Revenue Estimating Conference
Gross Receipts Tax/Communications Services Tax
February 21, 2023
Executive Summary

The Revenue Estimating Conference met on February 21, 2023, to adopt a new forecast for the Gross Receipts Tax and the State Sales Tax on Communications Services. For FY 2022-23, Gross Receipts Tax collections from all components (derived from separate taxes on electricity, gas and communications) came in $42.3 million (5.5%) above the forecasted level. Collections from the separate State Sales Tax on Communications were $3.1 million below (-1.0%) the forecasted level. Compared to the July 2022 conference results, the new forecast for the Gross Receipts Tax has the largest upward adjustment occurring in the current fiscal year, accounting for the continued effect of the recent and substantial level shift that took place in FY 2021-22. Growth is anticipated to remain strong into FY 2023-24 before downward adjustments occur from FY 2024-25 to FY 2026-27. More stable growth is then expected to follow at an annual average of 0.58% until FY 2031-32. The changes in the Gross Receipts Tax feed directly into the dollars available for PECO appropriations. The highlights for both Gross Receipts and the State Tax Component for Communications Services are detailed below.

	Gross Receipts Tax All Sources	Diff from Prior Forecast	Growth Rate Forecast		Communications Services Tax-State Tax Component*	Diff from Prior Forecast	Growth Rate Forecast
FY 22-23	1362.51	110.16	12.94%		607.56	-1.13	4.10%
FY 23-24	1492.17	254.12	9.52%		632.57	-0.88	4.12%
FY 24-25	1438.14	203.45	-3.62%		655.65	-0.93	3.65%
FY 25-26	1309.62	61.08	-8.94%		673.30	-0.77	2.69%
FY 26-27	1299.38	37.43	-0.78%		689.42	-0.67	2.39%
FY 27-28	1316.16	39.56	1.29%		704.25	-0.44	2.15%
FY 28-29	1322.97	30.26	0.52%		720.17	-0.19	2.26%
FY 29-30	1325.12	17.00	0.16%		735.36	0.06	2.11%
FY 30-31	1329.65	7.05	0.34%		749.91	0.29	1.98%
FY 31-32	1314.49	5.49	-1.14%		765.37	0.40	2.06%

*The CST State Tax Component Includes Direct-to-Home Satellite

Gross Receipts Tax on Utilities: Relative to the prior estimates, the residential, commercial, and industrial price series for electricity-based collections is increased in each year of the forecast. This action is buttressed by the National Economic Estimating Conference results which indicate that energy prices will remain heightened from the levels seen in FY 2020-21 and earlier. Consumption across the residential, commercial, and industrial components for FY 2022-23 are coming in higher than expected at the July conference. Beginning from this elevated base, each consumption component is anticipated to experience a small downward adjustment in FY 2023-24 in response to electricity price pressures. Growth will resume at an annual average of two-tenths of one percent and six-tenths of one percent for the residential and commercial sectors, respectively. Industrial consumption will experience minor downward corrections from the elevated base in the current fiscal year, declining less than one-tenth of one percent on average throughout the remaining forecast horizon. Relative to the prior forecast, the net effect of these adjustments increases the level of expected collections from both electricity at the 2.5% rate and commercial and industrial electricity at the 2.6% rate throughout most of the forecast horizon.

For natural gas utilities, projected prices are generally higher for both the residential and commercial components throughout the forecast horizon. Downward adjustments were made to both residential and commercial consumption in FY 2023-24 and FY 2024-25 as consumption levels respond to the upward shift in natural gas prices. Stable growth is anticipated to resume thereafter at an annual average of three-tenths of one percent and seven-tenths of one percent for the respective residential and commercial consumption components. Compared to the prior forecast for gas fuels, the change in expected collections is projected to be about 5% higher overall for the forecast horizon.

State Communications Services Tax, Including Direct-to-Home Satellite Service (CST): The overall forecast relies on generating separate growth rates for the cable, wireless, landline, other services, and direct-to-home satellite tax bases.

The two primary positive drivers of growth in CST have typically been the Cable and Other categories; however, Cable has now experienced negative growth for five consecutive years. The forecast for Cable remains the same as the previous forecast, which extends this declining trend out to FY 2024-25 before stabilizing at growth of slightly less than one percent per year in the latter part of the forecast. The second positive driver, Other, includes the increasingly popular streaming entertainment options, and shows eight years (six actuals and two forecasted) of double-digit growth due to new market entrants and continued content expansion. For FY 2022-23, the growth rate for Other is expected to come in 3.3 percentage points higher than previously estimated. While elevated growth is anticipated through FY 2023-24, growth begins to slow in FY 2024-25 as the rapid-growth phase of the industry starts to ebb—declining from 8.54% growth in that year to just under 3.00% in the last two years of the forecast.

Historically, Wireless and Landline forecasts counter the positive growth seen in Cable and Other. Collections from the Wireless category have been declining in large part due to the unbundling of communication services tied to cellphone plans. The adopted forecast for Wireless maintains previous estimates, carrying over a steady decline that begins stabilizing in FY 2027-28 and onwards, staying in a narrow range between -3.93% and -2.87%. In contrast, Landline is declining due to dated technology that is primarily associated with a particular demographic group and smaller businesses. The Landline forecast was also held constant to the previous forecast. The largest decline is expected to take place in the current fiscal year, followed by a downward drift that continues throughout the forecast horizon, with an annual average of about -2.0% beginning in FY 2027-28. Satellite, or DHSS, experienced strong negative growth over the last five years partially due to the expiring contracts for exclusive content. The previous forecast for DHSS was carried over, maintaining the declining trend out to FY 2024-25 followed by gradual growth peaking at 1.09% in FY 2027-28. Growth is expected to slip to 1.03% in the last year of the forecast horizon.

Finally, the residential exemption is calculated by using the assumption that its level is a percentage of the sum of the levels of Cable, Wireless, Landline and Other. The estimated percentage is 12.54% for FY 2022-23, and is expected to average a weaker 10.90% throughout the remainder of the forecast period.

Gross Receipts CST is derived from two different tax rates plus a portion of direct-to-home satellite collections. First, a tax rate of 2.37% is applied to the cable, wireless, landline and miscellaneous services tax bases. Second, an additional tax rate of 0.15% is applied to the same tax bases, excluding landlines in residential households. The dollars generated by both of these tax rates, plus 20.7% of total direct-to-home satellite collections, comprise total Gross Receipts CST collections. Sales CST Collections are generated by applying a tax rate of 4.92% against the cable, wireless, landline and miscellaneous services tax bases, coupled with 44.32% of total direct-to-home satellite collections. As part of the calculation, the landline tax base is reduced by the residential household telephone exemption for Sales Tax CST. Direct-to-home satellite service is taxed at an 11.44% rate. The tax revenue is distributed between Gross Receipts CST, Sales CST, and local governments.

Local Communications Service Tax: The local CST forecast applies an average local CST tax rate of 5.23% to the four major bases (cable, wireless, landline and miscellaneous services). Like the CST forecasts for Gross Receipts and Sales, the local forecast is expected to decline because of the reduction in the wireless base.