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UNIVERSITY AT ALBANY  
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**HIGHLIGHTS**

- Overall state tax revenues grew by 3.9 percent in the third quarter of 2010, compared to the same quarter a year earlier, based on adjusted, preliminary data.
- Forty-two of 48 early reporting states reported gains in overall tax collections, while six saw declines.
- Personal income tax revenue increased by 4.7 percent for the nation. Thirty-five states reported increases in personal income tax collections.
- Sales tax collections increased by 4.1 percent, while corporate tax collections declined by 2.5 percent.
- This is the third consecutive quarter that states have reported growth in overall tax collections on a year-over-year basis. Such growth is at least partially driven by legislated changes in several states, but is also due to a slowly recovering economy.
- Revenues are still significantly below prerecession levels.

# STATE REVENUE FLASH REPORT

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## State Tax Revenues Rebound Further, Growing For Third Straight Quarter

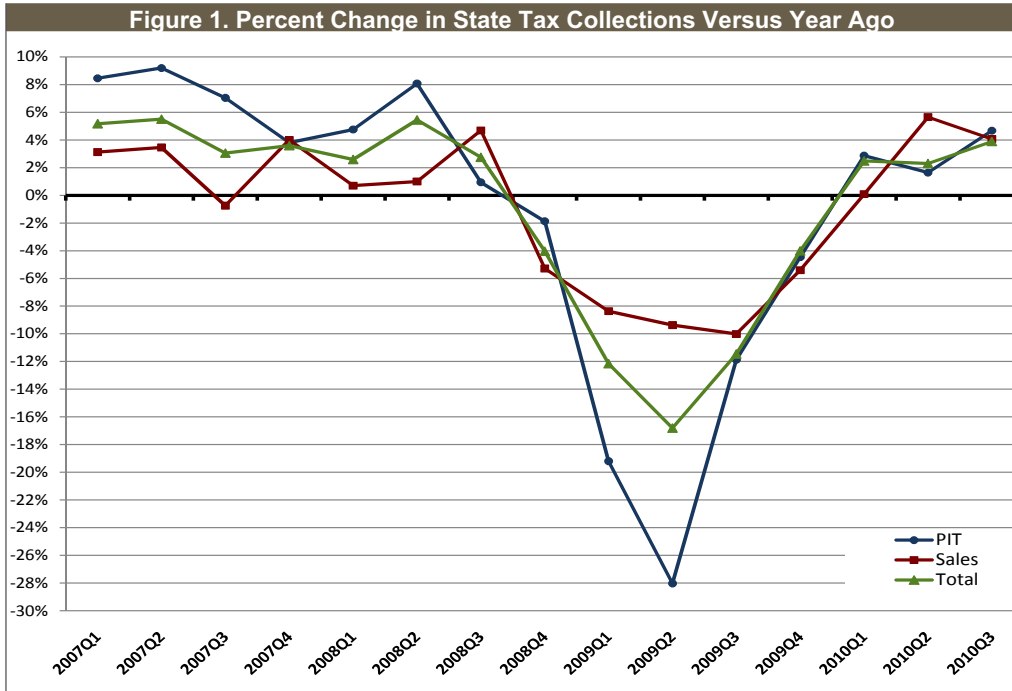
*Lucy Dadayan and Donald Boyd*

**P**reliminary tax collection data for the July-September quarter of 2010 show continued improvement in overall state tax collections as well as for personal income tax and sales tax revenue. However, revenue collections remain significantly below peak levels and are still weak in a number of states. We will provide a full report on the July-September quarter and the current outlook for the states after Census Bureau data for the quarter are available.

The Rockefeller Institute's compilation of data from 48 early reporting states shows collections from major tax sources increased by 3.9 percent in nominal terms compared to the third quarter of 2009, but was 7.0 percent below the same period two years ago. Gains were widespread, with 42 states showing an increase in revenues compared to a year earlier. After adjusting for inflation, tax revenues increased by 2.6 percent in the third quarter of 2010 compared to the same quarter of 2009. States' personal income taxes represented a \$2.5 billion gain and sales taxes a \$2.0 billion gain for the period. In terms of dollars, New York reported the largest increases in total tax collections in the third quarter of 2010, with revenue collections rising by \$577 million or 4.5 percent. This was mostly driven by growth in personal income tax collections and by modest growth in the sales tax.

Despite the broadly positive news, revenues declined in six of the 48 states for which comparable, early data are available. Alaska reported the largest decline for the quarter at 48.1 percent, followed by Hawaii at 13.6 percent. Large declines in collections in Alaska are partially attributable to declines in oil and gas production taxes due to significantly reduced commodity prices and reduced production levels.

Personal income taxes made up about 41 percent of total tax revenue reported in the third quarter of 2010. Personal income tax revenues increased by 4.7 percent for the nation compared to the same quarter of 2009, but were down by 6.9 percent compared to the same quarter of 2008. With 40 of 41 states with broad-based personal income taxes reporting so far, 35 states recorded growth in the third quarter of 2010, six reporting double-digit increases. Among individual states, Hawaii reported the largest decline at 53.7 percent, while Alabama reported the largest increase at 18 percent (see Figure 1 and Table 3). The large declines in personal income tax collections in Hawaii are



mostly attributable to delayed state income tax refunds for tax year 2009. In terms of dollars, California and New York reported the largest increases in personal income tax collections in the third quarter of 2010, with revenue collections rising by \$610 million and \$315 million, respectively.

Sales tax collections increased by 4.1 percent in the third quarter of 2010 compared to the same quarter of 2009, but

were still 5.1 percent lower than two years ago. With 43 of 45 sales-tax states reporting so far, only six states reported declines in sales tax collections compared with the same quarter last year. Virginia had the largest sales tax decline at 16.7 percent, followed by Arizona at 2.8 percent. The large sales tax decline in Virginia is due to the accelerated sales tax program in fiscal year 2010, which required dealers to remit July payments in June 2010. The following six states reported double-digit growth in sales tax collections: Kansas, Massachusetts, Minnesota, North Carolina, North Dakota, and Utah.

Among the corporate income tax states, 31 of 44 early reporting states showed gains for the third quarter, while 13 reported declines compared to the same quarter of the previous year. Nine

Percent Change in State Tax Collections vs. Same Quarter Year Ago				
Quarter	PIT	CIT	Sales	Total
2007 Q1	8.5	14.8	3.1	5.2
2007 Q2	9.2	1.7	3.5	5.5
2007 Q3	7.0	(4.3)	(0.7)	3.1
2007 Q4	3.8	(14.5)	4.0	3.6
2008 Q1	4.8	(1.4)	0.7	2.6
2008 Q2	8.1	(7.0)	1.0	5.4
2008 Q3	0.9	(13.2)	4.7	2.8
2008 Q4	(1.9)	(23.0)	(5.3)	(4.0)
2009 Q1	(19.2)	(20.3)	(8.4)	(12.2)
2009 Q2	(28.0)	1.4	(9.4)	(16.8)
2009 Q3	(11.9)	(22.1)	(10.0)	(11.5)
2009 Q4	(4.5)	(0.5)	(5.4)	(4.0)
2010 Q1	2.9	(1.1)	0.1	2.5
2010 Q2	1.6	(18.3)	5.7	2.3
2010 Q3 (preliminary)	4.7	(2.5)	4.1	3.9

Notes: See the "Data Notes" Box.

**Table 2. Quarterly Tax Revenue By Region**

July-September 2009 to 2010, Nominal Percent Change				
	PIT	CIT	Sales	Total
<b>United States</b>	<b>4.7</b>	<b>(2.5)</b>	<b>4.1</b>	<b>3.9</b>
New England	8.1	29.3	11.8	9.8
Mid-Atlantic	4.2	(8.7)	4.0	4.6
Great Lakes	4.9	5.2	4.6	4.1
Plains	4.6	27.6	10.3	8.3
Southeast	4.2	(3.6)	3.8	4.1
Southwest	3.5	44.1	3.4	5.1
Rocky Mountain	6.3	46.0	8.0	8.8
Far West	4.3	(21.1)	0.0	(1.9)

Source: Individual state data, analysis by Rockefeller Institute.

states reported double-digit declines, while 27 states reported double-digit growth in corporate income tax collections in the third quarter of 2010. The large variation among states' corporate income tax revenues is due to volatility in corporate profits and in the timing of tax payments.

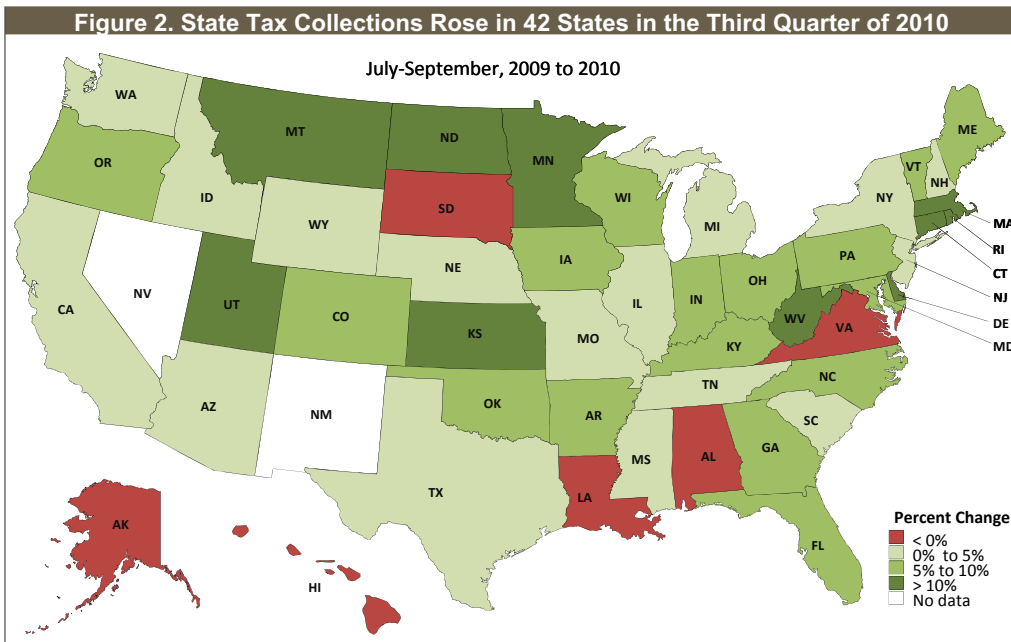
As Table 2 shows, the Far West was the only region reporting declines in total tax collections at 1.9 percent (for state-by-state patterns, see Figure 2). However, such decline is mostly attributable to a single state — Alaska,

where revenues declined \$651 million. If we exclude Alaska, the total tax collections for the Far West region show a 0.6 percent increase in the third quarter of 2010 compared to the same period a year earlier. The New England region reported the strongest growth in total tax collections as well as in sales tax and personal income tax collections.

### Employment Conditions

Employment data for the third quarter of 2010 showed some improvement after eight consecutive quarterly year-over-year declines. Overall, employment for the nation increased by 0.2 percent in the third quarter of 2010 compared to the same period a year earlier, according to preliminary data from the Bureau of Labor Statistics. Employment increased in 34 states compared to the same quarter of 2009 (see Figure 3). New Hampshire reported the largest growth in employment at 2.3 percent, followed by Texas at 1.4 percent. Nevada and Colorado reported the largest declines in employment at 2.0 and 1.2 percent, respectively.

**Figure 2. State Tax Collections Rose in 42 States in the Third Quarter of 2010**

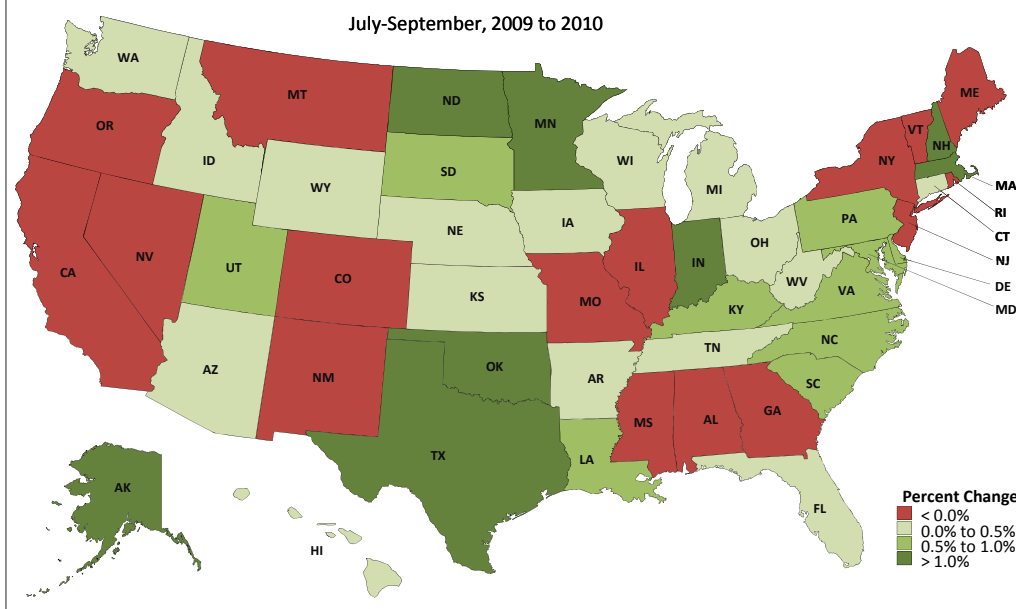


### The Outlook

The state tax revenue picture in the first three quarters of calendar year 2010 represented significant improvement from the collapse of the preceding quarters. In most states the overall trend in tax collections for fiscal 2011 is positive. Still, the immediate outlook is for revenue collections significantly below prerecession levels, and growing

spending pressures. The overall picture remains: States will face continued, significant budget challenges in fiscal 2011 and beyond.

Figure 3. Employment Increased in 34 States in the Third Quarter of 2010



### 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. Jingru Xu, graduate research assistant, assisted with data collection. 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).

**Table 3. Percent Change in State Tax Revenue**

Quarterly Tax Revenue by Major Tax, Early Reporting States  
July-September 2009 to 2010, Percent change

	PIT	CIT	Sales	Total
<b>United States</b>	<b>4.7</b>	<b>(2.5)</b>	<b>4.1</b>	<b>3.9</b>
<b>New England</b>	<b>8.1</b>	<b>29.3</b>	<b>11.8</b>	<b>9.8</b>
Connecticut	13.0	48.9	3.9	12.6
Maine	9.7	10.9	2.6	7.6
Massachusetts	6.7	32.3	19.1	10.2
New Hampshire	NA	(0.9)	NA	0.2
Rhode Island	8.1	194.8	4.0	10.7
Vermont	2.9	57.2	4.4	5.8
<b>Mid-Atlantic</b>	<b>4.2</b>	<b>(8.7)</b>	<b>4.0</b>	<b>4.6</b>
Delaware	11.1	40.6	NA	11.7
Maryland	6.0	23.1	3.4	5.8
New Jersey	3.4	(13.7)	0.2	1.7
New York	4.2	(21.0)	5.7	4.5
Pennsylvania	3.3	9.7	4.3	5.9
<b>Great Lakes</b>	<b>4.9</b>	<b>5.2</b>	<b>4.6</b>	<b>4.1</b>
Illinois	2.6	10.4	0.1	2.7
Indiana	14.3	23.2	4.1	6.9
Michigan	3.7	(8.1)	4.7	1.4
Ohio	5.0	(111.9)	9.0	6.6
Wisconsin	3.3	21.2	4.4	5.5
<b>Plains</b>	<b>4.6</b>	<b>27.6</b>	<b>10.3</b>	<b>8.3</b>
Iowa	8.2	97.7	3.7	7.6
Kansas	7.1	16.3	15.6	11.6
Minnesota	4.9	40.3	23.1	11.4
Missouri	1.5	19.8	(2.1)	2.6
Nebraska	3.6	(39.2)	5.7	2.8
North Dakota	(1.0)	45.0	23.9	29.5
South Dakota	NA	NA	(2.5)	(3.1)
<b>Southeast</b>	<b>4.2</b>	<b>(3.6)</b>	<b>3.8</b>	<b>4.1</b>
Alabama	18.3	24.4	4.0	(0.5)
Arkansas	3.3	38.7	8.1	6.1
Florida	NA	(2.6)	0.6	5.9
Georgia	10.5	(31.0)	8.5	7.9
Kentucky	3.8	42.5	3.4	5.8
Louisiana	(7.6)	(74.0)	2.2	(7.5)
Mississippi	6.6	11.7	0.7	4.0
North Carolina	(1.5)	6.0	27.7	6.8
South Carolina	4.0	(10.2)	1.1	2.8
Tennessee	(10.7)	22.1	3.8	4.0
Virginia	4.5	0.7	(16.7)	(1.5)
West Virginia	10.5	(5.6)	5.0	17.8
<b>Southwest</b>	<b>3.5</b>	<b>44.1</b>	<b>3.4</b>	<b>5.1</b>
Arizona	6.7	48.5	(2.8)	4.3
New Mexico	ND	ND	ND	ND
Oklahoma	(1.3)	33.8	9.8	9.0
Texas	NA	NA	3.9	4.8
<b>Rocky Mountain</b>	<b>6.3</b>	<b>46.0</b>	<b>8.0</b>	<b>8.8</b>
Colorado	7.1	5.3	2.2	5.3
Idaho	0.3	37.8	0.3	1.8
Montana	4.2	58.3	NA	11.3
Utah	9.0	164.3	24.6	19.9
Wyoming	NA	NA	6.0	0.7
<b>Far West</b>	<b>4.3</b>	<b>(21.1)</b>	<b>0.0</b>	<b>(1.9)</b>
Alaska	NA	47.8	NA	(48.1)
California	6.4	(24.5)	(0.3)	0.6
Hawaii	(53.7)	(85.9)	5.8	(13.6)
Nevada	NA	NA	ND	ND
Oregon	4.9	60.7	NA	6.7
Washington	NA	NA	(0.6)	3.1

Source: Individual state data, analysis by Rockefeller Institute.

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

## 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 two states for which we do not have data for the quarter analyzed in this report are Nevada and New Mexico. 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 is somewhat smaller, and often 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.

Adjustments for inflation are based on the Bureau of Economic Analysis' gross domestic product deflator.