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## Quarterly Missouri General Revenue Report, December Fiscal Year 2011

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For the quarter ending December 31<sup>st</sup>, Missouri's net General Revenue (GR) collections rose 6.8 percent, marking three consecutive quarters of revenue growth.\* In view of the sharp decline in net GR collections that characterized fiscal years 2009 and 2010, there is now reason to believe that the worst of the revenue decline has ended.

However, it is important to note that the fiscal year (FY) 2009 and FY 2010 revenue decline is **the largest sustained decline since the Great Depression of the 1930s**. To place this in context, **Missouri's FY 2010 net GR total of \$6.774 billion was \$1.23 billion less than the \$8.003 billion the state collected in FY 2008**. While the revenue increases are welcome news, the state still has an enormous revenue problem to address.

### Missouri General Revenue Increases in First Half of Fiscal Year 2011

Missouri's net General Revenue (GR) collections increased by 9.4 percent in December and are up 4.6 percent for all of FY 2011.

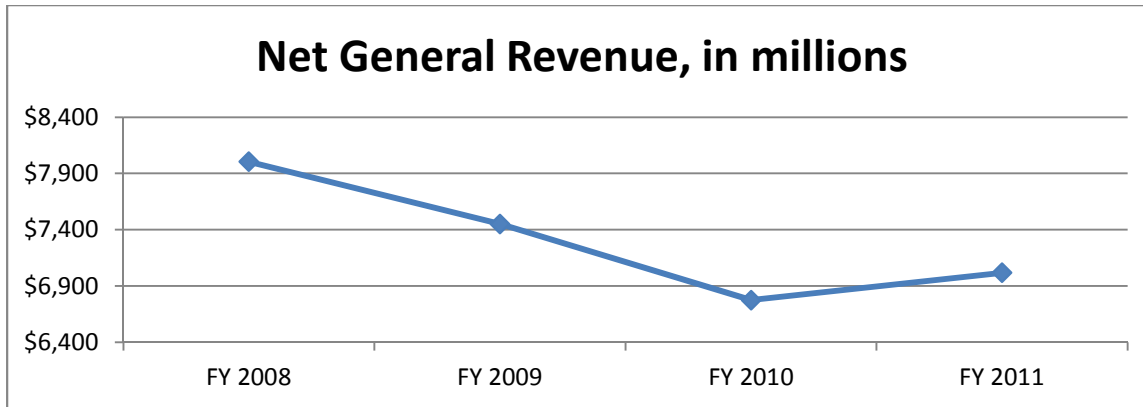
- The increase in December's collections was led by a 12.5 percent jump in net individual income tax collections. A 53 percent decline in GR refunds was also a key factor in December's strong showing.
- Sales tax collections *fell* 13.0 percent in December and are up only 0.2 percent for FY 2011 overall. As a result, gross sales tax collections have declined in 12 of the last 14 quarters. This trend must be reversed for strong revenue growth to be sustained.

While three consecutive quarters of positive revenue growth is good news for the state, by any historical standard, the Missouri revenue situation remains in the doldrums. With the national economy recovering at a slow pace and the revenue loss associated with the tax cuts enacted over the last four years scheduled to grow, the state budget outlook remains bleak.

Assuming that the new Consensus Revenue Estimate for FY 2011 is achieved, it will still be **nearly \$1.0 billion below the FY 2008 total**. Moreover, if the state attains the Consensus Revenue Estimates for both FYs 2011 and 2012 (3.6% & 4.0%, respectively), and net GR grows 3 percent in FY 2013 and beyond, **the state would still not reach the revenue total of \$8,003.9 million achieved in FY 2008 until FY 2016**.

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\* Please note that because seasonal and administrative factors may cause significant fluctuations from month to month, all comparisons in this report *are relative to the same time period in the previous year* or fiscal year.



Source: MO Office of Administration

It is important to emphasize that if it not were for substantial revenues accruing to the state as a result of the *American Recovery and Reinvestment Act* (ARRA),<sup>1</sup> Missouri would be facing a budget crisis in FY 2011 and beyond of much greater magnitude.

### Detailed General Revenue Analysis

**Individual Income Tax (ITT)** collections in December 2010 grew 8.0 percent over December 2009. This increase resulted in a quarterly growth rate of 5.3 percent (relative to the quarter ending December 2009), and a fiscal year-to-date growth rate of 3.3 percent. For the quarter, individual income tax withholding grew 5.0 percent, a solid improvement over the 1.6 percent growth rate in the prior quarter.

**Table 1: Missouri Individual Income Tax Collections**  
**Missouri Individual Income Tax Collections Growth Rates Fiscal Years 2007-2010**

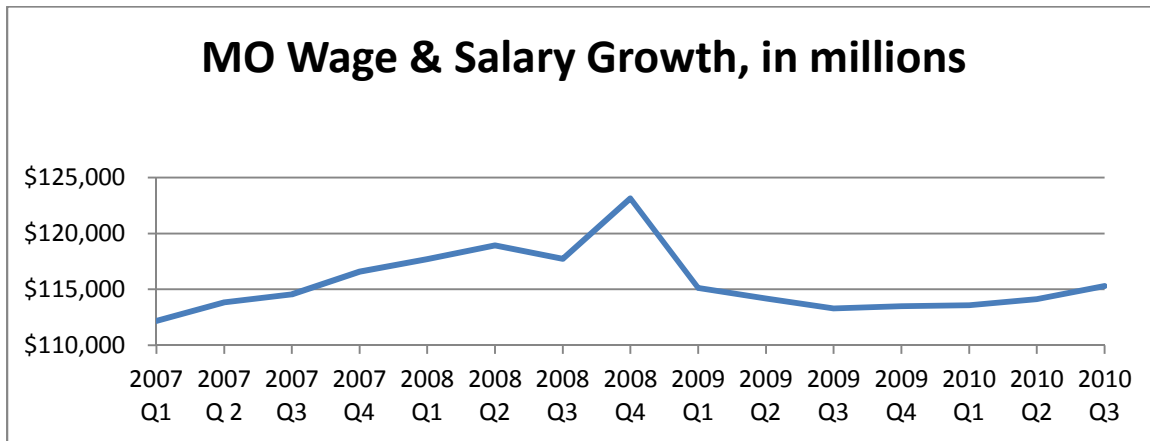
<u>Year and Quarter</u>	<u>Individual Income Tax Withholding Percent Change</u>
2007. Quarter 3	5.2%
2007. Quarter 4	8.2%
2008. Quarter 1	7.4%
2008. Quarter 2	2.8%
<b>Total Fiscal Year 2008</b>	<b>6.0%</b>
2008. Quarter 3	3.2%
2008. Quarter 4	9.0%
2009. Quarter 1	-2.8%
2009. Quarter 2	-5.5%
<b>Total Fiscal Year 2009</b>	<b>0.9%</b>
2009. Quarter 3	-4.9%
2009. Quarter 4	-11.8%
2010. Quarter 1	-1.8%
2010. Quarter 2	2.5%
<b>Total Fiscal Year 2010</b>	<b>-4.3%</b>
2010. Quarter 3	1.6%
2010. Quarter 4	5.0%

Source: MO Office of Administration

<sup>1</sup> Federal ARRA funds contributed more than \$2.85 billion to the state's operating budget in FYs 2009 through 2012.

The other key component of IIT also had a strong quarter. For the most recent quarter, declarations/estimated payments increased 11.8 percent. The solid uptick in both withholding and declarations is encouraging. Nonetheless, the overall individual income tax outlook is still guarded, as IIT withholding had declined in five straight quarters prior to turning positive for the three most recent quarters.

The new data for the first three quarters of 2010 show Missouri Wage and Salaries growth in a stagnant pattern. Fortunately, modest growth occurred in the third quarter of 2010, relative to the third quarter of 2009.



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

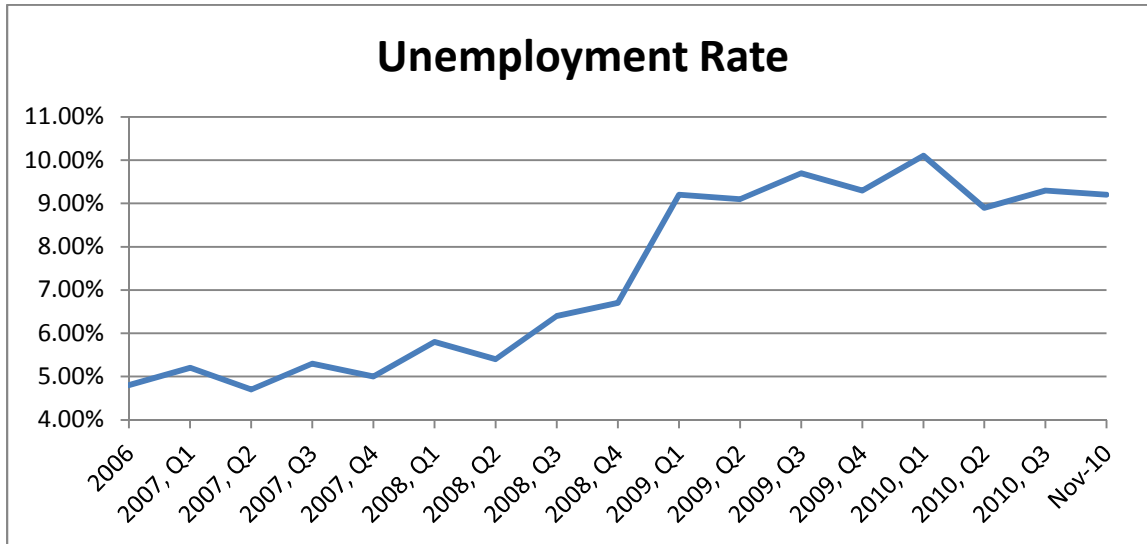
The following table more closely examines recent trends in Missouri Wage and Salary growth. Due to seasonal fluctuations, the percentage change in wages and salaries is relative to the same quarter of the previous year.

**Table 2: Missouri Wage and Salary Growth**

<u>Year and Quarter</u>	<u>MO Wages and Salaries (In Millions)</u>	<u>Percent Change</u>
2007 Quarter 1	\$112,176	3.9%
2007 Quarter 2	\$113,827	4.6%
2007 Quarter 3	\$114,554	5.1%
2007 Quarter 4	\$116,588	5.7%
2008 Quarter 1	\$117,699	4.9%
2008 Quarter 2	\$118,922	4.5%
2008 Quarter 3	\$117,726	2.8%
2008 Quarter 4	\$123,145	5.6%
2009 Quarter 1	\$115,120	-2.2%
2009 Quarter 2	\$114,185	-4.0%
2009 Quarter 3	\$113,926	-3.2%
2009 Quarter 4	\$113,508	-7.8%
2010 Quarter 1	\$113,581	-1.3%
2010 Quarter 2	\$114,127	0.0%
2010 Quarter 3	\$115,298	1.2%

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

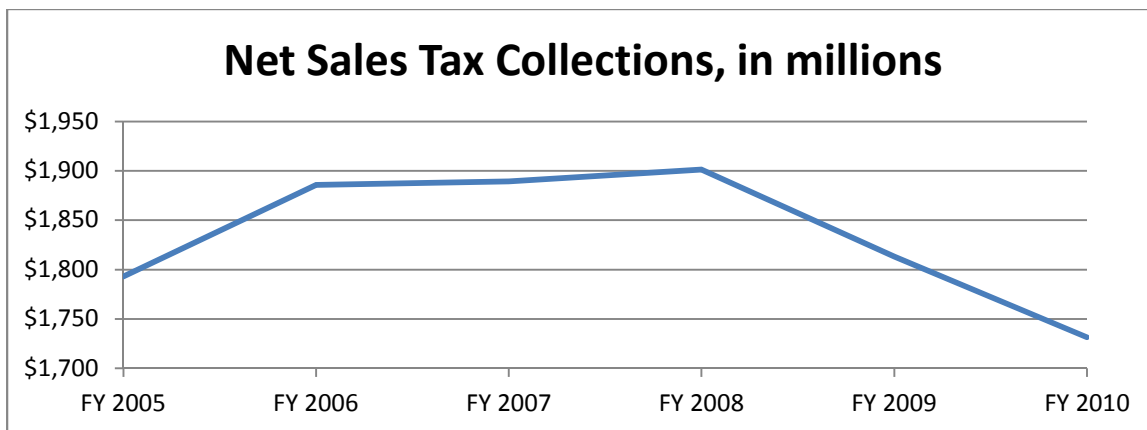
In addition, the state's employment is still stagnant. While the April-June quarter had an unemployment rate of 8.9 percent, the unemployment rate increased to 9.3 percent in the following quarter before settling at 9.2 percent for November. Moreover, November's total employment in Missouri was about 9,000 jobs under that of November 2009.



Source: U.S. Bureau of Labor Statistics

Overall, IIT has shown solid improvement over the last six months. However, the state will need much more robust job growth in order to return overall individual income tax collections to normal historical standards. A key to any lasting recovery in overall state GR collections will be a sustained turnaround in this area because IIT accounted for over 65 percent of the Missouri GR fund in FY 2010.

**Sales and Use Tax** collections fell 13.0 percent in December, which lowered the quarterly growth rate to 2.4 percent. For FY 2011, sales tax<sup>2</sup> is up only 0.2 percent at the midpoint of the fiscal year. As sales tax collections often behave erratically month to month, it useful to look at the quarterly numbers, shown in the chart on the following page. Although the just completed quarter saw sales tax collections grow 2.4 percent, collections have now declined in 11 of the 13 most recent quarters.



Source: MO Office of Administration

<sup>2</sup> In this and future reports, all sales tax will be considered as “regular” sales. Since July 2008, all motor vehicle sales tax has been allocated to Highways and Transportation.

As shown, net regular sales tax collections in FY 2010 have fallen by \$170 million since FY 2008 and are well below the level *attained in FY 2005*. See below for the latest quarterly trends in sales tax growth.

**Table 3: 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
2010. Quarter 2	1.3%	NA
<b>Total Fiscal Year 2010</b>	<b>-4.9%</b>	<b>NA</b>
2010. Quarter 3	-1.8%	NA
2010. Quarter 4	2.4%	NA

*Source: MO Office of Administration*

With the national economic recovery proceeding at a sluggish pace, it would reasonable to expect little improvement in this area soon. While precise data on the growth of Internet sales is not readily available, increased Internet retail shopping may be a factor in the slow growth of Missouri sales tax collections.

**Corporate Income and Franchise Tax** collections rose 6.6 percent in December, completing the first half of FY 2011 with growth of 11.1 percent. For the quarter, collections rose 6.5 percent, representing another quarter of modest improvement. In the previous quarter, collections of this tax rose 15.5 percent. For FY 2011 so far, corporate tax refunds are up a modest 7.8 percent, allowing for net corporate tax growth of 13.4 percent. This is a substantial improvement over FY 2010, in which net corporate taxes fell nearly 20 percent.

However, the improvement in this revenue source must be tempered with some caution. Corporate collections have a strong tendency to show major fluctuations over relatively short periods. A strong quarter may not be indicative of a longer term trend. Additionally, over the last two years, state corporate tax collections fell quite sharply. In FY 2008, net corporate tax collections totaled \$459.3 million. In FY

2010, this tax yielded only \$287.8 million, a decline of over 37 percent in just two years. Even assuming strong growth, the state is several years away from returning to the FY 2008 level for this tax.

The sub-components of this tax demonstrate the irregularity of tax revenue from this source. For the first half of FY 2011 declarations increased 18.2 percent, while final payments/franchise declined 5.4 percent.

The corporate tax picture is complicated by several factors. There may be substantial tax credits issued that are awaiting redemption, further restricting growth in this tax source. In addition, an explicit reduction in the corporate franchise tax rate was signed into law in 2009, which is estimated to reduce collections from this source by up to \$14.5 million in FY 2011. Finally, the new federal tax law signed into law by President Obama in December includes a provision to allow more rapid deductions for business investment expenses. The *Center on Budget and Policy Priorities* estimates that this will reduce Missouri revenues by \$143 million over two years.<sup>3</sup>

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

**General Revenue Interest** earnings continue to decrease. For the first half of FY 2011, earnings were about \$3.8 million, a decline of 41 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 rose 28 percent for the first six months of FY 2011, a strong rebound from the 4.7 percent *decline* that was seen in FY 2010 overall.

**General Revenue Refunds:** General Revenue refunds declined 53 percent in December, which is one of the main reasons that the December net GR growth was so robust. For the first half of FY 2011, GR refunds are down 4.3 percent. Because GR refund growth behaves erratically month to month, monthly and even quarterly fluctuations may not be indicative of longer term trends. However, it would be reasonable to assume that refunds will grow during the second half of FY 2011 because about 75 percent of all GR refunds are paid during the second half of the fiscal year.

## Summary and Outlook

Net GR collections have now increased for three consecutive quarters, and individual income tax withholding on the rise. However, sales and use tax is up only 0.2 percent for the fiscal year and has declined in 11 of the last 13 quarters. Moreover, much of December's strength came from a sharp decline in refunds, which are likely to grow over the next six months.

While there are some encouraging signs in GR growth, even if net GR collections achieve the growth rates called for in the Consensus Revenue Estimate (3.6% & 4.0% in FYs 2011 and 2012 respectively) and grow at 3.0 percent in FY 2013 and beyond, the state would not see net GR collections attain the \$8.0 billion plateau reached in FY 2008 *until FY 2016*. Despite the signs of recovery that we see, the state is still in an enormous revenue hole. It is unlikely that the state will be able to adequately fund the GR budget without some actions to enhance revenues.

(See next page for the December and FY 2011 General Revenue Collection table)

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<sup>3</sup> "Business Expensing Proposal Would Add to State Fiscal Problems" by Nicholas Johnson and Ashali Singham-*Center on Budget and Policy Priorities* ([www.cbpp.org/cms/index/cfm?fa=view+id=3344](http://www.cbpp.org/cms/index/cfm?fa=view+id=3344))

**Table 4: December GR Collections and Refunds**

<u>Tax Source</u>	<b>Dec. FY 10</b>	<b>Dec. FY 11</b>	<b>Percent Change</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>Percent Change</b>
<b>Individual Income</b>						
Withholding	347,039	373,320	7.6	2,066,037	2,135,109	3.3
Declarations	43,422	48,996	12.8	205,879	211,678	2.8
Remittances	9,704	9,977	2.8	85,508	88,969	4.0
Fiduciaries	257	185	(28.0)	3,016	3,532	17.1
<b>Total</b>	<b>400,437</b>	<b>432,514</b>	<b>8.0</b>	<b>2,360,466</b>	<b>2,439,342</b>	<b>3.3</b>
<b>Sales and Use</b>						
Regular	170,045	147,889	(13.0)	896,281	898,259	0.2
<b>Total</b>	<b>170,045</b>	<b>147,889</b>	<b>(13.0)</b>	<b>896,281</b>	<b>898,259</b>	<b>0.2</b>
<b>Corporate Tax</b>						
Declarations	59,258	67,005	13.1	154,133	182,138	18.2
Remittances & Corp Franchise	18,013	15,360	(14.7)	66,014	62,442	(5.4)
<b>Total</b>	<b>77,271</b>	<b>82,365</b>	<b>6.6</b>	<b>220,148</b>	<b>244,580</b>	<b>11.1</b>
Estate	9	3	(66.7)	76	1,186	1460.5
Interest	986	549	(44.3)	6,441	3,784	(41.3)
Liquor	2,234	1,822	(18.4)	12,744	11,458	(10.1)
Beer	573	608	6.1	4,271	4,225	(1.1)
County Foreign Insurance	23,783	15,631	(34.3)	84,102	107,784	28.2
Federal Reimbursements	3,753	13,187	251.4	29,042	51,954	78.9
All other revenues	17,052	16,219	(4.9)	76,097	65,154	(14.4)
<b>Gross GR collections</b>	<b>968,142</b>	<b>710,787</b>	<b>2.1</b>	<b>3,689,667</b>	<b>3,827,726</b>	<b>3.7</b>
<b>GR Refunds</b>						
Individual Income	29,608	15,445	(47.8)	226,597	211,402	(6.7)
Corp. Income & Franchise	41,425	16,961	(59.1)	90,011	97,018	7.8
Senior Citizen Property	576	406	(29.5)	5,775	4,204	(27.2)
Sales	5,639	4,262	(24.4)	31,788	25,164	(20.8)
All other	3,662	862	(76.5)	12,427	13,171	6.0
<b>Total GR Refunds</b>	<b>80,910</b>	<b>37,936</b>	<b>(53.1)</b>	<b>366,598</b>	<b>350,959</b>	<b>(4.3)</b>
<b>Net General Revenue</b>	<b>615,232</b>	<b>672,851</b>	<b>9.4</b>	<b>3,323,069</b>	<b>3,476,767</b>	<b>4.6</b>

Source: Missouri Office of Administration

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