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INSTITUTE  
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**HIGHLIGHTS**

- Overall state tax revenues fell by 10.7 percent in the third quarter of 2009, compared to the same quarter a year earlier, based on preliminary data. All forty-four early reporting states saw declines in collections.
- Personal income tax revenue showed the sharpest decline, with an 11.4 percent year-over-year decrease.
- Sales tax collections fell once again, by 8.2 percent during the quarter, while corporate tax collections dropped 19.4 percent.
- This is the fourth quarter in a row that revenues from two major sources — personal income tax and sales tax — declined on a year-over-year basis.
- States will likely face further revenue declines in the fourth quarter of 2009.

## STATE REVENUE FLASH REPORT

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### Old News Is Bad News: Third Quarter Brings More Decline in Tax Revenues

*Lucy Dadayan and Donald J. Boyd*

**P**reliminary tax collection data for the July-September quarter of 2009 show continued widespread and sharp declines for most states for all three major sources of tax revenue, as well as for overall taxes. We expect revenue collections will continue to be weak in the October-December quarter. We will provide a full report on the July-September quarter, and further analysis of the 2009-10 outlook for the states, after Census Bureau data for the quarter are available.

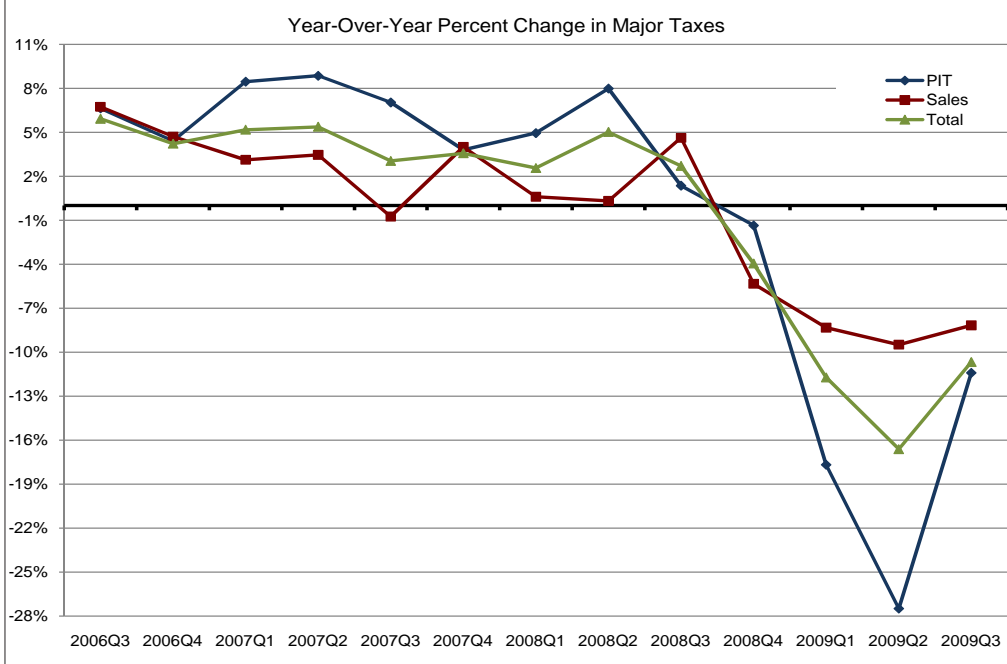
The Rockefeller Institute's compilation of data from individual states shows collections from major tax sources were \$119.7 billion in the third quarter of 2009, compared to \$134.0 billion for the same states during the comparable quarter of 2008. Overall, tax revenue declined by 10.7 percent in nominal terms. After adjusting for inflation, tax revenues declined by 11.3 percent in the third quarter compared to the same quarter of 2008. Personal income tax declines represented a \$6.7 billion loss and the sales tax a \$3.8 billion loss for the period. Corporate income tax saw the sharpest rate of decline at 19.4 percent, followed by the personal income tax and sales tax at 11.4 and 8.2 percent, respectively.

Total tax revenue declined in all 44 states for which comparable early data are available. While in recent quarters North Dakota was the only state showing growth in tax revenues, the state reported a 17.3 percent decline in total tax collections, mostly due to tax rate reductions in personal income and corporate income taxes and to several measures providing sales tax relief. Texas reported a year-over-year increase in revenue, but is not included in this flash report because of complications interpreting year-to-year changes involving the Property Tax Relief Fund and other elements of the state's financial picture.

Personal income tax revenue made up nearly 40 percent of total tax revenue reported in the third quarter. With 38 of 41 personal income tax states reporting so far, all 38 saw declines compared to the same quarter of last year, 21 of them reporting double digit declines. Among individual states, Alabama and Indiana had the largest declines at 26.7 and 20.3 percent, respectively (see Figure 1 and Table 1).

With 39 of 45 sales-tax states reporting so far, fully 38 had sales tax declines compared with the same quarter last year, and 17 saw double-digit declines. Utah had the largest sales tax decline at 23.0 percent, while Massachusetts was the only state

Figure 1. State Tax Collections Still Reporting Large Declines in the Third Quarter



reporting sales tax growth at 2.5 percent. The modest increase in sales tax collections in Massachusetts is mostly attributable to a sales tax rate increase from 5.0 percent to 6.25 percent.

Among the corporate income tax states, 36 of 42 early reporting states reported declines for the third quarter compared to the same quarter of previous year, 32 of them seeing double digit declines.

As Table 2 shows, all regions had declines in personal income, corporate income, and sales tax collections as well as in overall tax collections (for state-by-state patterns, see Figure 2).

The Far West region was the weakest by far in terms of personal income tax revenue collections, while the Southwest region was the weakest in terms of sales tax collections. The Southeast region had the smallest decline in total tax revenues at 8.1 percent. New England states reported the smallest decline in sales tax revenues at 2.6 percent while Mid-Atlantic states reported the smallest decline in personal income collections, at 8.0 percent.

Table 1. All Major Taxes Declined Sharply In the Third Quarter

Percent Change in State Tax Collections vs. Same Quarter Year Ago				
Quarter	PIT	CIT	Sales	Total
2007q1	8.5	14.8	3.1	5.2
2007q2	8.9	1.7	3.5	5.4
2007q3	7.0	(4.3)	(0.7)	3.0
2007q4	3.8	(14.5)	4.0	3.6
2008q1	5.0	(1.3)	0.6	2.6
2008q2	8.0	(7.3)	0.3	5.0
2008q3	1.4	(12.8)	4.6	2.7
2008q4	(1.4)	(21.9)	(5.3)	(4.0)
2009q1	(17.7)	(20.1)	(8.3)	(11.7)
2009q2	(27.5)	2.9	(9.5)	(16.6)
2009q3 (preliminary)	(11.4)	(19.4)	(8.2)	(10.7)

Notes: See the "Data Notes" Box.

July-September 2008 to 2009, Nominal Percent Change				
	PIT	CIT	Sales	Total
<b>United States</b>	<b>(11.4)</b>	<b>(19.4)</b>	<b>(8.2)</b>	<b>(10.7)</b>
New England	(13.2)	(21.3)	(2.6)	(11.6)
Mid-Atlantic	(8.0)	(22.5)	(7.6)	(8.8)
Great Lakes	(12.8)	(26.7)	(9.8)	(10.6)
Plains	(9.7)	(32.0)	(8.1)	(10.6)
Southeast	(9.3)	(5.5)	(9.2)	(8.1)
Southwest	(15.0)	(43.3)	(16.3)	(21.5)
Rocky Mountain	(11.7)	(49.0)	(15.6)	(15.7)
Far West	(15.3)	(13.9)	(4.2)	(12.9)

**Source:** Individual state data, analysis by Rockefeller Institute.

### Employment Conditions

Employment data for the third quarter of 2009 continue to illustrate the underlying economic weakness behind declining tax revenues. Overall, year-over-year employment growth for the nation has declined almost continuously since the first quarter of 2006. Employment declined by 4.1 percent in the third quarter of 2009 compared to the same period a year earlier, according to preliminary data from the Bureau of Labor Statistics. Employment declined in 49 states compared to the same quarter of 2008 (see Figure 3).

### The Outlook

Despite indications that the national recession may be over, the revenue situation remained gloomy in virtually every state in the third quarter of 2009, including states that rely heavily on energy resources. Many states have been reporting shortfalls in revenue compared to projections used for this year's enacted budgets. While stock indices have risen in recent months and some other indicators point to some strengthening in the economy, overall conditions remain weak. Most economists believe that a stronger move toward recovery is still at least some

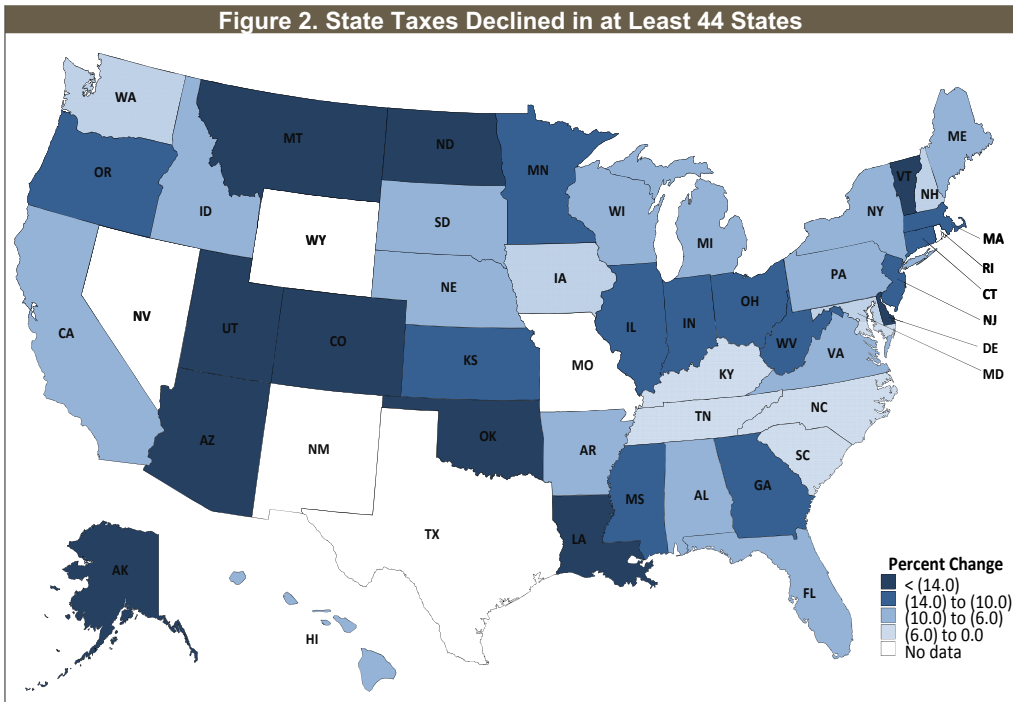
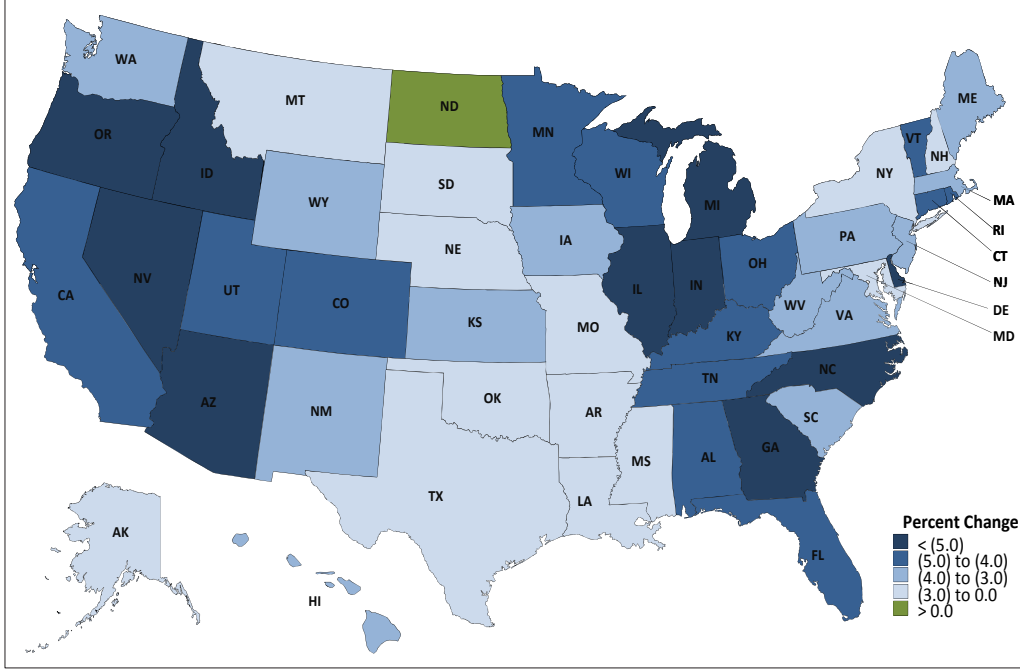


Figure 3. Employment Declined in 49 States in the Third Quarter of 2009



months away. Thus, further revenue shortfalls and more spending cuts are most likely on the way for many states – particularly those that did not take significant actions to balance revenues and expenditures in their FY 2010 budgets.

### Data Notes

Data for the most recent quarter were collected by the Rockefeller Institute of Government. Such data are preliminary and generally will not be available for all 50 states. The six states for which we do not have data for the quarter analyzed in this report are Missouri, Nevada, New Mexico, Rhode Island, Texas, and Wyoming. Data for earlier quarters are from the U.S. Bureau of the Census. The two data sets use different data sources and will always have some differences. The Rockefeller Institute collects data directly from individual states to get the earliest possible read on what is happening to state government finances. We use the Census Bureau data to get a picture that is slightly less timely but more comprehensive and more comparable across states and over time.

The “Total tax” data collected by the Rockefeller Institute are for a set of taxes that often is somewhat more volatile than the full set of taxes reported on by the Census Bureau. As a result, this number can be more “bouncy” in our data than in the Census data, and can be subject to considerable change when Census data are available.

Table 3. Percent Change in State Tax Revenue

Quarterly Tax Revenue by Major Tax, Early Reporting States  
July-September 2008 to 2009, % change

	PIT	CIT	Sales	Total
<b>United States</b>	<b>(11.4)</b>	<b>(19.4)</b>	<b>(8.2)</b>	<b>(10.7)</b>
<b>New England</b>	<b>(13.2)</b>	<b>(21.3)</b>	<b>(2.6)</b>	<b>(11.6)</b>
Connecticut	(13.9)	(39.0)	(9.2)	(13.5)
Maine	(11.8)	2.4	(10.1)	(9.6)
Massachusetts	(13.1)	(24.6)	2.5	(10.0)
New Hampshire	NA	(7.1)	NA	(1.3)
Rhode Island	ND	ND	ND	ND
Vermont	(13.8)	3.3	(5.9)	(31.6)
<b>Mid-Atlantic</b>	<b>(8.0)</b>	<b>(22.5)</b>	<b>(7.6)</b>	<b>(8.8)</b>
Delaware	(10.6)	(61.8)	NA	(15.7)
Maryland	(8.4)	(30.9)	(9.3)	(5.0)
New Jersey	(8.9)	(20.6)	(5.9)	(11.8)
New York	(7.4)	(23.8)	(8.1)	(8.9)
Pennsylvania	(8.9)	(15.0)	(7.4)	(7.5)
<b>Great Lakes</b>	<b>(12.8)</b>	<b>(26.7)</b>	<b>(9.8)</b>	<b>(10.6)</b>
Illinois	(11.7)	(28.4)	(13.1)	(12.6)
Indiana	(20.3)	(42.4)	(10.9)	(10.3)
Michigan	(12.0)	(24.7)	(7.1)	(8.2)
Ohio	(14.1)	(111.3)	(9.2)	(12.1)
Wisconsin	(8.1)	9.2	(8.7)	(9.7)
<b>Plains</b>	<b>(9.7)</b>	<b>(32.0)</b>	<b>(8.1)</b>	<b>(10.6)</b>
Iowa	(5.7)	(67.3)	(0.2)	(5.0)
Kansas	(10.6)	(28.7)	(5.9)	(12.5)
Minnesota	(11.8)	(22.2)	(14.8)	(12.3)
Missouri	ND	ND	ND	ND
Nebraska	(6.8)	(35.4)	(4.3)	(7.6)
North Dakota	(3.7)	(46.3)	(10.0)	(17.3)
South Dakota	NA	NA	(6.9)	(8.8)
<b>Southeast</b>	<b>(9.3)</b>	<b>(5.5)</b>	<b>(9.2)</b>	<b>(8.1)</b>
Alabama	(26.7)	(23.3)	(13.0)	(6.5)
Arkansas	(11.1)	(27.5)	(11.1)	(7.8)
Florida	NA	(11.0)	(8.1)	(8.6)
Georgia	(14.6)	(10.5)	(14.7)	(13.9)
Kentucky	(7.1)	(40.5)	(7.5)	(5.5)
Louisiana	(0.7)	61.6	(16.7)	(14.9)
Mississippi	(12.2)	(19.1)	(12.4)	(11.8)
North Carolina	(5.9)	(0.4)	(3.7)	(3.4)
South Carolina	(6.2)	17.4	(6.8)	(5.7)
Tennessee	NA	8.2	(9.5)	(5.4)
Virginia	(6.9)	(7.9)	(5.5)	(6.6)
West Virginia	(6.7)	(5.1)	(4.6)	(10.4)
<b>Southwest</b>	<b>(15.0)</b>	<b>(43.3)</b>	<b>(16.3)</b>	<b>(21.5)</b>
Arizona	(14.0)	(38.4)	(17.0)	(16.3)
New Mexico	ND	ND	ND	ND
Oklahoma	(16.3)	(52.2)	(15.0)	(28.4)
Texas	NA	NA	ND	ND
<b>Rocky Mountain</b>	<b>(11.7)</b>	<b>(49.0)</b>	<b>(15.6)</b>	<b>(15.7)</b>
Colorado	(14.3)	(24.6)	(12.0)	(14.1)
Idaho	(4.8)	(39.1)	(12.9)	(9.8)
Montana	(14.4)	(61.5)	NA	(20.2)
Utah	(8.3)	(72.5)	(23.0)	(20.5)
Wyoming	NA	NA	ND	ND
<b>Far West</b>	<b>(15.3)</b>	<b>(13.9)</b>	<b>(4.2)</b>	<b>(12.9)</b>
Alaska	NA	(68.4)	NA	(52.4)
California	(16.0)	(11.3)	(1.0)	(8.7)
Hawaii	(6.7)	(27.3)	(11.8)	(9.4)
Nevada	NA	NA	ND	ND
Oregon	(12.0)	(26.1)	NA	(12.1)
Washington	NA	NA	(11.9)	(5.8)

Source: Individual state data, analysis by Rockefeller Institute.

Notes: NA - not applicable; ND - no data.

### About The Nelson A. Rockefeller Institute of Government's Fiscal Studies Program

The Nelson A. Rockefeller Institute of Government, at the University at Albany, is the public policy research arm of the State University of New York. The Institute was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others.

This report was researched and written by Senior Policy Analyst Lucy Dadayan and Senior Fellow Donald J. Boyd, with research assistance by Shuang Han. Michael Cooper, the Rockefeller Institute's director of publications, did the layout and design of this report, with assistance from Michele Charbonneau. Robert B. Ward, deputy director of the Institute, directs the Fiscal Studies Program.

Additional information is available at [www.rockinst.org](http://www.rockinst.org).