

STATE REVENUE REPORT

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The Nelson A. Rockefeller Institute of Government

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State Tax Revenue on Upward Track

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HIGHLIGHTS

- ❖ State tax revenue in the July-September 2004 quarter grew 8.6 percent compared to the same period in 2003.
- ❖ After adjusting for tax law changes and inflation, real underlying state tax revenue increased by 4.3 percent.
- ❖ Newly implemented changes in state tax laws generated a \$500 million net increase in state revenue.
- ❖ Personal income tax revenue grew 8.2 percent.
- ❖ Sales tax revenue grew 5.9 percent.
- ❖ Corporate income tax revenue grew a very strong 21.7 percent.

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Figure 1. Year-Over-Year Change in Total Tax Collections, 1991-2004

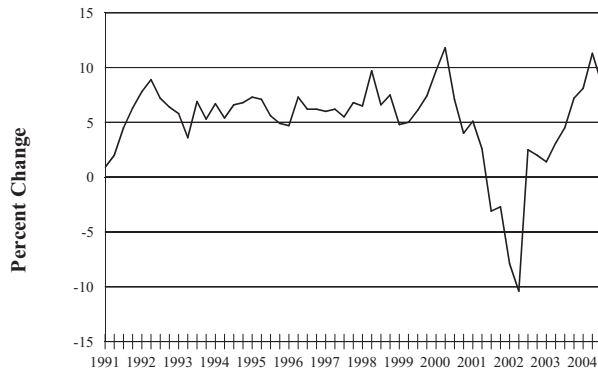


Figure 2. Year-Over-Year Change in Real Adjusted Tax Revenue, 1991-2004

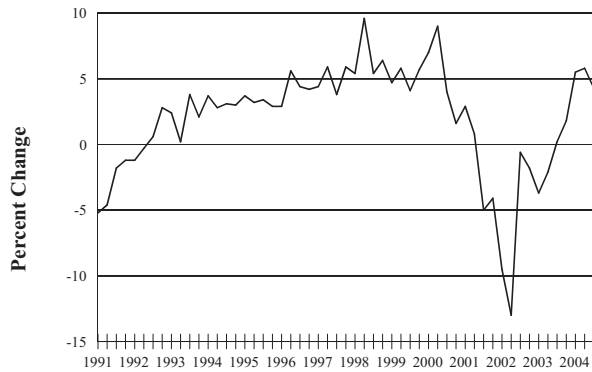


Table 1. Year-Over-Year Change in Quarterly State Tax Revenue, Adjusting for Legislated Tax Changes and Inflation

	Total Nominal Increase	Adjusted Nominal Increase	Inflation Rate	Real Increase
1998				
Jan.-Mar.	6.5	7.0	1.8	5.1
April-June	9.7	11.4	1.8	9.4
July-Sept.	6.6	7.1	1.8	5.2
Oct.-Dec.	7.5	8.0	1.5	6.4
1999				
Jan.-Mar.	4.8	6.5	1.9	4.5
April-June	5.0	8.0	2.7	5.2
July-Sept.	6.1	6.7	3.2	3.4
Oct.-Dec.	7.4	8.4	3.7	4.5
2000				
Jan.-Mar.	9.7	10.4	4.4	5.7
April-June	11.4	11.8	4.3	7.2
July-Sept.	7.1	7.7	4.3	3.3
Oct.-Dec.	4.0	5.0	4.3	0.7
2001				
Jan.-Mar.	5.1	6.3	4.0	2.2
April-June	2.5	4.2	3.4	0.8
July-Sept.	(3.1)	(2.4)	2.3	(4.6)
Oct.-Dec.	(2.7)	(2.2)	1.2	(3.4)
2002				
Jan.-Mar.	(7.8)	(8.2)	0.5	(8.7)
April-June	(10.6)	(12.1)	0.8	(12.8)
July-Sept.	2.5	0.7	1.3	(0.6)
Oct.-Dec.	1.9	0.3	2.0	(1.7)
2003				
Jan.-Mar.	1.4	(1.0)	4.2	(5.0)
April-June	3.2	0.4	3.0	(2.5)
July-Sept.	4.5	2.6	2.8	(0.2)
Oct.-Dec.	7.3	4.9	2.3	2.5
2004				
Jan.-Mar.	8.1	7.0	1.5	5.4
April-June	11.2	9.0	3.2	5.6
July-Sept.	8.6	8.2	3.7	4.3

Note: Inflation is measured by the BEA State and Local Government Implicit Price Deflator. Please call the Fiscal Studies Program for pre-1998 data.

Table 2. Year-Over-Year Change in Quarterly State Tax Revenue by Major Tax

	PIT	CIT	Sales	Total
1998				
Jan.-Mar.	9.3	2.3	5.6	6.5
April-June	19.5	(2.1)	5.3	9.7
July-Sept.	8.9	(0.2)	5.9	6.6
Oct.-Dec.	9.5	5.2	5.5	7.5
1999				
Jan.-Mar.	6.6	(2.6)	6.1	4.8
April-June	6.0	(2.1)	7.3	5.0
July-Sept.	7.6	1.4	6.7	6.1
Oct.-Dec.	9.1	3.8	7.3	7.4
2000				
Jan.-Mar.	13.6	8.0	8.2	9.7
April-June	18.8	4.2	7.3	11.4
July-Sept.	11.0	5.7	4.7	7.1
Oct.-Dec.	5.7	(7.7)	4.1	4.0
2001				
Jan.-Mar.	8.6	(9.1)	3.3	5.1
April-June	5.6	(13.7)	0.5	2.6
July-Sept.	(3.4)	(25.5)	0.0	(3.1)
Oct.-Dec.	(2.7)	(31.8)	1.0	(2.7)
2002				
Jan.-Mar.	(14.3)	(16.1)	(1.0)	(7.8)
April-June	(22.3)	(11.7)	1.5	(10.4)
July-Sept.	(1.6)	4.8	3.8	2.5
Oct.-Dec.	(0.7)	22.4	0.7	1.9
2003				
Jan.-Mar.	(3.1)	9.6	1.9	1.4
April-June	(0.7)	17.8	2.9	3.2
July-Sept.	5.1	8.4	3.7	4.5
Oct.-Dec.	6.6	11.1	6.6	7.3
2004				
Jan.-Mar.	8.7	15.7	8.3	8.1
April-June	15.6	13.6	7.1	11.2
July-Sept.	8.2	21.7	5.9	8.6

Note: Please call the Fiscal Studies Program for pre-1998 data.

Introduction

State tax revenue increased 8.6 percent in the July-September quarter of 2004 compared to the same quarter the year before. Without the contribution of net enacted tax increases, this growth would have been 8.2 percent. If we also take into account the effects of inflation, real adjusted state tax revenue grew 4.3 percent. This is the fourth straight quarter of real adjusted growth, after nine straight quarters of decline. State tax collections are now growing strongly. (See Table 1.) All three major state taxes — personal income tax, corporate income tax, and sales tax — showed significant growth this quarter.

Tax Revenue Change

Table 1 shows tax revenue changes for the last 27 quarters before and after adjusting for legislated tax changes and inflation. Figure 1 shows the pattern of growth or decline in state tax collections from 1991 to the present. Growth in state tax collections was slightly slower in the July-September quarter than in the prior quarter, possibly because many states received a small windfall with their April personal income tax returns. Tax increases contributed to state tax revenue growth, but the contribution is getting smaller as fewer states have enacted new tax increases affecting this quarter. Figure 2 shows the pattern of growth in state tax revenue adjusted for inflation and enacted tax increases from 1991 to the present. States have now had four quarters of real adjusted growth.

Table 2 shows the last 27 quarters of change in state collections of the major state tax sources. Personal income tax revenue growth slowed a bit in the July-September quarter, but is still quite strong. Corporate income tax growth remains strong. Sales tax growth was slower than the previous three quarters, but is still positive.

Every region experienced revenue growth in the July-September quarter. (See Table 3.) The Southwest region had the strongest growth at 11.6 percent, with the Far West right behind at 11 percent growth. The slowest growth was in the Plains states at 4.5 percent.

The Mid-Atlantic states had most of the net legislated tax increases this quarter. (See Figure 3.) The other regions had relatively small tax increases or cuts that had little effect on tax revenue growth. Figure 4 shows state revenue growth adjusted for legislated revenue changes. Figure 5 shows the change in the major taxes over the last four quarters.

Table 4 shows the overall effect of legislated tax changes and processing variations. In all, states implemented net tax hikes generating \$500 million in the July-September 2004 quarter. Table 5 shows the percentage change in each state's total tax revenue adjusted for legislated tax changes and inflation.

Personal Income Tax

Personal income tax revenue grew 8.2 percent in the July-September quarter compared to the same quarter the year before. This was a considerable decline from the 15.6 percent growth of the previous quarter, which was boosted by strong payments with returns. This was, however, the fifth straight quarter of growth after two years of decline. The strongest growth was in the Mid-Atlantic region at 11.9 percent, aided by significant legislated personal income tax increases in New Jersey, New York and Pennsylvania. The weakest growth was in the Great Lakes region at 4.7 percent. Growth was widespread, affecting all of the 39 states that reported their personal income tax except for Michigan — which had a 1.1 percent decline. Maryland had the strongest growth with a 29.1 percent increase. Nine other states had double-digit increases.¹

The July-September quarter is probably the least important of the four quarters for personal income tax collections. Final settlements are not a significant factor in this quarter. Only the third estimated tax payment is due this quarter. Withholding is mostly influenced by salaries and wages, since bonuses are usually not paid until December or January. So it is in the July-September quarter that the underlying trends affecting the general economy tend to be most obvious.

Withholding

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and because it is much less volatile than estimated payments or final

Figure 3
Percent Change in Tax Revenue by Region,
Adjusted for Legislated Changes
July-September, 2003 to 2004

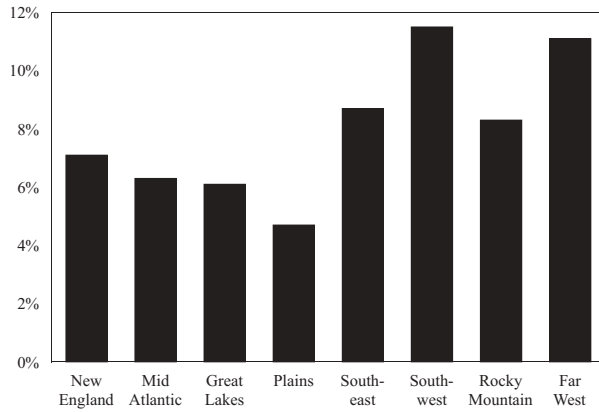


Figure 4
Change in Quarterly Tax Revenue by State, Adjusted for
Legislated Changes, July-September, 2003 to 2004

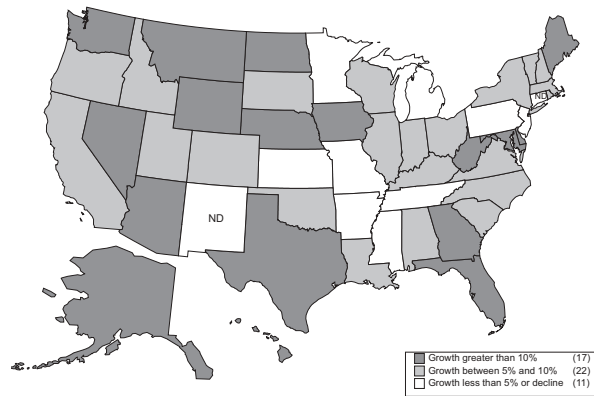
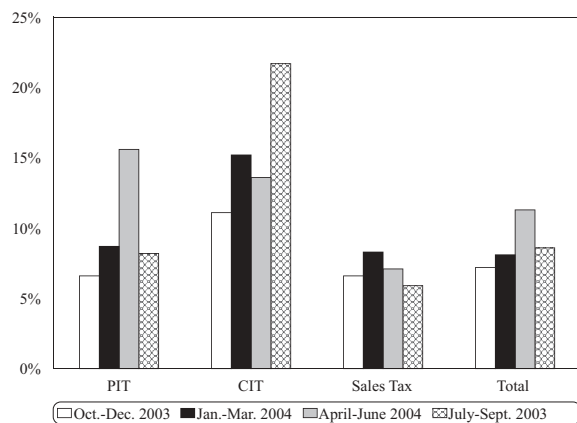


Figure 5
Change in Quarterly Tax Revenue by Tax,
Last Four Quarters



**Table 3. Change in Quarterly Tax Revenue by State,
July-September, 2003 to 2004**

	PIT	CIT	Sales	Total
United States	8.2%	21.7%	5.9%	8.6%
New England	8.7	5.1	2.8	7.4
Connecticut	ND	ND	ND	ND
Maine	9.2	56.7	(0.5)	17.5
Massachusetts	8.3	(2.3)	3.7	5.8
New Hampshire	NA	4.5*	NA	8.6*
Rhode Island	12.3*	27.3*	4.5	9.1*
Vermont	7.8	68.3*	(8.3)	8.4
Mid-Atlantic	11.9	6.0	5.1	8.8
Delaware	4.9	30.5	NA	11.6
Maryland	29.1*	122.5*	6.8	25.5*
New Jersey	17.2	(3.7)*	4.9	7.7*
New York	7.7	(4.0)*	6.6*	6.8*
Pennsylvania	14.8*	0.4	2.9	8.2*
Great Lakes	4.7	18.0	6.4	6.3
Illinois	3.1*	42.6*	6.0	7.9
Indiana	8.5	37.8	6.4	8.2
Michigan	(1.1)	0.6	3.1	2.0
Ohio	8.0	15.0*	12.1	8.9
Wisconsin	7.3	24.6	1.9	6.8
Plains	3.5	24.8	3.9	4.5
Iowa	7.5	29.6	5.3¶	8.8¶
Kansas	2.5	45.7	0.1	3.1
Minnesota	1.6	34.5	1.5	2.0
Missouri	2.5	(7.6)	4.1	2.7
Nebraska	8.4	28.6	10.5	12.0
North Dakota	8.2	12.5	16.9	12.5
South Dakota	NA	NA	6.1	6.2
Southeast	7.9	32.6	6.3	8.7
Alabama	2.9	(6.9)	9.7	7.0*
Arkansas	8.3	4.8*	7.0*	7.0*
Florida	NA	75.0	8.3¶	12.7¶
Georgia	11.3	64.8	14.0	14.0
Kentucky	5.4	49.2	4.1	6.8
Louisiana	10.5	233.0	0.4¶	8.7
Mississippi	5.4	(27.3)	3.0	1.9
North Carolina	4.9	49.4	0.5	6.3
South Carolina	5.1	6.3	4.6	5.0
Tennessee	NA	(4.8)	3.5	2.7
Virginia	11.7	8.1	7.3	10.5*
West Virginia	5.7*	25.9	2.4	10.1
Southwest	8.9	40.7	6.3	11.6
Arizona	11.7	46.8	9.7	14.2
New Mexico	ND	ND	ND	ND
Oklahoma	5.9	19.4	7.6	6.6
Texas	NA	NA	5.5	11.9
Rocky Mountain	7.2	37.1	7.5	8.3
Colorado	6.4	29.5	5.1	6.5
Idaho	6.0	38.7	10.1	9.2
Montana	12.7	62.9	NA	12.9
Utah	7.5	42.2	8.6	8.7
Wyoming	NA	NA	9.5	16.1
Far West	9.3	28.9	6.1	11.0
Alaska	NA	38.7	NA	31.9
California	9.3	29.6	5.4	9.9
Hawaii	18.8	84.1	9.7¶	15.5
Nevada	NA	NA	17.0	26.2
Oregon	6.9	7.1	NA	6.8
Washington	NA	NA	3.3	11.5

See p. 5 for notes

State Tax Revenue on Upward Track

**Table 4. Change in Quarterly Tax Revenue,
Adjusting for Legislated Tax Changes**

	<i>PIT</i>	<i>Sales</i>	<i>Total</i>
1998			
Jan.-Mar.	10.0	6.5	7.0
April-June	23.3	5.9	11.4
July-Sept.	9.3	6.4	7.1
Oct.-Dec.	10.2	5.9	6.9
1999			
Jan.-Mar.	9.9	6.2	6.5
April-June	12.4	7.3	8.0
July-Sept.	8.3	6.9	6.5
Oct.-Dec.	11.0	7.5	8.4
2000			
Jan.-Mar.	13.8	8.8	10.4
April-June	18.6	7.8	11.8
July-Sept.	11.6	5.6	7.7
Oct.-Dec.	6.5	5.0	5.0
2001			
Jan.-Mar.	10.1	3.7	6.3
April-June	7.9	0.6	4.2
July-Sept.	(2.8)	0.4	(2.4)
Oct.-Dec.	(2.1)	1.2	(2.3)
2002			
Jan.-Mar.	(14.5)	(2.4)	(8.4)
April-June	(22.5)	0.1	(11.9)
July-Sept.	(2.1)	2.7	0.7
Oct.-Dec.	(1.6)	0.7	0.3
2003			
Jan.-Mar.	(4.4)	1.0	(1.0)
April-June	(2.0)	1.3	0.4
July-Sept.	3.9	1.9	2.6
Oct.-Dec.	5.3	4.2	4.9
2004			
Jan.-Mar.	7.7	6.8	7.0
April-June	12.6	6.4	9.0
July-Sept.	7.5	5.7	8.2

Note: The corporate income tax is not included in this table. The quarterly effect of legislation on this tax's revenue is especially uncertain. (See Technical Notes, page 15.)
For pre-1998 data, call the Fiscal Studies Program.

settlements. Table 6 shows that withholding for the July-September 2004 quarter increased 6.7 percent over the same quarter the year before. Enacted changes in withholding boosted collections by about six-tenths of a percent this quarter. This was somewhat faster growth than the previous quarter, and would seem to indicate that underlying personal income tax growth remains steady.

Estimated Payments

The highest-income taxpayers generally pay most estimated tax payments (also known as declarations) on their non-wage income. This income often comes from investments, especially capital

**Table 5. Percent Change in Quarterly
Total Tax Revenue by State,
Adjusted for Legislation and Inflation,
July to September 2003 to 2004**

United States	4.3%
New England	3.3
Connecticut	ND
Maine	12.7
Massachusetts	2.0
New Hampshire	3.8
Rhode Island	2.5
Vermont	4.1
Mid-Atlantic	2.5
Delaware	7.6
Maryland	19.8
New Jersey	(2.5)
New York	1.9
Pennsylvania	1.1
Great Lakes	2.3
Illinois	3.3
Indiana	4.3
Michigan	(1.3)
Ohio	5.0
Wisconsin	3.0
Plains	1.0
Iowa	6.5
Kansas	(0.6)
Minnesota	(1.6)
Missouri	(1.1)
Nebraska	8.0
North Dakota	8.5
South Dakota	2.8
Southeast	4.8
Alabama	1.5
Arkansas	0.2
Florida	10.6
Georgia	9.7
Kentucky	3.0
Louisiana	4.9
Mississippi	(1.8)
North Carolina	2.6
South Carolina	1.8
Tennessee	(1.0)
Virginia	5.4
West Virginia	6.1
Southwest	7.5
Arizona	10.1
New Mexico	ND
Oklahoma	2.8
Texas	7.9
Rocky Mountain	4.4
Colorado	2.7
Idaho	5.3
Montana	8.9
Utah	4.7
Wyoming	12.4
Far West	7.1
Alaska	27.2
California	6.0
Hawaii	12.1
Nevada	21.7
Oregon	3.6
Washington	8.1

Inflation measured by BEA State and Local Government Implicit Price Deflator.

Table 6. Change in Personal Income Tax Withholding by State, Last Four Quarters

	2003		2004	
	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept
United States	6.1%	9.4%	5.6%	6.7%
New England	5.1	8.0	5.1	5.2
Connecticut	10.1	14.9	2.7	ND
Maine	4.4	6.5	9.8	3.7
Massachusetts	2.9*	4.9	5.4	4.7
Rhode Island	6.2	10.6	5.7	11.5*
Vermont	8.2	7.3	5.3	7.4
Mid-Atlantic	11.8	17.8	3.9	11.4
Delaware	5.9	8.6	8.7	4.3
Maryland ¹	23.3*	27.5*	(14.0)¶	38.1*
New Jersey	15.2	10.0	0.0	7.8*
New York	9.2*	19.0*	7.4*	4.4
Pennsylvania	3.2	10.1	13.6*	14.4*
Great Lakes	1.5	4.4	3.9	4.1
Illinois	ND	6.7	3.3	2.8*
Indiana	3.8	4.5	5.9	5.3
Michigan	(1.7)¶	0.5¶	1.0¶	1.1
Ohio	2.0	5.0	5.2	5.2
Wisconsin	3.1	5.1	5.0	8.1
Plains	2.3	6.1	5.8	2.6
Iowa	6.2	8.4	8.0	5.5
Kansas	3.4	4.3	6.8	4.2
Minnesota	1.0	4.8	6.6	0.5
Missouri	0.4	7.8	2.6	1.8
Nebraska	4.7*	4.6*	6.5*	5.5
North Dakota	9.1	4.9	5.7	9.3
Southeast	5.4	6.8	8.4	6.6
Alabama	7.5	2.7	8.6	4.6
Arkansas	4.8	5.8	8.5	5.7
Georgia	2.9	12.3	16.7	7.6
Kentucky	2.2	4.6	ND	ND
Louisiana	18.7*	6.8*	9.1*	5.6
Mississippi	(6.6)	5.0	5.2	5.5
North Carolina	6.3	7.2	4.6	4.6
South Carolina	3.1	4.5	3.6	4.4
Virginia	8.1	9.1	6.7	10.1
West Virginia	2.9	0.5	5.8	5.7*
Southwest	3.2	4.9	2.5	6.6
Arizona	1.0	4.8	(0.9)	9.2
New Mexico	6.3¶	(2.8)¶	3.2¶	ND
Oklahoma	4.4	8.3	4.0	4.1
Rocky Mountain	2.2	4.8	5.5	5.5
Colorado	0.2	3.8	5.1	5.3
Idaho	3.1	7.9	8.0	5.9
Montana	13.8	3.3	6.1	7.5
Utah	3.0	5.8	5.1	5.1
Far West	6.4	8.5	7.1	6.0
California	6.8	8.7	7.2	6.1
Hawaii	5.2¶	3.9¶	6.3¶	6.4
Oregon	4.6	7.9	6.2	5.2

Note: Nine states — Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no personal income tax and are therefore not shown in this table.

See page 5 for notes.

gains realized in the stock market. A strong stock market should eventually translate into capital gains and higher estimated tax payments.

In the 36 states for which we have data, estimated tax payments in September (the third quarterly payment) increased 14.3 percent. This was probably inflated somewhat by tax increases in a few states, including an increase in the top personal income tax rate in New Jersey, where most taxpayers who make estimated payments pay the top rate. The median increase in the states' September payments was 10.5 percent. Cumulatively, the first three quarterly estimated payments in 2004 increased 18.9 percent over the year before; median growth was 13.5 percent. Since final payments often mirror the strength and direction of estimated payments, this would seem to be a good sign for April 2005. The decline to the third payment growth from the previous two payments may or may not be significant. We will know more when we get the results of the final estimated payment that comes in December and January.

General Sales Tax

Sales tax revenue in the July-September 2004 quarter increased 5.9 percent over the same quarter the year before. Sales tax revenue growth has been slowing for the last two quarters, but remains relatively strong.

Key to Interpreting Tables

All percent change tables are based on year-over-year changes.

¹ indicates data through August only.

* indicates legislation or processing/accounting changes significantly increased tax receipts (by one percentage point or more).

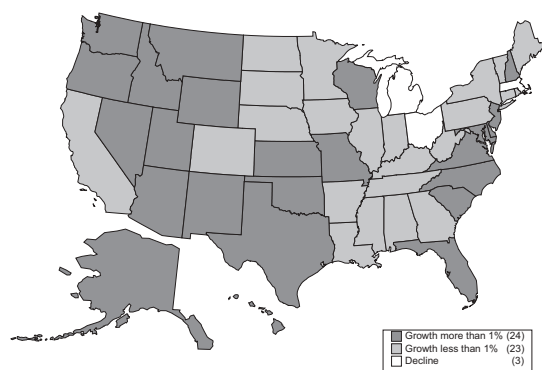
¶ indicates legislation or processing/accounting changes significantly decreased tax receipts.

NA indicates not applicable.

ND indicates no data.

Historical Tables (Tables 1, 2 and 4) have been shortened to provide data only back to 1998. For data through 1991 call the Fiscal Studies Program.

Figure 6
Change in Non-Farm Employment
July-September 2003 to 2004



Sales tax revenue grew fastest in the Rocky Mountain region with 7.5 percent growth. The weakest growth was in the New England region, where sales tax revenue increased 2.8 percent. Six states had double-digit growth in sales tax revenue.² Two states — Maine and Vermont — had sales tax revenue declines.

Corporate Income Tax

Corporate income tax revenue grew 21.7 percent in the July-September quarter, up from the previous quarter's 13.6 percent. Corporate income tax revenue has had double-digit growth for six of the last eight quarters.

Underlying Reasons for Trends

These revenue changes result from three kinds of underlying forces: differences in state economies, how these differences affect each state's tax system, and recently legislated tax changes.

State Economies

The national economy is now experiencing sustained growth, though still with some areas of continued weakness. The Bureau of Economic Analysis' (BEA's) preliminary estimate for the real Gross Domestic Product (GDP) showed

Table 7. Estimated Payments/Declarations (change year-over-year)

State	April to September 2003 to 2004	September 2003 to 2004
Average (Mean)	18.9%	14.3%
Median	13.5	10.5
Alabama	9.2	(24.2)
Arizona	89.4	544.4
Arkansas	26.8	18.7
California	16.7	14.8
Colorado	17.6	14.3
Delaware	13.5	14.9
Georgia	10.5	24.2
Hawaii	40.6	27.9
Illinois	13.9	8.0
Indiana	3.9	8.3
Iowa	10.9	16.6
Kansas	11.5	8.4
Louisiana	49.7	61.1
Maine	10.9	6.4
Maryland	20.2	21.6
Massachusetts	15.2	10.6
Michigan	1.4	(1.2)
Minnesota	35.6	12.1
Mississippi	(87.1)	(91.9)
Missouri	7.3	6.6
Montana	20.6	26.4
Nebraska	15.3	10.4
New Jersey	ND	30.9
New York	40.9	14.9
North Carolina	8.6	8.1
North Dakota	11.0	4.4
Ohio	7.5	7.6
Oklahoma	15.1	5.4
Oregon	(19.5)	9.7
Pennsylvania	20.5	18.5
Rhode Island	17.6	4.9
South Carolina	16.0	14.9
Vermont	8.1	2.1
Virginia	12.5	13.6
West Virginia	6.8	7.7
Wisconsin	12.2	2.2

growth of 3.9 percent for the third quarter of 2004.³ The national unemployment rate was 5.5 percent for the third quarter, down from the post-recession high of 6.1 percent the year before.⁴

The difficulty with assessing state economies in a report such as this is a general lack of timely state indicators. Data on non-farm employment, tracked by the Bureau of Labor Statistics (BLS), are the only broad-based, timely, high-quality state-level economic indicators available. Yet, these data are far from ideal indicators of revenue growth. For one thing, most taxes are based upon nominal

Table 8. Year-Over-Year Percentage Change In Non-Farm Employment by State, Last Four Quarters

	2003		2004	
	Oct.- Dec.	Jan.- Mar.	Apr.- June	July- Sept.
United States	(0.2)%	0.2%	1.0%	1.3%
Sum of States	(0.1)	0.5	0.8	1.0
New England	(0.9)	(0.4)	(0.1)	0.2
Connecticut	(1.0)	(0.6)	(0.1)	0.2
Maine	0.4	0.6	0.8	0.8
Massachusetts	(1.8)	(1.1)	(0.7)	(0.3)
New Hampshire	0.5	1.1	1.5	1.6
Rhode Island	1.0	1.5	0.7	0.9
Vermont	0.2	0.7	0.9	0.6
Mid Atlantic	(0.2)	0.3	0.8	1.1
Delaware	0.2	1.1	1.4	1.6
Maryland	0.6	0.9	1.4	1.8
New Jersey	0.6	1.2	1.5	1.6
New York	(0.6)	0.1	0.6	0.8
Pennsylvania	(0.7)	(0.4)	0.2	0.8
Great Lakes	(0.9)	(0.2)	(0.1)	0.1
Illinois	(0.8)	(0.3)	(0.2)	0.2
Indiana	(0.1)	0.7	0.5	0.5
Michigan	(1.6)	(1.1)	(0.9)	(1.0)
Ohio	(1.1)	(0.3)	(0.5)	(0.4)
Wisconsin	(0.3)	1.1	1.4	1.8
Plains	(0.2)	0.3	0.8	0.9
Iowa	0.0	0.7	0.6	0.6
Kansas	(1.1)	0.0	0.5	1.2
Minnesota	0.0	0.5	1.0	0.7
Missouri	(0.5)	0.2	1.1	1.4
Nebraska	(0.1)	(0.3)	0.2	0.5
North Dakota	1.0	1.0	0.3	0.3
South Dakota	0.4	0.9	1.0	0.8
Southeast	0.5	1.0	1.3	1.3
Alabama	(0.5)	0.2	0.2	0.5
Arkansas	0.2	0.3	0.7	0.8
Florida	1.8	1.9	2.3	2.0
Georgia	0.1	0.6	1.1	0.9
Kentucky	(0.1)	0.7	0.3	0.7
Louisiana	0.6	0.3	0.0	0.2
Mississippi	0.3	0.4	0.8	0.9
North Carolina	(0.4)	0.5	1.0	1.2
South Carolina	0.6	0.8	1.1	1.3
Tennessee	0.3	1.1	0.8	0.6
Virginia	0.6	2.2	2.5	2.4
West Virginia	(1.1)	(0.3)	(0.1)	0.9
Southwest	(0.2)	0.4	1.1	1.4
Arizona	1.5	2.2	2.4	2.4
New Mexico	1.4	1.3	2.0	2.1
Oklahoma	(2.1)	(1.0)	0.5	1.5
Texas	(0.4)	0.2	0.8	1.1
Rocky Mountain	(0.2)	0.4	1.2	1.7
Colorado	(1.1)	(0.6)	0.7	0.9
Idaho	0.1	1.3	2.2	2.7
Montana	0.7	1.3	1.2	1.6
Utah	0.6	1.3	1.6	2.7
Wyoming	1.8	2.1	1.9	1.8
Far West	0.1	0.7	1.2	1.4
Alaska	1.4	1.6	1.0	1.3
California	(0.2)	0.4	0.7	0.9
Hawaii	1.6	1.8	2.3	2.7
Nevada	3.9	4.2	4.5	4.5
Oregon	(0.3)	0.4	2.2	2.5
Washington	0.5	1.1	1.9	2.0

Source: Bureau of Labor Statistics.

measures such as income, wages, and profits, rather than employment. Unfortunately, state-level data on these nominal measures — when they are available at all — usually are reported too late to be of much use in analyzing recent revenue collections.

Table 8 shows year-over-year employment growth for the nation and for each state during the last four quarters using BLS data. Figure 6 maps the change in third quarter 2004 employment compared to the same period in 2003. By this measure, employment in the July-September 2004 quarter grew 1.3 percent compared to the year before. This is the third quarter of growth in national employment numbers, after nine straight quarters of decline. The growth is gathering steam, and has now extended to every region of the country.

Employment growth was strongest in the Rocky Mountain region at 1.7 percent. Employment has finally shown growth in the Great Lakes and New England regions, though the growth was only 0.1 percent and 0.2 percent, respectively.

Employment grew in 47 states, up from 44 in the previous quarter. Like last quarter, twenty-four states had employment growth of one percent or more, led by Nevada with a strong 4.5 percent growth. Michigan continues to have the worst employment decline at one percent this quarter.

Overall, the employment picture has moved into solid growth over the first three quarters of 2004. The states with the strongest growth are concentrated in the southern and western regions of the country, the pattern seen before the recent recession, and consistent with the overall pattern of population growth. There seem to be ever fewer problem areas where employment is still declining.

Nature of the Tax System

Even if economic growth affected all regions and states to exactly the same degree and at exactly the same time, the impact on state revenue would still vary because states' tax systems react differently to similar economic

situations. States that rely heavily on the personal income tax will tend to see stronger growth in good times, since they benefit from growth in income earned by the highest income individuals, the income that is taxed most heavily. This is most evident in states with more progressive income tax structures. The sales tax is also very responsive to economic conditions, but is historically less elastic than the personal income tax, dropping more slowly in bad times and increasing more slowly in good times. The states that rely heavily on corporate income taxes or severance taxes often see wild swings in revenue that are not necessarily related to general economic conditions. (Severance taxes are taxes on the removal of natural resources, such as oil and natural gas.)

Because high-end incomes are based more heavily upon volatile sources such as stock options and capital gains, growth in personal income tax revenue was far more subject to dramatic fluctuations than it would be if it were based entirely on wages and salaries. In the recent recession, we saw the downside of this volatility. While initially the market downturn affected relatively few wage earners, it turned gains into losses for investors, thus sharply contracting a hitherto rich source of revenue almost overnight. Meanwhile, stock options became both less common and less lucrative. The recession lasted only eight months, but it had significant aftereffects as the loss of investment capital manifested itself in weak employment numbers, which in turn depressed withholding. However, now the stock market recovery seems to be leading to stronger growth again.

States have also learned more about how sales tax revenue responds to an economic slowdown. There has been some fear that as states have removed more stable elements of consumption, such as groceries and clothing from their bases, their sales taxes were more subject to plunges as state residents became nervous about spending on optional and big-ticket items. Most state sales taxes also do not capture spending on services well. In the latest economic downturn, however, the sales tax generally maintained slow growth. It is now growing as the general economic conditions improve, though less rapidly than the personal income or corporate income taxes.

Oil has been a wild card in state tax revenue in recent years. When the price of oil increases, oil-producing states such as Alaska, Oklahoma, and Wyoming benefit. Conversely, when the price falls, these states' revenue tends to follow suit. This dynamic often operates largely independently of the general economy.

Tax Law Changes Affecting This Quarter

The final element affecting trends in tax revenue growth is changes in states' tax laws. When states boost or depress their revenue growth with tax increases or cuts, it can be difficult to draw any conclusions about their current fiscal condition from nominal collections data. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when receipts' processing changes have had a major impact on revenue growth, even though these are not due to enacted legislation, as it helps the reader to understand that the apparent growth or decline is not necessarily indicative of underlying trends.

During the July-September 2004 quarter, enacted tax changes and processing variations increased state revenue by an estimated net of \$500 million, compared to the same period in 2003. There now have been net enacted state tax increases for the last eleven straight quarters.

Enacted tax changes increased personal income tax collections by a net of about \$300 million. New Jersey raised its top personal income tax rate, most of the effects of this increase will not be seen until the final estimated tax payment and final settlements, but it probably boosted revenue by about \$100 million this quarter. A higher flat tax rate in Pennsylvania raised over \$150 million more in revenue.

New York re-instituted its sales tax on clothing, boosting collections by about \$100 million. Florida had a one-week holiday from its sales tax on clothing and school supplies, and a one-month reduction in its motor fuels tax, which altogether reduced revenue by almost \$100 million. There were also many other smaller tax increases and cuts.

Conclusions

July-September 2004 was the first quarter of fiscal year 2005 for most states. As such it is a strong beginning to the fiscal year, and is building on what turned out to be a strong prior fiscal year for state revenues. Legislated tax increases are still adding to collections, but to a lesser degree than in the two previous years. Most revenue growth is from economic factors. States can now face with confidence the budget cycle that is just starting.

Endnotes

- 1 Arizona, Georgia, Hawaii, Louisiana, Montana, New Jersey, Pennsylvania, Rhode Island, and Virginia.
- 2 Georgia, Idaho, Nebraska, Nevada, North Dakota, and Ohio.
- 3 United States Department of Commerce, Bureau of Economic Analysis News Release, November 30, 2004.
- 4 United States Department of Labor, Bureau of Labor Statistics, *Labor Force Statistics From the Current Population Survey*, www.bls.gov.

Technical Notes

This report is based on information collected from state officials, most often in state revenue departments, but in some cases from state budget offices and legislative staff. This is the latest in a series of such reports published by the Rockefeller Institute's Fiscal Studies Program (formerly the Center for the Study of the States).

In most states, revenue reported is for the general fund only, but in several states a broader measure of revenue is used. The most important category of excluded revenues in most states is motor fuel taxes. Taxes on health-care providers to fund Medicaid programs are excluded as well.

California: Non-general fund revenue from a sales tax increase dedicated to local governments is included.

Michigan: The Single Business Tax, a type of value-added tax, is treated here as a corporation income tax.

Missouri: The total taxes are the sum of the three major taxes.

Several caveats are important. First, tax collections during a period as brief as three months are subject to influences that may make their interpretation difficult. For example, a single payment from a large corporation can have a significant effect on corporate tax revenues.

Second, estimates of tax adjustments are imprecise. Typically the adjustments reflect tax legislation, however they occasionally reflect other atypical changes in revenue. Unfortunately, we cannot speak with every state in every quarter. We discuss tax legislation carefully with the states that have the largest changes, but for states with smaller changes we rely upon our analysis of published sources and upon our earlier conversations with estimators.

Third, revenue estimators cannot predict the quarter-by-quarter impact of certain legislated changes with any confidence. This is true of almost all corporate tax changes, which generally are reflected in highly volatile quarterly estimated tax payments; to a lesser extent it is true of personal income tax changes that are not implemented through withholding.

Finally, many other non-economic factors affect year-over-year tax revenue growth: changes in payment patterns, large refunds or audits, and administrative changes frequently have significant impacts on tax revenue. It is not possible for us to adjust for all of these factors.

This report contains third calendar quarter revenue data for 48 states. Connecticut and New Mexico had not provided their data as of the publication of this report.

State Tax Revenue on Upward Track

Table 9
State Tax Revenue, July to September, 2003 and 2004 (In Millions of Dollars)

	2003				2004			
	<i>Personal Income</i>	<i>Corporate Income</i>	<i>Sales</i>	<i>Total</i>	<i>Personal Income</i>	<i>Corporate Income</i>	<i>Sales</i>	<i>Total</i>
United States	\$43,789	\$6,191	\$43,741	\$110,491	\$47,380	\$7,532	\$46,301	\$120,045
New England	2,560	320	1,413	5,312	2,781	337	1,453	5,707
Connecticut	ND	ND	ND	ND	ND	ND	ND	ND
Maine	221	21	179	500	242	33	178	587
Massachusetts	2,021	247	961	3,799	2,189	242	997	4,017
New Hampshire	NA	33	NA	297	NA	35	NA	323
Rhode Island	209	11	217	496	234	14	227	541
Vermont	108	8	56	220	117	14	52	239
Mid Atlantic	9,463	1,417	6,007	19,927	10,585	1,502	6,313	21,677
Delaware	184	15	NA	403	193	20	NA	449
Maryland	818	96	465	1,536	1,056	215	496	1,927
New Jersey	1,120	381	1,048	3,026	1,313	367	1,100	3,259
New York	5,688	608	2,523	10,242	6,124	584	2,689	10,936
Pennsylvania	1,653	316	1,971	4,721	1,899	318	2,028	5,106
Great Lakes	7,100	924	7,220	17,870	7,431	1,090	7,683	18,992
Illinois	1,812	197	1,587	4,321	1,869	281	1,683	4,661
Indiana	904	114	1,173	2,470	981	157	1,247	2,672
Michigan	1,606	459	1,984	5,286	1,588	462	2,046	5,389
Ohio	1,767	17	1,800	3,870	1,909	19	2,017	4,216
Wisconsin	1,011	137	677	1,924	1,084	171	690	2,055
Plains	3,819	357	3,027	7,849	3,952	446	3,145	8,200
Iowa	571	38	443	1,113	613	50	466	1,210
Kansas	457	36	476	1,061	469	53	476	1,094
Minnesota	1,425	162	956	2,892	1,448	217	970	2,950
Missouri	1,009	77	645	1,730	1,034	71	671	1,777
Nebraska	308	33	280	665	334	43	309	745
North Dakota	49	11	91	205	53	13	107	231
South Dakota	NA	NA	137	183	NA	NA	145	194
Southeast	8,618	1,105	11,140	24,813	9,301	1,465	11,838	26,966
Alabama	574	67	438	1,504	591	62	481	1,610
Arkansas	426	62	462	1,025	461	65	494	1,096
Florida	NA	189	3,663	4,727	NA	331	3,968	5,327
Georgia	1,563	74	1,114	3,014	1,741	122	1,270	3,437
Kentucky	704	79	725	1,683	742	118	754	1,798
Louisiana	478	19	542	1,392	528	62	544	1,513
Mississippi	284	71	534	1,204	299	52	550	1,227
North Carolina	1,855	188	1,111	3,348	1,947	280	1,117	3,561
South Carolina	727	40	361	1,250	764	43	377	1,313
Tennessee	NA	155	1,448	2,196	NA	148	1,498	2,255
Virginia	1,760	113	489	2,724	1,967	122	524	3,009
West Virginia	247	48	255	745	261	61	261	821
Southwest	1,124	145	5,514	9,921	1,225	203	5,861	11,070
Arizona	579	112	800	1,592	647	165	877	1,817
New Mexico	ND	ND	ND	ND	ND	ND	ND	ND
Oklahoma	546	32	375	1,192	578	39	404	1,271
Texas	NA	NA	4,339	7,136	NA	NA	4,580	7,983
Rocky Mountain	1,555	138	1,173	3,266	1,666	189	1,261	3,538
Colorado	830	68	490	1,428	883	87	515	1,520
Idaho	201	24	270	588	213	33	298	642
Montana	139	12	NA	236	156	19	NA	267
Utah	385	35	375	938	414	50	408	1,020
Wyoming	NA	NA	38	77	NA	NA	41	89
Far West	9,550	1,785	8,247	21,534	10,440	2,300	8,747	23,896
Alaska	NA	11	NA	271	NA	15	NA	357
California	8,231	1,682	5,563	16,190	8,997	2,180	5,862	17,798
Hawaii	274	8	473	819	326	15	519	946
Nevada	NA	NA	597	725	NA	NA	698	915
Oregon	1,045	84	NA	1,169	1,117	90	NA	1,248
Washington	NA	NA	1,614	2,360	NA	NA	1,668	2,632

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 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 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others. Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues, is director of Fiscal Studies.

This report was written by Nicholas W. Jenny, a senior policy analyst with the Program. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design of this report, with assistance from Michele Charbonneau. Michael Ogborn assisted with the collection of data for this report. Barbara Stubblebine edited the report.

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