

MEMORANDUM FOR THE RECORD

DATE: May 22, 2019
Room 417, Rembert Dennis Building
11:00am

SUBJECT: Minutes of Board of Economic Advisors Meeting

ATTENDEES: *Board Members* –Edward Grimball-Chairman, Howell Clyborne, Hartley Powell. *Executive Director*, Frank Rainwater; *Staff* – Robert Martin, Lisa Jolliff, Allyn Powell, Kenneth Harris, Karen Rhinehart, Paul Athey, Gordon Shuford, Ragan Griffith, Julia L. Williams, Amanda Martin. *Guests* – John Barfield, Michael Moore, Richard Eckstrom, Kathy Johnson (Comptroller General’s Office); David Seigler (EBO); Ben Johnson (Department of Commerce); Tim Derrick, Meredith Cleland (Department of Revenue); Tina Thompson (Prosecution Coordination Commission).

* *Emerson Gower – Board Member - unable to attend or participate via GoToMeeting.*

Press:

- Chairman Grimball welcomed everyone to the meeting at 11:08am.
- Chairman Grimball presented the meeting minutes for April 8, 2019 which had previously been shared with the Members and asked if any Member had additions or corrections. There were no comments from the Members and Chairman Grimball declared the minutes approved as presented and written. *(See attached)*
- **Frank Rainwater presented an overview of April 2019. His major comments were:** *(See Attached)*
 - 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.
 - 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 \$40 million for the month. The total amount received in FY15 and FY16 was \$30 million.
- Earnings on Investments 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.
- 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.
- Excess revenues are sufficient to fund the items in the supplemental bill. The budget for next session (FY 2020-21) will most likely experience a similar amount of recurring and supplemental funding.
- 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.

- **Robert Martin shared April 2019 revenue information. His major comments were:** *(See Attached)*

Total General Fund Revenue

- 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.
- 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 FY 2018-19.

Sales Tax Revenue

- 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.
- Retail sales grew by 3.6 percent during the first half of FY 2018-19.
- 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.
 - *Chairman Grimball asked Director Powell if out-of-state vendors are still signing up to remit internet sales tax. Director Powell responded that 1,700 vendors have signed-up and also market place legislation was recently signed by the Governor which states that tax must be collected on third party vendors. Mr. Rainwater asked when South Carolina would notice the impact of that revenue and Director Powell replied that June 20th would be the earliest date. A policy letter has been sent stating that companies must comply with this law.*
- 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 FY 2018-19 by \$9.1 million.

Individual Income Tax Revenue

- The Individual Income Tax revenue increased \$168.5 million, or 133.1 percent during the month of April 2019.
- A sizable increase in Individual Income tax payment with tax returns ballooned by \$111.1 million in 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.
 - *Chairman Grimball asked if there have been other analyses done regarding the \$100 million excess growth. Mr. Martin replied that he was looking at data of other southeastern states.*
 - *Mr. Clyborne asked Director Powell if the new computer system provides more information for tracking payments and reimbursements. Director*

Powell stated that the new system provides a better way to understand these numbers and returns are being processed much faster. Mr. Rainwater mentioned that the new computer system at the Department of Revenue was able to provide information which showed \$80 million more payments with extensions this April versus April of 2018.

- 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 FY 2018-19 reflecting the lottery winner and continued strong employment growth in the State.
- 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 FY 2018-19.
- 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.

Corporate Income Tax Revenue

- 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.
- 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 FY 2018-19, or by \$103.3 million.

Other Revenue

- 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.
- The \$30.4 million received in April 2019 was more than the state collected in commercial bank taxes in all of FY 2015-16.
- The recent rise in interest rates may be a contributing factor to the growth in Earnings on Investment above expectations.

Summary

- Through the first ten months of FY 2018-19, 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. Analysis will be conducted on the remaining 70.0 percent of surplus and discussed at a later meeting.
- 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 FY 2018-19.
- Revised employment figures show that job growth is expanding at an average rate of growth of 2.0 percent through the first 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.

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.
- **United States**
 - Sluggish retail sales
 - Uncertainty over Federal Reserve policy

- U.S trade uncertainty
- Tariffs on steel and 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
- **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
 - Immigration from Mexico and Central America
 - Iranian sanctions on oil exports reimposed
- **Lisa Jolliff shared a review of Tax Conformity. Her major comments were:**
(See Attached)
 - 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 personal exemptions for a tax filer(s) but not enough to offset the eliminating of any additional personal exemption for dependents.
 - Other key changes included itemized deductions, the federal pass-through business deduction, and smaller changes to rules for business.

- 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.
- In reviewing individual income tax collections this year, although paid returns increased significantly, the increase does not appear to have 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 for analysis until November and further review will be conducted at that time.

Working Group Comments

- *Comptroller General Richard Eckstrom expressed concern that Tax Conformity might be the cause of the revenue surplus in the Individual Income tax category in April.*
- Other Business


There was no further business or comments from the Working Group Members.

Mr. Clyborne motioned to adjourn the meeting and Chairman Grimball seconded the motion. All voted aye and the meeting adjourned at 12:19pm.

The next scheduled BEA Meeting is Thursday, June 13, 2019 at 1:30pm.

Attachments: Agenda, Meeting Materials. Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar>

These minutes were approved on 8/26/19.



 Karen Rhinehart