



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE
HARRISBURG, PENNSYLVANIA
17128-1100

THE SECRETARY

(717) 783-3680

April 30, 2014

Honorable Michael Brubaker
Senate of Pennsylvania
168 Main Capitol Building
Harrisburg, PA 17120-3036

Dear Senator Brubaker:

Thank you for the invitation to testify at the Senate Finance Committee hearing on April 30, 2014. The Department of Revenue (Department) has carefully reviewed Pennsylvania's recent tax collections numbers, and respectfully submits the following analysis for your consideration.

The forecast for real gross domestic product (GDP) growth on a national level in the first quarter of 2014, according to IHS Economics, has been reduced to 0.9 percent from last month's 1.4 percent. Nationally, the storyline behind the relatively weak quarter remains focused on three factors depressing growth: the weather, reduced inventory gains, and corrections for unusual capital spending and export patterns at the end of last year. This forecast is lower than the forecast available at the time the fiscal year 2013-14 budget was adopted.

While personal income tax and sales tax are the largest sources of General Fund revenues, accounting for 40.5 percent and 31.1 percent respectively, these two revenue sources are also particularly vulnerable to economic change and are therefore difficult to forecast.

In Pennsylvania, sales tax collections in March totaled \$676 million, \$44.1 million below estimates, bringing fiscal-year-to-date sales tax collections to \$6.7 billion, which is \$111.1 million, or 1.6 percent, less than anticipated. The Department believes recent sales tax shortfalls are likely attributed to the harsh weather this past winter, and are hopeful that as the weather improves sales tax collections will begin to meet estimate.

Attached, please find a table and bar chart illustrating sales/use tax revenue quarterly growth for the past five years, dating back to the third quarter of 2008, when the latest recession began. These resources are provided to demonstrate that sales tax is a volatile revenue source, one that rises and falls with business cycles in the economy.

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March and April are the two largest tax revenue months of the year, and April's revenues, available May 1, 2014 will begin to offer valuable insight into personal income tax collections and future forecasts. Early data suggest personal income tax collections will not meet estimate for the month or fiscal year, but the reasons for the shortfall may not become fully clear until the Department can analyze personal income tax returns. The Department is currently studying the available data to learn about future trends.

Thank you for the opportunity to submit this data. I hope that this information is helpful to the committee. Please let me know if you have further questions, or if the Department can provide additional information.

Sincerely,



Daniel Meuser
Secretary of Revenue

Table 1

Sales and Use Tax Quarterly Growth - 5 Year History
Motor Vehicle and Non-Motor Vehicle
(\$Thousands)

	Total SUT	Growth
2008 Q3	2,193,650	0.2%
2008 Q4	2,020,482	-3.7%
2009 Q1	1,949,983	-5.9%
2009 Q2	1,971,393	-7.7%
2009 Q3	2,031,372	-7.4%
2009 Q4	1,932,905	-4.3%
2010 Q1	1,927,125	-1.2%
2010 Q2	2,137,768	8.4%
2010 Q3	2,119,076	4.3%
2010 Q4	2,043,359	5.7%
2011 Q1	2,008,292	4.2%
2011 Q2	2,419,490	13.2%
2011 Q3	2,193,623	3.5%
2011 Q4	2,191,375	7.2%
2012 Q1	2,121,774	5.7%
2012 Q2	2,265,494	-6.4%
2012 Q3	2,236,062	1.9%
2012 Q4	2,238,993	2.2%
2013 Q1	2,112,265	-0.4%
2013 Q2	2,306,394	1.8%
2013 Q3	2,301,707	2.9%
2013 Q4	2,275,570	1.6%
2014 Q1	2,111,702	0.0%

Table 2

