



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

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The BEA Reports Current Tax Collections Exceed Projections, Maintains Revenue Estimates for FY 2020-21 and FY 2021-22

Economic Uncertainty Remains due to COVID-19 Crisis

COLUMBIA – The S.C. Board of Economic Advisors (BEA) reported Friday the state's economic activity has performed better than anticipated as tax collections through January have outpaced projections for the current fiscal year by approximately \$440.2 million.

However, the BEA cautioned that excess tax collections are not always indicative of a surging economy. Significant uncertainty remains about the course of recovery from the COVID-19 pandemic, its impact on the economy and the effect of the federal government's response, the BEA stated. The BEA had expected revenues to decline due to the recession and lower employment, but federal intervention and changing consumer behavior have boosted revenue collections.

As a result, the BEA stated it would be prudent to move cautiously in updating the economic forecast and revenue projections. Therefore, the BEA decided to maintain the General Fund Revenue estimates for Fiscal Year (FY) 2020-21 and FY 2021-22 but will revisit them in April after reviewing additional information on tax collections and analyzing more economic data.

The BEA noted one-time federal stimuli have triggered increases in lottery revenue and general fund tax collections for the current fiscal year. Near record jackpots for Mega Millions and Powerball helped further drive the increase in state lottery revenue.

And, the federal government's response to the pandemic has provided direct payments to individuals, additional aid for the unemployed and grants and loans to business owners. These measures, among others, helped reduce the severity of the economic downturn.

But, predicting how the economy will perform after the stimulus ends remains the biggest challenge and risk to estimating revenues. The BEA wants to continue to

monitor economic conditions to determine whether the state's economy bolstered by an infusion of federal aid can sustain its momentum after the impact of the stimulus has dissipated.

The BEA noted employment is improving better than expected but remains below pre-pandemic levels. Currently, the state's employment stands at 88 percent of pre-pandemic levels. The BEA still anticipates a return to February 2020 pre-pandemic employment in February 2022.

For January, revenue collections exceeded estimates by \$103.7 million, bringing the fiscal year-to-date excess to \$440.2 million. The excess is based on the November 2020 estimate which was \$803.7 million lower than the February estimate before the pandemic affected South Carolina. The November estimate anticipated a 3.5 percent decline in revenues due to the recession, but actual collections have increased 4.7 percent.

With the start of tax filing season delayed until Feb. 12, the BEA lacks any early data or indication on how the job losses and federal stimuli last year combined to impact final tax liability or refunds and expressed concern that these revenue items are not as predictable for this fiscal year.

While it maintained general fund revenue estimates, the BEA increased projections for lottery revenue by \$39.5 million for the current fiscal year. The increase, however, is viewed as a one-time boost due to the extra stimulus funds as well as the recent near-record lottery jackpots. Lottery revenues are expected to return to normal levels in FY2021-22 at \$523.3 million, which is unchanged from the November estimate.

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