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Missouri General Revenue Report, FY 2012 Summary

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Missouri net General Revenue (GR) collections grew 3.2 percent for fiscal year (FY) 2012 overall compared with the previous year, surpassing the 2.7 percent estimated growth rate called for in the FY 2012 Consensus Revenue Estimate (CRE). As a result, the state completed the fiscal year with net GR collections about \$40 million over forecast.

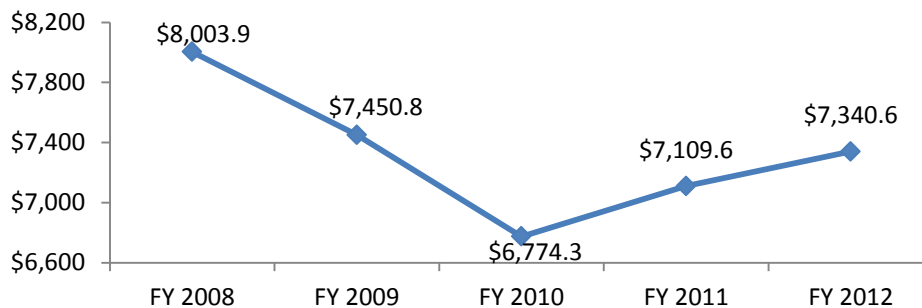
However, Missouri continues to face budget challenges, as the \$7.34 billion net GR total for the year remains \$663 million below the more than \$8 billion collected in FY 2008, and the growth rate is lower than the 4.9 percent achieved in FY 2011.

Overview of Fiscal Year 2012 Missouri General Revenue

FY 2012 was characterized by generally sluggish growth in gross collections coupled with a modest decline in GR refunds, resulting in respectable growth in net collections. Collection growth improved markedly over the second half of the fiscal year. For the quarters ending March 31st and June 30th respectively, net GR collections rose 5.4 percent and 5.1 percent compared to the same quarters one year ago. These growth rates show considerable improvement over the December and September quarterly growth rates of 0.0 percent and 1.9 percent respectively, and may reflect the state's generally improving economic conditions.

As was the case in FY 2011, the 3.2 percent overall net general revenue growth achieved in FY 2012 was due in large part to GR tax refunds declining 4.4 percent. This decline proved critical because gross collections for the year grew only 2.0 percent. On the positive side, gross individual income tax grew 3.8 percent for the year, and gross sales and use tax also showed substantial improvement, rising 3.5 percent.

Figure 1: Net General Revenue Collections, in Millions, FY 2008 – FY2012¹



¹ Data from the Missouri Office of Administration

Detailed Revenue Analysis:

Gross Individual Income Tax (IIT) collections in June 2012 grew 7.6 percent over June of last year, resulting in a FY 2012 overall growth rate of 3.8 percent.

For FY 2012 overall, individual income tax withholding, the largest component of IIT,² grew 3.9 percent. Figure 2 shows IIT withholding growth by quarter. For the quarter ending June 30th, withholdings rose 7.2 percent relative to this quarter last year, a substantially better growth rate than the three previous quarters. Given the importance of IIT withholding, strong growth in this area will need to be sustained for pronounced improvement in overall GR collections.

Figure 2: Missouri Individual Income Tax Collections
Missouri Individual Income Tax Collections Growth Rates Fiscal Years 2008-2012³

Year and Quarter	Individual Income Tax Withholding Percent Change versus Same Quarter Previous Year
2007. Quarter 3	5.2%
2007. Quarter 4	8.2%
2008. Quarter 1	7.4%
2008. Quarter 2	2.8%
Total FY 2008	6.0%
2008. Quarter 3	3.2%
2008. Quarter 4	9.0%
2009. Quarter 1	-2.8%
2009. Quarter 2	-5.5%
Total FY 2009	0.9%
2009. Quarter 3	-4.9%
2009. Quarter 4	-11.8%
2010. Quarter 1	-1.8%
2010. Quarter 2	2.5%
Total FY 2010	-4.3%
2010. Quarter 3	1.6%
2010. Quarter 4	5.0%
2011. Quarter 1	3.7%
2011. Quarter 2	1.9%
Total FY 2011	3.1%
2011. Quarter 3	2.5%
2011. Quarter 4	2.5%
2012. Quarter 1	3.6%
2012. Quarter 2	7.2%
Total FY 2012	3.9%

² IIT consists primarily of withholdings, declarations/estimated payments, and final payments/remittances. As reflected in Figure 9, remittances declined 1.8% in FY 2011.

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Declarations/estimated payments rose a modest 2.6 percent in the most recent quarter, leaving the overall FY 2012 growth rate at only 1.8 percent.

While it appears that the outlook for individual income tax collections is improving, caution is still in order. For the quarter ending June 30th, total employment in Missouri stood at 2,797,406, representing a gain of about 18,000 jobs compared to this quarter one year ago. The state unemployment rate for the quarter was 7.2 percent, considerably better than the 8.6 percent rate of a year ago. However, as Figure 3 illustrates, current total employment is well below the levels attained in 2007. In 2007, total state employment for the year was just under 2.9 million and the annual unemployment rate was 5.0 percent.

Figure 3: Missouri Employment Trends 2006 through 2012⁴

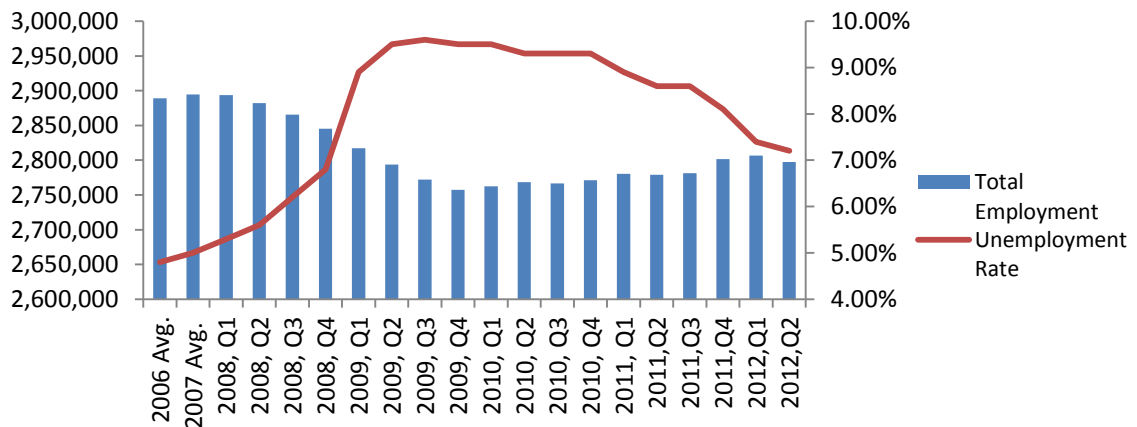


Figure 4 more closely examines recent trends in Missouri wage and salary growth. The data that now includes the first quarter of 2012 shows consistent improvement, especially over the last three quarters.

Figure 4: Missouri Wage and Salary Growth⁵

Calendar Year/Quarter	MO Wages & Salaries (Millions)	Percent Change versus Same Quarter Previous Year
2007. Quarter 1	\$112,656	4.3%
2007. Quarter 2	\$114,428	5.2%
2007. Quarter 3	\$115,200	5.7%
2007. Quarter 4	\$117,317	6.3%
2008. Quarter 1	\$117,705	4.5%
2008. Quarter 2	\$118,797	3.8%
2008. Quarter 3	\$117,687	2.2%
2008. Quarter 4	\$123,120	4.9%
2009. Quarter 1	\$115,231	-2.1%
2009. Quarter 2	\$114,465	-3.6%

⁴ U.S. Bureau of Labor Statistics

⁵ U.S. Department of Commerce, Bureau of Economic Analysis

Calendar Year/Quarter	MO Wages & Salaries (Millions)	Percent Change versus Same Quarter Previous Year
2009. Quarter 3	\$114,044	-3.1%
2009. Quarter 4	\$113,019	-8.2%
2010. Quarter 1	\$113,790	-1.3%
2010. Quarter 2	\$114,591	0.1%
2010. Quarter 3	\$115,573	1.3%
2010. Quarter 4	\$115,273	2.0%
2011. Quarter 1	\$115,793	1.8%
2011. Quarter 2	\$116,580	1.7%
2011. Quarter 3	\$119,174	3.1%
2011. Quarter 4	\$119,550	3.7%
2012. Quarter 1	\$120,420	4.0%

Overall, IIT growth for FY 2012 was much improved, particularly during the second half of the year. Furthermore, the economic factors that drive growth in IIT have recently improved, even if well below pre-recession levels. A key to a sustained recovery in overall state GR collections will be a sustained turnaround in this area because IIT accounted for about 67 percent of the Missouri GR fund in FY 2012.

Sales and Use Tax collections⁶ increased 3.5 percent overall in FY 2012, despite falling 8.0 percent in June. This growth represents the best performance from sales and use taxes in some time. While June collection growth was weak, the growth rate for the quarter was 2.5 percent. Furthermore, the state has now had six straight quarters of sales tax growth relative to the same quarters a year previous.

As the economy improves, better performance in this area may be sustainable. With total employment still below pre-recession levels, sales tax collections are not likely to grow rapidly. Another factor depressing sales tax growth is the increase in Internet sales, for which a loophole prevents the collection of most sales and uses taxes that are owed.⁷ While specific state level data on the growth of Internet sales is not available, the U.S Census reports that national e-commerce retail sales rose from about \$44.5 billion in the 4th quarter of 2010 to \$51.4 billion in the 4th quarter of 2011, a growth of 15.5 percent.⁸ In addition, a recent study from the University of Missouri’s Truman School of Public Affairs estimates that over the last ten years, the state lost about \$468 million annually in uncollected sales taxes.⁹ The increase in online sales is almost certainly a factor in the generally slow growth in Missouri sales tax collections.

⁶ Please note that in this and subsequent reports, 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.

⁷ For more information on this issue, please see “Missouri Should Enact the ‘Streamlined Sales Tax’ to Ensure Equitable Collections of Sales Tax,” Missouri Budget Project, February 17, 2011.

⁸ U.S. Census Website: www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

⁹ Huang , Y., Kosash, J., & Wesemann, A. “Internet Sales and Use Tax Issues in Missouri.” Missouri Legislative Academy Report 04-2012. April 2012.

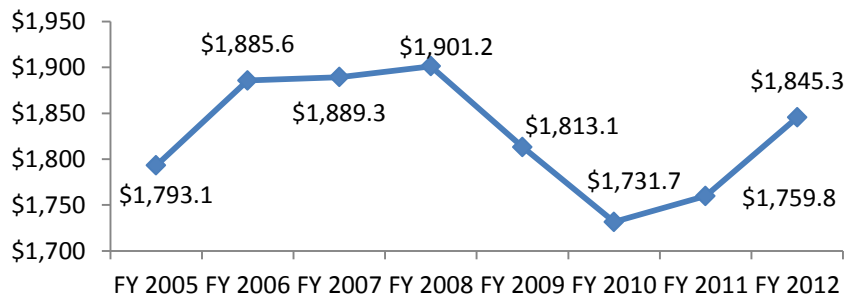
Figure 5: Missouri Sales Tax Growth Rates Fiscal Years 2008-2012¹⁰

Year and Quarter	Regular Sales and Use Tax Percent Change versus Same Quarter Previous Year
2007. Quarter 3	4.0%
2007. Quarter 4	-0.3%
2008. Quarter 1	-2.9%
2008. Quarter 2	-2.0%
Total FY 2008	-0.4%
2008. Quarter 3	-2.3%
2008. Quarter 4	-2.5%
2009. Quarter 1	-5.2%
2009. Quarter 2	-8.3%
Total FY 2009	-4.6%
2009. Quarter 3	-6.7%
2009. Quarter 4	-6.9%
2010. Quarter 1	-6.8%
2010. Quarter 2	1.3%
Total FY 2010	-4.9%
2010. Quarter 3	2.4%
2010. Quarter 4	-1.8%
2011. Quarter 1	1.6%
2011. Quarter 2	2.0%
Total FY 2011	1.0%
2011. Quarter 3	3.1%
2011. Quarter 4	1.3%
2012. Quarter 1	7.1%
2012. Quarter 2	2.5%
Total FY 2012	3.5%

As illustrated in Figure 6, for FY 2012, even with the solid growth, net regular sales tax is still about \$56 million below the total collected in FY 2008.

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Figure 6: Net Sales Tax Collection, in Millions, FY 2005-FY 2011¹¹

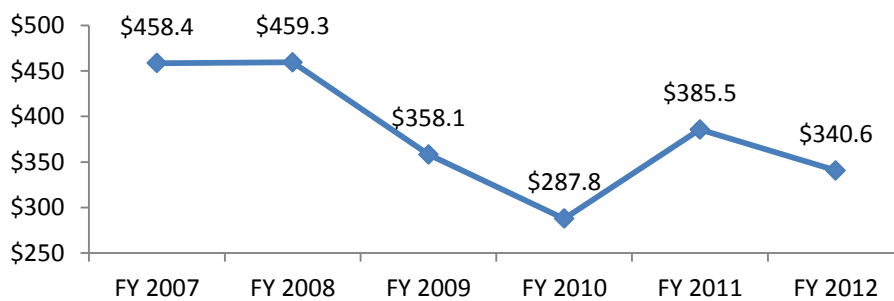


Corporate Income and Franchise Tax gross collections rose 14.1 percent in June and completed FY 2012 with a decline of 6.4 percent. Corporate tax refunds have increased 6.9 percent for the year, leaving FY 2012 net corporate tax growth at -11.7 percent.

The corporate tax situation and near term outlook are not favorable and are complicated by several factors. In April of 2011, Governor Nixon signed Senate Bill 19, which will eliminate the corporate franchise tax over the next five years. The law was expected to reduce collections by about \$25 million in FY 2012 during the last few months of the fiscal year. The loss associated with this bill is expected to increase in FY 2013 and beyond. In addition, the federal tax law signed into law by President Obama in December 2010 allows 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.¹² Even with a stronger economy, the state is not likely to see much growth in corporate taxes in the next few years.

As Figure 7 demonstrates, with the decline seen in FY 2012, the state may be several years away from returning to the FY 2008 level for this tax.

Figure 7: Corporate Income and Franchise Tax Collections, in Millions¹³



¹¹ IBID #1

¹² “Business Expensing Proposal Would Add to State Fiscal Problems,” Nicholas Johnson and Ashali Singham, December 16, 2010, *Center on Budget and Policy Priorities*.

¹³ IBID #1

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

General Revenue Interest earnings continue to provide only a very small boost to the GR fund. For FY 2012, GR interest earning totaled \$7.1 million, a slight decline relative to the \$7.3 million earned in FY 2011. Furthermore, with interest rates expected to remain extremely low, this source is not likely to generate much revenue in the near term future.

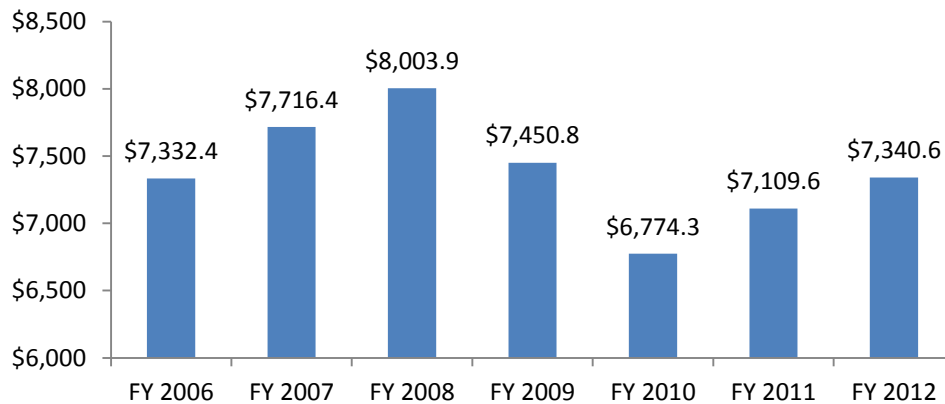
County Foreign Insurance collections fell 9.2 percent for FY 2012, despite an increase of 50.5 percent in June. As this is an important revenue stream, this decline may become a new area of concern.

General Revenue Refunds: The sharp decline in GR refunds seen late in FY 2011 continued into FY 2012. For FY 2012 overall, GR refunds fell 4.4 percent. The decline was largely the result of IIT refunds falling by about \$62 million, or 6.2 percent relative to FY 2011. However, corporate tax refunds have increased, as have Senior Citizen Property tax rebates. As gross GR collections for the year rose only 2.0 percent, the overall decline in refunds is responsible for the positive net GR collection growth.

Summary and Outlook

On balance, the June and fourth quarter FY 2012 net GR performance show a generally improving situation, especially with regard to IIT withholding and sales tax growth. While there are certainly areas of concern, the state was able to exceed the CRE for FY 2012 by about \$40 million. The primary problem that continues to plague the state is that even with net GR growth, Missouri is in a deep revenue hole and is not on pace to achieve \$8 billion in net collections (the FY 2008 total) until FY 2015. In addition, as shown in Figure 8, FY 2012 net GR collections were about the same as the total collected in FY 2006, leaving the state budget in FY 2013 and beyond in a very difficult situation.

Figure 8: Missouri Net General Revenue Collections, in Millions, FY 2006 – FY 2012¹⁴



MISSOURI FY 2012 NET GENERAL REVENUE STILL AT THE FY 2006 LEVEL

(See next page for the June and FY 2012 General Revenue Collection table)

¹⁴ IBID #1

Figure 9: June GR Collections and Refunds¹⁵

<u>Tax Source</u>	June FY 11	June FY 12	Percent Change	FY 2011	FY 2012	Percent Change
Individual Income						
Withholding	339,442	376,427	10.9	4,353,813	4,524,862	3.9
Declarations	123,643	121,712	(1.6)	596,277	606,931	1.8
Remittances	16,772	18,444	10.0	648,514	677,080	4.4
Fiduciaries	456	470	3.1	34,293	35,772	4.3
Total	480,314	4517,053	7.6	5,632,978	5,844,677	3.8
Sales and Use						
Regular	172,770	158,926	(8.0)	1,809,697	1,873,306	3.5
Total	172,770	158,926	(8.0)	1,809,697	1,873,306	3.5
Corporate Tax						
Declarations	71,781	82,193	14.5	336,457	318,781	(5.3)
Remittances & Corp Franchise	5,966	6,536	9.6	200,389	184,073	(8.3)
Total	77,746	88,728	14.1	537,296	502,854	(6.4)
Estate	612	87	(85.8)	2,118	171	(91.9)
Interest	711	578	(18.7)	7,268	7,092	(2.4)
Liquor	2,487	2,720	9.4	25,351	25,580	0.9
Beer	714	811	13.6	8,223	8,152	(0.9)
County Foreign Insurance	23,701	35,673	50.5	211,208	191,832	(9.2)
Federal Reimbursements	3,135	818	(73.9)	62,525	16,435	(73.7)
All other revenues	7,641	10,389	36.0	149,863	149,177	(0.5)
Gross GR collections	769,831	815,782	6.0	8,446,526	8,619,275	2.0
GR Refunds						
Individual Income	32,756	52,437	60.1	992,679	930,804	(6.2)
Corp. Income & Franchise	12,657	9,115	(28.0)	151,764	162,125	6.9
Senior Citizen Property	3,057	4,316	41.2	114,887	117,604	2.4
Sales	2,929	3,590	22.6	49,875	28,011	(43.8)
All other	1,831	17,080	832.8	27,740	40,016	44.3
Total GR Refunds	53,230	86,539	62.6	1,336,945	1,278,687	(4.4)
Net General Revenue	716,601	729,243	1.8	7,109,581	7,340,588	3.2

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¹⁵ IBID #1