

Across the region

All six New England states have enjoyed solid revenue growth through the first six months of FY2004. Year-to-date rates of growth range from 3.4 percent in Connecticut to 7.9 percent in Maine. No single revenue source has exhibited consistent strength throughout the region. Personal income tax receipts have been especially strong in Connecticut and Massachusetts, but weaker in Rhode Island and Vermont. Sales tax collections have soared in Maine and Vermont, but have been flat in Massachusetts and Connecticut. During the first half of FY2004, corporate income tax revenues were up, year over year, by 29 percent in Massachusetts and 87 percent in Vermont. However, they were off by nearly one-third in Connecticut. In some cases, changes in tax law and administrative procedures affected year-over-year growth rates.

Overall, it appears that most New England states can look forward to a year in which revenues may equal or exceed budgeted levels.

Six-State Review

by Matt Quigley and Nick Turner

Connecticut

During the first six months of FY2004, Connecticut collected 3.4 percent more in total tax receipts than in the same period a year ago. Collections from the personal income tax, the state's largest source of own-source revenue, were up 9.8 percent, while collections from the sales tax – the state's second largest source of tax revenues – were up only 0.5 percent. Countering these gains was a 26.0 percent falloff in corporate tax collections.

The drop in corporate tax collections may be misleadingly low as an indicator of performance for the remainder of the fiscal year. In a January 2004 letter to Governor John Rowland, State Comptroller Nancy Wyman noted that “numerous corporation tax increases were enacted impacting fiscal year 2004 filings. Many taxpayers may not have fully incorporated these changes within their quarterly filings to date.” The Comptroller is referring to two tax changes: a 25 percent corporation tax surcharge, forecast to yield an additional \$49.4 million in revenues for FY2004; and an increase in the maximum additional preference tax for combined filings, forecast to yield an additional \$30 million.

Overall, the Comptroller projects total general revenues for FY2004 to fall \$24 million short of initial budget projections. Coupled with a projection that general spending will outpace budgeted levels by \$60.9 million, she is currently projecting a budget deficit of \$84.8 million, or roughly 1 percent of expenditures, for FY2004.

Maine

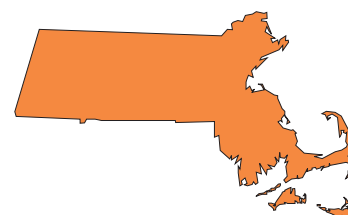
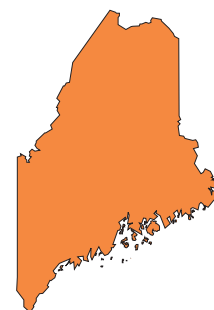
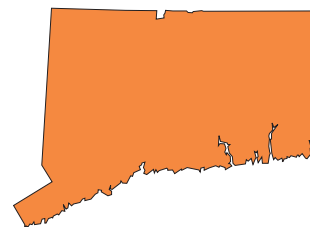
Maine's total revenues were strong through the first six months of FY2004, up 7.9 percent year over year. Receipts from the personal income tax and general sales tax, the state's two largest revenue sources, were up 6.0 percent and 7.5 percent, respectively. Corporate income tax collections grew 18.3 percent on a year-over-year basis. This significant growth in receipts from the corporate income tax reflects both stronger economic conditions and the state's decision to delay conformity with federal legislation accelerating bonus depreciation schedules. Revenue gains in FY2004-2005 attributable to this delay will come at the expense of revenues in FY2006-2007.

In its December 1, 2003, meeting, the State's revenue forecasting commission adjusted upward slightly (\$6.9 million) its projection for general fund revenues for FY2004 and FY2005.

Massachusetts

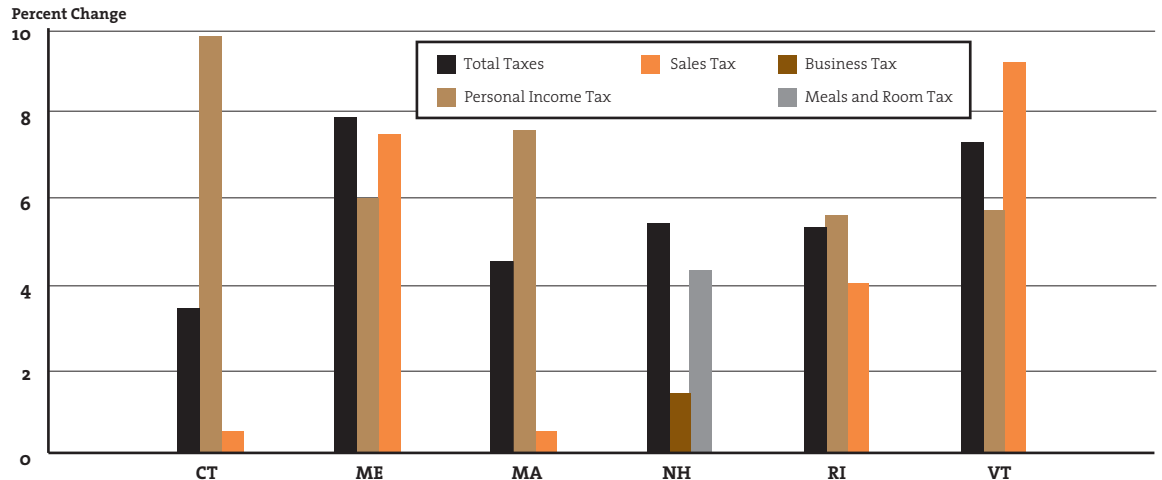
Six months into FY2004, the Commonwealth's tax collections totaled \$7.3 billion – \$396 million, or 4.5 percent, more than FY2003 levels. Across tax categories, revenue results were mixed. Personal income tax receipts were up 7.6 percent through the first half of fiscal year 2004. Withholding taxes remained down, however, by less than one-half of one percent. At \$1.9 billion, sales and use tax collections were flat, year over year, for the first six months of the fiscal year. Corporate income tax collections were up 29 percent.

Despite these positive revenue signs, state officials still expect rapidly escalating health care costs and increasing pension costs to outpace revenue growth through the remainder of FY2004.

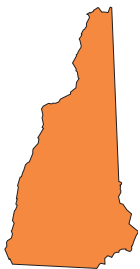


Total Tax Revenues from the Two Largest Taxes in Each State

First Six Months of FY2004 Compared with First Six Months of FY2003



Source: Official budget documents, state financial statements, conversations with state budget officials.



New Hampshire

The Granite State's total unrestricted tax revenue from the general and education funds totaled \$638 million for July through December, roughly \$6 million ahead of planned levels and up 5.4 percent on a year-over-year basis.

Collections of business taxes, the state's largest source of tax revenue, were ahead of FY2003 by 1.4 percent, but remained slightly below budgeted levels. Receipts from the meals and rooms tax – the state's second largest source of tax revenue – were up 4.3 percent relative to the first six months of FY2003.

Rhode Island

The Ocean State's FY2004 taxes and departmental receipts for July through December totaled roughly \$1.1 billion, up 5.3 percent over FY2003. Tax revenues for the fiscal year to date were \$973.8 million, up 5 percent from the \$928 million collected for the same period in FY2003. Departmental receipts totaled \$155 million for July through December, up 7.2 percent over the first six months of FY2003.

Receipts from the income tax – the state's largest source of revenue – were up 3.9 percent. This rate of growth may be artificially low, however. Some income tax refund payments for FY2002 were delayed into the first quarter of FY2003. Consequently, FY2003 income tax refunds paid are overstated. Adjusting for these delayed refunds, the actual rate of growth in year-to-date personal income tax collections for FY2004 compared with FY2003 is 2.0 percent.

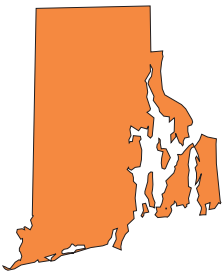
Collections from the sales tax – the state's second largest source of revenue – were up \$16 million, or 4.0 percent, year over year for July through December of FY2004. These figures are likely understated, however, because of the "administrative complexity" associated with the state's meals and beverage tax.¹ As a point of reference, initial sales tax receipts were understated by \$3.2 million in September and \$3.7 million in October.

Total general business tax receipts for the first six months of FY2004 were \$5 million greater than collections for the first six months of FY2003. Across categories, receipts were up, year over year, in business corporation returns, health care provider assessments, bank deposit taxes, and public utility gross earnings taxes. Receipts were down significantly from financial institutions and down slightly from insurance companies.

Vermont

Through the sixth month of FY2004, Vermont's year-to-date general revenue collections were up \$31 million (7 percent). Receipts from the personal income tax – the state's largest revenue source – totaled \$219 million for July through December (up 5.7 percent, year over year). Revenues from the state's sales and use tax also rebounded in December, exceeding budget expectations by roughly 2 percent. Year to date for FY2004, sales and use tax receipts totaled \$120.6 million, up 9.2 percent from the prior year. Similarly, the meals and rooms tax recovered from lackluster performance in the fall, with receipts registering an increase of 3.5 percent, year over year.

After a November in which refunds actually outpaced collections, corporate income tax receipts rebounded in December. Year to date, FY2004 collections outpaced FY2003 collections by 87 percent.



Despite these positive revenue numbers, state officials remain cautious that an unusually weak spring tax filing season could adversely affect overall FY2004 collections.

¹ As the State's revenue brief for December explains, "The administrative complexity associated with the meals and beverage tax involves how monies are remitted by taxpayers. Some taxpayers have submitted their sales tax and meals and beverage tax payments to the Division of Taxation as one payment without indicating how much of the payment is for state sales and use tax and how much is for local meals and beverage tax. As a result, the Division of Taxation has been unable to determine the proper allocation of such unitary tax payments between the sales and use tax and the meals and beverage tax on a timely basis. The Division of Taxation has put all taxpayers (sic) unitary tax payment into either the state sales tax account or the local meals and beverage account, depending on whether the payment was submitted with a state sales tax form or a local meals and beverage tax form. After the proper allocation is determined, monies will be transferred between these two accounts to rectify the situation." The state has completed these transfers for September and October of FY2004, but not for November or December.

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State

Budget Timetables

Annual Budgets
Massachusetts
Rhode Island
Vermont
FY03: July 1, 2002
to June 30, 2003
FY04: July 1, 2003
to June 30, 2004

Biennial Budgets
Connecticut
Maine
New Hampshire
FY02-03: July 1, 2001
to June 30, 2003
FY04-05: July 1, 2003
to June 30, 2005

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New England Fiscal Facts



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