

# Legislative Fiscal Bureau

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*State of Wisconsin*

May 9, 2013

Senator Alberta Darling, Senate Chair  
Representative John Nygren, Assembly Chair  
Joint Committee on Finance  
State Capitol  
Madison, WI 53702

Dear Senator Darling and Representative Nygren:

Last January, this office prepared estimates of general fund tax collections for 2012-13 and the two years of the 2013-15 biennium. These projections were incorporated into the Governor's 2013-15 biennial budget bill.

Recently, tax collections data for April became available and IHS Global Insight, Inc. (Global Insight) released its May, 2013, forecast of the national economy. The collections data show significant strength in the individual income tax. In addition, while not as positive as income tax collections, revenues from the corporate income and franchise tax are also running ahead of the January estimates.

Global Insight's May economic forecast is very similar to the January forecast, which was used in preparing the earlier tax revenue estimates. Growth in home sales and business profits is expected to be somewhat higher than forecast in January, but the estimated growth rates for other major economic indicators (gross domestic product, personal income, consumer spending, inflation, and employment) have not been changed appreciably from the January projections.

Based on our review of the collections data and the new economic forecast, we now believe that general fund tax revenues will be higher than the previous estimates by \$215 million in 2012-13, \$180 million in 2013-14, and \$180 million in 2014-15. The three-year increase is \$575 million, or 1.4%. Over the three-year forecast period, the income tax estimates have been increased by \$385 million, and the corporate tax estimates have been increased by \$190 million. The estimates for the other taxes have not been revised because collections are consistent with the January figures.

As noted, the primary factor in the increased estimates is unexpected strength in individual

income tax revenues since January, which is particularly evident in the April collection report. At the time the January estimates were prepared, income tax collections through December, 2012, (after adjusting for timing impacts) were running 4.3% above collections for the same period in the previous year. However, this growth rate was a significant improvement over the preceding months. In November, 2012, year-to-date collections were only 2.8% higher than in the previous year, and in October, they were 1.9% higher. The January estimates assumed that the 4.3% growth rate would not be sustained, because of a relatively large indexing adjustment for tax year 2012 and tax reductions that were taking effect or being phased in in 2012.

To-date, the expected deceleration in collections has not occurred. As of the end of April, year-to-date income tax collections are running 7.0% above last year's amount. April was an especially strong month, with growth of 12.4% over April, 2012. The main area of strength has been quarterly estimated payments of taxes on non-wage income, primarily business and investment earnings. Estimated payments in April, 2013, were 35.9% above last April's amount, and the year-to-date amount is 24.4% higher. Another, much smaller component of income tax collections is withheld taxes on profits distributed to the owners of pass-through entities (partnerships, limited liability companies, and tax-option corporations). These collections were also very strong in April, with monthly growth of 49.1%. Year-to-date growth in pass-through entity withholding is 45.7%. Income tax refunds (net of payments with returns) are almost identical to last year.

In contrast to the strength in estimated payments and pass-through entity withholding, revenues from withheld taxes on wage income have shown weakness. Since the previous estimates were prepared, withholding taxes have increased by 0.9% compared to the same four-month period last year. The year-to-date rate of growth in withholding collections has fallen from 3.8% at the end of December to 2.5% at the end of April. Withholding taxes are the largest component of individual income tax collections, and will likely account for more than 90% of the income tax revenues that will be collected over the remainder of 2012-13.

In terms of dollars, individual income tax collections in April, 2013, were about \$115 million greater than the same period last year. April is the second most important month for income tax collections (after January). Over the past five years, on average, income tax collections in April have represented more than 12% of the fiscal year total.

As noted, smaller upward revisions have been made to the estimates for the corporate income and franchise tax. The new estimates reflect year-to-date growth in collections, including the corporate portion of pass-through entity withholding collections, and an improved forecast for corporate profits.

Table 1 shows the revised general fund revenue estimates and Table 2 outlines the May, 2013, economic forecast by Global Insight. The revenue estimates reflect current state law, and do not incorporate any of the tax law changes proposed by the Governor in the budget bill. The estimates also reflect current federal law regarding the state's authority to collect use taxes on remote sales. If legislation pending in Congress to broaden the state's ability to require out-of-state retailers to collect and remit the use tax on their sales to Wisconsin residents is enacted, the

sales tax estimates may need to be adjusted. The sections following the tables present additional information about the new revenue estimates.

**TABLE 1**  
**Projected General Fund Tax Collections**  
**Under Current Law**  
**(\$ in Millions)**

	2011-13 Biennium		2013-15 Biennium	
	2011-12	2012-13	2013-14	2014-15
	<u>Actual</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>
Individual Income	\$7,041.7	\$7,440.0	\$7,590.0	\$7,955.0
General Sales and Use	4,288.7	4,380.0	4,500.0	4,610.0
Corporate Income and Franchise	906.6	945.0	960.0	990.0
Public Utility	365.9	355.6	358.2	355.8
Excise				
Cigarette	587.8	560.0	550.0	540.0
Tobacco Products	65.5	62.8	64.7	66.7
Liquor and Wine	47.0	49.6	50.5	51.5
Beer	9.2	9.1	9.1	9.0
Insurance Company	148.1	152.0	160.0	168.0
Miscellaneous Taxes	<u>53.8</u>	<u>60.0</u>	<u>65.0</u>	<u>73.0</u>
<b>Total</b>	<b>\$13,514.3</b>	<b>\$14,014.1</b>	<b>\$14,307.5</b>	<b>\$14,819.0</b>
Change from Prior Year		\$499.8	\$293.4	\$511.5
Percent Change		3.7%	2.1%	3.6%

**TABLE 2**

**Summary of National Economic Indicators**  
**IHS Global Insight, Inc., May, 2013**  
**(\$ in Billions)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Nominal Gross Domestic Product	\$15,684.8	\$16,212.5	\$16,975.3	\$17,784.0
% Change	4.0%	3.4%	4.7%	4.8%
Real Gross Domestic Product	\$13,593.2	\$13,843.4	\$14,230.9	\$14,687.9
% Change	2.2%	1.8%	2.8%	3.2%
Personal Income	\$13,407.2	\$13,766.8	\$14,467.6	\$15,166.2
% Change	3.6%	2.7%	5.1%	4.8%
Personal Consumption Expenditures	\$11,119.6	\$11,468.1	\$11,921.9	\$12,410.2
% Change	3.6%	3.1%	4.0%	4.1%
Consumer Prices (Percent Change)	2.1%	1.4%	1.6%	1.7%
Economic Profits	\$1,950.7	\$1,966.1	\$2,047.9	\$2,094.9
% Change	6.8%	0.8%	4.2%	2.3%
Unemployment Rate	8.1%	7.6%	7.2%	6.6%
Total Nonfarm Payrolls (millions)	133.74	135.77	137.88	140.44
% Change	1.7%	1.5%	1.6%	1.9%
Sales of New and Existing Homes (millions)	5.028	5.525	6.309	6.858
% Change	9.7%	9.9%	14.2%	8.7%
Housing Starts (millions)	0.782	0.987	1.234	1.569
% Change	27.8%	26.3%	25.0%	27.1%

*Individual Income Tax.* Individual income tax receipts are estimated at \$7,440 million in 2012-13, \$7,590 million in 2013-14, and \$7,955 million in 2014-15. The revised figures represent increases relative to the previous projections of \$160 million in 2012-13, \$125 million in 2013-14, and \$100 million in 2014-15. These increases total \$385 million.

The estimate for 2012-13 represents an increase of 5.7% over the prior year. As noted above, quarterly estimated payments and payments from pass-through entities account for much of the growth estimated for the current year. Some of this is attributable to business profits, and growth in business income is expected to continue through the 2013-15 biennium. However, some of the current year increase is due to payments of corporate dividends and gains on asset sales that were accelerated in 2012 in anticipation of changes in federal tax rates on such income. As one-time income, this growth does not carry over into 2013. When combined with slow growth in wage income, as evidenced in the withholding data cited above, and the phase-in of

law changes enacted in previous years, collections are estimated to increase by only 2.0% in 2013-14. Collections are expected to rebound in 2014-15 and increase by 4.8%.

*Corporate Income and Franchise Tax.* Corporate income and franchise tax revenues are now projected to be \$945 million in 2012-13, \$960 million in 2014-15, and \$990 million in 2014-15. Compared to the previous estimates, the revised estimates represent increased corporate income and franchise tax revenues of \$55 million in both 2012-13 and 2013-14, and \$80 million in 2014-15. The new estimates reflect year-to-date corporate income and franchise tax collections, particularly corporate pass-through entity collections, which are over 40% higher than last year. In addition, corporate profits are forecast to increase over 4% in 2014. These estimates have been adjusted to reflect the impact of tax law changes enacted during the 2011-13 biennium, including the manufacturing and agriculture tax credit.

### **2012-13 Deposit to Budget Stabilization Fund**

As noted above, the new estimates for 2012-13 are \$215 million higher than the estimates released last January. Under s. 16.518 of the statutes, half of any excess of actual general fund revenues in a fiscal year over the amount estimated at the time the biennial budget was enacted must be deposited into the budget stabilization fund after the close of that fiscal year. Therefore, the estimated deposit to the budget stabilization fund for 2012-13 will increase by \$107.5 million (50% of \$215 million). The other \$107.5 million of additional tax collections will be available for expenditure during the remainder of this year or increase the estimated 2013-14 beginning general fund balance. The total deposit to the stabilization fund for 2012-13 is now estimated at \$117.5 million.

With the 2012-13 deposit to the stabilization fund identified above, it is estimated that the fund will have a balance of \$243.1 million at the end of the current fiscal year.

### **Impact on General Fund Balance**

Based upon the tax collection estimates of the analysis, the net balance in the general fund at the end of the 2012-13 fiscal year is projected to be \$560.0 million (gross balance of \$625.0 million), and the net balance at the end of the 2013-15 biennium is estimated at \$524.5 million. These general fund balance projections are based on: (1) provisions of 2013 AB 40, as modified, to date, by the Joint Committee on Finance; (2) bills enacted to date in the current legislative session; (3) the current law tax collection estimates of this analysis; and (4) a recent estimate that \$30 million of the amount budgeted as compensation reserves for 2012-13 will not be needed and will lapse to the general fund at the close of the current fiscal year.

The balance estimates do not take into consideration any revenue or appropriation modifications that may occur over the remainder of the Finance Committee's work on AB 40.

Following is the 2013-15 general fund condition statement which reflects these balances.

**TABLE 3**

**2013-15 General Fund Condition Statement**

	<u>2013-14</u>	<u>2014-15</u>
<b>Revenues</b>		
Opening Balance, July 1	\$625,045,300	\$608,500,800
Taxes	14,168,705,900	14,698,998,000
Departmental Revenues		
Tribal Gaming Revenues	25,985,400	26,766,700
Other	<u>563,520,500</u>	<u>521,019,700</u>
Total Available	\$15,383,257,100	\$15,855,285,200
<b>Appropriations, Transfers, and Reserves</b>		
Gross Appropriations	\$14,971,837,000	\$15,505,989,100
2013 Act 9	9,160,000	10,660,000
Transfers to:		
Transportation Fund	58,127,000	36,302,500
Veterans Trust Fund	5,300,000	0
Compensation Reserves	46,363,700	76,000,500
Less Lapses	<u>-316,031,400</u>	<u>-363,180,900</u>
Net Appropriations	\$14,774,756,300	\$15,265,771,200
<b>Balances</b>		
Gross Balance	\$608,500,800	\$589,514,000
Less Required Statutory Balance	<u>-65,000,000</u>	<u>-65,000,000</u>
Net Balance, June 30	\$543,500,800	\$524,514,000

This office will continue to review the revenue and expenditure estimates used in AB 40, as well as tax collection data and new economic forecasts, and notify you and your colleagues of any further adjustments that may be necessary.

Sincerely,



Robert Wm. Lang  
Director

RWL/sas  
cc: Members, Wisconsin Legislature