FLORIDA'S REVENUE COLLECTIONS CONTINUE TO SURPASS EXPECTATIONS

AT THE FY2022-23 HALFWAY MARK, COLLECTIONS ARE $1.6 BILLION OVER ESTIMATE

Florida's general revenue (GR) collections continue their remarkable growth, beating the state's estimates and adding more and more money for the Legislature to spend. GR collections exceeded expectations in December by $530.5 million. This has been happening since revenue collections began quickly rebounding from the initial pandemic-related losses in mid-2020. December makes it 29 months in a row that actual collections have exceeded the estimates, despite the estimates having been increased five times. Sales taxes and corporate income taxes (CIT) continue to be the big gainers, but in a twist from the norm, CIT accounted for more of the overage than the sales tax.

December also marks the end of the first half of the current state fiscal year (FY2022-23) and collections are now $1.629 billion (8.1 percent) over the estimate in the first six months.

Looking back further, general revenue collections for calendar year 2022 exceeded estimates by $6.0 billion (14.9 percent). Using the newly released Monthly Revenue Report for December 2022[1], Florida TaxWatch calculated this amount by comparing actual collections to the monthly estimates made at the beginning of the year (January 2022). The last five months of the year (August - December) are compared to the new increased estimates made in August 2022

SALES TAX COLLECTIONS

Sales tax collections were $278.6 million over estimate in December and $1.080 billion over in the first half of FY2022-23. Unfortunately, much of the better than expected performance of the sales tax is due to two things that Floridians would rather not see, hurricanes and inflation. Sales associated with recovery and rebuilding efforts resulting from Hurricane Ian produced a total of $221.1 million in November and December. Sales tax collections in any month generally reflect sales activity in the previous month. The added revenue from hurricane impacts is highlighted by the fact that the two sales categories with the largest collections over estimate in December were Building (19.8 percent) and Automobiles (20.5 percent). It is estimated that 385,000 cars may have been lost to flooding in all states impacted by Hurricane Ian[2], and Florida's loss ranges between 35,000 and 70,000 vehicles[3]. Five of the six sales tax categories beat projections in December, with the one exception being Other Durables, perhaps due to so much being spent on Automobiles (see next page).

1 Florida Legislature, Office of Economic & Demographic Research, Detailed Monthly Revenue Report - December 2022. Released January 31, 2023.

2 CARFAX Warns Used-Car Shoppers to Watch for Signs Flood-Damaged Cars, Yahoo! Finance, October 10,2022.

3 Vehicle Loss from Hurricane Ian Could Top 50,000, Cox Automotive, October 12, 2022.

FIVE OF SIX SALES TAX CATEGORIES BEAT THE ESTIMATE IN DECEMBER	
CONSUMER NONDURABLES	$83.2 million (8.8 percent) OVER the estimate
TOURISM	$67.3 million (11.5 percent) OVER the estimate
AUTOMOBILES	$98.1 million (20.5 percent) OVER the estimate
OTHER DURABLES	$-6.5 million (-3.5 percent) UNDER the estimate
BUILDING	$34.4 million (19.8 percent) OVER the estimate
BUSINESS	$70.0 million (12.7 percent) OVER the estimate

Source: Office of Economic & Demographic Research, Monthly Revenue Report - December 2022

Further, while inflation of 6.5 percent for the 12-month period ending in December is the lowest such period since October 2021, it is still high. The first impact of inflation on sales tax collections is an increase due to higher prices. Longer-term effects are less spending on taxable items and other drags on the economy. The state estimators believe we are still in the first phase of inflation impacts.

CORPORATE INCOME TAX COLLECTIONS

Collections from the state's second biggest GR source, the corporate income tax (CIT), have also been skyrocketing. CIT collections bested the estimate by $322.3 in December, the largest amount of any revenue source. For the first half of the current fiscal year (2022-23), collections are already $504.9 million (28.2 percent) over the latest estimate made in August 2022. Collections exceeded estimates by $938.8 million (26.0 percent) for the 12-months ending in December 2022.

Examining CIT collections in recent years highlights the impact of federal tax reform on Florida corporations' state tax liability. Florida, like most states, "piggybacks" its corporate income tax code with the federal tax code, generally adopting any changes made by Congress. In response to the tax base expansion brought on by federal tax reform, the Legislature created a refund and rate reduction mechanism in 2020 and 2021 to try to keep those federal changes revenue neutral for Florida companies. This helped, but companies still paid much more in CIT than they would have without tax reform. Table 1 shows that actual collections (plus the latest estimate for the current fiscal year) exceeded the estimates on which the Florida legislative response was based by $3.3 billion in the first five years. These estimates were adopted pre-pandemic and pre-federal tax reform. The collections for FY 2022-23 do not include the $504.9 million by which actual CIT collections have already exceeded the August 2022 estimate.

FLORIDA CORPORATE INCOME TAX COLLECTIONS AFTER FEDERAL TAX REFORM *ACTUAL COLLECTIONS VS. FEBRUARY 2018 ESTIMATE* $ MILLIONS			
Fiscal Year	February 2018 Estimate	Actual Collections	Over/(Under) 2018 Estimate
2018-19	$2,173.6	$2,869.0	$695.4
2019-20	$2,185.5	$1,671.8	($513.7)
2020-21	$2,234.4	$3,014.7	$780.3
2021-22	$2,288.0	$2,911.5	$623.5
2022-23*	$2,359.5	$4,106.3	$1,746.8
Total	**$11,241.0**	**$14,573.3**	**$3,332.3**

**Collections for 2022-23 are the state's August 2022 estimate and do not include the $504.9 million by which actual collections have exceeded the estimate in the first six months of the fiscal year.*

The February 2018 estimates were used for the refund and rate reduction legislation. Any collections in excess of these estimates plus seven percent were refunded and triggered a rate reduction. Collections in 2019-20 were below the 2018 estimate because they reflect refunds of $543.2 million in excess collections from the prior year.

Now, the state CIT rate has returned to its original 5.5 percent and the refunds and rate reductions are over. Collections are expected to balloon to $4.1 billion in the current fiscal year, even without factoring in the extra tax revenue collected in the first half of the year. Adding that overage, and assuming that collections in the second half of the fiscal year only meet expectations, the $4.6 billion in CIT collections this year would be a 29.8 percent increase over FY2021-22. The $4.6 billion for FY2022-23 even includes more than $300 million in revenue loss from residual effects of the 2021 rate reduction.[4]

OTHER GENERAL REVENUE SOURCES

Besides sales and corporate income taxes, the other 15 active GR sources was a mixed bag in December. Seven exceeded estimates, including earnings on investments, corporate filing fees, and insurance premium taxes.

Five sources fell short of projections, including documentary stamp taxes, tobacco taxes, and alcoholic beverage taxes. Three sources met their estimates.

The gain or loss from these sources was relatively minor, compared to sales and corporate taxes, and the more than $4.0 billion in GR collected in December. The one exception was documentary stamp taxes (paid on mortgages and other realty loans), the third largest GR source. These revenues fell $38.1 million short of projections due to higher than expected mortgage rates and lower home prices.

4 Corporate income liability in any given tax year may not be fully collected for several years.

STATE ESTIMATORS STILL AWAITING THAT REVENUE "DOWNSHIFT"

As Florida TaxWatch has been detailing in this Budget Watch series, federal pandemic aid and strong revenue collections have swollen the state's General Revenue Fund, resulting in big increases in spending. Florida's budget now stands at $110.9 billion,[5] an increase of $19 billion (20.2 percent) in just two years. This does not include tens of billions in uncounted spending of federal aid.

The Florida Legislature has mostly been responsible with this windfall—making large non-recurring infrastructure investments, building state reserves, and providing limited relief for taxpayers.

The state was already expecting an estimated $12.1 billion in unobligated GR reserves and the end of this fiscal year. The better than expected revenue collections so far mean that amount will likely increase.

The state has begun the next cycle of estimating conferences, which will culminate in the General Revenue Estimating Conference in March. This will determine how much money the Legislature will have available for the FY2023-24 budget.

In light of so much uncertainty, the state's estimators have rightly taken a conservative approach to their forecasts. The last forecast (August 2022) predicted total GR collections in FY 2022-23 would fall slightly from the prior year's supersized collections of $44.0 billion, which was an increase of $7.8 billion (21.4 percent) over FY2020-21. It now looks like that drop in revenue may not occur.

The August GR conference, citing the existence of considerable economic risks, assumed a "downshift" would begin sometime in the current fiscal year. Halfway through, we are still waiting.

5 Adjusted for post-session disaster response spending.

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