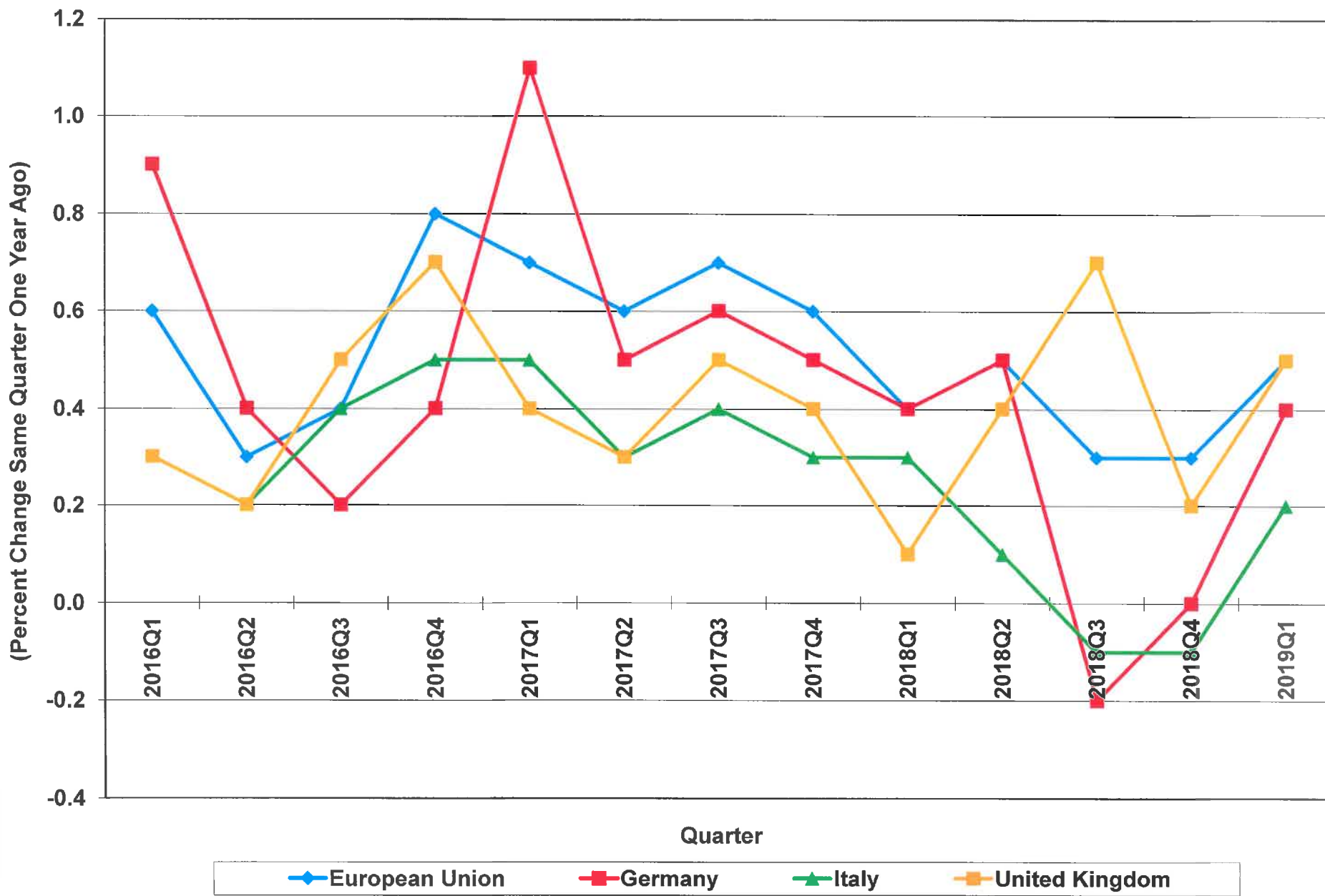


April 2019

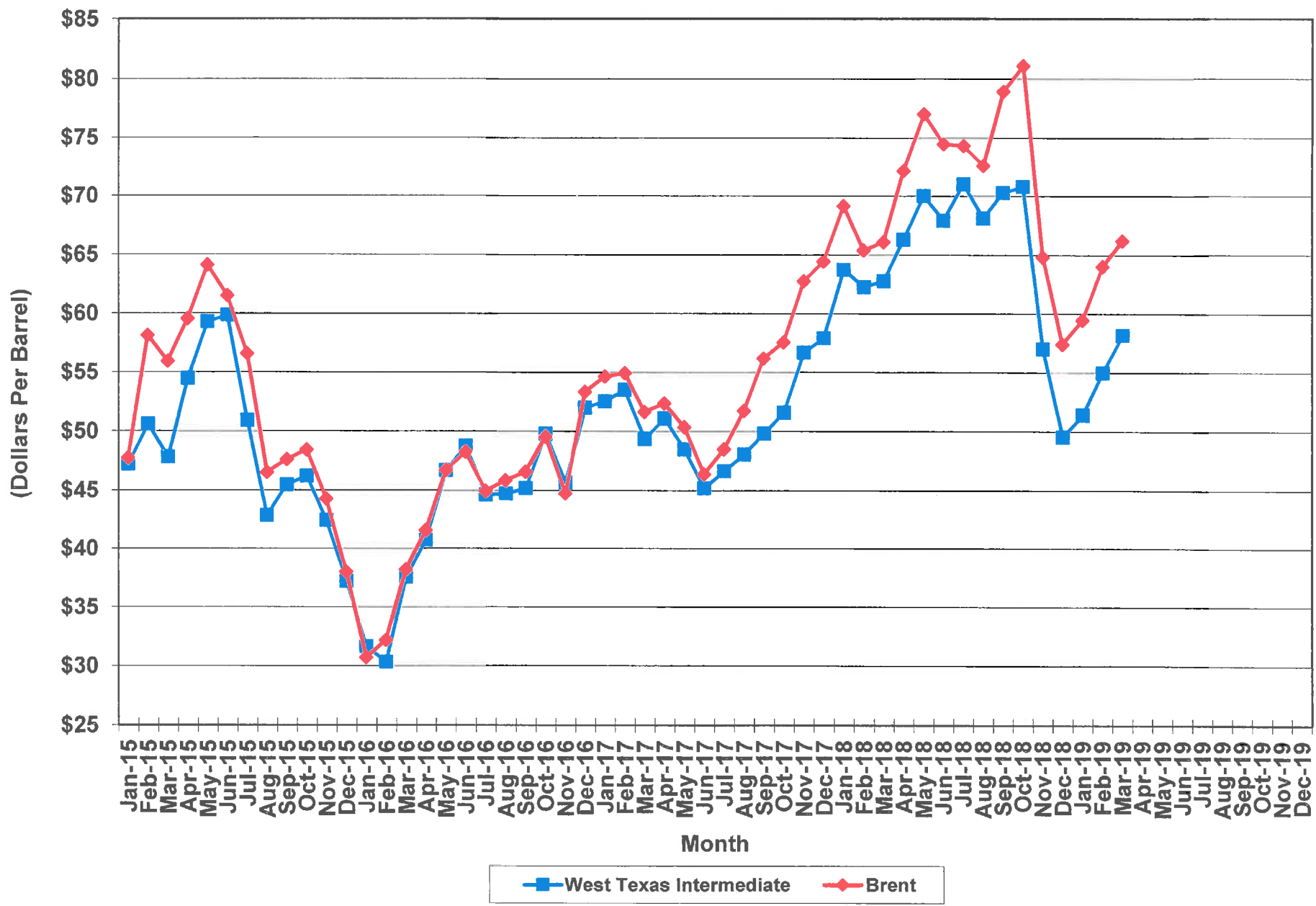
International and Global

- Global economic growth is slowing – China
- Europe is slowly improving
- Tariffs and trade policy still unresolved
 - Delay in tariffs on auto imports
- Brexit (Parliament votes down 3rd Brexit deal – deadline extended, growth forecast cut)
- Venezuela uprising and political tensions
- Mexican immigration
- Iranian sanctions on oil exports reimposed

Growth in Real Gross Domestic Product in Europe



Spot Crude Oil Prices



Review of Tax Conformity

- Based upon data from the Joint Committee on Taxation, we estimated the federal tax changes would increase Individual Income tax collections by \$172 M with no other changes to state tax law. In developing this estimate, we used the federal estimates and also reworked state income tax returns to confirm the estimates.
- The majority of the expected impact stemmed from the changes to standard/itemized deductions and personal exemptions. The standard deduction increased significantly, and the personal exemption was eliminated.
- Effectively, the federal tax changes increased the standard deduction sufficiently to offset eliminating the tax filers' personal exemptions but eliminated the personal exemption for dependents.
- Other key changes included itemized deductions, the federal pass-through business deduction, and smaller changes to rules for business.

Review of Tax Conformity

- The General Assembly maintained conformity to the federal tax law changes but made a few specific exceptions to offset the potential tax increase. It non-conformed to some other provisions like the pass-through business deduction. The expected impact on individual income tax increased from \$172 M to \$253 M without the pass-through business deduction and the other provisions SC did not adopt.
- The state added back a personal exemption for dependents of \$4,110 to offset the potential tax increase, with double that amount for dependents under 6. This exemption offset the estimated \$253 M increase. We estimated that the bill as a whole would be revenue neutral.

Review of Tax Conformity

- Looking at individual income tax collections this year, although paid returns increased significantly, it does not appear this increase affected all taxpayers.
- The amount of refunds issued is higher than estimated. Based on DOR processing statistics, the number of returns with refunds increased, and the percentage of returns receiving refunds is the same as last year. Also, the average amount of the refund is higher.
- Income Tax return files will not be available until November and further review can be conducted then.

OTHER BUSINESS



REPORTS FROM WORKING GROUP

May 22, 2019



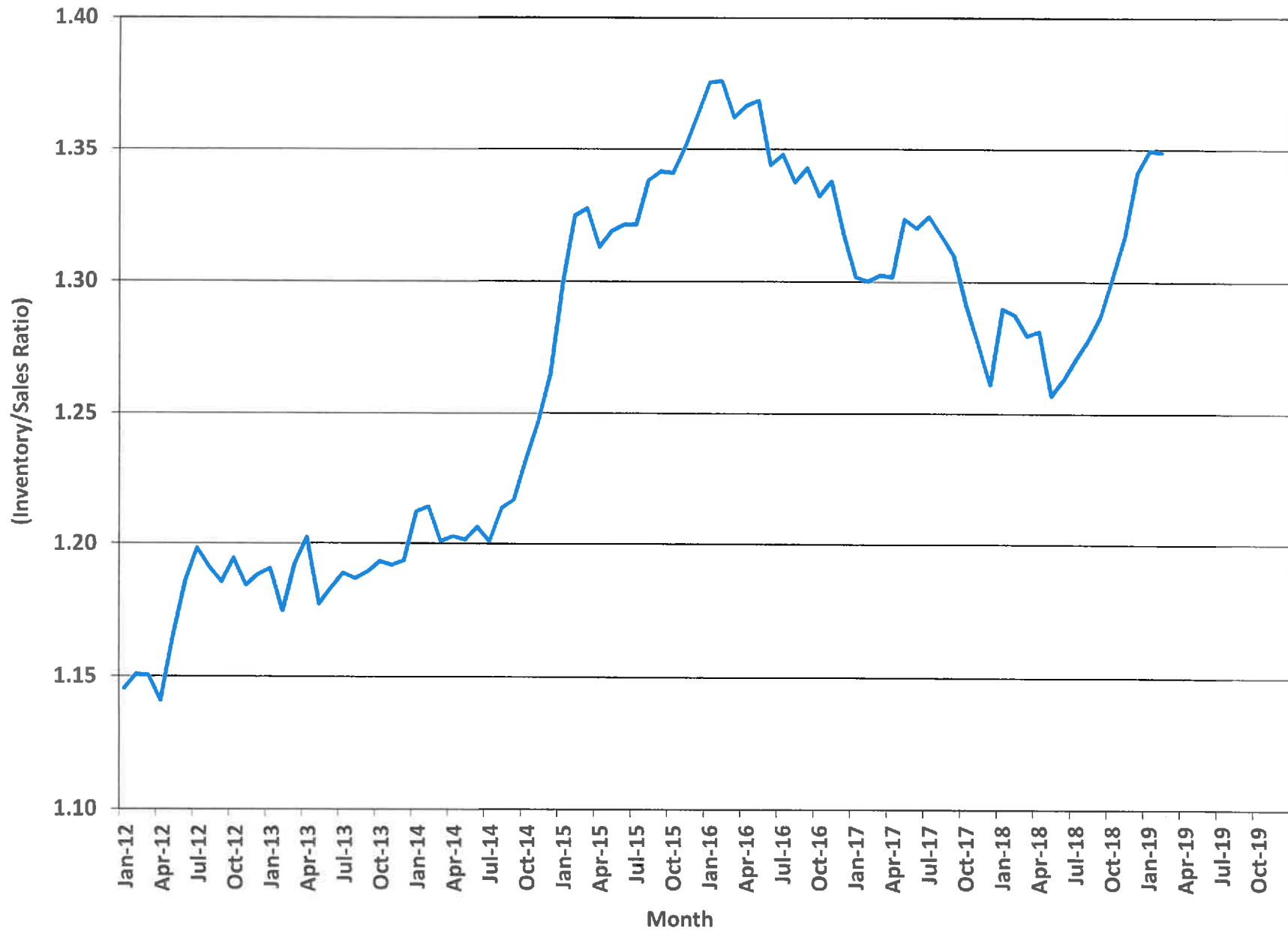
South Carolina Revenue and Fiscal Affairs Office

FUTURE MEETING SCHEDULE

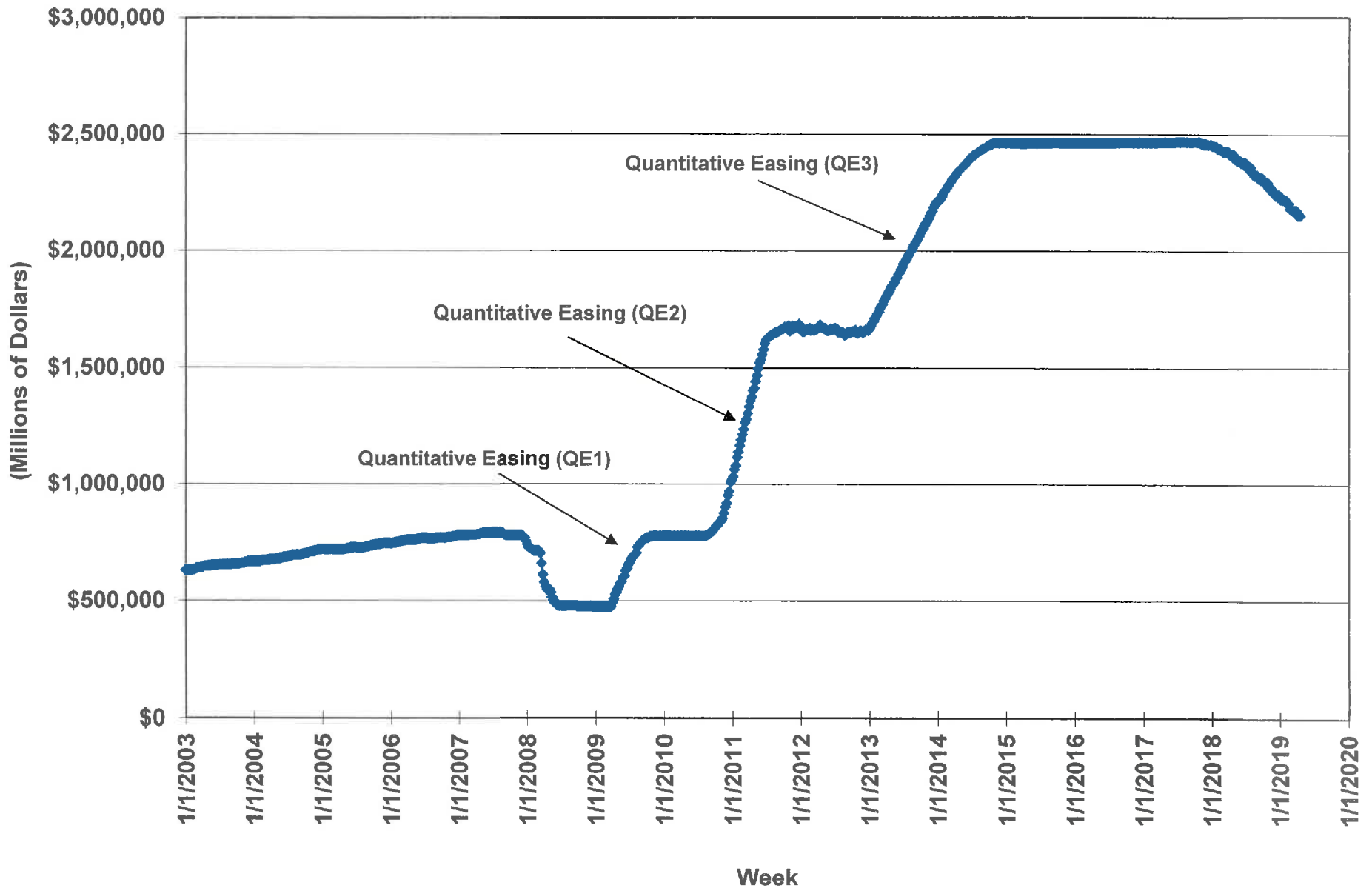
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APPENDIX

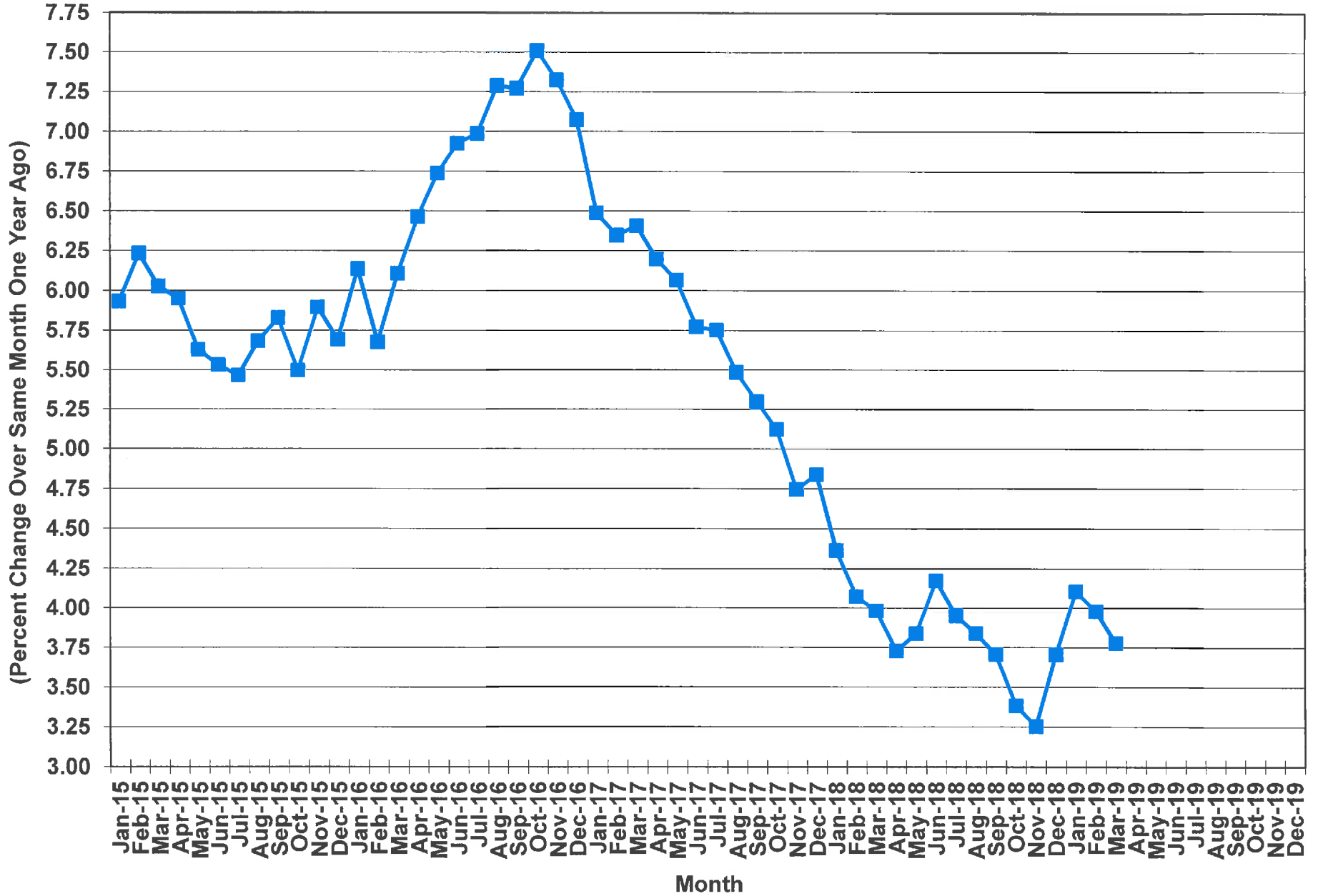
Total Merchant Wholesale Inventory/Sales Ratio in the U.S.



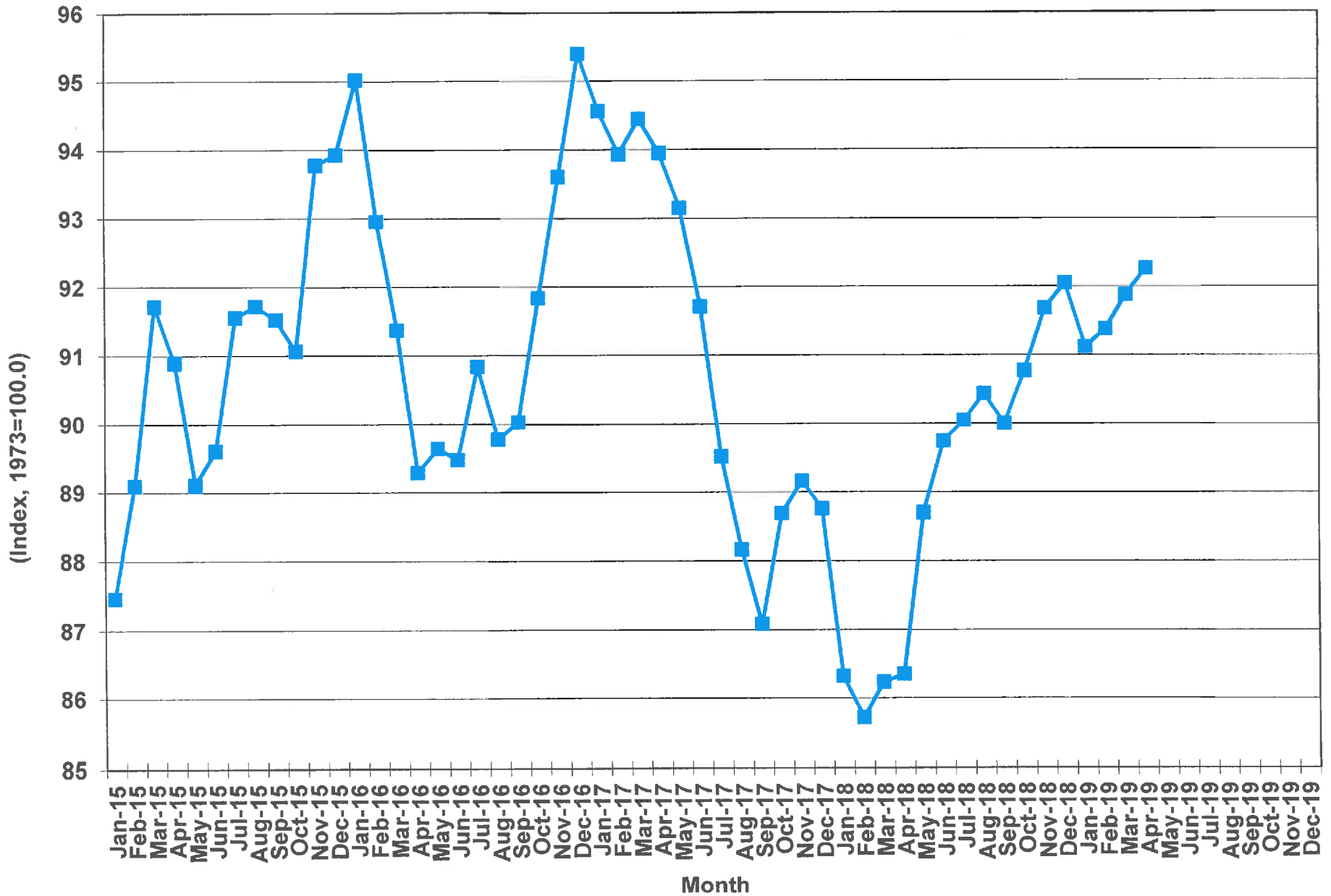
U.S. Treasury Securities Held by the Federal Reserve (All Maturities)



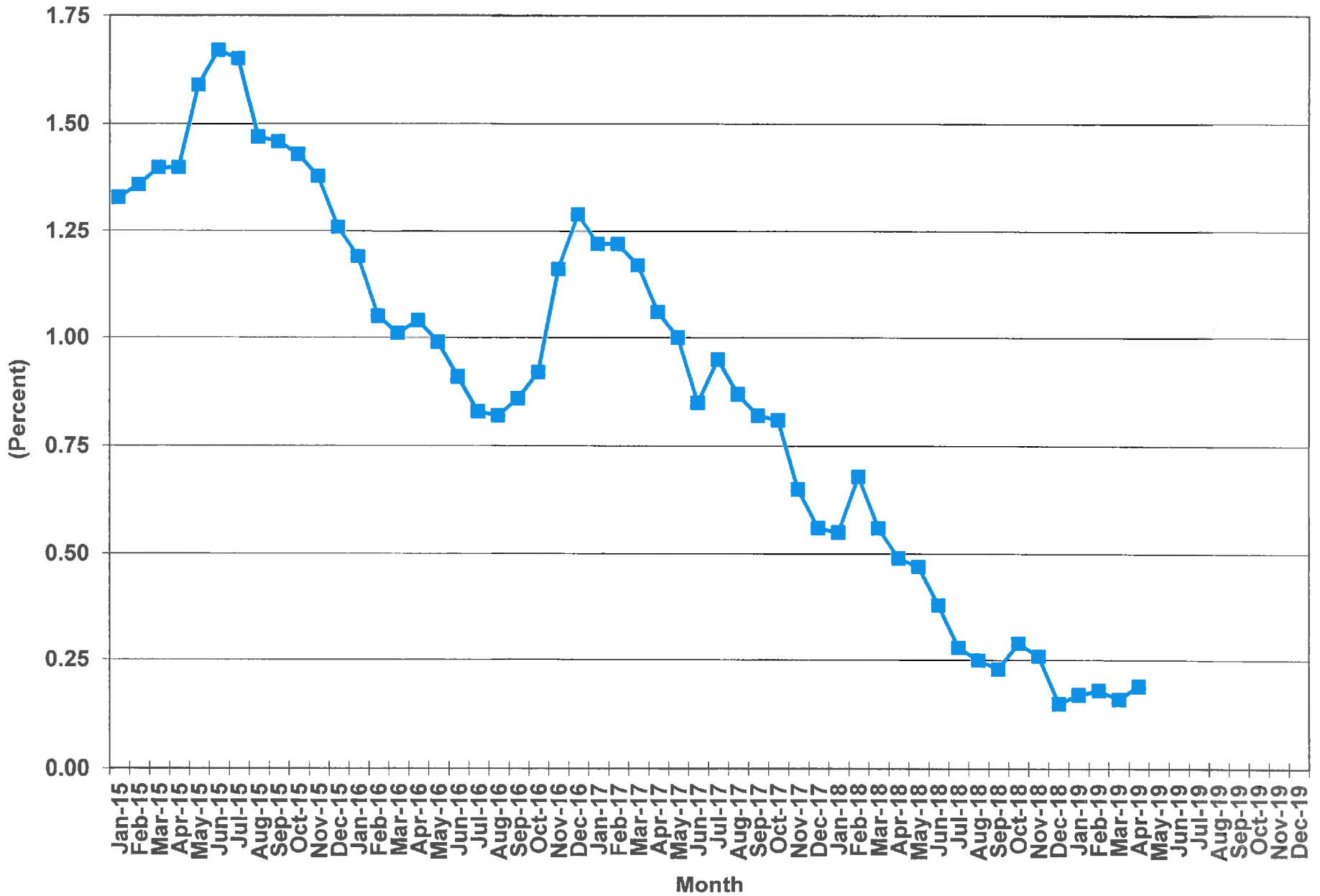
Money Supply - M2



U.S. Trade-Weighted Exchange Rate Index of U.S. Dollar



Interest Rate Spread Between 10-Year Bond & 2-Year Bond



Growth in Major Types of Household Debt

