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How Surprising Will April Surprises Be?

*Preliminary Figures for the First Quarter of 2014
Reveal Declines in Income Tax Collections*

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SPECIAL NOTE: *On April 29, 2014, we released our quarterly Revenue Report covering the revenue trends in the fourth quarter of 2013. In that report, we provided a snapshot of early figures for the first quarter of 2014. Due to numerous requests for more detailed figures, we are releasing an early data alert that covers tax revenue trends in the first quarter of 2014.*

"Caution" was the buzzword throughout fiscal year 2014 when referring to personal income tax collections. In our *Revenue Reports* throughout the year, we cautioned continuously about the temporary bubble in income tax collections, likely attributable mostly to taxpayer responses to the so-called "fiscal cliff."

Preliminary data for the January-March quarter of 2014 show considerable softening or declines in personal income tax collections in many states. More declines are expected to be reported in the second quarter of 2014, which is the most important quarter of the year due to the April 15th income tax return deadline. The trends observed in the first quarter of 2014 are consistent with our previous comments that the strong growth in personal income tax collections in the first half of 2013 would not be sustainable and would be followed by considerable weakening in the subsequent quarters.

State personal income tax returns for tax year 2013 generally were due on April 15th and, according to the news around the country and from similar data from federal tax revenue, these payments appear to have weakened significantly. We do not have data for the month of April, and we will provide a complete analysis of tax revenue collections after the Census Bureau's data for the quarter are available.

The Rockefeller Institute's compilation of preliminary data from 46 states shows that collections from major tax sources increased by an insignificant 0.7 percent in nominal terms in the first quarter of 2014 compared to the same quarter of 2013. This is the weakest growth since the first quarter of 2010. Among 46 early reporting states, 37 states reported gains while nine states reported declines in total tax revenue collections. Personal income tax collections declined in nominal terms by 0.4 percent. This is the first time since the first quarter of 2010 that states reported declines in income tax collections. The growth in sales tax collections was also weak at 1.0 percent, while corporate income tax growth was at 5.6 percent. (See Table 1 for national-level changes in revenues since 2008.)

| Year/Quarter | PIT | CIT | Sales | Total |
|------------------------------|--------------|------------|--------------|--------------|
| 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 | 9.8 | 12.1 | 5.5 | 7.9 |
| 2011 Q1 | 13.6 | 4.1 | 6.4 | 10.5 |
| 2011 Q2 | 15.8 | 18.3 | 6.1 | 11.5 |
| 2011 Q3 | 9.1 | 0.9 | 2.0 | 5.1 |
| 2011 Q4 | 2.9 | (3.3) | 2.9 | 3.1 |
| 2012 Q1 | 4.4 | 3.6 | 5.0 | 3.9 |
| 2012 Q2 | 5.7 | (3.0) | 1.7 | 3.5 |
| 2012 Q3 | 5.3 | 8.5 | 1.8 | 3.0 |
| 2012 Q4 | 10.9 | 3.0 | 2.7 | 5.1 |
| 2013 Q1 | 18.1 | 9.4 | 5.6 | 9.1 |
| 2013 Q2 | 18.5 | 10.3 | 5.2 | 9.5 |
| 2013 Q3 | 5.0 | 1.5 | 5.8 | 5.7 |
| 2013 Q4 | 0.4 | 4.6 | 5.6 | 3.5 |
| 2014 Q1 (preliminary) | (0.4) | 5.6 | 1.0 | 0.7 |

Table 2 shows state-by-state changes in revenue for major taxes during the first quarter of 2014 compared to the same quarter a year earlier. Nebraska and Texas reported the largest increases in overall tax collections, at 15.7 and 11.8 percent, respectively. Nine states reported declines in overall tax collections, with Alaska and North Dakota reporting the largest declines at 69.6 and 30.8 percent, respectively. The large declines in Alaska are mostly due to the declines in oil and gas severance taxes, while the declines in North Dakota are attributable to legislated tax changes.

Ten states reported declines in income tax collections, with Ohio and North Dakota reporting the largest declines at 19.3 and 19.1 percent, respectively. Both states reduced income tax rates for tax year 2013. Thus, the declines are at least partially due to the legislated changes.

While the declines in income tax collections are not surprising, the softening in sales tax collections is less expected and more worrisome. Among 41 early reporting states, sales tax collections showed declines in 11 states, with Arizona and California reporting the largest declines at 16.7 and 9.9 percent, respectively. The large declines in Arizona are mostly attributable to the expiration of a temporary one-cent tax increase for fiscal years 2011-2013. For the nation as a whole, the unusually cold winter may have temporarily depressed shopping, contributing to the sales tax slowdown.

State tax revenues have been recovering continuously for four straight years. However, the state revenue 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 in the first quarter of 2014. This volatility probably is attributable more to taxpayer responses to planned and adopted federal policy changes and to legislated tax changes in many states than to underlying economic factors.

The declines in income tax revenue in the first quarter of 2014 likely reflect lower payments on the 2013 tax year of estimated taxes due in January. We expect that income tax collections will show further declines in the second quarter of 2014, when 2013 income tax returns due on April 15th are filed. However, it is hard to know how surprising the April surprises will be, as the tax year 2013 was also a very good year in the stock market. Once the figures for the month of April are available, we will have a clearer picture of the interplay between the strong stock market and the fiscal cliff, and their relative impact on the income tax collections.

Table 2: Percent Change in State Quarterly Tax Revenue
January-March 2013 to 2014, Percent Change

| | PIT | CIT | Sales | Total |
|-----------------------|--------------|---------------|--------------|--------------|
| United States | (0.4) | 5.6 | 1.0 | 0.7 |
| New England | 4.6 | 15.0 | 6.8 | 4.7 |
| Connecticut | 2.7 | (25.3) | 8.4 | (1.8) |
| Maine | (15.3) | 2.4 | 12.9 | 1.3 |
| Massachusetts | 7.8 | 29.9 | 5.9 | 9.3 |
| New Hampshire | NA | 3.5 | NA | 2.7 |
| Rhode Island | 2.4 | 11.5 | 1.4 | 6.5 |
| Vermont | 13.5 | 16.4 | 0.2 | 7.5 |
| Mid-Atlantic | 4.0 | 8.2 | 0.0 | 2.5 |
| Delaware | 5.5 | (96.3) | NA | (11.1) |
| Maryland | 1.5 | 10.4 | (0.9) | 1.8 |
| New Jersey | 1.0 | 59.4 | (0.9) | 3.0 |
| New York | 5.5 | 0.9 | 1.1 | 3.7 |
| Pennsylvania | 2.0 | 17.6 | (0.0) | 0.9 |
| Great Lakes | 0.5 | (13.1) | 3.8 | 1.3 |
| Illinois | 3.7 | 7.8 | 1.1 | 3.4 |
| Indiana | 2.9 | (1,026.2) | (0.6) | 0.7 |
| Michigan | 5.4 | (59.3) | 5.1 | 0.9 |
| Ohio | (19.3) | (91.6) | 9.4 | (4.2) |
| Wisconsin | 15.0 | (15.6) | 2.8 | 6.1 |
| Plains | 4.8 | 14.7 | 1.8 | 1.6 |
| Iowa | (4.1) | 42.6 | 6.2 | (1.4) |
| Kansas | (0.1) | 92.5 | (3.3) | 3.3 |
| Minnesota | 7.4 | 5.2 | 0.9 | 5.3 |
| Missouri | 4.4 | (10.3) | (0.9) | 1.8 |
| Nebraska | 23.0 | 21.0 | 6.9 | 15.7 |
| North Dakota | (19.1) | 12.6 | 6.4 | (30.8) |
| South Dakota | NA | NA | 2.9 | 2.9 |
| Southeast | (0.5) | 6.7 | 3.6 | 2.6 |
| Alabama | 4.4 | (39.5) | 1.0 | 0.9 |
| Arkansas | 3.7 | (3.6) | 1.1 | 1.9 |
| Florida | NA | (7.6) | 6.8 | 4.6 |
| Georgia | 7.2 | 21.3 | (6.0) | 7.0 |
| Kentucky | 2.4 | 15.6 | 3.3 | 3.1 |
| Louisiana | 4.9 | (425.2) | 1.3 | 10.0 |
| Mississippi | (3.7) | 21.6 | 3.8 | 3.2 |
| North Carolina | (9.2) | 10.4 | 8.0 | (1.7) |
| South Carolina | (3.7) | (1.6) | (0.9) | 0.0 |
| Tennessee | NA | (13.2) | 4.0 | 0.2 |
| Virginia | (1.1) | 46.8 | 4.7 | 0.3 |
| West Virginia | 3.2 | (4.4) | (4.0) | 2.9 |
| Southwest | 12.1 | (13.3) | 3.4 | 8.6 |
| Arizona | 13.0 | 0.6 | (16.7) | (6.2) |
| New Mexico | ND | ND | ND | ND |
| Oklahoma | 11.1 | (24.2) | 3.1 | 2.0 |
| Texas | NA | NA | 6.8 | 11.8 |
| Rocky Mountain | 8.0 | 2.4 | 6.4 | 6.0 |
| Colorado | 5.2 | 32.6 | 9.2 | 7.7 |
| Idaho | 9.8 | (36.5) | 2.7 | 3.5 |
| Montana | 12.7 | (32.2) | NA | 0.7 |
| Utah | 12.4 | (7.8) | 5.3 | 6.8 |
| Wyoming | NA | NA | ND | ND |
| Far West | (9.7) | 8.4 | (7.4) | (7.8) |
| Alaska | NA | (103.5) | NA | (69.6) |
| California | (11.1) | 11.9 | (9.9) | (7.8) |
| Hawaii | ND | ND | ND | ND |
| Nevada | NA | NA | ND | ND |
| Oregon | 11.4 | (20.3) | NA | 9.1 |
| Washington | NA | NA | 6.0 | 3.3 |

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

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

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