

# BUDGETWATCH

## GENERAL REVENUE ESTIMATES INCREASED BY \$392 MILLION

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### **The General Revenue (GR) Estimating Conference met on January 15**

to develop a new revenue forecast for Florida. These estimates of available GR are used by the Legislature in meeting its constitutional mandate to pass a balanced budget. The new estimate provides the Governor and Legislature some good news.

The GR Conference increased the estimate of collections by \$306.0 million in the current year and \$86.0 million in FY2020-21—a two-year total of \$392.0 million. When coupled with other changes—such as more unspent GR from FY2018-19 rolling forward into FY2019-20—lawmakers have \$567.1 million more available for the next budget than was anticipated when the *Long-Range Financial Outlook* was released last September (see Table 2). The *Outlook* predicted budget writers would have a surplus of \$174.2 million after funding a continuation budget for FY2020-21 (before any tax cuts or trust fund sweeps).

These new estimates recoup some of the money lost from the previous estimate (August 2109), which reduced the forecast for GR by \$867.7 million over the two years. Even with the increase, the total amount of GR now expected to be collected in FY2019-20 (\$33.2 billion) is still less than collections in the prior year (\$33.4 billion). A drop in net GR collections from one year to the next is a rare occurrence in Florida, happening only after the Great Recession. This decrease in FY2019-20 is due to the loss of all Indian Gaming Revenue and a windfall in corporate income taxes collected in FY2018-19—resulting from the federal Tax Cuts and Jobs Act—that is being refunded to taxpayers this year.

Positive annual GR growth is expected to resume next year, which estimated growth of 3.6 percent in both FY2020-21 and FY2021-22. This is despite a slight reduction in the estimate of collections for FY2020-21 of \$25.5 million (see table on next page).

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

\$ Millions

FY	August 2019 Estimate	January 2020 Estimate	Change in Estimate	Change from Prior Year Based on August 2019 Estimate	
2018-19*	\$33,413.80	\$33,413.80	\$-	\$-	0.0%
2019-20	\$32,943.30	\$33,249.30	\$306.00	\$(164.50)	-0.5%
2020-21	\$34,363.30	\$34,449.30	\$86.00	\$1,200.00	3.6%
2021-22	\$35,712.30	\$35,686.80	\$(25.50)	\$1,237.50	3.6%
2022-23	\$37,074.50	\$37,141.10	\$66.60	\$1,454.30	4.1%
2023-24	\$38,237.10	\$38,372.60	\$135.50	\$1,231.50	3.3%
*actual collections					

## REVENUE SOURCES SHOW MIXED RESULTS

Through the first five months of FY2019-20 (July through November), actual collections exceeded the previous estimate (August 2019) by \$344.6 million (2.7 percent). This led to the increase in the new estimate, despite the state's estimators adopting slightly weaker state and national economic forecasts in December. Since the new estimate increased by \$306.0 million in FY2019-20, it appears the Conference is expecting collections to come in below estimate for the rest of the year.

In addition to the \$181.5 million two-year increase for corporate income taxes, the next biggest increase came from increased investment revenue (\$97.7 million) (see Table 3). The estimate for the sales tax—by far the state's biggest revenue source (\$26 billion)—was increased by \$48.6 million in the current year but reduced slightly

(\$2.1 million) in FY2020-21. And in a good sign for the economy, estimated real estate transaction taxes (documentary stamps and intangibles taxes) were increased by a combined \$124.4 million over the two years.

The GR forecast continues to include no 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 2. General Revenue Budget Outlook - January 2020 Estimate**

\$ Millions

	Recurring	Non-recurring	Total
<b>GR Available for 2019-20</b>			
Reserve (ending balance carried forward)		\$2,489.80	\$2,489.80
Estimated Revenues	\$34,327.00	\$(1,077.70)	\$33,249.30
Trust Fund Sweeps by the 2019 Leg. (net of vetoes)		\$343.30	\$343.30
BP Settlement Payment	\$26.70	\$-	\$26.70
Unused Appropriations/Reversions		\$96.60	\$96.60
Other Adjustments	\$(3.30)	\$(24.40)	\$(27.70)
<i>Total funds Available for 2018-19</i>	<i>\$34,350.40</i>	<i>\$1,827.60</i>	<i>\$36,177.90</i>
<b>GR Appropriations by 2019 Legislature</b>			
2019-20 Appropriations	\$32,890.40	\$1,051.70	\$33,942.10
Transfer to Budget Stabilization Fund		\$91.20	\$91.20
Reappropriations		\$97.20	\$97.20
Budget Amendments - Bridge Loans		\$9.00	\$9.00
Budget Amendments - Hurricane Michael Response		\$104.90	\$104.90
Total Effective Appropriations	\$32,890.40	\$1,354.00	\$34,244.40
<i>Ending Balance</i>	<i>\$1,460.00</i>	<i>\$473.60</i>	<i>\$1,933.60</i>
<b>GR Available for Next Budget 2020-21</b>			
Reserve (ending balance carried forward)		\$1,933.50	\$1,933.50
Estimated Revenues	\$35,164.80	\$(715.50)	\$34,449.30
BP Settlement Payment	\$26.70		\$26.70
Unused Appropriations/Reversions		\$99.10	\$99.10
Federal Funds Interest Earnings Rebate	\$(2.90)		\$(2.90)
<b>General Revenue Available for Next Budget</b>			
	<b>\$35,188.60</b>	<b>\$1,317.10</b>	<b>\$36,505.70</b>
<i>Previous Financial Outlook Estimate (November 2019)</i>			
	<i>\$35,093.30</i>	<i>\$968.90</i>	<i>\$36,062.20</i>
<i>Difference - January 2020 from November 2019</i>	<i>\$95.30</i>	<i>\$348.20</i>	<i>\$443.50</i>
<i>Estimate in Long-Range Financial Outlook (Sept 2019)</i>	<i>\$35,093.30</i>	<i>\$845.30</i>	<i>\$35,938.60</i>
<i>Difference - January 2020 from Sept 2019</i>	<i>\$95.30</i>	<i>\$471.80</i>	<i>\$567.10</i>

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

\$ Millions - change from August 2019 estimates

Revenue Source	Change FY2019-20	Change FY2020-21	Total Change for New Budget	Change FY2021-22
<b>Increased Estimates</b>				
Corporate Income Tax	\$100.60	\$80.90	\$181.50	\$93.90
Earnings on Investments	\$83.40	\$14.30	\$97.70	\$(13.00)
Intangibles Tax	\$39.90	\$30.50	\$70.40	\$25.40
Documentary Stamp Tax	\$35.90	\$18.10	\$54.00	\$8.80
Sales Tax	\$48.60	\$(2.10)	\$46.50	\$(83.20)
Insurance Premium Tax	\$21.00	\$16.00	\$37.00	\$18.40
Beverage Tax & License	\$9.40	\$-	\$9.40	\$-
Corporate Filing Fees	\$-	\$4.70	\$4.70	\$4.40
<b>Decreased Estimates</b>				
Corporate income Tax Refunds*	\$(23.40)	\$(44.10)	\$(67.50)	\$(65.90)
Other Refunds*	\$(7.40)	\$-	\$(7.40)	\$-
Highway Safety Licenses & Fees	\$(6.30)	\$(7.00)	\$(13.30)	\$(9.20)
Other Sources**	\$10.60	\$(22.60)	\$(12.00)	\$2.10
Court Fees	\$(4.60)	\$(2.30)	\$(6.90)	\$(3.50)
Tobacco Taxes	\$(1.70)	\$(0.40)	\$(2.10)	\$(3.70)
<b>Total</b>	<b>\$306.00</b>	<b>\$86.00</b>	<b>\$392.00</b>	<b>\$(25.50)</b>
* Estimates of refunds were increased. Increased refund decreases net revenue.				
**Severance Taxes, Pari-mutuel Taxes, County Medicaid Share, GR Service Charges, Other Taxes, Non-operating Revenue.				

## C.I.T. REFUNDS AND RATE REDUCTION TO RETURN \$1.1 BILLION TO BUSINESSES

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 4.458 percent. The new forecast estimates the rate reduction will reduce CITs by \$575.9 million this year, \$580.3 million in FY2020-21, and another \$135.2 million will be refunded next year.

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.

While refunds and rate reduction were intended to keep the effects on the federal law revenue neutral, it may not be working that way for individual corporations. Since the refunds are based on the relative size of a company’s tax liability, taxpayers that were severely impacted by the changes may not recoup their excess taxes, while companies with relatively minor impacts may receive a windfall. 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.

## CONCLUSION

While the new forecast is good news, it carries a significant amount of risk. Estimators warned that there is “an elevated level of risk to any forecast due to the mature stage of the current economic expansion and geopolitical pressures to global growth.” The Conference had recently adopted national and state economic forecasts that were slightly weaker than the previous ones but since actual collections have come in above estimate so far this fiscal year, the GR forecast was increased slightly. Further, nearly half of the estimate increase (\$181.5 million) comes from the corporate income tax, a source with considerable uncertainty due to the Tax Cuts and Jobs Act and the state’s response to it (refunds and rate reductions).

The Legislature now has \$561.7 million more available for the next budget than was anticipated last September, when the *Long-Range Financial Outlook* forecast a \$174.2 million surplus for the next budget; however, costs may have increased as well. For example, the new public school enrollment estimates added 19,120 more students for the next budget year. At current per-student spending, this will cost \$146.7 million. Lawmakers must temper the enthusiasm the influx of money brings by remembering that the *Outlook* also warned that budget shortfalls loom in the next two years.

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