

# State Revenue *Preview*

November 2006, No. 66P

*By Nai-Ling Kuo and Brian T. Stenson*

The *State Revenue Preview* 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 # 66P* covers tax collections for the July-September quarter of 2006 for 34 states, which account for more than 78 percent of total tax collections for all the states.

## Overview

As of the end of October 2006, total tax collections for 34 states for the July-September quarter were \$111.6 billion, a 4.2 percent increase from the same quarter the year before. This growth rate was less than half the previous quarter's 9.9 percent, and was the weakest since the July-September quarter of 2003. While not as strong as recent gains, the three major taxes were all up, and corporate tax collections showed a double-digit increase. Growth was led by the Rocky Mountain, Southwest, and Southeast regions.

## Quarterly Results<sup>1</sup>

State tax collections, which have been consistently strong in recent years, weakened this quarter. The 4.2 percent increase was the slowest in 12 quarters. Based on the states for which data are available, the Rocky Mountain region recorded the strongest growth at 8.2 percent, followed by the Southwest at 6.6 percent, and the Southeast at 6.2 percent. The New England region had the weakest growth at 1.0 percent. Only three of the 34 states showed double-digit growth, compared to 12 last quarter. Seven states recorded a decline, as opposed to only two last quarter. The change in state tax collections for the July-September 2006 quarter is shown in Table 1.

Personal income tax collections increased 6.5 percent, the second weakest growth in 12 quarters. Of the 30 states in this *Preview* that impose a personal income tax, 18 recorded growth of more than 5 percent, while four had declines. The Rocky Mountain region again had the biggest increase at 10.4 percent. The Great Lakes were the weakest at 4.6 percent.

Corporate income tax collections increased 10.4 percent compared to the same quarter last year. Growth remained strong, although this was the second lowest gain in 12 quarters. However, corporate income tax collections tend to swing wildly during this period, since for most states, collections for this quarter reflect payments by late filers, refunds, and settlements. New England recorded the strongest growth at 38.8 percent; the Far West was the weakest at 2.9 percent.

General sales tax collections continued to wane, growing by only 3.5 percent, the slowest in 12 quarters. Only the Southwest region had a growth rate of more than 10 percent. The New England and Great Lakes regions declined 9.7 percent and 1.6 percent, respectively, reflecting tax cuts in large states.

## Results vs. Projections

Of the 34 states, 14 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 1.7 percent. Two states showed negative variances, while 4 reported total collections of 3

---

<sup>1</sup> All states were adjusted to a July-June fiscal year for comparability.

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 are possible.

## Other Indicators

GDP growth slowed again this quarter to 1.6 percent, compared to 2.6 percent the previous quarter. This was the slowest growth in 10 quarters.

Inflation was 4.2 percent<sup>2</sup> this period, also the lowest in 10 quarters, and the fourth consecutive quarterly decline. After adjusting for inflation, state tax growth for the 34 states was stagnant (0.0), with the New England, Mid-Atlantic, Great Lakes, and Plains regions all showing declines.

Federal income tax collections showed continued strong growth this quarter. Individual income tax collections increased 8.5 percent compared to the same quarter one year before, and corporate income tax collections were a robust 25.2 percent. The corporate income tax has not been under 20 percent since the April-June quarter of 2004.

Job growth was steady this quarter at 1.3 percent, and has remained in the 1.3-1.6 percent range over the last five quarters. The Southwest and Rocky Mountain regions showed strong job growth rates at 2.7 and 3.2 percent, respectively, while employment in Michigan and Louisiana continued to decline.

	PIT	CIT	Sales	Total		PIT	CIT	Sales	Total
<b>United States</b>	<b>6.5</b>	<b>10.4</b>	<b>3.5</b>	<b>4.2</b>					
<b>New England</b>	<b>7.0</b>	<b>38.8</b>	<b>(9.7)</b>	<b>1.0</b>	<b>Southeast</b>	<b>4.7</b>	<b>16.1</b>	<b>8.2</b>	<b>6.2</b>
Connecticut	6.3	43.1	(16.0)	0.3	Alabama	8.7	30.2	9.1	10.5
New Hampshire	NA	59.3	NA	1.9	Arkansas	8.9	10.3	6.4	7.1
Rhode Island	9.1	31.0	(0.3)	4.5	Georgia	8.9	(18.0)	3.9	5.4
Vermont	7.4	(31.9)	3.5	(2.4)	Kentucky	(3.8)	43.8	1.2	2.6
<b>Mid-Atlantic</b>	<b>5.5</b>	<b>9.3</b>	<b>1.0</b>	<b>3.5</b>	Mississippi	17.7	37.4	21.4	18.1
Delaware	8.3	(9.6)	NA	(1.2)	Tennessee	NA	3.3	5.0	3.9
Maryland	0.0	(9.2)	2.3	2.0	Virginia	1.6	20.5	23.6	6.3
New Jersey	(1.6)	8.8	12.2	1.7	West Virginia	(4.8)	20.1	(3.6)	(1.7)
New York	7.2	14.9	(4.7)	3.9	<b>Southwest</b>	<b>6.4</b>	<b>22.5</b>	<b>10.3</b>	<b>6.6</b>
Pennsylvania	8.2	10.8	1.9	4.9	Arizona	7.6	14.4	9.6	8.2
<b>Great Lakes</b>	<b>4.6</b>	<b>13.2</b>	<b>(1.6)</b>	<b>1.5</b>	Oklahoma	4.9	51.5	8.9	8.8
Illinois	8.0	24.5	2.6	6.3	Texas	NA	NA	10.6	5.9
Indiana	7.5	10.1	3.5	5.4	<b>Rocky Mountain</b>	<b>10.4</b>	<b>5.7</b>	<b>7.9</b>	<b>8.2</b>
Michigan	3.4	(4.3)	(6.6)	(3.3)	Colorado	9.9	1.9	5.3	7.4
Ohio	0.7	5,540.0*	(5.3)	(1.8)	Idaho	12.5	16.1	3.2	6.7
Wisconsin	4.4	9.0	3.2	3.4	Wyoming	NA	NA	15.8	11.6
<b>Plains</b>	<b>6.0</b>	<b>19.6</b>	<b>5.4</b>	<b>1.9</b>	<b>Far West</b>	<b>9.9</b>	<b>2.9</b>	<b>1.1</b>	<b>5.1</b>
Iowa	3.8	50.6	2.8	5.9	California	10.2	4.7	0.8	5.5
Kansas	10.5	50.6	3.8	9.7	Hawaii	(0.1)	(66.0)	4.5	(2.1)
Minnesota	4.2	6.7	0.3	(1.9)					
Nebraska	10.7	15.2	27.8	0.2					

\* Due primarily to atypically large settlement payments.

<sup>2</sup> Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index.