Higher than Expected Revenue Growth Could Benefit Missourians

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Higher than expected state general revenue growth could result in more than $200 million in additional revenue than anticipated, allowing Missouri to restore cuts to prescription assistance for seniors and home care for people with disabilities. While general revenue growth compared to last year may be well above the consensus revenue estimate, this good revenue news must be tempered by the realities of tax cuts that will reduce the revenue available for public services in the 2019 state budget year and beyond.

As of May 31st, net state general revenue growth compared to the previous year reached 2.1 percent for the fiscal year to date. However, Missouri's quicker distribution of tax refunds in the current year indicates that revenue growth for the year could more than double the current growth rate by the end of June, resulting in more than $200 million in additional revenue for the current than what was anticipated.

This good revenue news must be tempered by the realities of tax cuts passed in 2014 that continue to be implemented. Those cuts, included in 2014's Senate Bill 509, will reach the second year of their phased-in implementation in tax year 2019, reducing state revenue by an additional $150 million per year (or $300 million annually when both implemented steps of the phase-in are included). Further reductions will occur as the tax cuts reach full implementation, limiting the resources Missouri has to invest in public services in the 2019 state budget year and beyond.

In addition, the federal tax cuts passed in 2017 are just being implemented, and may cause unexpected fluctuations in Missouri's general revenue collections.

Moreover, the budget approved by lawmakers for the new state budget year, which begins on July 1st, continues to have a number of unmet needs. For example, dramatic cuts made by lawmakers in 2017 to prescription assistance for seniors and home care for people with disabilities in remain in place.

Approximately $35 million in state general revenue funding would be required to restore these services, just a fraction of the additional revenue that Missouri is likely to receive in 2018.

Detailed Revenue Summary:

May general revenue (GR) collections, net of refunds increased 2.3 percent relative to May of fiscal year (FY) 2017. Net GR has grown 2.1 percent for the first eleven months of FY 2018.

The most important factor contributing to this growth is that GR refunds through the end of May are up about 22 percent.

- An unanticipated surge in Individual Income tax collections in early January improved state cash flow and allowed the state to expedite refund payments compared to last year.
- FY 2017 saw a substantial delay in refund payments that resulted in an end of year refund surge that took place during latter half of June 2017.

While June tax remittances and refund requests are unknown, it is unlikely that GR refunds will increase by 22 percent for the year as a whole, and June refund payments are likely to decline sharply relative to last year.

Based on net GR collection trends, if refunds grow at the 5.2% CRE rate, net GR will grow between 4.25 - 4.75% for the year – well above the 1.9% Consensus Forecast.

Individual Income Tax (IIT) collections rose 17.2 percent in May and are up 5.7 percent for FY 2018 overall.

For FY 2018 year-to-date, IIT- withholding is up a respectable 3.3 percent, but the star performer is Estimated payments/Declarations which are up 18.3 percent. Net IIT only increased 2.4 percent through May because, as noted previously, refunds are being paid much more rapily than they were in FY 2017. The state appears to be in good shape to meet and likely exceed the consensus forecast in this area.

Sales and Use Tax collections rose 1.0 percent in May and have risen 1.9 percent for FY 2018 overall.

This result may be considered somewhat disappointing, given the healthy job growth and low unemployment rate (Missouri's April unemployment rate was 3.6 percent, the lowest rate since the year 2000). The continued growth of online retail may be a factor in lower sales tax growth. Fortunately, this and other tax law changes that have eroded Missouri's sales tax base were anticipated, and the 2.0 percent growth rate is consistent with the consensus forecast at this time.

Corporate Income Tax collections declined 10.9 percent in May, but are up 8.2 percent for FY 2018 overall.

Corporate Income Tax refunds are up 9.1 percent for the year leaving net CIT growth at a positive 7.6 percent. However, this increase follows the collapse in CIT collections that occurred in fiscal years 2016 and 2017. Net CIT collections fell from $436 million in FY 15 to $276 million in FY 17. Even with the growth seen thus far in FY 2018, Missouri is far from recovering from the disastrous CIT reductions signed into law in recent years.

Budget Implications

Assuming no major variance in spending, should net GR grow 4.5 percent for FY 2018, revenues would exceed the CRE by about $233 million, and result in an "Ending Balance" of just over $300 million, allowing Missouri to restore cuts to MO Rx prescription drug assistance and home and community-based services for low-income seniors and people with disabilities, for instance.

However, legislators must be cautious as the long-term impact of state and federal tax cuts on state revenues remains highly uncertain.

The Missouri Budget Project is nonprofit public policy organization that analyzes state budget, tax, health and economic issues.