

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

C.L. "Butch" Otter, Governor
Wayne L. Hammon, Administrator

Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

DIVISION OF FINANCIAL MANAGEMENT

JUNE 2009 VOLUME XXXI NO. 12

The cool, wet weather in early June had Idahoans wondering when summer would start this year. But the vacation season is not the only thing behind schedule. Each spring the Idaho Division of Financial Management (DFM) publishes its Budget Activities Summary report. Due to this year's longer-than-usual legislative session, this publication was issued a few weeks later than usual. It is now available at: http://dfm.idaho.gov/Publications/BB/BudActivitySummary/BudSummary09/FY09BudActivity_toc.htm. We hope you find the wait was worth it. This report includes a list of newly passed laws that will impact the state's General Fund in the upcoming fiscal year. They are contained in the table below. It includes each bill's number, a short description of each bill, and its fiscal impact on each General Fund category. For example, House Bill 3 makes several changes to the Water's-Edge Election that raise the corporate income tax by \$100,000 in FY 2010. All of these impacts will be incorporated into DFM's August 2009 General Fund Revenue forecast.

The net impact to the General Fund in FY 2010 is a negative \$11.649 million. During the 2009 Idaho legislative session, there were about as many laws passed (three) that raise revenue as there were laws that decrease it (four). However, the combined magnitude of the increases is much smaller than that of the reductions. Together, House Bills 3, 105, and 327 raise an estimated \$2.836 million in FY 2010. It should be pointed out, however, that little of this total will actually enhance the General Fund. Specifically, \$2.6 million will be deposited into the General Fund, but it is earmarked to help fund the public school levy equalization. Only the remaining

\$236,000 is available for general government functions.

This aggregate \$236,000 increase pales in comparison to the \$14.485 million in reductions to the General Fund. The bill with the smallest negative impact (\$5,000) is House Bill 51 that extends the existing deduction for technological equipment to private schools. House Bill 232a has a \$500,000 impact. This bill extends the current credit for taxes paid to other states to estates and trusts. House Bill 64a allows tax payers claiming the standard deduction to also deduct their real estate taxes on their Idaho return. The impact of this bill is \$2 million. House Bill 281 has the largest negative impact on the General Fund in FY 2010. Its total impact of nearly \$12 million is split between \$8.88 million from the individual income tax and \$3.1 million from the corporate income tax.

Not only does House Bill 281 have the largest fiscal impact, it is also the most complicated revenue bill passed in 2009. It consists of several components that conform Idaho law

with the *American Recovery and Reinvestment Act of 2009*. Each impact was calculated by the Honorable Brent Hill who is the Chairman of the Senate Local Government and Taxation Committee. The Bonus Depreciation and Section 179 component of the bill has the largest impact, \$5 million. The next largest component is the exclusion for unemployment benefits, with an impact of \$4.7 million. The bill also allows for a deduction for the sales tax paid for vehicles, which is calculated at \$1.68 million. The deduction for cancellation of debt income is worth \$400,000 and the deduction for S-Corporation built-in gains is worth \$200,000.

It should be pointed out that the fiscal impact of this bill falls significantly in FY 2011 to \$720,000. This drop occurs because the unemployment benefit exclusion and sales tax deduction for vehicles expire in CY 2010 and the impact of the Bonus Depreciation and Section 179 deduction decline to \$120,000. The impacts for the other components of this bill remain unchanged from the previous year.

Fiscal Impacts of Bills Passed in 2009 on the FY 2010 General Fund		
Bill Number	Description	Amount
HB 3	Corporate Tax Water's-Edge Election	\$100,000
HB 51	Income Tax Ded. for Tech Equip. Donation	(\$5,000)
HB 64a	Internal Revenue Code Conformity	(\$2,000,000)
HB 105	Increase Filing Fees for Small Claims Cases	\$136,000
HB 232a	Income Taxation, Estate/Trust	(\$500,000)
HB 281	Income Taxation, Internal Revenue Code	(\$11,980,000)
HB 327	Public School Bond Levy Equalization	\$2,600,000
Total		(\$11,649,000)

Idaho General Fund Update

As of May 31, 2009

\$ Millions			
Revenue Source	FY 2009 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,222.6	1,139.3	1,093.0
Corporate Income Tax	156.5	134.3	123.4
Sales Tax	1,041.6	955.5	940.0
Product Taxes ¹	29.7	27.2	27.4
Miscellaneous	110.1	54.6	50.1
TOTAL GENERAL FUND²	2,560.4	2,311.0	2,233.9

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of March 2009

May General Fund revenue collections slipped further, coming in \$11.9 million lower than expected for the month. This brings the fiscal year shortfall in revenue to \$77.1 million with just one month remaining in FY 2009. The bulk of May's weakness occurred in the sales tax (short by \$4.9 million) and miscellaneous revenue (low by \$4.2 million). None of the five revenue categories came in higher than expected in May, but the product taxes category did come in on target in May, and is the only one of the five main revenue categories that is ahead of expectations on a fiscal year-to-date basis.

The individual income tax was remarkably stable in May, coming in just \$0.9 million below the target amount for the month. Looking at the detail reveals a bit more turbulence. Filing collections were the strong element of May's revenue, coming in \$3.0 million higher than expected. This leaves the filing component behind expectations by just \$9.3 million for the fiscal year to date. Withholding collections were \$3.8 million lower than expected for May, but this is a big improvement over the

\$8.7 million that withholding was behind in April. This component is short by \$19.8 million on a fiscal year-to-date basis. Refunds and miscellaneous distributions were high by a combined \$0.4 million, thereby adding a small amount to the month's weakness. On a fiscal year-to-date basis miscellaneous distributions are a mere \$0.2 million higher than expected, but refunds are a more substantial \$16.9 million higher than expected. All told, the individual income tax is \$46.3 million lower than expected for the fiscal year to date.

The corporate income tax was \$1.8 million lower than expected in May, also a distinct improvement over the shortages of \$6.9 million and \$7.2 million in March and April, respectively. This category is now \$10.9 million below expectations on a fiscal year-to-date basis. All three major components of the corporate income tax contributed to May's weakness. Filing payments were \$0.6 million lower than expected, estimated payments were \$0.6 million lower than expected, and refunds were \$0.6 million higher than expected.

The sales tax came in \$4.9 million below expectations for May, and this is also an improvement over April, which came in \$7.3 million below the target for that month. Sales tax revenue is now \$15.5 million low for the fiscal year to date. May's gross collections were 13.4% below the same month a year earlier, and this is an improvement from April's year-over-year decline of 14.7%. April's decline was the steepest drop of the entire fiscal year, but there has only been one month since September 2008 that has not had a year-over-year gross sales tax drop less than 10% (that was a 9.6% decline in January 2009). The fiscal year-to-date drop now stands at minus 10.1%, making a first ever full-year decline in double digits a distinct possibility.

Product tax revenue came in exactly on target in May, but miscellaneous revenue was \$4.2 million lower than expected for the month. This weakness was almost entirely due to interest earnings that were \$4.1 million lower than expected for the month.

