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State Finances Begin Recovery: Fiscal Year 2004 Tax Revenue Summary

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Highlights

- State tax revenue grew 7.5 percent in fiscal year 2004.
- Adjusted for legislated tax changes and inflation, tax revenue grew 3.2 percent – the first increase after two straight years of adjusted decline.
- Net legislated tax increases amounted to $8 billion in fiscal year 2004. This is over 20 percent of the growth in state tax revenue.
- Revenue growth met estimates in most states.

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Introduction

State general fund tax revenue grew 7.5 percent from fiscal year 2003 to fiscal year 2004. This is the first year of solid revenue growth after a sharp decline in fiscal year 2002, and sluggish growth in fiscal year 2003. This was the second strongest nominal tax growth since the Rockefeller Institute of Government began tracking state revenue in 1991. (See Table 1 and Figure 1.) This growth would have been 5.8 percent without the significant tax increases that states implemented during the year. When we also account for the effect of inflation, growth was only 3.2 percent, which is just above the median real adjusted growth of 3.1 percent over the last 13 years.

This report uses the latest available revenue figures for all states.[1] It also uses the states' own fiscal years. For most states, this ends on June 30, but some end as late as September. For more details on the methodology employed for adjusting for inflation and legislated tax changes, please see the box titled "Technical Notes."

Table 2 presents year-over-year changes in state revenue from three key taxes: the personal income tax, the sales tax, and the corporate income tax. These figures are not adjusted for inflation or the effects of legislation. In fiscal year 2004, personal income tax revenue grew 8.4 percent, sales tax revenue grew 6.6 percent, and corporate income tax revenue increased 11.2 percent.

Tax Revenue Growth

Table 3 shows for each state the year-over-year percentage change in state tax revenue by major tax from fiscal year 2003 to fiscal year 2004. The Far West region had the strongest growth at 10.5 percent, while the Plains region had the weakest growth at 5.1 percent. Among the states, Nevada had the strongest growth at 23.7 percent, but this was largely the result of a legislated tax increase. Only two states had revenue declines, Mississippi's was 0.5 percent, and Michigan's was 0.1 percent; both declines were the result of tax cuts.

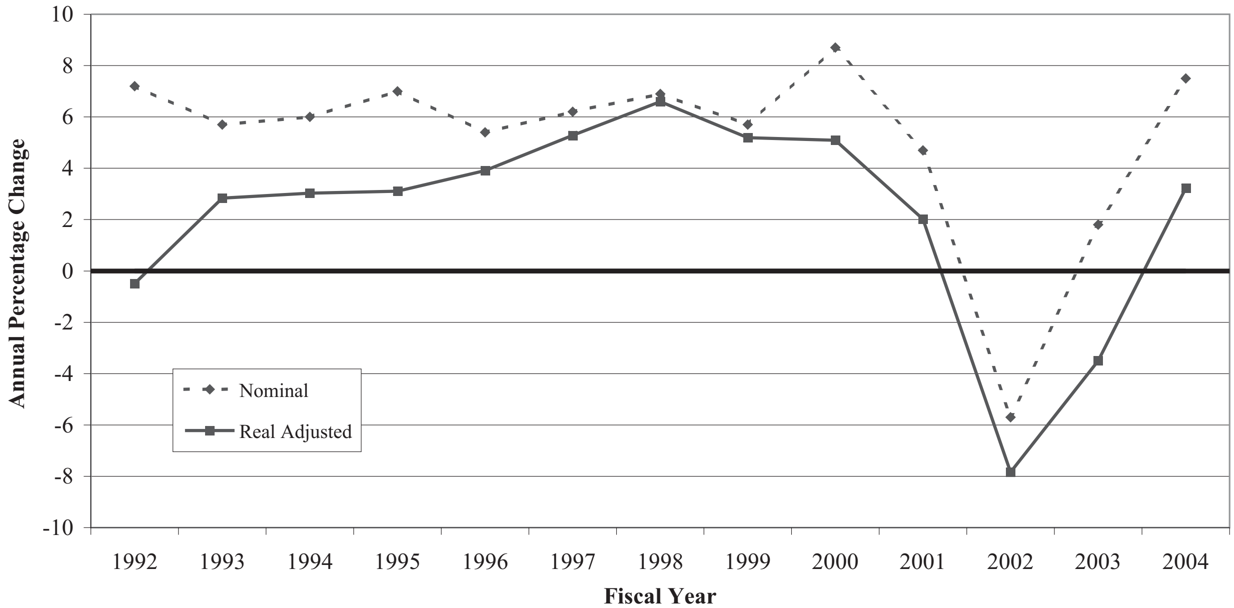
Personal income tax revenue grew 8.4 percent in fiscal year 2004, rebounding after two years of decline. (See Table 2.) Nine states had double-digit percentage increases in personal income tax.[2] The strongest growth was in Louisiana, aided by a newly implemented tax increase. The weakest growth was in Michigan, where there was a tax cut. Every state recorded an increase in personal income tax collections in fiscal year 2004.

Table 1.
Percentage Growth or Decline in Fiscal Year Tax Revenue, Adjusted for Legislated Tax Changes and Inflation

Fiscal Year	*Total Nominal Growth or Decline*	*Adjusted Nominal Growth or Decline*	*Inflation Rate*	*Adjusted Real Growth or Decline*
1992	7.2%	1.7%	2.2%	(0.5)%
1993	5.7	5.2	2.3	2.8
1994	6.0	5.5	2.4	3.0
1995	7.0	6.1	2.9	3.1
1996	5.4	6.3	2.3	3.9
1997	6.2	7.6	2.2	5.3
1998	6.9	8.3	1.6	6.6
1999	5.7	7.4	2.1	5.2
2000	8.7	9.4	4.1	5.1
2001	4.7	6.0	3.9	2.0
2002	(5.7)	(5.9)	2.1	(7.8)
2003	1.8	(0.4)	3.2	(3.5)
2004	7.5	5.8	2.5	3.2

Note: Inflation is measured by the BEA State and Local Government Implicit Price Deflator.

Figure 1.
Annual Year-Over-Year State Tax Revenue Growth, Nominal and Adjusted for Inflation and Legislation



This was a much better performance than the previous year, when 23 of 41 states with a broad-based personal income tax had declines.

Sales tax revenue increased 6.6 percent in fiscal year 2004, the strongest performance since fiscal year 2000. Six states had double-digit growth in their sales tax collections.[3] Idaho had the strongest growth at 23 percent, but this was largely due to a legislated tax increase. Only Nevada managed double-digit growth without implementing a sales tax increase. Louisiana was the only state with a decline in sales tax collections at 5.2 percent. This was due to a newly enacted tax cut.

Corporate income tax revenue grew a strong 11.2 percent, the second straight year of strong growth after two years of decline. Growth in the corporate income tax remains volatile and uneven: 11 of the 45 states with a corporate income tax had declines in revenue, while 24 states had growth of over 10 percent.

Table 2.
Year-Over-Year Percentage Growth or Decline in State Tax Revenue by Major Tax

Fiscal Year	*PIT*	*CIT*	*Sales Tax*	*Total*
1996	7.7%	1.4%	5.5%	5.4%
1997	8.1	5.4	5.2	6.2
1998	11.2	1.0	5.6	6.9
1999	8.1	0.7	6.2	5.7
2000	12.4	4.0	7.3	8.7
2001	7.5	(6.9)	3.2	4.7
2002	(10.8)	(18.2)	0.2	(5.7)
2003	(2.0)	11.7	1.8	1.8
2004	8.4	11.2	6.6	7.5

Table 3. Percentage Growth or Decline in Tax Revenue by State Fiscal Year 2003 to Fiscal Year 2004

	PIT	*CIT*	*Sales*	*Total*
United States	**8.4%**	**11.2%**	**6.6%**	**7.5%**
New England	**11.4**	**15.0**	**2.8**	**7.5**
Connecticut	16.0	2.0	2.0	8.1
Maine	7.9	22.4	7.0	12.1
Massachusetts	10.0	24.8	1.1	6.6
New Hampshire	NA	(0.2)	NA	3.0
Rhode Island	9.4	8.9	5.3	7.0
Vermont	4.5	57.1	17.0	9.7
Mid-Atlantic	**9.5**	**1.9**	**7.9**	**7.8**
Delaware	10.0	22.0	NA	14.1
Maryland	13.2	18.0	8.2	11.0
New Jersey	9.9	(6.1)	5.5	5.1
New York	8.8	(3.5)	13.9	8.2
Pennsylvania	8.8	20.1	2.8	7.6
Great Lakes	**3.3**	**8.1**	**8.0**	**5.4**
Illinois	3.2	36.4	4.5	7.6
Indiana	4.5	(11.6)	13.1	7.5
Michigan	1.2	(4.0)	1.6	(0.1)
Ohio	3.7	8.3	17.7	8.7
Wisconsin	4.6	23.5	4.2	5.4
Plains	**6.5**	**7.9**	**3.9**	**5.1**
Iowa	7.2	(0.9)	1.7	4.0
Kansas	7.9	34.5	1.8	5.3
Minnesota	6.3	6.7	3.8	5.1
Missouri	4.6	(1.7)	5.7	4.2
Nebraska	10.7	50.0	8.3	10.7
North Dakota	7.1	(10.9)	2.2	2.1
South Dakota	NA	NA	6.1	3.6
Southeast	**6.6**	**7.8**	**6.1**	**6.5**
Alabama	8.0	24.8	8.4	8.1
Arkansas	7.7	5.3	5.2	7.3
Florida	NA	9.5	8.8	9.1
Georgia	5.0	(3.6)	3.2	5.3
Kentucky	1.8	9.1	2.8	2.1
Louisiana	17.4	17.4	(5.2)	5.6
Mississippi	2.3	9.8	0.9	(0.5)
North Carolina	5.9	(5.6)	7.6	5.5
South Carolina	4.5	18.2	6.3	5.1
Tennessee	NA	13.4	7.6	7.9
Virginia	9.0	24.0	9.7	9.8
West Virginia	1.4	0.2	4.3	5.6
Southwest	**9.7**	**27.7**	**7.1**	**9.1**
Arizona	9.9	26.9	8.5	10.2
New Mexico	9.1	35.9	5.0	10.8
Oklahoma	9.7	22.5	7.8	12.6
Texas	NA	NA	6.9	8.1
Rocky Mountain	**6.8**	**14.8**	**7.9**	**7.8**
Colorado	5.3	18.7	3.9	5.1
Idaho	7.6	11.0	23.0	12.6
Montana	11.7	49.1	NA	10.9
Utah	7.9	1.9	4.0	5.8
Wyoming	NA	NA	8.5	19.2
Far West	**12.3**	**23.3**	**6.5**	**10.5**
Alaska	NA	(5.9)	NA	19.2
California	13.0	22.2	6.5	10.8
Hawaii	12.6	591.5	6.0	8.3
Nevada	NA	NA	13.9	23.7
Oregon	6.2	41.1	NA	8.1
Washington	NA	NA	3.9	5.9

Tax revenue growth equaled or exceeded states' original estimates for fiscal year 2004 budgets. According to a survey by the National Governors Association and the National Association of State Budget Officers, states collected about $6 billion more in personal income, corporate income, and sales tax revenue than they had originally budgeted. This was much better than fiscal year 2003, when states collected $24 billion below estimates, and fiscal year 2002 when they were $38 billion short.[4] Thirty-five states reported that total revenue collections were higher than their original estimates. Only five states reported that collections were lower than estimated.[5]

Tax Law Changes

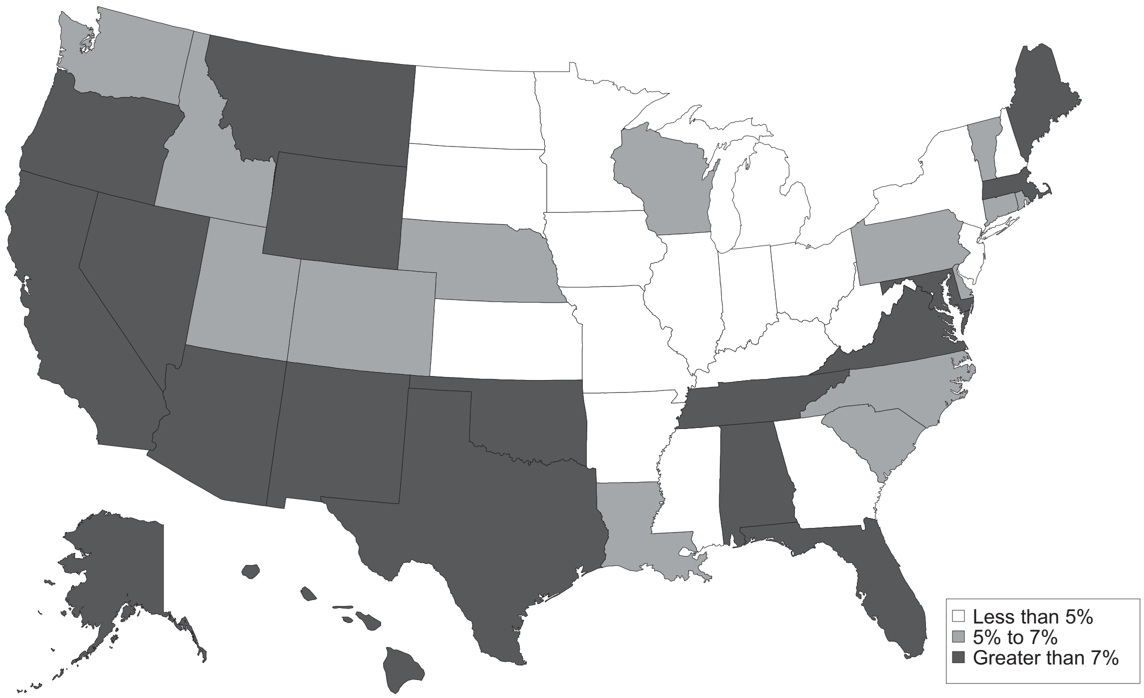
States implemented about $8 billion in net tax increases in fiscal year 2004. Table 4 illustrates the effects of these legislated tax changes on each state's tax revenue collections. The adjusted revenue growth numbers provide an estimate of each state's underlying tax revenue growth or decline. Tax increases boosted state tax revenue growth by 1.7 percentage points in fiscal year 2004. Without this boost, state tax revenue would have grown 5.8 percent. Figure 2 shows state revenue growth adjusted for legislated tax changes.

Forty-four states had legislated tax increases. In 23 of these, the increases boosted tax collections by one percent or more. Five states had legislated tax cuts implemented in fiscal year 2004. In three of these states — Hawaii, Michigan, and Mississippi — the cuts amounted to over one percent of receipts. Colorado was the only state with no new tax increases or cuts.

Every region of the country had a net legislated tax increase in fiscal year 2004. The largest was in the Mid-Atlantic region where net tax increases of over $3.3 billion boosted revenue growth 3.8 percentage points. The region with the smallest addition to revenue in percentage terms from net tax increases was the Southeast at 0.4 percentage points.

The state with the largest increase in percentage terms was Nevada, where a net increase of $307 million boosted tax collections 12.0 percent. In all, 11 states had legislated tax changes that added three percentage points or more to revenue growth. Michigan's tax cut of over $800

Figure 2:
Change in Tax Revenue by State,
Adjusted for Legislated Changes, FY 2003 to FY 2004



Technical Notes

The estimates of "legislated changes" include the effects of changes in tax rates and tax bases and acceleration of tax payments. They also include a very few major non-legislated changes, such as adjustments for changes to the accounting system or for particularly egregious delays in processing of receipts.

We developed the estimated effects of legislated changes in several ways. The starting point is a survey of legislated tax changes published by the National Conference of State Legislatures, augmented by state publications and contacts. We modify the estimates to take account of differences in the timing of the receipt of revenue. For example, when the sales tax rate is changed, revenue is not usually affected until a month after the effective date of the legislation because businesses are allowed to retain revenue for a few weeks before remitting it to the state. Likewise, if a tax cut took effect in February 2003 and continued throughout fiscal year 2004, part of its effect occurred in fiscal year 2003 and part in fiscal year 2004.

Most of these estimates are the ones used at the time legislation was enacted. In some cases, states rely on estimates that are too optimistic or pessimistic. For example, a state might anticipate that a sales tax increase would generate an extra $300 million based on the assumption of strong retail sales. If sales are lower than assumed, the tax increase will produce less than that. The Nelson A. Rockefeller Institute of Government modifies the preliminary estimates with the assistance of revenue estimators after revenue is collected.

Reports on state tax revenue published by the Rockefeller Institute of Government do not cover 100 percent of the taxes collected by states. They use the broadest measure of revenue reported on a timely basis in a single report, but often do not include earmarked taxes like those on motor fuels or taxes collected by agencies other than the revenue department, such as insurance taxes in many states. Various other adjustments are made to revenue to make it as comparable as possible. For more information, please contact the Institute's Fiscal Studies Program.

In 46 states, Fiscal 2004 was from July 1, 2003 to June 30, 2004. Four states have different fiscal years: Alabama and Michigan (October 1, 2003 to September 30, 2004), New York (April 1, 2003 to March 30, 2004) and Texas (September 1, 2003 to August 30, 2004).

Table 4. Effect of Legislated Tax Changes on FY 2004 Revenue Growth or Decline

	Amount of Tax Change (millions of dollars)	Year-Over-Year Revenue Growth or Decline: Actual Collections	Adjusted for Tax Changes	Effect of Tax Changes
United States	**$7,962**	**7.5%**	**5.8%**	**1.7%**
New England	**258**	**7.5**	**6.6**	**0.8**
Connecticut	211	8.1	5.9	2.2
Maine	55	12.1	9.8	2.3
Massachusetts	(57)	6.6	7.0	(0.4)
New Hampshire	(2)	3.0	3.1	(0.1)
Rhode Island	18	7.0	6.1	0.9
Vermont	32	9.7	5.9	3.8
Mid-Atlantic	**3,324**	**7.8**	**4.0**	**3.8**
Delaware	152	14.1	5.3	8.8
Maryland	80	11.0	9.9	1.0
New Jersey	449	5.1	2.7	2.5
New York	2,319	8.2	2.2	6.0
Pennsylvania	323	7.6	6.0	1.6
Great Lakes	**1,387**	**5.4**	**3.5**	**1.9**
Illinois	469	7.6	4.9	2.6
Indiana	464	7.5	2.8	4.7
Michigan	(823)	(0.1)	4.0	(4.1)
Ohio	1,273	8.7	0.9	7.8
Wisconsin	4	5.4	5.4	0.0
Plains	**408**	**5.1**	**3.8**	**1.2**
Iowa	1	4.0	4.0	0.0
Kansas	113	5.3	2.5	2.8
Minnesota	109	5.1	4.2	0.9
Missouri	64	4.2	3.4	0.8
Nebraska	114	10.7	6.1	4.6
North Dakota	2	2.1	1.9	0.2
South Dakota	6	3.6	2.7	0.9
Southeast	**373**	**6.5**	**6.2**	**0.4**
Alabama	25	8.1	7.7	0.4
Arkansas	121	7.3	4.3	3.0
Florida	24	9.1	9.0	0.1
Georgia	115	5.3	4.4	0.9
Kentucky	10	2.1	1.9	0.1
Louisiana	13	5.6	5.4	0.2
Mississippi	(120)	(0.5)	1.8	(2.3)
North Carolina	63	5.5	5.0	0.5
South Carolina	4	5.1	5.1	0.1
Tennessee	50	7.9	7.3	0.6
Virginia	8	9.8	9.7	0.1
West Virginia	60	5.6	3.6	2.0
Southwest	**448**	**9.1**	**8.0**	**1.1**
Arizona	131	10.2	7.9	2.2
New Mexico	59	10.8	8.8	2.0
Oklahoma	83	12.6	10.7	1.9
Texas	175	8.1	7.5	0.6
Rocky Mountains	**238**	**7.8**	**6.0**	**1.8**
Colorado	0	5.1	5.1	0.0
Idaho	161	12.6	5.6	7.1
Montana	38	10.9	7.5	3.4
Utah	19	5.8	5.3	0.5
Wyoming	20	19.2	16.0	3.2
Far West	**1,526**	**10.5**	**8.7**	**1.8**
Alaska	1	19.2	19.1	0.1
California	1,193	10.8	9.0	1.8
Hawaii	(53)	8.3	10.0	(1.7)
Nevada	307	23.7	11.7	12.0
Oregon	32	8.1	7.4	0.7
Washington	46	5.9	5.4	0.4

Note: Numbers may not add up due to rounding.

million was the largest, cutting 4.1 percentage points from that state's revenue growth.

About $3 billion of the tax cuts were to personal income tax. Sales tax cuts accounted for almost $2.6 billion.

Conclusions

After two bad years, state revenue finally began to grow again in fiscal year 2004. This growth was from a substantially reduced base, and was aided by significant tax increases in many states. While most states reached their revenue growth targets, it may take another two or three years of this kind of growth for states to completely put the aftereffects of the 2001 recession behind them, including closing structural budget deficits, ending "temporary" tax increases, and building up budget reserves to deal with future budget problems.

Endnotes

1 This may not include all accruals for all states.

2 California, Connecticut, Delaware, Hawaii, Louisiana, Maryland, Massachusetts, Montana, and Nebraska.

3 Idaho, Indiana, Nevada, New York, Ohio, and Vermont.

4 National Governors Association and National Association of State Budget Officers, *Fiscal Survey of the States, December 2003* (Washington, DC, 2003), National Governors Association and National Association of State Budget Officers, *Fiscal Survey of the States, December 2002* (Washington, DC, 2002).

5 National Governors Association and National Association of State Budget Officers, *Fiscal Survey of the States, December 2004* (Washington, DC, 2004).

Table 5. Tax Revenue, Fiscal Years 2003 and 2004 (in Millions of Dollars)

	Fiscal Year 2003				*Fiscal Year 2004*			
	PIT	*CIT*	*Sales*	*Total*	*PIT*	*CIT*	*Sales*	*Total*
United States	**$183,174**	**$27,778**	**$176,447**	**$466,721**	**$198,472**	**$30,892**	**$188,057**	**$501,937**
New England	**14,584**	**1,673**	**8,651**	**31,041**	**16,248**	**1,924**	**8,892**	**33,361**
Connecticut	4,263	508	3,091	9,576	4,943	518	3,153	10,353
Maine	1,072	91	857	2,432	1,157	112	917	2,727
Massachusetts	8,026	799	3,708	14,964	8,830	998	3,749	15,953
New Hampshire	NA	175	NA	1,239	NA	175	NA	1,276
Rhode Island	812	71	776	1,984	888	77	817	2,123
Vermont	411	29	219	847	430	45	256	929
Mid-Atlantic	**41,541**	**6,703**	**24,362**	**87,103**	**45,478**	**6,830**	**26,278**	**93,878**
Delaware	710	66	NA	1,722	781	81	NA	1,966
Maryland	4,341	379	2,435	7,874	4,915	447	2,635	8,737
New Jersey	6,735	2,525	5,936	18,271	7,401	2,370	6,262	19,211
New York	22,648	2,335	8,471	38,738	24,647	2,253	9,653	41,918
Pennsylvania	7,106	1,397	7,520	20,497	7,734	1,678	7,729	22,046
Great Lakes	**29,507**	**4,906**	**27,682**	**73,445**	**30,483**	**5,301**	**29,904**	**77,438**
Illinois	7,979	1,011	6,093	17,942	8,235	1,379	6,366	19,297
Indiana	3,644	729	4,172	9,880	3,808	645	4,721	10,620
Michigan	5,825	1,887	7,644	20,041	5,894	1,812	7,770	20,019
Ohio	7,420	747	6,398	16,318	7,697	809	7,531	17,738
Wisconsin	4,639	532	3,375	9,264	4,850	657	3,516	9,764
Plains	**15,271**	**1,454**	**11,389**	**32,628**	**16,261**	**1,569**	**11,834**	**34,285**
Iowa	2,418	237	1,704	4,735	2,592	235	1,732	4,926
Kansas	1,750	105	1,794	4,012	1,888	141	1,827	4,224
Minnesota	5,372	589	4,217	12,250	5,710	628	4,376	12,878
Missouri	4,370	335	1,800	7,595	4,572	330	1,902	7,916
Nebraska	1,129	112	1,029	2,456	1,250	167	1,114	2,719
North Dakota	233	76	364	900	249	68	372	919
South Dakota	NA	NA	482	680	NA	NA	512	704
Southeast	**33,471**	**5,145**	**44,818**	**101,005**	**35,670**	**5,544**	**47,552**	**107,607**
Alabama	2,456	240	1,765	6,315	2,653	300	1,912	6,829
Arkansas	1,832	228	1,751	4,072	1,973	240	1,841	4,367
Florida	NA	1,228	14,485	19,743	NA	1,345	15,754	21,545
Georgia	6,271	513	4,771	12,590	6,583	495	4,922	13,261
Kentucky	2,746	278	2,797	6,983	2,796	303	2,877	7,126
Louisiana	1,870	198	2,271	5,789	2,196	233	2,152	6,113
Mississippi	1,042	289	2,453	5,129	1,066	317	2,476	5,101
North Carolina	7,089	886	3,923	13,163	7,510	837	4,222	13,891
South Carolina	2,328	147	1,879	4,997	2,434	174	1,996	5,254
Tennessee	NA	613	5,379	8,441	NA	695	5,786	9,109
Virginia	6,776	343	2,336	10,807	7,385	426	2,562	11,867
West Virginia	1,061	181	1,008	2,976	1,075	182	1,051	3,144
Southwest	**5,035**	**593**	**22,758**	**42,076**	**5,523**	**757**	**24,368**	**45,887**
Arizona	2,098	389	3,036	5,943	2,306	494	3,295	6,547
New Mexico	923	102	1,375	2,960	1,007	138	1,443	3,281
Oklahoma	2,014	102	1,427	4,379	2,210	125	1,538	4,932
Texas	NA	NA	16,920	28,794	NA	NA	18,092	31,128
Rocky Mountain	**6,174**	**490**	**4,412**	**13,107**	**6,595**	**562**	**4,760**	**14,127**
Colorado	3,232	199	1,831	5,415	3,404	236	1,902	5,693
Idaho	844	94	836	2.275	908	104	1.029	2.562
Montana	522	45	NA	1,126	583	67	NA	1,248
Utah	1,575	153	1,444	3,667	1,699	155	1,502	3,880
Wyoming	NA	NA	301	625	NA	NA	327	745
Far West	**37,592**	**6,815**	**32,375**	**86,316**	**42,213**	**8,405**	**34,471**	**95,355**
Alaska	NA	47	NA	1,023	NA	44	NA	1,219
California	32,531	6,535	22,453	64,730	36,773	7,987	23,908	71,731
Hawaii	1,038	8	1,793	3,182	1,169	57	1,900	3,446
Nevada	NA	NA	2,192	2,560	NA	NA	2,469	3,166
Oregon	4,023	225	NA	4,397	4,271	318	NA	4,754
Washington	NA	NA	5,937	10,424	NA	NA	6,166	11,038

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

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York, 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. Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues, is director of Fiscal Studies.

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