SOUTH CAROLINA
GENERAL FUND REVENUE

FY 2020-21 Year-end Review
and FY 2021-22 Outlook

September 23, 2021
FY 2020-21 Final Revenues
# General Fund Revenue

## REVENUES V. BEA MONTHLY ESTIMATES

### FINAL FY 2020-21

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Expected</th>
<th>Over/ (Under)</th>
<th>Estimate</th>
<th>Actual</th>
<th>Over/ (Under)</th>
<th>Estimate</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total General Fund Revenue</strong></td>
<td>$11,089.1</td>
<td>$10,060.8</td>
<td>$1,028.4</td>
<td>2.7%</td>
<td></td>
<td>13.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Tax</td>
<td>3,825.92</td>
<td>3,630.2</td>
<td>195.7</td>
<td>10.4%</td>
<td>16.4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>5,421.3</td>
<td>4,948.3</td>
<td>473.0</td>
<td>(1.4%)</td>
<td>8.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withholdings</td>
<td>6,041.2</td>
<td>5,866.7</td>
<td>174.5</td>
<td>3.9%</td>
<td>7.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonwithholdings</td>
<td>1,594.9</td>
<td>1,308.4</td>
<td>286.6</td>
<td>2.4%</td>
<td>24.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refunds</td>
<td>2,214.8</td>
<td>2,226.9</td>
<td>(12.0)</td>
<td>16.8%</td>
<td>16.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>669.2</td>
<td>465.9</td>
<td>203.3</td>
<td>10.1%</td>
<td>58.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Tax</td>
<td>293.2</td>
<td>280.2</td>
<td>13.1</td>
<td>16.0%</td>
<td>21.4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Revenue Items, Sub-Total</td>
<td>879.5</td>
<td>736.2</td>
<td>143.2</td>
<td>(10.5%)</td>
<td>6.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Revenue Items, Sub-Total</td>
<td>$879.5</td>
<td>$736.2</td>
<td>$143.2</td>
<td>(10.5%)</td>
<td>6.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Based on BEA Forecast as of April 08, 2021**
General Fund FY 2020-21 Summary

• FY 21 finished $1.028 billion ahead of the April 2021 forecast
• Almost all categories finished ahead of estimates, largely due to an excess generated in the last quarter after the April forecast
• Tax season was much better than anticipated, and the stimulus impact was greater than anticipated
• Results by tax type:
  • Individual Income tax - $473 million ahead
  • Sales tax - $195.7 million ahead
  • Corporate Income tax - $203.3 million ahead
Total General Fund
Revenue grew much faster in the last three months of the fiscal year during tax season than anticipated; FY 21 ended with budget surplus of $1.02 billion

ROLLING FISCAL YEAR - TOTAL GENERAL FUND REVENUE
Actuals and Estimates - FY 2018-19 to FY 2020-21
Annual General Fund Revenue Growth
FY 21 revenue grew $1.295 billion over FY 20, or 13.2%, significantly higher than ever before

Source: Revenue and Fiscal Affairs - 169A/LHJ/08/27/2021
Total Individual Income Tax
Strong tax season resulted in growth of 8% for the year
Sales Tax
Collections grew 16.4% compared to forecast of 10.4%, largely due to the final quarter

![Sales Tax Collections Graph](image)

- **Actual Collections**
- **Estimates**
- **Target Range: +2.0%**

### ROLLING FISCAL YEAR - SALES TAX
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2020-21

- **Actual Collections**
- **Estimates**
- **Target Range: +2.0%**
Corporate Income Tax
Collections totaled $351 million in last quarter compared to $315 in the first nine months
FY 2021-22 General Fund Revenue
Total General Fund – FY 21 Compared to Pre-pandemic Trend
Is final FY 21 revenue a solid base when considering adjustments to FY 22?
## FY 2021-22 General Fund Revenue through August

### REVENUES V. BEA MONTHLY ESTIMATES

**JULY - AUGUST FY 2021-22**

<table>
<thead>
<tr>
<th>($ in Millions)</th>
<th>Actual Revenues</th>
<th>Expected Revenues</th>
<th>Over/ (Under) Estimate</th>
<th>Actual Full Yr. YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total General Fund Revenue</strong></td>
<td>$1,580.8</td>
<td>$1,366.6</td>
<td>$214.1</td>
<td>(10.5%)</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>388.7</td>
<td>307.8</td>
<td>80.9</td>
<td>(10.6%)</td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>1,064.5</td>
<td>964.1</td>
<td>100.4</td>
<td>(6.6%)</td>
</tr>
<tr>
<td>Withholdings</td>
<td>1,050.8</td>
<td>958.1</td>
<td>92.7</td>
<td>(0.8%)</td>
</tr>
<tr>
<td>Nonwithholdings</td>
<td>109.8</td>
<td>94.8</td>
<td>15.0</td>
<td>(16.1%)</td>
</tr>
<tr>
<td>Refunds</td>
<td>96.1</td>
<td>88.8</td>
<td>7.3</td>
<td>2.3%</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>47.0</td>
<td>38.5</td>
<td>8.5</td>
<td>(30.4%)</td>
</tr>
<tr>
<td>Insurance Tax</td>
<td>7.5</td>
<td>6.1</td>
<td>1.4</td>
<td>(12.6%)</td>
</tr>
<tr>
<td>Other Revenue Items, Sub-Total</td>
<td>73.0</td>
<td>50.2</td>
<td>22.9</td>
<td>(12.6%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Revenue Items, Sub-Total</th>
<th>Actual Revenues</th>
<th>Expected Revenues</th>
<th>Over/ (Under) Estimate</th>
<th>Actual Full Yr. YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admissions Tax</td>
<td>(2.8)</td>
<td>(4.2)</td>
<td>1.5</td>
<td>(12.6%)</td>
</tr>
<tr>
<td>Alcoholic Liquors Tax</td>
<td>10.4</td>
<td>6.1</td>
<td>4.3</td>
<td>(13.5%)</td>
</tr>
<tr>
<td>Bank Tax</td>
<td>(0.7)</td>
<td>0.2</td>
<td>(0.9)</td>
<td>(54.2%)</td>
</tr>
<tr>
<td>Beer and Wine Tax</td>
<td>11.2</td>
<td>10.7</td>
<td>0.5</td>
<td>(1.2%)</td>
</tr>
<tr>
<td>Corporate License Tax</td>
<td>7.2</td>
<td>5.9</td>
<td>1.3</td>
<td>(31.7%)</td>
</tr>
<tr>
<td>Deed Rec. (Doc. Tax)</td>
<td>12.6</td>
<td>8.8</td>
<td>3.8</td>
<td>(25.6%)</td>
</tr>
<tr>
<td>Earnings on Investments</td>
<td>14.4</td>
<td>13.0</td>
<td>1.4</td>
<td>13.6%</td>
</tr>
<tr>
<td>Residual Revenue</td>
<td>20.7</td>
<td>9.7</td>
<td>11.0</td>
<td>(18.6%)</td>
</tr>
</tbody>
</table>

Based on BEA Forecast as of April 08, 2021
Total General Fund – FY 22 Forecast
The spring stimulus continues to impact revenue collections

ROLLING FISCAL YEAR - GENERAL FUND
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22

Target Range: +2.0%
Total General Fund – FY 22 Compared to Pre-pandemic Trend

ROLLING FISCAL YEAR - GENERAL FUND
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22

Target Range: +2.0%
General Fund Revenue
Individual Income Tax Components
Individual Withholdings RFY FY22
August collections were the second highest ever recorded; FY 22 yearly growth is at 10.9%
Total Earnings in South Carolina
Total earnings recovered shortly after the initial disruption of COVID-19 and continue grow despite lower employment.
Average Hourly Earnings in South Carolina
After a spike during the beginning of the pandemic, hourly earnings have continued to increase; this indicates the potential for a lasting increase to Withholdings collections.

U.S. Bureau of Labor Statistics, State and Metro Area Employment, Hours, and Earnings - RFA/bdc/09/20/2021
Individual Withholdings FY22
Outlook and Risks

• We may be on a normal employment growth trend instead of a faster recovery due to some workers having left the labor force for the long term. Consequently, a recovery of lost jobs is not expected to drive Withholdings growth.

• The labor shortage has driven up average hourly earnings in most industries (not including bonuses), and it is not likely that these earnings will fall back down in the near term.

• A high quit rate indicates that workers are confident enough in the economy to seek better jobs and higher wages.

• While it is not yet clear how COVID-19 variants may impact economic activity, Withholdings collections are not expected to be overly affected.
Individual Non-Withholdings RFY FY 22
While the current estimate is 16.1% below the previous year, annualized expected growth since FY 2018-19 is 3.13%
US Self-employment
Total self-employment has reached the highest levels since 2008 as workers navigate the pandemic labor market

U.S. Bureau of Economic Analysis, Current Employment Statistics - RFA/bdc/09/20/2021
Individual Non-Withholdings FY 22
Outlook and risks to these types of income

• Is final FY 21 a solid base to project FY 22?

• The durability of the new self-employment trend is a vital component of the Non-Withholdings outlook. Will this trend persist?

• Federal Reserve decisions regarding rate-setting and the bond-buying program will have implications for Non-Withholdings collections. Both financial markets and business activity may be impacted.

• Risks over the next year include a potential asset bubble downswing, as well as disruptions to businesses and supply chains.
General Fund Revenue
Consumption Taxes
Sales Tax RFY FY 22
Aided by an audit payment of $25 million, August 2021 collections were the highest Sales tax collections ever recorded, with year-over-year growth of 27.5%
Sales FY 22
Outlook and Risks

• Is final FY 21 a solid base to project FY 22?
• Consumer behavior has changed since the beginning of the pandemic
• Spending remains elevated over pre-pandemic levels
  • As supply constraints continue, durable goods orders declined slightly in July
• Unclear how long this growth trend will continue
  • Likely still seeing the impact of stimulus on spending
  • Behavioral changes may be prolonged due to the Delta variant
Consumer Spending – Goods and Services
Compared to the start of the pandemic, durable and nondurable goods purchases have increased, while spending on services has decreased.
Durable Goods
Orders for durable goods decreased slightly in July, as manufacturers continued to grapple with shortages and confront higher material costs.
Deed Recording Fee RFY FY 22
August 2021 collections were the highest ever recorded in South Carolina, with year-over-year growth of 95.0%
South Carolina Home Sales and Prices
The number of homes sold and the median sales price have continued to grow, contributing to the recent spike in Deed Recording Fees.
Deed Recording Fees FY 22
Outlook and Risks

• Demand continues to outpace supply, resulting in high sales price

• Drivers of demand:
  • Ultra low interest rates
  • Consumer responses to COVID-19 restrictions

• Supply response
  • Residential permitting in South Carolina increased by 38.2% in FY 2020-21, and housing starts increased 16.6% in the Southern region
General Fund Revenue
Business Taxes
Corporate Income Tax RFY FY 22
Growth in FY 21 likely driven by high retail sales; FY 22 will depend on consumer spending patterns
US Corporate Profits
Companies have shown strong profit growth following the drop during the start of the pandemic, spiking even higher in Q2 2021

U.S. CORPORATE PROFITS
(Before Taxes)

Source: U.S. Bureau of Economic Analysis, National income: Corporate profits before tax (without IVA and CCAdj) [A053RC1Q027SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; 293-RFA/lhj/09/07/2021
Corporate License Tax RFY FY21
FY 21 finished at $148.1 million, $10.2 million ahead of the forecast

ROLLING FISCAL YEAR - CORPORATE LICENSE TAX
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2020-21

Target Range: +2.0%
Corporate License Tax RFY FY 22
FY 22 forecast reflects a decline of $46.9 million from FY 21 actual

ROLLING FISCAL YEAR - CORPORATE LICENSE TAX
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22
Bank Tax RFY FY 21
FY 21 ended up $46.7 million over the forecast; $39.7 million was collected in June, including a $15.4 million audit payment

ROLLING FISCAL YEAR - BANK TAX
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2020-21

Target Range: +2.0%
Bank Tax RFY FY 22
FY 22 forecast expects a decline in collections; audits have boosted total collections in recent years but are unpredictable.
Bank Performance

Net operating income for US banks improved significantly in Q1 & Q2 of 2021 despite low interest rate margins as banks released reserves built up during the pandemic.
Business Taxes FY 22
Outlook and Risks

• Is final FY 21 revenue a solid base for projecting FY 22?
• Corporate Income and License taxes hit all-time highs in FY 21, but performance in FY 22 is less clear
• Corporate Income taxes are likely to remain high so long as retail spending is up
• Corporate License tax is likely to be above the current forecast, but timing of collections makes growth uncertain
• Bank taxes will depend on interest rates, loans, and any potential audit revenue, which is less predictable
Forecast Outlook
for FY 2021-22 and FY 2022-23
Potential Forecast Adjustments to FY22

• Individual Income Withholdings are likely to exceed the current estimate
• Non-Withholdings may be above the forecast but are less predictable
• Sales tax is likely to be above the forecast, especially for the upcoming six months
• Corporate Income is likely to be above the forecast so long as retail sales are up
National Economic Indicators
COVID Cases in South Carolina
7-day average new cases in South Carolina exceeding US

7-DAY AVERAGE NEW CASES PER 100K

Source: Centers for Disease Control and Prevention COVID Data Tracker 294 - RFA/bdc/09/21/2021
Unemployment Rates
South Carolina’s unemployment rate of 4.2% as of August 2021 remains below the US rate of 5.3%
US Inflation
Short-term inflation expectations have changed significantly in the last 3 months
South Carolina Economic Indicators
South Carolina Employment
Total employment has leveled out in recent months after running slightly above the forecast.
SC Employment Recovery by Industry
Overall employment in July 2021 is 1.7% below pre-pandemic levels

Source: U.S. Dept. of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages; Federal Reserve Bank of St. Louis, FRED 281a--RFA/bdc/9/20/2021
SC Personal Income

Personal income spiked in Q1 of 2021 well above expectations, largely due to federal stimulus payments.

SOUTH CAROLINA PERSONAL INCOME
Actual and Estimate

Data Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Board of Economic Advisors
Personal income spiked in Q1 of 2021 well above expectations, largely due to three federal stimulus payments.
General Fund Revenue as a Percentage of Personal Income

General Fund revenue for FY 21 is well above what would be expected based on estimated personal income.

SOUTH CAROLINA GENERAL FUND REVENUE
as a Percentage of Total Personal Income

Source: U.S. Department of Commerce, Bureau of Economic Analysis; SC Revenue and Fiscal Affairs Office 34F-LHJ/08/25/2021
Annual General Fund Revenue Growth
FY 22 estimate is a decline of $1.164 billion from FY 21
Key Questions for FY 2021-22 and FY 2022-23

• How long does stimulus funding continue to affect revenues?
• How does personal income perform without stimulus?
• Can the natural economy replace the stimulus impact?
• Does consumer spending revert to historical patterns or is this a new normal?
• Is the COVID-19 resurgence going to cause further disruptions in supply chains and business growth?
• Does Federal Reserve policy change, and how does that affect growth?
  • Federal budget and debt ceiling remain an uncertainty
Insights and Perspectives
FY 2021-22 and FY 2022-23
Reports from Working Group Members
Other Items for Discussion