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HIGHLIGHTS

- Total state tax revenue fell by 12.6 percent in the first quarter of 2009, compared to the same quarter a year earlier, based on data for 47 early-reporting states. Forty-five of these states had declines in total tax collections.
- Personal income tax revenue fell sharply and represented the bulk of the decline, with a 15.8 percent year-over-year decrease. This is the largest such decline since 2002.
- Sales tax collections continued their fall with a decline of 7.6 percent, while corporate tax collections dropped 16.2 percent. This is the second quarter in a row that revenue from all three major sources declined.
- Many states are already reporting even further revenue shortfalls in the second quarter of 2009 on personal income tax returns due in April.
- The employment picture for the quarter was sharply and broadly negative. The number of jobs fell in every one of the 50 states, and most showed declines of more than 1 percent compared to the previous quarter.

STATE REVENUE FLASH REPORT

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Personal Income Tax Revenue Declined Sharply in the First Quarter

Lucy Dadayan and Donald J. Boyd

Preliminary tax collection data for the January-March quarter of 2009 show widespread and sharp declines for most states for all three major sources of tax revenue, as well as total taxes.

Total tax revenue declined in 45 of 47 early reporting states. We expect revenue collections, particularly collections from the personal income tax, to deteriorate even further in the April-June quarter based in large part on declines in financial markets and income tax returns due in April. We will provide a full report on the January-March quarter and further analysis of the 2009 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 \$134.6 billion in the first quarter of 2009 compared to \$154 billion in the same quarter of 2008. Personal income tax declines represented a \$10.1 billion loss for the period. Overall tax revenue declined by 12.6 percent in nominal terms. The corporate income tax had the sharpest decline at 16.2 percent, followed by personal income tax and sales tax at 15.8 and 7.6 percent, respectively. After adjusting for inflation, overall tax revenues declined by 14 percent in the first quarter compared to the same quarter of 2008.

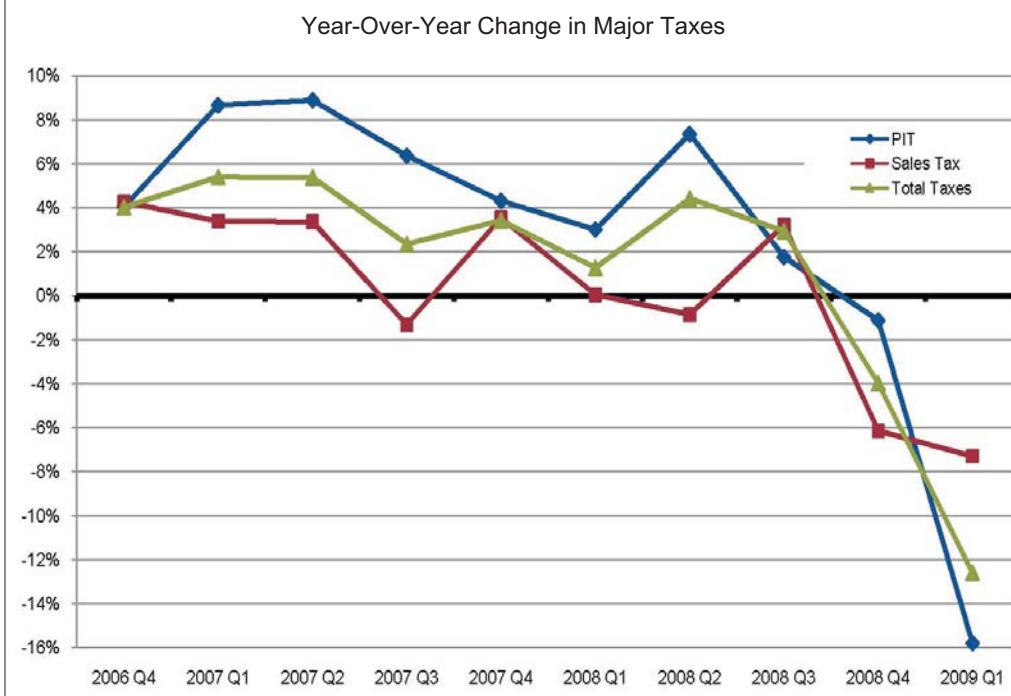
Personal income tax revenue made up nearly 40 percent of total tax revenue reported in the first quarter. With 39 of 41 personal income tax states reporting so far, 34 states had declines compared to the same quarter of last year, 21 of them seeing double digit declines. Among individual states South Carolina had the largest decline at 38.3 percent.

With 43 of 45 sales tax states reporting so far, fully 36 had sales tax declines compared with the same quarter last year, ten of them seeing double digit declines. Georgia had the largest sales tax decline at 16.3 percent.

Among the corporate income tax states, 33 of 43 reporting states saw declines for the first quarter compared to the same quarter of the previous year, 32 of them seeing double digit declines.

As Table 2 shows, all regions had declines in personal income, sales and total tax collections. (For state-by-state patterns see Figure 2 and Table 3.) The Far West region was the weakest by far in terms of total tax revenue collection while the Southwest was the weakest in terms of personal income tax collection. The Plains

Figure 1. State Personal Income Taxes Decline Sharply in the First Quarter



region saw the smallest decline in total tax revenues at 5 percent. The region also had the smallest decline both in terms of personal income tax and sales tax at 4.1 and 0.3 percent, respectively. But even in the Plains region, most states did poorly.

Employment Conditions

Employment data for the first quarter of 2009 illustrate the underlying economic weakness behind declining tax revenues with a decline of 1.5

percent, according to preliminary data from the Bureau of Labor Statistics. Employment declined in all 50 states compared to the fourth quarter of 2008 (see Figure 3).

The Outlook

The revenue situation worsened in nearly every state in the first quarter of 2009, including states that rely heavily on energy resources. Most of these states had been spared the worst of the fiscal crisis until recently. Only Iowa and South Dakota saw increases in overall revenue collections in the first quarter of 2009 compared to the same quarter of 2008. Deeper revenue shortfalls and more budget cuts are likely on the way for most states for the April-June and July-September quarters of calendar 2009. As

Percent Change in State Tax Collections vs. Same Quarter Year Ago				
Quarter	PIT	CIT	Sales	Total
2007q1	8.7	14.8	3.4	5.4
2007q2	8.9	1.7	3.4	5.4
2007q3	6.4	(1.7)	(1.3)	2.4
2007q4	4.3	(12.5)	3.5	3.4
2008q1	3.0	(3.0)	0.1	1.3
2008q2	7.4	(4.4)	(0.9)	4.4
2008q3	1.8	(5.9)	3.2	2.9
2008q4	(1.1)	(15.9)	(6.1)	(4.0)
2009q1 (preliminary)	(15.8)	(16.2)	(7.6)	(12.6)

Notes: See the "Data Notes" Box.

Table 2. Far West and Mid-Atlantic Were Weakest

Quarterly Tax Revenue by Region
January-March 2008 to 2009, Nominal Percent Change

	PIT	CIT	Sales	Total
United States	(15.8)	(16.2)	(7.6)	(12.6)
New England	(14.0)	(9.9)	(7.6)	(12.9)
Mid-Atlantic	(17.0)	(38.8)	(6.4)	(14.0)
Great Lakes	(15.4)	(6.8)	(5.9)	(10.3)
Plains	(4.1)	(26.6)	(0.3)	(5.0)
Southeast	(11.3)	(20.3)	(8.3)	(11.7)
Southwest	(30.3)	14.2	(5.1)	(9.9)
Rocky Mountain	(9.9)	(68.1)	(10.0)	(11.5)
Far West	(23.2)	12.7	(13.2)	(18.1)

Source: Individual state data, analysis by Rockefeller Institute.

discussed in a recent report by the Rockefeller Institute, tax revenues generally fall sharply after a recession for two or more years before any recovery.¹ While some experts say the beginnings of economic recovery may be underway, deterioration in the fiscal picture for states will likely continue at least in the near term.

Figure 2. State Taxes Declined in at Least 45 States

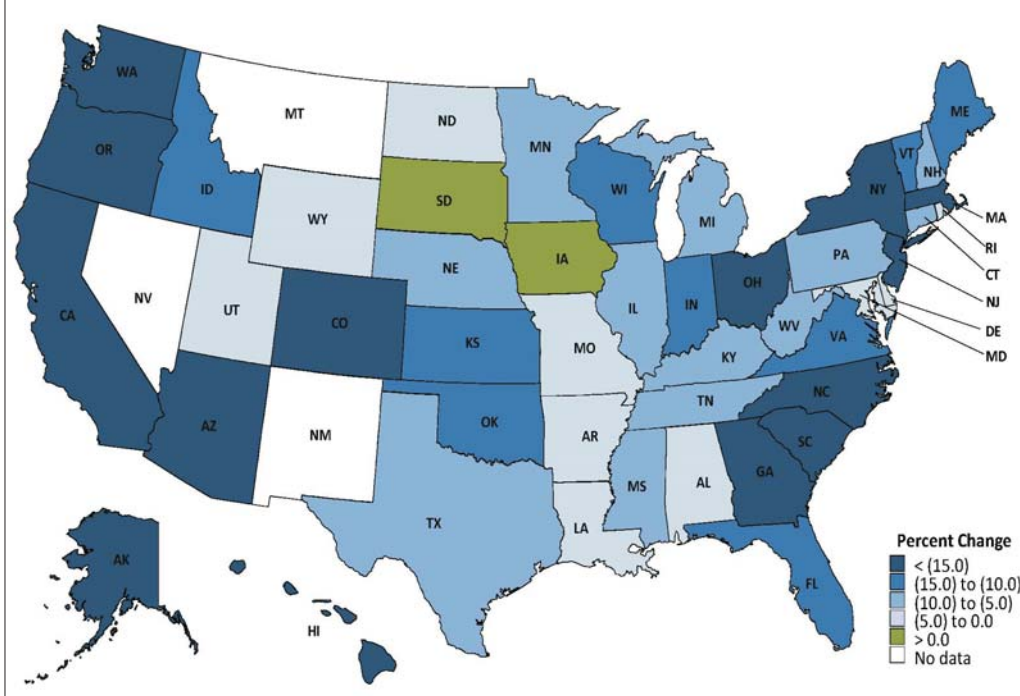
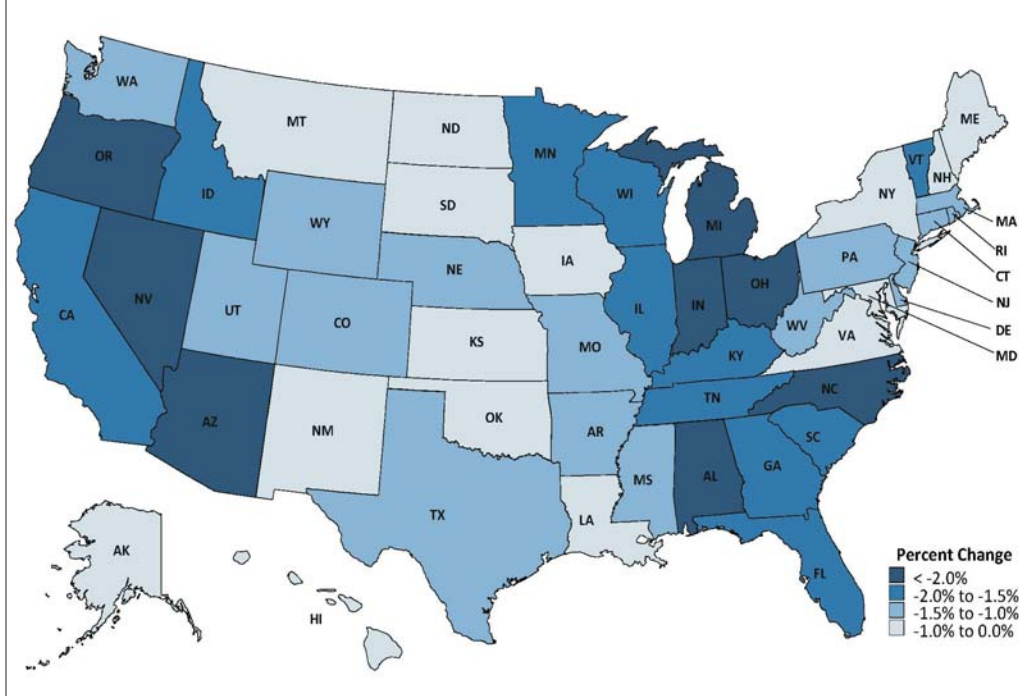


Figure 3. Employment Declined in All 50 States in the First Quarter of 2009



Endnotes

- 1 See Donald J. Boyd, "What Will Happen to State Budgets When the Money Runs Out?" Rockefeller Institute of Government, February 19, 2009.

Data Notes

Data for the most recent quarter were collected by the Rockefeller Institute of Government from individual states. The data are preliminary and generally will not be available for all 50 states. The three states for which we do not have data for the quarter reported on here are: Montana, 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 from the individual states to get the earliest possible read on what is happening to state government finances, and we use the Census Bureau data to get slightly less timely but more comprehensive and more comparable information 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. 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.

We adjusted data for inflation using the U.S. Bureau of Economic Analysis's gross domestic product price index.

Table 3. Percent Change in State Tax Revenue

Quarterly Tax Revenue by Major Tax, Early Reporting States
January-March 2008 to 2009, % change

	PIT	CIT	Sales	Total
United States	(15.8)	(16.2)	(7.6)	(12.6)
New England	(14.0)	(9.9)	(7.6)	(12.9)
Connecticut	(5.9)	(34.1)	(8.6)	(9.8)
Maine	(17.6)	(35.2)	(5.7)	(11.7)
Massachusetts	(18.7)	0.6	(8.0)	(16.8)
New Hampshire	NA	3.1	NA	(5.0)
Rhode Island	(2.0)	(35.7)	(2.8)	(4.2)
Vermont	(26.8)	21.7	(7.8)	(10.0)
Mid-Atlantic	(17.0)	(38.8)	(6.4)	(14.0)
Delaware	4.2	(12.7)	NA	(3.6)
Maryland	(5.3)	(21.2)	(3.5)	(4.8)
New Jersey	(21.1)	(64.1)	(9.2)	(18.9)
New York	(20.8)	(36.8)	(5.6)	(17.1)
Pennsylvania	(5.8)	(32.4)	(5.9)	(8.0)
Great Lakes	(15.4)	(6.8)	(5.9)	(10.3)
Illinois	(6.3)	(18.2)	(9.5)	(6.1)
Indiana	(17.1)	(62.8)	7.3	(12.1)
Michigan	(27.8)	83.6	(10.5)	(7.7)
Ohio	(20.6)	(32.5)	(9.8)	(15.7)
Wisconsin	(15.1)	(39.0)	(2.2)	(11.9)
Plains	(4.1)	(26.6)	(0.3)	(5.0)
Iowa	4.0	(10.3)	16.8	5.6
Kansas	(10.9)	(97.7)	(3.1)	(13.4)
Minnesota	(8.9)	(12.8)	(5.5)	(8.5)
Missouri	(2.1)	(30.2)	(5.1)	(3.3)
Nebraska	(3.4)	(32.2)	(3.0)	(5.9)
North Dakota	31.1	(22.1)	16.7	(0.4)
South Dakota	NA	NA	6.6	3.8
Southeast	(11.3)	(20.3)	(8.3)	(11.7)
Alabama	(3.8)	(1.9)	(6.5)	(1.7)
Arkansas	(1.4)	20.6	(1.9)	(0.2)
Florida	NA	(29.4)	(11.5)	(13.7)
Georgia	(23.0)	(39.5)	(16.3)	(19.3)
Kentucky	(12.2)	(31.6)	(5.2)	(5.2)
Louisiana	2.1	27.8	(4.3)	(4.5)
Mississippi	(4.8)	(15.3)	(5.8)	(7.5)
North Carolina	(8.8)	(11.5)	0.7	(17.1)
South Carolina	(38.3)	52.2	(8.1)	(15.2)
Tennessee	NA	(11.1)	(7.8)	(10.0)
Virginia	(12.3)	(48.7)	(4.9)	(13.9)
West Virginia	(5.3)	(62.9)	(4.0)	(9.4)
Southwest	(30.3)	14.2	(5.1)	(9.9)
Arizona	(37.7)	10.9	(16.2)	(20.8)
New Mexico	ND	ND	ND	ND
Oklahoma	(20.8)	17.1	1.3	(12.6)
Texas	NA	NA	(3.6)	(7.6)
Rocky Mountain	(9.9)	(68.1)	(10.0)	(11.5)
Colorado	(15.1)	(104.8)	(11.4)	(16.5)
Idaho	(21.7)	(28.2)	(11.0)	(12.2)
Montana	ND	ND	NA	ND
Utah	11.7	(43.2)	(11.1)	(4.0)
Wyoming	NA	NA	3.8	(4.3)
Far West	(23.2)	12.7	(13.2)	(18.1)
Alaska	NA	(83.1)	NA	(74.1)
California	(24.0)	17.2	(13.0)	(15.9)
Hawaii	(21.1)	(36.9)	(13.1)	(16.2)
Nevada	NA	NA	ND	ND
Oregon	(15.9)	(70.4)	NA	(19.1)
Washington	NA	NA	(13.9)	(15.5)

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, 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.

This report was researched and written by Senior Policy Analyst Lucy Dadayan and Senior Fellow Donald J. Boyd. 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.