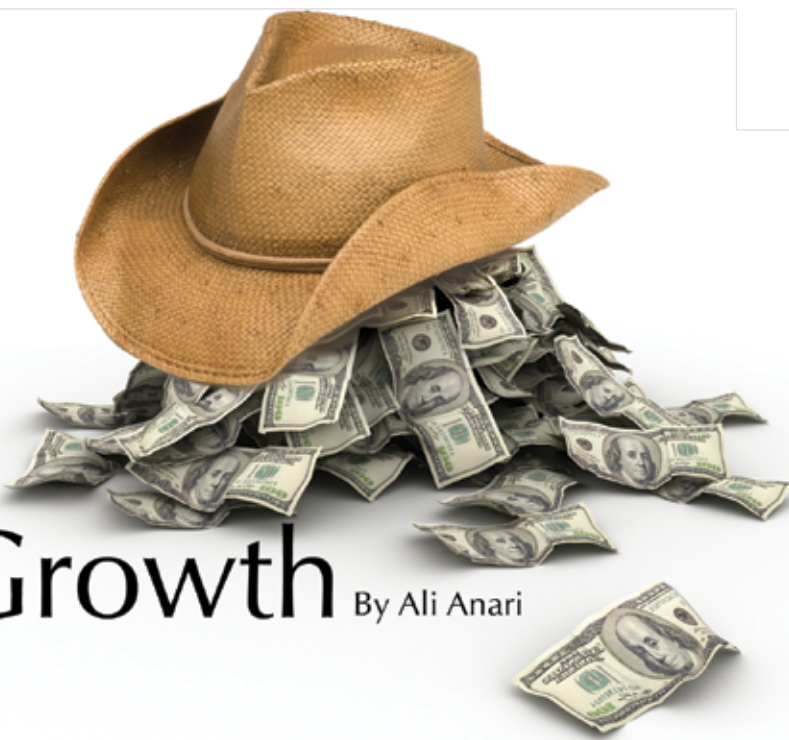


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# Federal Taxes Reflect Growth

By Ali Anari

The latest data on internal revenue receipts by state in fiscal year 2008 provide more evidence that the Texas economy was in good shape at a time when the U.S. economy was severely strained.

Ordinarily, employment data, gross domestic product data and income data are studied to determine whether regional and local economies are expanding or shrinking. But because employment and income data are continually revised, a true picture of the national and state economies in any particular year cannot be seen until at least two years later.

Analyzing tax revenue data yields a more realistic understanding of how the Texas economy compares

with the nation's. The greater the economic growth, the more tax revenues collected.

## Tax Revenues, Economic Growth

Higher internal revenue tax receipts confirm that the Texas economy grew in fiscal year 2008. Income and employment tax revenue growth from 2007 to 2008 substantiates the higher employment growth rates reported by the Bureau of Labor Statistics and Texas Workforce Commission.

Total internal revenue receipts from Texas in fiscal year 2008 were more than \$206 billion, accounting for 7.5 percent of the total U.S. internal revenue receipts (Table 1). Texas ranked third among the states after California and New York in the amount of tax revenues generated in 2008. Total 2008 tax revenues from Texas were 8.6 percent higher than in 2007.

**Table 1. States with Largest Internal Revenue Receipts, 2008 and 2007**

| State           | 2008                         |                                   | 2007                         |                                   | Growth rate<br>2007 to 2008<br>(Percent) |
|-----------------|------------------------------|-----------------------------------|------------------------------|-----------------------------------|--|
|                 | Revenues<br>(in \$thousands) | Percent of Total<br>U.S. Revenues | Revenues<br>(in \$thousands) | Percent of Total<br>U.S. Revenues |  |
| 1. California   | \$282,543,080                | 10.3                              | \$274,272,870                | 10.2                              | 3.0                                      |
| 2. New York     | 216,486,341                  | 7.9                               | 214,225,476                  | 8.0                               | 1.1                                      |
| <b>3. Texas</b> | 206,583,085                  | 7.5                               | 190,281,585                  | 7.1                               | 8.6                                      |
| 4. Florida      | 122,671,776                  | 4.5                               | 122,454,052                  | 4.5                               | 0.2                                      |
| 5. Illinois     | 117,884,219                  | 4.3                               | 119,346,711                  | 4.4                               | -1.2                                     |
| 6. New Jersey   | 117,129,921                  | 4.3                               | 108,759,092                  | 4.0                               | 7.7                                      |
| 7. Pennsylvania | 103,617,710                  | 3.8                               | 101,628,293                  | 3.8                               | 2.0                                      |
| 8. Ohio         | 101,272,978                  | 3.7                               | 95,097,315                   | 3.5                               | 6.5                                      |
| United States   | \$2,742,190,129              | 100.0                             | \$2,691,537,557              | 100.0                             | 1.9                                      |

Source: U.S. Treasury Bulletins, 2008 and 2007

**Table 2. Internal Revenue Receipts, 2008 and 2007 Texas and United States**

|                                    | Texas                     |                           |                           |                           |                                  |
|------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|----------------------------------|
|                                    | 2008                      |                           | 2007                      |                           | 2007 to 2008 Growth Rate Percent |
|                                    | Revenues (in \$thousands) | Percent of Total Receipts | Revenues (in \$thousands) | Percent of Total Receipts |                                  |
| Total Internal Revenue Collections | \$206,583,085             | 100.0                     | \$190,281,585             | 100.0                     | 8.6                              |
| Income and Employment Taxes        | 157,413,102               | 76.2                      | 144,753,070               | 76.1                      | 8.7                              |
| Corporation Income Tax             | 32,044,865                | 15.5                      | 31,443,387                | 16.5                      | 0.9                              |
| Excise Tax                         | 15,590,762                | 7.5                       | 12,668,185                | 6.7                       | 23.1                             |
| Unemployment Insurance Tax         | 58,690                    | 0.3                       | 565,561                   | 0.3                       | 3.8                              |
| Estate Tax                         | 1,294,186                 | 0.6                       | 1,207,596                 | 0.6                       | 7.2                              |
| Gift Tax                           | 240,168                   | 0.1                       | 209,346                   | 0.1                       | 14.7                             |

|                                    | United States             |                           |                           |                           |                                  |
|------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|----------------------------------|
|                                    | 2008                      |                           | 2007                      |                           | 2007 to 2008 Growth Rate Percent |
|                                    | Revenues (in \$thousands) | Percent of Total Receipts | Revenues (in \$thousands) | Percent of Total Receipts |                                  |
| Total Internal Revenue Collections | \$2,742,190,129           | 100.0                     | \$2,691,537,557           | 100.0                     | 1.9                              |
| Income and Employment Taxes        | 2,306,595,808             | 84.1                      | 2,215,974,166             | 82.3                      | 4.1                              |
| Corporation Income Tax             | 354,062,546               | 12.9                      | 395,535,826               | 14.7                      | -10.5                            |
| Excise Tax                         | 51,707,840                | 1.9                       | 53,049,612                | 2.0                       | -2.5                             |
| Unemployment Insurance Tax         | 7,331,036                 | 0.3                       | 7,416,738                 | 0.3                       | -1.2                             |
| Estate Tax                         | 26,543,433                | 1.0                       | 24,557,815                | 0.9                       | 8.1                              |
| Gift Tax                           | 3,280,502                 | 0.1                       | 2,420,138                 | 0.1                       | 35.6                             |

Source: U.S. Treasury Bulletins, 2008 and 2007

U.S. tax revenues grew by only 1.9 percent in the same period. Increases in internal revenue receipts from Texas boosted the state's share of U.S. tax revenues from 7.1 percent in 2007 to 7.5 percent in 2008. Based on tax revenue growth from 2007 to 2008, Texas ranked first among the states with highest tax revenues (Table 1).

### Sources of Internal Revenue Collections

For both Texas and the nation, individual income and employment taxes account for the greatest portion of total internal revenue receipts. These taxes include income tax; taxes for old-age, survivors, disability, and hospital insurance (OASDHI); Federal Insurance Contribution Act (FICA); self-employed income under the Self-Employment Contribution Act (SECA); and railroad retirement tax.

Income and employment tax revenues were 76.2 percent of total tax revenues generated in Texas in 2008, up from 76.1 percent in 2007. By comparison, these taxes made up 84.1 percent of total tax revenues for the United States in 2008, up from 82.3 percent in 2007. Total receipts for individual income and employment taxes from Texas rose 8.7 percent from fiscal year 2007 to fiscal year 2008 compared with 4.1 percent for the nation (Table 2).

Corporate tax, a direct tax corporations pay on their profits, is the second largest source of tax revenues. In fiscal year 2008, corporate tax revenue receipts from Texas accounted for

15.5 percent of the state's total tax receipts, a decrease from 16.5 percent in 2007. The share of U.S. corporate income tax in total U.S. tax revenues fell from 14.7 percent in 2007 to 12.9 percent in 2008. Corporate income tax receipts in Texas rose 0.9 percent from 2007 to 2008 (Table 2). Over the same period, U.S. government total corporate tax receipts fell by 10.5 percent.

The growth rate of Texas corporate tax revenues was low, but when compared with the decline for the United States, it suggests that profitable economic activities in the state were offsetting adverse economic shocks. Historically high oil prices were a key element of the state's corporate profitability in 2008.

Excise taxes are the third largest source of internal revenue receipts. These taxes are paid on specific goods, such as gasoline, or on activities such as wagering or highway usage by trucks. Internal revenue receipts from Texas excise taxes in 2008 increased 23.1 percent while the nation posted a 2.5 percent decline (Table 2). The share of excise tax revenues in Texas total tax revenues rose from 6.7 percent in 2007 to 7.5 percent in 2008. For the nation, the share of excise tax revenues to total tax revenues fell from 2 percent in 2007 to 1.9 percent in 2008.

The revenue from unemployment insurance taxes generated in Texas rose 0.3 percent from 2007 to 2008 compared with a 1.2 percent decrease for the nation. This tax is levied on

employers to set aside funds to pay unemployment insurance when workers lose jobs. The share of unemployment insurance tax in total tax revenues is small, accounting for only 0.3 percent for both Texas and the nation (Table 2).

Receipts for estate taxes in Texas rose 7.2 percent from 2007 to 2008 compared with an 8.1 percent increase for the United States. Estate taxes (also called the death tax or inheritance tax) is levied on property received through inheritance or legal succession and is computed based on the value of the property. The share of revenue receipts for estate tax in Texas total revenue receipts remained at 0.6 percent in 2007 and 2008, while for the nation that figure rose slightly from 0.9 percent in 2007 to 1 percent in 2008.

Gift tax is paid by those who transfer assets from themselves to others. U.S. revenues from gift taxes increased 35.6 percent from 2007 to 2008 compared with 14.7 percent for Texas, but

for both Texas and the nation revenues from gift taxes are only 0.1 percent of total internal revenue receipts. ➤

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## THE TAKEAWAY

Comparing Texas and U.S. tax revenues provides a clearer, more timely picture of how the Texas economy stacks up against the nation's than looking at employment and income data, which are continually revised. The state's total tax revenues grew by 8.6 percent from 2007 to 2008, compared with a growth rate of only 1.9 percent for the nation.



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