

# **SOUTH CAROLINA GENERAL FUND REVENUE**

## **FY 2023-24 Revenue Update and Forecast Review**

April 10, 2024



# General Fund FY 2023-24 Third Quarter Results - §11-9-1140

- General Fund revenue is \$475.3 million ahead of expectations through March, primarily due to Corporate Income tax and Earnings on Investments
- Corporate Income tax is ahead of expectations by \$256.8 million, 54% of the excess
- Earnings on Investments is above expectations by \$84.4 million, 18% of the excess
- Sales tax collections are \$52.6 million ahead of expectations following strong March collections
- Total Individual Income tax is \$58.5 million ahead of expectations through March, largely due to an increase in Withholdings being offset by an increase in Refunds
- Timing of income tax refund and payment activity remain a factor as we approach April filing deadlines

# General Fund Revenue



## REVENUES V. BEA MONTHLY ESTIMATES

JULY - MARCH FY 2023-24

(\$ in Millions)

	Expected Revenues	Actual Revenues	Over/ (Under) Expected	Estimate YTD / <sup>1</sup>	Actual YTD / <sup>2</sup>	Estimate Full Yr. / <sup>3</sup>		Expected Revenues	Actual Revenues	Over/ (Under) Expected	Estimate YTD / <sup>1</sup>	Actual YTD / <sup>2</sup>	Estimate Full Yr. / <sup>3</sup>
<b>Total General Fund Revenue</b>	<b>\$8,725.0</b>	<b>\$9,200.2</b>	<b>\$475.3</b>	<b>(5.4%)</b>	<b>(0.2%)</b>	<b>(1.6%)</b>	Other Revenue Items, Sub-Total	\$706.2	\$822.2	\$116.0	(3.8%)	12.0%	(3.0%)
Sales Tax	3,068.6	3,121.2	52.6	1.2%	2.9%	1.1%	Admissions Tax	20.5	22.0	1.5	1.7%	1.7%	(6.1%)
Individual Income Tax	4,283.4	4,341.8	58.5	(4.2%)	(2.9%)	4.7%	Alcoholic Liquors Tax	75.7	76.9	1.3	2.5%	4.2%	2.2%
Withholdings	4,880.6	5,095.3	214.8	(8.5%)	(4.5%)	(6.1%)	Bank Tax	37.2	32.9	(4.3)	(36.0%)	(43.4%)	(17.0%)
Non-withholdings	749.6	717.2	(32.4)	(17.5%)	(21.1%)	(6.1%)	Beer and Wine Tax	72.7	73.6	0.9	(0.6%)	0.6%	(0.6%)
Refunds	1,346.9	1,470.7	123.9	(24.1%)	(17.1%)	(28.2%)	Corporate License Tax	161.0	175.3	14.3	2.9%	12.1%	2.9%
Corporate Income Tax	400.5	657.3	256.8	(42.8%)	(6.1%)	(38.0%)	Deed Rec. (Doc. Tax)	66.5	74.0	7.5	(16.9%)	(7.5%)	(16.9%)
Insurance Tax	266.2	257.6	(8.6)	(6.9%)	(9.9%)	(4.8%)	Earned on Investments	137.7	222.1	84.4	11.1%	79.1%	5.2%
Other Revenue Items, Sub-Total	706.2	822.2	116.0	(3.8%)	12.0%	(3.0%)	Residual Revenue	134.9	145.4	10.4	(8.1%)	(1.0%)	(4.2%)

Based on BEA Forecast as of November 16, 2023

/1 Estimate year-to-date reflects expected growth in collections fiscal year-to-date over prior fiscal year-to-date based on anticipated monthly collection patterns.

/2 Actual year-to-date reflects actual fiscal year-to-date growth in collections over prior fiscal year-to-date collections.

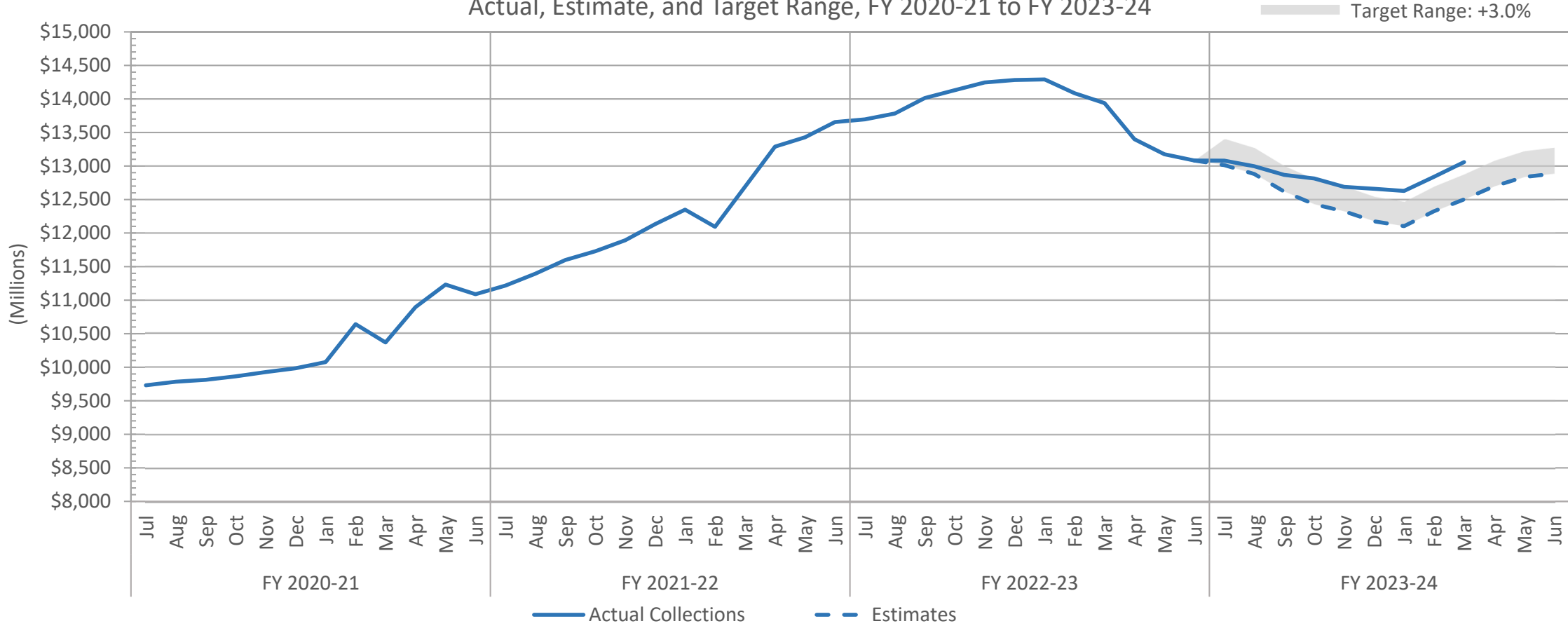
/3 Estimate full year reflects projected growth for the full fiscal year over the prior year.



# General Fund Revenue – Actual vs. November Estimate

March revenue exceeded expectations by \$92.0 million, bringing total excess revenue to \$475.3 million

ROLLING FISCAL YEAR - GENERAL FUND  
Actual, Estimate, and Target Range, FY 2020-21 to FY 2023-24

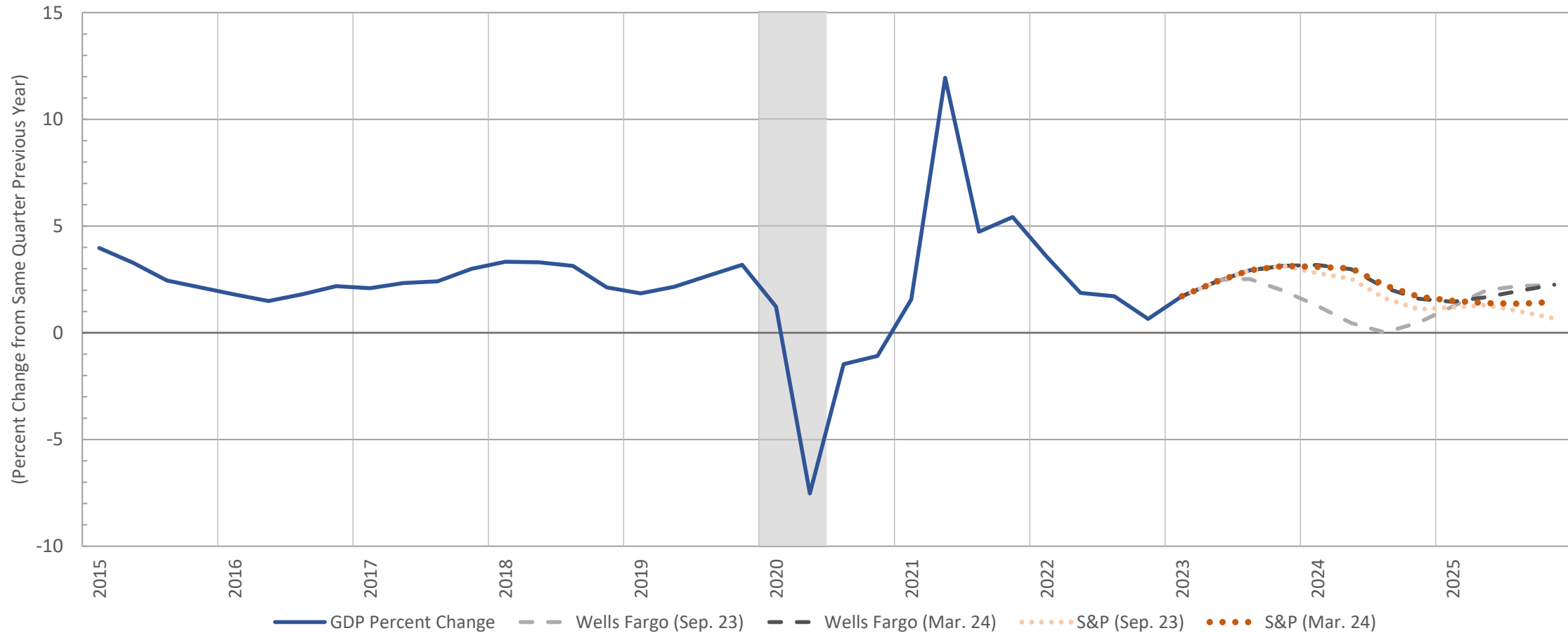


# Economic Updates

# Real GDP Growth

Wells Fargo and S&P have revised real GDP growth expectations up since the beginning of FY 2023-24, but growth is still expected to slow down in FY 2024-25

US REAL GROSS DOMESTIC PRODUCT GROWTH

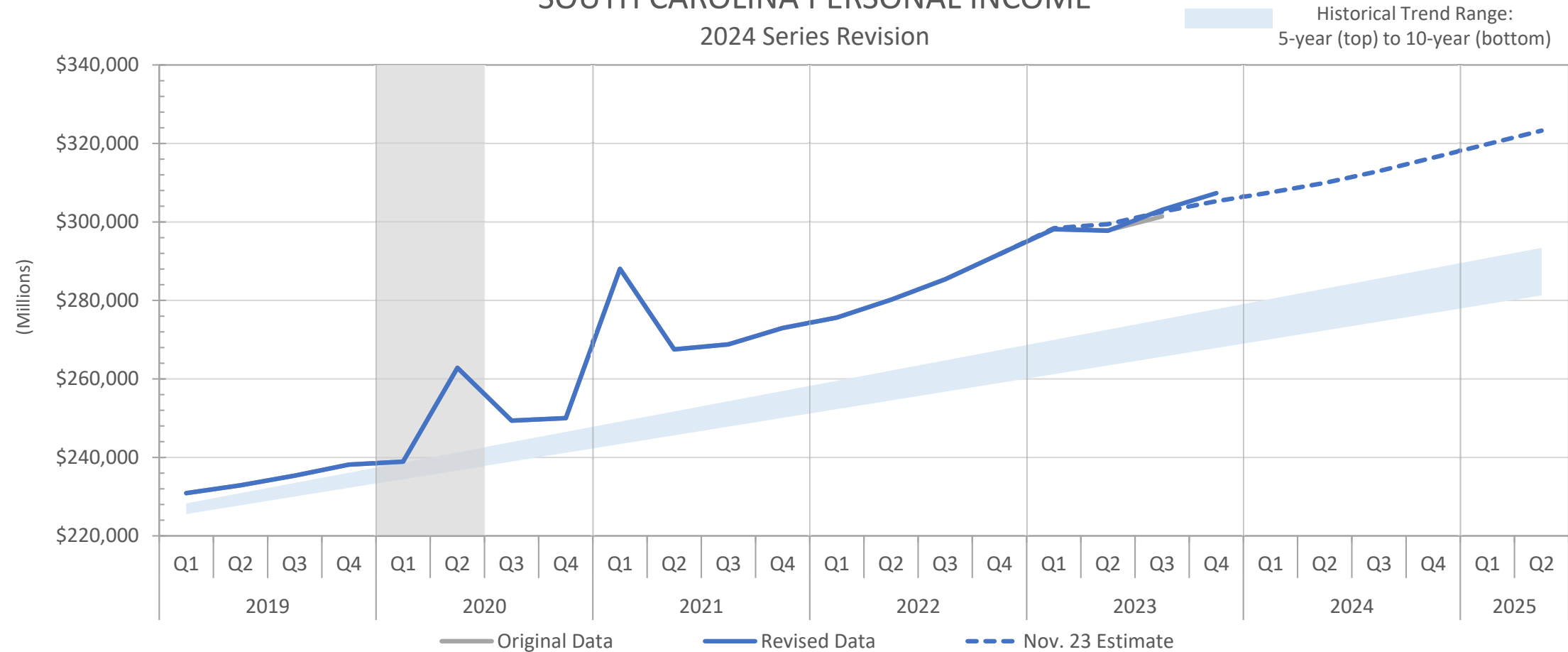


Source: U.S. Dept. of Commerce, Bureau of Economic Analysis RFA/266/lhj/04/4/2024

# Personal Income

Personal income grew 5.3% for Q4 2023 over last year versus 4.6% expected, mainly due to higher wage growth (8.1% vs. 6.5%)

SOUTH CAROLINA PERSONAL INCOME  
2024 Series Revision

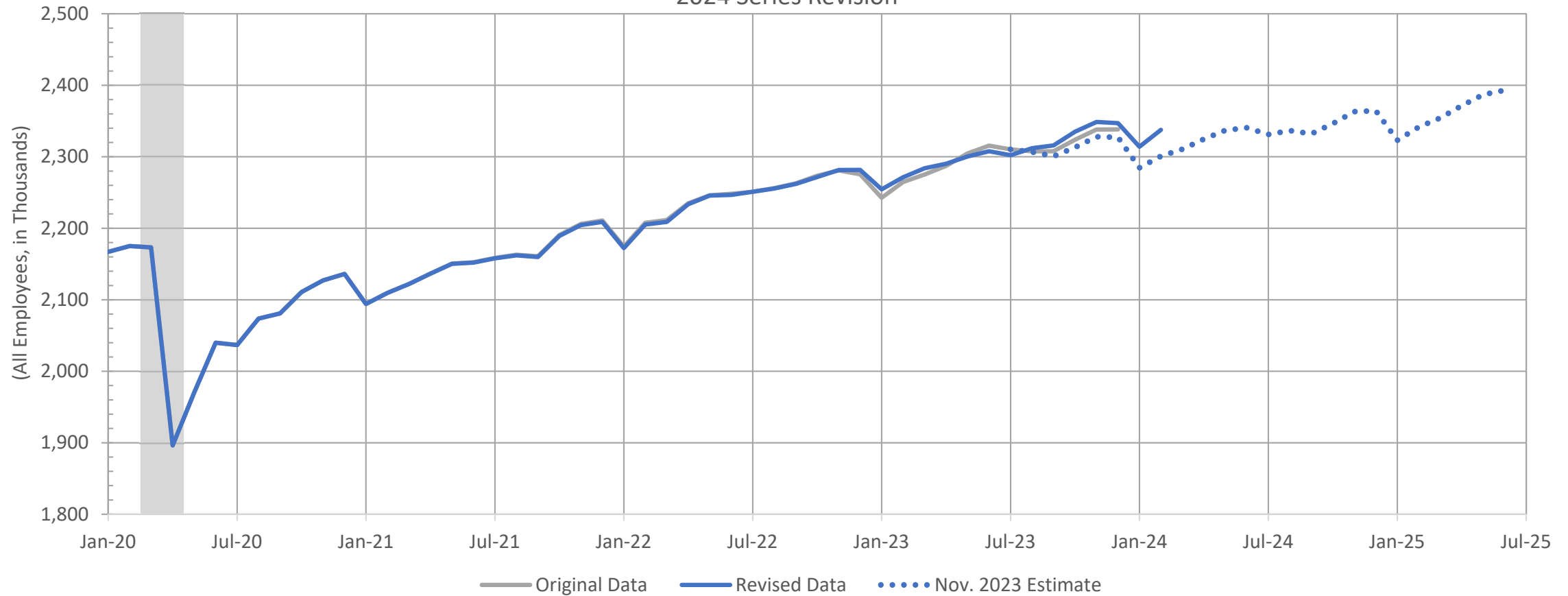


Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Board of Economic Advisors-RFA/kav/03/29/2024

# SC Employment

February employment was 36,800 jobs above the November estimate; BLS revisions generally increased employment for FY 2023-24

TOTAL NONFARM EMPLOYMENT IN SOUTH CAROLINA  
2024 Series Revision

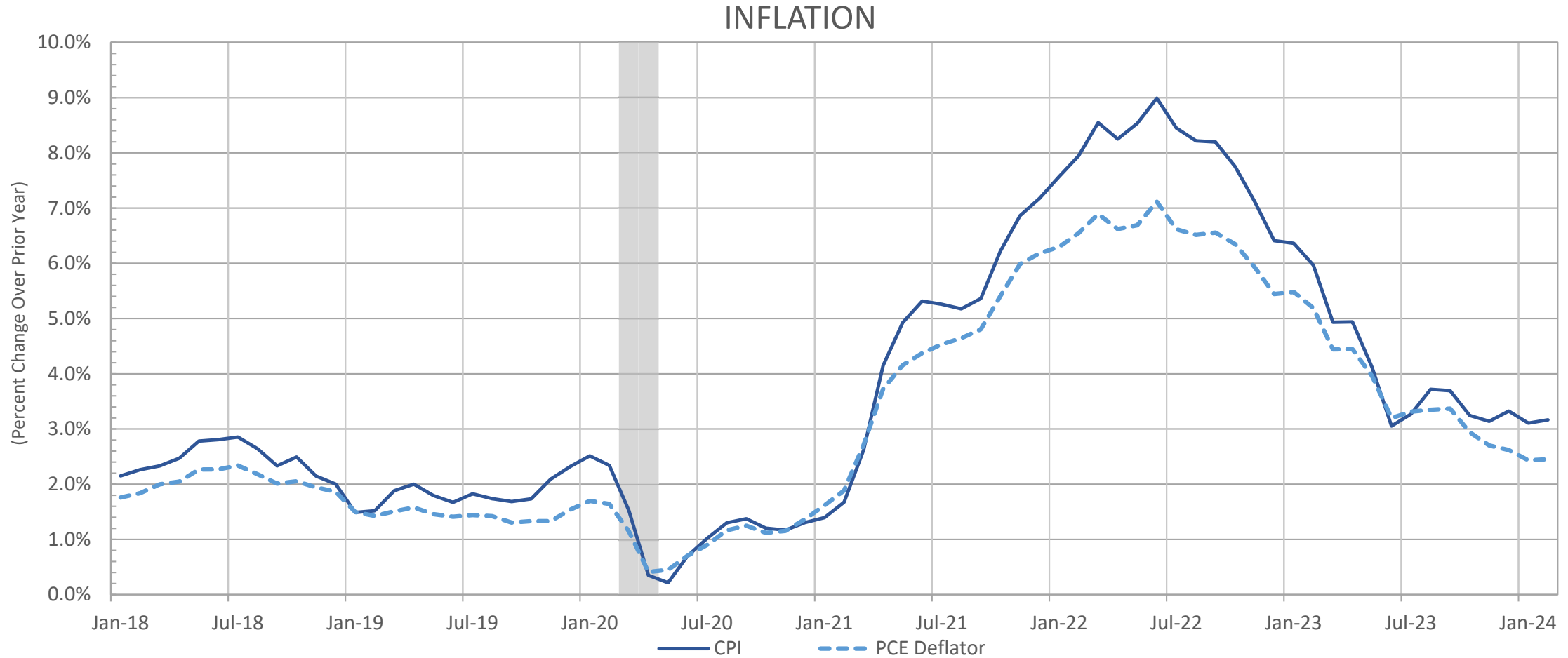


Source: U.S. Department of Labor. Bureau of Labor Statistics 60-RFA/kav/03/27/2024



# Inflation

CPI inflation remains above 3% on a year-over-year basis as housing costs continue to grow; however, PCE inflation is gradually easing



Source: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis - 216 RFA/kav/04/02/2024

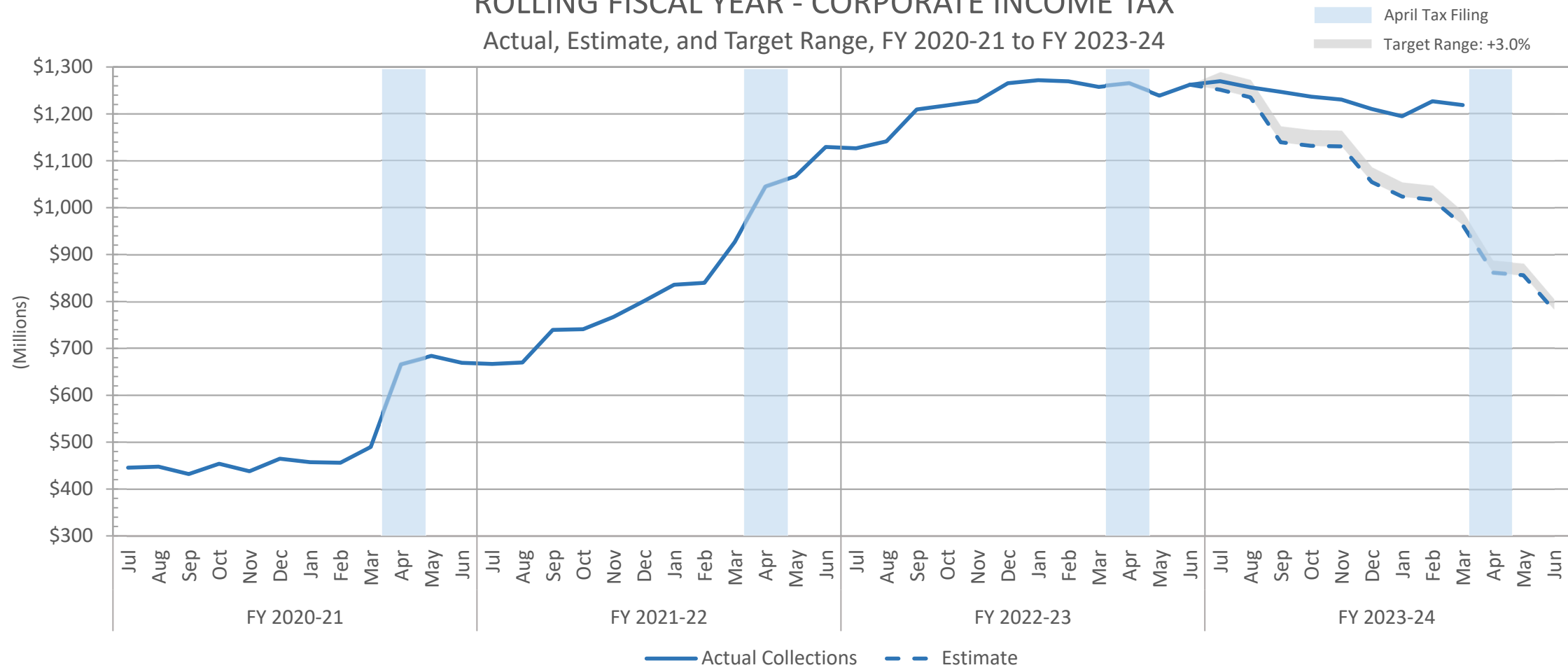
# Review of FY 2023-24 Revenue Details



# Corporate Income Tax - Actual vs. Estimate

March collections exceeded expectations by \$46.9 million; Corporate Income tax reflects the largest variance from expectations at \$256.8 million in total, but tax filing remains for this year

ROLLING FISCAL YEAR - CORPORATE INCOME TAX  
Actual, Estimate, and Target Range, FY 2020-21 to FY 2023-24

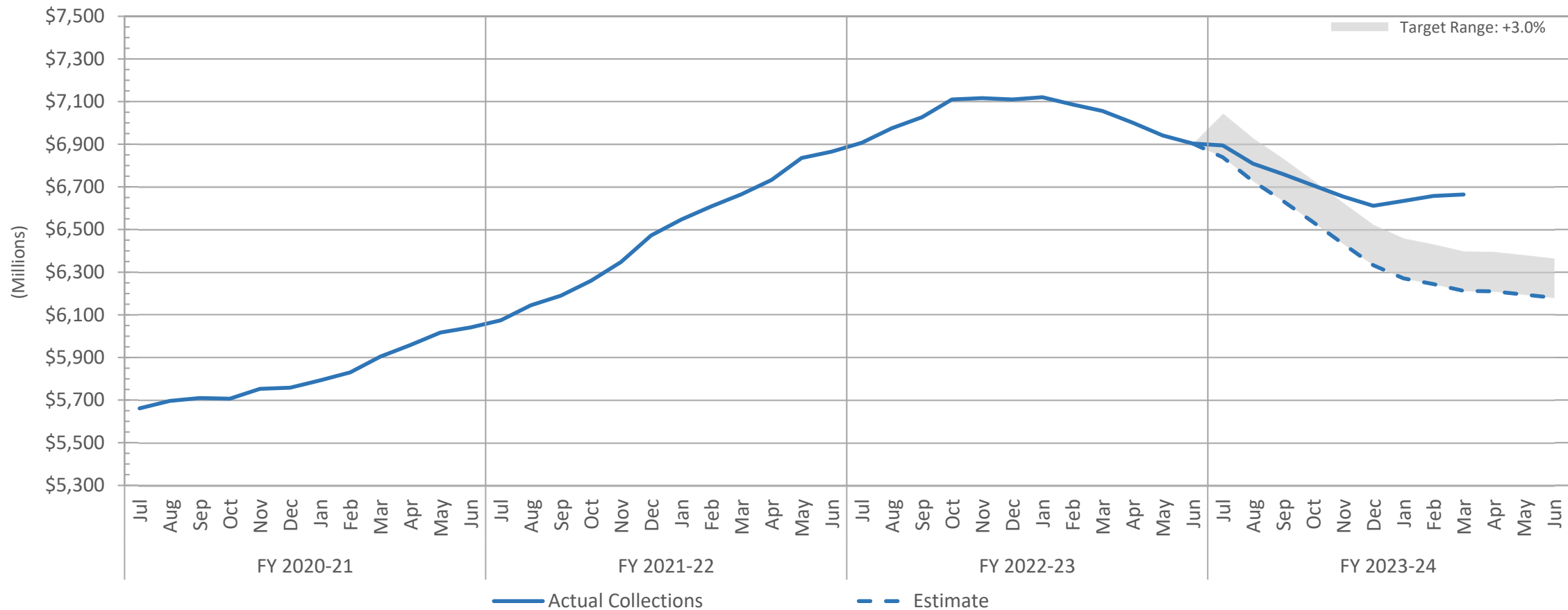


# Withholdings - Actual vs. Estimate

Withholdings are \$214.8 million ahead of expectations, largely due to stronger-than-anticipated wage growth

## ROLLING FISCAL YEAR - INDIVIDUAL INCOME WITHHOLDINGS

Actual, Estimate, and Target Range, FY 2020-21 to FY 2023-24



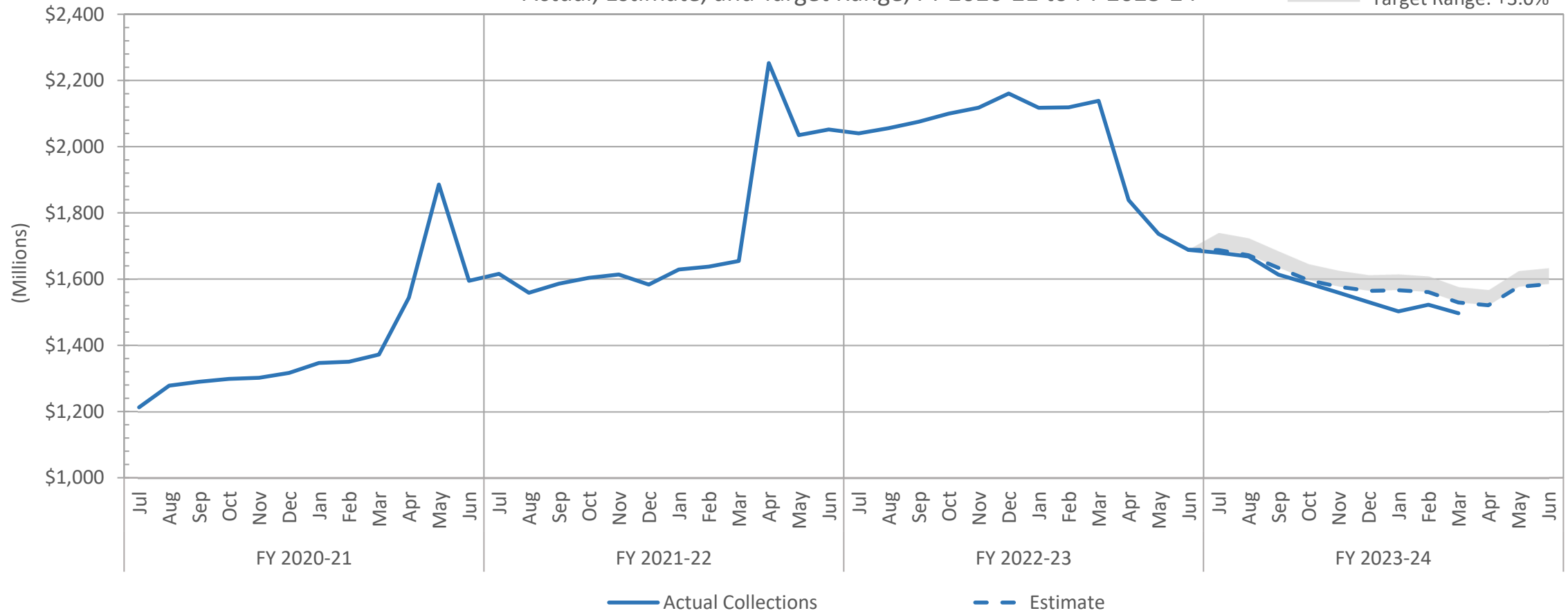
# Non-Withholdings - Actual vs. Estimate

Revenues are \$32.4 million below expectations, but more than half of expected collections remain; strong dividend and interest growth in 2023 is expected to increase collections during tax filing

## ROLLING FISCAL YEAR - INDIVIDUAL INCOME NON-WITHHOLDINGS

Actual, Estimate, and Target Range, FY 2020-21 to FY 2023-24

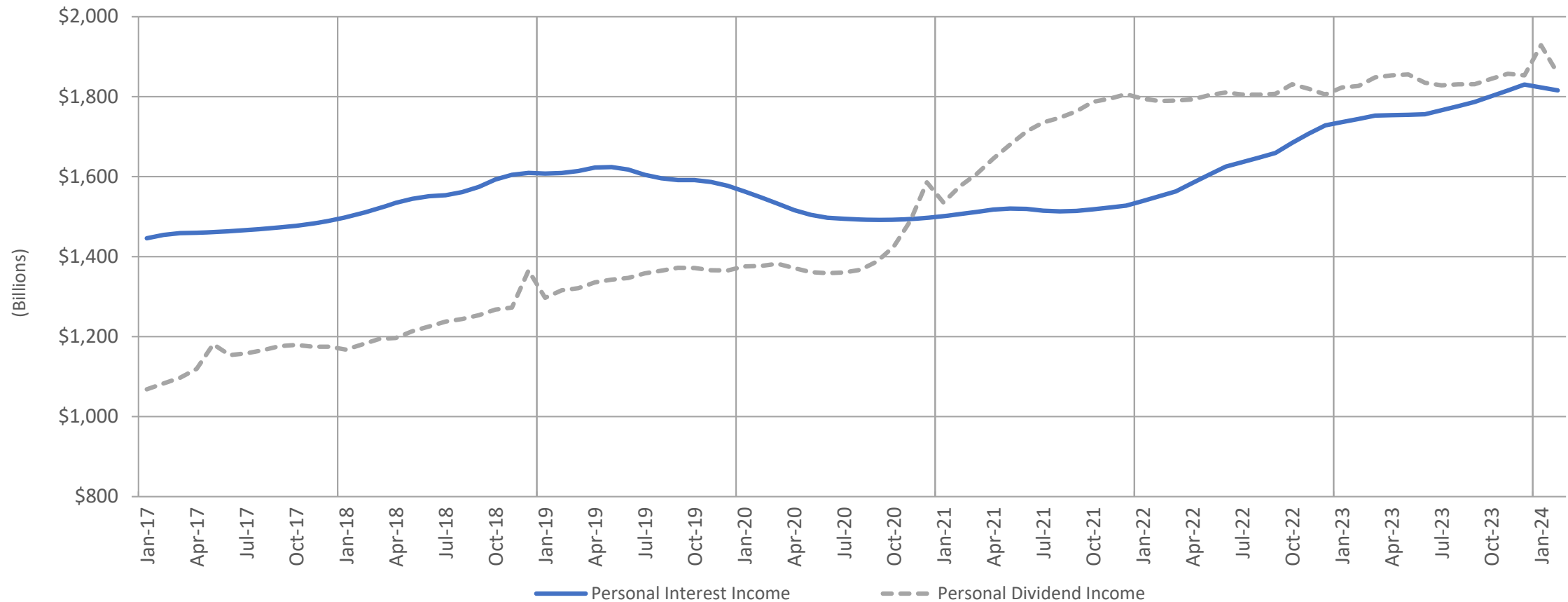
Target Range: +3.0%



# US Personal Interest and Dividend Income

Dividend income started dominating personal income receipts on assets in 2021; interest income has been catching up quickly after the increase in interest rates that started in 2022; both income sources registered increases throughout 2023

US PERSONAL INTEREST AND DIVIDEND INCOME



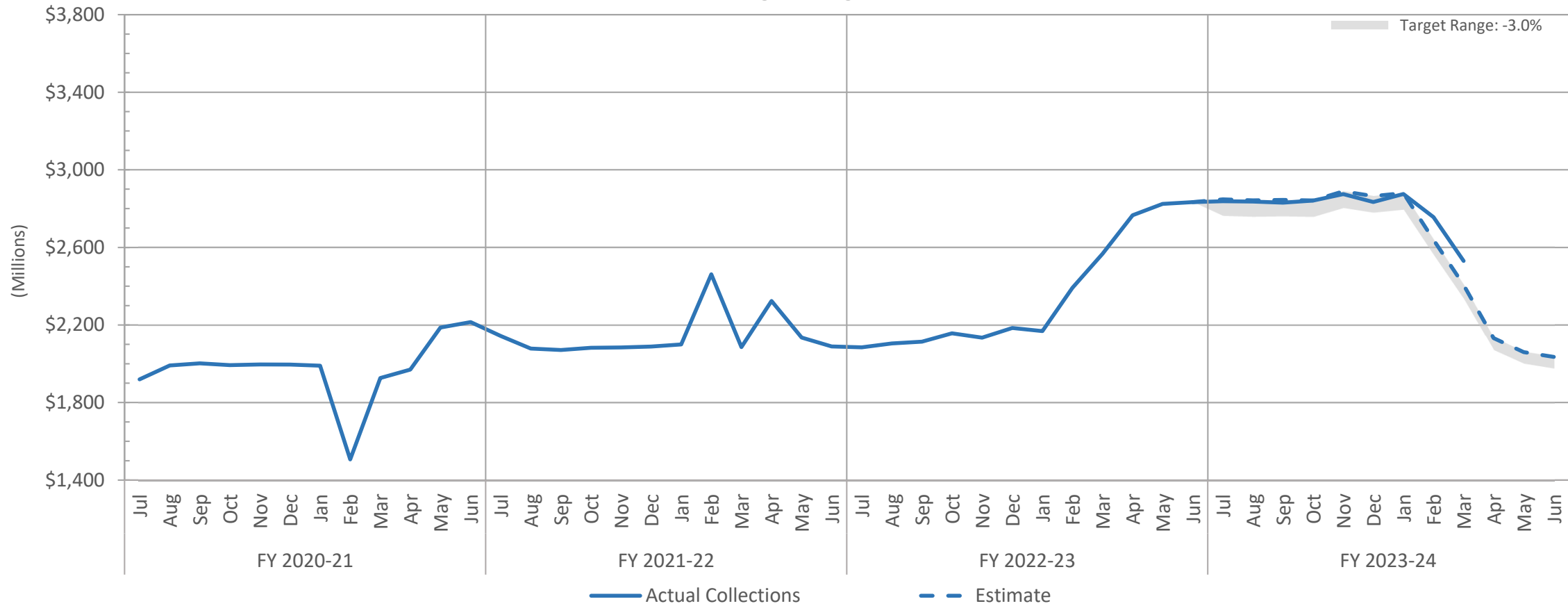
Source: U.S. Bureau of Economic Analysis (retrieved from FRED) 338 - RFA/mam/04/04/2024

# Refunds - Actual vs. Estimate

Refunds are \$123.9 million higher than expected, largely due to February processing including prior year extensions; the overall trend, however, is following expectations for a decrease in Refunds of up to 28% compared with FY 2022-23

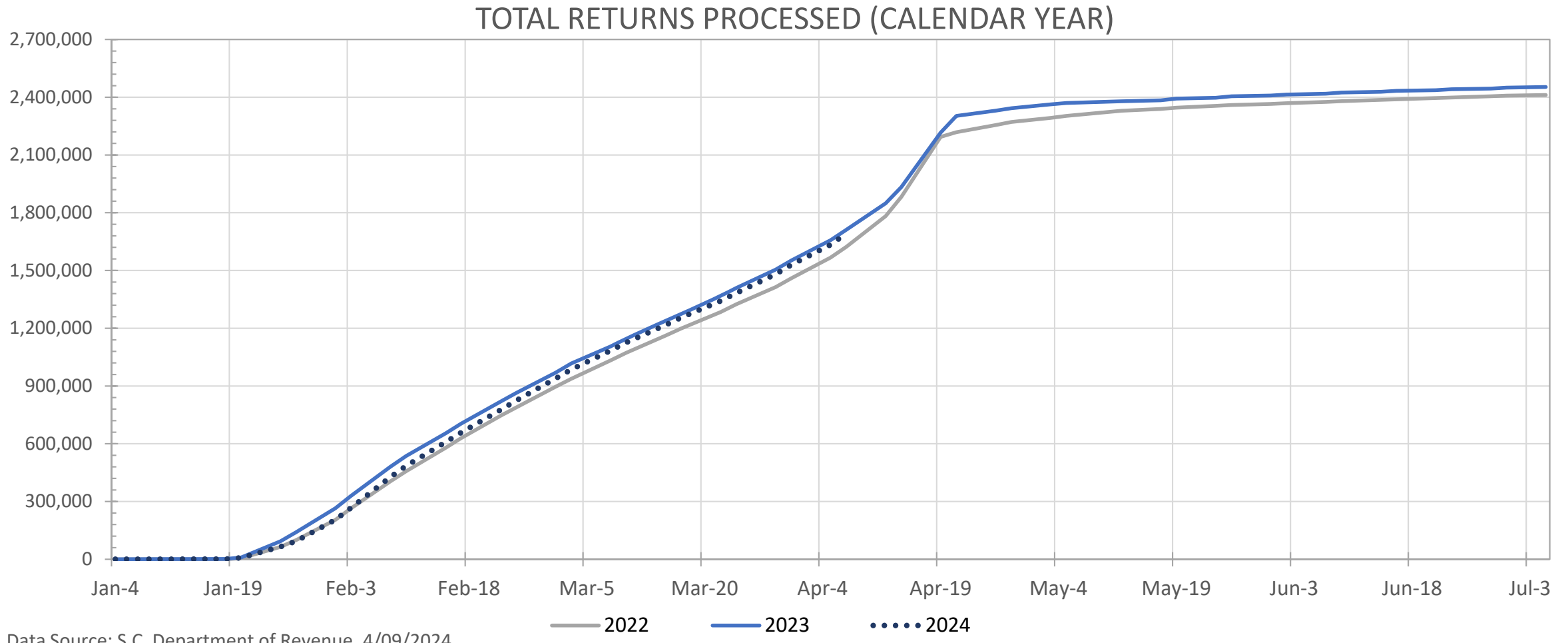
## ROLLING FISCAL YEAR - INDIVIDUAL INCOME REFUNDS

Actual, Estimate, and Target Range, FY 2020-21 to FY 2023-24



# Return Processing

Total number of returns processed is slightly below 2023 and is expected to remain below last year through the rest of 2024



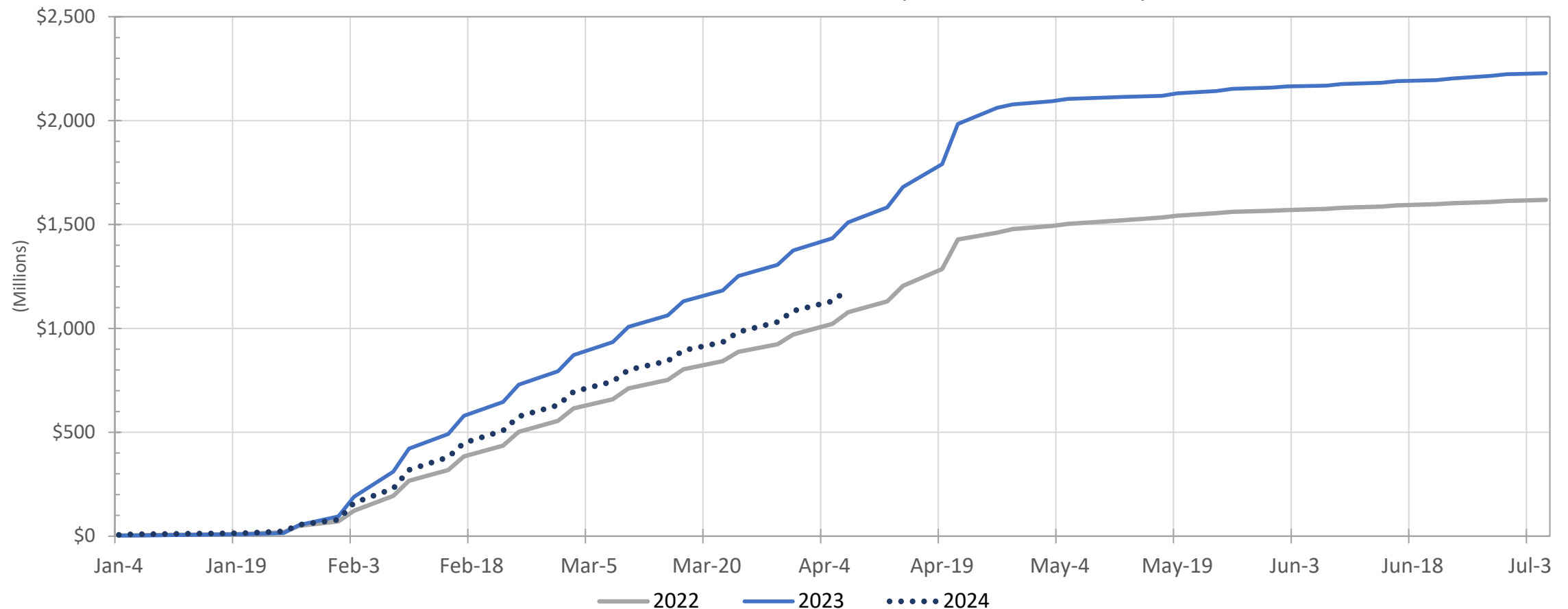
Data Source: S.C. Department of Revenue, 4/09/2024



# Refund Processing – Amount

Refunds are generally in line with expectations but may finish above expectations due to the combination of the filing deadline extension for 2022 and stronger withholdings collections in 2023

TOTAL REFUND AMOUNT ISSUED (CALENDAR YEAR)

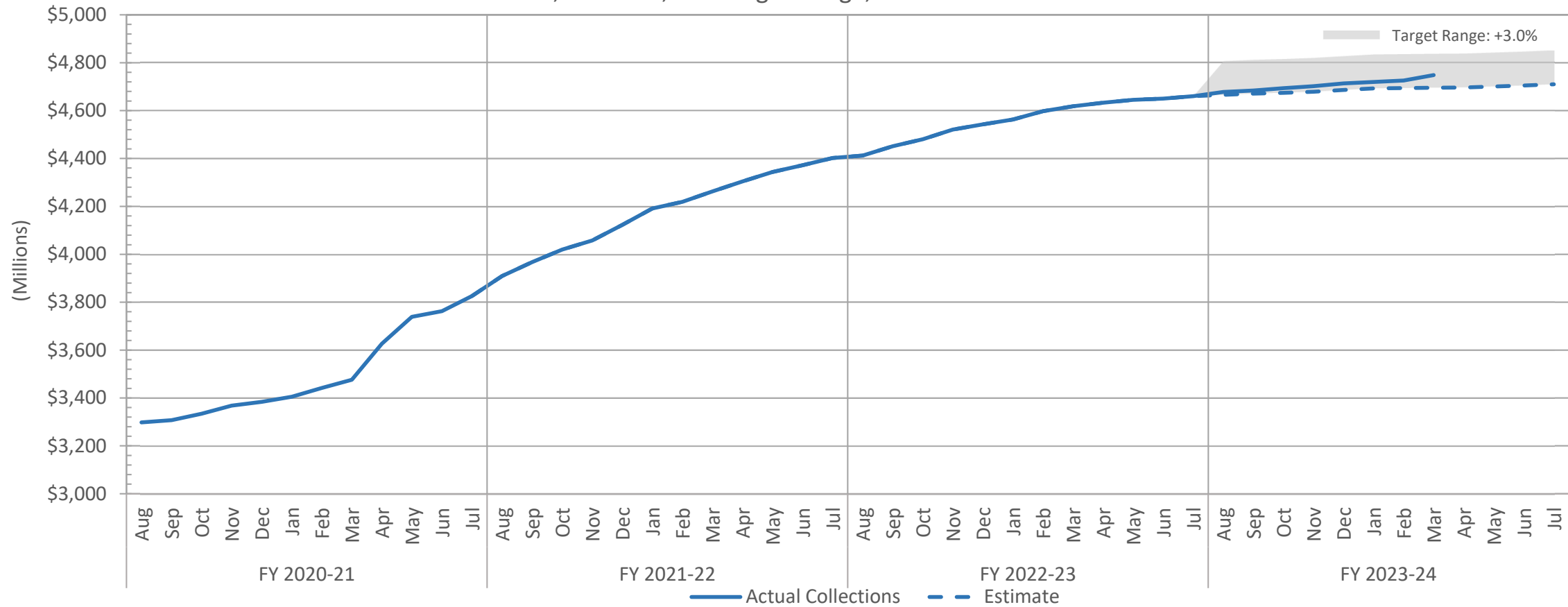


Data Source: S.C. Department of Revenue, 4/09/2024

# Sales Tax - Actual vs. Estimate

March sales tax grew 6.7% over last year, the strongest growth observed this fiscal year; cumulative growth for FY 24 is now at 2.9%, and collections are \$52.6 million ahead of expectations

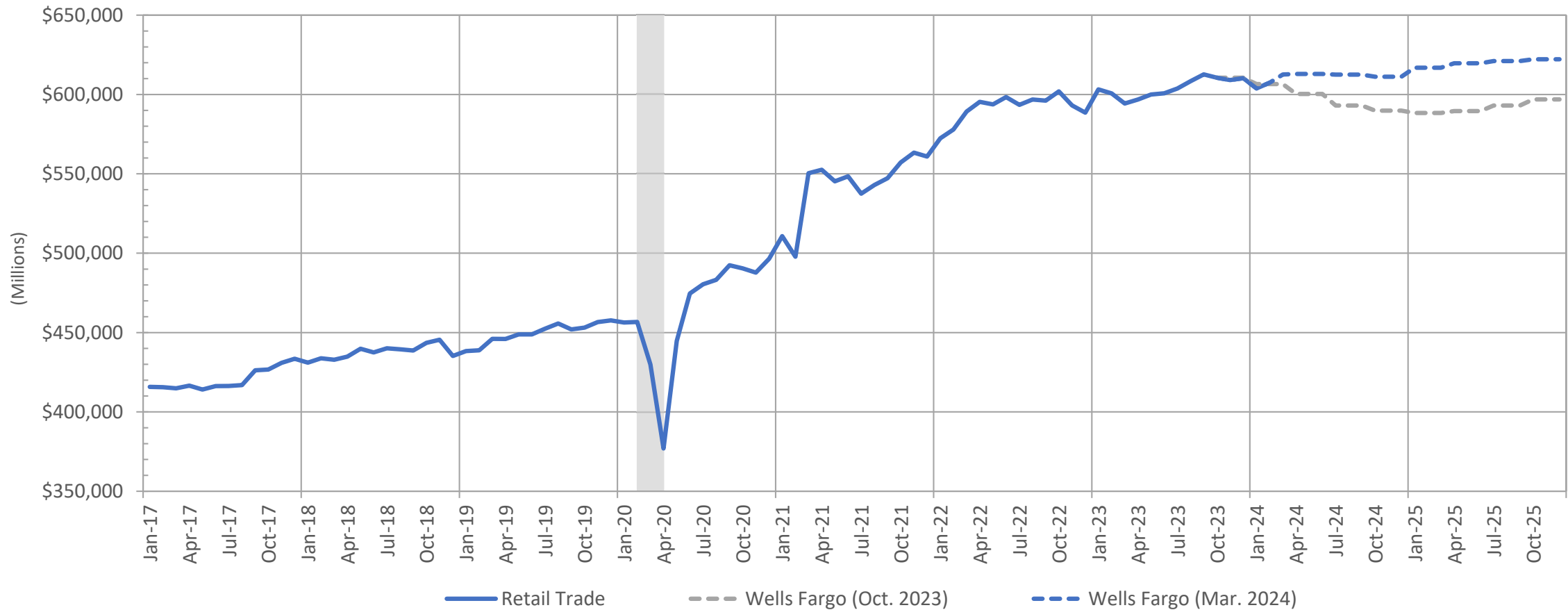
ROLLING FISCAL YEAR - SALES TAX  
Actual, Estimate, and Target Range, FY 2020-21 to FY 2023-24



# US Retail Sales

Retail sales expectations have improved since the November forecast; Wells Fargo is anticipating slow growth instead of a slight decline; the National Retail Federation expects growth of 2.5% - 3.5% for 2024, above the current FY 24 & FY 25 sales tax estimates

US RETAIL SALES - MONTHLY



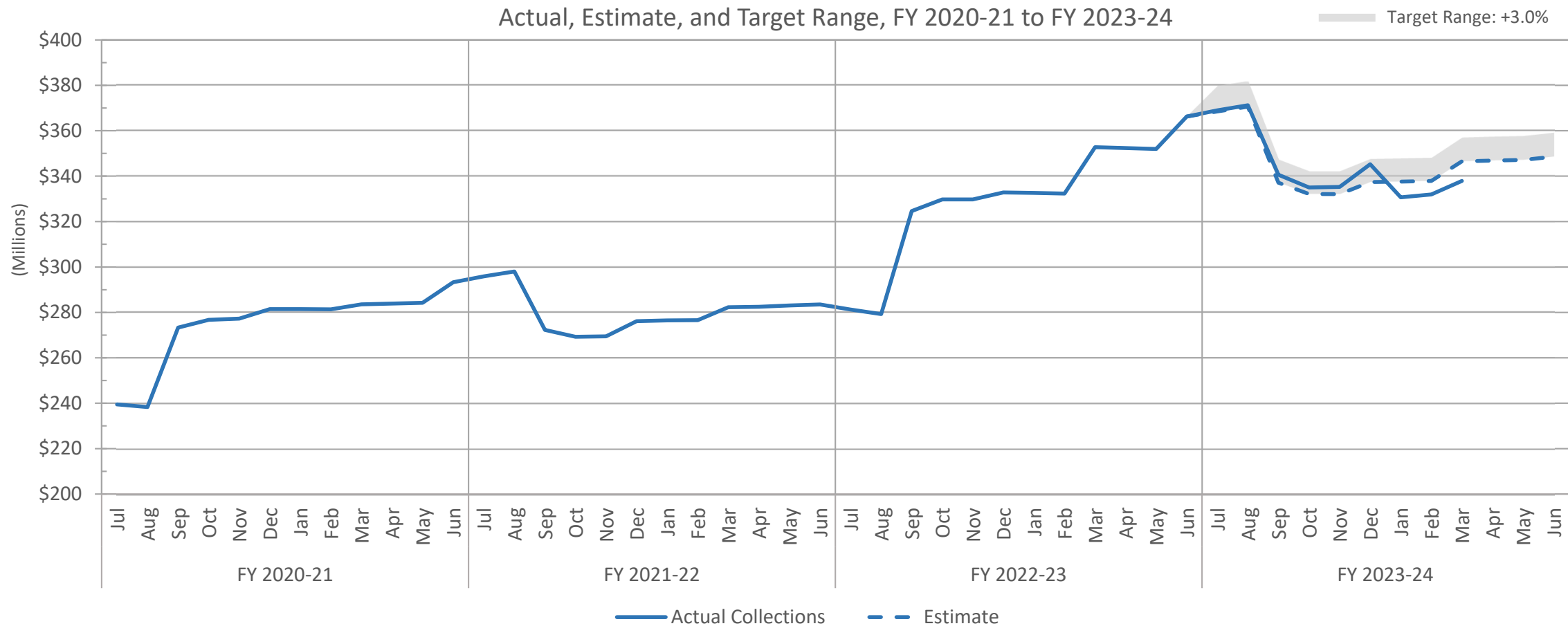
Source: U.S. Census Bureau, Advance Retail Sales: Retail Trade [RSXFS], retrieved from FRED, Federal Reserve Bank of St. Louis; Wells Fargo US Economic Outlook, October 13, 2023 & March 14, 2023; 323-RFA/mad/04/04/2024

# Insurance Tax - Actual vs. Estimate

Collections are currently \$8.6 million below expectations; much of this stems from the multi-year tax refund that was processed in January, but premiums for March grew 4.8% compared to 7.2% expected, indicating a potential concern for the forecast

## ROLLING FISCAL YEAR - INSURANCE TAX

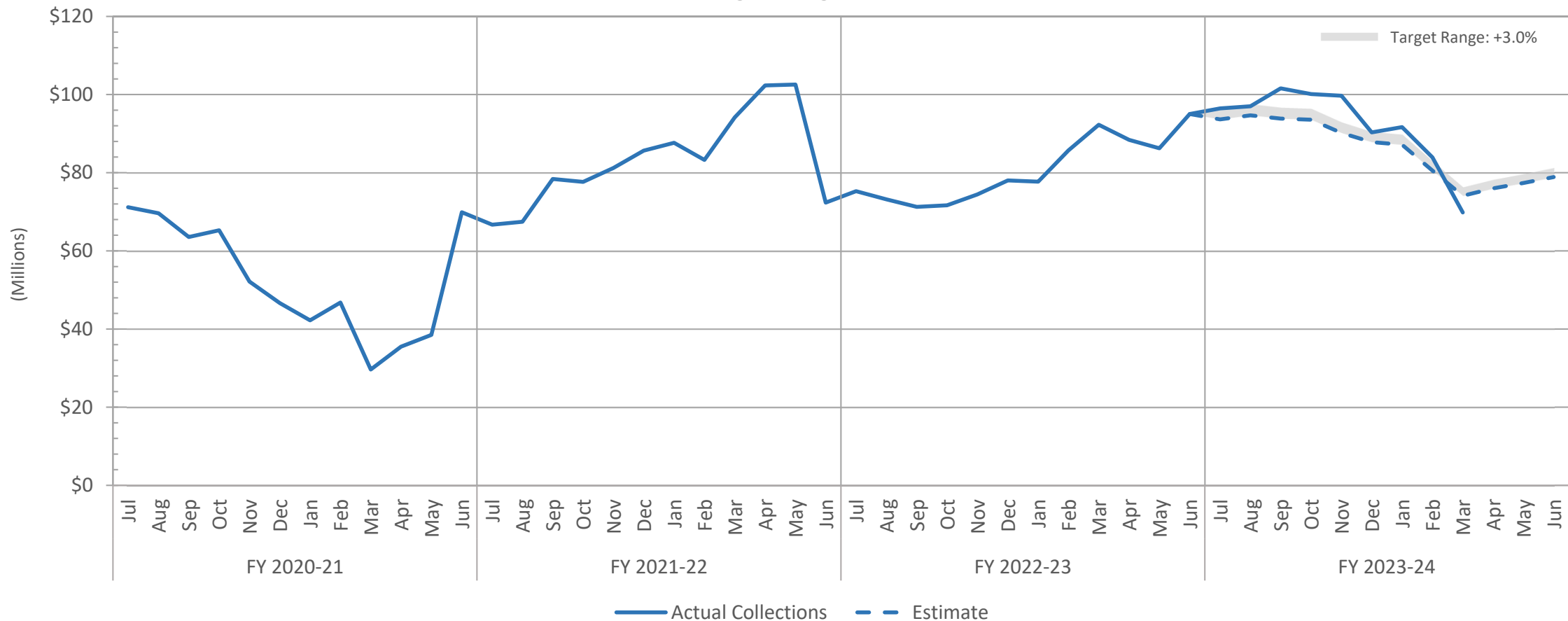
Actual, Estimate, and Target Range, FY 2020-21 to FY 2023-24



# Bank Tax - Actual vs. Estimate

March collections were \$7.7 million below expectations, marking the second quarter with lower-than-expected performance; in total, Bank tax is now \$4.3 million below fiscal year-to-date estimates

ROLLING FISCAL YEAR - BANK TAX  
Actual, Estimate, and Target Range, FY 2020-21 to FY 2023-24

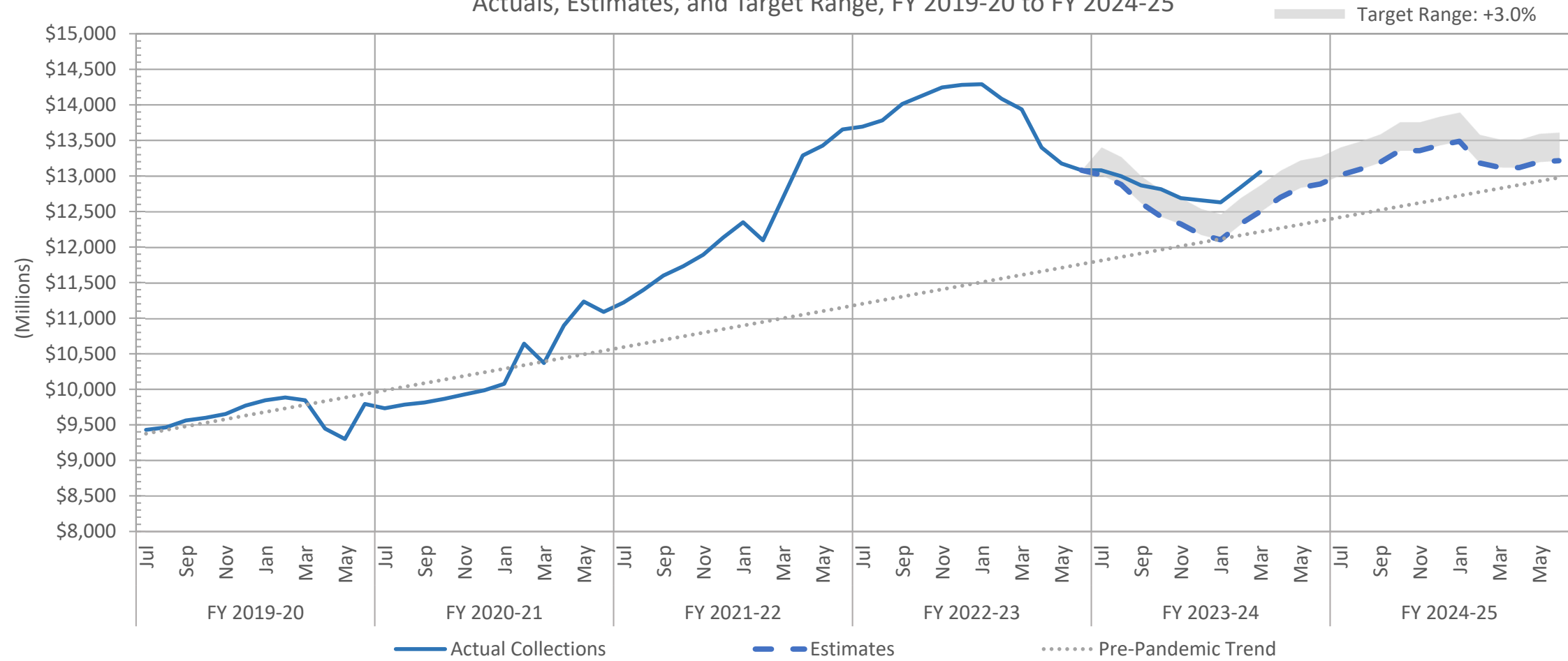


# Review of FY 2023-24 and FY 2024-25 Forecasts

# General Fund – November 2023 Forecast

## FY 2023-24 and FY 2024-25

ROLLING FISCAL YEAR - GENERAL FUND  
 Actuals, Estimates, and Target Range, FY 2019-20 to FY 2024-25



# Consideration of the FY 2023-24 and FY 2024-25 Forecasts

Pursuant to §11-9-1130 (April 10)

- Despite excess revenues through March, recommend no change to the November 16, 2023, forecasts for FY 2023-24 and FY 2024-25 at this time
- Over half of the excess is in Corporate Income tax
- Tax season is not complete and could have a significant impact
  - Optimistic about improved Individual Income tax payments
  - Wary of a potential slowdown in Corporate Income tax



# Economic Considerations for May Meeting – FY 2023-24 Forecast

- Underlying economic assumptions remain valid for FY 2023-24
- Personal income and employment are both trending close to estimates
- Unless there is a shock to the economy, no significant deviation from the current trend is expected in the last few months of the fiscal year

## Revenue Considerations for May Meeting – FY 2023-24 Forecast

- Sales tax is currently ahead of expectations and likely to end the year above estimates but within target range
- Withholdings are tracking ahead of the November forecast, but Refunds are running ahead as well, and these two categories largely are offsetting each other
- Preliminary tax season performance will be available in early May and may give a stronger indication of final FY 2023-24 expectations for Refunds, Non-withholdings, and Corporate Income tax
- Anticipating potential changes in taxpayer behavior and the interactions between the changes in Individual Income tax rates and Withholding tables have complicated estimating tax filings more than usual
- Corporate Income tax and Earnings on Investments have the most potential for revisions while other categories may have offsetting increases and decreases

# Considerations for May Meeting – FY 2024-25 Forecast

## Economic

- Economic assumptions currently remain valid
- Determining when and to what extent the Federal Reserve's actions will impact the economy is still a factor
- World events are still troubling

## Revenues

- Stronger FY 2023-24 collections will likely translate into a higher base for FY 2024-25 in Sales tax and Withholdings, but Refunds are also likely to be higher
- Long-term performance remains a concern for Corporate Income tax; a sudden return to historical trends could outweigh growth in Sales or Individual Income tax

# Reports from Working Group Members

# Other Business

# Appendix

## Quarterly Review and April 10<sup>th</sup> Forecast Requirements

- SC Code of Laws §11-9-1130 requires a review of revenue collections relative to the estimates, with a final forecast for the next fiscal year to be made by April 10<sup>th</sup>
- If any quarter shows a shortfall over 1.5 percent of projected collections a synopsis must be prepared indicating the factors contributing to the shortfall and is similarly required for a shortfall of 1.5 percent in sales, individual income tax, corporate income tax, insurance tax, and earnings on investments
- SC Code of Laws §11-9-1140 requires a quarterly review of estimated and actual revenues
- If, at the end of the first (Jul – Sep), second (Oct – Dec), or third (Jan – Mar) quarter, the BEA reduces the estimate by
  - 3.0 percent or less, the Director of the Executive Budget Office must reduce appropriations
  - More than 3.0 percent, the General Assembly may take action; otherwise, the Director of the Executive Budget Office must reduce appropriations

# Insurance Tax Third Quarter FY 2023-24 Analysis

(Pursuant to §11-9-1130 )

- Insurance premium taxes totaled \$82.4 million for the third quarter compared to the estimate of \$98.5 million
- Collections include a reduction of \$14.6 million in January 2024 including a multi-year refund payment
- In addition to the refund issue, premiums for March totaled \$94.9 million compared to the estimate of \$97.1 million (4.8% growth compared to 7.2% expected)
- As March is the first indication of premium tax growth for the prior calendar year, this is likely to indicate slower growth than forecasted and will be considered in the upcoming May forecasts for FY 2023-24 and FY 2024-25