

# Revenue and Economic Update

July 10, 2024

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## Revenues Above February 2024 Forecast

Minnesota's net general fund receipts for fiscal year (FY) 2024 are now estimated to total \$30.238 billion, \$421 million (1.4 percent) more than projected in the February 2024 *Budget and Economic Forecast*. Net income, corporate, and other receipts were above the forecast, and net sales receipts were slightly (0.4 percent) below the forecast. State revenues in the final quarter of FY 2024 were \$180 million (2.0 percent) more than forecast in February. (See page 4 for details.)

Net individual income tax receipts are estimated to end the year \$44 million (0.3 percent) more than forecast. Gross income tax receipts were \$16 million above the forecast, and refunds were \$28 million less than expected.

Income tax withholding payments were \$63 million (0.5 percent) more than forecast. All the positive variance reflects tax year (TY) 2024 activity.

that they owe tax liability and make a payment to avoid penalty and interest. Typically, these taxpayers file their return on or before October 15.

Miscellaneous payments, consisting mostly of TY 2023 final payments, were \$210 million (10.5 percent) less than forecast. This consists of final payments with tax returns, and all other individual income tax payments that are not declarations or withholding. It also includes estimated and final payments for fiduciary income tax. The individual income tax payments accounted for \$219 million of the variance, all of which was related to TY 2023 or prior years. The remainder of the variance is attributable to fiduciary payments exceeding forecast by approximately \$8 million. This variance is related to both TY 2023 and TY 2024.

Partnership and S Corporation gross receipts exceeded our forecast by \$136 million (5.0 percent). These payments

## Summary of Revenues: Fiscal Year 2024

(\$ in millions)	February 2024 Forecast	Estimated Closing Revenues	\$ Difference	% Difference
Individual Income Tax	\$14,810	\$14,854	\$44	0.3%
General Sales Tax	7,578	7,543	(35)	-0.4
Corporate Franchise Tax	3,000	3,169	170	5.7
Other Revenues	4,428	4,671	242	5.5
<b>Total Revenues<sup>1</sup></b>	<b>\$29,816</b>	<b>\$30,237</b>	<b>\$421</b>	<b>1.4%</b>

1. Totals may not add due to rounding.

Declarations exceeded the forecast by \$28 million (1.3 percent). Of that variance, \$6 million is due to higher estimated payments made in the months of April through June towards TY 2024 liability. The remainder of the variance (\$22 million) are payments towards TY 2023 liability consisting of estimated payments made in February and March, and extension payments made on or about April 15th. Extension payments are made by taxpayers who do not file a return on April 15, but estimate

consist of pass-through entity (PTE) tax payments, non-resident composite payments, nonresident withholding payments and minimum fee payments. Of this variance, approximately \$87 million is related to TY 2023, and most of that is likely due to higher PTE tax payments. All other things equal one would expect this would result in higher PTE tax credits on extension individual income tax returns due on October 15. This would imply higher

refunds or lower final payments between now and the end of January 2025 when these returns are processed. The remaining \$49 million of the variance is related to TY 2024 activity.

Total refunds were \$28 million (0.7 percent) below the forecast. Partnership and S Corporation entity refunds were \$13 million above (unfavorable), likely due to overpayment of the PTE payments for TY 2023. Individual, fiduciary, and other refunds were \$42 million below (favorable) forecast. This includes the one-time roughly \$983 million tax credit passed in the 2023 legislative session and paid out as a refund in FY 2024. There are significant number of high-income returns that will be filed after the close; refunds on those returns may result in an unfavorable refund variance in the first half of FY 2025.

Net corporate receipts were \$170 million (5.7 percent) more than forecast. Gross corporate tax payments were \$146 million above the forecast while refunds were \$24 million lower than expected.

Net general sales tax receipts are estimated to end FY 2024 \$35 million (0.4 percent) less than forecast. Gross sales tax payments were \$24 million below the forecast, and refunds were \$11 million higher than expected.

Other net revenues were \$242 million (5.5 percent) more than forecast. Most of this variance is from investment income being \$153 million (23.2 percent) higher than forecasted. Estate taxes, net insurance premium taxes and residual revenues were also higher than forecasted. Net cigarette/tobacco tax, health care surcharge, statewide and property tax were lower than forecasted.

All FY 2024 results are preliminary and subject to change. The state’s fiscal year that ended June 30, 2024, will officially close on August 16. Values in the actual columns on page 4 reflect actual revenues attributable to FY 2024 as well as estimates of revenue accruals through closing.

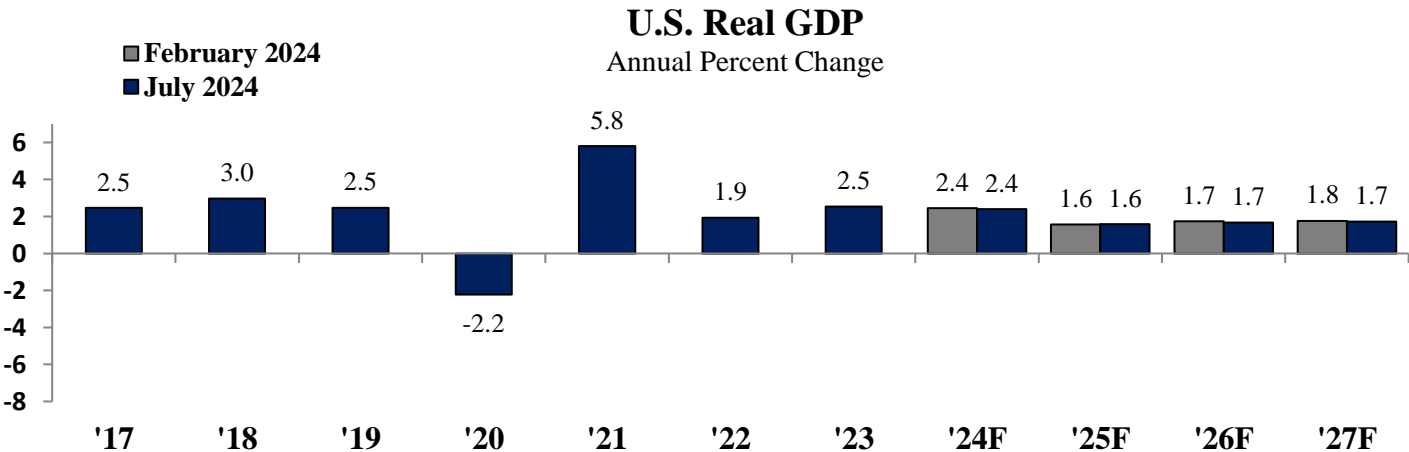
As of June 30, total FY 2024 revenue was \$30.223 billion. Estimated accruals and pre-close adjustments add about \$13 million on net. Revenues that will be received or recognized between the end of the fiscal year and the close add an estimated \$192 million. Income, corporate, and sales tax refunds attributable to FY 2024 and expected to be paid out before the close subtract \$178 million. A complete reporting of FY 2024 revenues will be part of October’s *Revenue and Economic Update*.

### Near-term U.S. Economic Outlook Remains Stable

The near-term outlook for U.S. real GDP growth remains stable and consistent with Minnesota’s *Budget and Economic Forecast*, prepared in February 2024. S&P Global Market Intelligence (SPGMI), Minnesota’s macroeconomic consultant, expects annual real GDP to grow 2.4 percent this year, followed by 1.7 percent annually in years 2025 through 2027, little changed from the February forecast.

SPGMI expects that the price of Brent crude oil will average \$84 per barrel in 2024 and \$77 in 2025 both up slightly from the February forecast of \$83 and \$76 in 2024 and 2025, respectively.

SPGMI forecasts the inflation rate in the consumer price index (CPI, all items) of 3.0 percent in 2024, up from 2.8



Source: Bureau of Economic Analysis and SPGMI

percent in their February outlook. They expect CPI inflation of 2.1 percent in 2025, up from 1.9 percent in their February forecast. SPGMI expects the first FOMC rate cut to take place in December, seven months later than expected in the February forecast.

The SPGMI June baseline forecast for 2024 is slightly higher than the most recent Blue Chip Consensus, the median of 50 business and academic forecasts. The April Blue Chip Consensus calls for 2.3 percent growth in 2024, compared to the SPGMI forecast of 2.4 percent for this year. SPGMI expects real GDP to grow 1.7 percent in 2025, 0.1 percentage points below the Blue Chip Consensus of 1.8 percent.

The Bureau of Labor Statistics (BLS) reports that in June, the seasonally adjusted U.S. unemployment rate ticked up to 4.1 percent, exceeding 4.0 percent for the first time in two years. The number of people who remain unemployed in the United States stood at 6.8 million people (seasonally adjusted) in June 2024, up from 6.0 million in June 2023. Nonfarm payroll employment increased a robust 206,000 jobs in June. The number of long-term unemployed (those jobless for 27 weeks or more) was 1.51 million (seasonally adjusted) in June, up from 1.11 million in June 2023. SPGMI expects that the U.S. unemployment rate will average 4.0 percent in 2024, 4.4 percent in 2025, and 4.7 percent in 2026.

The alternative scenarios for the SPGMI July forecast are not yet available. The following alternatives are based on the June forecast. SPGMI assigns a 55 percent probability to the June baseline outlook. The alternative scenarios are weighted toward the downside. SPGMI assigns a 25 percent probability to a more pessimistic scenario, characterized by (1) a contraction in consumer spending and business investment caused by a significant tightening of lending standards and higher energy prices, and (2) higher energy prices caused by worsening conflicts in Ukraine and the Middle East. As a result, real GDP will grow 1.8 percent in 2024 and 0.2 percent in 2025, compared to 2.4 and 1.7 percent in the baseline outlook.

In the more optimistic scenario, SPGMI assumes that (1) robust consumer spending and elevated business fixed investment as the result of solid credit expansion and lower energy prices, and (2) conflicts in Ukraine and the Middle East subside, leading to lower energy prices. Consumer spending and business investment are stronger relative to the baseline. This scenario also assumes that the federal Infrastructure, Investment, and Jobs Act has a greater economic impact than in the baseline. In this scenario, GDP will grow 2.7 percent in 2024 and 2.6 percent in 2025. The optimistic scenario receives a 20 percent probability.

# Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year 2024			April-June 2024		
	FORECAST REVENUES <sup>1,2</sup>	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES <sup>1,2</sup>	ACTUAL REVENUES	VARIANCE ACT-FCST
<b>Individual Income Tax</b>						
Withholding	11,950,157	12,012,670	62,513	2,958,739	2,953,582	(5,157)
Declarations	2,196,000	2,223,646	27,646	1,183,200	1,224,030	40,830
Miscellaneous	1,997,771	1,787,749	(210,022)	1,275,425	1,114,522	(160,903)
Partnership & S Corporation Gross	2,710,767	2,846,690	135,923	646,926	695,624	48,698
Gross	18,854,695	18,870,755	16,060	6,064,290	5,987,757	(76,533)
Partnership & S Corporation Refunds	130,147	143,562	13,416	41,983	44,262	2,279
Individual, Fiduciary, & Withholding Ref.	3,914,548	3,873,011	(41,538)	1,167,142	1,114,124	(53,017)
Total Refunds	4,044,695	4,016,573	(28,122)	1,209,125	1,158,386	(50,739)
Net Income Tax	14,810,000	14,854,182	44,182	4,855,165	4,829,372	(25,794)
<b>Corporate Franchise Tax</b>						
Declarations	2,958,295	3,092,612	134,317	976,842	1,007,726	30,884
Miscellaneous	226,314	237,879	11,564	48,432	55,883	7,452
Gross	3,184,609	3,330,490	145,881	1,025,273	1,063,610	38,336
Refund	184,663	161,029	(23,634)	64,682	43,678	(21,004)
Net	2,999,946	3,169,461	169,515	960,591	1,019,931	59,340
<b>General Sales and Use Tax</b>						
Gross	7,769,640	7,746,091	(23,549)	1,881,870	1,847,472	(34,398)
MPLS Sales Tax Transferred to MSFA				-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	17,997	18,272	275	3,761	4,036	275
Sales Tax Gross	7,787,637	7,764,363	(23,274)	1,885,631	1,851,508	(34,124)
Refunds (including Indian refunds)	210,098	221,342	11,243	79,182	103,535	24,353
Net	7,577,539	7,543,022	(34,517)	1,806,449	1,747,973	(58,476)
<b>Other Revenues</b>						
Net Estate	245,500	288,028	42,528	49,173	100,256	51,083
Net Liquor/Wine/Beer	112,700	111,480	(1,220)	38,469	37,904	(565)
Net Cigarette/Tobacco	531,620	518,502	(13,119)	159,332	143,869	(15,463)
Deed and Mortgage	235,367	236,245	877	72,254	73,280	1,026
Net Insurance Premiums Taxes	526,928	572,729	45,801	111,934	120,572	8,638
Net Lawful Gambling	194,050	197,258	3,209	56,627	58,729	2,102
Health Care Surcharge	344,813	306,264	(38,549)	174,066	149,327	(24,739)
Other Taxes	20,660	23,085	2,425	20,534	22,958	2,424
Statewide Property Tax	732,459	717,866	(14,594)	392,030	380,936	(11,094)
DHS SOS Collections	132,076	136,026	3,950	26,571	30,602	4,032
Investment Income	658,300	811,948	153,648	147,640	283,833	136,193
Tobacco Settlement	162,413	165,053	2,640	20,599	23,199	2,600
Dept. Earnings & MSOP Recovery	233,056	239,145	6,089	74,332	74,066	(266)
Fines and Surcharges	65,332	74,018	8,686	26,543	38,117	11,574
Lottery Revenues	85,461	91,250	5,789	32,967	38,338	5,371
Revenues yet to be allocated	(0)	(0)	(0)	(13,306)	(16,482)	(3,176)
Residual Revenues	156,961	190,940	33,979	13,655	48,559	34,904
Other Subtotal	4,437,696	4,679,835	242,138	1,403,419	1,608,064	204,645
Other Refunds	9,203	9,174	(29)	2,525	1,947	(578)
Other Net	4,428,493	4,670,660	242,167	1,400,894	1,606,117	205,224
<b>Total Gross</b>	34,264,638	34,645,443	380,805	10,378,613	10,510,939	132,325
<b>Total Refunds</b>	4,448,659	4,408,118	(40,542)	1,355,514	1,307,545	(47,969)
<b>Total Net</b>	29,815,979	30,237,326	421,347	9,023,099	9,203,393	180,294

1. February 2024 Budget and Economic Forecast.

2. Adjusted for legislative changes.