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M E M O R A N D U M

TO: Larry Walther, Director
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FROM: John Shelnett, Economic Analysis & Tax Research

SUBJECT: **General Revenue Report for June and FY 2015 Summary**

DATE: July 2, 2015

Copy: Governor's Office
Management Services

FISCAL YEAR 2015 REVENUE SUMMARY

Fiscal Year 2015 Net Available General Revenues and Surplus: Fiscal year 2015 net available general revenue collections total \$5,250.5 million. This amount is \$228.1 million or 4.5 percent above prior year results. The resulting year-end surplus is \$191.6 million or 3.8 percent above the net available-for-distribution amount (budgeted) for fiscal year 2015. All categories of the general revenue budget were funded during the year.

The fiscal year ended above forecast and above the budgeted amount as a result of improving growth in gross revenue (collections) and lower-than-expected payouts from Income tax refunds and other deductions. One-time deposits also influenced year ago comparisons.

Sales and Use tax collections grew \$24.6 million or 1.1 percent over the year, including the effects of Sales tax refunds of \$28.7 million in court settlement payments for sand and other proppants used in hydraulic fracturing for natural gas. Collections were \$14.9 million or -0.7 percent below forecast, due to the timing of the court settlement compared to the forecast release.

Individual and Corporate Income tax collections were above year ago results and above forecast. Together, these income tax components contributed \$83.5 million above forecast.

Among smaller collections categories, tobacco tax collections were below year ago collections and fractionally above forecast.

Notable one-time collection effects in FY 2015 consisted of \$14.4 million from a deposit from the Attorney General's Office and \$51.1 million from the Arkansas Insurance Department.

Fiscal Year 2015 Gross General Revenues: Fiscal year 2015 gross collections total \$6,470.7 million, representing an increase of \$228.1 million or 3.7 percent above last year. Gross general revenues were \$72.3 million or 1.1 percent above forecast.

Fiscal Year 2015 Individual Income Taxes: Fiscal year 2015 individual income tax collections total \$3,188.5 million, \$77.3 million or 2.5 percent above FY 2014 collections and \$67.4 million or 2.2 percent above forecast. Collections for individual withholding, the largest component of individual income tax, were \$2,443.8 million, representing a 0.6 percent increase from last year. Withholding revenue was reduced by updated payroll withholding formulas at employers and payroll service companies starting in CY 2015, in addition to a small rate decrease from tax policy changes effective in January.

Fiscal Year 2015 individual income tax refunds total \$524.3 million, \$15.3 million or 3.0 percent above last year and \$0.4 million or -0.1 percent below forecast.

Fiscal Year 2015 Sales and Use Collections: Fiscal year 2015 Sales and Use tax collections total \$2,197.8 million, an increase of \$24.6 million or 1.1 percent over FY 2014 and \$14.9 million or -0.7 percent below forecast. Growth in sales tax collections accelerated in the final quarter, but results also reflect one-time refunds in Sales Tax from the court settlement on sand and other proppants used in hydraulic fracturing for natural gas. These refunds totaled \$28.7 million in FY 2015.

Fiscal Year 2015 Corporate Income Taxes: Fiscal year corporate revenues total \$493.1 million, an increase of \$52.9 million or 12.0 percent above FY 2014. Collections came in \$16.1 million or 3.4 percent above forecast.

Fiscal Year 2015 Corporate income tax refunds total \$43.6 million, \$25.5 million or -36.9 percent below last year and \$3.3 million below the general revenue forecast. Amounts below forecast in refund categories contribute to net general revenue results.

JUNE REVENUE SUMMARY

June Net Available General Revenues total \$587.0 million, \$47.9 million or 8.9 percent above last year. Net general revenues were \$58.9 million or 11.2 percent above forecast for the month.

Net available funds in June were influenced primarily by one-time factors, mixed with positive underlying growth in major categories.

The one-time factors consisted of \$14.4 million from a deposit from the Attorney General's Office and \$51.1 million from the Arkansas Insurance Department.

The major income categories displayed mixed results for the month. Individual and Corporate Income tax exceeded the forecast and Sales and Use tax collections fell from year ago levels and forecast due to a \$28.7 million in refunds issued in response to a court ruling.

June Gross General Revenues: June collections total \$670.3 million, an increase of \$53.9 million or 8.7 percent above last year and \$57.5 million or 9.4 percent above the monthly forecast.

June Individual Income Tax collections total \$279.5 million. Collections decreased by \$7.3 million, or -2.6 percent, compared to last year. Collections exceeded forecast for the month by 17.8 percent. Withholding tax from payrolls declined by -8.5 percent below year ago levels, in response to updated payroll withholding formula effects described earlier.

June Individual Income Tax Refunds total \$32.3 million. This amount is \$17.3 million or 116.0 percent above year ago refunds and \$15.3 million above the monthly forecast.

June Sales and Use Collections: June collections total \$159.4 million, a decrease of \$20.8 million or -11.5 percent from last year. Sales tax refunds processed in June included the court settlement of \$28.7 million for sand and other proppants used in hydraulic fracturing for natural gas.

June Corporate Income Tax collections total \$80.3 million, an increase of \$14.3 million or 21.6 percent from year earlier levels, and \$14.1 million or 21.3 percent above forecast.

June Corporate Income Tax Refunds total \$1.9 million. This amount is \$9.0 million below year ago refunds.

June Tobacco Tax collections, a small component of general revenue, total \$18.9 million or 5.1 percent above year earlier levels. Monthly changes in tobacco tax collections can be attributed to uneven patterns of stamp sales to wholesale purchasers.

SPECIAL REVENUES OF NOTE

Fiscal Year 2015 Soft Drink Tax (for Medicaid Program Trust Fund): Fiscal year 2015 collections of the dedicated soft drink tax total \$41.9 million, a decrease of \$2.0 million or -4.5 percent from last year.

Educational Adequacy Fund: Act 107 of the Second Extraordinary Session of 2003 increased the state sales and use tax rate from 5.125% to 6.0%, effective March 1, 2004. Effective July 1, 2004 a new sales tax on selected services went into effect in addition to an increase in vending machine decal fees. Act 94 increased the minimum corporate franchise tax and the tax rate, effective for calendar years beginning January 1, 2004.

The additional revenues are deposited as special revenues to the Educational Adequacy Fund to be used to fulfill the financial obligations of the state to provide an adequate educational system. In June 2015, \$34.9 million was collected and deposited to the fund. After deductions, the net amount is \$33.9 million. The monthly collection is equivalent to a -12.3 percent decrease from prior year collections. Fiscal year net collections total \$460.2 million, compared to \$456.6 million last year. This represents a 0.8 percent fiscal year increase from prior year collections.

JUNE 2015 YEAR-TO-DATE GENERAL REVENUE REPORT
ECONOMIC ANALYSIS AND TAX RESEARCH, DFA

FORECAST DATE: 5/6/2015

MILLIONS OF \$

	CHANGE FROM FORECAST				CHANGE FROM LAST YEAR		
	ACTUAL FY14	FORECAST FY15	ACTUAL FY15	DOLLAR DIFFERENCE	PERCENT DIFFERENCE	DOLLAR DIFFERENCE	PERCENT DIFFERENCE
INDIVIDUAL INCOME	3,111.2	3,121.1	3,188.5	67.4	2.2	77.3	2.5
CORPORATE INCOME	440.2	477.0	493.1	16.1	3.4	52.9	12.0
SALES AND USE	2,173.1	2,212.7	2,197.8	-14.9	-0.7	24.6	1.1
ALCOHOLIC BEVERAGE	53.2	55.0	55.1	0.1	0.1	1.8	3.4
TOBACCO	219.2	218.0	218.5	0.5	0.2	-0.6	-0.3
INSURANCE	118.4	163.7	169.3	5.6	3.4	50.9	43.0
RACING	2.9	2.6	2.7	0.1	2.4	-0.3	-9.4
GAMES OF SKILL	39.5	45.5	47.3	1.8	4.0	7.8	19.9
MISCELLANEOUS ¹	84.8	102.8	98.4	-4.4	-4.2	13.6	16.0
TOTAL GROSS	6,242.6	6,398.4	6,470.7	72.3	1.1	228.1	3.7
LESS: SCSF/COF ²	205.9	204.7	205.3	0.6	0.3	-0.6	-0.3
INDIV INCOME TAX REFUNDS	509.0	524.7	524.3	-0.4	-0.1	15.3	3.0
CORP INCOME TAX REFUNDS	69.0	46.9	43.6	-3.3	-7.1	-25.5	-36.9
CLAIMS	0.0	10.0	0.0	-10.0	-100.0	0.0	0.0
ECON DEVEL INCENTIVE FUND	12.8	23.4	11.4	-12.0	-51.3	-1.4	-10.9
WATER/SEWER BONDS	14.8	14.8	14.8	0.0	0.0	0.0	0.0
COLLEGE SAVINGS BONDS	23.9	24.0	22.1	-1.9	-7.7	-1.8	-7.5
CITY & COUNTY TOURIST	2.8	2.8	2.8	0.0	0.0	0.0	-0.2
SCHOOL DESEGREGATION	65.8	72.1	72.1	0.0	0.0	6.3	9.6
EDUCATIONAL EXCELLENCE	290.5	297.4	297.4	0.0	0.0	7.0	2.4
EDUCATIONAL ADEQUACY	25.7	26.3	26.3	0.0	0.0	0.6	2.4
NET AVAILABLE	5,022.4	5,151.3	5,250.5	99.2	1.9	228.1	4.5
LESS: SURPLUS	78.7	92.4	191.6				
NET AVAILABLE DISTRIBUTION	4,943.8	5,058.9	5,058.9	0.0	0.0	115.1	2.3

REVENUE FORECAST SUMMARY FOR JUNE

YEAR-TO-DATE GROSS	\$ 72.3 MILLION OR 1.1% ABOVE FORECAST
YEAR-TO-DATE NET AVAILABLE	\$ 99.2 MILLION OR 1.9% ABOVE FORECAST

SOFT DRINK EXCISE TAX (MEDICAID PROGRAM TRUST FUND)	<u>YTD FY14</u> 43.9	<u>YTD FY15</u> 41.9	<u>% CH</u> -4.5
EDUCATIONAL ADEQUACY FUND (NET COLLECTIONS)	<u>YTD FY14</u> 456.6	<u>YTD FY15</u> 460.2	<u>% CH</u> 0.8

1) Miscellaneous includes severance, corporate franchise, real estate transfer, dyed diesel, and other miscellaneous taxes.

2) State Central Services Fund and Constitutional Officers Fund.

JUNE 2015 GENERAL REVENUE REPORT
ECONOMIC ANALYSIS AND TAX RESEARCH, DFA

FORECAST DATE: 5/6/2015

MILLIONS OF \$

	CHANGE FROM FORECAST				CHANGE FROM LAST YEAR		
	ACTUAL JUNE FY14	FORECAST JUNE FY15	ACTUAL JUNE FY15	DOLLAR DIFFERENCE	PERCENT DIFFERENCE	DOLLAR DIFFERENCE	PERCENT DIFFERENCE
INDIVIDUAL INCOME	286.8	237.3	279.5	42.2	17.8	-7.3	-2.6
CORPORATE INCOME	66.1	66.2	80.3	14.1	21.3	14.3	21.6
SALES AND USE	180.2	181.2	159.4	-21.8	-12.0	-20.8	-11.5
ALCOHOLIC BEVERAGE	6.1	6.3	7.1	0.8	13.1	1.0	16.2
TOBACCO	18.0	18.0	18.9	0.9	5.0	0.9	5.1
INSURANCE	49.9	95.3	100.4	5.1	5.3	50.5	101.2
RACING	0.2	0.1	0.2	0.1	81.2	0.0	-9.5
GAMES OF SKILL	3.6	3.6	4.7	1.1	31.0	1.1	30.7
MISCELLANEOUS ¹	5.5	4.8	19.8	15.0	312.5	14.3	257.7
TOTAL GROSS	616.4	612.8	670.3	57.5	9.4	53.9	8.7
LESS: SCSF/COF ²	20.2	19.6	19.7	0.1	0.6	-0.5	-2.6
INDIV INCOME TAX REFUNDS	14.9	17.0	32.3	15.3	89.8	17.3	116.0
CORP INCOME TAX REFUNDS	11.0	3.5	1.9	-1.6	-45.3	-9.0	-82.5
CLAIMS	0.0	10.0	0.0	-10.0	-100.0	0.0	0.0
ECON DEVEL INCENTIVE FUND	2.7	6.6	1.3	-5.3	-80.7	-1.4	-53.0
WATER/SEWER BONDS	1.2	1.2	1.2	0.0	0.0	0.0	0.0
COLLEGE SAVINGS BONDS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CITY & COUNTY TOURIST	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SCHOOL DESEGREGATION	1.0	0.0	0.0	0.0	0.0	-1.0	-100.0
EDUCATIONAL EXCELLENCE	24.2	24.7	24.8	0.1	0.4	0.6	2.4
EDUCATIONAL ADEQUACY	2.1	2.2	2.2	0.0	-0.4	0.1	2.4
NET AVAILABLE	539.0	528.0	587.0	58.9	11.2	47.9	8.9

REVENUE FORECAST SUMMARY FOR JUNE

JUNE GROSS	\$ 57.5 MILLION OR 9.4% ABOVE FORECAST
JUNE NET AVAILABLE	\$ 58.9 MILLION OR 11.2% ABOVE FORECAST

EDUCATIONAL ADEQUACY FUND (NET DEPOSIT, MONTH-TO-DATE)	<u>June FY14</u> 38.7	<u>June FY15</u> 33.9	<u>% CH</u> -12.3
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1) Miscellaneous includes severance, corporate franchise, real estate transfer, dyed diesel, and other miscellaneous taxes.

2) State Central Services Fund and Constitutional Officers Fund.