

STATE REVENUE REPORT

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State Tax Revenue Off to a Flying Start for Fiscal Year 2006

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HIGHLIGHTS

- ❖ State tax revenue in the July-September 2005 quarter grew 9.2 percent compared to the same period in 2004. This was the fastest third-quarter growth since at least 1991.
- ❖ After adjusting for inflation and legislated tax changes, growth was 3.6 percent.
- ❖ All three major tax sources showed strong growth, with the strongest gains recorded in the corporate income tax.
- ❖ Revenue growth was strongest in the Far West region (11.4 percent) and weakest in the New England region (6.2 percent).
- ❖ National employment growth was 1.7 percent in the quarter, with the largest growth in the western and southern regions.
- ❖ State tax revenue growth was reduced by over \$250 million in net enacted tax cuts. This is the first quarter of net tax cuts in almost four years.

Tax Revenue Change

State tax revenue increased 9.2 percent in the July-September quarter of 2005 compared to the same quarter the year before. This is the strongest nominal July-September revenue growth since the Rockefeller

Institute of Government began to track state revenues in 1991. This was the first quarter of the 2006 fiscal year for most states, and their budgets have gotten off to a good start.¹ While Hurricane Katrina seems to have had an impact on the revenue of Louisiana and Mississippi, this was a good quarter for al-

Table 1 Year-Over-Year Percent Change in Quarterly State Tax Revenue <i>Adjusted for Legislated Tax Changes and Inflation</i>				
	Total Nominal Change	Adjusted Nominal Change	Inflation Rate	Adjusted Real Change
2005				
July-Sept.	9.2 %	9.5 %	5.7 %	3.6 %
April-June	13.2	12.9	4.5	8.0
Jan.-Mar.	11.4	9.5	5.1	4.2
2004				
Oct.-Dec.	7.8	7.3	4.9	2.3
July-Sept.	8.6	8.1	3.7	4.2
April-June	11.2	9.0	3.2	5.6
Jan.-Mar.	8.1	7.1	1.5	5.5
2003				
Oct.-Dec.	7.3	4.9	2.3	2.5
July-Sept.	4.5	2.6	2.8	(0.2)
April-June	3.2	0.4	3.0	(2.5)
Jan.-Mar.	1.4	(1.0)	4.2	(5.0)
2002				
Oct.-Dec.	1.9	0.3	3.0	(2.6)
July-Sept.	2.5	0.7	2.5	(1.8)
April-June	(10.6)	(12.1)	2.3	(14.1)
Jan.-Mar.	(7.8)	(8.2)	2.0	(10.0)
2001				
Oct.-Dec.	(2.7)	(2.2)	2.1	(4.2)
July-Sept.	(3.1)	(2.4)	2.6	(4.9)
April-June	2.5	4.2	3.2	1.0
Jan.-Mar.	5.1	6.3	3.4	2.8
2000				
Oct.-Dec.	4.0	5.0	4.2	0.8
July-Sept.	7.1	7.7	4.5	3.1
April-June	11.4	11.8	4.5	7.0
Jan.-Mar.	9.7	10.4	4.8	5.3
1999				
Oct.-Dec.	7.4	8.4	3.7	4.5
July-Sept.	6.1	6.7	3.2	3.4
April-June	5.0	8.0	2.7	5.2
Jan.-Mar.	4.8	6.5	2.0	4.4
Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index.				

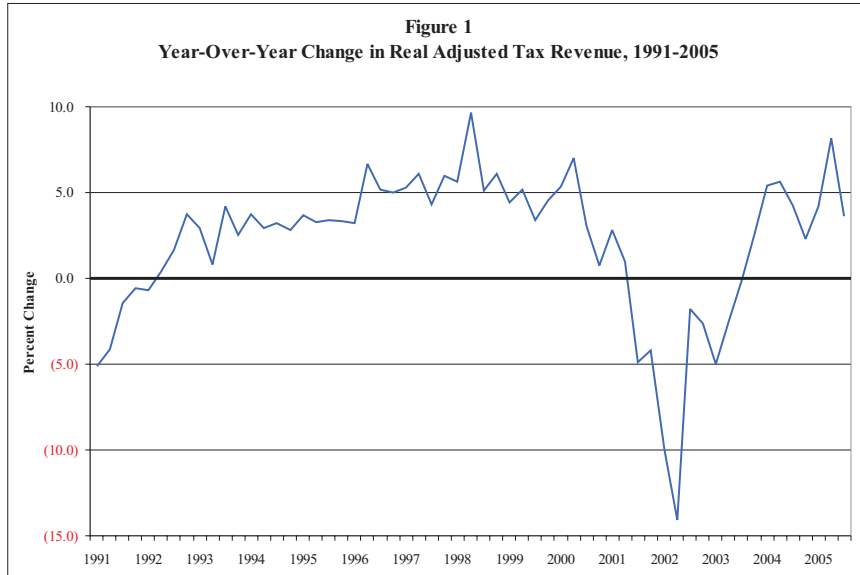
most every state. Corporate income tax growth was particularly strong. Tax revenue changes for the last 27 quarters are shown in Table 1.

Tax legislation and other processing changes made a relatively minor contribution to state tax collections in the July-September quarter, and were concentrated in a few states. Without net enacted tax cuts and processing changes, state tax revenue growth would have been 9.5 percent. Inflation, however, was quite high this quarter at 5.7

Table 2 Year-Over-Year Percent Change in Quarterly State Tax Revenue <i>By Major Tax</i>				
	PIT	CIT	Sales	Total
2005				
July-Sept.	9.2 %	25.9 %	7.8 %	9.2 %
April-June	18.2	21.9	7.9	13.2
Jan.-Mar.	11.6	61.6	6.1	11.4
2004				
Oct.-Dec.	8.8	27.0	6.0	7.8
July-Sept.	8.3	23.2	5.8	8.6
April-June	15.6	13.6	7.1	11.2
Jan.-Mar.	8.7	15.2	8.3	8.1
2003				
Oct.-Dec.	6.6	11.1	6.6	7.3
July-Sept.	5.1	9.0	3.7	4.5
April-June	(0.9)	17.9	2.9	3.1
Jan.-Mar.	(3.1)	10.3	1.9	1.4
2002				
Oct.-Dec.	(0.7)	22.4	0.7	1.9
July-Sept.	(1.6)	4.8	3.8	2.5
April-June	(22.3)	(11.7)	1.5	(10.4)
Jan.-Mar.	(14.3)	(16.1)	(1.0)	(7.8)
2001				
Oct.-Dec.	(2.7)	(31.8)	1.0	(2.7)
July-Sept.	(3.7)	(24.0)	0.0	(3.1)
April-June	5.4	(13.1)	0.5	2.5
Jan.-Mar.	8.7	(9.1)	3.4	5.1
2000				
Oct.-Dec.	5.8	(7.7)	4.2	4.0
July-Sept.	11.0	5.7	4.6	7.1
April-June	18.8	4.2	7.3	11.4
Jan.-Mar.	13.6	8.0	8.2	9.7
1999				
Oct.-Dec.	9.1	3.8	7.3	7.4
July-Sept.	7.6	1.4	6.7	6.1
April-June	6.0	(2.1)	7.3	5.0
Jan.-Mar.	6.6	(2.6)	6.1	4.8

percent.² If the effects of net enacted tax cuts and inflation are considered, real adjusted state tax revenue increased only 3.6 percent, as shown also in Table 1. This is a considerable decline from the previous quarter's 8.0 percent real adjusted increase. The pattern of growth in state tax revenue, adjusted for inflation and enacted tax increases from 1991 to the present is illustrated in Figure 1.

All three major state taxes showed growth this quarter. The strongest growth was the 25.9 percent increase recorded by the corporate income tax — the eighth straight quarter of double-digit growth.



Personal Income Tax

Personal income tax revenue grew 9.2 percent in the July-September quarter compared to the same quarter the year before. This was down from the previous quarter's 18.2 percent growth. However, the July-September quarter is usually weaker than the April-June quarter, which has a boost from collections with final returns. The strongest growth was the Southwest region's 18 percent. The New England states had the slowest

Personal income tax revenue grew 9.2 percent, weaker than the double-digit growth of the previous two quarters, but still quite strong. Sales tax growth was 7.8 percent, just slightly slower than the previous quarter's 7.9 percent. Table 2 shows the last 27 quarters of change in state collections of major tax sources.

Table 3 shows the growth by state and region for the three major state taxes and total state taxes. The Far West region had the strongest growth at 11.4 percent. The New England region had the slowest growth, at 6.2 percent. Over one-third of the states recorded growth of more than ten percent, the best growth being in Arizona, which had a very strong 21.1 percent increase. Only Maine recorded an actual revenue decline in this quarter, at 2.6 percent.

There were over \$250 million in net enacted tax cuts in the July-September quarter. This was the first quarter since October-December 2001 with a net cut. The Mid-Atlantic region had the largest share of tax cuts. (See Figure 2.) The other regions had relatively small tax increases or cuts that had little effect on tax revenue growth. Table 4 shows the overall effect of legislated tax changes and processing variations. Table 5 shows the percentage change in each state's total tax revenue, adjusted for legislated tax changes and inflation.

growth at 3.9 percent. Growth was widespread, affecting 37 of the 40 states with broad-based personal income tax for which we have data. Hawaii led with a remarkable 33.8 percent growth in the quarter. Eleven other states also had double-digit increases. Mississippi, which was affected by Hurricane Katrina, had a decline of 4.4 percent. Indiana and Rhode Island had small declines.

We can get a better idea of what is really happening with the personal income tax by breaking it down into its major component parts: withholding, quarterly estimated payments, and final payments with returns. For this quarter most collections are from withholding and estimated payments.

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 6 shows that withholding for the July-September 2005 quarter increased 6.7 percent over the same quarter of 2004. This is an increase from the 5.8 percent growth in the previous quarter. Enacted tax law changes had no significant effect on withholding in this quarter.

Estimated Payments

The highest-income taxpayers generally pay the most estimated tax payments (also known as declarations) on their income not subject to with-

Table 3
Percent Change in Quarterly Tax Revenue by State,
July-September, 2004 to 2005

	PIT		CIT		Sales		Total
United States	9.2	%	25.9	%	7.8	%	9.2
New England	6.3		18.9		4.5		6.2
Connecticut	7.2		(0.7)		3.3		4.4
Maine	2.7		25.5	*	4.1		(2.6)
Massachusetts	7.0		20.5		5.4		7.9
New Hampshire	NA		33.9	*	NA		11.2
Rhode Island	(0.5)		63.5	*	4.3		2.9
Vermont	7.5		15.9		4.1		10.5
Mid-Atlantic	10.6		22.3		3.2		9.1
Delaware	11.4		60.7		NA		13.5
Maryland	12.0		2.3	*	6.3		8.1
New Jersey	17.4		25.4		3.0		12.6
New York	9.8		29.2		1.0	¶	9.1
Pennsylvania	7.7		17.8		5.5		6.9
Great Lakes	5.7		10.5		3.0		5.2
Illinois	7.8		19.2		8.2		6.4
Indiana	(0.7)		38.6		4.7		4.7
Michigan	3.9		(4.9)		3.6		3.8
Ohio	7.0	¶	(94.8)	*	(3.5)	*	4.5
Wisconsin	8.3		23.4	*	4.2		8.0
Plains	7.6		40.5		5.3		10.1
Iowa	0.6		14.5		3.9	¶	4.4
Kansas	11.9		36.3		7.0		9.5
Minnesota	9.2		33.3		6.9		15.0
Missouri	7.7		85.4		3.9		6.0
Nebraska	7.6		42.2		4.8		13.4
North Dakota	8.3		24.6		(0.4)		13.0
South Dakota	NA		NA		5.9		5.7
Southeast	8.8		39.1		10.2		10.3
Alabama	13.2		57.9		7.0		10.2
Arkansas	8.2		35.6		7.6		9.1
Florida	NA		52.8		15.1		14.1
Georgia	7.5		47.9	*	10.3		9.4
Kentucky	3.4	¶	64.7	*	6.5		12.1
Louisiana ^P	0.4		64.1		12.5		6.9
Mississippi	(4.4)		30.3		4.8		1.5
North Carolina	10.2		(3.3)		4.5		8.1
South Carolina	10.3		43.1		5.1		8.5
Tennessee	NA		45.8	*	8.3		10.1
Virginia	11.6		76.1		10.5	¶	15.2
West Virginia	8.4		18.3		7.0		3.8
Southwest	18.0		44.1		11.5		11.1
Arizona	25.4		39.2		16.9		21.1
New Mexico	ND		ND		ND		ND
Oklahoma	9.8		65.1		5.3		9.3
Texas	NA		NA		11.0		9.1
Rocky Mountain	6.8		33.7		5.8		7.2
Colorado	6.2		27.3		5.5		6.6
Idaho	8.3		26.1		(0.1)	¶	4.5
Montana	2.2		43.9		NA		3.6
Utah	9.1		46.6		8.6		10.3
Wyoming	NA		NA		24.0		14.8
Far West	11.7		23.3		11.5		11.4
Alaska	NA		83.0		NA		5.7
California	10.9		19.7		11.7		11.8
Hawaii	33.8		431.8		11.7	¶	16.2
Nevada	NA		NA		11.8		10.7
Oregon	11.8		31.1		NA		9.9
Washington	NA		NA		10.8		8.2

See page 9 for notes.

holding tax. This income often comes from investments, i.e., capital gains realized in the stock market. A strong stock market should eventually translate into capital gains and higher estimated tax payments. Strong business profits also tend to boost these payments, as do corporate income taxes.

In the 34 states for which we have complete data, growth in estimated tax payments in September, the third quarter payment, was 21.1 percent compared to the year before. (See Table 7.) The median state growth was only 15.8 percent; overall growth is being boosted by particularly strong growth in certain large states such as California and New York. For the period April to September, which encompasses the first three quarterly payments, growth was 22.4 percent with a median growth of 15.9 percent. The continued strong growth indicates that most of those who receive non-wage income are expecting it to be higher this year than last. In addition, since there was strong growth in final payments for last year's income, many estimated taxpayers need to pay more just to match their total payments for last year, as required to avoid penalties. If estimated tax payments remain this strong for the rest of the year, it also points to strong growth in final payments for April 2006.

General Sales Tax

Sales tax revenue in the July-September quarter increased 7.8 percent over the same quarter the year before. This was just slightly less than the 7.9 percent growth the previous quarter.

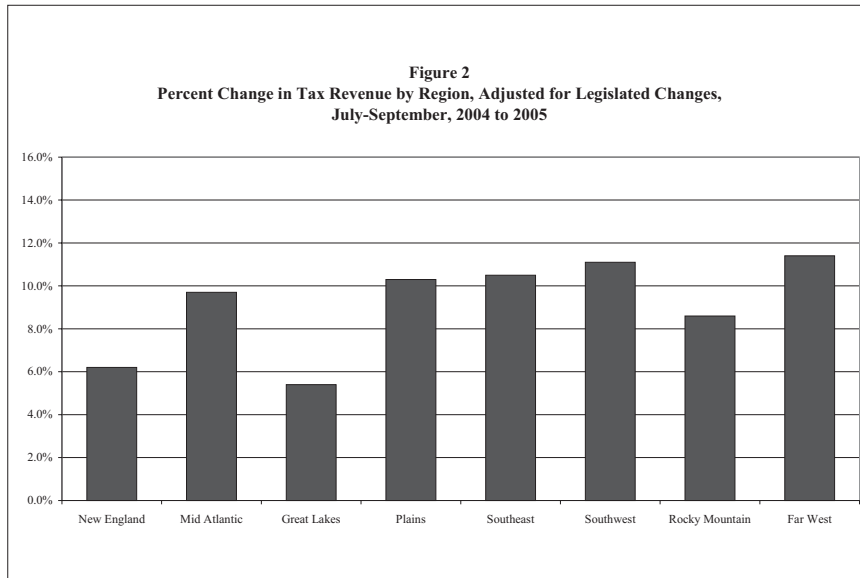
Sales tax revenue grew fastest in the Far West and Southwest regions at 11.5 percent. The weakest growth was in the Great Lakes region, where revenue increased 3 percent (about one-half the national rate of inflation). Wyoming had the strongest growth at 24 percent, with ten other states also having double-digit growth. Ohio had the weakest performance, with a 3.5 percent decline. North Dakota also had a small decline in its sales tax revenue.

Table 4 Change in Quarterly State Tax Revenue Adjusting for Legislated Tax Changes			
	PIT	Sales	Total
2005			
July-Sept.	9.5 %	8.0 %	9.5 %
April-June	17.7	7.8	12.9
Jan.-Mar.	11.2	6.0	9.5
2004			
Oct.-Dec.	8.3	5.7	7.3
July-Sept.	7.3	5.6	8.1
April-June	12.6	6.4	9.0
Jan.-Mar.	7.7	6.8	7.0
2003			
Oct.-Dec.	5.3	4.2	4.9
July-Sept.	3.9	1.9	2.6
April-June	(2.0)	1.3	0.4
Jan.-Mar.	(4.4)	1.0	(1.0)
2002			
Oct.-Dec.	(1.6)	0.7	0.3
July-Sept.	(2.1)	2.7	0.7
April-June	(22.5)	0.1	(11.9)
Jan.-Mar.	(14.5)	(2.4)	(8.4)
2001			
Oct.-Dec.	(2.1)	1.2	(2.3)
July-Sept.	(2.8)	0.4	(2.4)
April-June	7.9	0.6	4.2
Jan.-Mar.	10.1	3.7	6.3
2000			
Oct.-Dec.	6.5	5.0	5.0
July-Sept.	11.6	5.6	7.7
April-June	18.6	7.8	11.8
Jan.-Mar.	13.8	8.8	10.4
1999			
Oct.-Dec.	11.0	7.5	8.4
July-Sept.	8.3	6.9	6.7
April-June	12.4	7.3	8.0
Jan.-Mar.	9.9	6.2	6.5
<i>Note:</i> 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.)			

Corporate Income Tax

Corporate income tax revenue grew 25.9 percent in the July-September quarter, even better than the previous quarter's 21.9 percent. This quarter represented a continuation of the strong growth in the corporate income tax that the states have enjoyed for the previous twelve quarters. The corporate income tax is a volatile tax source, growing and declining very rapidly. Of late, however, this tax source has been moving in one consistent direction — up — and very rapidly.

Table 5 Percent Change in Quarterly Total Tax Revenue by State, Adjusted for Legislation and Inflation July-September, 2004 to 2005	
United States	3.6 %
New England	0.5
Connecticut	(1.2)
Maine	(7.8)
Massachusetts	2.1
New Hampshire	5.0
Rhode Island	(2.8)
Vermont	4.5
Mid Atlantic	3.8
Delaware	7.4
Maryland	2.0
New Jersey	6.2
New York	4.5
Pennsylvania	1.1
Great Lakes	(0.3)
Illinois	0.7
Indiana	(0.9)
Michigan	(1.8)
Ohio	(0.6)
Wisconsin	2.3
Plains	4.4
Iowa	0.0
Kansas	3.8
Minnesota	8.7
Missouri	0.3
Nebraska	7.4
North Dakota	6.9
South Dakota	0.0
Southeast	4.5
Alabama	4.3
Arkansas	3.3
Florida	7.9
Georgia	3.4
Kentucky	6.7
Louisiana ^p	1.1
Mississippi	(3.8)
North Carolina	2.4
South Carolina	2.7
Tennessee	3.9
Virginia	9.8
West Virginia	(1.9)
Southwest	5.1
Arizona	14.6
New Mexico	ND
Oklahoma	3.4
Texas	3.2
Rocky Mountain	2.7
Colorado	0.9
Idaho	6.0
Montana	(2.0)
Utah	4.4
Wyoming	8.6
Far West	5.4
Alaska	0.0
California	5.8
Hawaii	10.5
Nevada	4.7
Oregon	4.1
Washington	2.4
Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index. See page 9 for notes.	



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, despite recent weather-related setbacks. The Bureau of Economic Analysis' (BEA) preliminary estimate for the real Gross Domestic Product (GDP) showed growth of 4.3 percent for the third quarter of 2005, better than the previous quarter's 3.3 percent.³ The national unemployment rate was 5 percent for the third quarter, down slightly from 5.1 percent the previous quarter, and 1.1 percentage points lower than the post-recession peak two years 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. Most taxes are based on nominal measures such as income, wages, and profits, rather than em-

ployment. 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 for the last four quarters using BLS data. Figure 6 maps the change in third quarter 2005 employment compared to the same period in 2004. By this measure, employment in the July-September 2005 quarter grew 1.7 percent compared to the year before. Employment growth was strongest in the Rocky Mountain region at 2.6 percent; the weakest growth — 0.3 percent — was in the Great Lakes region. We see the hurricane effects with the employment declines in Louisiana and Mississippi, where the entire decline took place in September. Michigan continues to lose employment at a slow but steady rate. Every other state had employment growth. Thirty-six states had employment growth of one percent or more, down from 37 the previous quarter. Nevada continues to lead the country with a robust 6.2 percent growth. Five other states — Arizona, Florida, Idaho, Oregon, and Utah — also had strong growth of over 3 percent.

Overall, the employment picture has shown solid growth for the previous several quarters, and this has continued into the third quarter of 2005. The states with the strongest growth are concentrated in the southern and western sections of the country, the pattern seen before the recent recession, and consistent with the overall pattern of population growth.

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 the tax systems used by the states react differently to similar economic situations.

Table 6					
Change in Personal Income Tax Withholding by State, Last Four Quarters					
	2004		2005		
	Oct.-Dec.		Jan-Mar.	Apr.-June	July-Sept
United States	6.3	%	5.8	5.8	6.7
New England	6.4		4.3	4.4	5.4
Connecticut	12.1		4.0	7.4	7.9
Maine	6.0		7.8	0.7	5.5
Massachusetts	4.3		4.1	3.5	5.1
Rhode Island	3.2	*	3.7	4.8	(1.5)
Vermont	5.0		3.8	5.1	3.4
Mid-Atlantic	4.4		5.5	10.8	6.6
Delaware	9.9		8.2	3.4	ND
Maryland	(5.1)		(7.4)	37.3	7.8
New Jersey	7.0	*	10.6	11.2	9.6
New York	4.9		8.0	4.7	6.1
Pennsylvania	13.9	*	8.1	4.6	4.9
Great Lakes	4.6		4.1	4.0	4.4
Illinois	4.6	*	5.0	5.1	6.8
Indiana	4.5		5.5	6.0	5.0
Michigan	1.9	¶	(2.0)	2.5	0.5
Ohio	4.8		7.4	2.8	5.0
Wisconsin	7.8		4.8	4.5	4.7
Plains	5.0		6.2	4.8	5.2
Iowa	5.8		7.3	ND	(0.9)
Kansas	5.6		7.7	6.6	9.3
Minnesota	4.7		8.1	2.6	8.0
Missouri	4.5		1.5	6.5	7.0
Nebraska	6.4		7.0	6.7	(5.0)
North Dakota	3.5		19.0	4.6	6.0
Southeast	7.5		6.3	2.8	7.4
Alabama	6.5		9.2	5.8	7.8
Arkansas	6.4		9.5	5.8	8.1
Georgia	12.6		2.6	(10.2)	7.0
Kentucky	5.2		7.0	8.9	6.0
Louisiana ^p	11.2		5.3	7.2	4.1
Mississippi	17.1		6.5	7.0	3.6
North Carolina	4.3		7.5	7.1	8.2
South Carolina	7.8		5.6	7.1	9.9
Virginia	5.8		7.0	4.4	7.3
West Virginia	4.3		6.7	9.2	8.1
Southwest	7.0		10.1	11.0	19.4
Arizona ¹	7.9		16.3	16.0	19.4
New Mexico	8.7		(2.1)	4.9	ND
Oklahoma	5.5		8.1	8.1	ND
Rocky Mountain	6.2		5.7	7.1	4.9
Colorado	6.7		6.5	5.3	3.7
Idaho	7.7		3.3	11.6	6.2
Montana	2.1		10.6	3.6	(1.7)
Utah	5.2		4.1	9.1	8.5
Far West	10.1		7.4	5.0	9.3
California	11.0		7.0	5.0	9.5
Hawaii	9.4		19.8	3.3	6.8
Oregon	4.0		6.9	5.4	8.3

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 9 for notes.

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. This is most evident in states with more progressive income tax structures, since higher incomes are at the highest rates. 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. States that rely heavily on corporate income or severance taxes often see wild swings in revenue that are not necessarily related to general economic conditions. (Severance taxes are levied 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 is far more subject to dramatic fluctuations than it would be if it were based entirely on wages and salaries. Over the last couple of years we have seen growth in the stock market and strong growth in corporate profits and other business-related income. This is leading to the personal and corporate income taxes growing faster than the general economy. In the recent recession, we saw the downside of this volatility. As the stock market and other investments declined, it pushed personal and corporate income tax collections down much faster than the economy, and created large holes in almost every state's budget.

States also have 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 consumers 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

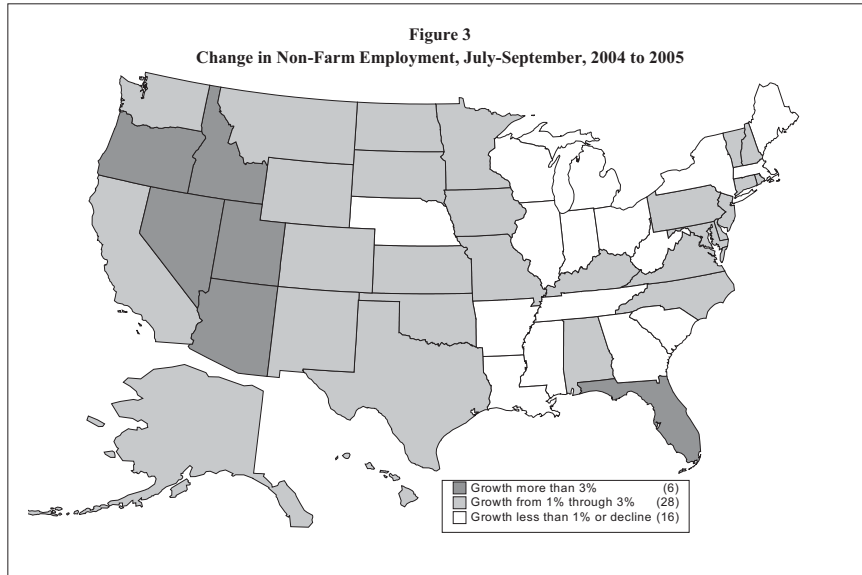
Table 7				
Estimated Payments/Declarations (Percentage Change Year-Over-Year)				
	Apr.-Sept. 2004 to 2005		Sept. 2004 to 2005	
Average (Mean)	22.4	%	21.7	%
Median	15.9		15.8	
Alabama	42.9		104.8	
Arkansas	16.3		10.3	
California	26.4		28.1	
Colorado	25.2		18.0	
Connecticut	23.0		28.1	
Georgia	24.1		24.3	
Hawaii	35.2		38.8	
Illinois	15.3		18.8	
Indiana	19.5		10.8	
Iowa	4.3		8.9	
Kansas	11.6		10.1	
Kentucky	1.1		(11.6)	
Louisiana ^p	0.0		(19.0)	
Maine	15.3		14.9	
Maryland	16.1		16.6	
Massachusetts	11.5		19.7	
Michigan	9.9		9.9	
Minnesota	(1.3)		10.4	
Mississippi	(28.7)		(19.0)	
Missouri	11.3		12.0	
Montana	17.7		9.3	
Nebraska	(12.4)		15.5	
New Jersey	35.1		27.7	
New York	37.1		26.0	
North Carolina	20.8		21.8	
North Dakota	16.9		16.0	
Ohio	15.6		13.5	
Oregon	18.7		18.6	
Rhode Island	4.4		8.8	
South Carolina	19.9		17.6	
Vermont	21.3		24.5	
Virginia	11.0		21.7	
West Virginia	11.3		6.8	
Wisconsin	0.3		12.1	
See page 9 for notes.				

economic downturn, however, the sales tax generally maintained slow growth. It is now growing more rapidly as 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 through their severance taxes, and through increases in collections in other state taxes resulting from the generally

Table 8 Year-Over-Year Percentage Change In Non-Farm Employment by State, Last Four Quarters				
	2004		2005	
	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.
United States	1.6	1.7	1.6	1.7
Sum of States	1.5	1.6	1.4	1.3
New England	0.8	1.2	1.0	1.0
Connecticut	1.1	1.4	1.3	1.1
Maine	1.1	0.9	0.6	0.5
Massachusetts	0.5	1.0	0.7	0.6
New Hampshire	1.3	2.0	1.8	2.2
Rhode Island	0.6	1.4	1.0	1.1
Vermont	1.4	1.7	1.4	1.5
Mid Atlantic	0.9	1.3	1.2	1.3
Delaware	2.0	2.3	2.2	1.6
Maryland	1.8	1.9	2.2	2.1
New Jersey	0.9	1.6	1.3	1.2
New York	0.7	1.0	0.9	1.0
Pennsylvania	0.8	1.1	1.1	1.2
Great Lakes	0.4	0.8	0.4	0.3
Illinois	0.3	0.6	0.6	0.8
Indiana	1.4	2.2	1.2	0.7
Michigan	(0.4)	(0.1)	(0.6)	(0.9)
Ohio	0.4	0.7	0.3	0.2
Wisconsin	1.1	1.2	0.8	0.7
Plains	1.1	1.5	1.1	1.2
Iowa	1.1	1.0	1.1	1.2
Kansas	1.5	1.9	1.2	1.2
Minnesota	1.2	1.8	1.1	1.4
Missouri	0.9	1.1	0.8	1.0
Nebraska	1.1	1.8	1.1	0.9
North Dakota	1.2	1.9	1.5	1.3
South Dakota	1.5	1.8	1.5	1.5
Southeast	2.0	1.9	1.4	1.3
Alabama	1.9	2.1	1.6	1.2
Arkansas	1.1	1.2	1.1	1.0
Florida	3.8	3.4	2.9	3.5
Georgia	1.2	0.8	0.5	0.9
Kentucky	0.8	1.1	1.0	1.2
Louisiana	0.4	0.6	0.3	(3.5)
Mississippi	0.9	1.2	1.0	(0.5)
North Carolina	1.5	1.6	1.4	1.2
South Carolina	1.4	1.0	0.1	0.1
Tennessee	1.5	1.2	0.8	0.9
Virginia	2.7	2.5	1.5	1.2
West Virginia	1.2	1.3	0.9	0.7
Southwest	1.9	1.9	1.8	1.9
Arizona	3.9	4.1	3.9	4.2
New Mexico	2.0	1.9	2.1	2.0
Oklahoma	1.4	1.8	1.8	1.8
Texas	1.4	1.4	1.2	1.3
Rocky Mountain	2.5	2.9	2.5	2.6
Colorado	2.1	2.5	2.1	2.0
Idaho	3.0	3.0	3.3	3.7
Montana	3.5	2.4	1.4	1.8
Utah	2.9	3.7	3.3	3.5
Wyoming	1.9	2.2	2.1	2.8
Far West	2.1	2.3	2.1	2.1
Alaska	1.6	1.5	1.4	1.5
California	1.7	1.7	1.7	1.6
Hawaii	3.1	2.8	2.8	2.8
Nevada	6.4	6.7	6.5	6.2
Oregon	3.0	4.0	3.1	3.2
Washington	1.8	2.3	2.0	2.4

Source: Bureau of Labor Statistics.



stronger state economies. Conversely, when the price falls, these states' revenue tends to follow suit. This dynamic often operates largely independently of the general economy. Now that we are seeing a relatively high oil price, it is likely that this will constitute a drag on most states' economies, as well as a significant increase in state expenses.

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 tax 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 2005 quarter, enacted tax changes and processing variations decreased state revenue by an estimated net of over \$250 million compared to the same period in 2004. This is the first quarter of net enacted tax cuts since the end of 2001.

Enacted tax changes decreased personal income tax collections by a net of over \$100 million. Sales tax collections also declined by a net of just over \$100 million. New York's sales tax collections declined by over \$150 million due to the end of a temporary 0.25 percent rate increase. Ohio has a package of tax changes taking effect, including a personal income tax rate reduction, a sales tax rate increase, changes in business taxes, and increases in the cigarette and gas taxes. The net effect of all of these changes was a total tax cut of about \$25 million. There were also many other smaller tax cuts and increases in other states.

Key to Interpreting Tables

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

1 indicates data through July only.

p indicates preliminary data for September.

* 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 1999. For data through 1991 call the Fiscal Studies Program.

Conclusions

State tax revenue growth remains strong, driven by growth in the underlying economy. We have yet to see the full impact of the recent hurricanes on state revenue, but given the national economic strength, it would seem localized. The states have finally begun to enact net tax cuts, but to date they are small. Inflation is beginning to be a real factor in pushing up state tax revenue growth.

Table 9
State Tax Revenue, July-September, 2004 and 2005 (\$ in millions)

	2004				2005			
	Personal Income	Corporate Income	Sales	Total	Personal Income	Corporate Income	Sales	Total
United States	48,096	7,692	46,840	122,909	52,537	9,683	50,497	134,276
New England	3,522	423	1,989	7,409	3,742	503	2,080	7,870
Connecticut	741	87	504	1,600	794	86	521	1,670
Maine	242	33	184	587	248	41	192	572
Massachusetts	2,189	242	997	4,017	2,342	291	1,050	4,335
New Hampshire	NA	35	NA	357	NA	46	NA	397
Rhode Island	234	14	227	541	233	23	236	557
Vermont	117	14	77	306	126	16	81	339
Mid Atlantic	10,585	1,556	6,313	22,095	11,710	1,903	6,515	24,101
Delaware	193	20	NA	449	215	32	NA	510
Maryland	1,056	215	496	1,927	1,182	219	528	2,082
New Jersey	1,313	367	1,100	3,323	1,542	460	1,133	3,741
New York	6,124	584	2,689	10,937	6,727	754	2,715	11,931
Pennsylvania	1,899	372	2,028	5,460	2,044	438	2,140	5,837
Great Lakes	7,431	1,090	7,684	18,618	7,854	1,204	7,912	19,590
Illinois	1,869	281	1,683	4,661	2,014	335	1,821	4,959
Indiana	981	157	1,247	2,672	974	218	1,307	2,797
Michigan	1,588	462	2,046	5,015	1,649	439	2,120	5,207
Ohio	1,909	19	2,017	4,216	2,043	1	1,946	4,408
Wisconsin	1,084	171	690	2,055	1,174	211	719	2,219
Plains	3,952	446	3,145	8,729	4,254	626	3,313	9,610
Iowa	613	50	466	1,210	617	57	485	1,264
Kansas	469	53	476	1,103	524	72	509	1,207
Minnesota	1,448	217	970	2,950	1,581	290	1,037	3,393
Missouri	1,034	71	671	2,298	1,114	132	698	2,436
Nebraska	334	43	309	745	360	61	324	845
North Dakota	53	13	106	231	57	16	106	261
South Dakota	NA	NA	145	194	NA	NA	154	205
Southeast	9,275	1,487	11,847	27,545	10,090	2,069	13,059	30,389
Alabama	591	62	481	1,602	669	98	514	1,766
Arkansas	461	65	494	1,096	499	88	532	1,197
Florida	NA	331	3,968	5,327	NA	506	4,567	6,076
Georgia	1,741	122	1,279	3,514	1,871	180	1,411	3,845
Kentucky	742	118	754	1,966	767	194	803	2,204
Louisiana ^P	528	62	544	1,513	530	101	612	1,617
Mississippi	299	52	550	1,227	286	68	576	1,246
North Carolina	1,947	280	1,117	4,007	2,145	271	1,167	4,330
South Carolina	764	43	377	1,313	843	61	396	1,425
Tennessee	NA	148	1,498	2,255	NA	215	1,622	2,483
Virginia	1,967	122	524	2,908	2,196	215	579	3,350
West Virginia	261	61	261	821	283	72	280	851
Southwest	1,225	203	5,861	11,070	1,445	293	6,535	12,299
Arizona	647	165	877	1,817	811	229	1,026	2,200
New Mexico	ND	ND	ND	ND	ND	ND	ND	ND
Oklahoma	578	39	404	1,271	635	64	425	1,388
Texas	NA	NA	4,580	7,983	NA	NA	5,084	8,711
Rocky Mountain	1,669	186	1,262	3,529	1,782	249	1,335	3,785
Colorado	883	87	515	1,520	937	111	543	1,621
Idaho	213	33	298	642	231	41	297	671
Montana	156	19	NA	267	160	27	NA	277
Utah	416	47	408	1,018	454	69	443	1,123
Wyoming	NA	NA	41	82	NA	NA	51	94
Far West	10,439	2,300	8,499	23,527	11,660	2,835	9,481	26,201
Alaska	NA	15	NA	349	NA	27	NA	369
California	8,996	2,180	5,855	17,798	9,976	2,610	6,540	19,903
Hawaii	326	15	519	946	436	80	580	1,100
Nevada	NA	NA	698	889	NA	NA	781	984
Oregon	1,117	90	NA	1,300	1,248	118	NA	1,429
Washington	NA	NA	1,668	2,632	NA	NA	1,848	2,848

See page 9 for notes.

Many states recorded surpluses at the end of the 2005 fiscal year, and with continued strong revenue growth they can look forward with some confidence to more surpluses at the end of the current fiscal year. This should help states in dealing with pressures from Medicaid and potential federal spending cuts among other things. We should probably also expect renewed calls for state tax cuts.

Endnotes

- 1 Four states do not use a July 1 to June 30 fiscal year: Alabama and Michigan use October 1 to September 30; New York uses April 1 to March 31; Texas uses September 1 to August 31.
- 2 We use the Bureau of Economic Analysis' State and Local Government Consumption Expenditures and Gross Investment Price Index as an inflation measure, since it reflects the pressures of inflation on state governments better than the Consumer Price Index.
- 3 United States Department of Commerce, Bureau of Economic Analysis News Release, November 30, 2005.
- 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 many 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 corporate income tax.

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.

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. Barbara Stubblebine edited the report.

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