

State Revenue *Preview*

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The *State Revenue Preview* is the first in a new series of releases covering state tax collections. It provides an early snapshot of the more comprehensive *State Revenue Report*, by reporting on tax collections for states that supplied information within one month after the close of their fiscal quarter. *State Revenue Preview # 65P* covers tax collections for the April to June quarter of 2006 for 34 states, which account for more than 75 percent of total tax collections for all the states.

Overview

As of the end of July 2006, tax collections for 34 states for the April-June quarter totaled \$138.2 billion, an increase of 10.2 percent compared to the same quarter the year before. This is the fastest growth since April-June 2005. Growth rates for the personal income tax and corporate income tax collections were up from the last quarter, but general sales tax collections were weaker. Growth was led by the Rocky Mountain, Southwest, and Far West regions.

Quarterly Results

State tax collections continued to grow strongly this quarter. The 10.2 percent increase is the highest in four quarters. Based on the states for which data are available, the Rocky Mountain region recorded the strongest growth at 16.6 percent, followed by the Southwest at 15.6 percent. The Great Lakes region again had the weakest growth at 4.3 percent. Eighteen of the 34 states recorded growth rates of more than 10 percent, compared to 17 states (of 50) last quarter. Three of the 34 states showed a decline in total tax collections, compared to two last quarter. The quarterly change in state tax collections is shown in Table 1.

Personal income tax collections increased 16.5 percent, the highest growth since April-June 2005. However, these collections tend to be stronger in the second calendar quarter. Seventeen states had double-digit growth in collections; only 2 states had declines. The Southwest region showed the strongest growth at 31.8 percent, while the Great Lakes was weakest at 5.5 percent.

Corporate income tax collections increased 14.6 percent, the third lowest growth rate over the past 10 quarters. Rocky Mountain states had the strongest growth at 43.1 percent, followed by the New England region at 37.5 percent. The Far West states had the weakest growth at 2.7 percent.

General sales tax collections grew 4.5 percent, the slowest in 11 straight quarters. This decline reflected tax cuts in large states such as New York.

Year-to-date Results

All states were adjusted to a July-June period for comparability. For the four quarters July 2005 through June 2006, total collections for the 34 states were \$451.6 billion, an 8.0 percent increase compared to last year. In contrast, growth in the July 2004-June 2005 period was 10.6 percent compared to the prior 12-month period. Collections growth was boosted by the personal income tax.

Results vs. Projections

Of the 34 states, 17 have a July-June fiscal year and report comparisons of actual year-to-date tax collections to projected cash flows. These comparisons indicated that actual tax collections exceeded

projections by 1.3 percent. Two states showed negative variances, while five reported total collections of 3 percent or more above their estimates. It should be stressed that these results by themselves do not indicate that states will report budget surpluses, since for the most part, the state reports do not compare actual spending to projections. However, to the extent states have been able to hold spending to budgeted levels, these positive variances suggest that budget surpluses will be generated.

Other Indicators

GDP growth slowed sharply this quarter, to 2.5 percent, compared to 5.6 percent the previous quarter.

Inflation for this period was 5.6 percent¹, the lowest in four quarters. After adjusting for inflation, the personal income and corporate income taxes showed strong growth, but sales tax collections showed a decline of 1.1 percent. Total tax collections in the Great Lakes region were negative compared to the same quarter last year.

Federal tax collections were robust this quarter. Individual income tax collections soared 22.5 percent compared to this quarter one year ago, while corporate income tax collections were up more than 23 percent.

Table 1
Percent Change in Quarterly Tax Revenue by State, April-June, 2006

	PIT	CIT	Sales	Total		PIT	CIT	Sales	Total
United States	16.5	14.6	4.5	10.2					
New England	11.7	37.5	4.1	11.7	Southeast	9.8	36.0	7.7	6.7
Connecticut	13.5	13.9	3.7	10.3	Alabama	10.7	26.5	7.2	10.0
Maine	6.1	22.2	5.8	15.4	Arkansas	9.8	17.0	7.5	8.5
New Hampshire	NA	110.4	NA	8.5	Florida	NA	24.6	7.1	2.2
Vermont	8.9	27.3	1.4	14.1	Kentucky	(9.2)	113.8	5.1	9.0
Mid Atlantic	15.6	13.9	(0.6)	10.0	Mississippi	10.4	20.8	18.1	12.1
Maryland	8.4	14.4	7.5	7.0	South Carolina	22.1	56.0	9.5	16.7
New York	18.6	2.2	(7.0)	11.6	Tennessee	NA	20.4	6.2	8.2
Pennsylvania	11.6	27.8	4.9	8.3	West Virginia	24.4	33.3	3.8	(2.9)
Great Lakes	5.5	5.6	1.1	4.3	Southwest	31.8	36.3	13.0	15.6
Illinois	11.9	13.4	9.0	9.4	Arizona	31.8	36.3	15.2	23.2
Indiana	5.6	10.6	5.1	6.4	Texas	NA	NA	12.6	13.7
Michigan	4.5	1.9	1.1	3.1	Rocky Mountain	22.1	43.1	2.9	16.6
Ohio	(1.5)	(9.5)	(8.5)	(0.8)	Colorado	23.0	39.3	5.2	18.9
Wisconsin	8.6	9.3	1.6	3.4	Idaho	27.5	39.0	(6.1)	12.9
Plains	13.7	23.8	5.7	11.0	Montana	10.1	59.2	NA	18.9
Iowa	8.6	40.0	2.2	7.6	Wyoming	NA	NA	18.4	1.3
Kansas	21.1	42.1	5.9	15.3	Far West	26.2	2.7	1.6	14.3
Minnesota	11.6	0.0	7.9	10.0	Alaska	NA	190.0	NA	24.0
Nebraska	17.4	25.4	1.3	11.9	California	26.2	1.7	1.6	14.1
North Dakota	19.8	63.6	2.9	17.1					
South Dakota	NA	NA	8.7	8.0					

¹ Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index.