



## PUBLIC POLICY ADVISOR

### REVENUE NEEDS ARE INCREASING FOR STATES: STATE REVENUE COMPARISONS, 1986

by Robert Kleine

Many states are seeking new sources of revenue in 1987 to meet spending needs as the sluggish economy has caused a slowdown in revenue growth. State tax collections increased only 5.6 percent in fiscal 1986 after rising 9.6 percent in fiscal 1985.<sup>1</sup> There was an across-the-board slowdown in almost all revenue sources, with tobacco, severance, corporate income, and public utilities taxes and corporate licenses experiencing the sharpest slowdown. (See Exhibit 1.) The slower growth rate is due mainly to a decline in U.S. personal income growth from 6.7 percent in 1985 to 5.2 percent in 1986 and fewer increases in tax rates and bases in 1986 than in 1985.

Exhibit 2 shows the growth rate in total state government tax collections for all states. These growth rates are not adjusted for changes in tax rates and bases. As mentioned above, tax increases were less prevalent in 1986 than in 1985 and the early 1980s, but there were some increases. The general sales tax rate was increased by two states (Idaho and Kansas) in 1986; one (Utah) reduced its rate slightly. An interesting note is that only North Carolina (1933) and Georgia (1951) have gone longer than Michigan (1961) without a change in the sales tax rate. The sales tax rate in Michigan is limited to 4 percent by<sup>2</sup> the constitution. Top marginal income tax rates were increased in two states<sup>3</sup>; nine states reduced their rates. Six states increased their cigarette tax rate in 1986. Washington state raised its rate from 23 cents to 31 cents a pack, the highest rate in the nation. Twelve states raised their gasoline tax rate. Nebraska increased its rate from 16.4 cents to 19 cents a gallon, the highest rate in the nation in 1986. (Montana increased its rate to 20 cents in 1987.) As indicated in Exhibit 2, the largest increases in state tax collections were generally concentrated in the states in the Northeast. For example, Massachusetts, New Hampshire, New York, Maine, Vermont, Connecticut, and New Jersey all recorded well above average increases.

The states turning in the weakest revenue performances in 1986 were, for the most part, states heavily dependent on natural resources or agriculture.

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<sup>1</sup>For most states fiscal 1986 runs from July 1, 1985 to June 30, 1986. In Michigan, the fiscal year runs from October 1 to September 30.

<sup>2</sup>This does not include a temporary 10 percent personal income tax surcharge in Montana and North Dakota.

<sup>3</sup>The trend is toward lower marginal rates and fewer brackets. For example, Colorado switched from eleven brackets to two, joining five other states with a flat rate. West Virginia, Minnesota, and New York also sharply reduced the number of brackets.

North Dakota, Minnesota, Louisiana, Montana, Oregon, Texas, Alaska, Wyoming, Oklahoma, and Kansas all suffered declines in state tax revenues from the previous year. (See Exhibit 3 for changes in severance tax revenues.) The decline in several of these states, Minnesota, for example, partly resulted from declines in tax rates or bases. In Michigan, state government tax revenues increased only 1.9 percent, due in part to the rollback in the income tax rate from 5.1 to 4.6 percent.

As indicated in Exhibit 4, several of the states experiencing declines in revenue in 1986 receive a large share of their revenue from sources other than sales and income, mainly severance taxes. Alaska, Montana, North Dakota, Oklahoma, and Texas all receive more than 30 percent of their revenue from these other sources, as does New Mexico, which also turned in a weak performance. (Delaware receives 34.8 percent of its revenue from other sources, largely from corporate franchise and license fees rather than severance taxes.)

For Michigan and most other states, revenue growth (adjusted for tax changes) is expected to be even weaker in fiscal 1987 than in fiscal 1986. However, revenues in the natural resource and agricultural states will likely show some improvement from the very weak 1986 level. A number of states, including Michigan, are facing budget cuts in FY 1988, and many states have raised taxes or are planning to raise taxes in 1987. (See Exhibit 5.) There are likely to be considerably more tax increases in 1987 than in 1986, which will provide a boost to revenue growth in fiscal 1987 and fiscal 1988.

A potential source of revenue for states is the "windfall" from federal tax reform. Because most states conform in some degree to federal income tax law, when the federal government broadened the definition of taxable income last year, it automatically broadened the definition for states as well. However, a survey by the National Association of State Budget Officers indicates that states are planning to return 80 percent of the revenue increase to the taxpayers. All of the states planning to keep this revenue are experiencing moderate to severe financial stress--most are located in the west.

## EXHIBIT 1

NATIONAL SUMMARY OF STATE GOVERNMENT TAX REVENUE,  
BY TYPE OF TAX: 1984 TO 1986

| Tax Source               | Amounts (thousands of dollars) |             |             | Percentage Change<br>Year to Date |                 | Percent<br>Distribution<br>1986 | Per Capita<br>1986<br>(dollars) |
|--------------------------|--------------------------------|-------------|-------------|-----------------------------------|-----------------|---------------------------------|---------------------------------|
|                          | 1986<br>(Preliminary)          | 1985        | 1984        | 1985<br>to 1986                   | 1984<br>to 1985 |                                 |                                 |
| Total collections        | 228,053,889                    | 215,983,158 | 196,904,625 | 5.6                               | 9.6             | 100.0                           | 948.44                          |
| Sales and gross receipts | 112,342,667                    | 105,419,355 | 95,806,235  | 6.6                               | 10.0            | 49.3                            | 467.22                          |
| General                  | 74,821,130                     | 69,632,708  | 62,563,604  | 7.5                               | 11.3            | 32.8                            | 311.17                          |
| Selective                | 37,521,537                     | 35,786,647  | 33,242,631  | 4.8                               | 7.7             | 16.5                            | 156.05                          |
| Motor fuels              | 14,086,947                     | 13,344,397  | 12,406,189  | 5.6                               | 7.6             | 6.2                             | 58.59                           |
| Public utilities         | 6,003,060                      | 6,202,564   | 5,883,412   | -3.2                              | 5.4             | 2.6                             | 24.97                           |
| Insurance                | 5,488,860                      | 4,361,762   | 4,149,028   | 25.8                              | 5.1             | 2.4                             | 22.83                           |
| Tobacco products         | 4,449,007                      | 4,534,346   | 3,949,021   | -1.9                              | 14.8            | 2.0                             | 18.50                           |
| Alcoholic beverages      | 3,062,102                      | 3,031,347   | 2,899,986   | 1.0                               | 4.5             | 1.3                             | 12.73                           |
| Other                    | 4,431,561                      | 4,312,231   | 3,954,995   | 2.8                               | 9.0             | 1.9                             | 18.43                           |
| Licenses                 | 14,904,172                     | 13,766,118  | 11,966,520  | 8.3                               | 15.0            | 6.5                             | 61.98                           |
| Motor vehicles           | 7,679,189                      | 7,162,686   | 6,366,314   | 7.2                               | 12.5            | 3.4                             | 31.94                           |
| Corporations in general  | 3,064,768                      | 2,812,524   | 2,103,358   | 9.0                               | 33.7            | 1.3                             | 12.75                           |
| Motor vehicle operators  | 695,167                        | 617,248     | 567,131     | 12.6                              | 10.2            | 0.3                             | 2.89                            |
| Hunting and fishing      | 612,499                        | 589,579     | 559,923     | 3.9                               | 4.0             | 0.3                             | 2.55                            |
| Alcoholic beverages      | 239,713                        | 234,735     | 260,946     | 2.1                               | -10.0           | 0.1                             | 1.00                            |
| Other                    | 2,612,836                      | 2,349,346   | 2,108,848   | 11.2                              | 11.4            | 1.1                             | 10.87                           |
| Individual income        | 67,469,185                     | 63,907,951  | 59,002,227  | 5.6                               | 8.3             | 29.6                            | 280.59                          |
| Corporation net income   | 18,362,904                     | 17,631,194  | 15,511,378  | 4.2                               | 13.7            | 8.1                             | 76.37                           |
| Severance                | 6,125,394                      | 7,211,178   | 7,248,943   | -15.1                             | -0.5            | 2.7                             | 25.47                           |
| Property                 | 4,354,602                      | 3,984,180   | 3,861,655   | 9.3                               | 3.2             | 1.9                             | 18.11                           |
| Death and gift           | 2,533,696                      | 2,327,515   | 2,226,041   | 8.9                               | 4.6             | 1.1                             | 10.54                           |
| Other                    | 1,961,269                      | 1,645,667   | 1,281,626   | 19.2                              | 28.4            | 0.9                             | 8.16                            |

SOURCE: U.S. Department of Commerce, Bureau of the Census, State Government Tax Collections in 1986, March 1987.

NOTE: Because of rounding, detail may not add to totals. Population figures as of July 1, 1986, were used to calculate per capita amounts.

## EXHIBIT 2

## STATE REVENUE COLLECTIONS, FY 1986

| <u>State</u>   | <u>Percentage Change<br/>1985 to 1986</u> | <u>Total Taxes, 1986<br/>(000)</u> |
|----------------|---|------------------------------------|
| Massachusetts  | 15.8%                                     | \$7,668                            |
| Washington     | 13.8                                      | 5,219                              |
| South Dakota   | 13.6                                      | 404                                |
| New Hampshire  | 11.6                                      | 484                                |
| Nevada         | 11.4                                      | 1,048                              |
| New York       | 9.9                                       | 22,747                             |
| Maine          | 9.6                                       | 1,101                              |
| Hawaii         | 9.4                                       | 1,490                              |
| Florida        | 9.4                                       | 9,120                              |
| Tennessee      | 9.1                                       | 3,272                              |
| Vermont        | 8.9                                       | 500                                |
| Georgia        | 8.7                                       | 4,917                              |
| Connecticut    | 8.7                                       | 3,836                              |
| Arizona        | 8.5                                       | 3,195                              |
| Virginia       | 8.4                                       | 4,847                              |
| New Jersey     | 8.3                                       | 8,360                              |
| Maryland       | 8.0                                       | 4,670                              |
| Delaware       | 7.8                                       | 883                                |
| Nebraska       | 7.6                                       | 1,119                              |
| Missouri       | 7.6                                       | 3,608                              |
| Wisconsin      | 7.4                                       | 5,491                              |
| North Carolina | 7.3                                       | 5,580                              |
| Kentucky       | 6.8                                       | 3,216                              |
| California     | 6.7                                       | 30,878                             |
| Iowa           | 6.6                                       | 2,459                              |
| Illinois       | 6.2                                       | 9,801                              |
| Mississippi    | 5.8                                       | 1,917                              |
| South Carolina | 5.7                                       | 2,887                              |
| All States     | 5.6                                       | 228,053                            |
| Pennsylvania   | 5.1                                       | 10,683                             |
| Ohio           | 4.7                                       | 9,062                              |
| Arkansas       | 4.7                                       | 1,827                              |
| Utah           | 3.1                                       | 1,364                              |
| Rhode Island   | 2.8                                       | 886                                |
| Indiana        | 2.8                                       | 4,458                              |
| Colorado       | 2.5                                       | 2,344                              |
| MICHIGAN       | 1.9                                       | 9,314                              |
| Alabama        | 1.9                                       | 2,997                              |
| New Mexico     | 1.5                                       | 1,462                              |
| Idaho          | 1.5                                       | 745                                |
| West Virginia  | 0.0                                       | 1,848                              |
| Kansas         | -0.2                                      | 1,911                              |
| Oklahoma       | -0.8                                      | 2,959                              |
| Wyoming        | -1.4                                      | 795                                |
| Alaska         | -1.6                                      | 1,856                              |
| Oregon         | -2.6                                      | 1,931                              |
| Texas          | -3.7                                      | 11,124                             |
| Montana        | -3.7                                      | 617                                |
| Louisiana      | -5.9                                      | 3,630                              |
| Minnesota      | -6.3                                      | 4,898                              |
| North Dakota   | -11.0                                     | 616                                |

SOURCE: U.S. Department of Commerce, Bureau of the Census, State Government Tax Collections in 1986, March 1987.

## EXHIBIT 3

PERCENTAGE CHANGE IN SEVERANCE TAX COLLECTIONS  
IN ENERGY-DEPENDENT STATES, 1986

| <u>State</u> | <u>Severance Taxes as Percentage<br/>of Total Tax Collections</u> | <u>Percentage Change in<br/>Severance Taxes,<br/>1985 to 1986</u> |
|--------------|---|---|
| Alaska       | 77.2%   | 3.2% <sup>a</sup>   |
| Louisiana    | 17.1  | -16.8   |
| Montana      | 21.1  | -13.8   |
| New Mexico   | 25.1  | - 6.0   |
| North Dakota | 23.9  | -16.6   |
| Oklahoma     | 19.3  | -18.5   |
| Texas        | 14.0  | -28.7   |
| Wyoming      | 48.7  | - 4.2   |

SOURCE: U.S. Department of Commerce, Bureau of the Census, State Government Tax Collections in 1986, March 1987.

<sup>a</sup>Sales and gross receipts revenue declined 40.4 percent in 1986.

## EXHIBIT 4

DISTRIBUTION OF STATE GOVERNMENT TAX REVENUE  
FOR SELECTED TAXES: 1986

| <u>State</u>   | <u>General<br/>Sales<br/>Percentage</u> | <u>Individual<br/>Income<br/>Percentage</u> | <u>Selective<br/>Sales<br/>Percentage</u> | <u>Corporate<br/>Income<br/>Percentage</u> | <u>Other<br/>Percentage</u> |
|----------------|---|---|---|--|-----------------------------|
| Alabama        | 28.0%                                   | 25.3%                                       | 27.5%                                     | 5.2%                                       | 14.0%                       |
| Alaska         | 0                                       | 0   | 3.6                                       | 9.6  | 86.8                        |
| Arizona        | 45.7                                    | 22.0  | 16.0                                      | 5.3  | 11.0                        |
| Arkansas       | 38.1                                    | 27.9  | 19.1                                      | 6.2  | 8.7                         |
| California     | 33.7                                    | 36.8  | 8.5                                       | 12.4                                       | 8.6                         |
| Colorado       | 31.4                                    | 40.8  | 14.4                                      | 5.0  | 8.4                         |
| Connecticut    | 42.4                                    | 7.8   | 22.6                                      | 16.1                                       | 11.1                        |
| Delaware       | 0                                       | 44.6  | 10.5                                      | 10.1                                       | 34.8                        |
| Florida        | 55.1                                    | 0   | 22.3                                      | 5.3  | 17.3                        |
| Georgia        | 33.4                                    | 39.6  | 14.2                                      | 8.5  | 4.3                         |
| Hawaii         | 50.1                                    | 31.4  | 13.3                                      | 2.9  | 2.3                         |
| Idaho          | 33.6                                    | 34.4  | 16.7                                      | 5.7  | 9.6                         |
| Illinois       | 34.3                                    | 27.0  | 19.6                                      | 8.8  | 10.3                        |
| Indiana        | 48.5                                    | 29.8  | 12.7                                      | 4.1  | 4.9                         |
| Iowa           | 31.3                                    | 35.2  | 15.9                                      | 5.6  | 12.0                        |
| Kansas         | 29.3                                    | 30.5  | 17.0                                      | 8.2  | 15.0                        |
| Kentucky       | 27.4                                    | 25.5  | 17.2                                      | 7.3  | 22.6                        |
| Louisiana      | 31.3                                    | 12.6  | 20.8                                      | 7.3  | 28.0                        |
| Maine          | 34.8                                    | 30.6  | 19.7                                      | 4.7  | 10.2                        |
| Maryland       | 25.5                                    | 41.3  | 19.5                                      | 5.4  | 8.3                         |
| Massachusetts  | 22.4                                    | 47.2  | 10.5                                      | 13.9                                       | 6.0                         |
| MICHIGAN       | 28.8                                    | 34.9  | 11.6                                      | 15.6                                       | 9.1                         |
| Minnesota      | 27.7                                    | 39.8  | 17.4                                      | 7.5  | 7.6                         |
| Mississippi    | 53.8                                    | 14.2  | 14.5                                      | 5.1  | 12.4                        |
| Missouri       | 42.5                                    | 31.0  | 12.4                                      | 4.8  | 9.3                         |
| Montana        | 0                                       | 27.9  | 22.8                                      | 9.5  | 39.8                        |
| Nebraska       | 31.3                                    | 31.4  | 22.8                                      | 4.9  | 9.6                         |
| Nevada         | 49.6                                    | 0   | 36.0                                      | 0  | 14.4                        |
| New Hampshire  | 0                                       | 5.1   | 45.3                                      | 20.4                                       | 29.2                        |
| New Jersey     | 31.3                                    | 24.6  | 23.3                                      | 11.4                                       | 9.4                         |
| New Mexico     | 42.6                                    | 7.0   | 14.9                                      | 4.9  | 30.6                        |
| New York       | 20.9                                    | 50.9  | 12.0                                      | 8.4  | 7.8                         |
| North Carolina | 24.8                                    | 39.5  | 16.6                                      | 9.2  | 9.9                         |
| North Dakota   | 28.7                                    | 11.9  | 16.6                                      | 9.1  | 33.7                        |
| Ohio           | 34.9                                    | 30.6  | 19.5                                      | 5.3  | 9.7                         |
| Oklahoma       | 22.2                                    | 23.2  | 18.9                                      | 3.6  | 32.1                        |
| Oregon         | 0                                       | 61.8  | 14.1                                      | 8.4  | 15.7                        |
| Pennsylvania   | 30.3                                    | 24.9  | 19.4                                      | 9.0  | 16.4                        |
| Rhode Island   | 32.9                                    | 32.4  | 20.1                                      | 7.6  | 7.0                         |
| South Carolina | 38.5                                    | 31.4  | 17.9                                      | 5.2  | 7.0                         |
| South Dakota   | 49.3                                    | 0   | 29.8                                      | 5.8  | 15.1                        |
| Tennessee      | 57.0                                    | 2.1   | 19.9                                      | 8.2  | 12.8                        |
| Texas          | 38.9                                    | 0   | 30.9                                      | 0  | 31.1                        |
| Utah           | 40.9                                    | 33.1  | 13.3                                      | 4.9  | 7.8                         |
| Vermont        | 19.7                                    | 32.1  | 30.9                                      | 6.1  | 11.2                        |
| Virginia       | 21.0                                    | 44.9  | 19.4                                      | 5.8  | 8.9                         |
| Washington     | 59.6                                    | 0   | 16.4                                      | 0  | 24.0                        |
| West Virginia  | 43.9                                    | 25.9  | 18.1                                      | 4.8  | 7.3                         |
| Wisconsin      | 28.1                                    | 40.8  | 14.4                                      | 7.4  | 9.3                         |
| Wyoming        | 23.2                                    | 0   | 6.8                                       | 0  | 70.0                        |
| All States     | 32.8%                                   | 29.6%                                       | 16.5%                                     | 8.1%                                       | 13.0%                       |

SOURCE: U.S. Department of Commerce, Bureau of the Census, State Government Tax Collections in 1986, March 1987.



Public Sector Consultants, Inc.

## EXHIBIT 5

## SELECTED STATE TAX INCREASES, 1987

- Arkansas: Extended sales tax to cover cigarettes, interstate phone calls, and rentals and leases.
- Florida: Extended sales tax to wide range of services.
- Minnesota: Extended sales tax to cover nonprescription health care products, parking, and laundry and dry cleaning, among other things. Increased cigarette tax from 23 cents to 38 cents a pack.
- Mississippi: Increased the gas tax from 9 cents to 18 cents a gallon to be phased in by January 1989 and eliminated 6 percent sales tax on fuels.
- Montana: Enacted 10 percent surcharge on income tax for 3 years and increased gas tax by 3 cents to 20 cents a gallon.
- North Dakota: Increased sales tax from 5 percent to 5.5 percent. Placed a one-year surcharge on the income tax and increased the cigarette tax from 18 cents to 27 cents a pack.
- Oklahoma: Increased sales tax from 3.25 percent to 4 percent. Increased gas tax from 10 cents to 16 cents a gallon and cigarette tax from 18 cents to 23 cents a pack.
- South Dakota: Increased sales tax from 4 percent to 5 percent for one year and extended sales tax to cigarettes.
- Utah: Increased sales tax from 5.75 percent to 6.25 percent. Also increased gasoline tax from 14 cents to 19 cents a gallon, and cigarette tax from 12 cents to 23 cents a pack.