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New Report Finds State Revenues Soaring

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By Walt Williams

States across the nation may soon need to cut government services as their tax revenues shrink, but West Virginia has so far turned out to be one of the exceptions, according to a new report.

A report by the Rockefeller Institute on Government found that when adjusted for inflation and the cost of government services, total state tax revenues declined by 5.3 percent during the first quarter of 2008. It was the third quarter in a row in which tax revenues declined.

West Virginia was a different story. Total state revenues increased by more than 10 percent during the same time period, according to the report's authors.

Not that the increasing revenues are cause for celebration. The slowing national economy looks like it will take its toll on all states, and tax changes now taking affect in West Virginia will probably help to put a cap on growth it has seen recently.

"Generally, I'm looking at flat revenue growth," said Mark Muchow, the state's deputy revenue secretary.

West Virginia collected more than \$3.9 billion in tax revenue during fiscal year 2008. Muchow estimated it would collect roughly the same amount of money during the current fiscal year, which started July 1.

There are a number of tax changes that take affect this year, among them a reduction in the state's

sales tax for unprepared foods from 4 percent to 3 percent. Muchow also expects to see some decline in certain tax revenues, such as capital gains taxes, which reflect a weaker national economy.

States primarily rely on three types of taxes for their revenue: Income, sales and corporate income taxes. Each state has a different mix of taxes, which can affect their total revenues depending on how reliant they are on one tax over another.

West Virginia's recent growth spurt in tax collections is driven largely by increasing revenues from the state's severance taxes on coal and other natural resources. As the prices of those resources go up, the state collects more in severance tax revenue, and the price of coal in particular has boomed in recent years.

In fact, states that rely heavily on corporate income taxes and severance taxes — such as West Virginia — often see wild swings in revenue that are not related to general economic conditions, according to the Institute. The state's economy actually weakened during the time it was collecting more in revenue.

The report's authors wrote the nation's sluggish economy has translated into slowest growth in tax income in five years for states, with weaknesses in each of the three tax areas:

Personal income tax revenue increased 4.4 percent compared to a year earlier, up slightly from the fourth quarter's 4 percent rate, but still tepid.

The corporate income tax declined for the third consecutive quarter, although the rate of decline slowed to 5.1 percent compared with 15.3 percent in the fourth quarter of 2007.

Sales tax collections were essentially flat, registering a slight decline of 0.04 percent, according to the Institute's survey of state revenue agencies.

States collected \$155.3 billion in the first quarter of 2008, according to the report. Some \$64 billion, or 41 percent, was from personal income taxes. Another \$55 billion, or 35 percent, was from sales taxes, while corporate income taxes contributed \$10 billion. Collections from all other taxes totaled \$26.3 billion for the quarter.

What the report does not show is what has happened since the end of March, said Robert

Ward, the Institute's deputy director. Economic figures indicate that the second quarter of 2008 will not be as strong as the first quarter, he said.

"The question now for West Virginia is whether that good news will continue to hold up, and that remains to be seen," he said.