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STATE REVENUE FLASH REPORT

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Overall State Tax Revenue Is Up, But Losers Still Outnumber Gainers

Income Taxes Decline Once Again in April

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HIGHLIGHTS

- Overall state tax revenues grew by 2.4 percent in the first quarter of 2010, compared to the same quarter a year earlier, based on preliminary data.
- Thirty-four of 49 early reporting states saw declines in overall tax collections.
- Personal income tax revenue increased by 2.7 percent for the nation. Thirty-four states reported declines in personal income tax collections.
- Sales tax collections increased by 0.5 percent, while corporate tax collections increased by 2.3 percent.
- This is the first time since the third quarter of 2008 that states are reporting growth in tax collections on a year-over-year basis. Such growth is mostly attributable to revenue growth driven by legislated changes in two states alone — California and New York.
- Revenues are still significantly below prerecession levels, and the important April collections from income taxes showed a 7.6 percent year-over-year decline.

Preliminary tax collection data for the January-March quarter of 2010 show improvement in overall state tax collections as well as for all three major sources of tax revenue. However, we expect revenue collections to be weak in the April-June quarter of 2010, particularly for states that heavily rely on personal income tax collections. We will provide a full report on the January-March quarter, and further analysis of the current outlook for the states, after Census Bureau data for the quarter are available.

The Rockefeller Institute's compilation of data from 49 early reporting states shows collections from major tax sources were $138 billion in the first quarter of 2010, compared to $134.8 billion for the same quarter of 2009 and $154.8 for the same quarter of 2008. Overall, tax revenue increased by 2.4 percent in nominal terms compared to the first quarter of 2009, but was down by 10.9 percent compared to the same period two years ago. After adjusting for inflation, tax revenues increased by 1.9 percent in the first quarter of 2010 compared to the same quarter of 2009. States' personal income taxes represented a $1.4 billion gain and sales taxes a $0.3 billion gain for the period.

Despite the growth in overall tax collections for the nation, total tax revenue collections declined in 34 of the 49 states for which comparable, early data are available. In terms of dollars, California and New York reported the largest increases in total tax collections in the first quarter of 2010. California's collections rose by $3.2 billion, or 19.1 percent, while in New York revenues increased by $2.3 billion, or 15.8 percent. In both states revenue growth is largely attributable to legislated changes. If we exclude California and New York from the nation, total tax collections show a 2.2 percent decline for the nation in the first quarter of 2010.

Louisiana reported the largest decline for the quarter at 32.8 percent, followed by Montana at 25 percent. Large declines in collections in Louisiana and Montana are partially attributable to declines in oil and gas production tax due to significantly reduced commodity prices and reduced production levels.

Personal income taxes made up nearly 40 percent of total tax revenue reported in the first quarter of 2010. Personal income tax revenues increased by 2.7 percent for the nation compared to the same quarter of 2009, but were down by 14.1 percent compared to

Figure 1. State Tax Collections: Year-Over-Year Change

the same quarter of 2008. With 41 of 42 personal income tax states reporting so far, 34 states recorded declines in the first quarter of 2010, 13 reporting double-digit declines. Among individual states, Louisiana and Michigan had the largest declines at 54.3 and 36.2 percent, respectively (see Figure 1 and Table 1). The seven states reporting growth in income tax collections were: California, Hawaii, Kentucky, New Jersey, New York, North Carolina, and Rhode Island. The reported increases in personal income tax collections in Hawaii, North Carolina, and Rhode Island are partially attributable to delayed income tax refunds. In California and New York, personal income tax increases are mostly attributable to legislated changes. The impact of legislated changes was expected to increase income tax collections by an estimated $4.3 billion in California and $4.1 billion in New York for the full FY 2010. Without California and New York, income tax collections for the first quarter of 2010 show a 6.5 percent decline nationally in the January-March quarter, compared to the same period of 2009.

Sales tax collections increased by 0.5 percent in the first quarter of 2010 compared to the same quarter of 2009, but were 7.5

Table 1. All Major Taxes Slowly Rebounding in the First Quarter of 2010

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	1.2	(12.9)	4.7	2.7
2008 Q4	(1.2)	(16.8)	(6.4)	(4.6)
2009 Q1	(17.4)	(20.1)	(8.3)	(11.6)
2009 Q2	(27.0)	0.8	(9.5)	(16.5)
2009 Q3	(11.9)	(22.6)	(10.0)	(11.4)
2009 Q4	(4.6)	(3.6)	(5.3)	(4.2)
2010 Q1 (preliminary)	2.7	2.3	0.5	2.4

Notes: See the "Data Notes" Box.

percent lower than in the first quarter of 2008. With 44 of 45 sales-tax states reporting so far, fully 37 had sales tax declines compared with the same quarter last year, and three states reported double-digit declines. Wyoming had the largest sales tax decline at 25.6 percent, followed by Louisiana at 19.9 percent. The following seven states reported growth in sales tax collections: California, Hawaii, Massachusetts, Michigan, North Carolina, Ohio, and West Virginia. Massachusetts reported the largest growth at 25.7 percent for the quarter, mostly attributable to a sales tax rate increase from 5.0 percent to 6.25 percent.

In California, sales tax collections increased by nearly $1.3 billion in the first quarter of 2010, mostly due to a 1 percent increase in the sales tax rate. Sales tax collections show a decline of 2.3 percent for the remaining 43 states that have broad-based sales tax.

Among the corporate income tax states, 23 of 44 early reporting states reported declines for the first quarter compared to the same quarter of the previous year; 15 saw double-digit declines. Sixteen states reported double digit growth and four states reported single digit growth. The large variation among states' corporate income tax revenues is due to volatility in corporate profits and in the timing of tax payments. In addition, many states collect relatively little revenue from corporate taxes, resulting in large fluctuations in percentage terms. Thus, the large variation in corporate income tax collections among states and from quarter to quarter is not unexpected.

As Table 2 shows, the New England, Mid-Atlantic, and Far West regions reported increases in total tax collections (for state-by-state patterns, see Figure 2). The Great Lakes region was the weakest by far in terms of both personal income and overall tax revenue collections, while the Southwest region was the weakest in terms of sales tax collections. The Far West region reported growth in all major sources of tax collections as well as in total tax collections. New England showed growth in terms of both corporate income and sales tax collections. However, if we exclude Massachusetts, sales tax collections in New England show a 4.6 percent decline for the region. The Mid-Atlantic

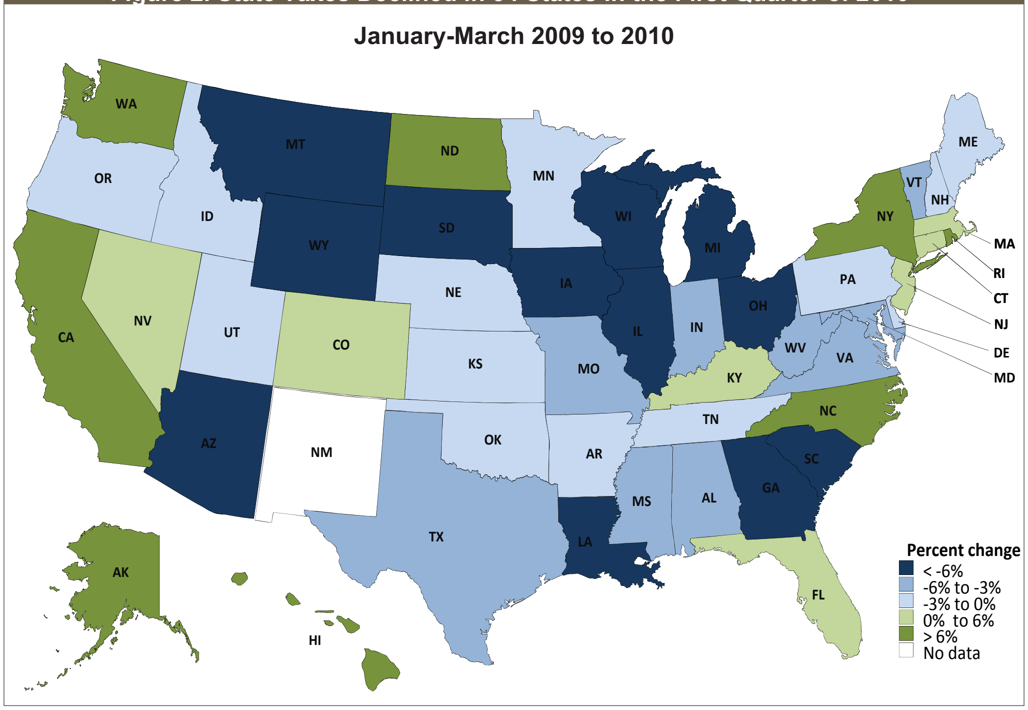
Table 2. Quarterly Tax Revenue by Region

January-March 2009 to 2010, Nominal Percent Change

	PIT	CIT	Sales	Total
United States	**2.7**	**2.3**	**0.5**	**2.4**
New England	(2.6)	10.1	7.8	2.4
Mid-Atlantic	13.1	15.1	(1.9)	7.2
Great Lakes	(13.3)	(18.8)	1.2	(6.7)
Plains	(5.6)	(0.6)	(5.0)	(2.9)
Southeast	(9.2)	(8.8)	(1.6)	(3.0)
Southwest	(8.0)	(20.5)	(9.2)	(4.3)
Rocky Mountain	(7.8)	173.3	(6.9)	(4.1)
Far West	16.6	8.7	14.4	16.8

Source: Individual state data, analysis by Rockefeller Institute.

Figure 2. State Taxes Declined in 34 States in the First Quarter of 2010



region reported growth in terms of both personal income and corporate income tax collections.

Closer Look Into Personal Income Tax Collections

To gain early information on personal incomes tax revenues, Rockefeller Institute staff collected additional statistics from 36 of 41 states that have a broad-based personal income tax. The data cover different components of personal income tax including withholding, tax returns, declarations of estimated taxes, and refunds.

April and May are critical months for personal income tax receipts as individual income tax returns are due and most income tax refunds are processed in these two months.[1] In this report we discuss revenue collections for the month of April, as well as for the period January through April. The figures for April alone should be viewed cautiously as the picture may be distorted due to various factors, including changes in processing times from one year to another. The final picture on personal income tax receipts will become clearer when May receipts are recorded.

Total personal income tax collections in January-April 2010 were 1.6 percent, or about $1.3 billion, below the level of a year ago for the 36 states for which we have data. In April 2010 alone (April being the month when many states receive the bulk of their balance due or final payments), personal income tax receipts fell by 7.6 percent, or $2.3 billion. However, personal income tax collections in the months of January-April 2010 are drastically lower compared to the same period of two years ago. The 36 early reporting states collected $29.1 billion, or 27.5 percent, less in January-April of 2010 compared to the same months of 2008.

One of the most important indicators for the strength of personal income tax revenue is withholding, which comes largely from current wages and is much less volatile than estimated payments or final settlements. Withholding tax collections showed some improvement and increased by 5.4 percent in the early reporting 36 states during the first four months of 2010 compared to the same months of 2009. However, withholding for the same states was down by $1.5 billion, or 2.1 percent, compared to the January-April months of 2008.

The highest-income taxpayers generally make estimated tax payments (also known as declarations) on their income not subject to withholding tax. This income often comes from investments, such as capital gains realized in the stock market. The first payment for each tax year is due in April in most states and the second, third, and fourth are generally due in June, September, and January. The early payments often are made on the basis of the previous year's tax liability and may offer little insight into income in the current year. It is not safe to extrapolate trends from the first payment, or often even from the first several payments.

In the 37 states for which we have complete data for all four payments, the median payment was down by 27.4 percent, and by 22.1 percent for the fourth payment. Declines were recorded in 36 of 37 states for all four payments. The widespread year-over-year declines in the December-January payment led to further declines in first payment in April. Preliminary numbers for the first payment indicate that the median payment was down by 6.1 percent in April of 2010. Twenty-seven of 35 early reporting states reported declines in estimated payments in April 2010, with Colorado and Louisiana reporting the largest declines at 87.3 and 52.7 percent, respectively.

Final payments with personal income tax returns were down by 9.6 percent through April, and down 11.6 percent in the month of April alone. Payments with returns in January-April 2010 exceeded 2009 levels in only seven of 34 reporting states. Alabama, Louisiana, and Rhode Island had the largest declines in final payments, with over 40 percent for January-April of 2010.

The amount of personal income tax refunds processed by 35 states declined by 1.7 percent through April, and by 2.8 percent in the month of April 2010 alone. In total, 35 early reporting states have paid out about $0.6 billion less in refunds in January-April of 2010 than in 2009. In April 2010 alone, the 35 reporting states paid about $0.3 billion less than in April of 2009. So far, 22 of 35 early reporting states returned more income tax refunds to taxpayers in the January-April months of 2010 compared to the same period of 2009, with 11 states returning over 5 percent more in personal income tax refunds for the period. The picture will become clearer once data for May refunds become available. We know that some states, such as Hawaii, North Carolina, and Rhode Island, had delayed refunds due to the current recession, while others were actually able to process refunds faster than in previous years due to more taxpayers filing taxes electronically. In addition, Massachusetts, New Jersey, and Rhode Island had extended the income tax return deadline from April 15 to May 11 for several counties due to flooding.

Employment Conditions

Employment data for the first quarter of 2010 continue to illustrate the underlying economic weakness behind tax revenues. Overall, year-over-year employment growth for the nation declined almost continuously from the first quarter of 2006 through the period examined in this report. Employment fell by 2.7 percent in the first quarter of 2010 compared to the same period a year earlier, according to preliminary data from the Bureau of Labor Statistics. Employment declined in 48 states compared to the same quarter of 2009 (see Figure 3). The only two states reporting growth in employment are Alaska and North Dakota at 1.3 and 0.3 percent, respectively.

The Outlook

States are facing tough challenges on the road to fiscal recovery due to steep declines in state revenue collections for the last two years. Most states will continue coping with budget gaps for quite some time. The revenue strength of the most important and final fiscal 2010 quarter for 46 states is still to be determined. Regrettably, early indications are not promising for the April-June quarter, at least in terms of personal income tax. Many states will likely continue facing significant declines in personal income tax payments for 2009 in the April-June quarter, despite the large decline that already occurred on 2008 income tax payments a year ago and despite signs that the current economy is on the road to recovery.

The income tax shortfall for the April-June quarter will push states to take hasty actions for dealing with the shortfall. The April shortfalls in income tax collections come late in the fiscal year and late in the budget process, leaving little time for revenue analysts to evaluate the budget shortfalls, for budget forecasters to revise their forecasts, and for elected officials to assess the magnitude of the state fiscal crisis. The 46 states whose fiscal years end June 30 will be hard-pressed to enact legislation reducing spending, lay off workers, raise taxes, or otherwise obtain resources sufficient to

Figure 3. Employment Declined in 48 States in the First Quarter of 2010

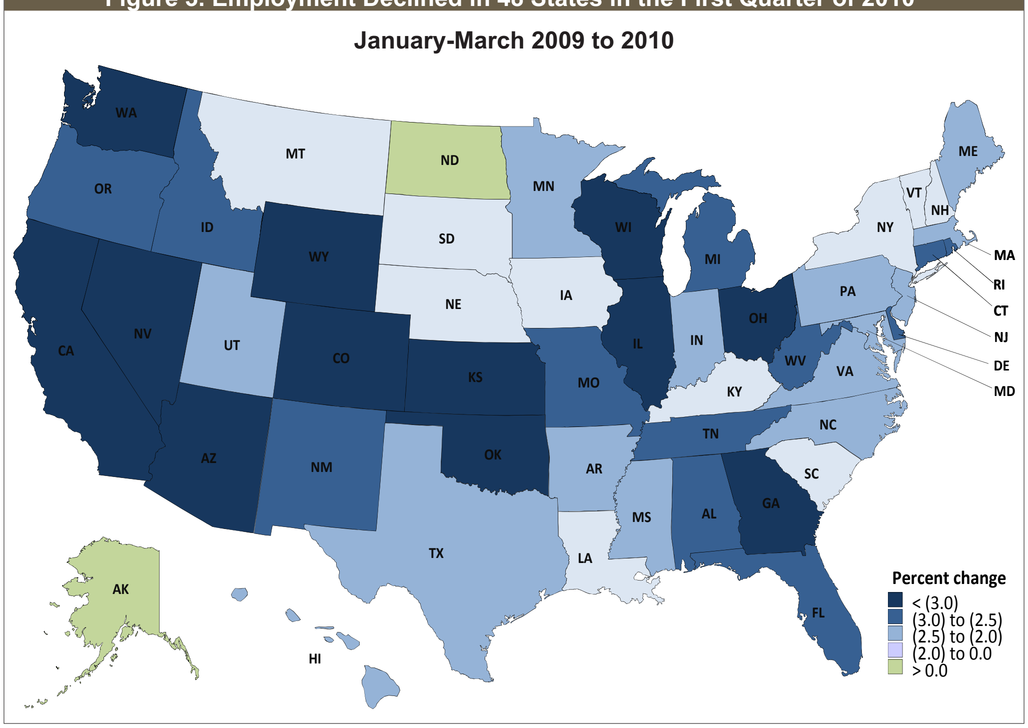


Table 3. Percent Change in State Tax Revenue

Quarterly Tax Revenue by Major Tax, Early Reporting States
January-March 2009 to 2010, % change

	PIT	CIT	Sales	Total
United States	**2.7**	**2.3**	**0.5**	**2.4**
New England	**(2.6)**	**10.1**	**7.8**	**2.4**
Connecticut	(2.2)	34.9	(6.0)	2.6
Maine	(7.2)	90.3	(2.9)	(0.4)
Massachusetts	(2.9)	4.3	25.7	2.9
New Hampshire	NA	(4.6)	NA	(1.4)
Rhode Island	12.5	22.1	(1.8)	7.6
Vermont	(15.8)	(11.6)	(2.7)	(5.6)
Mid-Atlantic	**13.1**	**15.1**	**(1.9)**	**7.2**
Delaware	(17.5)	(23.3)	NA	(2.0)
Maryland	(3.8)	(2.3)	(6.2)	(4.8)
New Jersey	3.2	105.8	(2.9)	3.4
New York	23.1	10.1	(0.1)	15.8
Pennsylvania	(2.5)	(0.5)	(1.2)	(1.0)
Great Lakes	**(13.3)**	**(18.8)**	**1.2**	**(6.7)**
Illinois	(8.9)	(3.2)	(2.9)	(6.5)
Indiana	(6.7)	(231.5)	(1.2)	(5.1)
Michigan	(36.2)	(15.9)	8.0	(8.5)
Ohio	(1.2)	(68.8)	3.1	(6.2)
Wisconsin	(24.2)	99.9	(3.9)	(7.4)
Plains	**(5.6)**	**(0.6)**	**(5.0)**	**(2.9)**
Iowa	(7.9)	(5.9)	(8.4)	(6.3)
Kansas	(5.8)	1,194.8	(5.8)	(2.9)
Minnesota	(3.0)	0.5	(2.9)	(2.1)
Missouri	(7.8)	(41.9)	(6.0)	(5.4)
Nebraska	(3.4)	23.8	(4.8)	(1.4)
North Dakota	(13.0)	(7.9)	(1.5)	19.4
South Dakota	NA	NA	(11.4)	(12.3)
Southeast	**(9.2)**	**(8.8)**	**(1.6)**	**(3.0)**
Alabama	(8.8)	(27.5)	(2.1)	(4.3)
Arkansas	(10.6)	34.7	(4.9)	(2.2)
Florida	NA	0.7	(2.0)	3.1
Georgia	(12.7)	31.2	(7.1)	(7.1)
Kentucky	1.8	(5.9)	(1.4)	0.5
Louisiana	(54.2)	(119.9)	(19.9)	(32.8)
Mississippi	(20.9)	9.8	(5.7)	(4.1)
North Carolina	2.2	9.7	24.6	7.5
South Carolina	(27.0)	(51.6)	(2.8)	(10.9)
Tennessee	(14.0)	(5.5)	(3.0)	(0.9)
Virginia	(2.6)	(20.2)	(3.2)	(3.4)
West Virginia	(3.3)	(74.5)	1.2	(5.8)
Southwest	**(8.0)**	**(20.5)**	**(9.2)**	**(4.3)**
Arizona	(11.1)	29.3	(8.2)	(6.2)
New Mexico	ND	ND	ND	ND
Oklahoma	(4.9)	(62.8)	(9.3)	(1.9)
Texas	NA	NA	(9.4)	(4.3)
Rocky Mountain	**(7.8)**	**173.3**	**(6.9)**	**(4.1)**
Colorado	(5.8)	(2,987.6)	(2.5)	1.1
Idaho	(7.5)	(39.3)	(2.8)	(2.0)
Montana	(32.1)	(10.9)	NA	(25.0)
Utah	(1.2)	67.6	(9.5)	(2.3)
Wyoming	NA	NA	(25.6)	(13.3)
Far West	**16.6**	**8.7**	**14.4**	**16.8**
Alaska	NA	888.6	NA	46.3
California	17.7	4.5	22.3	19.1
Hawaii	61.4	103.2	4.6	24.9
Nevada	NA	NA	(1.2)	6.0
Oregon	(4.7)	247.5	NA	(0.1)
Washington	NA	NA	(3.1)	6.2

Source: Individual state data, analysis by Rockefeller Institute.
Notes: NA - not applicable; ND - no data.

offset the lost revenue before the end of the year.

Despite numerous revisions to revenue forecasts, many states report that actual collections through the first 9-10 months of FY 2010 are still beneath estimates. For example, in New Jersey revenues for the first 10 months of the fiscal year 2010 ran $492 million, or 2.2 percent, below estimates,[2] while in Arizona revenues are $35.2 million below the forecast.[3]

The state tax revenue picture in the first quarter of the calendar year 2010 represented some improvement from the collapse of the preceding quarters. Still, in most states, the overall trend for fiscal 2010 — and the outlook for fiscal 2011 — is very much in the negative.

Endnotes

1 Individual income tax returns are due on April 15 in 35 out of 41 states that have broad-based personal income tax. The remaining six states have individual income tax return due dates later than the usual April 15. Those states are: Arkansas (May 15), Delaware (April 30), Hawaii (April 20), Iowa (April 30), Louisiana (May 15), and Virginia (May 1).

2 See http://www.state.nj.us/treasury/news/2010/p100514a.PDF.

3 See http://www.azleg.gov/jlbc/mfh-may-10.pdf.

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 only state for which we do not have data for the quarter analyzed in this report is 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.

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