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STATE REVENUE FLASH REPORT

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State Tax Revenues Are Slowly Rebounding

Two Straight Quarters of Growth, But Total Collections Are Still Below Prerecession Levels

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Preliminary tax collection data for the April-June quarter of 2010 show 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 April-June quarter, and further analysis of the fiscal year 2009-10 and the current outlook for the states, after Census Bureau data for the quarter are available.

The Rockefeller Institute's compilation of data from 47 early reporting states shows collections from major tax sources increased by 2.2 percent in nominal terms compared to the second quarter of 2009, but was 17.2 percent below the same period two years ago. Gains were widespread, with 30 states showing an increase in revenues compared to a year earlier. After adjusting for inflation, tax revenues increased by 1.4 percent in the second quarter of 2010 compared to the same quarter of 2009. States' personal income taxes represented a $1.0 billion gain and sales taxes a $2.9 billion gain for the period. In terms of dollars, Florida reported the largest increases in total tax collections in the second quarter of 2010, where revenue collections rose by $766 million or 13.6 percent. This was driven by double-digit growth in corporate income tax collections from depressed lows, and by modest but still better-than-expected growth in the sales tax.

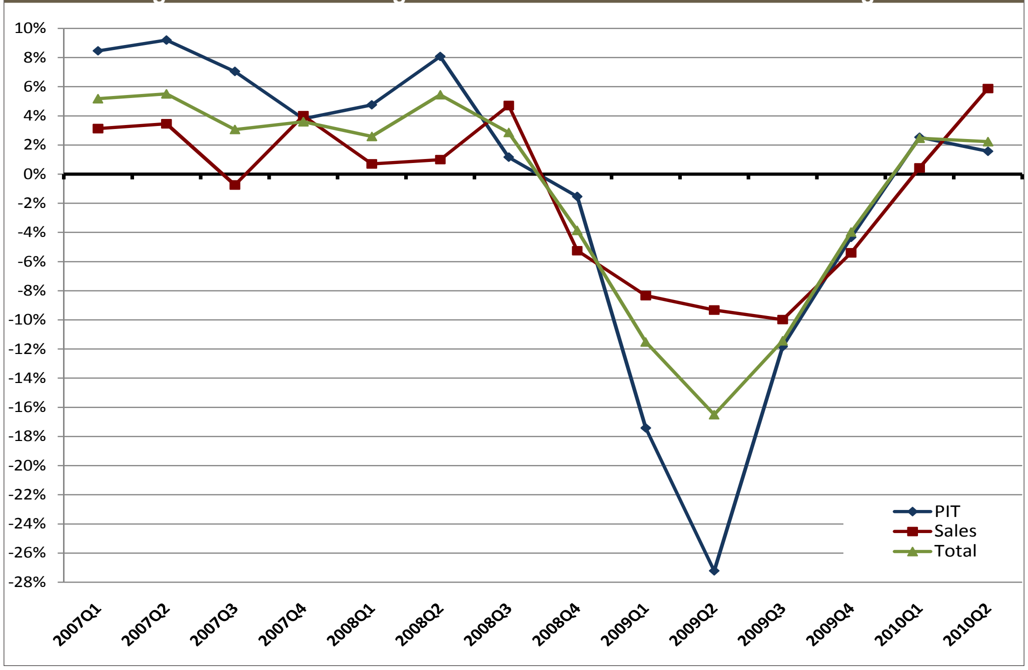
Despite the positive news, revenues declined in 17 of the 47 states for which comparable, early data are available. Wyoming reported the largest decline for the quarter at 28.2 percent, followed by Louisiana at 22.1 percent. Large declines in collections in Louisiana and Wyoming are partially attributable to declines in oil and gas production tax due to significantly reduced commodity prices and reduced production levels.

Personal income taxes made up about 41 percent of total tax revenue reported in the second quarter of 2010. Personal income tax revenues increased by 1.6 percent for the nation compared to the same quarter of 2009, but were down by 27.3 percent compared to the same quarter of 2008. With 40 of 42 personal income tax states reporting so far, 26 states recorded declines in the second quarter of 2010, nine reporting

HIGHLIGHTS

- Overall state tax revenues grew by 2.2 percent in the second quarter of 2010, compared to the same quarter a year earlier, based on preliminary data.
- Thirty of 47 early reporting states reported gains in overall tax collections, while 17 saw declines.
- Personal income tax revenue increased by 1.6 percent for the nation. Twenty-six states reported declines in personal income tax collections. The income tax was held back by declines in payments with tax returns for 2009; payments on income received in 2010 were somewhat stronger.
- Sales tax collections increased by 5.9 percent, while corporate tax collections declined by 18.8 percent.
- This is the second consecutive quarter that states are reporting growth in overall tax collections on a year-over-year basis. Such growth is at least partially driven by legislated changes in several states.
- Revenues are still significantly below prerecession levels.

Figure 1. Percent Change in State tax Collections Versus Year Ago



double-digit declines. Among individual states, Louisiana reported the largest decline at 34.7 percent , while Hawaii reported the largest increase at 32 percent (see Figure 1 and Table 3). In terms of dollars, California reported the largest increase in personal income tax collections in the second quarter of 2010, where revenue collections rose by $1.6 billion or 11.5 percent. Such increase is mostly attributable to legislated changes. Without California, personal income tax collections for the second quarter of 2010 show a 1.1 percent decline nationally in the April-June quarter, compared to the same period of 2009.

Sales tax collections increased by 5.9 percent in the second quarter of 2010 compared to the same quarter of 2009, but were still 5.4 percent lower than two years ago. With 42 of 45 sales-tax states reporting so far, only seven states reported declines in sales tax collections compared with the same quarter last year. Wyoming had the largest sales tax decline at 35.1 percent, followed by Utah at 3.6 percent. The following five states reported double-digit growth in sales tax collections: California, Massachusetts, North Carolina, North Dakota, and Virginia. In terms of dollars,

Table 1. State Taxes Slowly Rebounding in the Second 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	2.9
2008 Q4	(1.5)	(22.0)	(5.3)	(3.9)
2009 Q1	(17.4)	(20.1)	(8.3)	(11.5)
2009 Q2	(27.2)	1.6	(9.3)	(16.5)
2009 Q3	(11.8)	(22.1)	(10.0)	(11.4)
2009 Q4	(4.3)	(0.5)	(5.4)	(4.0)
2010 Q1	2.5	(0.6)	0.4	2.5
2010 Q2 (preliminary)	1.6	(18.8)	5.9	2.2

Notes: See the "Data Notes" Box.

California again reported the largest growth for the quarter, with sales tax collections increasing by $686 million or 10.1 percent.

Among the corporate income tax states, 19 of 43 early reporting states reported declines for the second quarter compared to the same quarter of the previous year, while 24 showed gains. Fourteen states reported double-digit declines, while seventeen states reported double-digit growth in corporate income tax collections in the second 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. Among individual states, California reported the largest decline in corporate income tax collections in the second quarter of 2010, where revenue collections declined by $2.7 billion or 42.3 percent. California's corporate income tax collections were strong in the April-June quarter of 2009 due to legislation that required taxpayers to pay 30 percent of annual estimated payments in each of their two first prepayments (April and June for calendar year corporations) versus the prior requirement of 25 percent. Without California, corporate income tax collections for the second quarter of 2010 show a 1.9 percent decline nationally in the April-June quarter, compared to the same period of 2009.

As Table 2 shows, the Plains, Southeast, and Rocky Mountains were the only regions reporting declines in personal income tax collections (for state-by-state patterns, see Figure 2). The Southeast was the weakest by far in terms of personal income tax collections, while the Rocky Mountains region was the weakest in terms of both sales tax and overall tax collections. The New England region reported the strongest growth in sales tax as well as in total tax collections, while the Far West region reported the strongest growth in personal income tax collections.

Closer Look Into Personal Income Tax Collections

To gain early information on personal income tax revenues, Rockefeller Institute staff collected additional statistics from 37 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-June is a critical quarter for personal income tax receipts as individual income tax returns are due and most income tax refunds are processed in this quarter.[1] In this report we discuss revenue collections for the April-June quarter.

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 5.5 percent in the

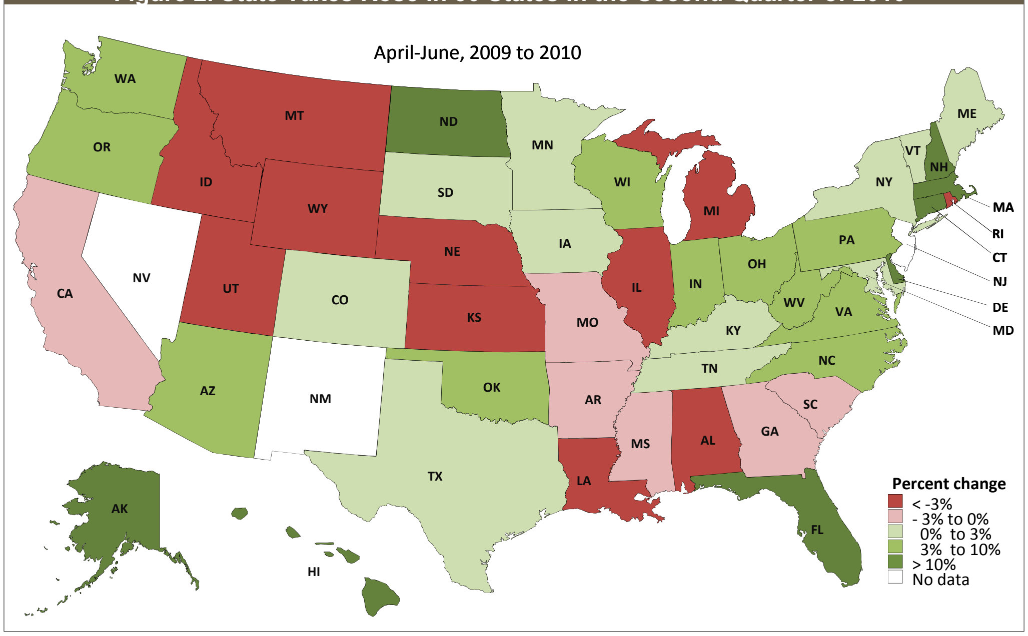
Table 2. Quarterly Tax Revenue by Region

April-June 2009 to 2010, Nominal Percent Change

	PIT	CIT	Sales	Total
United States	**1.6**	**(18.8)**	**5.9**	**2.2**
New England	6.6	12.2	12.8	8.3
Mid-Atlantic	2.7	6.5	7.5	3.6
Great Lakes	0.0	(22.4)	4.3	0.1
Plains	(6.0)	(2.8)	2.2	(0.8)
Southeast	(8.3)	1.7	7.2	2.5
Southwest	2.1	(1.0)	2.5	1.3
Rocky Mountain	(5.3)	4.6	(2.6)	(4.4)
Far West	11.3	(39.7)	7.6	2.7

Source: Individual state data, analysis by Rockefeller Institute.

Figure 2. State Taxes Rose in 30 States in the Second Quarter of 2010



early reporting 37 states during the second quarter of 2010 compared to the same quarter of 2009. However, the withholding for the same states was up by only $377 million or 0.7 percent compared to the April-June quarter 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. In the 35 states for which we have complete data, payments were up by 7.1 percent in the second quarter of 2010 compared to the same quarter of 2009, but were down by 32.3 percent compared to the second quarter of 2008. Declines were recorded in 23 of 37 states for the second quarter of 2010.

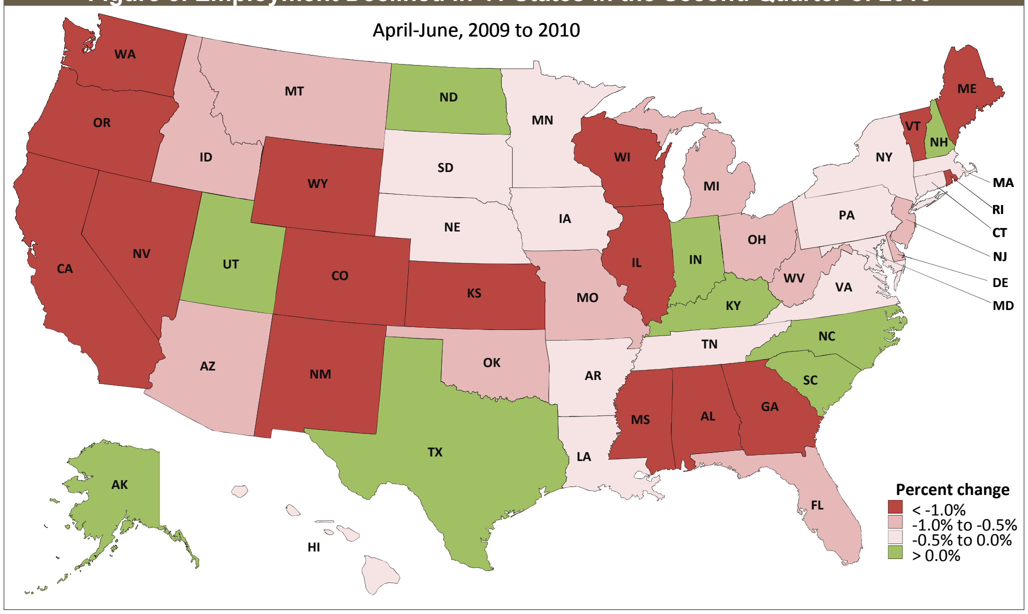
Final payments with personal income tax returns were down by 10.8 percent in the second quarter of 2010 compared to the same quarter of 2009 and by 41.9 percent compared to the same quarter of 2008. Payments with returns in the April-June quarter of 2010 exceeded 2009 levels in only four of 35 reporting states.

Personal income tax refunds paid by 35 states declined by 4.7 percent in the second quarter of 2010 compared to the same quarter of 2009, but were up by 10.2 percent compared to the second quarter of 2008. In total, these 35 early reporting states have paid out about $0.9 billion less in refunds in April-June of 2010 than in 2009. So far 27 of 35 early reporting states returned more income tax refunds to taxpayers in the April-June quarter of 2010 compared to the same period of 2009, with 15 states returning over 20 percent more in personal income tax refunds for the period.

Employment Conditions

Employment data for the second quarter of 2010 continue to illustrate the underlying economic weakness behind tax revenues. Overall, employment for the nation declined on a year-over-year

Figure 3. Employment Declined in 41 States in the Second Quarter of 2010



basis almost continuously from the first quarter of 2006 through the period examined in this report. Employment fell by 0.7 percent in the second quarter of 2010 compared to the same period a year earlier, according to preliminary data from the Bureau of Labor Statistics. Employment declined in 41 states compared to the same quarter of 2009 (see Figure 3). North Dakota reported the largest growth in employment at 1.3 percent, followed by Alaska at 1.0 percent. Nevada and Rhode Island reported the largest declines in employment at 2.9 and 2.3 percent, respectively.

The Outlook

The state tax revenue picture in the first two quarters of the calendar year 2010 represented significant improvement from the collapse of the preceding quarters. Still, in most states, the overall trend for fiscal 2010 was very much in the negative. Now that most states have closed the books for fiscal year 2010, preliminary figures show that 34 of 44 states for which complete fiscal 2010 data are available saw declines in overall tax collections for the year. Collections from the two major tax sources — personal income and sales — were also negative for the fiscal year. With revenues still below prerecession levels and question marks surrounding the national economy, states face continued uncertainty at best — with continuing budget challenges a sure bet.

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).

Table 3. Percent Change in State Tax Revenue

Quarterly Tax Revenue by Major Tax, Early Reporting States
April-June 2009 to 2010, Percent change

	PIT	CIT	Sales	Total
United States	**1.6**	**(18.8)**	**5.9**	**2.2**
New England	**6.6**	**12.2**	**12.8**	**8.3**
Connecticut	14.7	0.2	(1.4)	10.9
Maine	0.7	9.5	4.2	1.7
Massachusetts	4.0	13.0	29.7	10.5
New Hampshire	NA	18.2	NA	16.3
Rhode Island	(7.7)	34.9	5.0	(4.1)
Vermont	0.4	18.1	1.7	2.2
Mid-Atlantic	**2.7**	**6.5**	**7.5**	**3.6**
Delaware	17.7	9.9	NA	17.8
Maryland	(1.7)	12.3	5.3	1.4
New Jersey	ND	ND	ND	ND
New York	2.3	8.4	7.5	1.8
Pennsylvania	6.0	2.4	8.4	7.0
Great Lakes	**0.0**	**(22.4)**	**4.3**	**0.1**
Illinois	(6.8)	(32.6)	2.6	(7.0)
Indiana	(4.7)	(13.9)	4.0	4.0
Michigan	(4.3)	(22.6)	5.8	(3.8)
Ohio	5.8	(43.8)	5.4	3.2
Wisconsin	11.4	11.3	2.8	8.7
Plains	**(6.0)**	**(2.8)**	**2.2**	**(0.8)**
Iowa	(0.3)	(17.6)	4.7	0.9
Kansas	(13.2)	(28.2)	(1.6)	(9.5)
Minnesota	(5.4)	13.6	2.6	0.6
Missouri	(3.4)	13.1	1.3	(0.7)
Nebraska	(6.0)	(20.6)	(0.2)	(4.7)
North Dakota	(24.9)	(3.3)	16.8	16.9
South Dakota	NA	NA	1.1	2.9
Southeast	**(8.3)**	**1.7**	**7.2**	**2.5**
Alabama	(18.8)	(30.0)	4.2	(4.2)
Arkansas	(5.6)	(6.9)	1.2	(1.9)
Florida	NA	14.5	3.0	13.6
Georgia	(5.2)	18.5	(1.8)	(1.3)
Kentucky	(4.0)	41.1	4.2	1.2
Louisiana	(34.7)	(73.9)	1.3	(22.1)
Mississippi	(6.0)	(3.8)	0.7	(0.8)
North Carolina	(7.8)	(1.0)	37.3	6.7
South Carolina	(2.3)	(14.4)	1.0	(0.4)
Tennessee	(22.3)	18.5	3.3	1.7
Virginia	(1.9)	26.8	31.4	7.3
West Virginia	(11.5)	(10.5)	4.7	4.1
Southwest	**2.1**	**(1.0)**	**2.5**	**1.3**
Arizona	16.4	(3.9)	0.6	3.9
New Mexico	ND	ND	ND	ND
Oklahoma	(10.3)	7.3	6.0	3.4
Texas	NA	NA	2.5	0.7
Rocky Mountain	**(5.3)**	**4.6**	**(2.6)**	**(4.4)**
Colorado	(0.4)	6.2	6.3	1.8
Idaho	(12.0)	(23.3)	1.2	(5.9)
Montana	6.8	(33.3)	NA	(12.3)
Utah	(13.4)	49.3	(3.6)	(4.5)
Wyoming	NA	NA	(35.1)	(28.2)
Far West	**11.3**	**(39.7)**	**7.6**	**2.7**
Alaska	NA	41.4	NA	106.3
California	11.5	(42.3)	10.1	(0.9)
Hawaii	32.0	53.6	(1.2)	10.7
Nevada	NA	NA	ND	ND
Oregon	5.0	104.0	NA	10.0
Washington	NA	NA	0.7	8.7

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 three states for which we do not have data for the quarter analyzed in this report are Nevada, New Jersey, 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.

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. 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.