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Solid Footing for State Finances: Fiscal Year 2005 Tax Revenue Summary

NICHOLAS W. JENNY

Highlights

- State tax revenue grew 10.7 percent in fiscal year 2005, the strongest growth since at least 1991.
- Adjusted for legislated tax changes and inflation, tax revenue grew 5.2 percent.
- Net legislated tax increases amounted to $5.2 billion in fiscal year 2005.
- Revenue growth met or exceeded estimates in most states.
- Double-digit tax collection growth was recorded by 24 states.

Introduction

State general fund tax revenue grew 10.7 percent from fiscal year 2004 to fiscal year 2005. This is the second consecutive fiscal year of solid revenue growth after the sharp decline in fiscal year 2002 and sluggish growth in fiscal year 2003. This was the strongest nominal tax growth since the Rockefeller Institute of Government began tracking state revenue in 1991. (See Table 1 and Figure 1.) Growth would have been 9.7 percent without the significant tax increases that states implemented during the year. When we also account for the effect of inflation, growth was 5.2 percent, which is the third strongest adjusted real state tax growth since 1991.

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 2005, revenue increased 12.5 percent in the

Table 1
Percentage Growth or Decline in Fiscal Year State Tax Revenue, With Adjustments for Legislated Tax Changes and Inflation

Fiscal Year	Total Nominal Change	Adjusted Nominal Change	Inflation Rate	Adjusted Real Change
2005	10.7 %	9.7 %	4.3 %	5.2 %
2004	7.5	5.8	2.5	3.2
2003	1.8	(0.4)	3.2	(3.5)
2002	(5.7)	(5.9)	2.1	(7.8)
2001	4.7	6.0	3.9	2.0
2000	8.7	9.4	4.1	5.1
1999	5.7	7.4	2.1	5.2
1998	6.9	8.3	1.6	6.6
1997	6.2	7.6	2.2	5.3
1996	5.4	6.3	2.3	3.9
1995	7.0	6.1	2.9	3.1
1994	6.0	5.5	2.4	3.0
1993	5.7	5.2	2.3	2.8
1992	7.2	1.7	2.2	(0.5)

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

personal income tax, 6.7 percent in the sales tax, and 31.6 percent in the corporate income tax.

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 2004 to fiscal year 2005. The Far West region had the strongest growth at 15.8 percent, while the Great Lakes region had the weakest growth at 6.1 percent. Among the states, Alaska had the strongest growth at 41.1 percent — driven by strong oil prices. Twenty-four states had double-digit growth. The state with the weakest growth was Michigan at 3.3 percent.

Tax revenue growth generally exceeded states' original estimates for fiscal year 2005 budgets.

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

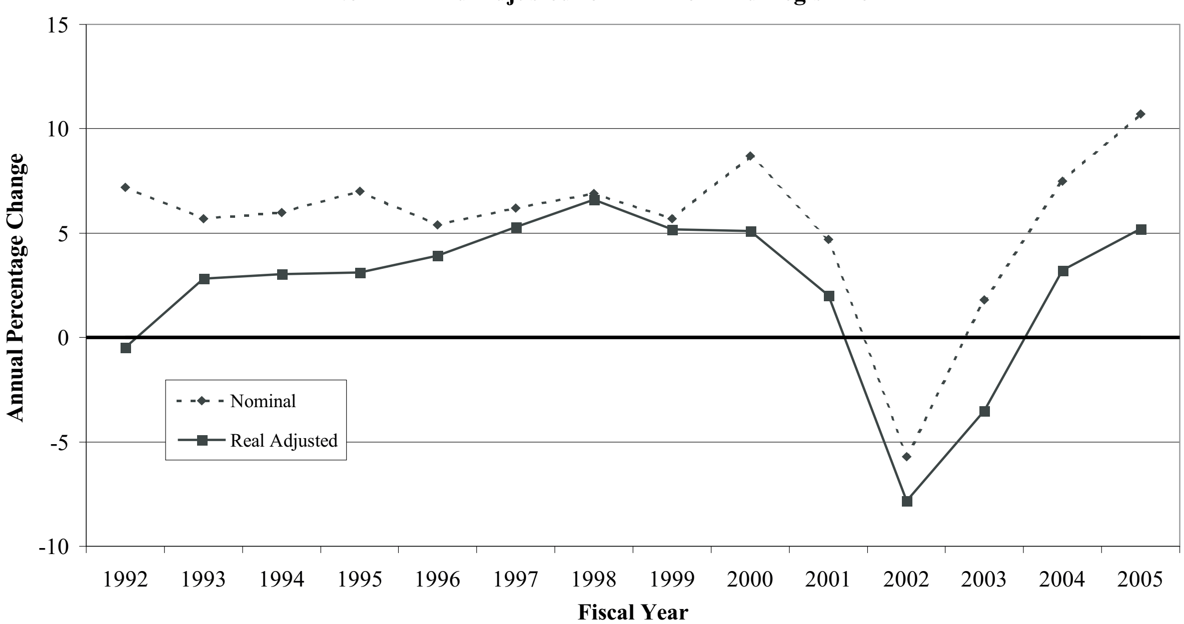


Table 2
Year-Over-Year Percentage Change in State Tax Revenue by Major Tax

Fiscal Year	PIT	CIT	Sales Tax	Total
2005	12.5 %	31.6 %	6.7 %	10.7 %
2004	8.4	11.2	6.6	7.5
2003	(2.0)	11.7	1.8	1.8
2002	(10.8)	(18.2)	0.2	(5.7)
2001	7.5	(6.9)	3.2	4.7
2000	12.4	4.0	7.3	8.7
1999	8.1	0.7	6.2	5.7
1998	11.2	1.0	5.6	6.9
1997	8.1	5.4	5.2	6.2
1996	7.7	1.4	5.5	5.4

According to a survey by the National Governors Association and the National Association of State Budget Officers, states collected about $17.6 billion, or 4.2 percent, more in personal income, corporate income, and sales tax revenue than originally budgeted. Forty-five states reported that total revenue collections were higher than their original estimates. No states reported that collections were lower than estimated.[2]

Personal income tax revenue grew 12.5 percent in fiscal year 2005, the strongest nominal personal income tax growth since at least 1996. (See Table 2.) Of the 41 states that have broad-based personal income taxes, twenty-seven had double-digit percentage increases. Arizona and New Jersey tied for the strongest growth at 28.9 percent, although New Jersey's growth was aided by a tax increase. The weakest growth was in Michigan at 2.2 percent, depressed somewhat by a tax cut. This was the second straight year in which no states had declines in personal income tax collections.

Sales tax revenue increased 6.7 percent in fiscal year 2005, slightly stronger than the previous year's growth. Nine states had double-digit growth in their sales tax collections.[3] Vermont had the strongest growth at 21.7 percent. Maine had the weakest growth at 2.6 percent.

Corporate income tax revenue grew a strong 31.6 percent, the third straight year of solid growth after two years of decline. California's impressive 55.7 percent increase boosted this growth considerably, but was largely the result of a tax amnesty. Growth in the corporate income tax remains volatile and uneven; in many states corporate income tax collections are relatively small and can be significantly affected by the actions of a few corporations.

Table 3
Percent Change in Tax Revenue by State
Fiscal Year 2004 to Fiscal Year 2005

	PIT	CIT	Sale	Total
United States	**12.5 %**	**31.6 %**	**6.7 %**	**10.7 %**
New England	**10.7**	**18.2**	**4.2**	**8.7**
Connecticut	11.9	34.2	4.1	10.7
Maine	9.8	21.8	2.6	4.9
Massachusetts	9.7	6.5	3.7	7.1
New Hampshire	NA	22.3	NA	5.9
Rhode Island	12.5	52.8	3.0	10.1
Vermont	16.3	33.9	21.7	19.8
Mid Atlantic	**16.0**	**15.1**	**6.4**	**11.7**
Delaware	13.0	40.8	NA	9.1
Maryland	11.9	98.4	7.2	13.5
New Jersey	28.9	0.4	4.6	13.6
New York	14.0	13.4	9.5	12.9
Pennsylvania	13.1	14.5	3.5	7.4
Great Lakes	**8.3**	**14.8**	**3.8**	**6.1**
Illinois	7.7	12.3	4.1	5.9
Indiana	10.6	27.9	5.1	7.7
Michigan	2.2	4.6	3.1	3.3
Ohio	11.7	30.0	3.9	7.6
Wisconsin	9.5	17.2	3.1	7.2
Plains	**8.9**	**31.9**	**4.4**	**8.3**
Iowa	7.3	19.6	4.6	6.2
Kansas	8.6	60.1	3.6	7.9
Minnesota	11.1	47.4	2.8	7.7
Missouri	6.3	7.5	3.8	9.0
Nebraska	12.0	18.5	10.5	11.7
North Dakota	11.3	24.2	11.3	15.6
South Dakota	NA	NA	5.1	4.7
Southeast	**10.3**	**36.8**	**8.1**	**10.6**
Alabama	11.4	42.8	6.6	10.8
Arkansas	10.1	27.4	7.5	9.0
Florida	NA	28.6	11.9	14.7
Georgia	6.6	44.0	7.2	7.5
Kentucky	8.6	57.8	4.4	8.7
Louisiana	9.0	61.0	6.4	12.2
Mississippi	10.2	16.0	4.5	5.6
North Carolina	12.0	51.9	6.0	10.9
South Carolina	10.6	23.5	5.1	7.9
Tennessee	NA	15.9	4.6	5.2
Virginia	13.1	44.9	12.0	14.1
West Virginia	9.0	54.7	4.2	13.3
Southwest	**16.5**	**47.9**	**6.4**	**9.3**
Arizona	28.9	42.1	11.1	19.4
New Mexico	7.8	75.5	7.9	13.0
Oklahoma	7.5	40.5	5.2	4.3
Texas	NA	NA	5.5	7.5
Rocky Mountain	**12.8**	**33.7**	**7.6**	**10.6**
Colorado	10.7	33.5	5.1	9.0
Idaho	15.8	35.5	9.1	11.4
Montana	17.7	45.1	NA	11.3
Utah	13.8	28.0	8.8	11.5
Wyoming	NA	NA	11.4	16.6
Far West	**15.1**	**53.5**	**9.2**	**15.8**
Alaska	NA	38.0	NA	41.1
California	15.6	55.7	8.8	17.2
Hawaii	18.2	51.0	12.4	16.0
Nevada	NA	NA	15.6	17.5
Oregon	10.0	1.8	NA	8.0
Washington	NA	NA	6.9	6.5

Tax Law Changes

States implemented actions that increased taxes by a net of about $5.2 billion in fiscal year 2005. 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 one percent in fiscal year 2005. Without this boost, state tax revenue would have grown 9.7 percent. Figure 2 shows state revenue growth adjusted for legislated tax changes.

Eighteen states had net legislated tax increases. In nine of these, the increases boosted tax collections by over one percent, led by New Jersey and California, where the increases amounted to four percent of total collections. Sixteen states had legislated tax cuts implemented in fiscal year 2005. In four of these states — Florida, Iowa, New Hampshire, and South Carolina — the cuts amounted to one percent of receipts.

The Far West region had the largest net tax increases in 2005, where over $2.8 billion boosted revenue growth 2.9 percent. This region's net increase is almost entirely attributable to California, which recorded a net increase of almost $2.9 billion, amounting to a four percent increase in tax collections — most of this increase was the result of the corporate income tax amnesty. California's net increase accounted for 55.8 percent of the total national net state tax increases in 2005. New Jersey matched the four percent increase with a net $787 million legislated tax increase. Only two other states — Maryland and Virginia — had increases of over three percent.

The region with the largest net tax cut was the Plains at 0.2 percent. Florida's tax cut of over $200 million was the largest in dollar terms, reducing the state's revenues by one percent. Iowa's $85 million tax cut was the largest in percentage terms at 1.7 percent.

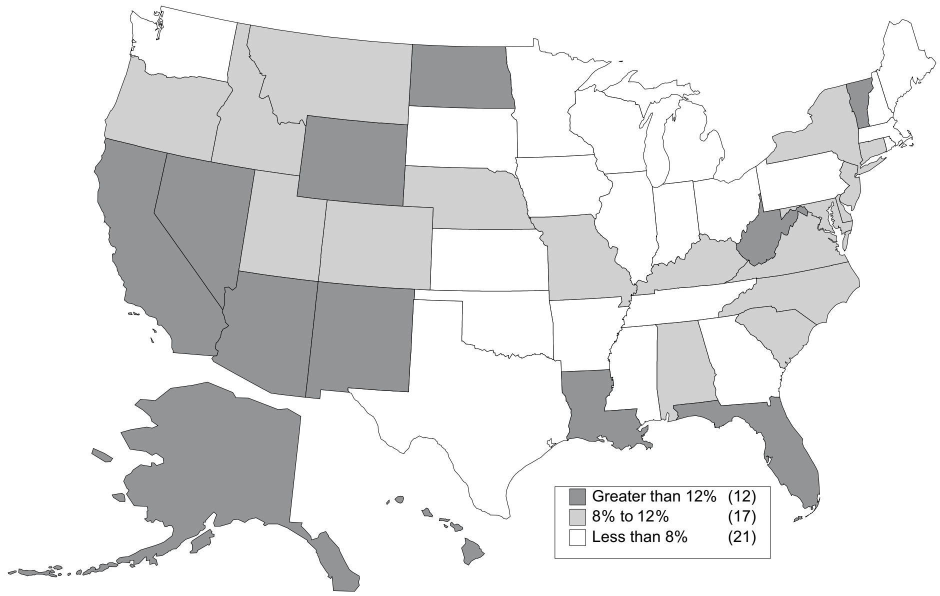
Conclusions

State tax revenue in fiscal year 2005 reached growth rates similar to those seen in the late 1990s. However, significant net tax increases aided this growth. The relatively strong impact of inflation on state tax collections also lessened the beneficial effects of this growth. While most states met or exceeded their revenue growth targets, they still were feeling the lingering effects of the 2001 recession and its impact on state revenue and fiscal balances.

Table 4
Effect of Legislated Tax Changes on FY 2005 Revenue Growth

		Year-Over-Year Revenue Change		
	Amount	Actual	Underlying	Difference
United States	**$5,193**	**10.7 %**	**9.7 %**	**1.0 %**
New England	**$17**	**8.7**	**8.7**	**0.0**
Connecticut	($18)	10.7	10.9	(0.2)
Maine	($6)	4.9	5.2	(0.2)
Massachusetts	$0	7.1	7.1	0.0
New Hampshire	($19)	5.9	7.3	(1.4)
Rhode Island	$57	10.1	7.4	2.7
Vermont	$3	19.8	19.7	0.2
Mid Atlantic	**$2,215**	**11.7**	**9.4**	**2.3**
Delaware	$0	9.1	9.1	0.0
Maryland	$281	13.5	10.3	3.2
New Jersey	$787	13.6	9.5	4.0
New York	$707	12.9	11.2	1.7
Pennsylvania	$441	7.4	5.5	1.9
Great Lakes	**($68)**	**6.1**	**6.2**	**(0.1)**
Illinois	$122	5.9	5.2	0.6
Indiana	$2	7.7	7.7	0.0
Michigan	($133)	3.3	4.1	(0.7)
Ohio	($53)	7.6	7.9	(0.3)
Wisconsin	($6)	7.2	7.2	(0.1)
Plains	**($84)**	**8.3**	**8.6**	**(0.2)**
Iowa	($85)	6.2	7.9	(1.7)
Kansas	$2	7.9	7.9	0.0
Minnesota	$0	7.7	7.7	0.0
Missouri	$3	9.0	9.0	0.0
Nebraska	($1)	11.7	11.8	0.0
North Dakota	$0	15.6	15.6	0.0
South Dakota	($3)	4.7	5.2	(0.4)
Southeast	**$333**	**10.6**	**10.4**	**0.3**
Alabama	$65	10.8	9.8	1.0
Arkansas	$106	9.0	6.6	2.4
Florida	($221)	14.7	15.7	(1.0)
Georgia	$5	7.5	7.5	0.0
Kentucky	$38	8.7	8.2	0.5
Louisiana	($9)	12.2	12.4	(0.2)
Mississippi	$2	5.6	5.6	0.0
North Carolina	($7)	10.9	10.9	0.0
South Carolina	($55)	7.9	8.9	(1.1)
Tennessee	$0	5.2	5.2	0.0
Virginia	$411	14.1	11.1	3.1
West Virginia	($2)	13.3	13.4	0.0
Southwest	**($21)**	**9.3**	**9.3**	**0.0**
Arizona	$0	19.4	19.4	0.0
New Mexico	($21)	13.0	13.6	(0.6)
Oklahoma	$0	4.3	4.3	0.0
Texas	$0	7.5	7.5	0.0
Rocky Mountain	**$3**	**10.6**	**10.6**	**0.0**
Colorado	$0	9.0	9.0	0.0
Idaho	$0	11.4	11.4	0.0
Montana	$0	11.3	11.3	0.0
Utah	$4	11.5	11.4	0.1
Wyoming	($1)	16.6	16.8	(0.2)
Far West	**$2,799**	**15.8**	**12.8**	**2.9**
Alaska	$10	41.1	40.3	0.8
California	$2,897	17.2	13.2	4.0
Hawaii	($22)	16.0	16.6	(0.6)
Nevada	$0	17.5	17.5	0.0
Oregon	($14)	8.0	8.3	(0.3)
Washington	($72)	6.5	7.1	(0.7)

Figure 2.
Change in Tax Revenue by State,
Adjusted for Legislated Changes, FY 2004 to FY 2005



Endnotes

1 This may not include all accruals for all states.

2 National Governors Association and National Association of State Budget Officers, *The Fiscal Survey of States,* December 2005 (Washington, DC, 2005).

3 Arizona, Florida, Hawaii, Nebraska, Nevada, North Dakota, Vermont, Virginia, and Wyoming.

Table 5
State Tax Revenue, Fiscal Years 2004 and 2005 ($ in Millions)

	FY 2004				*FY 2005*			
	Personal Income	Corporate Income	Sales	Total	Personal Income	Corporate Income	Sales	Total
United States	**$198,349**	**$30,802**	**$188,262**	**$506,177**	**$223,179**	**$40,544**	**$201,193**	**$560,557**
New England	**15,929**	**1,856**	**8,575**	**33,440**	**17,634**	**2,195**	**8,933**	**36,398**
Connecticut	4,642	454	2,830	9,528	5,194	609	2,946	10,546
Maine	1,157	112	917	2,750	1,270	136	941	2,924
Massachusetts	8,830	998	3,749	15,953	9,690	1,063	3,886	17,087
New Hampshire	NA	173	NA	1,405	NA	211	NA	1,488
Rhode Island	870	76	823	2,116	979	116	848	2,330
Vermont	430	45	256	1,688	500	60	311	2,023
Mid Atlantic	**45,478**	**6,818**	**26,278**	**95,309**	**52,766**	**7,846**	**27,949**	**106,441**
Delaware	781	81	NA	1,966	882	114	NA	2,146
Maryland	4,915	447	2,635	8,737	5,499	888	2,824	9,918
New Jersey	7,401	2,358	6,262	19,529	9,538	2,368	6,552	22,178
New York	24,647	2,253	9,653	41,918	28,100	2,554	10,573	47,328
Pennsylvania	7,734	1,678	7,729	23,159	8,747	1,921	8,000	24,872
Great Lakes	**30,483**	**5,301**	**29,904**	**76,787**	**33,020**	**6,088**	**31,050**	**81,402**
Illinois	8,235	1,379	6,366	19,297	8,873	1,548	6,627	20,428
Indiana	3,808	645	4,721	10,620	4,213	825	4,960	11,437
Michigan	5,894	1,812	7,770	18,500	6,023	1,895	8,012	19,118
Ohio	7,697	809	7,531	17,738	8,599	1,052	7,827	19,088
Wisconsin	4,850	657	3,516	10,633	5,311	769	3,624	11,332
Plains	**16,269**	**1,569**	**12,502**	**35,536**	**17,718**	**2,070**	**13,053**	**38,490**
Iowa	2,592	235	1,732	4,926	2,782	281	1,812	5,231
Kansas	1,888	141	1,827	4,261	2,051	226	1,892	4,598
Minnesota	5,710	628	4,376	12,878	6,341	926	4,498	13,873
Missouri	4,580	330	2,574	9,133	4,866	354	2,672	9,955
Nebraska	1,250	167	1,114	2,719	1,400	198	1,231	3,037
North Dakota	249	68	372	919	277	84	414	1,062
South Dakota	NA	NA	508	701	NA	NA	534	734
Southeast	**35,836**	**5,532**	**48,577**	**111,921**	**39,544**	**7,570**	**52,533**	**123,838**
Alabama	2,653	300	1,912	6,829	2,955	428	2,039	7,565
Arkansas	1,890	227	1,842	4,354	2,081	290	1,980	4,746
Florida	NA	1,345	15,754	21,546	NA	1,730	17,622	24,704
Georgia	6,832	495	4,928	13,552	7,281	712	5,282	14,574
Kentucky	2,796	303	2,877	7,769	3,036	479	3,003	8,445
Louisiana	2,196	233	2,152	6,113	2,393	374	2,290	6,861
Mississippi	1,066	317	2,476	5,221	1,174	368	2,587	5,516
North Carolina	7,510	837	4,222	15,685	8,409	1,272	4,477	17,388
South Carolina	2,434	174	1,996	5,254	2,691	214	2,097	5,667
Tennessee	NA	695	5,786	9,109	NA	806	6,050	9,579
Virginia	7,385	426	3,581	13,345	8,352	617	4,011	15,230
West Virginia	1,075	182	1,051	3,144	1,172	281	1,095	3,563
Southwest	**5,523**	**757**	**23,196**	**43,553**	**6,435**	**1,120**	**24,927**	**47,800**
Arizona	2,306	494	3,295	6,547	2,974	702	3,661	7,819
New Mexico	1,007	138	1,443	3,281	1,086	243	1,557	3,707
Oklahoma	2,210	125	1,538	4,932	2,375	175	1,617	5,146
Texas	NA	NA	16,920	28,794	NA	NA	18,092	31,128
Rocky Mountain	**6,617**	**564**	**4,760**	**14,057**	**7,467**	**754**	**5,120**	**15,553**
Colorado	3,405	237	1,902	5,694	3,770	316	2,000	6,207
Idaho	908	104	1,029	2,562	1,051	141	1,122	2,853
Montana	605	68	NA	1,379	712	98	NA	1,534
Utah	1,699	155	1,502	3,880	1,933	199	1,635	4,327
Wyoming	NA	NA	327	542	NA	NA	364	633
Far West	**42,213**	**8,405**	**34,471**	**95,575**	**48,596**	**12,903**	**37,628**	**110,636**
Alaska	NA	44	NA	1,219	NA	61	NA	1,720
California	36,773	7,987	23,908	71,731	42,516	12,433	26,014	84,071
Hawaii	1,169	57	1,900	3,446	1,381	86	2,137	3,998
Nevada	NA	NA	2,496	3,184	NA	NA	2,884	3,741
Oregon	4,271	318	NA	4,956	4,699	323	NA	5,354
Washington	NA	NA	6,166	11,038	NA	NA	6,593	11,752

Technical Notes

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

We developed the estimated effects of legislated changes in several ways. The starting points are surveys of legislated tax changes published by the National Conference of State Legislatures, the National Governors Association, and National Association of State Budget Officers, augmented by state publications and contacts. We modify the estimates to account for differences in the timing of revenue receipts. 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 January 2004 and continued throughout 2004, part of its effect occurred in fiscal year 2004 and part in fiscal year 2005.

Most of these estimates are those 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 an assumption of strong retail sales. If sales are lower than assumed, the tax increase will produce less. 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 Year 2005 was from July 1, 2004 to June 30, 2005. Four states have different fiscal years: Alabama and Michigan (October 1, 2004 to September 30, 2005), New York (April 1, 2004 to March 30, 2005) and Texas (September 1, 2004 to August 30, 2005).

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.

This report was written by Nicholas W. Jenny, a senior policy analyst with the Program. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design of this report, with assistance from Michele Charbonneau. Barbara Stubblebine edited the report.

You can contact the Fiscal Studies Program at The Nelson A Rockefeller Institute of Government, 411 State Street, Albany, NY 12203-1003, (518) 443-5285 (phone), (518) 443-5274 (fax), fiscal@ rockinst.org (e-mail).

The Fiscal Studies Program
The Nelson A. Rockefeller
Institute of Government
State University of New York
411 State Street
Albany, New York 12203-1003