



Policy Note

E&F and PET Tax Revenue – FY24



Summary: CT Budget Agencies Miss Again by Another Huge Margin.

OPM and OFA released a new Consensus Revenue Forecast (CRF) on April 30th. The CRF revealed another huge miss on tax revenue from Estimates & Finals (E&F) and the Pass-Through Entity Tax (PET), repeating the big miss last year in fiscal 2023. This Note analyzes CRFs over the course of FY2023 and FY 2024; see in Attachment 1.

1. ***Back-to-back offsetting misses in FY 2024 and FY 2023.***
 - a. In FY 2024, CRF was *low by \$645 million* (net).
 - b. In FY 2023, CRF was *high by \$500 million* (net).
 - c. Highlighted in *yellow within red box on Attachment 1.*
 - d. Huge adjustments with *only 2 months remaining* in these two fiscal years.
 - e. Huge adjustments almost *3 months after start* of budget sessions in February.
2. ***The huge misses are an inevitable function of a flawed CRF Forecasting regime:***
 - a. Budget agencies rely upon “data points that will provide us an evidence-based input to change our estimates,” per OPM. They should not be “evidence-based.”
 - b. Instead, stock market performance is best predictor of E&F / PET tax revenue.
 - c. January CRF should reflect stock market results in the calendar year just closed, not YTD data as to E&F and PET tax receipts.
 - d. Mid-January CRF should be rescheduled two weeks to encompass initial results from the mid-January filing of the last of 4 E&F filings each annual tax cycle.
 - e. Better estimates are critical to better state budgeting starting in early February.
 - f. In FY 2023, OPM left unchanged its E&F/PET estimate as late as 4/20/23.
 - g. In FY 2024, CRF was reduced based on YTD data before April, making 4/30/24 revision of CRF that much larger. See *light green highlight in green box on Att. 1.*
3. ***Budget agencies flip-flopped on long-term forecasts too.***
 - a. In FY 2024, 4/30 CRF *added \$1.8 billion* (net) to 4 years of FY25 to FY28.
 - b. In FY 2023, 5/1 CRF *removed \$1.5 billion* (net) from 3 years of FY24 to FY26.
 - c. Highlighted in *light red within red box on Attachment 1.*
4. ***CRF in April 2024 increased E&F projection for FY24-FY25-FY26 by \$1.0 billion, as highlighted in light blue in blue box on Attachment 1.***
5. ***Without explanation, budget agencies added an extra year to long-term forecast.***
 - a. 4/30/24 CRF adjusted FY24 and projected FY25 to FY28 – 4 years.
 - b. 5/01/23 CRF adjusted FY23 and projected FY24 to FY26 – 3 years.
6. ***Budget agencies do not disclose assumptions underlying their CRF forecasts.***
7. ***Budget agencies (and Volatility Cap law) focus on gross E&F and PET tax revenue and ignore large totals of refunds of E&F and PET taxes paid.***
 - a. In FY 2024, E&F and PET refunds totaled \$1.8 billion, YTD through April.
 - b. In FY 2023, E&F and PET refunds totaled \$1.8 billion.
 - c. In FY 2022, E&F and PET refunds totaled \$1.5 billion.
 - d. Numbers on Attachment 1 are net revenue receipts, not gross receipts.
8. ***This Note incorporates by reference NRI-Townsend studies of Mar. 14, 2024 & Mar. 2023.***

CONSENSUS REVENUE FORECAST: CHANGES IN PROJECTED E&F/PET REVENUE FROM 2023 TO 2024

CHANGES IN FORECASTS FROM ONE YEAR TO THE NEXT CANCELLED EACH OTHER OUT: After a Bad Year, the Forecast was Reduced; After a Good Year, it was Increased.

Note: The FY24 CRF of E&F receipts increased less than the FY23 CRF of E&F receipts decreased. The E&F net decrease was offset by the CRF-to-CRF increase in PET receipts

CRF - January 16, 2024

	E&F	PET	Combined	E&F	PET	Combined	% Difference
FY24	\$ 2,497.5	\$ 1,760.9	4,258.4 ⁽¹⁾	\$ 2,997.5	\$ 1,905.9	\$ 4,903.4	20.0%
FY25	2,562.1	1,819.4	4,381.5	3,123.5	1,969.3	5,092.8	21.9%
FY26	2,665.2	1,889.0	4,554.2	2,960.9	2,045.0	5,005.9	11.1%
FY27	2,771.8	1,963.2	4,735.0	2,960.9	2,125.4	5,086.3	6.8%
FY28	2,882.7	2,040.0	4,922.7	3,034.9	2,208.7	5,243.6	5.3%
5 Years: FY24 - FY28	\$ 13,379.3	\$ 9,472.5	\$ 22,851.8	\$ 15,077.7	\$ 10,254.3	\$ 25,332.0	12.7%
4 Years: FY24 - FY27	\$ 10,496.6	\$ 7,432.5	\$ 17,929.1	\$ 12,042.8	\$ 8,045.6	\$ 20,088.4	8.3%
L-T Forecast: FY25-FY28:	\$ 10,881.8	\$ 7,711.6	\$ 18,593.4	\$ 12,080.2	\$ 8,348.4	\$ 20,428.6	8.3%
3 Years: FY24 - FY26	\$ 7,724.8	\$ 5,469.3	\$ 13,194.1	\$ 9,081.9	\$ 5,920.2	\$ 15,002.1	12.7%

CRF - April 30, 2024

	E&F	PET	Combined	E&F	PET	Combined	% Difference
FY24	\$ 500.0	\$ 145.0	645.0	\$ 500.0	\$ 145.0	645.0	20.0%
FY25	561.4	149.9	711.3	561.4	149.9	711.3	21.9%
FY26	295.7	156.0	451.7	295.7	156.0	451.7	11.1%
FY27	189.1	162.2	351.3	189.1	162.2	351.3	6.8%
FY28	152.2	168.7	320.9	152.2	168.7	320.9	5.3%
5 Years: FY24 - FY28	\$ 1,698.4	\$ 781.8	\$ 2,480.2	\$ 1,698.4	\$ 781.8	\$ 2,480.2	12.7%
4 Years: FY24 - FY27	\$ 1,546.2	\$ 613.1	\$ 2,159.3	\$ 1,546.2	\$ 613.1	\$ 2,159.3	8.3%
L-T Forecast: FY25-FY28:	\$ 1,198.4	\$ 636.8	\$ 1,835.2	\$ 1,198.4	\$ 636.8	\$ 1,835.2	8.3%

CRF - January 17, 2023

	E&F	PET	Combined	E&F	PET	Combined	% Difference
FY23	\$ 3,522.7	\$ 1,957.3	5,480.0	\$ 560.0	\$ 60.0	(500.0)	-15.9%
FY24	3,170.4	1,761.6	4,932.0	(504.0)	54.0	(450.0)	-15.9%
FY25	3,297.2	1,832.1	5,129.3	(539.1)	45.2	(493.9)	-16.4%
FY26	3,429.1	1,905.3	5,334.4	(560.1)	47.1	(513.0)	-16.3%
4 Years: FY23 - FY26	\$ 13,419.4	\$ 7,456.3	\$ 20,875.7	\$ (2,163.2)	\$ 206.3	\$ (1,956.9)	-16.1%
L-T Forecast: FY24-FY26:	\$ 9,896.7	\$ 5,499.0	\$ 15,395.7	\$ (1,603.2)	\$ 146.3	\$ (1,456.9)	2.8%

CRF - May 1, 2023

	E&F	PET	Combined	E&F	PET	Combined	% Difference
FY23	\$ 2,962.7	\$ 2,017.3	4,980.0 ⁽²⁾	\$ (560.0)	\$ 60.0	(500.0)	-15.9%
FY24	2,666.4	1,815.6	4,482.0 ⁽¹⁾	(504.0)	54.0	(450.0)	-15.9%
FY25	2,758.1	1,877.3	4,635.4	(539.1)	45.2	(493.9)	-16.4%
FY26	2,869.0	1,952.4	4,821.4	(560.1)	47.1	(513.0)	-16.3%
4 Years: FY23 - FY26	\$ 11,256.2	\$ 7,662.6	\$ 18,918.8	\$ (2,163.2)	\$ 206.3	\$ (1,956.9)	-16.1%
L-T Forecast: FY24-FY26:	\$ 8,293.5	\$ 5,645.3	\$ 13,938.8	\$ (1,603.2)	\$ 146.3	\$ (1,456.9)	2.8%

NET CHANGE: SUCCESSIVE CRFS

5/1/23 CRF TO 1/16/24 CRF

	E&F	PET	Combined	E&F	PET	Combined
FY24:	\$ 168.9	\$ 54.7	\$ 223.6	\$ (60.0)	\$ 205.0	\$ 145.0
FY25:	196.0	57.9	253.9	57.4	203.9	261.3
FY26:	203.8	63.4	267.2	(243.4)	201.2	(42.2)
	\$ 568.7	\$ 176.0	\$ 744.7	(371.0)	209.3	(161.7)
	\$ 568.7	\$ 176.0	\$ 744.7	(617.0)	\$ 819.4	\$ 202.4

CHANGE IN FORECASTS: SAME FYs Vs SAME END OF APRIL CRF : 2024 CRF over 2023 CRF

FY24 from 4/30/24 CRF over FY24 from 5/1/23 CRF
 FY25 from 4/30/24 CRF over FY25 from 5/1/23 CRF
 FY26 from 4/30/24 CRF over FY26 from 5/1/23 CRF

	E&F	PET	Combined	E&F	PET	Combined
FY24:	\$ 331.1	\$ 90.3	\$ 421.4	\$ (60.0)	\$ 205.0	\$ 145.0
FY25:	365.4	92.0	457.4	57.4	203.9	261.3
FY26:	91.9	92.6	184.5	(243.4)	201.2	(42.2)
	\$ 788.4	\$ 274.9	\$ 1,063.3	(371.0)	209.3	(161.7)
	\$ 788.4	\$ 274.9	\$ 1,063.3	(617.0)	\$ 819.4	\$ 202.4

CHANGE IN FORECASTS FOR NEXT FOUR YEARS: 2024 and 2023 CRFs -- MID-JAN CRF to END-OF-APRIL CRF

CURRENT FY: FY23 from 2023 CRF vs FY24 from 2024 CRF
 NEXT FY: FY24 from 2023 CRF vs FY25 from 2024 CRF
 FY 2 YRS OUT: FY25 from 2023 CRF vs FY26 from 2024 CRF
 FY 3 YRS OUT: FY26 from 2023 CRF vs FY27 from 2024 CRF

	E&F	PET	Combined	E&F	PET	Combined
Current:	\$ (60.0)	\$ 205.0	\$ 145.0	\$ (60.0)	\$ 205.0	\$ 145.0
Next:	57.4	203.9	261.3	57.4	203.9	261.3
2 Yrs Out:	(243.4)	201.2	(42.2)	(243.4)	201.2	(42.2)
3 Yrs Out:	(371.0)	209.3	(161.7)	(371.0)	209.3	(161.7)
	\$ (617.0)	\$ 819.4	\$ 202.4	(617.0)	\$ 819.4	\$ 202.4

(1) Official FY2024 budget projection was \$4,457.

(2) Final actual combined in FY2023 was \$4,962.

* Note, the PET projection did not reverse, but increased in the FY24 CRF.