



Preliminary Tax Collections and the Apparent FY 2005 Surplus

On July 18, 2005, the Department of Revenue (DOR) announced its preliminary tax collection totals for fiscal year 2005. As expected, actual tax collections exceeded projected levels by a considerable margin. When the FY05 budget was enacted last June, tax collections were anticipated to total \$15.933 billion, but, according to DOR, FY05 tax collections have amounted to \$17.086 billion, a difference of some \$1.153 billion. That entire \$1.153 billion sum should not be considered “surplus” revenue, however. As the table below indicates, substantial claims against that higher than expected revenue total already exist, both in the form of costs associated with supplemental appropriations and the need to compensate for the use of temporary sources of revenue to support FY05 spending.

	<u>AMOUNT</u> <u>(in \$million)</u>
Initial FY05 Tax Revenue Benchmark	15,933
Preliminary Total FY05 Tax Collections	17,086
Preliminary Tax Revenue in Excess of Initial FY05 Benchmark	1,153
Impact of Enacted FY05 Supplemental Appropriations	(174)
FY05 Surplus without Adjusting for Temporary Revenue Sources	980
Temporary Revenue Sources	(734)
<i>Transfer from Stabilization Fund to General Fund in FY05</i>	(340)
<i>Transfer from FMAP Escrow Fund to General Fund in FY05</i>	(270)
<i>Transfers necessitated by FY05 Supplementals</i>	(124)
Preliminary FY05 Surplus	246

After making such adjustments, a surplus of just \$246 million remains. That number may climb due to an expected surplus within the MassHealth program, but, in other accounts, appropriated amounts may prove to be insufficient to meet expected costs, requiring the Legislature to provide additional funds to cover these “deficiencies.” Moreover, in balancing the FY05 budget, the Commonwealth relied on approximately \$168 million in tobacco settlement funds, funds that, under existing law, should have been deposited into a trust fund to be saved for future purposes. Arguably, any FY05 surplus should be used to compensate for that diversion as well. Ultimately, the most fiscally responsible course would be to allocate any remaining surplus to true “one-time” uses, such as bolstering the Stabilization Fund, augmenting capital spending, or reducing the Commonwealth’s debt, rather than adopting new spending initiatives or financing permanent tax cuts.