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The monthly revenue report of July 2010 state tax collections was released today.

Results

- Total revenue collections were \$917 million, \$74 million (+9%) above collections for the same period last year. Collections were \$72 million below the amount used in the June 2009 as passed budget and \$15 million below the most recent revenue forecast.
- Sales tax collections totaled \$522 million for the month, \$8 million (+1.5%) above collections for the same period last year. For the last six months sales tax collections have increased by 2% compared to prior year. The most recent revenue forecast projects 4% growth for FY 2011.
- Individual income tax collections totaled \$273 million for the month, \$83 million above collections for the same period last year. The increase is mainly attributable to process improvements that produced faster processing of refund claims. In July 2010, \$20 million in refund claims were processed compared to \$90 million in refunds in July 2009. This monthly decline is chiefly due to significantly higher refund claims that were paid in prior months. From January-June 2009, approximately \$529 million in refunds were paid. From January-June 2010, approximately \$597 million in refunds were paid.
- For the last six months income tax collections have increased 0.5% compared to prior year. The most recent revenue forecast projects 6% growth for FY 2011.

Commentary

To achieve the latest forecast, revenue collections for FY 2011 must grow 5.3% (+\$649 million) compared to prior year. As noted above, the state's two largest revenue sources, sales and individual income taxes, are growing modestly compared to prior year periods. This modest growth is consistent with most economic forecasts that anticipate a slower rate of recovery from the current national recession than prior recessions. This is particularly true with respect to sales tax where modest growth reflects highly cautious consumers. Sales tax revenues have increased on a year over year basis for five consecutive months; but this follows a decline that lasted sixteen months. Payroll withholdings, a component of individual income taxes, are also growing. Following six quarters (18 months) of decline, payroll withholdings have grown 2.2% over the last six months. Total income tax collections have grown at a slightly lower rate as taxes on non-wage income remain sluggish.

State reserves total \$831 million and are less than the \$1.2 billion shortfall between expected FY 2011 revenue collections and FY 2011 spending budgeted by the General Assembly. To reduce this shortfall, \$597 million in spending reductions have been ordered by the Governor for FY 2011. Including these reductions and assuming the latest revenue forecast is achieved, reserve balances are expected to decrease to \$188 million by the end of the year. The shortfall in revenue for July decreases these balances by \$15 million. Reserve balances are now estimated at \$173 million on June 30, 2011.

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