

Massachusetts School Building Authority

Timothy P. Cahill
Chairman, State Treasurer

Katherine P. Craven
Executive Director

To: Administration, Operations and Finance Subcommittee
Massachusetts School Building Authority

From: Katherine Craven, Executive Director

Date: November 9, 2010

Subject: FY11 Sales Tax Update

Summary

Staff does not recommend an adjustment to the FY2011 Dedicated Sales Tax collections estimate at this time. Through the first quarter of FY2011, Dedicated Sales Tax Collections estimated for the FY2011 MSBA budget are tracking slightly better than forecast, however, recent performance above monthly benchmarks is anticipated to be offset by revenue which will not be received as a result of the approval of Question 1, which will repeal the 6.25% sales tax on alcohol effective January 1, 2011.

Background

The MSBA's FY2011 budget assumed 0% growth in sales tax collections. The only change in estimated sales tax collections from FY2010 to FY2011 was from the final phase-in of the dedicated sales tax from 95% to 100% of the MSBA's penny. Final FY2010 MSBA Dedicated Sales Tax collections were \$605.2M, and with 0% growth for the FY2011 budget, are projected at \$637M, after accounting for the final phase-in of dedicated collections. Dedicated Sales Tax collections for the first quarter of FY2011 have been tracking slightly above the monthly benchmarks set for the \$637M FY2011 projection. The table below illustrates the variance between the monthly projected and actual Dedicated Sales Tax collections through the first quarter of FY2011.

FY2011 Projections	Jul	Aug	Sep
FY2011 Projected SMART Fund	56,585	52,987	51,896
FY2011 Actual	60,334	55,280	51,856
Above/(Below) Benchmark	3,749	2,293	(40)

It should be noted that the actual September 2010 collections include the impact of the August 2010 sales tax holiday, which was not enacted by the time the MSBA approved the FY2011 budget, and therefore not included in the FY2011 Dedicated Sales Tax monthly benchmark for September.

An adjustment to the current Dedicated Sales Tax revenue projection for FY2011 is not recommended at this time. The continued use of the current revenue estimate is supported by the following factors:



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- Year-to-date actual cumulative Dedicated Sales Tax collections are relatively close to the year-to-date benchmarks set for the current FY2011 Dedicated Sales Tax projection.
- The approval of Question 1 is projected to result in a reduction of approximately -\$7.5M in Dedicated Sales Tax collections in FY2011, following the effective date of repeal on January 1, 2011.
- The continued use of existing assumptions is consistent with the Commonwealth's approach to the FY2011 tax revenue estimate, which was not adjusted following the review of first quarter actual collections.
- The strength and pace of economic recovery is not yet clear, and key indicators often associated with retail sales, such as unemployment and consumer confidence, have not returned to pre-recession levels.

The factors identified above do not support an adjustment to the FY2011 Dedicated Sales Tax revenue estimate at this time. Sales tax collections will continue to be monitored closely throughout the fiscal year. Collections will continue to be analyzed against the current benchmarks, and significant variances will be reported for review of the FY2011 estimate again later in the fiscal year.

10/4/10 — September Revenue Collections Total \$2.016 billion

Monday, October 4, 2010

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Collections up \$250 million from a year ago; first quarter collections now \$205 million over benchmark

Revenue Commissioner Navjeet K. Bal today announced that preliminary revenue collections for September 2010 totaled \$2.016 billion, up \$250 million or 14.2 percent from the same period a year ago and \$197 million above the monthly benchmark based on the FY11 revenue estimate of \$19.078 billion.

Tax collections for the first quarter of the fiscal year total \$4.755 billion, up \$442 million or 10.2 percent above those of a year ago and are \$205 million above the year-to-date benchmark.

"The September collection is a dramatic improvement from September 2009, which was down nearly 16 percent from the prior year," Commissioner Bal said. "While we are always cautious in our forecasting, the first quarter FY11 results reflect a growing economy."

Income tax collections for the month totaled \$1.042 billion, up \$76 million or 7.8 percent, \$17 million above the monthly benchmark. Withholding collections were up \$38 million, or 5.7 percent, \$11 million above benchmark. Income tax cash estimated payments were up \$10 million, or 3.1 percent, \$10 million below benchmark. Income tax payments with returns were up \$18 million, or 69.5 percent, \$10 million above benchmark, while income tax cash refunds were down \$11 million or 21.9 percent, \$8 million below benchmark.

September sales tax collections totaled \$400 million and were up \$17 million from the same period a year ago, or 4.6 percent, \$20 million above the benchmark. Regular sales tax was up \$11 million or 4.3 percent, \$24 million above the benchmark; meals tax was up \$3 million or 3.9 percent; and motor vehicle sales tax was up \$3 million or 7.0 percent, \$5 million below the monthly benchmark.

September corporate/business tax collections totaled \$420 million, up \$145 million or 52.8 percent, \$152 million above benchmark. Of the corporate/business surplus, \$89 million was due to lower than projected refunds, and at least some of that \$89 million could be due to later filing of combined returns this year and might be reversed in October and November after combined returns are filed.

Year-to-date, income tax collections are up 6.7 percent, \$58 million above benchmark, while withholding is up 5.0 percent, \$37 million above benchmark. Year-to-date sales tax collections are up \$204 million or 19.1 percent, \$15 million above benchmark. Year-to-date corporate/business tax collections are up \$52 million or 12.3 percent, \$131 million above benchmark.

September sales tax collections marked the first time a month to month comparison with 2009 reflects the increase in the sales tax that took effect on Aug. 1, 2009, but that was not reflected in revenues until September, 2009, given the one-month lag in reporting regular sales tax collections. Much of the growth in September 2010 sales tax collections came in business-to-business sales tax revenue, which increased \$14.9 million, or 12.3% from a year ago, while sales tax revenue in the retail sector declined by \$5.5 million, or 4.7%, presumably due to the August sales tax holiday, which applied only to consumer, not business, purchases. It is too early to estimate the impact of the sales tax holiday since DOR will monitor sales tax revenue in future months to determine the extent to which the holiday induced consumers to shift sales into August from future months. As has been the case with previous sales tax holidays, as required by law DOR will file a report with the Legislature by Dec. 31 that estimates the impact of the August 2010 sales tax holiday.

September 2010 Tax Collection Summary (in \$ millions)
(Preliminary as of October 4, 2010)

	-----Month of September-----					-----FY11 Year-to-Date-----				
	9/10 Collections	9/10 v. 9/09 \$ Change	9/10 v. 9/09 Actual % Change	9/10 v. 9/09 Baseline % Change	9/10 \$ Above/(Below) Benchmark Based on FY11 Estimate of \$19.078 Billion	9/10 FY11 YTD Collections	9/10 FY11 YTD \$ Change	9/10 FY11 YTD Actual % Change	9/10 FY11 YTD Baseline % Change	FY11 YTD \$ Above/(Below) Benchmark Based on FY11 Estimate of \$19.078 Billion
Income - Total	1,042	76	7.8%	6.6%	17	2,567	161	6.7%	6.2%	58
Income Withholding	698	38	5.7%	5.7%	11	2,168	104	5.0%	5.3%	37
Income Est. Payments (Cash)	339	10	3.1%	3.1%	(10)	400	45	12.7%	4.3%	(7)
Income Returns/Bills	45	18	69.5%	4.1%	10	75	(4)	-5.4%	10.4%	19
Income Refunds (Cash)	39	(11)	-21.9%	-33.3%	(8)	74	(19)	-20.5%	-19.1%	(12)
Sales & Use - Total	400	17	4.6%	4.0%	20	1,273	204	19.1%	2.1%	15
Sales - Regular	272	11	4.3%	4.7%	24	886	158	21.7%	1.8%	23
Sales - Meals	76	3	3.9%	3.9%	1	227	38	20.1%	2.6%	(1)
Sales - Motor Vehicles	52	3	7.0%	0.8%	(5)	160	8	5.4%	3.1%	(7)
Corporate & Business - Total	420	145	52.8%	40.2%	152	479	52	12.3%	4.2%	131
Corporate Excise	343	151	78.3%	50.5%	158	404	99	32.3%	14.8%	153
Insurance Excise	77	1	1.0%	1.0%	(2)	75	(2)	-2.3%	-2.3%	(5)
Financial Institutions Excise	16	1	6.3%	29.1%	3	16	(34)	-67.8%	-60.9%	(8)
Public Utilities Excise	(16)	(7)	N/A	N/A	(7)	(16)	(10)	N/A	N/A	(10)
All Other	154	12	8.5%	6.1%	8	435	24	5.7%	0.8%	0
Total Tax Collections	2,016	250	14.2%	11.3%	197	4,755	442	10.2%	4.5%	205
Memo: Cigarette Tax Increase for Commonwealth Care Trust Fund (Not in FY11 Estimate or Budgetary Fund Benchmarks)	10	0	4.1%	4.1%	0	32	1	4.7%	4.7%	4

Note: Detail may not add to total due to rounding and other technical factors.

11/1/10 — October Revenue Collections Total \$1.342 Billion

Monday, November 1, 2010

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October revenues are \$209 million above benchmark and \$413 million above year-to-date benchmark

Revenue Commissioner Navjeet K. Bal today announced that preliminary revenue collections for October 2010 totaled \$1.342 billion, up \$117 million or 9.5 percent from a year ago, exceeding the monthly benchmark by \$209 million and the year-to-date benchmark by \$413 million

"While October is considered a relatively small net tax collection month because no quarterly estimated payments are due for individuals and most non-retailing corporations, collections ran well above benchmark due to strong withholding and corporate/business collections, and to a lesser extent, stronger than expected sales tax collections," Bal said. "These are all signs of a strengthening economy and a return to fiscal stability."

The October benchmark corresponding to the FY11 estimate of \$19.078 billion had assumed a revenue collection of \$1.132 billion, a decrease of \$92 million from the October 2009 collections, due in part to a one-time settlement payment of \$66 million received last October as well as the anticipated taking of tax credits.

Income tax collections in October 2010 totaled \$737 million, \$86 million or 13.3 percent higher than a year ago and were \$58 million above benchmark. Income withholding was \$65 million or 9.7 percent higher than a year ago and was \$43 million above benchmark, while refunds of \$83 million were \$33 million or 28.1 percent lower than a year ago and \$25 million below benchmark.

Sales tax collections for October totaled \$415 million, up \$12 million or 2.9 percent from the same period a year ago and \$7 million over benchmark.

Corporate/business tax collections of \$49 million were \$35 million or 246.6 percent higher than a year ago and were \$145 million above benchmark. Among the reasons for this performance: receipt of a one-time amended returns payment of \$46 million; \$45 million in tax credits that were not claimed as expected; and lower than expected refund payments that could partly materialize in coming months. Corporate excise tax payments were \$97 million greater than a year ago.

Year-to-date, income tax collections of \$3.305 billion are \$248 million or 8.1 percent higher than a year ago and \$117 million over benchmark. Year-to-date sales tax collections of \$1.688 billion are \$216 million or 14.6 percent higher than a year ago and \$22 million over benchmark. Year-to-date corporate/business tax

collections of \$528 million are \$87 million or 19.8 percent higher than a year ago and are \$276 million over benchmark.

The total tax collection for the first four months of FY11 is \$6.095 billion, up \$557 million or 10.1 percent from a year ago and \$413 million over benchmark.

October 2010 Tax Collection Summary (in \$ millions)
(Preliminary as of November 1, 2010)

	----- Month of October -----					----- FY11 Year-to-Date -----				
	10/10 Collections	10/10 v. 10/09 \$ Change	10/10 v. 10/09 Actual % Change	10/10 v. 10/09 Baseline % Change	10/10 \$ Above/(Below) Benchmark Based on FY11 Estimate of \$19.078 Billion	10/10 FY11 YTD Collections	10/10 FY11 YTD \$ Change	10/10 FY11 YTD Actual % Change	10/10 FY11 YTD Baseline % Change	FY11 YTD \$ Above/(Below) Benchmark Based on FY11 Estimate of \$19.078 Billion
Income - Total	737	86	13.3%	14.2%	58	3,305	248	8.1%	7.9%	117
Income Withholding	737	65	9.7%	10.6%	43	2,905	169	6.2%	6.6%	80
Income Est. Payments (Cash)	24	(1)	-2.3%	-2.3%	(2)	424	44	11.7%	3.8%	(9)
Income Returns/Bills	61	(9)	-13.5%	-13.6%	(6)	136	(13)	-8.9%	-0.6%	13
Income Refunds (Cash)	83	(33)	-28.1%	-28.1%	(25)	157	(52)	-24.8%	-24.2%	(37)
Sales & Use - Total	415	12	2.9%	4.1%	7	1,688	216	14.6%	2.6%	22
Sales - Regular	298	4	1.5%	2.5%	1	1,184	163	15.9%	2.0%	24
Sales - Meals	70	3	4.0%	4.7%	1	296	40	15.8%	3.1%	0
Sales - Motor Vehicles	48	4	10.1%	13.6%	5	208	13	6.5%	5.4%	(3)
Corporate & Business - Total	49	35	246.6%	114.0%	145	528	87	19.8%	7.7%	276
Corporate Excise	76	97	N/A	N/A	142	480	195	68.7%	43.2%	295
Insurance Excise	(0)	(0)	N/A	N/A	(0)	75	(2)	-2.4%	-2.4%	(5)
Financial Institutions Excise	(31)	(65)	N/A	N/A	0	(15)	(100)	N/A	N/A	(8)
Public Utilities Excise	4	3	369.7%	369.7%	3	(12)	(7)	N/A	N/A	(7)
All Other	141	(16)	-10.2%	-0.9%	(1)	574	6	1.1%	0.1%	(2)
Total Tax Collections	1,342	117	9.5%	10.1%	209	6,095	557	10.1%	5.7%	413
Memo: Cigarette Tax Increase for Commonwealth Care Trust Fund (Not in FY11 Estimate or Budgetary Fund Benchmarks)	10	1	12.3%	12.3%	0	43	3	8.0%	8.0%	5

Note: Detail may not add to total due to rounding and other technical factors.