



# Minnesota Department of Finance

April 2005

## Corporate Payments, Corporate and Sales Tax Refunds Put State Revenues \$74 Million Above Forecast.

Net general fund revenues totaled \$2.160 billion during February and March, \$74 million (3.5 percent) more than forecast. Net sales tax revenue exceeded the forecast by \$24 million and net corporate income tax receipts were \$26 million above February's projections. Individual income tax receipts were \$7 million more than forecast. Fiscal year 2005 receipts now total \$10.286 billion, 5.4 percent above fiscal year 2004 levels.

### Summary of Tax Receipts: (February - March 2005)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	924.5	931.8	7.3	0.8
Sales	602.9	627.2	24.4	4.0
Corporate	218.3	243.9	25.6	11.7
Motor Vehicles	41.1	38.2	(2.9)	(7.1)
Other	<u>299.6</u>	<u>318.9</u>	<u>19.2</u>	<u>6.4</u>
Total	2,086.4	2,160.0	73.6	3.5

Almost all of the positive variance in sales tax receipts was attributable to lower than projected sales tax refunds. (See page 4) Gross sales tax receipts in February and March were just \$2 million (0.3 percent) above forecast, while sales tax refunds were \$22 million below February's estimate. The volatility in firms' equipment purchases and filing patterns often creates large short-term variances in sales tax refunds. Typically those large positive or negative variances are offset in future months as business spending returns to trend levels. The entire corporate income tax variance came from final payments and refunds. Final payments, which often include settlements of items covering multiple tax years, were \$20 million (33 percent) above the forecast. Corporate refunds were \$12 million less than projected. Corporate estimated tax receipts were \$6 million below forecast.

Withholding receipts for the individual income tax were \$4 million (0.5 percent), above forecast for February and March. As in past years individual income tax receipts include only withholding and individual estimated tax payments. Variances in tax year 2004 refunds and final payments are not reported during the tax-processing season. Those variances will be reported in July's *Economic Update*, after processing of all timely 2004 tax returns has been completed.

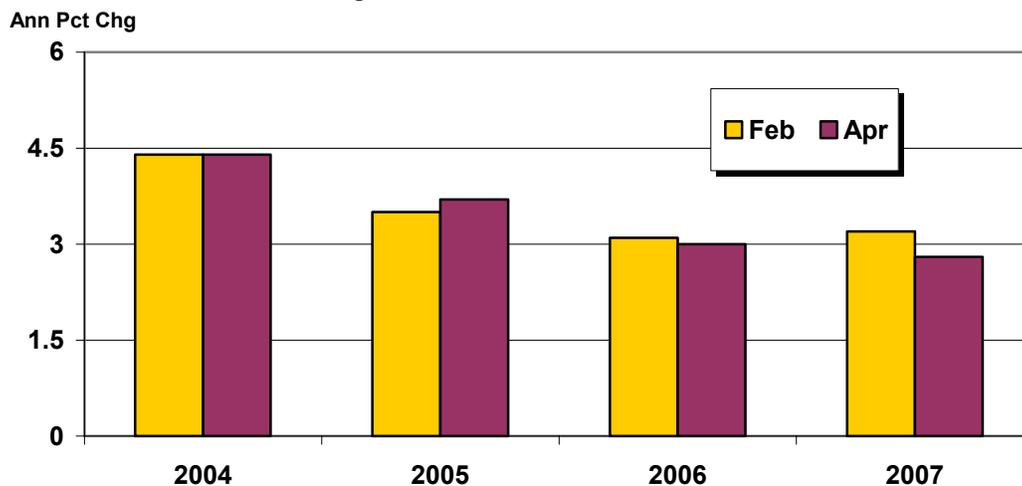
### Higher Oil Prices, Further Fed Interest Rate Hikes Trim Outlook for 2006-07

Forecasters have become less sanguine about the economic outlook. On most measures the U.S. economy continues to show signs of strong future economic growth. But, oil prices are well above everyone's comfort zone, and over the past three months employment growth has been stubbornly sluggish. No one believes the expansion is over or that a recession is on the way, but projections for real GDP growth in 2005, 2006, and 2007 are being scaled back

Unexpectedly high-energy prices are the primary concern. Earlier this year most forecasts called for a slight decline in oil prices by mid-year, and a drop to \$35 per barrel by the end of 2005. Instead, oil prices have ratcheted up to above \$50 per barrel and futures markets indicate they will remain at that level through 2009. Oil price shocks add to inflationary pressures, so the Federal Reserve is likely to raise interest rates even more than expected earlier this year. High oil prices also remove some of the economy's ability to absorb other unanticipated shocks, raising the risk of a major slowdown.

Global Insight Inc., (GII), Minnesota's national economic consultant, is among those who have significantly changed their oil price outlook. The GII April baseline scenario assumes oil prices will average more than \$48 per barrel through 2006. These changes, plus the additional interest rate hikes now in the forecast have produced a slight decline in expected real GDP growth in 2006 and 2007.

#### Slightly Weaker Real GDP Growth Now Projected for 2006 and 2007

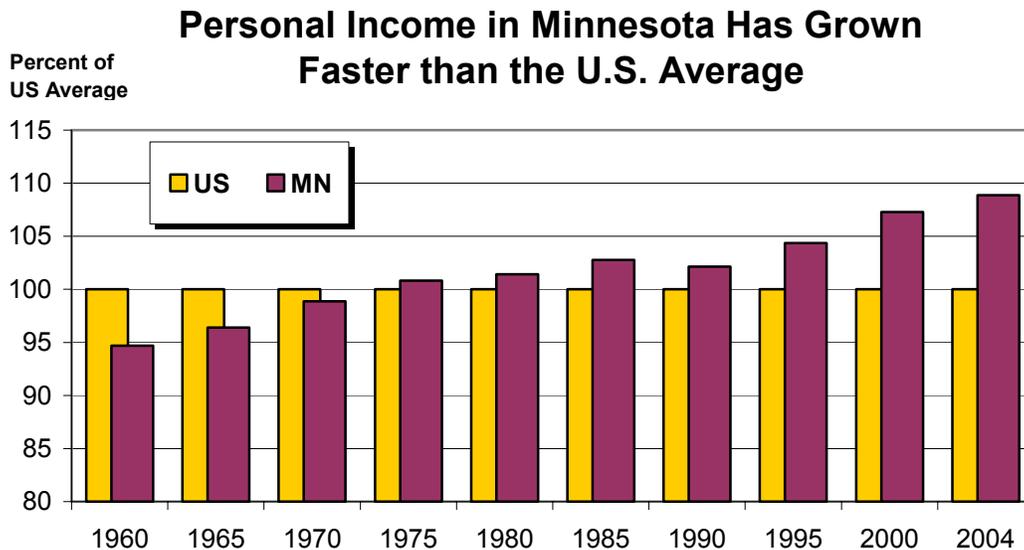


GII's April baseline calls for real GDP growth of 3.7 percent in 2005, 3.0 percent in 2006 and 2.8 percent in 2007. The GII outlook for 2005 is up slightly from February's estimate of 3.5 percent, while growth rates for 2006 and 2007 are both slightly below the growth rates used in February's revenue forecast. The Blue Chip consensus now calls for real growth rates of 3.7 percent in 2005 and 3.4 percent in 2006. Global Insight continues to assign a probability of 60 percent to the baseline forecast, with a more optimistic and a more pessimistic scenario (which does not include a recession) each assigned probabilities of 20 percent.

**Minnesota Per Capita Personal Income Up 5.4 percent in 2004**

Per capita personal income in Minnesota reached \$35,861 in 2004 according to a recent U.S. Department of Commerce report. Minnesota incomes grew an average of 5.4 percent in 2004, 15<sup>th</sup> best among all states. The national average growth rate was 4.7 percent. Per capita income in Minnesota now exceeds the U.S. average of \$32,937 by more than 9 percent and we currently rank 8<sup>th</sup> among all states in per capita income. Our neighbors --Wisconsin, North Dakota, South Dakota and Iowa--rank 21<sup>st</sup>, 24<sup>th</sup>, 27<sup>th</sup> and 31<sup>st</sup> respectively. Personal income per capita, the average of the sum of all earnings from all sources including transfer payments, is generally considered to be the best economic measure of the standard of living in a state. The levels reported and growth rates are not adjusted for inflation.

Minnesota has not always been among the leaders in per capita incomes. In 1960 per capita income was 95 percent of the U.S. average and the state ranked 25<sup>th</sup> among all states. It was not until the early 1970's that Minnesota incomes were at the national average, and since then, Minnesota has shown strong and steady income growth. During the past 35 years per capita personal income in Minnesota has grown at an annual rate of 6.8 percent. The U.S. average was 6.3 percent.



Per capita income growth in Minnesota has generally followed a steady upward trend, but since 1990 Minnesota's growth appears to have accelerated slightly compared to the national average. Between 1990 and 2004 per capita personal income in Minnesota grew by 80 percent, while the US average was 69 percent. Disposable (after tax) income per capita grew by 83 percent in Minnesota. Nationally per capita disposable income growth was 72 percent.

## Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	2005 Fiscal Year-to-Date			February - March 2005		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
<b>Individual Income Tax</b>						
Withholding	3,928,783	3,933,095	4,312	913,700	918,012	4,312
Declarations	695,747	698,738	2,991	10,800	13,791	2,991
Miscellaneous	128,693	128,693	0	0	0	0
Gross	4,753,223	4,760,526	7,303	924,500	931,803	7,303
Refund	123,052	123,052	0	0	0	0
Net	4,630,170	4,637,473	7,303	924,500	931,803	7,303
<b>Corporate &amp; Bank Excise</b>						
Declarations	601,740	595,455	(6,285)	182,100	175,815	(6,285)
Miscellaneous	150,303	170,161	19,858	60,200	80,058	19,858
Gross	752,043	765,616	13,573	242,300	255,873	13,573
Refund	69,196	57,191	(12,006)	24,000	11,994	(12,006)
Net	682,847	708,425	25,578	218,300	243,878	25,578
<b>Sales Tax</b>						
Gross	3,153,340	3,155,190	1,850	653,436	655,286	1,850
Refunds	146,150	123,621	(22,528)	50,574	28,045	(22,528)
Net	3,007,191	3,031,569	24,378	602,862	627,240	24,378
<b>Motor Vehicle Sales</b>	188,755	185,897	(2,857)	41,116	38,259	(2,857)
<b>Other Revenues:</b>						
Inherit/Gift/Estate	61,538	59,107	(2,431)	13,641	11,210	(2,431)
Liquor/Wine/Beer	47,258	47,334	75	9,105	9,181	75
Cigarette/Tobacco/Cont Sub	108,219	102,714	(5,505)	25,448	19,943	(5,505)
Deed and Mortgage	195,877	198,392	2,514	37,557	40,071	2,514
Insurance Gross Earnings	214,991	220,005	5,014	95,100	100,114	5,014
Lawful Gambling	38,535	37,526	(1,009)	9,199	8,190	(1,009)
Health Care Surcharge	152,631	150,438	(2,193)	34,947	32,754	(2,193)
Other Taxes	888	906	18	151	169	18
State wide property tax	278,310	278,386	75	0	75	75
DHS RTC Collections	36,589	41,374	4,785	5,087	9,872	4,785
Income Tax Reciprocity	49,850	49,850	0	0	0	0
Investment Income	9,930	10,780	850	2,335	3,184	850
Tobacco Settlement	175,488	175,488	0	0	0	0
Departmental Earnings	192,232	194,912	2,680	31,535	34,215	2,680
Fines and Surcharges	57,357	58,915	1,558	13,433	14,991	1,558
Lottery Revenues	28,761	28,216	(544)	6,508	5,964	(544)
Revenues yet to be allocated	626	5,924	5,298	0	5,298	5,298
Residual revenues	56,447	61,918	5,471	18,451	23,922	5,471
Sales Tax Rebates (all years)	2	1	(0)	0	(0)	(0)
County Nursing Home Pub Hosp	23,094	23,094	0	5,132	5,132	0
Other Subtotal	1,728,623	1,745,279	16,656	307,628	324,284	16,656
Other Refunds	25,318	22,728	(2,590)	8,020	5,429	(2,590)
Other Net	1,703,304	1,722,551	19,246	299,608	318,855	19,246
						0
<b>Total Gross</b>	<b>10,575,984</b>	<b>10,612,509</b>	<b>36,525</b>	<b>2,168,980</b>	<b>2,205,504</b>	<b>36,525</b>
<b>Total Refunds</b>	<b>363,717</b>	<b>326,593</b>	<b>(37,124)</b>	<b>82,593</b>	<b>45,469</b>	<b>(37,124)</b>
<b>Total Net</b>	<b>10,212,267</b>	<b>10,285,916</b>	<b>73,649</b>	<b>2,086,386</b>	<b>2,160,035</b>	<b>73,649</b>