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States Are Not Out of the Woods Despite Strong Revenue Gains in the Fourth Quarter

Artificially Propped Up Personal Income Tax Revenues Creates New Fiscal Challenges for the States

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HIGHLIGHTS

- State tax revenues grew by 5.2 percent in the fourth quarter of 2012, according to Rockefeller Institute research and Census Bureau data.
- The Southwest and Far West states showed the largest tax revenue gains in the quarter.
- Inflation-adjusted state tax revenues surpassed the peak levels of four years ago. However, the revenue recovery remains weak by historical standards.
- As previously predicted, personal income tax revenues showed strong growth: a 10.8 percent gain, at least partially attributable to the acceleration of income into calendar year 2012 by some taxpayers.
- State personal income, sales, and corporate income tax revenue has been recovering far more slowly from the recent recession than from previous recessions.
- Local property tax revenues grew by a modest 0.1 percent in the fourth quarter but declined in inflation-adjusted terms.

Overall State Taxes and Local Taxes

Total state tax collections grew for the twelfth consecutive quarter in October-December 2012. Overall state tax revenues increased by 5.2 percent from the same quarter of the previous year, according to data collected by the Rockefeller Institute and the Census Bureau. The Institute's findings indicate slightly stronger fiscal conditions for states than the preliminary data released in March 2013 by the Census Bureau, which reported an overall increase of 4.9 percent. We have updated those figures to reflect data we have since obtained and to reflect differences in how we measure revenue for purposes of the State Revenue Report. (See "Adjustments to Census Bureau Tax Collection Data" on page 21.[1])

Figure 1 shows the nominal percent change over time in state tax collections for personal income tax, sales tax, and total taxes. As shown there, declines in personal income tax and sales tax collections as well as in overall state tax collections were steeper during and after the Great Recession that began in December 2007 than around the previous two recessions. Overall state tax collections as well as personal income and sales tax revenues showed continued growth in the fourth quarter of 2012. The growth in total tax collections was slightly stronger than in the previous five quarters, mostly due to strong growth in personal income tax collections. Personal income tax collections increased by 10.8 percent, while sales tax collections rose by 2.7 percent.

The rapid income tax growth in the fourth quarter is consistent with the caution in the previous *State Revenue Report*:

> Year-end actions by taxpayers to minimize their expected federal tax liability in light of the "fiscal cliff" and federal actions to avert the cliff are likely to boost state income taxes in the October-December quarter and in the first and second quarters of 2013, lifting state tax revenue in the 2012-13 state fiscal year. However, these year-end actions are likely to depress state income tax revenue

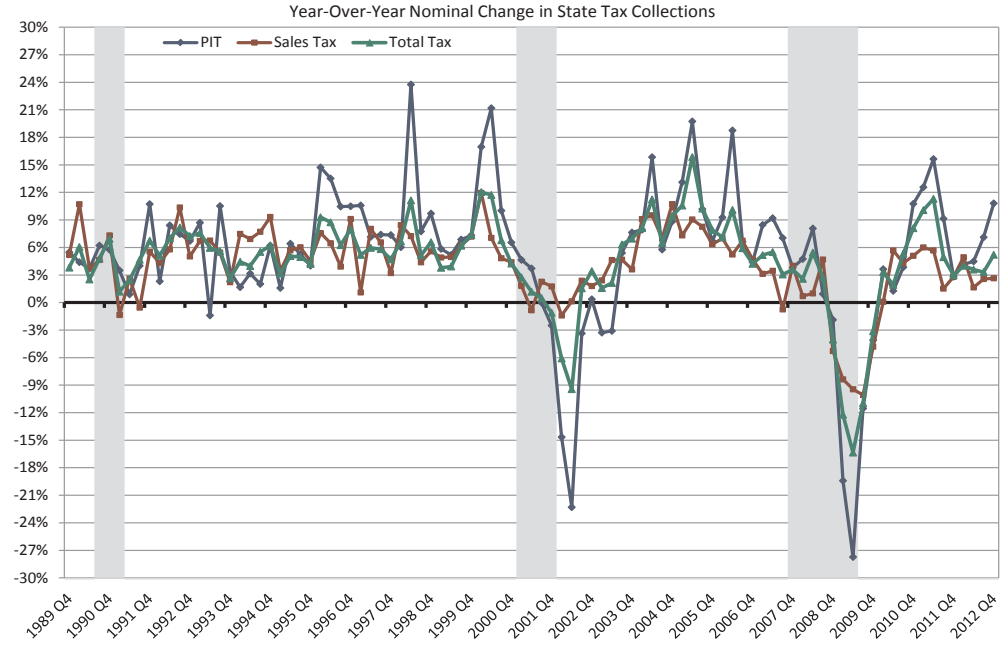
> slightly in 2013-14 state fiscal years.… States are on a revenue roller coaster, and there is a bumpy ride ahead. It will be hard for states to interpret revenue data in coming months, and hard to rule out the possibility that any short-run revenue surge is simply borrowed from the future. It will be tempting to treat unexpected revenue growth as a sign of continuing economic improvement, when it could mean instead that future revenue will be lower. Caution should be the watchword.[2]

Despite increases over twelve quarters — a full three years of continual gains — overall tax collections are still comparatively weak by recent historical standards. The average quarterly growth rate in total tax collections in the last twenty-five years was around 5 percent. State tax revenues were 8.9 percent higher in the fourth quarter of 2012 than in the same quarter of 2007, while economy-wide inflation was slightly more than 8.4 percent over the same period and the nation's population grew by about 4.1 percent. Put differently, revenue would have had to grow by more than 12.5 percent to keep up with population growth and inflation but in fact it grew by only 8.9 percent.[3]

Total state tax collections in the fourth quarter of 2012 were above the previous peak levels in most states. In the fourth quarter of 2012, thirty-six states reported higher tax revenue collections than in the same quarter of 2007, which marked the start of the recession. If we adjust the numbers for inflation, nationwide tax receipts show 0.3 percent growth in the fourth quarter of 2012 compared to the same quarter of 2007. This is the first time since the start of the Great Recession that inflation adjusted quarterly state tax collections are higher compared to the peak levels, although, as noted above, the most recent quarter was artificially boosted.

Figure 1. State Tax Collections Continue Rebounding

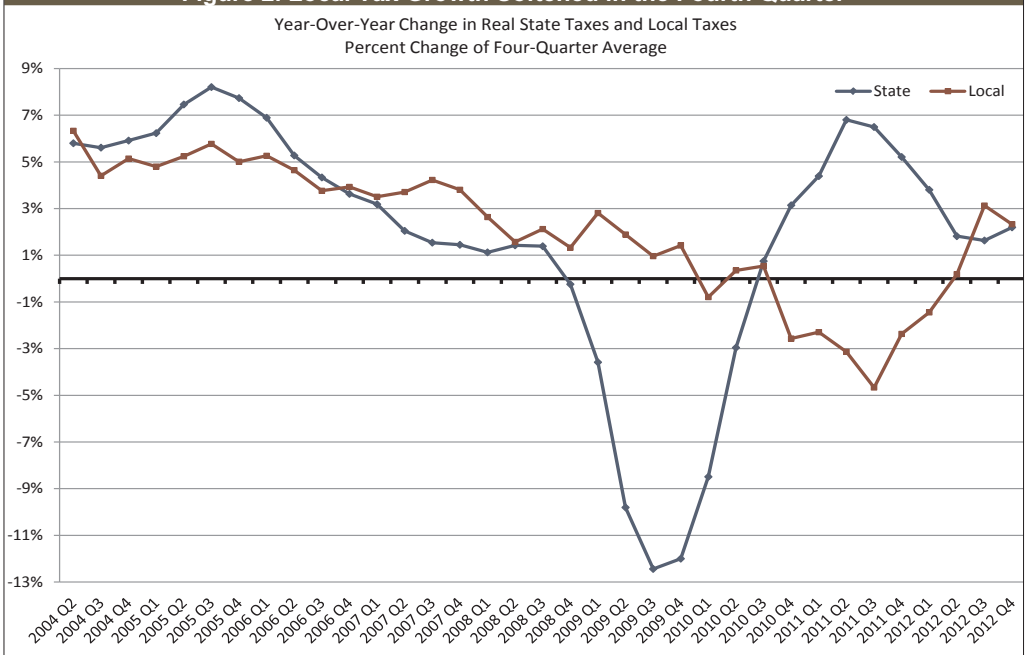
Year-Over-Year Nominal Change in State Tax Collections



Sources: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue.
Notes: Data for the most recent quarter reflect adjustments by the Rockefeller Institute to include information released after initial publication.

Figure 2 shows the four-quarter moving average of year-over-year change in state tax collections and local tax collections, after adjusting for inflation. In addition, we have adjusted the Census Bureau's local tax revenues to reflect differences between the Census Bureau's prior survey methodology and a revised

Figure 2. Local Tax Growth Softened in the Fourth Quarter



Sources: U.S. Census Bureau , Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (GDP).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

survey methodology now used for collecting property tax revenues.[4] As shown in Figure 2, the year-over-year change in state taxes, adjusted for inflation, has averaged 2.2 percent over the last four quarters. This represents substantial softening from the 5.2 percent average growth of a year ago and a 3.1 percent average growth of two years ago.

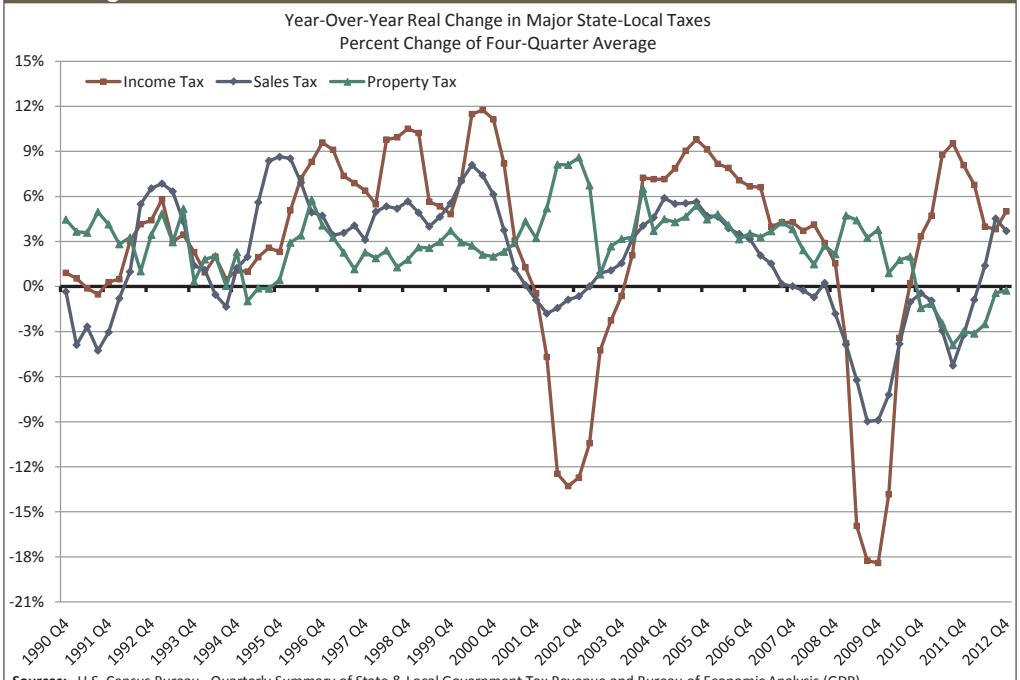
Local tax revenues grew for the third consecutive quarter after six consecutive quarters of decline. Local taxes grew in real, year-over-year terms—by an average of 2.3 percent over the last four quarters, a significant improvement over the 2.4 percent decline of the preceding year. Inflation over the year, as measured by the gross domestic product deflator, was 1.8 percent.

Local tax collections have been relatively weak by historical standards over the last three years due in part to the lagged impact of falling housing prices on property tax collections. For the quarter ending in December, the 2.3 percent growth in the four-quarter moving average of local tax collections is relatively weak compared to historical averages, and weaker compared to the previous quarter. The largest year-over-year growth in local tax collections in recent history was recorded in the third quarter of 2005, at 5.8 percent.

Most local governments rely heavily on property taxes, which tend to be relatively stable and respond to property value declines more slowly than income, sales, and corporate taxes respond to declines in the overall economy. Over the last two decades, property taxes have consistently made up at least two-thirds of total local tax collections. Collections from local property taxes made up 84.6 percent of such receipts during the fourth quarter of 2012. Local property tax revenues showed a negligible growth of 0.1 percent in nominal terms in the fourth quarter of 2012 compared to the same quarter of 2011.

Sales taxes represented about 6.4 percent of local tax revenues in the fourth quarter of 2012. Local sales tax collections increased by 4.4 percent in the fourth quarter of 2012 in nominal terms. Collections from local individual income taxes, a much smaller

Figure 3. Continued Growth In Personal Income and Sales Tax Collections



Sources: U.S. Census Bureau , Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (GDP).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

contributor to overall local revenues, showed a decline of 7.2 percent.

Figure 3 shows the four-quarter average of year-over-year growth in state and local income, sales, and property taxes, adjusted for inflation. Both the income tax and the sales tax showed slower growth, and then outright decline, from 2006 through most of 2009. By this measure, income tax showed some growth for the tenth consecutive quarter. On the other hand, the four-quarter average of year-over-year comparisons showed declines in state-local property taxes for the ninth consecutive quarter. State-local sales tax collections showed some growth in the fourth quarter of 2012. The growth in the fourth quarter of 2012 marks as the third consecutive quarter growth, which is followed after fourteen consecutive growth declines.

State Tax Revenue

Total state tax revenue rose in the fourth quarter of 2012 by 5.2 percent relative to a year ago, before adjustments for inflation and legislated changes (such as changes in tax rates). The income tax and sales tax grew 10.8 and 2.7 percent, respectively, and the corporate income tax increased by 1.2 percent. Tables 1 and 2 portray growth in tax revenue with and without adjustment for inflation, and growth by major tax. Six states reported declines in total tax revenue during the fourth quarter of 2012, while seven states reported double-digit increases in the fourth quarter (see Tables 7 and 8 on pages 16 and 17). All regions reported growth in total collections. The Southwest region showed the largest gain at 9.2 percent, followed by the Far West states at 8.8 percent. The Great Lakes region showed the weakest growth at 1.8 percent.

Preliminary figures collected by the Rockefeller Institute for the January-February months of 2013 indicate that revenues in most states continued to grow.[5] Overall collections in forty-five early reporting states showed growth of 12.9 percent in the January-February months of 2013 compared to the same months of

Table 1. Quarterly State Tax Revenue

Year-Over-Year Percent Change; Adjusted for Inflation

Quarter	Total Nominal Change	Inflation Rate	Adjusted Real Change
2012 Q4	5.2	1.8	3.4
2012 Q3	3.3	1.6	1.7
2012 Q2	3.6	1.7	1.8
2012 Q1	4.0	2.0	2.0
2011 Q4	3.0	2.0	1.0
2011 Q3	4.9	2.4	2.5
2011 Q2	11.3	2.2	8.9
2011 Q1	10.1	2.0	8.0
2010 Q4	8.1	1.8	6.1
2010 Q3	5.3	1.6	3.6
2010 Q2	1.9	1.3	0.7
2010 Q1	3.3	0.6	2.6
2009 Q4	(3.1)	0.5	(3.6)
2009 Q3	(11.0)	0.3	(11.3)
2009 Q2	(16.3)	1.0	(17.1)
2009 Q1	(12.2)	1.8	(13.7)
2008 Q4	(4.0)	2.1	(6.0)
2008 Q3	2.8	2.5	0.3
2008 Q2	5.4	2.0	3.3
2008 Q1	2.6	2.1	0.5
2007 Q4	3.6	2.6	0.9
2007 Q3	3.1	2.6	0.4
2007 Q2	5.5	3.1	2.4
2007 Q1	5.2	3.3	1.8
2006 Q4	4.2	2.9	1.3
2006 Q3	5.9	3.2	2.6
2006 Q2	10.1	3.5	6.3
2006 Q1	7.1	3.3	3.7
2005 Q4	7.9	3.5	4.3
2005 Q3	10.2	3.4	6.6
2005 Q2	15.9	3.1	12.4
2005 Q1	10.6	3.3	7.1
2004 Q4	9.4	3.2	6.0
2004 Q3	6.5	3.0	3.4
2004 Q2	11.2	2.8	8.2
2004 Q1	8.1	2.2	5.7
2003 Q4	7.0	2.1	4.8
2003 Q3	6.3	2.1	4.1
2003 Q2	2.1	2.0	0.1
2003 Q1	1.6	2.2	(0.6)
2002 Q4	3.4	1.8	1.6
2002 Q3	1.6	1.5	0.0
2002 Q2	(9.4)	1.4	(10.7)
2002 Q1	(6.1)	1.7	(7.6)
2001 Q4	(1.1)	2.0	(3.0)
2001 Q3	0.5	2.2	(1.7)
2001 Q2	1.2	2.5	(1.3)
2001 Q1	2.7	2.3	0.4
2000 Q4	4.2	2.4	1.8
2000 Q3	6.8	2.3	4.4
2000 Q2	11.7	2.0	9.5
2000 Q1	12.0	2.0	9.9
1999 Q4	7.3	1.6	5.6
1999 Q3	6.2	1.5	4.7
1999 Q2	3.9	1.5	2.4
1999 Q1	3.8	1.3	2.4

Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).

Table 2. Quarterly State Tax Revenue By Major Tax

Year-Over-Year Percent Change

Quarter	PIT	CIT	General Sales	Total
2012 Q4	10.8	1.2	2.7	5.2
2012 Q3	7.1	7.2	2.6	3.3
2012 Q2	4.5	(4.6)	1.7	3.6
2012 Q1	4.2	3.4	4.9	4.0
2011 Q4	2.8	(3.3)	2.8	3.0
2011 Q3	9.1	0.9	1.5	4.9
2011 Q2	15.6	18.3	5.7	11.3
2011 Q1	12.6	4.1	6.0	10.1
2010 Q4	10.8	12.1	5.1	8.1
2010 Q3	3.9	0.5	4.3	5.3
2010 Q2	1.3	(19.0)	5.7	1.9
2010 Q1	3.6	0.3	0.1	3.3
2009 Q4	(4.1)	0.7	(4.8)	(3.1)
2009 Q3	(11.5)	(21.3)	(10.1)	(11.0)
2009 Q2	(27.7)	3.0	(9.5)	(16.3)
2009 Q1	(19.4)	(20.2)	(8.4)	(12.2)
2008 Q4	(1.9)	(23.0)	(5.3)	(4.0)
2008 Q3	0.9	(13.2)	4.7	2.8
2008 Q2	8.1	(7.0)	1.0	5.4
2008 Q1	4.8	(1.4)	0.7	2.6
2007 Q4	3.8	(14.5)	4.0	3.6
2007 Q3	7.0	(4.3)	(0.7)	3.1
2007 Q2	9.2	1.7	3.5	5.5
2007 Q1	8.5	14.8	3.1	5.2
2006 Q4	4.4	12.6	4.7	4.2
2006 Q3	6.6	17.5	6.7	5.9
2006 Q2	18.8	1.2	5.2	10.1
2006 Q1	9.3	9.6	7.0	7.1
2005 Q4	6.7	33.4	6.4	7.9
2005 Q3	10.2	24.4	8.3	10.2
2005 Q2	19.7	64.1	9.1	15.9
2005 Q1	13.1	29.8	7.3	10.6
2004 Q4	8.8	23.9	10.7	9.4
2004 Q3	5.8	25.2	7.0	6.5
2004 Q2	15.8	3.9	9.5	11.2
2004 Q1	7.9	5.4	9.1	8.1
2003 Q4	7.6	12.5	3.6	7.0
2003 Q3	5.4	12.6	4.7	6.3
2003 Q2	(3.1)	5.1	4.6	2.1
2003 Q1	(3.3)	8.3	2.4	1.6
2002 Q4	0.4	34.7	1.8	3.4
2002 Q3	(3.4)	7.4	2.4	1.6
2002 Q2	(22.3)	(12.3)	0.1	(9.4)
2002 Q1	(14.7)	(15.7)	(1.4)	(6.1)
2001 Q4	(2.5)	(34.0)	1.8	(1.1)
2001 Q3	(0.0)	(27.2)	2.3	0.5
2001 Q2	3.7	(11.0)	(0.8)	1.2
2001 Q1	4.6	(8.4)	1.8	2.7
2000 Q4	6.5	(0.4)	4.4	4.2
2000 Q3	10.0	8.2	4.8	6.8
2000 Q2	21.2	4.2	7.0	11.7
2000 Q1	17.0	11.0	11.9	12.0
1999 Q4	7.3	4.7	7.2	7.3
1999 Q3	6.9	4.3	6.2	6.2
1999 Q2	5.2	5.4	5.0	3.9
1999 Q1	5.8	(5.4)	4.9	3.8

Source: U.S. Census Bureau (tax revenue).

2012. However, March is the most important month in the quarter and these early results may not reflect the full quarter.

Personal Income Tax

In the fourth quarter of 2012, personal income tax revenue made up at least a third of total tax revenue in twenty-eight states, and was larger than the sales tax in thirty-three states. Personal income tax revenues rose for the twelfth consecutive quarter, with 10.8 percent growth in the October-December 2012 quarter compared to the same period in 2011. Personal income tax collections were above the recessionary peak for the quarter in nominal terms, ending 18.7 percent higher than in the fourth quarter of 2007.

All regions reported increases in personal income tax collections. The largest growth was in the Far West and Southwest regions, where collections increased by 24.4 and 19.9 percent, respectively, in the fourth quarter of 2012.

Overall, three states reported declines in personal income tax collections; forty states reported growth in personal income tax collections for the quarter with fifteen states reporting double-digit increases. The three states reporting declines in personal income tax collections are Connecticut, Idaho, and Indiana. The largest declines were reported in Connecticut at 4.2 percent. Idaho and Indiana reported declines of 0.8 and 3.1 percent, respectively. In terms of dollar value, the largest increase was reported in California where personal income tax collections grew by $3 billion or 26.7 percent. The large growth in personal income tax collections in California is mostly driven by legislated tax changes. On November 6, 2012, California voters adopted Proposition 30, which increased the personal income tax rate on taxpayers making over $500,000 for a seven-year period that is retroactive to January 1, 2012, through December 31, 2018.

The large increase in personal income tax collections in California as well as in many other states during the fourth quarter of 2012 are at least partially attributable to the acceleration of income into calendar year 2012 by some taxpayers driven by the fear of potential federal tax rate increases.[6]

We can get a clearer picture of collections from the personal income tax by breaking this source down into two major components for which we have data: withholding and quarterly estimated payments. The Census Bureau, the source of much of the data in this report, does not collect data on individual components of personal income tax collections. The data presented here were collected by the Rockefeller Institute.

Withholding

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and is much less volatile than estimated payments or final settlements. Table 3 shows that withholding for the October-

Table 3. Personal Income Tax Withholding, By State

Last Four Quarters (2012), Percent Change

	Jan-Mar	Apr-June	July-Sep	Oct-Dec
United States	**4.4**	**4.8**	**2.7**	**7.8**
New England	**6.1**	**4.1**	**0.8**	**1.2**
Connecticut	12.0	6.9	1.1	(8.7)
Maine	(0.1)	3.0	1.8	1.5
Massachusetts	3.4	3.1	0.6	6.3
Rhode Island	11.5	3.4	1.6	4.5
Vermont	2.5	1.7	(2.9)	4.4
Mid-Atlantic	**(1.5)**	**2.0**	**(0.2)**	**4.0**
Delaware	1.8	4.3	2.7	9.1
Maryland	2.7	6.3	1.9	3.9
New Jersey	4.1	0.8	(5.4)	6.8
New York	(5.2)	(0.0)	(0.4)	3.3
Pennsylvania	4.1	3.6	2.7	3.3
Great Lakes	**9.7**	**7.0**	**4.1**	**7.6**
Illinois	22.7	3.3	2.6	5.1
Indiana	3.5	6.0	8.8	3.7
Michigan	8.1	11.3	9.9	8.3
Ohio	4.9	5.1	5.0	6.6
Wisconsin	(0.6)	11.9	(6.5)	17.1
Plains	**4.5**	**6.0**	**5.2**	**7.4**
Iowa	2.7	6.3	7.2	6.4
Kansas	6.5	8.9	7.3	8.1
Minnesota	5.1	3.4	3.7	7.7
Missouri	3.3	7.5	3.0	6.8
Nebraska	6.0	7.3	9.7	6.9
North Dakota	3.9	7.2	8.4	16.0
Southeast	**4.4**	**5.3**	**3.0**	**5.7**
Alabama	2.1	5.4	6.3	3.4
Arkansas	3.2	4.7	8.0	4.8
Georgia	6.5	4.5	4.2	7.5
Kentucky	3.6	8.7	(1.2)	4.3
Louisiana	(0.0)	5.8	2.7	19.2
Mississippi	5.2	5.8	6.5	3.5
North Carolina	4.7	4.0	4.2	4.9
South Carolina	4.1	2.7	3.9	5.1
Virginia	4.0	6.7	(0.7)	3.8
West Virginia	7.9	8.0	4.1	2.2
Southwest	**4.6**	**2.8**	**1.8**	**5.0**
Arizona	2.6	4.0	2.2	8.5
New Mexico	5.0	(2.1)	1.2	0.2
Oklahoma	7.0	3.5	1.6	2.6
Rocky Mountain	**7.1**	**6.1**	**6.1**	**10.2**
Colorado	7.1	5.4	5.6	10.0
Idaho	(1.0)	4.3	3.5	0.9
Montana	9.4	9.4	7.4	12.9
Utah	10.9	7.3	8.1	14.9
Far West	**7.6**	**5.8**	**4.1**	**17.5**
California	7.8	6.2	4.3	19.3
Hawaii	3.4	(0.4)	4.9	8.6
Oregon	6.8	4.2	2.2	6.0

Source: Individual state data, analysis by Rockefeller Institute.
Note: Nine states — Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no broad-based personal income tax and are therefore not shown in this table.

December 2012 quarter continued to improve, increasing by 7.8 percent for the 41 states with broad-based personal income taxes.

Forty states reported growth in withholding for the fourth quarter of 2012, while Connecticut was the only state showing declines. Among individual states, California and Louisiana reported the strongest growth in the fourth quarter of 2012, at 19.3 and 19.2 percent, respectively. The Far West and Rocky Mountain regions reported the largest growth in withholding at 17.5 and 10.2 percent, respectively, while the New England region reported the weakest growth in withholding at 1.2 percent.

Estimated Payments

The highest-income taxpayers generally make estimated tax payments (also known as declarations) on their income not subject to withholding tax. This income often comes from investments, such as capital gains realized in the stock market. Estimated payments represent a relatively small proportion of overall income-tax revenues — some $8.2 billion, or roughly 12.5 percent of all income-tax revenues, in the fourth quarter of 2012— but can have a disproportionate impact on the direction of overall collections.

The first payment for each tax year is due in April in most states and the second, third, and fourth are generally due in June, September, and January. In the thirty-eight states for which we have complete data for all four payments, the median payment was up by 14.1 percent. The median growth was particularly strong for the fourth payment at 25.2 percent compared to the previous year, up sharply from the 6.7 percent median growth for the first three payments (see Table 4). Declines were recorded in two of thirty-eight states for all four payments, and in three states for the fourth payment.

The strong growth in estimated payments for the fourth payment is not surprising and is not necessarily a sign of improvement in personal income tax revenues. The growth probably is strongly related to federal tax policy and the uncertainty that was tied to the "fiscal cliff." If Congress had not taken any actions to address the "fiscal cliff," tax rates would have risen on several types of income, including capital gains. (And tax rates did end up increasing, although Congressional action muted those

Table 4. Estimated Payments/Declarations, By State

Year-Over-Year Percent Change

State	April-January (all four payments of 2012)	December-January (fourth payment of 2012)
Average (Mean)	**14.5**	**28.9**
Median	**14.1**	**25.2**
Alabama	21.0	41.0
Arizona	6.6	(0.3)
Arkansas	21.0	41.4
California	56.6	126.9
Colorado	15.8	28.9
Connecticut	21.3	36.0
Delaware	12.2	23.3
Georgia	0.4	17.4
Hawaii	10.9	(61.8)
Illinois	24.1	46.3
Indiana	8.7	20.5
Iowa	28.7	56.4
Kansas	15.5	23.8
Kentucky	(1.1)	30.0
Louisiana	11.3	41.8
Maine	17.9	46.0
Maryland	13.8	29.0
Massachusetts	10.4	24.1
Michigan	21.0	34.2
Minnesota	15.7	26.7
Mississippi	21.4	62.9
Missouri	10.0	21.2
Montana	18.5	50.4
Nebraska	19.7	35.9
New Jersey	9.7	24.0
New York	4.7	22.0
North Carolina	11.5	22.7
North Dakota	22.1	72.5
Ohio	10.3	20.8
Oklahoma	15.2	13.9
Oregon	7.6	27.7
Pennsylvania	14.0	17.7
Rhode Island	(2.2)	2.6
South Carolina	15.9	26.3
Vermont	16.5	14.8
Virginia	5.5	14.0
West Virginia	5.2	(1.2)
Wisconsin	14.2	17.8

Source: Individual state data, analysis by Rockefeller

increases.) Therefore, it is likely that many taxpayers accelerated the realization of some income, such as capital gains, from later years into tax year 2012. The strong growth in the December- January estimated payments is a significant indicator that income was accelerated into tax year 2012. The uncertain implications of this acceleration for payments in April and in later years creates a further burden for states trying to make accurate projections of personal income taxes in the coming quarters.

Final Payments

Final payments with personal income tax returns in the thirty-eight early reporting states were up by 11.7 percent in the fourth quarter of 2012 compared to the same quarter of 2011, but were down by 0.9 percent compared to the same quarter of 2008. Payments with returns in the October-December quarter of 2012 exceeded 2011 levels in twenty-eight of thirty-eight reporting states.

Refunds

Personal income tax refunds paid by thirty-eight states declined by 2.9 percent in the fourth quarter of 2012 compared to the same quarter of 2011. In total, these thirty-eight early reporting states paid out about $141 million less in refunds in the October-December quarter of 2012 than in 2011. Overall, twenty-two of thirty-eight states paid out more refunds while sixteen states paid out less refunds in the fourth quarter of 2012 compared to the same quarter of 2011.

General Sales Tax

State sales tax collections in the October-December 2012 quarter showed growth of 2.7 percent from the same period in 2011. This is the twelfth quarter in a row that sales tax collections rose. Increases in collections were reported during the fourth quarter in all regions but the Plains and Great Lakes, where receipts declined by 5.2 and 2.0 percent, respectively. The Southwest and New England regions reported the largest increases in sales tax collections at 9.0 and 6.0 percent, respectively.

Thirty-seven of forty-five states with broad-based sales taxes reported growth in collections for the quarter; four states reported double-digit gains. North Dakota and Connecticut reported the largest growth at 22.8 and 16.5 percent, respectively. Eight states

reported declines in sales tax collections in the fourth quarter of 2012, with Minnesota and Michigan reporting the largest declines at 29.1 and 16.1 percent, respectively.

Despite twelve consecutive quarters of growth, state sales tax revenues are at the same level in the fourth quarter of 2012 as they were in the same quarter five years ago. If we adjust the numbers for inflation, sales tax receipts show a 7.9 percent decline in the fourth quarter of 2012 compared to the same quarter of 2007.

Corporate Income Tax

Corporate income tax revenue is highly variable because of volatility in corporate profits and in the timing of tax payments. Many states, such as Delaware, Hawaii, Montana, Rhode Island, and Vermont, collect relatively little revenue from corporate taxes, and can experience large fluctuations in percentage terms. For all these reasons, there is often significant variation in states' gains or losses for this tax.

Corporate tax revenue increased by 1.2 percent in the fourth quarter of 2012 compared to a year earlier. Three regions — the Far West, Southwest, and New England — reported declines in corporate income tax collections in the fourth quarter of 2012. The rest of the regions reported growth in corporate income tax collections, with the Plains region reporting the largest growth at 39.5 percent.

Among forty-six states that have a corporate income tax, twenty-nine reported growth, with twenty-two enjoying double-digit gains. Seventeen states reported declines for the fourth quarter of 2012 compared to the same quarter of the previous year, of which eleven states reported double-digit declines. The largest declines in terms of dollar value were reported in California, where corporate income tax collections fell by $0.7 billion or 41.8 percent. The decline in California is partially due to changes in Corporation Tax Law, which reduced the number of required estimated payments from four to three and eliminated the third estimated payment due in September. If we exclude California, corporate income tax collections show a growth of 12.6 percent for the nation in the fourth quarter of 2012.

Other Taxes

Census Bureau quarterly data on state tax collections provide detailed information for some of the smaller taxes not broken out separately in the data collected by the Rockefeller Institute. In Table 5, we show four-quarter moving average real growth rates for the nation as a whole.

Revenues from smaller tax sources showed a mixed picture. The motor fuel sales tax, the most significant of the smaller taxes, showed negligible decline for the nation, which is the third consecutive quarter decline. State property taxes, a relatively small revenue source for states, fell by 5.3 percent and revenues from tobacco product sales taxes declined by 2.8 percent. Gains of 2.4 and

Table 5. Real Percent Change in State Taxes Other Than PIT, CIT, and General Sales Taxes

Year-Over-Year Real Percent Change; Four-Quarter Moving Averages

	Property tax	Motor fuel sales tax	Tobacco product sales tax	Alcoholic beverage sales tax	Motor vehicle & operators license taxes	Other taxes
Nominal collections (mlns), latest 12 months	$12,883	$41,348	$17,101	$5,978	$25,286	$126,321
2012Q4	(5.3)	(0.0)	(2.8)	2.4	1.8	1.5
2012Q3	(10.0)	(0.3)	(3.7)	3.4	2.8	3.4
2012Q2	(10.6)	(1.3)	(2.6)	2.9	3.1	5.4
2012Q1	(9.0)	0.1	(2.7)	0.6	2.1	7.6
2011Q4	(9.3)	2.8	(1.9)	(0.6)	1.8	11.5
2011Q3	(5.8)	5.6	(1.0)	0.4	0.3	11.9
2011Q2	(2.1)	8.6	0.6	1.5	1.5	12.2
2011Q1	0.3	8.1	2.6	3.1	3.2	9.2
2010Q4	5.9	5.2	3.0	3.1	3.9	7.2
2010Q3	11.0	2.3	2.1	2.9	5.5	4.2
2010Q2	11.1	0.5	0.4	2.0	3.7	(2.5)
2010Q1	9.8	(0.8)	(1.2)	0.7	1.4	(9.2)
2009Q4	6.0	(2.0)	(1.6)	0.5	0.1	(13.7)
2009Q3	(0.7)	(3.3)	0.3	(0.0)	(1.3)	(13.4)
2009Q2	(2.2)	(5.5)	1.1	(0.3)	(1.1)	(6.9)
2009Q1	(3.9)	(6.1)	2.4	0.2	(0.6)	3.7
2008Q4	(3.1)	(5.1)	2.9	0.2	(1.3)	7.2
2008Q3	1.6	(3.6)	3.3	(0.3)	(0.8)	9.6
2008Q2	3.2	(1.9)	5.7	0.3	(0.5)	7.5
2008Q1	3.9	(1.4)	6.0	0.4	(1.2)	3.1
2007Q4	3.3	(1.9)	5.9	0.4	(0.6)	2.1
2007Q3	1.3	(0.9)	3.8	1.5	(1.0)	(0.5)
2007Q2	(0.3)	(1.3)	0.3	1.3	(1.0)	(1.4)
2007Q1	1.7	(0.1)	1.5	0.5	0.4	(1.1)
2006Q4	0.1	0.7	2.6	1.0	0.9	(0.4)
2006Q3	(0.3)	(1.1)	5.3	1.1	0.8	2.0
2006Q2	(0.1)	1.4	8.9	1.1	0.7	4.2
2006Q1	0.8	1.5	6.9	2.5	0.1	5.2
2005Q4	1.9	2.1	5.4	1.6	0.3	7.1
2005Q3	3.4	3.6	4.2	(0.2)	1.9	6.3
2005Q2	3.5	0.9	2.1	(0.6)	2.7	4.9
2005Q1	1.7	1.4	2.9	(2.4)	3.6	5.7
2004Q4	(4.9)	1.6	3.6	(1.4)	5.6	6.0
2004Q3	(2.3)	1.5	3.6	0.0	6.0	7.6
2004Q2	3.6	2.1	4.8	0.5	6.6	9.0
2004Q1	1.0	0.4	10.5	4.3	5.5	7.5
2003Q4	8.6	(1.0)	17.0	3.9	3.9	5.6
2003Q3	5.6	(1.2)	26.2	2.2	2.8	3.8
2003Q2	(1.1)	(0.4)	35.7	3.1	2.6	2.6
2003Q1	(5.0)	0.7	27.1	0.6	3.6	2.2
2002Q4	(4.8)	1.0	17.2	(0.1)	2.9	2.1
2002Q3	(6.7)	0.7	5.6	2.7	2.5	2.6
2002Q2	(4.4)	1.1	(5.9)	(0.2)	0.6	3.4
2002Q1	5.1	1.7	(5.0)	(0.2)	(1.2)	2.1
2001Q4	2.7	2.5	(1.5)	0.5	(2.9)	2.5
2001Q3	(0.3)	3.5	2.6	(1.4)	(3.3)	1.5
2001Q2	(5.0)	2.5	7.6	1.7	(0.7)	0.9
2001Q1	(12.6)	1.2	8.4	1.4	2.4	3.6
2000Q4	(11.1)	1.2	5.9	1.8	5.9	4.2
2000Q3	(4.1)	1.3	1.7	3.2	6.9	6.5
2000Q2	(2.6)	1.2	(1.3)	2.2	5.9	7.9
2000Q1	2.5	2.3	(4.5)	3.2	3.0	4.7

Source: U.S. Census Bureau.

1.8 percent were reported for alcoholic beverage sales tax and revenue from motor vehicle and operators' licenses, respectively.

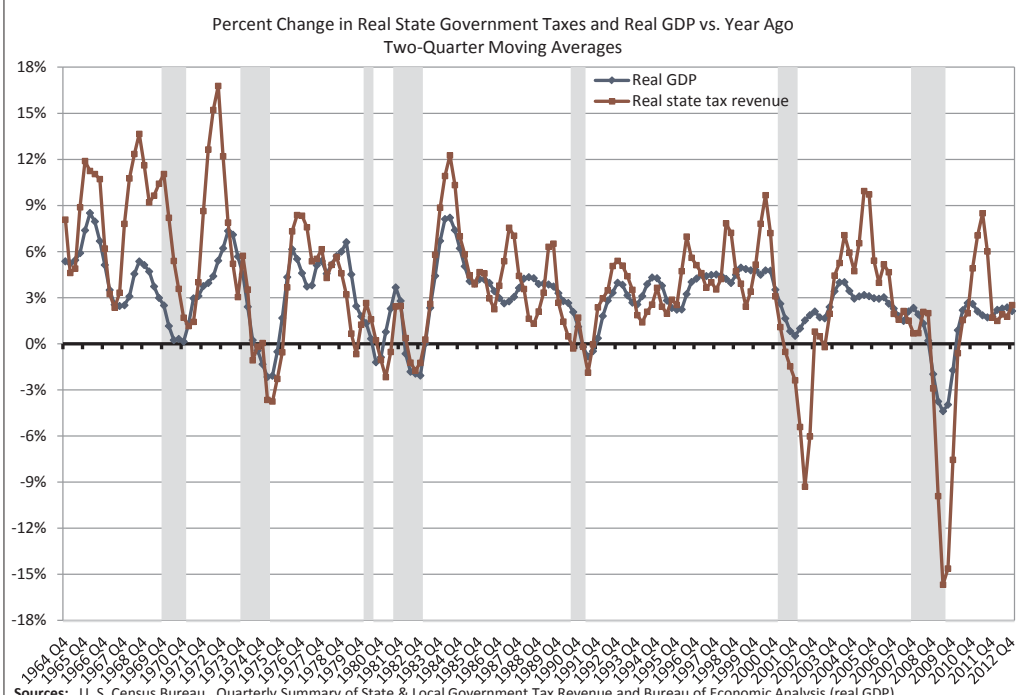
Underlying Reasons for Trends

State revenue changes result from three kinds of underlying forces: state-level changes in the economy (which often differ from national trends), the different ways in which economic changes affect each state's tax system, and legislated tax changes. The next two sections discuss the economy and recent legislated changes.

Economic Changes

Most state tax revenue sources are heavily influenced by the economy. The income tax rises when income rises, the sales tax generates more revenue when consumers increase their purchases of taxable items, and so on. When the economy booms, tax revenue tends to rise rapidly, and when it declines, tax revenue tends to decline. Figure 4 shows year-over-year growth for two-quarter moving averages in inflation-adjusted state tax revenue and in real gross domestic product, to smooth short-term fluctuations and illustrate

Figure 4. State Tax Revenue Is More Volatile Than the Economy



Sources: U. S. Census Bureau , Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (real GDP).
Notes: (1) Percentage changes averaged over 2 quarters; (2) No legislative adjustments; (3) Recession periods are shaded.

the interplay between the economy and state revenues.

Tax revenue is related to economic growth. As shown in Figure 4, in the fourth quarter of 2012 real state tax revenue showed 2.5 percent growth on this moving-average basis. This was the eleventh consecutive quarter of growth. Real Gross Domestic Product (GDP) showed growth for the twelfth consecutive quarter at 2.1 percent. Growth in Real GDP is now slightly stronger than the 1.8 percent growth reported in the fourth quarter of 2011.

Yet there is volatility in tax revenue that is not explained by real GDP, a broad measure of the economy. Throughout 2011, state tax revenue has risen significantly while the overall economy has been growing at a relatively slow pace in the wake of the Great Recession. Also, in much of 2009 and 2010, state revenue declines were much larger than the quarterly reductions in real GDP. Thus, although the growth rate in state tax revenues is not far from the growth rate in the overall economy in 2012, state tax revenues have been more volatile than the general economy in prior years.

Durable goods consumption, an important element of state sales tax bases, showed an increase of 8.3 percent in the fourth quarter of 2012 relative to the same quarter a year ago. The growth in durable goods was considerably stronger compared to the 5.9 growth reported in the same quarter of 2011. A 1.1 percent growth was reported in consumption of services, an important sector that comprises nearly 50 percent of total real GDP.[7] However, the 1.1 percent growth was moderately slower compared to the 1.5 percent growth reported in the same quarter of 2011.

State-by-state data on income and consumption are not available on a timely basis, and so we cannot easily see variation across the country in these trends. Instead, like other researchers, the Rockefeller Institute relies partly on employment data from the Bureau of Labor Statistics to examine state-by-state economic conditions. These data are relatively timely and are of high quality. Table 6 shows year-over-year employment growth over the last

Table 6. Nonfarm Employment, By State

Last Four Quarters (2012), Year-Over-Year Percent Change

	Jan-March	*April-June*	*July-Sep*	*Oct-Dec*
United States	**1.7**	**1.6**	**1.6**	**1.6**
New England	**1.3**	**1.1**	**1.0**	**0.9**
Connecticut	1.2	0.8	0.7	0.7
Maine	0.5	1.1	0.3	0.0
Massachusetts	1.7	1.4	1.2	1.2
New Hampshire	0.8	0.8	1.4	0.8
Rhode Island	1.2	0.7	0.8	0.4
Vermont	1.2	0.9	1.3	1.3
Mid-Atlantic	**1.3**	**1.1**	**1.1**	**0.9**
Delaware	0.1	(0.1)	0.3	0.7
Maryland	1.4	1.2	1.1	1.3
New Jersey	1.3	1.2	1.2	1.3
New York	1.6	1.3	1.2	1.0
Pennsylvania	1.0	0.7	0.7	0.5
Great Lakes	**1.8**	**1.7**	**1.4**	**1.2**
Illinois	1.3	1.1	1.1	1.3
Indiana	2.4	2.0	2.3	1.9
Michigan	2.6	2.1	1.6	1.0
Ohio	1.9	2.0	1.3	0.9
Wisconsin	1.0	1.2	0.8	0.7
Plains	**1.7**	**1.4**	**1.4**	**1.3**
Iowa	1.7	1.5	1.4	1.4
Kansas	1.7	1.4	1.2	1.2
Minnesota	1.8	1.5	1.3	1.2
Missouri	0.7	0.1	0.5	0.7
Nebraska	1.7	1.5	1.6	0.9
North Dakota	8.5	9.3	8.7	6.8
South Dakota	1.8	1.9	1.5	1.2
Southeast	**1.6**	**1.5**	**1.3**	**1.5**
Alabama	0.6	0.8	0.6	0.7
Arkansas	1.3	0.9	0.1	0.2
Florida	1.7	1.9	2.0	1.9
Georgia	1.4	1.2	1.2	1.6
Kentucky	2.0	1.8	1.5	1.2
Louisiana	1.2	1.5	0.8	1.5
Mississippi	0.8	0.7	0.9	1.4
North Carolina	1.7	1.8	1.7	2.1
South Carolina	1.6	1.2	1.1	1.8
Tennessee	2.4	2.2	1.7	1.8
Virginia	1.3	1.1	0.9	1.0
West Virginia	2.5	1.5	0.6	0.3
Southwest	**2.5**	**2.4**	**2.4**	**2.7**
Arizona	2.0	1.9	2.2	2.0
New Mexico	0.3	(0.1)	(0.2)	0.4
Oklahoma	2.5	2.0	1.6	1.5
Texas	2.7	2.7	2.8	3.2
Rocky Mountain	**2.4**	**2.5**	**2.4**	**2.5**
Colorado	2.2	2.1	2.3	2.6
Idaho	1.9	1.8	1.7	1.9
Montana	2.0	2.2	2.2	2.2
Utah	3.1	3.7	3.4	3.6
Wyoming	2.0	1.5	0.2	(0.2)
Far West	**1.6**	**1.9**	**2.1**	**2.1**
Alaska	1.8	1.9	1.2	0.8
California	1.8	2.1	2.3	2.2
Hawaii	1.4	2.0	2.2	2.1
Nevada	1.2	1.4	1.6	2.1
Oregon	1.0	1.1	1.3	1.1
Washington	1.4	1.6	1.7	1.9

Source: Bureau of Labor Statistics (CES, seasonally unadjusted).

four quarters. For the nation as a whole, employment grew for the tenth quarter in a row — by 1.6 percent relative to the previous year — in the October-December quarter of 2012. On a year-over-year basis, employment grew in all states but Wyoming. North Dakota reported the largest growth at 6.8 percent followed by Utah and Texas where employment grew by 3.6 and 3.2 percent, respectively, in the fourth quarter of 2012. In total, ten states reported growth of over 2.0 percent.

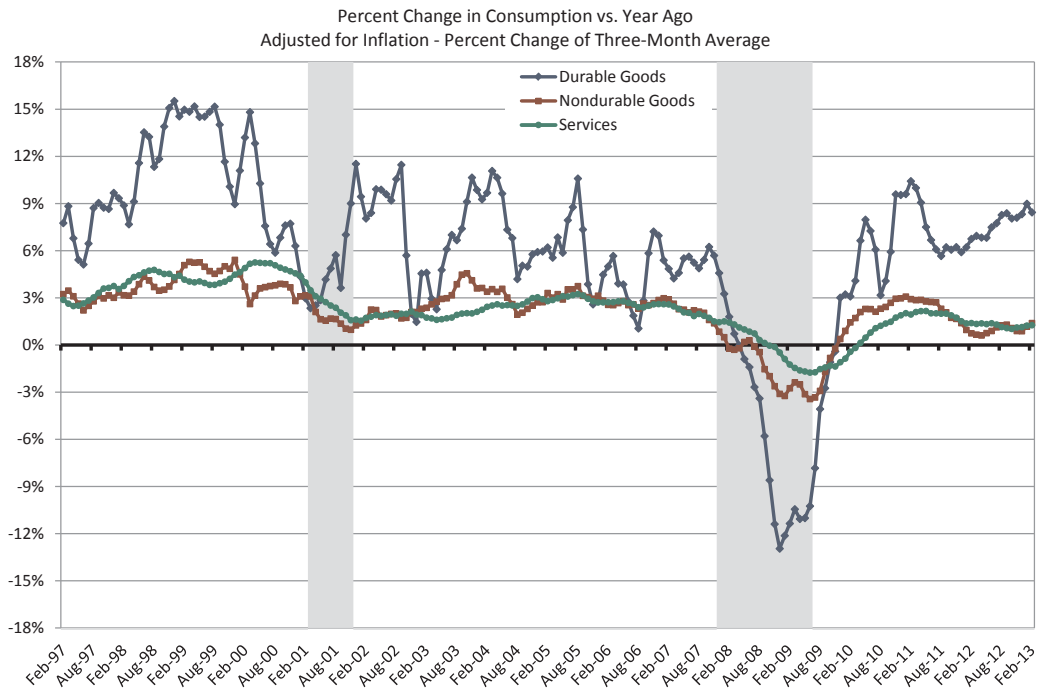
All regions reported growth in employment in the fourth quarter of 2012, but job gains are not evenly distributed among the regions. The New England and Mid-Atlantic regions reported the weakest growth in employment at 0.9 percent each. The Southwest region reported the largest increase in employment at 2.7 percent followed by the Rocky Mountain region reporting 2.5 percent growth. These employment data are compared to the same period a year ago rather than to preceding months.

Economists at the Philadelphia Federal Reserve Bank developed broader and highly timely measures known as "coincident economic indexes" intended to provide information about current economic activity in individual states. Unlike leading indexes, these measures are not designed to predict where the economy is headed; rather, they are intended to tell us where we are now.[8] These indexes can be used to measure the scope of economic decline or growth.

The analysis of coincident indexes indicates that as of February 2013, economic activity nationwide increased by 0.7 percent compared to three months earlier and by 2.8 percent compared to a year earlier. At the state level, forty-six states reported growth in economic activity compared to three months earlier, while four states reported decline.

The number of states reporting declines in economic activity has declined considerably since July 2012. In the month of July 2012, twelve states reported

Figure 5. Consumption of Services Is Relatively Stagnant

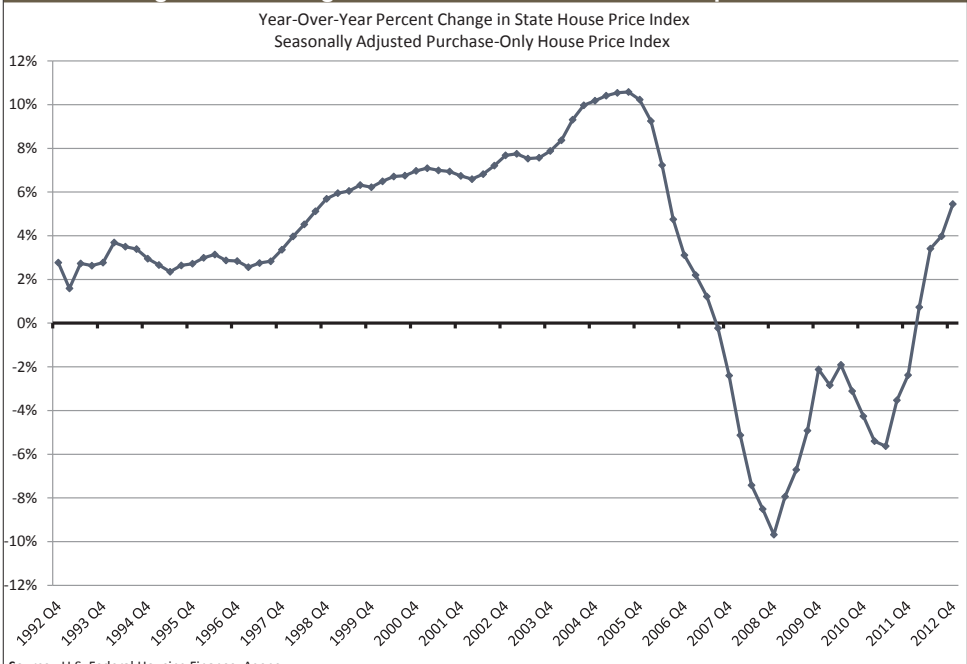


Source: U. S. Bureau of Economic Analysis , National Income and Product Accounts, Table 2.8.6.

declines in economic activity. The number of states reporting declines in economic activity decreased to eight in the month of August, to five in September. The data underlying these indexes are subject to revision, and so tentative conclusions drawn now could change at a later date.

Figure 5 shows national consumption of durable goods, nondurable goods, and services—factors likely to be related to sales tax revenues. The decline in consumption of durable and nondurable goods during the recent downturn was much sharper than in the last recession. Consumption of services remained relatively stagnant in the last few months. Growth in the consumption of nondurable goods was relatively modest in the last three months.

Figure 6. Housing Price Index Shows Continued Improvement



Source: U.S. Federal Housing Finance Agency.

Figure 6 shows the year-over-year percent change in the federal government's seasonally adjusted, purchase-only house price index from 1992 through the fourth quarter of 2012. Declines in housing prices usually lead to declines in property taxes with some lag. The deep declines in housing prices caused by the Great Recession led to significant reductions in property taxes in the past two years.[9] As Figure 6 shows, the trend in housing prices has been downward since mid-2005, with steeply negative

movement from the last quarter of 2005 through the end of 2008. Housing prices strengthened in 2009 and the first half of 2010, but the direction of change shifted downward from the second half of the 2010 to the first half of 2011. However, the trend has been upward since the second half of 2011, and showed growth of 5.5 percent in the fourth quarter of 2012. This is the fourth consecutive quarter growth and is proceeding after eighteen consecutive quarter declines, which is highly encouraging.

Tax Law Changes Affecting This Quarter

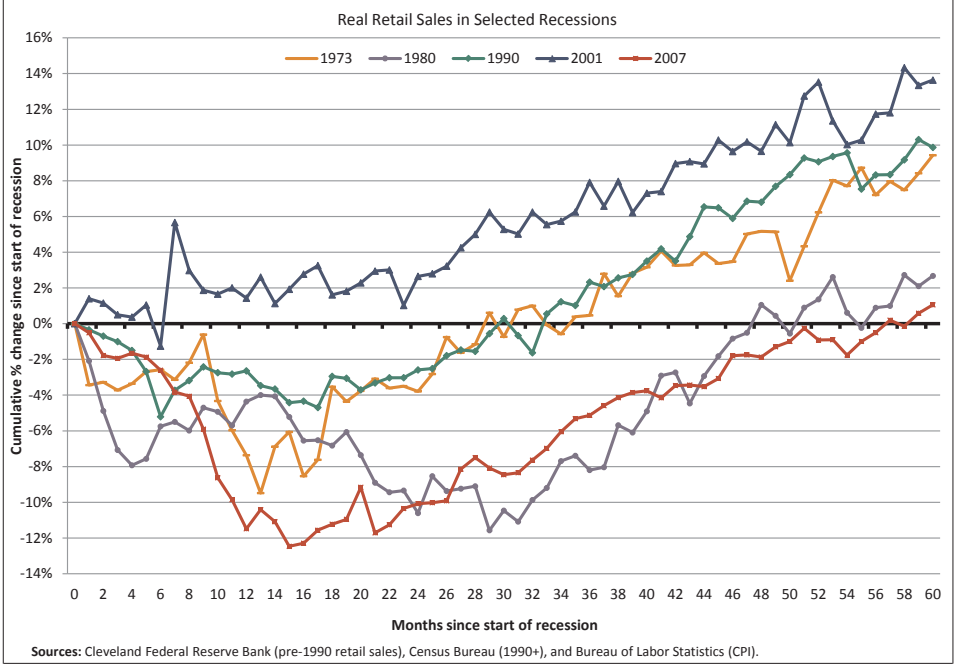
Another important element affecting trends in tax revenue growth is changes in states' tax laws. During the October-December 2012 quarter, enacted tax increases and decreases produced an estimated gain of $1.7 billion compared to the same period in 2011.[10] Enacted tax changes increased personal income tax for approximately $1.5 billion, decreased sales tax by $212 million, decreased corporate income taxes by $22 million and decreased some other taxes by $69 million.

Among the enacted tax changes, the most noticeable ones are the increase of personal income tax rates in California for higher income taxpayers, the restructuring of personal income tax brackets in New York, and temporary sales tax increases in Arizona and California.

The Impact of Two Major Taxes

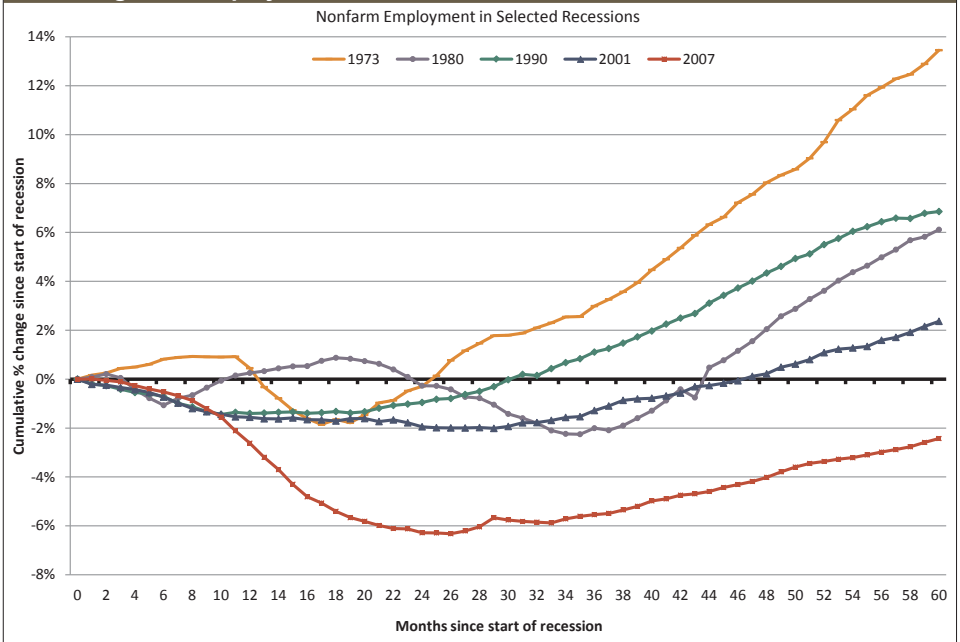
States rely on the sales tax for about 30 percent of their tax revenue, and it was hit far harder during and after the last recession than in previous recessions. Retail sales and consumption are major drivers of sales taxes. Figure 7 shows the cumulative percentage change in inflation-adjusted retail sales in the sixty months following the start of each recession from 1973 forward.[11] Real retail sales in the Great Recession (the solid red line) plummeted after December 2007, falling sharply and almost continuously until December 2008, by which point they were more than 10 percent below the prerecession peak. This was deeper than in most recessions, although the declines in the 1973 and 1980 recessions also were quite sharp. While real retail sales have been rising from their lows

Figure 7. Real Retail Sales Are Now Above the Prerecession Levels



Sources: Cleveland Federal Reserve Bank (pre-1990 retail sales), Census Bureau (1990+), and Bureau of Labor Statistics (CPI).

Figure 8. Employment Is Still 2.4 Percent Below the Prerecession Level



Source: Bureau of Labor Statistics (CES, seasonally adjusted).

for more than two years now, at the end of December they were only slightly above the prerecession levels.

States on average count on the income tax for about 36 percent of their tax revenue. Employment and associated wage payments are major drivers of income taxes. Figure 8 shows the cumulative percentage change in nonfarm employment for the nation as a whole in the sixty months following the start of each recession from 1973 forward.[12] The last point for the 2007 recession is December 2012, month sixty. As the graph shows, the 2.4 percent employment drop as of December 2012 is still far worse than declines seen in and around previous recessions. The trends depicted in Figure 8 suggest that, unless the pace of growth accelerates, it may take several years before employment attains its prerecession peak.

Looking Ahead

Preliminary data for the January-February months of 2013 suggest that tax conditions continued to improve further in the first quarter of 2013, although some of the growth, particularly in personal income tax revenues, may be artificially boosted at the expense of later years. With early data for January-February 2013 now available for forty-five states, tax revenue increased by 12.9 percent compared to the same months of the previous year. According to the preliminary data, personal income tax collections grew by 23.6 percent and sales tax collections by 8.3 percent. Income tax growth in January-February is likely to have been influenced by the acceleration discussed earlier, given that taxpayers make estimated payments in January in many states.

Starting at the end of calendar year 2008 and extending through 2009, states suffered five straight quarters of decline in tax revenues. They now have enjoyed twelve consecutive quarters of growth. Overall, tax revenues across the states are improving but states continue to face significant long-term fiscal challenges.

State tax revenues are recovering, but not as quickly as the broader economy is improving. This reflects the fact that states do not tax the broad economy: their tax systems are much more reliant on narrower and more volatile forms of economic activity —

Table 7. State Tax Revenue, October-December, 2011 and 2012 ($ in millions)

	October-December 2011				October-December 2012			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**63,814**	**8,478**	**59,607**	**184,880**	**70,713**	**8,583**	**61,187**	**194,508**
New England	**5,185**	**627**	**2,710**	**11,132**	**5,294**	**613**	**2,873**	**11,567**
Connecticut	1,686	106	889	3,534	1,615	48	1,036	3,581
Maine	364	56	262	933	374	34	265	948
Massachusetts	2,727	320	1,262	5,144	2,872	347	1,270	5,379
New Hampshire	3	115	NA	414	8	124	NA	477
Rhode Island	265	11	211	614	277	29	218	655
Vermont	139	19	86	493	148	30	84	527
Mid-Atlantic	**14,766**	**2,124**	**8,291**	**33,913**	**15,629**	**2,378**	**8,340**	**35,026**
Delaware	262	44	NA	662	289	61	NA	706
Maryland	1,995	166	1,001	4,159	2,034	152	1,013	4,375
New Jersey	2,384	494	1,976	6,206	2,551	460	1,951	6,116
New York	7,888	1,132	3,035	16,030	8,425	1,191	3,041	16,576
Pennsylvania	2,237	289	2,279	6,856	2,330	515	2,336	7,253
Great Lakes	**9,768**	**1,226**	**9,208**	**28,712**	**10,527**	**1,368**	**9,023**	**29,219**
Illinois	3,181	639	2,040	8,177	3,436	891	2,103	8,719
Indiana	1,070	221	1,594	3,661	1,037	270	1,633	3,697
Michigan	1,716	197	2,438	6,570	1,870	14	2,046	6,138
Ohio	2,099	10	2,073	6,311	2,231	5	2,154	6,378
Wisconsin	1,701	160	1,062	3,993	1,953	188	1,087	4,287
Plains	**4,950**	**483**	**4,074**	**13,848**	**5,404**	**674**	**3,862**	**14,272**
Iowa	767	81	580	1,879	842	118	610	2,047
Kansas	667	59	700	1,762	785	103	721	1,924
Minnesota	1,861	228	1,197	5,048	1,982	284	848	4,955
Missouri	1,164	29	736	2,486	1,258	59	751	2,633
Nebraska	412	41	360	1,014	431	67	359	1,050
North Dakota	80	41	283	1,282	105	38	348	1,288
South Dakota	NA	4	219	377	NA	5	225	374
Southeast	**12,003**	**1,545**	**14,066**	**38,840**	**12,883**	**1,770**	**14,585**	**40,959**
Alabama	701	99	560	2,182	723	68	581	2,178
Arkansas	588	70	689	2,241	620	71	702	2,283
Florida	NA	397	4,595	7,991	NA	531	4,897	8,541
Georgia	2,225	126	1,244	4,177	2,404	122	1,270	4,385
Kentucky	843	133	743	2,676	911	143	751	2,808
Louisiana	596	8	696	1,987	734	17	722	2,208
Mississippi	366	58	727	1,667	473	60	760	1,837
North Carolina	2,687	226	1,316	5,552	2,797	203	1,361	5,807
South Carolina	976	43	686	2,110	1,060	73	723	2,298
Tennessee	5	220	1,654	2,616	10	214	1,701	2,810
Virginia	2,625	137	840	4,412	2,743	206	813	4,495
West Virginia	390	29	317	1,229	407	62	303	1,309
Southwest	**1,889**	**290**	**8,203**	**16,726**	**2,264**	**274**	**8,938**	**18,262**
Arizona	874	149	1,131	2,877	964	119	1,180	3,021
New Mexico	314	53	504	1,343	551	42	519	1,562
Oklahoma	702	87	592	2,085	749	112	633	2,141
Texas	NA	NA	5,977	10,421	NA	NA	6,606	11,538
Rocky Mountain	**2,217**	**207**	**1,475**	**5,799**	**2,497**	**265**	**1,558**	**6,137**
Colorado	1,122	109	555	2,444	1,261	131	594	2,631
Idaho	306	38	296	802	303	35	324	850
Montana	215	33	NA	610	247	41	NA	643
Utah	574	27	442	1,349	686	59	460	1,508
Wyoming	NA	NA	182	594	NA	NA	180	505
Far West	**13,037**	**1,975**	**11,580**	**35,910**	**16,215**	**1,242**	**12,007**	**39,065**
Alaska	NA	137	NA	1,419	NA	90	NA	1,553
California	11,272	1,773	7,513	25,746	14,276	1,032	7,676	28,067
Hawaii	362	(25)	628	1,257	433	6	691	1,426
Nevada	NA	NA	839	1,504	NA	NA	877	1,596
Oregon	1,403	90	NA	2,015	1,505	114	NA	2,131
Washington	NA	NA	2,600	3,969	NA	NA	2,763	4,291

Source: U.S. Census Bureau.

Table 8. Quarterly Tax Revenue By Major Tax
October-December, 2011 to 2012, Percent Change

	PIT	CIT	Sales	Total
United States	**10.8**	**1.2**	**2.7**	**5.2**
New England	**2.1**	**(2.2)**	**6.0**	**3.9**
Connecticut	(4.2)	(54.4)	16.5	1.3
Maine	2.7	(39.6)	1.2	1.6
Massachusetts	5.3	8.4	0.6	4.6
New Hampshire	144.2	7.5	NA	15.5
Rhode Island	4.3	170.0	3.2	6.5
Vermont	7.1	63.5	(1.5)	6.8
Mid-Atlantic	**5.8**	**11.9**	**0.6**	**3.3**
Delaware	10.3	38.9	NA	6.6
Maryland	2.0	(8.4)	1.2	5.2
New Jersey	7.0	(6.9)	(1.3)	(1.4)
New York	6.8	5.2	0.2	3.4
Pennsylvania	4.2	78.0	2.5	5.8
Great Lakes	**7.8**	**11.6**	**(2.0)**	**1.8**
Illinois	8.0	39.4	3.1	6.6
Indiana	(3.1)	22.2	2.5	1.0
Michigan	9.0	(92.6)	(16.1)	(6.6)
Ohio	6.3	(51.5)	3.9	1.1
Wisconsin	14.8	17.6	2.3	7.4
Plains	**9.2**	**39.5**	**(5.2)**	**3.1**
Iowa	9.9	45.3	5.2	8.9
Kansas	17.7	74.6	3.0	9.2
Minnesota	6.5	24.8	(29.1)	(1.8)
Missouri	8.1	101.8	2.0	5.9
Nebraska	4.6	63.4	(0.4)	3.5
North Dakota	31.7	(6.8)	22.8	0.5
South Dakota	NA	9.8	3.0	(0.6)
Southeast	**7.3**	**14.5**	**3.7**	**5.5**
Alabama	3.2	(30.7)	3.8	(0.2)
Arkansas	5.5	2.2	1.8	1.8
Florida	NA	33.6	6.6	6.9
Georgia	8.0	(3.2)	2.1	5.0
Kentucky	8.1	7.6	1.2	4.9
Louisiana	23.0	109.5	3.8	11.1
Mississippi	29.1	2.8	4.6	10.2
North Carolina	4.1	(10.1)	3.4	4.6
South Carolina	8.6	67.7	5.4	8.9
Tennessee	98.0	(2.4)	2.8	7.4
Virginia	4.5	50.3	(3.2)	1.9
West Virginia	4.3	116.0	(4.1)	6.6
Southwest	**19.9**	**(5.5)**	**9.0**	**9.2**
Arizona	10.3	(20.1)	4.4	5.0
New Mexico	75.7	(20.7)	3.0	16.3
Oklahoma	6.7	28.7	7.0	2.7
Texas	NA	NA	10.5	10.7
Rocky Mountain	**12.7**	**27.9**	**5.6**	**5.8**
Colorado	12.4	19.8	7.0	7.6
Idaho	(0.8)	(8.8)	9.5	6.0
Montana	14.9	24.1	NA	5.3
Utah	19.5	115.9	3.9	11.8
Wyoming	NA	NA	(0.9)	(14.9)
Far West	**24.4**	**(37.1)**	**3.7**	**8.8**
Alaska	NA	(34.3)	NA	9.5
California	26.7	(41.8)	2.2	9.0
Hawaii	19.5	(125.7)	10.0	13.4
Nevada	NA	NA	4.6	6.1
Oregon	7.3	26.6	NA	5.8
Washington	NA	NA	6.3	8.1

Source: U.S. Census Bureau.

and forms that, in this environment, have not been recovering as quickly as the broad economy.

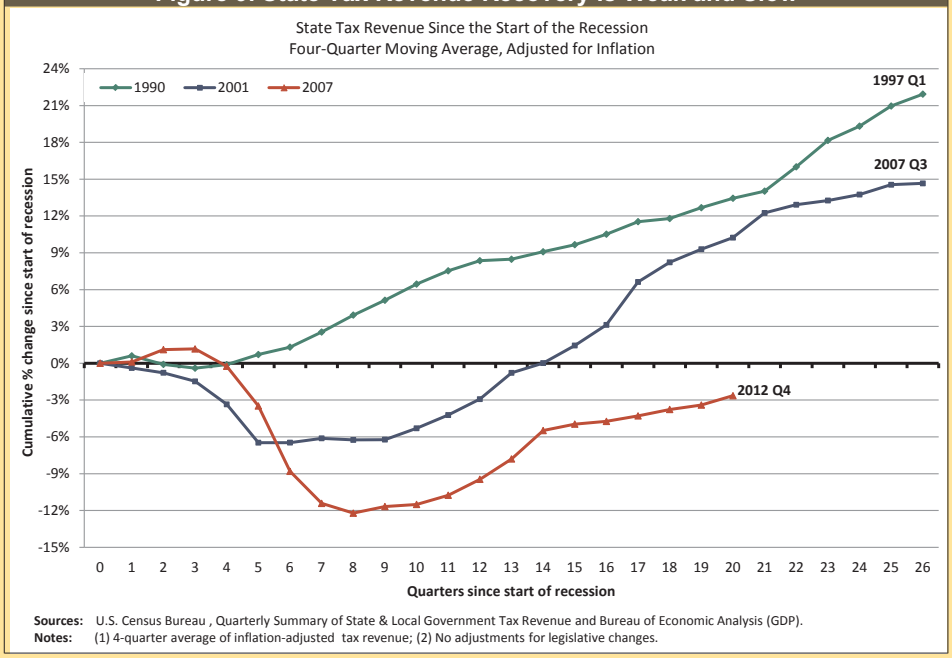
State tax revenues became more volatile in the last decade. Moreover, the temporary solutions to address budget shortfalls caused by the Great Recession, might have contributed to further growth of revenue volatility. In addition, federal actions related to the "fiscal cliff" and sequestration would likely increase state tax revenue volatility. States should revisit the composition of their tax structures and consider broadening tax bases to achieve more predictable and less volatile tax revenues.

Where Do We Stand Now?

As we have noted in prior revenue reports, state tax revenue has begun to recover slowly and has now grown on a year-over-year basis for twelve consecutive quarters. This certainly is good news, but sometimes it is interpreted as meaning that state finances have recovered almost fully, and that is not correct.

States suffered dramatic declines in all major taxes. Figure 9 shows the cumulative percentage change in state tax revenue since the start of each of the last three recessions, after adjusting for inflation and smoothing the data by averaging over four quarters. State tax revenues declined insignificantly during the 1990 recession and much more substantially during the 2001 recession. However, the impact of the Great Recession on state tax revenue collections was much worse. Nearly five years after the start of the Great Recession, state tax revenues remain below prerecession levels. The decline in state tax revenues was much deeper and longer and the recovery has been much slower.

Figure 9. State Tax Revenue Recovery Is Weak and Slow



Sources: U.S. Census Bureau , Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (GDP).
Notes: (1) 4-quarter average of inflation-adjusted tax revenue; (2) No adjustments for legislative changes.

Figure 10 shows the same thing for state sales tax collections. The sales tax remains 5.9 percent below its level at the start of the recession. Consumer spending, particularly on taxable goods, has recovered weakly. As a result, sales tax collections have been relatively stagnant in the last year.

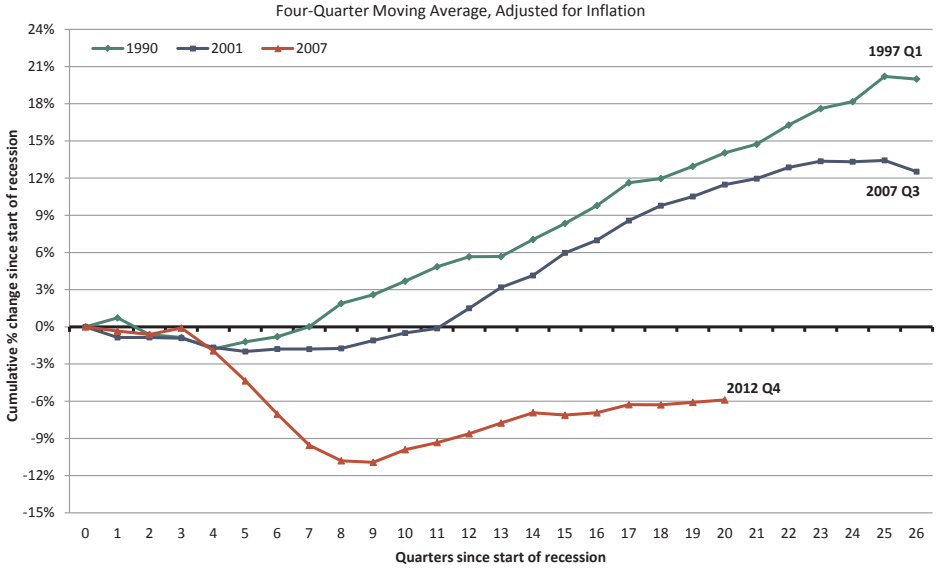
Figure 11 repeats the analysis for state personal income tax collections. The personal income tax has recovered substantially from its lowest level, but is still about 3.3 percent below where it was at the start of the recession. Its recovery is in part an artifact of large tax increases imposed in several states, particularly California, Illinois, and New York; without those increases it would look weaker still.

Figure 12 repeats the analysis for corporate income tax collections. Corporate income tax revenue fell, from the start of the recession to the trough, by about as much in the 2001 recession as it did in the Great Recession. However, about four years into that recession, corporate income tax revenue showed robust and continuous recovery until the start of the Great Recession. But five years after the start of the Great Recession, corporate income tax revenues remain about 23 percent below their level at the start of the recession and there is no sign of recovery on the horizon.

Figure 13 shows similar analysis for local property tax collections. Property tax revenues not only did not experience any declines in the 1990 or 2001 recessions, but continued strong and continuous

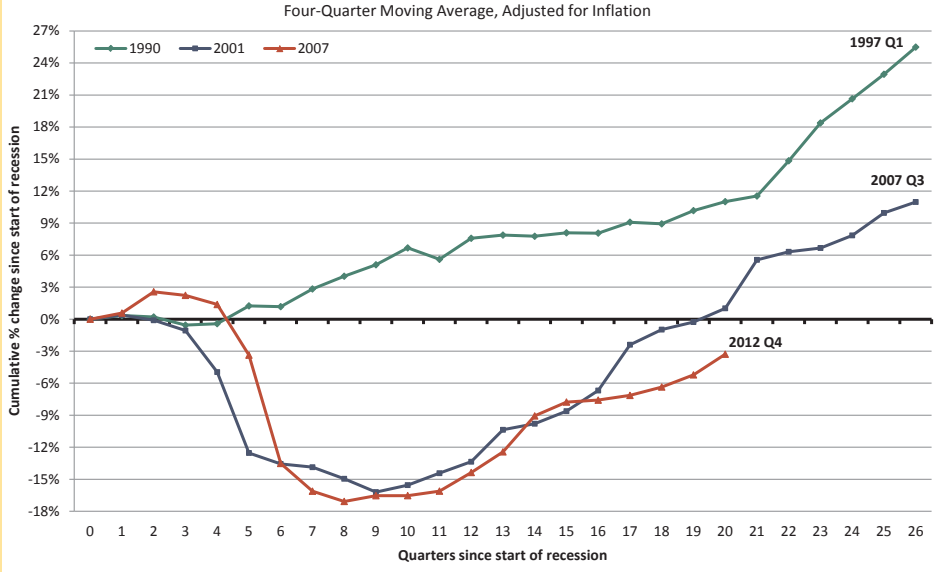
growth during and after both recessions. By contrast, local property tax revenues showed some declines in the start of the Great Recession but quickly resumed the growth until mid-2010. Since then the growth has been much softer and until recently had been slowing. Local governments could face substantial fiscal challenges if this weakness continues.

Figure 10. State Sales Tax Revenue Recovery Is Extremely Weak and Stagnant



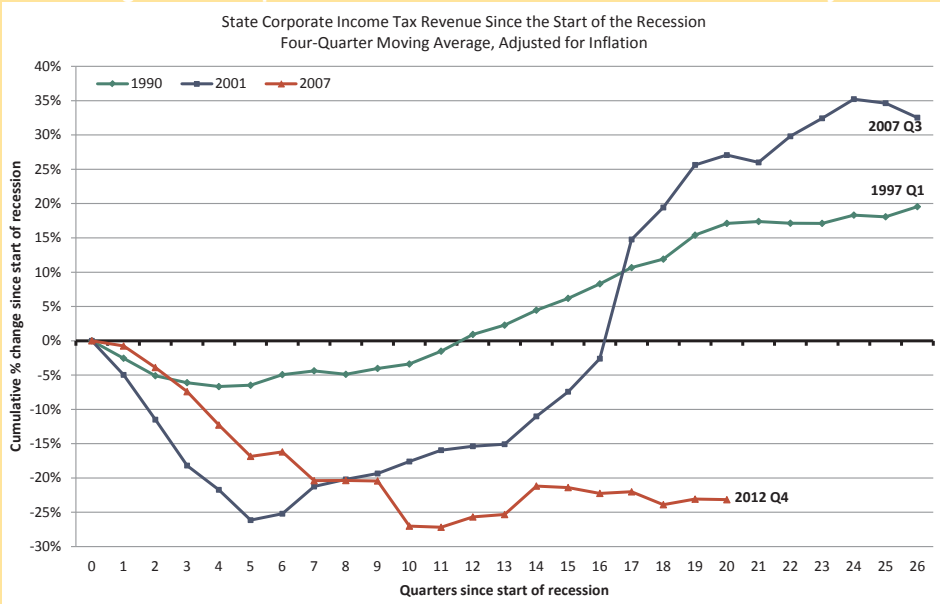
Sources: U.S. Census Bureau , Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (GDP).
Notes: (1) 4-quarter average of inflation-adjusted in real tax revenue; (2) No adjustments for legislative changes.

Figure 11. Personal Income Tax Revenue Recovery Is Slow



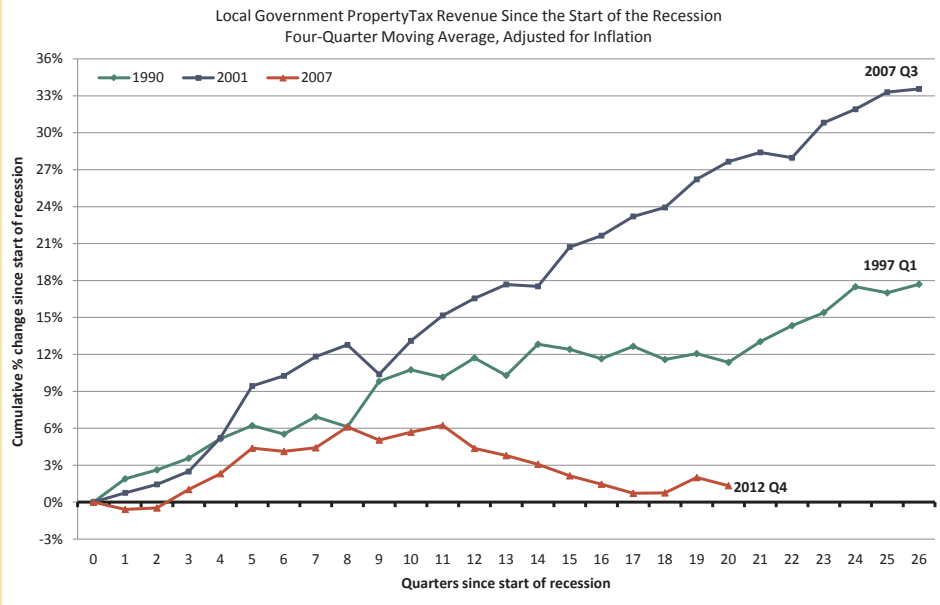
Sources: U.S. Census Bureau , Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (GDP).
Notes: (1) 4-quarter average of inflation-adjusted tax revenue; (2) No adjustments for legislative changes.

Figure 12. Corporate Income Tax Revenue: There Is No Recovery



Sources: U.S. Census Bureau , Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (GDP).
Notes: (1) 4-quarter average of inflation-adjusted tax revenue; (2) No adjustments for legislative changes.

Figure 13. Local Government Property Tax Revenues Are Weak Compared to Past Two Recoveries



Sources: U.S. Census Bureau , Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (GDP).
Notes: (1) 4-quarter average of inflation-adjusted tax revenue; (2) No adjustments for legislative changes.

In sum, while state tax revenues are recovering, they remain below their prior peak and well below where previous trends would have suggested. While the Great Recession ended over three years ago, the damage caused by the Great Recession on state tax revenues is significant and it will take years before the states fully recover.

Adjustments to Census Bureau Tax Collection Data

The numbers in this report differ somewhat from those released by the Bureau of the Census in March of 2013. For reasons we describe below, we have adjusted Census data for selected states to arrive at figures that we believe are best-suited for our purpose of examining underlying economic and fiscal conditions. As a result of these adjustments, we report a year-over-year increase in tax collections of 5.2 percent in the third quarter, compared with the 4.9 percent increase that can be computed from data on the Census Bureau's Web site (www.census.gov/govs/www/qtax.html). In this section we explain how and why we have adjusted Census Bureau data, and the consequences of these adjustments.

The Census Bureau and the Rockefeller Institute engage in two related efforts to gather data on state tax collections, and we communicate frequently in the course of this work. The Census Bureau has a highly rigorous and detailed data collection process that entails a survey of state tax collection officials, coupled with Web and telephone follow-up. It is designed to produce, after the close of each quarter, comprehensive tax collection data that, in their final form after revisions, are highly comparable from state to state. These data abstract from the fund structures of individual states (e.g., taxes will be counted regardless of whether they are deposited to the general fund or to a fund dedicated for other purposes such as education, transportation, or the environment).

The Census Bureau's data collection procedure is of high quality but is labor-intensive and time-consuming. States that do not report in time, or do not report fully, or that have unresolved questions may be included in the Census Bureau data on an estimated basis, in some cases with data imputed by the Census Bureau. These imputations can involve methods such as assuming that collections for a missing state in the current quarter are the same as those for the same state in a previous quarter, or assuming that collections for a tax not yet reported in a given state will have followed the national pattern for that tax. In addition, state accounting and reporting for taxes can change from one quarter to another, complicating the task of reporting taxes on a consistent basis. For these reasons, some of the initial Census Bureau data for a quarter may reflect estimated amounts or amounts with unresolved questions, and will be revised in subsequent quarters when more data are available. As a result, the historical data from the Census Bureau are comprehensive and quite comparable across states, but on occasion amounts reported for the most recent quarter may not reflect all important data for that quarter.

The Rockefeller Institute also collects data on tax revenue, but in a different way and for different reasons. Because historical Census Bureau data are comprehensive and quite comparable, we rely almost exclusively on Census data for our historical analysis. Furthermore, in recent years, Census Bureau data have become far more timely and where practical we use them for the most recent quarter as well, although we supplement Census data for certain purposes. We collect our own data on a monthly basis so that we can get a more current read on the economy and state finances. For example, as this report goes to print we have data on tax collections in January and February in forty-five states — not enough to use as the basis for a comprehensive report, but useful in understanding what is happening to state finances.

In addition, we collect certain information that is not available in the Census Data — figures on withholding tax collections, payments of estimated income tax, final payment and refunds, all of which are important to understanding income tax collections more fully. Our main uses for the data we collect are to report more frequently and currently on state fiscal conditions, and to report on the income tax in more detail.

Ordinarily there are not major differences between our data for a quarter and the Census data. Normally we use the Census data without adjustment for full quarterly *State Revenue Reports*. In the last year states have been slow in reporting tax revenues to the Census Bureau in a timely manner due to furloughs and reduced workforce. For example, for the October-December quarter the Census

Bureau did not receive data for five states and reported estimated figures for those five states. Therefore, we have made some adjustments to the Census data. Table 9 shows the year-over-year percent change in national tax collections for the following sources: (1) preliminary figures collected by the Rockefeller Institute that appeared in our "Data Alert" dated March 6, 2013; (2) preliminary figures as reported by the Census Bureau; and (3) the Census Bureau's preliminary figures with selected adjustments by the Rockefeller Institute.

Table 9. RIG vs. Census Bureau Quarterly Tax Revenue By Major Tax

October-December, 2011 to 2012, Percent Change

	PIT	CIT	Sales	Total
RIG Data Alert	10.8	(4.1)	2.2	5.7
Census Bureau Preliminary	10.3	3.2	2.5	4.9
Census Bureau Preliminary with RIG Adjustments	10.8	1.2	2.7	5.2

The last set of numbers with our adjustments is what we use as the basis for this report. For the fourth quarter of 2012, we made adjustment for seven states — Indiana, Maryland, North Dakota, Oregon, Washington, West Virginia, and Wisconsin — based upon data and information provided to us directly by these states. For five of these seven states the Census Bureau had not received a response in time for its publication and so used imputed data that will be revised in later reports. However, the Institute obtained data from all seven; these data may not be as comprehensive as what would be used by the Census Bureau, but we believe they provide a better picture of fiscal conditions than imputed data. In addition, we revised preliminary data reported by the Census Bureau for tax collections in Maryland and North Dakota in the fourth quarter of 2012 based on information obtained from these states. We also made adjustments to tax collections for some previous quarters and for some states where Census Bureau reported imputed or preliminary figures. For example, we made adjustments to tax numbers for the third quarter of 2012 for the following six states — Indiana, Maryland, Michigan, Minnesota, Oregon, and Wisconsin. For five of these six states the Census Bureau still did not receive revenue data from the states and reported estimated data.

Endnotes

1 We made adjustments to Census Bureau data for the fourth quarter of 2012 for seven states — Indiana, Maryland, North Dakota, Oregon, Washington, West Virginia, and Wisconsin — based upon data and information provided to us directly by these states. In addition, we made adjustments to tax numbers for the second and third quarters of 2012 for several states. These revisions together account for some noticeable differences between the Census Bureau figures and the Rockefeller Institute estimates.

2 Lucy Dadayan and Donald J. Boyd, *State Tax Revenues Continue Slow Rebound,* State Revenue Report #90 (Albany, NY: The Nelson A. Rockefeller Institute of Government, February 2013) http://www.rockinst.org/pdf/government_finance/state_revenue_report/SSR-90.pdf.

3 Taking compounding into account, population growth plus inflation was 12.8 percent: (1.084 x 1.041 - 1) x 100.

4 We have adjusted the historical data for local property tax revenue as reported by the Census Bureau, revising the data for the third quarter of 2008 and earlier periods upward by 7.7 percent, consistent with the higher level of property tax revenue in the new sample compared with the previous sample, as reported in the Census Bureau's "bridge study." For more information on methodological changes to the local property tax and the results of the bridge study, please see http://www2.census.gov/govs/qtax/bridgestudy.pdf .

5 Preliminary figures for January-February 2013 are not available for the following five states: Hawaii, Minnesota, Nevada, New Mexico, and Wyoming. Total tax collections for these five states combined represent about 5-6 percent of nationwide tax collections. Therefore, it is unlikely that the nationwide picture for collections during these two months will change once we have complete data for all fifty states for the months of January and February of 2013.

6 For a fuller discussion, see "Bumpy Ride Ahead" in Dadayan and Boyd, *State Tax Revenues Continue Slow Rebound*.

7 See Bureau of Economic Analysis, National Income and Products Accounts Table (Table 1.1.11).

8 For a technical discussion of these indexes and their national counterpart, see Theodore M. Crone and Alan Clayton-Matthews. "Consistent Economic Indexes for the 50 States," *Review of Economics and Statistics* 87, 4 (2005), pp. 593-603; Theodore M. Crone, "What a New Set of Indexes Tells Us About State and National Business Cycles," *Business Review,* Federal Reserve Bank of Philadelphia (First Quarter 2006), http://www.philadelphiafed.org/research-and-data/publications/business-review/2006/q1/Q1_06_NewIndexes.pdf; and James H. Stock and Mark W. Watson, "New Indexes of Coincident and Leading Economic Indicators," *NBER Macroeconomics Annual* (1989), pp. 351-94. The data and several papers are available at www.philadelphiafed.org/econ/indexes/coincident.

9 For more discussion of the relationship between property tax and housing prices see Lucy Dadayan, *The Impact of the Great Recession on Local Property Taxes* (Albany, NY: The Nelson A. Rockefeller Institute of Government, July 2012), http://www.rockinst.org/pdf/government_finance/2012-07-16-Recession_Local_%20Property_Tax.pdf.

10 Rockefeller Institute analysis of data from the National Association of State Budget Officers.

11 This treats the 1980-82 "double-dip" recession as a single long recession.

12 Ibid.

About The Nelson A. Rockefeller Institute of Government's Fiscal Studies Program

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the University at Albany, State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all fifty states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others.

This report was researched and written by Lucy Dadayan, senior policy analyst, and Donald J. Boyd, senior fellow. William Sisk, graduate research assistant, assisted with data collection. Thomas Gais, director of the Institute provided valuable feedback on the report. Michael Cooper, the Rockefeller Institute's director of publications, did the layout and design of this report, with assistance from Michele Charbonneau.

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