



May 18, 2010

## Missouri General Revenue Report for Fiscal Year 2010

July 1, 2009- April 30, 2010

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### Missouri General Revenue Growth Remains Sluggish in April

#### Highlights from this Report

- Missouri's net General Revenue Collections *declined* by 3.6 percent in April, resulting in a net decrease of 11.7 percent for all of Fiscal Year 2010 (FY 2010) to date.
- Despite growing 1.9 percent in April, individual income tax withholding has declined 5.6 percent for FY 2010 overall.
- Sales tax collections fell 3.0 percent in April and are down 6.5 percent for FY 2010 to date.
- Corporate income/franchise tax rose 7.5 percent in April. Nevertheless, net corporate income/franchise tax has declined 23 percent in FY 2010 thus far.

There were a few positive points in the April general revenue (GR) numbers. Most notably, individual income tax withholding **grew** by 1.9 percent and sales tax declined by “only” 3.0 percent.

Nonetheless, net GR was still down 11.7 percent, which represents a decline over \$750 million dollars compared to the first ten months of FY 2009. This is a decline of unprecedented proportions and has led to a very difficult budget situation. It is also critical to stress that if it not were for substantial revenues accruing to the state as a result of the *American Recovery and Reinvestment Act*, Missouri would be facing a budget crisis in FY 2010 and beyond of a **much greater magnitude**.

As noted, despite some April positives, state general revenue collections over the last ten months were extremely weak in all areas. For FY 2010 to date overall:

- Net Individual Income Tax	-13.1%
- Net Sales & Use Tax	-5.7%
- Net Corporate Income Tax	-23.1%
- <b>Total Net General Revenue</b>	- <b>11.7%</b>

## Detailed Revenue Analysis:

**Individual income tax (ITT)** collections fell 6.5 percent in April, which brings about an 8.9 percent decline for FY 2010 overall. While IIT withholding grew 1.9 percent in April, the FY 2010 growth rate is still -5.6 percent after ten months. April declarations/estimated payments had a weak month, declining 12.7 percent. As a result, IIT declarations/estimated payments are down nearly 27 percent for FY 2010 thus far.

April is generally the most critical month for remittances or final payments. Unfortunately, April remittances fell 4.3 percent, which leaves FY 2010 overall remittance at -5.0 percent.

There is little doubt that the overall individual income tax situation is still bleak. As Table 2 demonstrates, IIT withholding has now declined in five straight quarters. With continued weakness in state total employment, some IIT withholding collection decline is not unexpected.

The latest statistics, which now include March, show that Missouri is continuing to experience an overall decline in total employment. **From the first quarter of 2009 through the first quarter of 2010, Missouri has lost over 87,000 jobs and the March unemployment rate was 9.5 percent.** Job loss numbers of this magnitude are apt to lead to sustained weakness in withholdings well into FY 2010 and possibly FY 2011. (See Table 3 for recent trends in Missouri employment)

The following tables examine recent trends in Missouri wages and salaries. The new 2009 data shows that the Missouri wages and salaries declined in each of the four quarters reported. The decline in the 2009 4<sup>th</sup> quarter was especially severe. Note that dollar amounts are in millions:

**Table 1: Missouri Wage and Salary Growth**

**Year and Quarter      MO Wages and Salaries (In Millions)      Percent Change**

2006 Quarter 1	\$107,990	5.7%
2006 Quarter 2	\$108,796	5.2%
2006 Quarter 3	\$108,979	3.9%
2006 Quarter 4	\$110,345	4.4%
2007 Quarter 1	\$112,406	4.1%
2007 Quarter 2	\$113,422	4.3%
2007 Quarter 3	\$114,661	5.2%
2007 Quarter 4	\$116,070	5.2%
2008 Quarter 1	\$116,807	3.9%
2008 Quarter 2	\$117,498	3.6%
2008 Quarter 3	\$118,043	3.0%
2008 Quarter 4	\$123,655	6.5%
2009 Quarter 1	\$115,760	-0.9%
2009 Quarter 2	\$114,042	-2.9%
2009 Quarter 3	\$113,784	-3.6%
2009 Quarter 4	\$113,992	-7.8%

Source: U.S. Dept of Commerce: Bureau of Economic Analysis

**Table 2: Missouri Individual Income Tax Collections**  
**Missouri Individual Income Tax Collections Growth Rates Fiscal Years 2007-2010**

<u>Year and Quarter</u>	<u>Individual Income Tax Withholding Percent Change</u>
2006. Quarter 3	6.3%
2006. Quarter 4	4.4%
2007. Quarter 1	4.0%
2007. Quarter 2	6.0%
<b>Total Fiscal Year 2007</b>	<b>5.1%</b>
2007. Quarter 3	5.2%
2007. Quarter 4	8.2%
2008. Quarter 1	7.4%
2008. Quarter 2	2.8%
<b>Total Fiscal Year 2008</b>	<b>6.0%</b>
2008. Quarter 3	3.2%
2008. Quarter 4	9.0%
2009. Quarter 1	-2.8%
2009. Quarter 2	-5.5%
<b>Total Fiscal Year 2009</b>	<b>0.9%</b>
2009. Quarter 3	-4.9%
2009. Quarter 4	-11.8%
2010. Quarter 1	-1.8%
April	1.9%

*Source: MO Office of Administration*

**Table 3: Missouri Employment Trends 2006 through 2009**

<u>Calendar Year</u>	<u>Total Employment</u>	<u>Unemployment Rate</u>
2006	2,887,773	4.8%
2007. Quarter 1	2,909,773	4.7%
2007. Quarter 2	2,895,052	4.9%
2007. Quarter 3	2,887,396	5.3%
2007. Quarter 4	2,892,434	5.4%
2008. Quarter 1	2,889,251	5.3%
2008. Quarter 2	2,873,390	5.6%
2008. Quarter 3	2,852,361	6.3%
2008. Quarter 4	2,828,886	7.2%
2009. Quarter 1	2,795,189	8.5%
2009. Quarter 2	2,764,976	9.6%
2009. Quarter 3	2,739,181	9.7%
2009. Quarter 4	2,718,752	9.6%
2010. Quarter 1	2,707,877	9.4%

*Source: U.S. Bureau of Labor Statistics*

With the decline in withholding, the near term outlook for this tax source is not good. The struggling economy, as shown with the above job loss figures, is likely to stifle growth in this tax well into FY 2011. A key to any sustained recovery in overall state GR collections will be a turnaround in this area because IIT accounted over 65 percent of the Missouri GR fund in FY 2009.

**Sales and use tax** collections fell 3.0 percent in April and have declined 6.5 percent for FY 2010 overall. Note that from this report and into the future, all sales tax will be considered as “regular” sales. Since July of 2008, all motor vehicle sales tax has been allocated to highways and transportation.

While April’s decline of 3.0 percent is not significant by recent standards, Missouri sales tax collections remain very low. For the quarter ending March 31<sup>st</sup>, sales tax collections fell 6.8 percent. Sales tax has now declined in each of the last *ten* consecutive quarters.

It is now evident that lack of job growth, along with declining consumer confidence, has negated the positives brought about by the generally improving stock market. There is a potential bright spot - the national savings rate increased significantly in 2009. (The savings rate equals savings divided by disposable personal income).

**National Savings Rate**

2005	1.4%
2006	2.4%
2007	1.7%
2008	2.7%
<b>2009</b>	<b>4.3%</b>

*Source: U.S. Dept of Commerce: Bureau of Economic Analysis*

Due to this phenomenon, it may be reasonable to expect some improvement in sales tax later in FY 2010.

The following summarizes net sales tax collections over time:

- FY 2005 - \$1,793.1
- FY 2006 - \$1,885.6
- FY 2007 - \$1,889.3
- FY 2008 - \$1,901.2
- FY 2009 - \$1,808.9
- FY 2010 - \$1,705.8 (Projected)

As indicated above, net regular sales tax in FY 2009 was not substantially greater than in FY 2005. See below for the latest quarterly trends in sales tax growth.

**Table 4: Missouri Sales Tax Growth Rates Fiscal Years 2007-2010**

	<u>Regular Sales Tax</u>	<u>Motor Vehicle Sales Tax</u>
2006. Quarter 3	1.7%	-41.3%
2006. Quarter 4	3.4%	-13.9%
2007. Quarter 1	4.9%	15.4%
2007. Quarter 4	2.6%	-6.8%
<b>Total Fiscal Year 2007</b>	<b>3.2%</b>	<b>-14.4%</b>

2007. Quarter 3	4.0%	-45.1%
2007. Quarter 4	-0.3%	-53.9%
2008. Quarter 1	-2.9%	-66.5%
2008. Quarter 2	-2.0%	-57.7%
<b>Total Fiscal Year 2008</b>	<b>-0.4%</b>	<b>-56.8%</b>
2008. Quarter 3	-2.3%	-95.8%
2008. Quarter 4	-2.5%	-94.8%
2009. Quarter 1	-5.2%	-95.9%
2009. Quarter 2	-8.3%	-92.4%
<b>Total Fiscal Year 2009</b>	<b>-4.6%</b>	<b>-94.5%</b>
2009. Quarter 3	-6.7%	NA
2009. Quarter 4	-6.9%	NA
2010. Quarter 1	-6.8%	NA
April	-3.0%	NA

**Corporate income and franchise tax** collections rose by 7.5 percent in April, bringing us the main bright spot found in April collections. Unfortunately, this still left FY 2010 with an overall decline of -8.3 percent. Looking at the sub-components for all of FY 2010 thus far, weakness remains in both areas.

Declarations and final payments have declined in FY 2010, 7.1 percent and 9.9 percent respectively. Additional bad news is that corporate refunds have been running well ahead of last year's pace and now total about \$172 million. As a result, net corporate collections have declined 23.1 percent for the year. Further complicating the corporate tax situation is the fact that there may be substantial tax credits that have been issued awaiting redemption. This will act to restrict further growth in this tax source. This is in addition to the explicit reduction on the corporate franchise tax that was signed into law in 2009. FY 2010 and FY 2011 will likely continue to be a difficult period for this tax.

**Other revenue sources:** Notable developments in the smaller revenue sources include:

**General revenue interest** earnings continue to decline. For FY 2010 overall they have fallen about 69 percent. With interest rates expected to remain extremely low, this source is not likely to generate much revenue over the coming months.

**County foreign insurance** collections have increased 0.4 percent during the first ten months of FY 2010. This would have to be considered a relative bright spot.

**General revenue refunds** rose 12.8 percent during the first ten months of FY 2010. Individual income tax refunds are up 16.1 percent, but as noted above corporate income/franchise tax refunds have been on the rise and are up 23.1 percent.

### Summary and Outlook

There are some bright spots in the economic and revenue situation. Nonetheless, it is apparent that state revenues are almost certainly in their worst shape since the Great Depression of the 1930s. Fortunately, the generally improving national economy offers some hope in the long run.

- Real gross domestic product has increased in each of the last three quarters, growing at 2.2 percent, 5.6 percent and 3.2 percent annual rates, respectively.

- National payroll employment has increased in each of the four months of 2010. In March and April, the US economy added 520,000 jobs.
- The *US Index of Leading Economic Indicators* rose 1.4 percent in March and has now increased twelve consecutive months.
- Despite a shaky first week in May, the stock market, as measured by the *Standard and Poors 500 Stock Index*, is up about 31 percent compared to early May of 2009.

Despite these economic positives, net GR receipts for the first ten months of FY 2010 were extremely weak and they leave the state budget in a precarious condition. The General Assembly has approved a budget for FY 2011 that reduces Governor Nixon's spending recommendations by nearly \$500 million. While there is no official consensus revenue estimate at this time, it is evident that collection growth will need to improve markedly to avoid even further cuts to an already lean FY 2011 budget.

**The weakness in virtually all categories of revenue in Missouri is a cause of great concern.** Even with a stronger economy, GR growth in Missouri is apt to remain sluggish due to the relentless erosion of the tax base. Increases in tax reductions and tax credits, passed just in the last three years, are estimated to cost the GR fund \$250- \$300 million in FY 2010 and increasing to approximately \$350 million by FY 2011.

Assuming that no *new* Federal funds become available, the state will almost certainly face another very difficult budget situation in FY 2011 and much worse problems in FY 2012 and beyond. State policy makers need to address the severe tax base erosion that has occurred or Missouri will almost certainly face perpetual budget difficulties. (See next page for the April and FY 2010 General Revenue Collection table)

**Table 5: April GR Collections and Refunds**

<u>Tax Source</u> ( \$\$\$ in Thousands)	Apr. FY 2009	Apr. FY 2010	Percent Change	FY 2009 YTD	FY 2010 YTD	Percent Change
<b>Individual Income</b>						
Withholding	292,596	298,254	1.9	3,707,178	3,499,308	(5.6)
Declarations	96,070	83,915	(12.7)	621,015	454,176	(26.9)
Remittances	468,661	448,506	(4.3)	661,127	627,774	(5.0)
Fiduciaries	54,330	21,949	(59.5)	70,492	28,125	(60.1)
<b>Total</b>	<b>911,670</b>	<b>852,638</b>	<b>(6.5)</b>	<b>5,059,894</b>	<b>4,609,463</b>	<b>(8.9)</b>
<b>Sales and Use</b>						
Regular	132,107	128,182	(3.0)	1,566,455	1,464,820	(6.5)
<b>Total</b>	<b>132,107</b>	<b>128,182</b>	<b>(3.0)</b>	<b>1,566,455</b>	<b>1,464,820</b>	<b>(6.5)</b>
<b>Corporate Tax</b>						
Declarations	33,742	42,172	25.0	245,027	227,723	(7.1)
Remittances & Corp Franchise	57,764	56,206	(2.7)	196,211	176,699	(9.9)
<b>Total</b>	<b>91,506</b>	<b>98,377</b>	<b>7.5</b>	<b>441,239</b>	<b>404,422</b>	<b>(8.3)</b>
Estate	77	130	68.8	2,394	223	(90.7)
Interest	812	459	(43.5)	29,041	8,991	(69.0)
Liquor	3,323	3,710	11.6	20,207	21,445	6.1
Beer	700	712	1.7	7,307	6,797	(7.0)

County Foreign Insurance	(648)	(355)	(45.2)	131,528	132,066	0.4
Federal Reimbursements	9,619	7,570	(21.3)	72,203	53,351	(26.1)
All other revenues	23,360	21,559	(7.7)	129,624	139,381	7.5
<b>Gross GR collections</b>	<b>1,172,526</b>	<b>1,112,982</b>	<b>(5.1)</b>	<b>7,459,892</b>	<b>6,840,960</b>	<b>(8.3)</b>
<b>GR Refunds</b>						
Individual Income	123,060	103,429	(16.0)	722,293	838,699	16.1
Corp. Income&Franchise	3,987	5,029	26.0	139,332	172,187	23.6
Senior Citizen Property	16,570	15,040	(9.2)	102,764	102,624	(0.1)
Sales	3,703	1,888	(49.0)	57,286	42,104	(26.5)
All other	1,066	745	(30.1)	17,570	16,933	(3.6)
<b>Total GR Refunds</b>	<b>148,386</b>	<b>126,131</b>	<b>(15.0)</b>	<b>1,039,245</b>	<b>1,172,547</b>	<b>12.8</b>
<b>Net General Revenue</b>	<b>1,024,141</b>	<b>986,851</b>	<b>(3.6)</b>	<b>6,420,647</b>	<b>5,668,413</b>	<b>(11.7)</b>

*Source: Missouri Office of Administration*

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