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The Office of the Chief Economist & Tax Analysis released the monthly revenue report for state tax collections for the month of October 2023.

Note to readers: The monthly revenue estimates are based on the April 19, 2023 revenue forecast which considers revenue developments and the economic outlook presented on that date. This includes previously discussed changes in tax deadlines, payment timing, as well as assumptions related to federal and state policy actions leading up to the release of the forecast.

Information on the latest forecast is available at <https://www.in.gov/sba/2837.htm>.

Fiscal Year 2024 began on July 1, 2023 and ends June 30, 2024.

Results

- General Fund revenues for October totaled \$1,467.3 million, which is \$134.7 million (8.4%) below estimate based on the April 19, 2023 revenue forecast and \$186.8 million (11.3%) below revenue in October 2022.

Notably, lower-than-expected collections from individual income tax and sales tax outweighed higher-than-expected collections from interest.

This month's lower-than-expected performance is mostly driven by individual income tax and should be interpreted within the context of the fiscal year-to-date perspective and the full fiscal year outlook. Notably, October individual income tax revenues were \$104.1 million below monthly estimate while September and August individual income tax revenues were \$81.0 million and \$53.1 million above their respective monthly estimates.

Differences relative to monthly estimates and prior year actuals will be influenced by various factors including payment timing, federal policy actions, and changes to law.

- Sales tax collections totaled \$845.2 million for October, which is \$49.3 million (5.5%) below the monthly estimate and \$16.0 million (1.9%) below revenue in October 2022.

Comparisons relative to monthly estimates and prior year actuals will be impacted by HEA 1001-2023 which removed the allocation of gasoline use tax collections to the General Fund, beginning in FY 2024.

Monthly collections attributable to sales tax were \$43.2 million below the monthly estimate and \$3.6 million (0.4%) below prior year actuals. The October performance of -0.4% year-over-year growth, which mostly reflects September economic activity, compares to 5.2% year-over-year growth for FY 2023.

Year-over-year differences and fluctuations from month-to-month are expected as outlined by the evolving economic, seasonal, and policy dynamics presented in the April 2023 revenue forecast. Sales tax collections excluding gasoline use tax are projected to grow by 4.1% year-over-year for FY 2024 compared to 5.2% in FY 2023, 9.9% in FY 2022, and 13.9% in FY 2021.

Beginning in FY 2024, gasoline use tax is no longer allocated to the General Fund. As a result, gasoline use tax monthly collections came in \$6.1 million below the monthly estimate and \$12.4 million (100.0%) below prior year actuals. HEA 1001-2023, which passed after the April 19, 2023 revenue forecast, changed the allocation of gasoline use tax.

- Individual income tax collections totaled \$496.4 million for October, which is \$104.1 million (17.3%) below the monthly estimate and \$190.9 million (27.8%) below revenue in October 2022. Year-over-year comparisons are impacted by the reduction in the state individual income tax rate (effective January 1, 2023) and more.

As abovementioned, this month's performance should be interpreted within the context of the fiscal year-to-date perspective and the full fiscal year outlook. Notably, October individual income tax revenues were \$104.1 million below monthly estimate, while September and August individual income tax revenues were \$81.0 million and \$53.1 million above their respective monthly estimates.

Monthly collections related to tax withholdings came in \$20.5 million above the monthly estimate and \$47.0 million (5.5%) above the prior year actuals. The October performance of 5.5% year-over-year growth mostly reflects September economic activity. Additionally, payments associated to IT-6WTH (partnerships) were \$42.7 million (99.8%) above prior year actuals.

Other monthly individual income tax collections, net of refunds, came in \$124.5 million below the monthly estimate and \$237.9 million (140.1%) below prior year actuals. October 2022 was positively impacted by a delay in processing non-withholdings payments. Approximately \$64 million of non-withholdings individual income tax collections that were expected in September were reported in October. Additionally, estimated payments were approximately \$125.5 million (80.5%) below prior actuals and refunds were approximately \$71.3 million (70%) above prior year actuals.

The better-than-expected performance in withholdings and lower-than-expected performance in non-withholdings are influenced by temporary timing impacts associated with the implementation of recent changes in law (HEA 1001-2023, pass-through entity tax). Notably, as taxpayers adjust, withholdings may temporarily benefit from higher IT-6WTH payments from partnerships and non-withholdings may temporarily experience lower payments and higher refunds.

These timing impacts are projected to normalize over the course of fiscal year 2024, and the net impact on total individual income tax revenues is currently projected to remain neutral.

With important quarterly payment due dates, September, January, April, and June are the most important revenue months for individual income tax.

- Corporate tax collections totaled \$26.0 million for October, which is \$0.9 million (3.6%) above the monthly estimate but \$4.3 million (14.1%) below revenue in October 2022.

Differences relative to monthly estimates are likely as various factors may impact monthly revenue activity including payment and refund timing, late payments, and more.

With important quarterly payment due dates, September, December, April, and June are the most important revenue months for corporate taxes.

- Riverboat wagering tax collections totaled \$15.0 million for October, which is \$2.4 million (13.8%) below the monthly estimate and \$3.6 million (19.2%) below revenue in October 2022.
- Racino wagering tax collections totaled \$9.4 million for October, which is \$0.7 million (7.2%) below the monthly estimate and \$0.7 million (6.6%) below revenue in October 2022.

Commentary

Year-to-date General Fund revenues totaled \$6,557.5 million, which is \$69.2 million (1.0%) below the April 2023 revenue forecast and \$7.9 million (0.1%) below revenues through the same period in the prior fiscal year.

Year-to-date sales tax collections totaled \$3,464.0 million, which is \$140.2 million (3.9%) below the April 2023 revenue forecast and \$27.7 million (0.8%) below collections through the same period in the prior fiscal year.

Year-to-date collections attributable to sales tax excluding gasoline use tax are \$115.3 million (3.2%) below the April 2023 revenue forecast but \$30.0 million (0.9%) above collections through the same period in the prior fiscal year.

Year-to-date individual income tax collections totaled \$2,354.1 million, which is \$43.2 million (1.9%) above the April 2023 revenue forecast but \$51.5 million (2.1%) below collections through the same period in the prior fiscal year. IT6-WTH payments (partnerships) are \$304.9 million (323.7%) above same period in the prior fiscal year while estimated payments are \$137.4 million (34.3%) below the same period in the prior fiscal year and refunds are \$145.5 million (83.3%) below the same period in the prior fiscal year.

Year-to-date corporate tax collections totaled \$257.5 million, which is \$53.7 million (17.3%) below the April 2023 revenue forecast and \$49.8 million (16.2%) below collections through the same period in the prior fiscal year. Refunds are \$27.0 million below the same period in the prior fiscal year. Year-over-year comparisons are impacted by the repeal of the utility receipts tax and utility services use tax as well as other factors such as timing of payments and refunds, additional changes in law, and more.

Comparisons to estimates and prior-year actuals will be better interpreted over the April and June months since those months are the two highest revenue activity months.

As previously noted, monthly collections and comparisons relative to monthly estimates are better interpreted looking at the full fiscal year perspective. In addition to the factors mentioned throughout this commentary, various aspects to consider include federal policy actions, temporary and seasonal economic dynamics, interest rates, and more.