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April Taxes Beat the Forecast by Billions

April is a critical month for the collection of state tax revenues. Personal income taxes (PIT) for the prior year are due in April, and April is the second largest month for the collection of the corporation tax (CT). Moreover, the April tax data is critical to the Department of Finance (DOF) as staff develop the revenue forecasts for the May Revision.

Personal Income Tax

According to Governor Gavin Newsom's January Budget, April is expected to provide \$15 billion in PIT collections, about 15% of the total for the year. However, according to the DOF's *Finance Bulletin*, PIT revenues coming into April were short about \$2.9 billion.

Much of this shortfall was attributed to a change in taxpayer behavior in response to changes in federal tax law enacted in December 2017. Specifically, the limitation on the deduction for state and local taxes to \$10,000 was believed to dissuade taxpayers from fully reporting income and tax liability at the end of 2018, thus resulting in the PIT shortfall that emerged earlier this year. The DOF expects most of this shortfall to be made up in April.

According to the State Controller's Office (SCO) Personal Income Tax Daily Revenue Tracker, it appears that all of the \$2.9 billion shortfall has been made up. As of April 26, 2019, the SCO reports that daily collections for the month total \$18.3 billion, with two collection days left. Thus, it appears that the PIT is now tracking closely with the Governor's January Budget forecast for the current year.

Corporation tax

The CT is the third largest tax of the "big three" taxes, accounting for about 8.7% of General Fund revenues. In contrast, the PIT provides 69% of General Fund revenues, and the sales and use tax contributes about 18%. The remaining 4% is provided by minor taxes, interest income, and transfers.

While not accounting for a significant share of General Fund revenues, it appears that the CT will boost collections for 2018-19 above the January forecast level by more than \$1 billion. The *Finance Bulletin* showed that the CT was outperforming the forecast by almost \$500 million through March, and according to the Franchise Tax Board, April collections are almost \$660 million ahead of the forecast, with two collection days remaining.

These developments suggest that the May Revision could include a current-year upward revision in General Fund revenues, which will yield a corresponding increase in the minimum guarantee in Proposition 98. The budget year forecast, however, will be influenced by these positive developments on state revenues but possibly offset by the growing concern of a broader economic slowdown emerging in 2020. In three weeks, with the release of the Governor's May Revision, we will know how the Administration is interpreting these conflicting signals.