

CFG KRS 48.115(2) ESTIMATES

(INTRODUCTORY REMARKS AND RECEIPTS UPDATES)

GREG HARKENRIDER
DEPUTY EXECUTIVE DIRECTOR
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Office of State Budget Director

Assessment of the Current Situation

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- KRS 48.115 (2) If the Legislative Research Commission or state budget director determines that a revision to the official revenue estimates is needed, the Legislative Research Commission or state budget director shall request a revision from the consensus forecasting group
 - ▣ The state budget director has determined that a General Fund revision is needed. The revised estimates for FY23 and FY24 shall become the official revenue estimates.
- The FY22 General Fund revenues came in \$945.4 million ahead of the official estimates
 - ▣ The base for the biennial estimates was under-projected
- Year-to-date growth in revenues through November (6.4%) is stronger than projected

FY 22 Actuals vs Estimates

(\$ Millions)

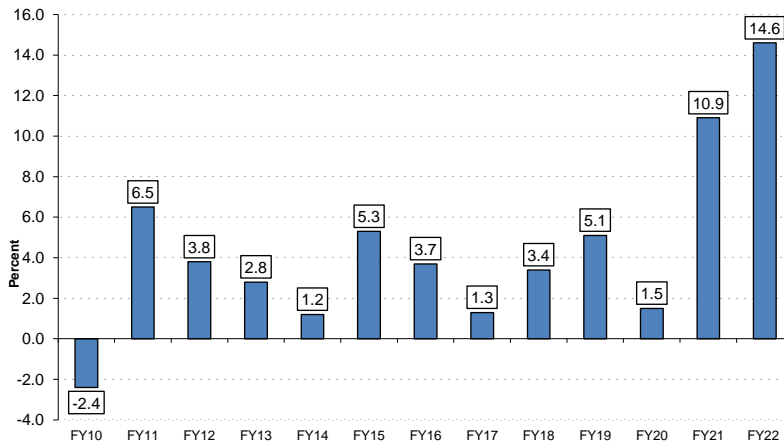
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	FY22				
	Full Year		Official		
	Actual	% Chg	Estimate	\$ Diff	% Diff
Individual Income	6,047.5	17.6	5,424.7	622.8	11.5
Sales & Use	5,062.9	11.0	4,950.7	112.2	2.3
Corp. Inc. & LLET	1,186.6	34.4	970.5	216.1	22.3
Property	723.9	3.0	679.2	44.7	6.6
Lottery	295.0	2.0	319.3	-24.3	-7.6
Cigarettes	324.5	-7.3	334.7	-10.2	-3.1
Coal Severance	70.7	26.0	64.1	6.6	10.2
Other	991.5	17.7	1,013.9	-22.4	-2.2
General Fund	14,702.5	14.6	13,757.1	945.4	6.9

Annual GF Revenue Growth Rates Since FY10

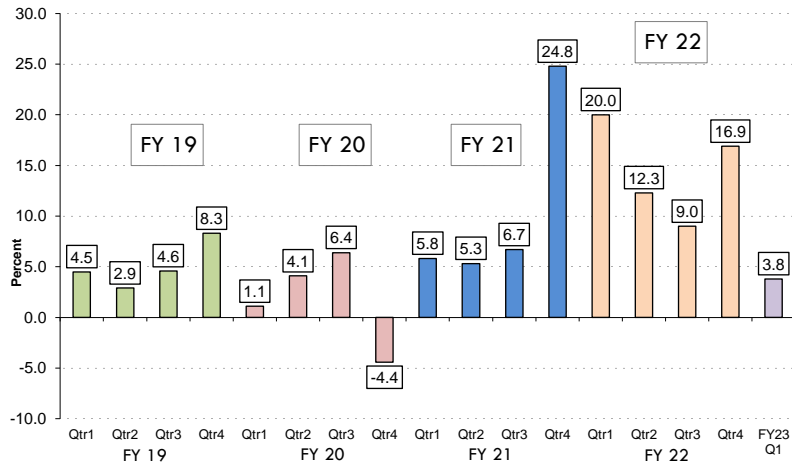
(Percentage Growth)

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Quarterly GF Revenue Growth Rates Since FY19 (Percentage Growth)

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General Fund Receipts through November

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- General Fund growth in the first quarter of FY23 was 3.8%
 - ▣ Would have been 11.1% without the \$225 million settlement in FY22
 - ▣ Individual Income Tax +8.4% Major Business Taxes +16.0%
 - ▣ Sales Tax +12.8%
 - ▣ Other Taxes (48.7)%
- General Fund growth in October and November has been quite strong
 - ▣ October posted growth of 15.2 percent
 - ▣ Sales tax 9.7%
 - ▣ Individual Income tax 23.6%
 - ▣ Major Business taxes (28.0)%
 - ▣ November followed with a monthly growth rate of 5.3%
 - ▣ Sales tax 8.5%
 - ▣ Individual Income tax 0.2%
 - ▣ Major Business taxes (2.3)%
 - ▣ GF cumulative growth through the first five months has been 6.4% (10.8% without the FY22 settlement)

Challenges for the 2nd Half of FY23

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- Many of the tax law changes become effective on January 1, 2023
 - Estimated -291.5 million in the Individual Income Tax
 - Partially offset by a \$43.9 million increase in the sales tax (5-month impact)
 - Total General Fund impact of -\$257.7 million
- Some receipts headwind in 4th quarter of FY23
 - April surprise in FY22
 - Receipts were \$1,838.9 million (35% growth)
 - That 35% growth came on the heels of a \$1,363.6 million dollar month in April of FY21
 - June was also higher than normal (\$1,375.5 million) or 13.0%

Individual Income Tax Changes

(Conditions for rate reductions to the **individual income tax**)

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- **The Individual Income Tax Rate for tax year 2023 will decline from 5% to 4.5% based on 2022 legislation due to meeting certain conditions in FY21.**
- **Condition 1:** The balance in the Budget Reserve Trust Fund at the end of FY21 year shall be equal to or greater than ten percent (10%) of the General Fund moneys for that fiscal year
- **Condition 2:** General Fund moneys at the end of a fiscal year shall be equal to or greater than General Fund appropriations for that fiscal year plus the IIT equivalent for that fiscal year
 - GF moneys \geq GF Appropriations + 1% IIT equivalent
 - Example: If Individual Income Tax collections are \$5.6 billion and the rate is 5%, GF Moneys must be approximately \$1.12 billion greater than GF Appropriations
- Further reductions are not automatic based upon future conditions. They require specific legislative action

2022 RS Sales and Use Taxes

(Partial offsets to the individual income tax reductions)

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- **Effective January 1, 2023**
- **The sales and use tax base is expanded to include 35 new services**
 - ▣ Marketing/Telemarketing services
 - ▣ Website hosting services
 - ▣ Cosmetic surgery services
 - ▣ Personal fitness training services
 - ▣ Security system monitoring services
 - ▣ Parking services
 - ▣ Interior decorating and design services
 - ▣ See handout in packet (page 5) for complete list
- **Sales and Use Tax-Other Provisions**
 - ▣ Expanded definition – extended warranty services to include real property
 - ▣ Eliminated existing exemption –admissions to historical sites
 - ▣ Limited an existing exemption –residential utilities
 - ▣ Created new exemption –farm drugs

2022 RS Other Taxes

(New provisions set forth in legislation)

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- **Car Rental and Ride Sharing Tax**
 - ▣ **General Fund** -- Begins January 1, 2023
 - ▣ Imposed upon every person for the privilege of providing a motor vehicle for sharing or for rent
 - 6% of the gross receipts derived from: Peer-to-peer car sharing (sharing platforms)
 - Renting of motor vehicles (rental cars)
 - Transportation net work company (Uber/Lyft)
 - Taxicab services
 - Limousine services
- **Electric Vehicle Power Excise Tax (1/1/2024) -- Road Fund**
 - ▣ EV power distributed by an EV power dealer
 - ▣ Initial base rate = \$0.03 per kilowatt hour
 - ▣ Surtax base rate = \$0.03 per kilowatt hour if the charging station is on state property

2022 RS Other Tax Provisions

(New provisions set forth in legislation)

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- **Electric Vehicle Ownership Fee (1/1/2024)**
 - General and Road Fund Split
 - Imposed for the privilege of owning an electric vehicle
 - \$120 for electric vehicles
 - \$60 for motorcycles or hybrid vehicles
 - Paid at the time of initial and annual registration
- **Other Individual Income Tax Provisions**
 - Internal Revenue Code update (Negative Fiscal Impact)
 - New tax credit - decontamination property
 - Changed tax credit thresholds – historic properties

Legislative Impacts Included in Estimates

(Millions \$, Includes 2022 session and prior sessions)

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	<u>FY22</u>	<u>FY23</u>	<u>FY24</u>
Individual Income Tax		(342,540,000)	(663,260,000)
Major Business Taxes		(1,250,000)	(48,000,000)
Sales Tax		31,795,000	94,107,500
Cigarette Taxes		(5,150,000)	(5,150,000)
Property Taxes	(34,800,000)	-	-
Other		8,058,400	20,338,600
Total	(34,800,000)	(309,086,600)	(601,963,900)