

## LOSS OF INDIAN GAMING REVENUE PUTS A DENT IN GENERAL REVENUE; STATE TO REFUND \$542 MILLION IN EXCESS CORPORATE INCOME TAXES

The General Revenue (GR) Estimating Conference met on August 14 to develop a new revenue forecast for Florida. It was a challenging and complex conference for the state’s economists. The uncertainty surrounding corporate income tax collections, the loss of Indian gaming revenue, a weaker economic forecast, and the impact of Hurricane Michael were some of the factors they were dealing with.

The estimates of General Revenue for FY2019-20 and FY2020-21 were reduced from the last official GR Conference (March 2019)<sup>1</sup> by \$867.7 million; however, actual GR collections for the fiscal year that ended on June 30 (FY2018-19) came in \$507.2 million over the last estimate and these are collections that were not anticipated. Most of that added money (\$385 million, 76 percent) is from corporate income tax (CIT) collections which, along with another \$158 million in already collected CITs, will be refunded to taxpayers this Spring (see below). These refunds are a major reason the estimates were reduced and represent money the state did not expect to receive.

So, when FY2018-19 is included, the total revenue loss in the three years that can be used to fund the next budget is \$360.5 million (see Table 1).

The other big contributor to the revenue decline is the loss of all Indian Gaming Revenue. Due to the failure of the state to enter into a new compact with the Seminole Tribe, the Tribe ceased revenue sharing with the state after making its April 2019 payment. This reduces GR in FY2019-20 and FY2020-21 by a total of \$683.8 million. Florida will continue to lose approximately \$350 million annually without a new compact.

**Table 1. Change in General Revenue Estimates**

in \$ Million

FY	MARCH 2019 ESTIMATE	AUGUST 2019 ESTIMATE	CHANGE IN ESTIMATE	ANNUAL CHANGE BASED ON AUGUST 2019 ESTIMATE	
2018-19*	\$32,906.6	\$33,413.8	\$507.2	\$2,195.6	7.0%
2019-20	\$33,394.9	\$32,943.3	\$(451.6)	\$(470.5)	-1.4%
2020-21	\$34,779.4	\$34,363.3	\$(416.1)	\$1,420.0	4.3%
2021-22	\$35,989.7	\$35,712.3	\$(277.4)	\$1,349.0	3.9%
2022-23	\$37,120.8	\$37,074.5	\$(46.3)	\$1,362.2	3.8%
2023-24	\$38,257.0	\$38,237.1	\$(19.9)	\$1,162.6	3.1%

\*The August estimate for FY2018-19 reflects actual collections

<sup>1</sup> The March 2019 estimates have been adjusted for legislation passed by the 2019 Legislature that impact GR collections (such as tax cuts and fund shifts)

The state has known about the gaming revenue and the loss has already been included in two previous General Revenue Fund Financial Outlook Statements—one post-session (July 2019) and one earlier in August. These statements look at all factors impacting GR (collections, appropriations, reversions, budget amendments, etc.) to estimate the GR that will be available to the Legislature in each year.

**When the new Outlook Statement (based on the new revenue estimates) is compared to the previous statement, the estimate of GR revenue that will be available to the 2020 Legislature has increased by \$194.0 million (see Table 2). It is up \$319.1 million from the post-session outlook.**

**Table 2. General Revenue Budget Outlook**

in \$ Million - August 14, 2019 estimate

	RECURRING	NON-RECURRING	TOTAL
<b>GR Available for 2019-20</b>			
Reserve (ending balance carried forward)		\$2,204.0	\$2,204.0
Estimated Revenues	\$34,005.4	\$(1,062.1)	\$32,943.3
Trust Fund Sweeps by the 2019 Leg. (net of vetoes)		\$343.3	\$343.3
BP Settlement Payment	\$26.7		\$26.7
Unused Appropriations/Reversions		\$96.0	\$96.0
Other Adjustments	\$(3.3)	\$(7.2)	\$(10.5)
<b>Total funds Available for 2018-19</b>	<b>\$34,028.8</b>	<b>\$1,574.0</b>	<b>\$35,602.8</b>
<b>GR Appropriations by 2019 Legislature</b>			
2019-20 Appropriations	\$32,890.4	\$1,051.7	\$33,942.1
Transfer to Budget Stabilization Fund		\$91.2	\$91.2
Reappropriations		\$85.7	\$85.7
Budget Amendments - Bridge Loans		\$9.0	\$9.0
Budget Amendments - Hurricane Michael Response		\$21.9	\$21.9
Total Effective Appropriations	\$32,890.4	\$1,259.5	\$34,149.9
<b>Ending Balance</b>	<b>\$1,138.4</b>	<b>\$314.5</b>	<b>\$1,452.9</b>
<b>GR Available for Next Budget 2020-21</b>			
Reserve (ending balance carried forward)		\$1,452.9	\$1,452.9
Estimated Revenues	\$35,067.8	\$(704.5)	\$34,363.3
BP Settlement Payment	\$26.7		\$26.7
Unused Appropriations/Reversions		\$96.9	\$96.9
Federal Funds Interest Earnings Rebate	\$(1.2)		\$(1.2)
<b>General Revenue Available for Next Budget</b>	<b>\$35,093.3</b>	<b>\$845.3</b>	<b>\$35,938.6</b>
<b>Previous Estimate - Post-2019 Session (July 2019)</b>	<b>\$34,532.9</b>	<b>\$1,086.6</b>	<b>\$35,619.5</b>
<b>Difference from Post-2019 Session Estimate</b>	<b>\$560.4</b>	<b>\$(241.3)</b>	<b>\$319.1</b>
<b>Previous Estimate (August 2)</b>	<b>\$34,532.8</b>	<b>\$1,211.8</b>	<b>\$35,744.6</b>
<b>Difference from August 2 Estimate</b>	<b>\$560.5</b>	<b>\$(366.5)</b>	<b>\$194.0</b>

## REVENUE SOURCES SHOW MIXED RESULTS

The state's estimators earlier adopted slightly weaker state and national economic forecasts, and this showed in the new GR estimates. The economy was described as “winded”—still growing but slowing down. The result was that the estimates for several revenue sources were reduced, while some increased (see Table 3). The estimate for the sales tax—by the far the biggest source—was increased by \$145.8 million in FY2019-20 but decreased by \$10.2 million the following year. The insurance premium tax estimate was increased by a two-year total of \$145.5 million.

It is now anticipated that the result of the loss of gaming revenue, mixed performance from the various GR sources, and the CIT refunds will result in a rarity for Florida: a drop in total GR collections from one year to the next, which has only previously happened during the Great Recession. The state is expecting to collect \$470 million (1.4 percent) less in FY2019-20 than in FY2018-19. Collections are expected to rebound in FY2020-21, growing by \$1.4 billion (4.3 percent).

The end result is that the 2020 Legislature will have \$34.9 billion available for the next budget, assuming lawmakers keep a \$1 billion reserve. This \$788.7 million (2.3 percent) more than current GR spending.

This GR forecast will be used to put together the state's *Long-Range Financial Outlook*, which will be released this Fall. The *Outlook* compares available GR to anticipated spending to determine the size of the surplus (or deficit) facing the next Legislature.

## STATE TO REFUND \$543 MILLION IN CORPORATE INCOME TAXES

The federal Tax Cuts and Jobs Act of 2017 significantly expanded the U.S. corporate income tax base to partially offset cuts in the tax rate. Since Florida piggybacks with the federal CIT code, the federal changes increased the state's CIT base as well, and since our tax rate was not changing, Florida corporations were facing significant tax increases. Because the magnitude of that increase was not known, the Legislature passed bills in 2018 and 2019, supported by Florida TaxWatch, to require a refund of excess collections. Excess collections are any net revenues that exceed the estimate made in February 2018 by more than seven percent.

The General Revenue Estimating Conference determined that \$543.2 million collected in FY2018-19 is due to be refunded to taxpayers. Refunds will be distributed in Spring 2020. Individual refunds will be proportionate to the amount of corporate income tax each taxpayer paid during fiscal year 2018-2019. If a corporation paid 1 percent of total CITs, it will get 1 percent of the total refunds. A new 2019 corporate income tax rate will be also calculated, reduced by the amount of the excess collections. The rate is expected to be reduced from 5.5 percent to 4.46 percent.

These refunds have been portrayed by some as “huge tax breaks” for corporations. It must be remembered that the Legislature was trying to avoid a tax increase resulting from the federal law and these refunds return what would otherwise have been one. In fact, it is likely corporate taxpayers are still paying more than they would have without the federal changes and Florida's response, due to the 7 percent cushion allowed by the Legislature. Even after the refunds, Florida's CIT collections increased by \$143 million in FY2018-19.

The law passed by the Legislature also requires taxpayers to provide more information to the Florida Department of Revenue in an attempt to better gauge the impact of the federal tax changes on Florida corporations. The Legislature will be addressing this issue again.

**Table 3. Change in General Revenue Estimates by Source**

\$ millions - (change from March 2019 estimates, adjusted for legislative changes that impacted GR)

REVENUE SOURCE	ACTUAL FY2018-19	ESTIMATED FY2019-20	ESTIMATED FY2020-21	TOTAL
<i>Increased Estimates</i>				
Corporate Income Tax	\$385.1	\$35.2	\$(76.1)	\$344.2
Sales Tax	\$70.6	\$145.8	\$(10.2)	\$206.2
Insurance Premium Tax	\$10.2	\$76.8	\$68.7	\$155.7
Corporate Filing Fees	\$29.0	\$22.6	\$26.7	\$78.3
Non-Operating Revenue	\$31.4	\$5.6	\$3.2	\$40.2
Court Fees	\$2.2	\$12.1	\$8.1	\$22.4
Intangibles Tax	\$4.7	\$6.8	\$7.0	\$18.5
Documentary Stamp Tax	\$5.1	\$5.9	\$6.1	\$17.1
Earnings on Investments	\$38.2	\$(12.4)	\$(13.5)	\$12.3
Tobacco Taxes	\$8.1	\$(1.1)	\$(3.5)	\$3.5
Other Sources**	\$(1.6)	\$0.8	\$1.7	\$0.9
<i>Decreased Estimates</i>				
Indian Gaming Revenues	\$(66.6)	\$(346.7)	\$(337.1)	\$(750.4)
Refunds*	\$2.7	\$(389.3)	\$(95.6)	\$(482.2)
Highway Safety Licenses & Fees	\$(9.0)	\$(10.7)	\$(4.1)	\$(23.8)
Beverage Tax & License	\$(2.9)	\$(3.0)	\$2.5	\$(3.4)
<b>Total</b>	<b>\$507.2</b>	<b>\$(451.6)</b>	<b>\$(416.1)</b>	<b>\$(360.5)</b>
* Increased refund estimate decreases net revenue. Most of the increased refund estimate was CIT.				
**Severance, Pari-mutuel taxes, County Medicaid Share, GR Service Charge and Other Taxes				

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