Exclusive: Like New Jersey, most states felt drop in April income taxes

BY LISA LAMBERT AND KAREN PIEROG

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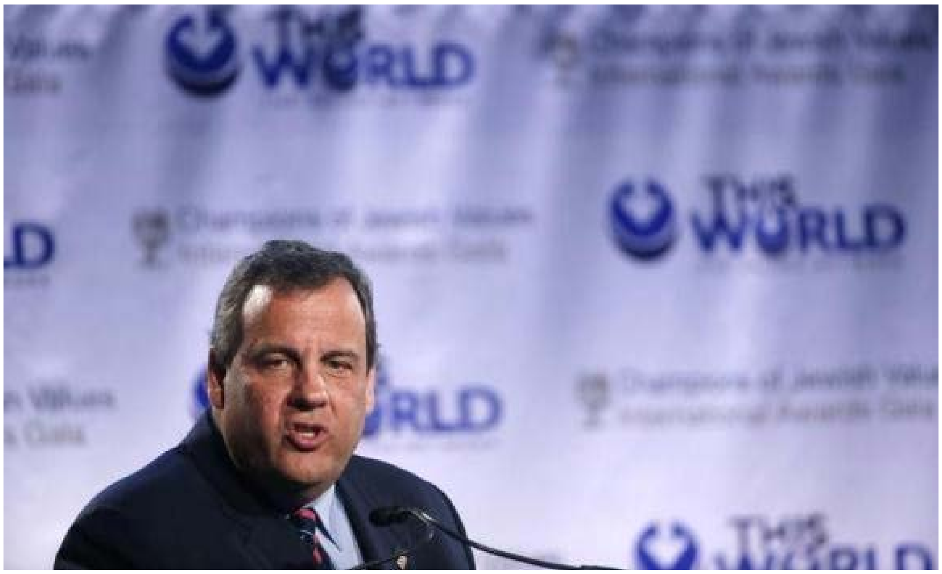

New Jersey Governor Chris Christie addresses the second Annual Champions of Jewish Values International Awards Gala in New York, May 18, 2014.

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(Reuters) - New Jersey, which revealed a massive budget shortfall this week, is far from alone in feeling the pinch of lower income tax revenues in the key month of April, a Reuters analysis shows.

Personal income tax collections plunged last month from a year earlier in 27 of 32 states for which Reuters was able to collect data. That's most of the 43 states that levy income taxes, and drops were as high as 50 percent.

While many states predicted tough times this year, a handful including New Jersey and Pennsylvania is set to face hard decisions on either cutting spending or raising taxes.

New Jersey, for example, is cutting state contributions to the pensions system by 60 percent for the next two years. By the end of last year, 26 states had still not seen overall tax revenue return to pre-recession levels, according to recent data from Pew Charitable Trusts.

"There are states that are more cautious, but there is also New Jersey. There is also Kansas, Pennsylvania," said Lucy Dadayan, a senior policy analyst at the Rockefeller Institute of Government.

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"Their projections are more optimistic than the reality," she said. "They either have to cut services - have to cut on the spending side - or raise taxes."

Even overall, states' prospects for growth in the first half of calendar 2014 are "very, very weak," she added. "And then we'll see a very slow rebounding."

New Jersey this week emerged as the poster child for the issue. Governor Chris Christie unveiled a shortfall of more than $1 billion for the budget year ending in just six weeks. A massive drop in April income tax collections was the main culprit, although the state has not detailed just how far below target they were.

April is the most important month for income tax revenues because of state and federal filing deadlines, and taxpayers writing the biggest checks tend to file at the last moment.

Part of the drop in revenues reflects a rush to pay last year, before tax hikes took effect. Many sold stocks, for example, to take the tax hit while rates were relatively low. But the drop still signals that a key revenue source for many states will be weak this year.

Income tax revenues declined by an average of 13 percent from the previous April in the 32 states for which Reuters has data. Only five states took in more year over year: Delaware, Mississippi, Oklahoma, Oregon and Virginia.

Personal income taxes make up a little more than a third of states' total general fund revenue, and sales taxes comprise roughly another third. Just seven states - Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming - collect no income tax, and two others - New Hampshire and Tennessee - only tax dividend and interest income, not wages.

ANTICIPATED BY MOST, BUT NOT ALL

When states drafted their budgets for this fiscal year, which started for most on July 1, 2013, many predicted overall revenue would remain relatively flat.

The average revenue forecast called for an increase of just 1.3 percent, according to Arturo Perez, fiscal affairs director at the National Conference of State Legislatures.

On balance, most states' overall revenue pictures are not suffering as much as the income tax declines might suggest, and some income taxes are collected outside of April, giving states time to still catch up, Perez said.

So, for cash-strapped Illinois, a 19.3 percent drop in income tax collections last month was actually good news because state officials had anticipated the plunge, and then some. As a result, officials boosted estimated general fund revenue for the 2014 budget up by $588 million.

But that windfall may be fleeting. Illinois legislators are engaged in fierce debate about whether to extend a 2011 tax increase due to partially expire on January 1, 2015, halfway through the next fiscal year. Letting it lapse will drop the tax rate to 3.75 percent from 5 percent and could cost the state more than $1.2 billion in just the second half of the 2015 budget year.

The biggest drop came in California, where April income tax collections were down $1.5 billion from a year earlier. But they were still $83 million more than the state had targeted.

Not every state was as sage as Illinois or California in its forecasting.

Take Michigan, with an economy still smaller than before the recession, a 7.4 percent unemployment rate that is well above the national rate of 6.3 percent, and its largest city, Detroit, struggling through the country's biggest municipal bankruptcy.

There, a 32.8 percent drop in April income taxes led officials in Michigan's capital, Lansing, last week to cut revenue forecasts for the current fiscal year by $317 million.

In Pennsylvania, April revenue fell just 4.4 percent from a year earlier, but still came in well below target, contributing to a shortfall of close to $1.4 billion through next year, according to independent state analysts.

TAX CUT IMPACTS

Tax cuts are also a factor. Eighteen states cut personal income taxes in 2013, while six increased them.

In Ohio, which enacted a $2.6 billion, three-year tax cut last year, April income tax collections fell by 45 percent. The state, however, partially offset the revenue loss by increasing the state sales tax. Ohio's jobless rate, meanwhile, has dropped steeply this year to 5.7 percent last month from 7.3 percent in April 2013.

The only state to see a bigger percentage drop in income tax receipts was Kansas, which in 2012 passed a big cut in tax rates. Collections fell 50 percent to $226 million from $453 million. That's nearly $90 million less than projected by Kansas.

Moody's Investors Service in April cut Kansas' credit rating a notch to Aa2, citing, among other factors, tax cuts that were not fully offset with recurring spending cuts.

(Additional reporting by Robin Respaut in San Francisco and Hilary Russ in New York; Editing by Dan Burns and Peter Henderson)

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morbas wrote:

-Weak taxation policy leads to lack of revenue, reveals an weak executive branch.
The US dollar is the worlds transaction and main reserve currency. The world's international debt securities is at $39Trillion US dollars. With a federal debt approaching 75% of U.S. gross domestic product, stability of the Green Back is a concern, will the USA government inflate out of the deficit? Now, fully 85% of foreign-exchange transactions do not use the Greenback (Wall Street Journal). The dollar reign as the standard for international debt securities is under assault as foreign interests flock to a currency exchange formula for 'virtual' stability.

-The present tax structure favors wage disparity, by taxing subsistence wage.
On issue is, that consumers pay business burdens through product cost overhead. The executives are allowed huge profits, which are relatively untaxed, and that are a major business burden. This an incentive for wealth disparity, that can be self regulated by a graduated taxation at margin above subsistence wage. The Income Tax Act of 1913 represents the best approach of combining all income into a non-exempt graduated tax base. This was sufficient to generate a roaring twenties economic plateau. Separation of Corporate and State is needed to shield against oligarch subversion of the peoples Democracy.
-
For municipalities (Detroit), property and fee based revenue are the only constitutionally available revenues. This revenue base unfairly burdens sustenance side economics and suppresses the American small businesses. This is favored by the Tea-GOP because they are funded by the 1%, while the DNC is supported by the 99% economics.
-
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D.C. 20510
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U.S. House of Representatives
Washington, DC 20515

We the people of this United States do proclaim this federal government 'of, by and for the people'. That, in order to fairly distribute revenue burden, to satisfy 'net income' progressive taxation, to balance all governments budgets, and to not tax poverty;
The people mandate:
Income National Tax code that shall use margin graduated income tax principle: Margin $30k 0% single, $60K 0% joint, income above this a linear increasing rate {Income-[$30k or $60k])*(Income/$800k)*90%; 90% limit} . Exemptions shall be prohibited. The Federal Reserve shall amend the (90%) rate, and control currency printing mandated to maintaining currency availability and value. The Federal Reserve shall set the Margin rate value well (>2x) above highest of all State Poverty Level(s). Revenue shall be proportioned 1/3rd Federal,1/3rd State proportioned per cast ballot and 1/3rd Local proportioned per cast ballot.
This National Tax is a peoples tax, no other citizen taxation shall be permitted. Business shall not be taxed. The Federal Reserve shall control taxation. The people will by simple majority approve or reject all margin and rate changes at every Congressional House Representative election year ballot.

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michaelryan wrote:

great election year news… GOP tax cut policies come back to fiscal reality and bite a big butt.. Back in the 70′s the GOP was fiscally conservative – balance the budget.. Now all they do is cut taxes for corporations and the wealthy.. collect their rewards and leave office with the state in shambles…

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Steve-0 wrote:

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