

OLS Revenue Final Picture

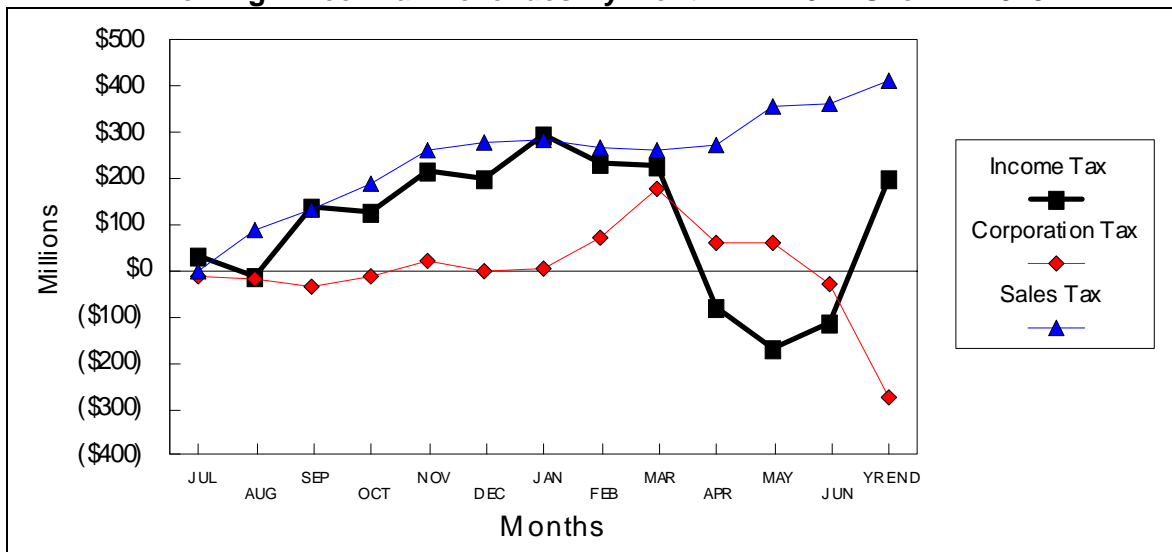
Preliminary FY 2014 Year-End Totals

- Major Revenue Collections for FY 2014 Miss Original Certification by \$1.49 Billion.**¹ According to current figures from the State's Comprehensive Financial System, each of the 14 major revenues tracked by OLS trail the amount certified at the beginning of the fiscal year, for a combined shortfall of \$1.49 billion. Collections for the Gross Income Tax (GIT) lagged the certified level by \$727.4 million, the Corporation Business Tax (CBT) trailed the certification by \$312.3 million, and collections for the other 12 revenues fell a combined \$446.8 million below certified levels. While revenues fell significantly short of the original certified targets, they grew by a modest 1.7% over FY 2013 levels.

The original revenue certification was the basis for the FY 2014 Appropriations Act. In May, the Executive revised the targets, which informed the revenue assumptions for the FY 2015 Appropriations Act. The major revenues trail the May revised targets by a combined \$100.3 million. The FY 2014 figures are shown on the table on page 3, compared to both the original certification and the Executive's May revised targets.

For most of FY 2014, the major revenues tracked close to, but somewhat below, the growth rates needed to achieve the original certified targets. In February the Executive slightly reduced its projections for FY 2014 to reflect year-to-date trends. However, the big shock came in late April, when GIT receipts dropped sharply (visible in the graph below). This "April Surprise" and other specific revenues are discussed on the following page.

The "Big Three" Tax Revenues By Month: FY 2014 Over FY 2013



¹ FY 2014 ended on June 30, but collections for many revenues continued until the end of July. Now, most FY 2014 major revenue collections and annual year-end revenue accounting adjustments are complete. The revenues included in this report account for about 87% of budgeted State revenues, and do not include certain energy-related revenues and various miscellaneous sources. Ultimately, the Comprehensive Annual Financial Report (CAFR) will provide the official audit of State resources, as well as official expenditures for FY 2014. While significant revenue adjustments after September are rare, the OLS will update this year-end display if additional adjustments occur and when the final CAFR audit is released.

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- **Gross Income Tax** receipts of \$12.312 billion grew by 1.7% over the prior year. Growth lagged behind the much stronger 8.8% growth during FY 2013 due largely to income shifting by certain high-income taxpayers via an accelerated realization of gains at the end of Tax Year 2012, in anticipation of Federal tax law changes. This behavior boosted FY 2013 revenues, but depressed FY 2014 revenues. Since high-income taxpayers account for most of the final tax payments due each spring, this shortfall was not revealed until receipts were tabulated in the last week of April, with final payments falling \$435 million below the prior April. While forecasters anticipated this shift, they failed to accurately predict its magnitude.

The GIT would have ended FY 2014 in a weaker position, except that it received an unexpected boost (which came with a corresponding CBT reduction). At the conclusion of each fiscal year, certain out-of-state partnership withholding receipts that are temporarily booked to the CBT, are allocated back to the GIT. In FY 2014 this allocation was \$204 million higher than the prior year. Overall, GIT collections trailed the original FY 2014 certification by \$727.4 million, but exceeded the Executive's May revised target by \$261.6 million (three-quarters of which resulted from the size of the shift from the CBT).

- **Sales Tax** receipts total \$8.64 billion, \$39.7 million below the certified level but \$43.3 million above the Executive's May revised target for FY 2014. Overall, the sales tax grew by 4.9% in FY 2014, which is in line with long-run historical average growth rates.
- **Corporation Business Tax (CBT)** collections of \$2.104 billion were down 11.0% from FY 2013, \$312.3 million below the original certified level, and \$329.3 million below the Executive's May revised target. While the CBT was weak in the Spring, most of the shortfall was due to the increased size of the bookkeeping shift to the GIT. The much smaller **CBT for banks and financial institutions** reported \$186.2 million, 13.4% growth from the prior year, \$15.8 million below the certified level, and \$10.8 million less than the Executive's May revised target.
- **Casino** tax revenues of \$201.3 million were down 0.3% from the FY 2013 level, \$167.8 million below the certified level and \$15.5 million below the Executive's May revised target. While tax revenue from "brick and mortar" casino operations declined for the eighth year in a row, the overall forecast shortfall was due primarily to the underperformance of internet gaming, which was certified to generate \$160.0 million for the fiscal year, but yielded only \$10.7 million.
- After the first \$788 million of sales tax and CBT from the energy sector is allocated to an off-budget municipal aid program, the remainder appears in the General Fund, but is not among the revenues the OLS tracks each month in its **Revenue Snapshot**. However, energy receipts have been a source of annual revenue shortfalls in recent years. In FY 2014, the original certification assumed a net \$230.0 million from the sales tax and \$45.0 million from the CBT. In May the Executive revised those projections to \$240.0 million from the sales tax and \$10.0 million from the CBT. Currently, the Comprehensive Financial System is showing \$188.4 million and \$11.9 million respectively, which is \$74.7 million below the certification, and \$49.7 million below the May revised projection.

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Major Revenues (\$ millions)

Preliminary FY 2014 Year-End Totals Compared to Targets

REVENUE	Certified*	May Revised*	Actual**	Actual Difference from		Growth Rate from FY 2013 to FY 2014
				Certified	May Revised	
INCOME TAX	\$13,039.0	\$12,050.0	\$12,311.6	(\$727.4)	\$261.6	1.7%
SALES TAX	\$8,680.0	\$8,597.0	\$8,640.3	(\$39.7)	\$43.3	4.9%
CORPORATION TAX	\$2,416.0	\$2,433.0	\$2,103.7	(\$312.3)	(\$329.3)	-11.0%
LOTTERY	\$1,020.0	\$965.0	\$965.0	(\$55.0)	\$0.0	0.0%
TRANSFER INHERITANCE	\$715.0	\$715.0	\$687.4	(\$27.6)	(\$27.6)	10.2%
INSURANCE PREMIUM	\$608.0	\$587.0	\$578.2	(\$29.8)	(\$8.8)	2.7%
MOTOR FUELS	\$547.0	\$536.0	\$530.0	(\$17.0)	(\$6.0)	1.0%
MOTOR VEHICLE FEES	\$437.1	\$426.7	\$430.0	(\$7.1)	\$3.3	-4.3%
REALTY TRANSFER	\$297.0	\$257.0	\$249.2	(\$47.8)	(\$7.8)	17.5%
CIGARETTE	\$237.0	\$226.0	\$223.3	(\$13.7)	(\$2.7)	-9.5%
CASINO	\$369.1	\$216.8	\$201.3	(\$167.8)	(\$15.5)	-0.3%
PETROLEUM PRODUCTS	\$228.0	\$213.0	\$216.8	(\$11.2)	\$3.8	5.0%
BANKS & FINANCIAL (CBT)	\$202.0	\$197.0	\$186.2	(\$15.8)	(\$10.8)	13.4%
ALCOHOL EXCISE	\$118.5	\$108.0	\$104.2	(\$14.3)	(\$3.8)	1.1%
Total Major Revenues	\$28,913.7	\$27,527.5	\$27,427.2	(\$1,486.5)	(\$100.3)	1.7%

* Executive FY 2014 estimates as certified in June 2013 and as revised in May 2014.

** FY 2014 Actual revenues represent collections through the end of the fiscal year as recorded in the NJ Comprehensive Financial System (CFS) at the end of September, 2014. Final numbers will be reported in December or January in the State Audit (Comprehensive Annual Financial Report, CAFR). Energy revenues for the sales tax and CBT are not included.

Note: The major revenues above consist of on-budget amounts. Some revenues, such as the cigarette tax and motor vehicle fees, also have significant components reported off-budget as Schedule 2 revenues.