

OLS Revenue Snapshot

FY 2003 - Through May 2003

- **Administration, OLS Issue Revised Revenue Forecasts.** On May 27 and 28, the State Treasurer and the Office of Legislative Services provided updated revenue estimates to the Senate and Assembly budget committees. Overall, less than one half of a percentage point separates the two estimates for FY 2003, but both agencies revised their forecasts in the same direction -- upward -- when compared with the Governor's February budget certification. However, this bottom line change masks a number of important taxes headed in different directions. In particular, upward revisions in corporate tax projections more than offset declines in income and sales taxes. Despite the improved overall outlook for this year, there is reason for concern looking forward. The strength in corporate revenues (resulting from last year's Business Tax Reform Act) is temporary in part, because certain payments were front-loaded into FY 2003 and will not repeat. Meanwhile, the weakness in the State's two largest revenues, the income and sales taxes, has a more significant future impact.

The May revenue updates were prepared prior to the end of the month. When the final May collections were tallied, the patterns noted in both the Administration and OLS revisions were reinforced. As described below, income and sales tax receipts fell below even revised expectations, while corporation tax revenues again exceeded expectations.

- **Gross Income Tax (GIT)** receipts through 11 months of FY 2003 total \$5.77 billion, 2.3% **below** the level reported for the same period last year. The Treasury's recently revised GIT target estimates a decline of 0.5% over the full fiscal year. Due to increased refund payments and decreased individual tax payments, May GIT revenues fell below expectations.

One good sign is that growth in employer withholding of employee taxes has improved gradually during FY 2003 and, after declining by 2% in FY 2002, is now running 2.8% ahead of the same period last year. Indeed, since January, withholding has grown at a rate of about 4%. However, final year-end tax payments in April and May slumped for the second year in a row. After last spring's stunning 34% decline in final payments, those payments fell by another 11% this spring. For the entire fiscal year, final payments are down by 13%. In addition, quarterly estimated payments are down by nearly 7% this year while refund payments are up by 4%.

- At the end of 10 months of cash receipts, the **Sales Tax** is at \$4.86 billion, only 0.2% ahead of the same period last year. The Treasury's recently revised sales tax target for FY 2003 now anticipates a 0.9% decline for the fiscal year. While the sales tax growth rate appears to be running ahead of the year-end target growth rate, this comparison is misleading. Upcoming June receipts are expected to be well below last year, because last June was bolstered by one-time tax amnesty payments. Therefore, the sales tax needs a substantial cushion to withstand the anticipated drop in June. Recent collections, and especially the 2.3% decline in May, have left the sales tax with less cushion than was expected.
- **Corporation Business Tax (CBT)** collections through the end of May are \$2.06 billion, a remarkable 141% ahead of the same period last year. The Treasurer's prior year-end target of \$1.98 billion was exceeded by the end of May, so the Treasury recently revised its target upward to \$2.41 billion. With one month of collections remaining for the CBT, the current trend still exceeds even the revised year-end target of 106% growth.

*Office of Legislative Services
June 13, 2003*

As in past years, the OLS Revenue Snapshot summarizes current cash revenue collections in comparison to prior year cash collections for the same period, using information provided by the Department of Treasury. Certain revenues are reported with a one month lag due to payment schedules. The Treasury publicly reports monthly revenues in a different format which compares estimated or accrued earnings with FY 2003 budget projections.

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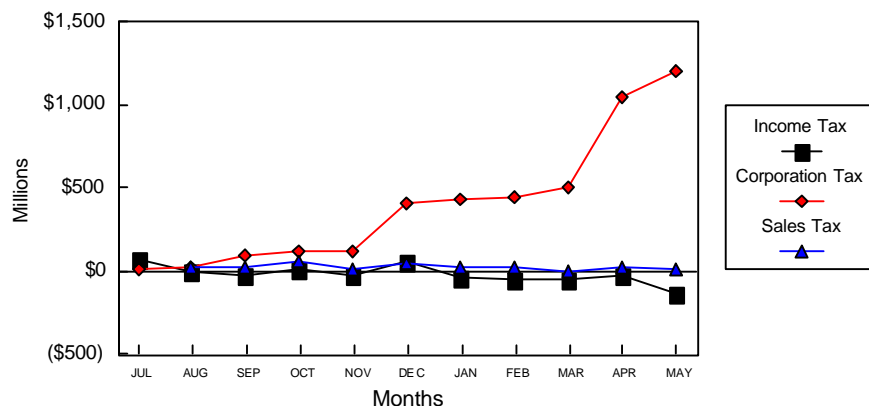
FY 2003 - Through May 2003

Selected Year-To-Date Cash Collections (\$ millions)

| REVENUE | FY 2002 Actual Year-To-Date | FY 2003 Actual Year-To-Date | Actual Y-T-D Growth % | Revised Year-End Growth % ** | Revised Year-End \$ Estimate |
|-------------------------|-----------------------------------|-----------------------------------|-----------------------------|------------------------------------|------------------------------------|
| INCOME TAX | \$5,905.9 | \$5,770.2 | -2.3% | -0.5% | \$6,800.0 |
| * SALES TAX | \$4,853.7 | \$4,862.1 | 0.2% | -0.9% | \$5,945.0 |
| CORPORATION TAX | \$857.4 | \$2,063.2 | 140.6% | 105.7% | \$2,410.0 |
| LOTTERY | \$700.3 | \$681.0 | -2.8% | 1.6% | \$766.6 |
| * MOTOR FUELS | \$433.2 | \$439.8 | 1.5% | 1.2% | \$530.0 |
| (a) CIGARETTE | \$190.9 | \$406.0 | 112.7% | 93.9% | \$458.0 |
| TRANSFER INHERITANCE | \$451.4 | \$396.2 | -12.2% | -17.7% | \$420.0 |
| INSURANCE PREM | \$330.1 | \$330.6 | 0.1% | 9.9% | \$380.0 |
| CASINO | \$318.1 | \$315.8 | -0.7% | -1.1% | \$344.0 |
| MOTOR VEH FEES | \$374.3 | \$409.8 | 9.5% | -30.4% | \$281.5 |
| * PETROLEUM PRODUCTS | \$181.9 | \$181.7 | -0.1% | -2.1% | \$215.0 |
| BANKS & FINANCIAL (CBT) | \$37.5 | \$115.5 | 208.1% | 200.1% | \$125.0 |
| * REALTY TRANSFER | \$73.1 | \$91.7 | 25.6% | 22.2% | \$110.0 |
| * ALCOHOL EXCISE | \$66.0 | \$68.1 | 3.1% | 0.9% | \$82.0 |

**Income Tax
Corporation Tax
and Sales Tax**

**FY03 Over FY02
Actual Year-To-Date
\$ Change**



Sources: Executive revised year-end revenue estimates as reported by the Treasurer in May of 2003.

FY 2003 Year-To-Date actuals are from Treasury monthly reports.

* Revenues represent ten months of cash collections. All others represent eleven months of cash collections.

** The percentage difference between FY 2003 revised revenue estimates (May, 2003) and audited FY 2002 year-end figures reported by the NJ Comprehensive Annual Financial Report.

(a) The first \$155 million in cigarette tax collections are deposited into the Health Care Subsidy Fund (P.L.1997, c.264).