



THE NELSON A. ROCKEFELLER INSTITUTE OF GOVERNMENT

The public policy research arm of the State University of New York

Data Alert

March 11, 2014



The State University
of New York

For Immediate Release

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State Tax Revenues Slip Back to Slower Growth

*Disappearing Temporary Effects of the Fiscal Cliff Appear to Cause
the Weakest Growth in Personal Income Tax Collections Since 2010*

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Preliminary data for the October-December quarter of 2013 show that personal income tax (PIT) growth slowed to 1 percent, down from 5.3 percent in the third quarter, and down from an average of 15.9 percent in the three quarters before that. This appears to be due mostly to the disappearance of temporary factors related to federal tax changes that had artificially propped up personal income tax growth in the prior quarters. While economic softening may have contributed as well, the sales tax has been resilient, suggesting that the income tax weakening may be driven more by the depressing effects of temporary factors.

The Rockefeller Institute's compilation of preliminary data shows collections from major tax sources increased by 3.0 percent in nominal terms compared to the fourth quarter of 2012.¹ Gains were fairly widespread, with 38 states showing an increase in revenues compared to a year earlier. After adjusting for inflation, tax revenues increased by 1.6 percent in the fourth quarter of 2013, compared to the same quarter of 2012. States' personal income taxes represented a \$0.7 billion, or 1.0 percent gain, and sales taxes a \$3.3 billion, or 5.5 percent gain for the period. (See Table 1 for national-level changes in revenues since 2007.)

We will provide a full report on October-December tax revenue collections after the Census Bureau's data for the quarter are available.

Despite the broadly positive news, revenues declined in 12 of the 49 states for which comparable, early data are available. Table 2 shows state-by-state changes in major tax revenues during the fourth quarter of 2013 compared to the same quarter a year earlier. Alaska reported the largest decline for the quarter at 45.7 percent, followed by Kansas at 9.2 percent. Large declines in collections in Alaska were mostly attributable to oil and gas severance taxes, which fell due to declining production. The declines in Kansas are partially attributable to legislated changes, where the legislature reduced both income and sales tax rates.

General Sales Tax

Sales tax collections increased by 5.5 percent in the fourth quarter of 2013 compared to the same quarter of 2012. According to preliminary data, only six of 45 sales-tax states reported declines in sales tax collections compared with the same quarter last year. Arizona had the largest sales tax decline at 14.4 percent, followed by Georgia at 4.6 percent. The large sales tax decline in Arizona is mostly due to

expiration of a temporary one-cent increase in sales tax of three years ago. The following five states reported double-digit growth in sales tax collections: California, Maine, Minnesota, Ohio, and Virginia.

The Far West and Rocky Mountain regions reported the largest increases in sales tax collections at 12.3 and 4.9 percent, respectively. The Southwest region reported the slowest growth at 2.4 percent.

Personal Income Tax

Personal income taxes made up about 41 percent of total tax revenue reported in the fourth quarter of 2013. The growth in personal income tax revenues slowed significantly in the fourth quarter of 2013 compared to the strong growth reported in the first half of 2013. Revenue from personal income tax collections increased by a mere 1.0 percent in nominal terms for the nation compared to the same quarter of 2012. Among 41 states with broad-based personal income taxes, 28 states recorded growth in the fourth quarter of 2013, with two reporting double-digit increases. Among individual states, Kansas reported the largest decline at 20.2 percent, while Idaho reported the largest increase at 11.1 percent (see Table 2). The large decline in personal income tax collections in Kansas, as mentioned above, was mostly due to cuts in the tax rate.

All regions but the Mid-Atlantic and Southwest reported increases in personal income tax collections. The largest growth was in the Rocky Mountain and New England regions, where collections increased by 4.4 and 3.0 percent, respectively, in the fourth quarter of 2013.

Withholding for the October-December 2013 quarter increased by 1.1 percent for the 40 states with broad-based personal income taxes and for which we have complete data. Thirty-one states reported growth in withholding for the fourth quarter of 2013, while nine states reported declines. The Rocky Mountain region reported the largest growth in withholding at 3.7 percent, while the Great Lakes region was the only region reporting declines in withholding at 0.4 percent.

The highest-income taxpayers generally make estimated tax payments (also known as declarations) on their income not subject to withholding tax. 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 37 states for which we have complete data, the median payment was down by 8.4 percent for the fourth payment compared to the previous year. Estimated payments were down in 28 of the 37 states for which we have complete data for the fourth payment. Fourteen states reported double digit declines. The substantial decline in the fourth estimated payment likely is due to the disappearance of the temporary measures that led to acceleration of income into 2012.

Corporate Income Tax

Among the corporate income tax (CIT) states, 22 of 45 states reported declines for the fourth quarter compared to the same quarter of the previous year, while 23 showed gains. Fifteen states reported double-digit declines, while 16 states reported double-digit growth in corporate income tax collections in the fourth quarter of 2013. The large variation among states' corporate income tax revenues is due to volatility in corporate profits and in the timing of tax payments.

The picture among the states, as well as among the regions, is quite varied. The Southwest region reported the largest declines in corporate income tax collections in the fourth quarter of 2013, at 10.9 percent. Other regions reporting declines were the Great Lakes and Plains regions. The Far West region recorded the largest growth in corporate income tax collections in the fourth quarter at 27.8 percent.

The Outlook

The state personal income tax revenue picture in the first two quarters of calendar year 2013 represented the strongest growth since the start of the Great Recession. However, the growth in personal income tax collections softened in the third quarter of 2013 and was a mere 1.0 percent in the fourth quarter of 2013. The strong growth recorded in the first half of 2013, as discussed in previous *State Revenue Reports*, appears to have been mostly attributable to the acceleration of income to tax year 2012 by some taxpayers driven by the fear of potential federal tax rate increases in tax year 2013. We now are witnessing the earlier warnings that the "bubble" in income tax receipts would be short-lived. And, quite likely, the growth in personal income tax collections will be much softer in the first half of 2014 as well. However, in most states, the overall trend in tax collections for fiscal 2014 is positive.

Table 1. State Taxes Showed Weak Growth in the Fourth Quarter of 2013
Percent Change in State Tax Collections vs. Same Quarter a Year Ago

Year/Quarter	PIT	CIT	Sales	Total
2007 Q1	8.5	14.8	3.1	5.2
2007 Q2	9.2	1.7	3.5	5.5
2007 Q3	7.0	(4.3)	(0.7)	3.1
2007 Q4	3.8	(14.5)	4.0	3.6
2008 Q1	4.8	(1.4)	0.7	2.6
2008 Q2	8.1	(7.0)	1.0	5.4
2008 Q3	0.9	(13.2)	4.7	2.8
2008 Q4	(1.9)	(23.0)	(5.3)	(4.0)
2009 Q1	(19.4)	(20.2)	(8.4)	(12.2)
2009 Q2	(27.7)	3.0	(9.5)	(16.3)
2009 Q3	(11.5)	(21.3)	(10.1)	(11.0)
2009 Q4	(4.1)	0.7	(4.8)	(3.1)
2010 Q1	3.6	0.3	0.1	3.3
2010 Q2	1.3	(19.0)	5.7	1.9
2010 Q3	3.9	0.5	4.3	5.3
2010 Q4	10.8	12.1	5.1	8.1
2011 Q1	12.6	4.1	6.0	10.2
2011 Q2	15.6	18.3	5.7	11.3
2011 Q3	9.1	0.9	1.6	5.0
2011 Q4	2.8	(3.3)	2.9	3.0
2012 Q1	4.2	3.6	5.0	4.0
2012 Q2	6.0	(3.0)	1.7	4.1
2012 Q3	5.8	8.5	1.8	2.9
2012 Q4	10.8	3.8	2.7	5.3
2013 Q1	18.4	9.3	5.6	8.6
2013 Q2	18.4	11.0	5.3	9.0
2013 Q3 (preliminary)	5.3	1.4	5.6	6.1
2013 Q4 (preliminary)	1.0	5.5	5.5	3.0

Table 2: Percent Change in State Quarterly Tax Revenue
October-December 2012 to 2013, Percent Change

	PIT	CIT	Sales	Total
United States	1.0	5.5	5.5	3.0
New England	3.0	19.5	4.5	4.7
Connecticut	2.5	304.6	0.6	7.2
Maine	(4.2)	14.4	11.1	2.0
Massachusetts	3.8	2.5	6.7	5.1
New Hampshire	NA	(8.6)	NA	(5.2)
Rhode Island	3.9	(81.9)	3.3	(2.8)
Vermont	10.6	(40.7)	4.9	5.0
Mid-Atlantic	(0.2)	4.0	4.4	0.7
Delaware	3.0	(21.9)	NA	(2.2)
Maryland	1.3	(5.1)	2.1	2.5
New Jersey	2.4	7.2	7.3	4.7
New York	(1.9)	4.2	5.3	(1.1)
Pennsylvania	1.8	5.8	1.6	0.5
Great Lakes	0.9	(9.9)	4.3	1.2
Illinois	3.8	7.3	3.3	3.1
Indiana	8.1	(6.5)	2.0	1.8
Michigan	3.2	(55.2)	(0.6)	(1.6)
Ohio	(3.3)	(515.3)	10.7	1.7
Wisconsin	(5.2)	21.6	6.9	1.1
Plains	0.8	(1.7)	4.4	2.7
Iowa	(2.6)	(40.6)	4.1	(6.7)
Kansas	(20.2)	16.1	(3.7)	(9.2)
Minnesota	9.0	2.1	10.4	10.5
Missouri	2.9	14.6	6.2	2.8
Nebraska	0.2	(9.5)	1.5	0.0
North Dakota	(5.9)	19.9	(1.9)	8.7
South Dakota	NA	NA	5.4	5.6
Southeast	1.1	5.1	4.4	2.8
Alabama	3.5	6.8	2.2	2.6
Arkansas	2.7	(4.1)	1.8	2.4
Florida	NA	(15.4)	7.1	4.0
Georgia	0.7	51.7	(4.6)	4.4
Kentucky	1.6	(2.4)	3.7	0.3
Louisiana	(1.0)	1,066.1	2.1	13.4
Mississippi	(6.3)	72.9	5.4	4.1
North Carolina	1.2	26.6	3.4	1.6
South Carolina	1.4	(18.9)	5.1	2.8
Tennessee	NM	(17.1)	3.1	0.2
Virginia	2.4	(48.4)	11.7	0.6
West Virginia	(0.4)	(12.7)	(0.1)	(4.5)
Southwest	(2.0)	(10.9)	2.4	7.9
Arizona	0.3	(0.9)	(14.4)	(7.2)
New Mexico	(3.6)	86.5	5.0	0.9
Oklahoma	(4.8)	(50.8)	2.7	0.4
Texas	NA	NA	4.8	12.9
Rocky Mountain	4.4	3.2	4.9	4.2
Colorado	2.9	27.4	6.8	5.6
Idaho	11.1	10.4	7.4	5.4
Montana	0.5	(37.3)	NA	(1.1)
Utah	6.1	(17.4)	1.0	3.4
Wyoming	NA	NA	2.7	ND
Far West	1.4	27.8	12.3	3.6
Alaska	NA	33.0	NA	(45.7)
California	1.2	32.0	15.8	7.0
Hawaii	(2.1)	214.9	0.5	1.3
Nevada	NA	NA	3.0	3.4
Oregon	4.0	(23.5)	NA	0.5
Washington	NA	NA	6.2	2.2

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

Notes: NA - not applicable; NM - not meaningful; ND - no data.

1 We do not have complete fourth quarter of 2013 data for Wyoming.

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