State Revenue Responses to Fiscal Shortfalls

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The current economic downturn has resulted in a sharp decline in state tax revenues. Forty-six states faced budget shortfalls when passing their fiscal year (FY) 2011 budgets, and 17 states reported shortfalls of more than 20 percent. According to the National Association of State Budget Officers, in tandem with budget cuts, 40 states enacted legislation to raise tax revenues in some form between fiscal years 2009 and 2011 (see table).

California and New York accounted for more than half of the tax increases during this period. In FY 2009, California increased both its sales and personal income tax rates to generate an estimated $8.7 billion in FY 2010, equivalent to 10 percent of its general fund. In FY 2010, New York limited itemized deductions on households reporting more than $1 million in income and increased the marginal rate for its top personal income tax bracket. These changes raised an estimated $4.1 billion, or 7.5 percent of general funds in FY 2010. These income tax rate increases were temporary, and are due to expire in December 2010 for California and December 2011 for New York.

Other states have relied on increases in general sales taxes, personal income taxes, user fees, and tobacco taxes to shore up their revenues (see table). Indiana, Massachusetts, and North Carolina raised their sales tax rates in fiscal years 2009 and 2010 while Arizona, Kansas, and New Mexico did the same in FY 2011. Another 10 states broadened their sales tax bases. While higher tax rates boosted overall collections, revenues still averaged 5 percent below expectations due to the sluggishness of the economy.

Similar to what they did after the 2001 recession, states again increased tobacco taxes in response to budget shortfalls. Twenty states raised taxes on tobacco products. During FY 2003, 33 percent of enacted tax increases came from tobacco taxes. In contrast, these taxes contributed 3.6 percent of total tax hikes in FY 2010 and 5.3 percent in FY 2011. Excluding California and New York, tobacco taxes made up 10.6 percent and 4.3 percent of all tax changes.

Between fiscal years 2009 and 2011, Maine, New York, and Washington proposed taxes on soda and candy, partly to raise revenues, but also to help with a growing obesity problem. These sugar and fat taxes may become the next place states go to increase revenues.

Enacted State Tax Revenue Increases by Type: 2009-2011

	All States			Excluding New York and California		
	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2009	Fiscal 2010	Fiscal 2011
Total Tax Revenue ($ mil)	$4,590.7 (16)	$24,945 (31)	$8,886.3 (27)	$1,722 (14)	$8,298.1 (29)	$4,242.6 (25)
Personal Income Tax	8.4% (6)	43.4% (12)	5.4% (8)	9.9% (4)	29.3% (10)	2.4% (6)
Corporate Tax	41.1% (7)	1.4% (6)	12.6% (7)	11.3% (6)	4.3% (5)	4.1% (6)
General Sales Tax	21% (4)	25.3% (12)	22% (9)	52.2% (2)	22.1% (10)	37.8% (8)
Tobacco Tax	5.9% (1)	3.6% (17)	5.3% (7)	0% (0)	10.6% (16)	4.3% (6)
Other Taxes	6% (4)	5.1% (19)	41.8% (14)	16% (4)	13.6% (18)	28.3% (13)
Fees	17.6% (11)	21.1% (19)	12.9% (17)	10.6% (10)	20.2% (17)	23.2% (15)

Note: Figure in parentheses lists the number of states that enacted tax increases. Other taxes include taxes on soda, alcohol, motor fuels, and other miscellaneous items.
Source: National Association of State Budget Officers, Fiscal Survey of States: Fall 2008, Fall 2009, and Spring 2010.