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**Data Alert**

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**Sunshine After the Rain: Revenue Collections Resume Growth  
After Declines in the First Half of 2014**

***Preliminary Figures for the Third Quarter of  
2014 Reveal Growth in State Tax Collections***

*Lucy Dadayan and Donald J. Boyd*

The Rockefeller Institute of Government issues two types of reports on state tax revenues. One is in the form of Data Alerts for which the Institute collects readily available tax revenue data to provide quick overview of revenue trends across the states. The second is full quarterly *Revenue Reports* for which the Institute relies on Census Bureau data and provides more detailed analysis of state tax revenue situation across the states. For the third quarter, we reported that revenues declined by 46 percent in North Dakota and that the decline was attributable to oil and gas severance taxes. While the numbers are accurate, unfortunately they did not portray the true revenue situation in the state due to one-time transfers. The Institute's figures were based on the general fund revenue data as they are the main data source that is readily available. For more information, please visit [www.nd.gov/fiscal/budget/publications/revENews/](http://www.nd.gov/fiscal/budget/publications/revENews/). However, only a portion of the oil tax goes directly to the general fund and the cap for the 2013-15 biennium was \$300 million, which was transferred to the general fund in the first year of the biennium, thus artificially skewing the year-over-year comparisons for the third quarter of 2014.

The Institute will certainly address the issue in the upcoming quarterly *Revenue Report* and provide detailed contextual information on North Dakota's revenue picture.

Many states faced revenue shortfalls in the first half of 2014. "April surprises" turned out to be more surprising than expected in many states as personal income tax collections showed significant declines in the second quarter of 2014. However, the declines were much anticipated and were driven by the temporary bubble in income tax collections that was mostly attributable to the so-called federal "fiscal

cliff." However, revenue collections resumed growth in the third quarter of 2014 and are expected to show continued growth throughout the rest of state fiscal year 2015.

Preliminary data for the July-September quarter of 2014 show growth for overall tax collections for the nation. States also reported growth in personal income and sales tax collections. The trends observed in the third quarter of 2014 were much anticipated due to the slowly disappearing effect of the fiscal cliff on personal income tax revenues.

We will provide a complete analysis of tax revenue collections for the third quarter of 2014 after the Census Bureau's data for the quarter are available.

The Rockefeller Institute's compilation of preliminary data from 48 states shows that collections from major tax sources rose by 4.0 percent in nominal terms in the third quarter of 2014 compared to the same quarter of 2013. Among 48 early-reporting states, 41 states reported growth while seven states reported declines in total tax revenue collections. After two consecutive quarter declines, personal income tax collections resumed growth at 4.3 percent in the third quarter of 2014. The growth in sales tax collections was relatively strong at 5.9 percent and corporate income tax rose by 8.9 percent. (See Table 1 for national-level changes in revenues since 2008.)

<b>Year/Quarter</b>	<b>PIT</b>	<b>CIT</b>	<b>Sales</b>	<b>Total</b>
2008 Q1	5.6	(1.4)	0.7	2.9
2008 Q2	7.8	(7.0)	1.0	5.3
2008 Q3	0.7	(13.2)	4.7	2.7
2008 Q4	(1.4)	(23.0)	(5.3)	(3.9)
2009 Q1	(19.2)	(20.2)	(8.4)	(12.2)
2009 Q2	(27.4)	3.0	(9.5)	(16.2)
2009 Q3	(11.5)	(21.3)	(10.1)	(10.9)
2009 Q4	(4.1)	0.7	(4.8)	(3.1)
2010 Q1	3.8	0.3	0.1	3.4
2010 Q2	1.5	(19.0)	5.7	2.2
2010 Q3	4.5	0.5	4.7	5.7
2010 Q4	10.8	12.1	5.5	8.2
2011 Q1	12.3	4.1	6.4	10.1
2011 Q2	15.3	18.3	6.1	11.2
2011 Q3	9.2	0.9	1.7	5.1
2011 Q4	2.9	(3.3)	2.9	3.1
2012 Q1	4.4	3.6	5.0	3.9
2012 Q2	5.9	(3.0)	1.7	3.5
2012 Q3	5.3	8.5	1.8	3.6
2012 Q4	10.9	3.0	2.7	5.7
2013 Q1	18.1	9.4	5.6	9.8
2013 Q2	18.2	10.4	5.2	10.1
2013 Q3	5.1	1.5	5.8	5.6
2013 Q4	0.3	2.9	5.5	3.5
2014 Q1	(0.9)	8.3	1.4	0.5
2014 Q2	(6.6)	(2.7)	4.1	(1.2)
<b>2014 Q3 (preliminary)</b>	<b>4.3</b>	<b>8.9</b>	<b>5.9</b>	<b>4.0</b>

Table 2 shows state-by-state changes in major tax revenues during the third quarter of 2014 compared to the same quarter a year earlier. Maine and Oklahoma reported the largest increases in overall tax collections, at 10.1 and 9.7 percent, respectively. Seven states reported declines in overall tax collections, with Alaska and North Dakota reporting the largest declines at 74.3 and 46.7 percent, respectively. (See the note at the top of the page.)

As shown in Table 2, 31 states reported growth in income tax collections, with four states reporting double-digit growth. Mississippi and Oklahoma reported the largest growth at 18.8 and 17.8 percent, respectively. Ten states reported declines in income tax collections, with North Carolina and Kansas reporting the largest declines at 13.6 and 8.8 percent, respectively. Both states had recently reduced income tax rates. Thus, the declines are at least partially due to the legislated changes.

Sales tax collections declined in two of 43 early-reporting states. West Virginia and Arkansas were the only two states reporting declines in sales tax collections at 2.5 and 1.6 percent, respectively. The largest growth in sales tax collections was recorded in Maine at 15.7 percent, followed by North Carolina at 13.7 percent.

State tax revenues had been continuously recovering for four straight years, before declining in the first and second quarters of 2014. However, the recovery has been much slower and more prolonged than in previous recoveries. State tax revenues were particularly strong in the first half of calendar year 2013, and particularly weak in the second half of calendar year 2013 and falling short in the first half of 2014. This volatility was not due to underlying economic factors, but instead was mostly attributable to the implications of policy changes on the federal level, as well as to legislated tax changes in many states. While the federal fiscal cliff could continue to have lingering effects on state personal income tax collections in the next few years, we believe the worst is behind us and personal income tax collections already resumed growth in the third quarter of 2014. Moreover, we expect that the revenue growth will accelerate throughout the rest of state fiscal year 2015, if economic growth accelerates as expected.

**Table 2: Percent Change in State Quarterly Tax Revenue**  
July-September 2013 to 2014, Percent Change

	PIT	CIT	Sales	Total
<b>United States</b>	<b>4.3</b>	<b>8.9</b>	<b>5.9</b>	<b>4.0</b>
<b>New England</b>	<b>2.3</b>	<b>(3.0)</b>	<b>5.5</b>	<b>2.7</b>
Connecticut	(1.1)	15.6	3.7	1.5
Maine	0.4	11.9	15.7	10.1
Massachusetts	3.5	(7.2)	5.0	2.7
New Hampshire	NA	(5.0)	NA	(3.3)
Rhode Island	3.0	(26.8)	4.2	3.4
Vermont	4.3	26.8	4.4	3.3
<b>Mid-Atlantic</b>	<b>5.4</b>	<b>1.2</b>	<b>4.1</b>	<b>3.9</b>
Delaware	4.6	(18.5)	NA	(0.5)
Maryland	5.3	(8.4)	4.1	3.4
New Jersey	8.3	28.5	2.4	7.2
New York	5.5	(17.7)	3.7	2.6
Pennsylvania	2.8	19.3	5.5	5.2
<b>Great Lakes</b>	<b>(1.6)</b>	<b>4.3</b>	<b>8.5</b>	<b>2.9</b>
Illinois	2.0	(11.2)	5.0	2.1
Indiana	4.3	(4.1)	4.9	1.5
Michigan	(2.9)	104.6	10.9	7.0
Ohio	(6.6)	245.0	13.2	2.9
Wisconsin	(6.0)	(0.7)	4.9	(2.3)
<b>Plains</b>	<b>3.7</b>	<b>14.5</b>	<b>3.1</b>	<b>(0.8)</b>
Iowa	4.3	(11.3)	7.9	5.5
Kansas	(8.8)	32.9	1.2	(2.5)
Minnesota	6.6	17.2	2.1	4.3
Missouri	4.8	9.5	2.7	3.5
Nebraska	3.5	29.1	3.6	5.9
North Dakota	(4.1)	(2.2)	2.1	(46.7)
South Dakota	NA	NA	1.3	1.5
<b>Southeast</b>	<b>0.9</b>	<b>3.9</b>	<b>6.4</b>	<b>3.1</b>
Alabama	(0.6)	72.8	4.9	4.7
Arkansas	4.1	(4.2)	(1.6)	1.4
Florida	NA	6.4	6.3	5.7
Georgia	3.8	7.4	6.7	4.6
Kentucky	5.4	(25.7)	3.4	0.8
Louisiana	(2.6)	99.7	6.2	4.2
Mississippi	18.8	(0.0)	6.3	6.3
North Carolina	(13.6)	(18.9)	13.7	(6.5)
South Carolina	4.3	8.6	3.3	5.0
Tennessee	10.2	12.3	5.0	4.7
Virginia	7.6	12.4	9.8	7.1
West Virginia	6.8	(7.2)	(2.5)	0.1
<b>Southwest</b>	<b>7.8</b>	<b>(2.6)</b>	<b>7.0</b>	<b>6.8</b>
Arizona	2.4	8.0	2.3	3.4
New Mexico	ND	ND	ND	ND
Oklahoma	17.8	(20.3)	5.5	9.7
Texas	NA	NA	7.8	7.0
<b>Rocky Mountain</b>	<b>7.0</b>	<b>19.9</b>	<b>6.6</b>	<b>8.0</b>
Colorado	9.0	10.4	9.6	9.2
Idaho	6.4	4.3	4.2	4.7
Montana	6.4	14.6	NA	7.2
Utah	3.5	60.3	4.0	8.4
Wyoming	NA	NA	ND	ND
<b>Far West</b>	<b>10.0</b>	<b>35.1</b>	<b>4.5</b>	<b>5.9</b>
Alaska	NA	10.1	NA	(74.3)
California	10.8	42.5	3.5	8.7
Hawaii	(0.2)	(53.1)	8.0	2.9
Nevada	NA	NA	5.9	5.9
Oregon	6.5	31.1	NA	9.1
Washington	NA	NA	7.1	5.1

**Source:** Individual state data, analysis by the Rockefeller Institute.

**Notes:** NA - not applicable; ND - no data.

## About the Rockefeller Institute of Government

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