

## HIGHLIGHTS

- State tax revenue totaled \$154 billion in the January-March 2007 quarter, up 4.8 percent from the same period in 2006.
- After adjusting for inflation and legislated tax changes, underlying growth was 1.4 percent. The first quarter of 2007 represented the 14th consecutive quarter of growth in real, adjusted terms, but was slightly below the average growth for 2006.
- Personal income tax revenue rose at a stronger pace than in the previous quarter, while growth in sales tax revenues was relatively weak, the lowest in four years.
- Among the regions, the Rocky Mountain states had the strongest revenue growth at 10.5 percent, re-taking the lead from the Southwest, which grew 8.1 percent. Revenue in the Mid-Atlantic states surged 9.6 percent this quarter.
- National employment was 1.4 percent higher this quarter than a year earlier, with the strongest growth continuing in the western regions, and the weakest in the Great Lakes region and northeastern states.
- State tax revenue growth was reduced by \$1.3 billion in net enacted tax cuts for the quarter.

## Personal Income Tax Revenue Rebounds As Sales Tax Falters

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### Tax Revenue Change

State tax revenue increased 4.8 percent in the January-March quarter of 2007 compared to the same quarter the year before. This nominal growth rate is higher than the previous two quarters, but not as strong as the first two quarters of 2006. Tax revenue changes for the last 33 quarters (1999-2007) are shown in Table 1.

Inflation for the first quarter of 2007 was 4.3 percent, as measured by the state and local government consumption expenditure index. This was up from 3.6 percent last quarter. The inflation rate was slower than most of the previous 11 quarters, and higher than only the fourth quarter of 2006. Tax legislation and other processing changes had a modest net impact on state tax collections in the January-March quarter. When the effects of enacted tax cuts and inflation are considered, real adjusted state tax revenue increased by 1.4 percent (Table 1). 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.

Only one of the three major state taxes showed stronger growth than the previous quarter, and overall tax revenue showed stronger growth, as well:

- ✓ Personal income tax revenue increased 6.8 percent in January-March 2007, ending the two-quarter decline, but still lagging behind the 10.6 percent figure for the first quarter of 2006.
- ✓ The corporate income tax showed a steady gain of 14.3 percent, less than the 16.8 percent gain in the fourth quarter of 2006, but much stronger than the year-ago first quarter loss of 13.8 percent.
- ✓ Sales tax collections grew 2.8 percent. Compared to a 5.0 percent increase the previous quarter, this increase was the lowest in four years.

Table 2 shows the last 33 quarters of change in collections of the major state tax sources.

Total growth in state tax revenue remained relatively soft in the first quarter of 2007, compared to historical trends. All regions except the Rocky Mountain region showed single-digit growth, with the Great Lakes the lowest at 1.2 percent. Growth varied widely in the western regions, with the Rocky Mountain states having the strongest overall growth at 10.5 percent, up from 4.3 percent last quarter, while growth in the Far West was cut in half to only 1.7 percent, down from 3.6 percent in the fourth quarter of 2006, and 6.1 percent in the third quarter. The Mid-Atlantic region increased from 5.5 percent last quarter to 9.6 percent in the first quarter of 2007. The southwestern states followed closely at 8.1 percent. Growth of 10 percent or more

<b>Table 1</b>				
<b>Quarterly State Tax Revenue</b>				
<b>Adjusted for Legislated Tax Changes and Inflation</b>				
<b>Year-Over-Year Percent Change</b>				
	<b>Total Nominal Change</b>	<b>Adjusted Nominal Change</b>	<b>Inflation Rate</b>	<b>Adjusted Real Change</b>
<b>2007</b>				
Jan.-Mar.	4.8 %	5.8 %	4.3 %	1.4 %
<b>2006</b>				
Oct.-Dec.	4.3	5.0	3.6	1.4
July-Sept.	4.6	5.5	4.7	0.8
April-June	9.9	9.9	5.7	4.0
Jan.-Mar.	6.8	6.8	5.8	0.9
<b>2005</b>				
Oct.-Dec.	7.6	7.7	6.3	1.3
July-Sept.	9.3	9.7	6.4	3.1
April-June	13.2	12.9	6.0	6.5
Jan.-Mar.	11.4	9.5	5.9	3.4
<b>2004</b>				
Oct.-Dec.	7.8	7.3	5.7	1.5
July-Sept.	8.6	8.1	4.6	3.3
April-June	11.2	9.0	3.9	4.9
Jan.-Mar.	8.1	7.0	2.9	4.0
<b>2003</b>				
Oct.-Dec.	7.3	4.9	3.8	1.0
July-Sept.	4.5	2.6	3.9	(1.2)
April-June	3.2	0.4	3.9	(3.4)
Jan.-Mar.	1.4	(1.0)	4.7	(5.4)
<b>2002</b>				
Oct.-Dec.	1.9	0.3	3.3	(2.9)
July-Sept.	2.5	0.7	2.7	(2.0)
April-June	(10.6)	(12.1)	2.2	(14.0)
Jan.-Mar.	(7.8)	(8.2)	1.7	(9.7)
<b>2001</b>				
Oct.-Dec.	(2.7)	(2.2)	2.0	(4.1)
July-Sept.	(3.1)	(2.4)	2.6	(4.9)
April-June	2.5	4.2	3.3	0.8
Jan.-Mar.	5.1	6.3	3.6	2.6
<b>2000</b>				
Oct.-Dec.	4.0	5.0	4.2	0.7
July-Sept.	7.1	7.7	4.5	3.0
April-June	11.4	11.8	4.5	6.9
Jan.-Mar.	9.7	10.4	4.8	5.3
<b>1999</b>				
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	5.1
Jan.-Mar.	4.8	6.5	2.0	4.4

Source: Individual state data, analysis by Rockefeller Institute. Legislated tax changes by National Conference of State Legislatures (NCSL). Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index.

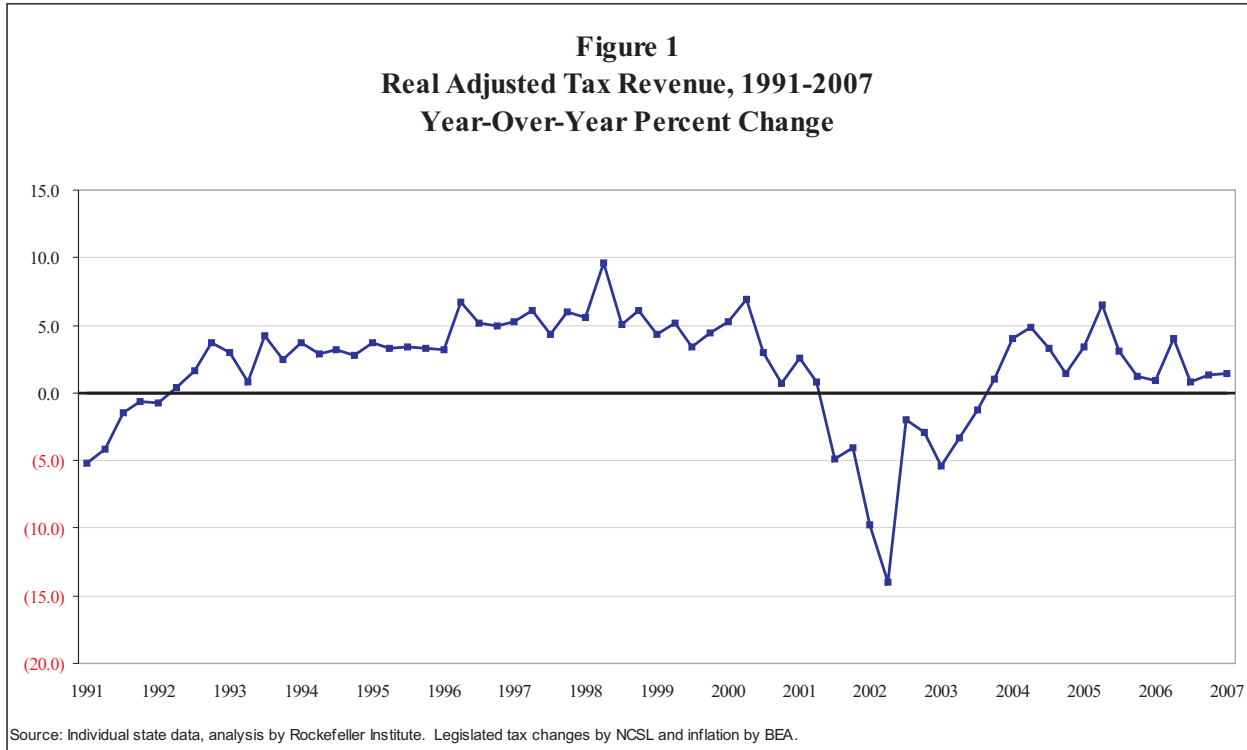
was recorded in 11 states, compared with four states in the last quarter, seven in the third quarter, and 22 in the second quarter of 2006. Additionally, seven states had revenue declines this quarter, compared with six states in the fourth quarter, seven states in the third quarter, and three in the second. Table 3 shows growth by state and region for the three major state taxes and total state taxes.

<b>Table 2</b>				
<b>Quarterly State Tax Revenue</b>				
<b>By Major Tax, Year-Over-Year Percent Change</b>				
	<b>PIT</b>	<b>CIT</b>	<b>Sales</b>	<b>Total</b>
<b>2007</b>				
Jan.-Mar.	6.8 %	14.3 %	2.8 %	4.8 %
<b>2006</b>				
Oct.-Dec.	4.0	16.8	5.0	4.2
July-Sept.	6.6	11.1	4.1	4.7
April-June	15.1	14.7	5.7	9.9
Jan.-Mar.	10.6	(13.8)	6.6	6.8
<b>2005</b>				
Oct.-Dec.	5.7	24.8	5.5	7.6
July-Sept.	9.0	25.4	7.8	9.3
April-June	18.2	21.9	7.9	13.2
Jan.-Mar.	11.6	61.6	6.1	11.4
<b>2004</b>				
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
<b>2003</b>				
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
<b>2002</b>				
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)
<b>2001</b>				
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
<b>2000</b>				
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
<b>1999</b>				
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

Source: Individual state data, analysis by Rockefeller Institute.

Among individual states, total collections in the first quarter were up strongly in Idaho, New York, South Carolina, and New Jersey, compared to a year earlier. Total revenues dropped significantly in Connecticut, Delaware, and Oregon.

This was the sixth consecutive quarter with a net tax cut, totaling \$1.3 billion in net enacted reductions. Ohio registered the largest net tax cuts for a single state at \$680 million. The Mid-Atlantic



and the Far West regions reported net increases, and New Jersey led the states in net tax increases with \$521 million, primarily through sales tax increases (See Figure 2). 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.

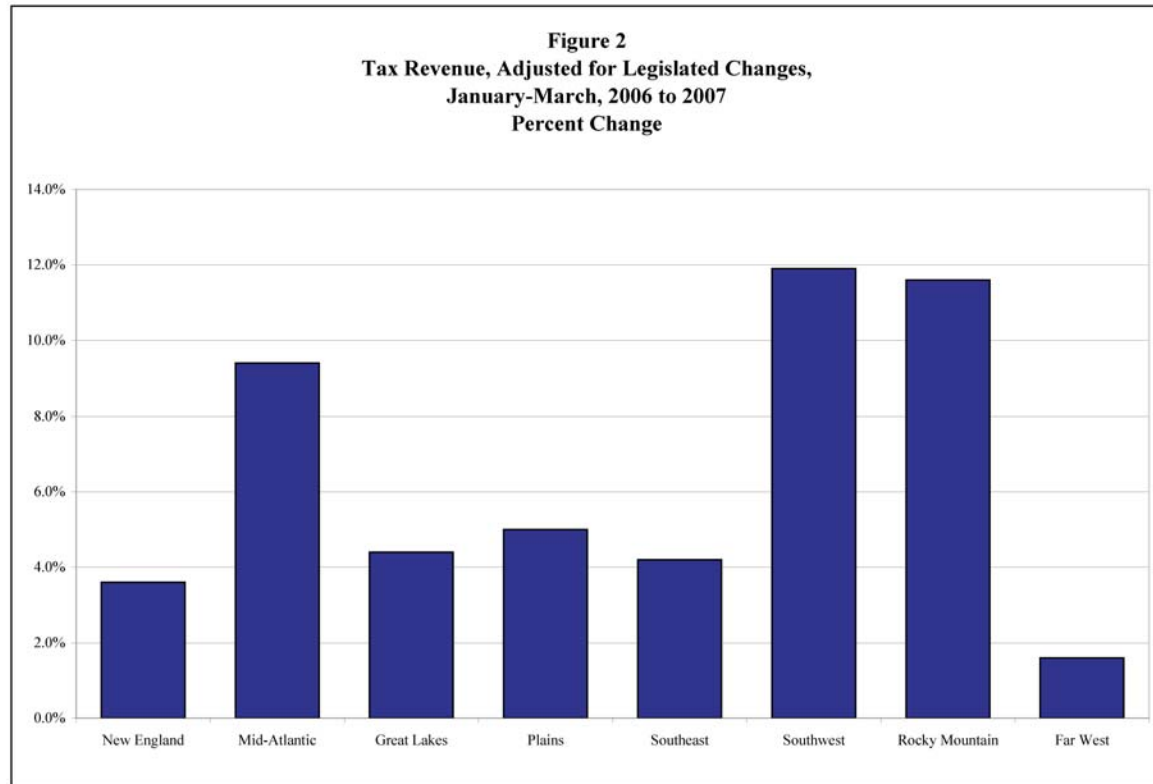
**Personal Income Tax**

Personal income taxes are the largest single source of state tax revenue. In the first quarter of 2007, they accounted for 40 percent overall, and 48 percent in the states that collect personal income taxes. Nine states do not have personal income taxes. Personal income tax revenue makes up at least half of total tax revenue in 10 of the 50 states, and over 40 percent in 22 states. In states that impose a personal income tax, this revenue ranged from 14 percent to 89 percent of total first-quarter collections.

Personal income tax revenue grew 6.8 percent in the January-March 2007 quarter compared to the same quarter in 2006. That increase represented a rebound from 4.0 percent in the fourth quarter of 2006 (the lowest increase since mid-2003). By way

of comparison, federal personal income tax collections grew 10.3 percent during the first quarter, up from the previous quarter’s 10.1 percent. The strongest growth was in the Mid-Atlantic region, where collections grew 13.8 percent, followed closely by the Rocky Mountain states, at 12.6 percent. Collections in the Far West region increased only 0.2 percent. Of the 41 states with a broad-based personal income tax and for which first quarter information is available, 33 reported growth, while 12 had double-digit increases. Only 11 states matched or exceeded the rate of federal collections. Idaho led the states with growth of 26.2 percent. Doubling the amount from the fourth quarter in 2006, eight states showed a decline in collections, the largest being 12.3 percent for Connecticut. Connecticut had \$19 million in legislated tax cuts for the first quarter.

We can get a clearer picture of collections from the personal income tax by breaking this source down into major component parts for which we have data: withholding and quarterly estimated payments.



Source: Individual state data, analysis by 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 6 shows that withholding for the January-March 2007 quarter grew 6.1 percent over the same quarter of 2006. Arizona, Idaho, Georgia, and New York all reported strong growth of more than 15 percent.

### *Estimated Payments*

The highest-income taxpayers generally pay 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. A strong stock market should eventually translate into capital gains and higher estimated tax payments. Strong business profits also tend to boost these payments.

In the 33 states for which we have complete data, estimated tax payments for the first payment period rose by an average 8.6 percent compared to

a year earlier (see Table 7). Increases were recorded in 24 states, with 17 reporting double-digit growth over the year. Three states had increases of more than 20 percent, and nine showed year-over-year declines. The continued increase (although not as strong as previous quarters) indicates that most taxpayers who receive non-wage income are expecting it to be higher this year than last. However, since the increase is not as high for the first payment, it could mean that taxpayers are not expecting as much income as in previous years, or that they are expecting the stock market to slow.

### *General Sales Tax*

In the January-March quarter, sales tax revenue comprised 36 percent of total tax revenue in all 50 states, and 37 percent in the 45 states that impose sales taxes. Among 50 states reporting, sales tax made up over 50 percent of total revenue in 11 states, and 40 percent in seven more states. In states that collect sales tax revenue, the percentage of total revenue ranges from 14 to 78 percent.

Collections in the January-March 2007 quarter were 2.8 percent above the same quarter in 2006.

**Table 3**  
**Quarterly Tax Revenue by Major Tax, by State**  
**January-March, 2006 to 2007, Percent Change**

	PIT	CIT	Sales	Total
<b>United States</b>	<b>6.8 %</b>	<b>14.3 %</b>	<b>2.8 %</b>	<b>4.8 %</b>
<b>New England</b>	<b>1.2</b>	<b>66.8</b>	<b>3.7</b>	<b>3.3</b>
Connecticut	(12.3) ¶	(42.6) ¶	5.6	(8.6) ¶
Maine	10.0	6.8	3.0	3.3
Massachusetts	9.7	126.5	2.8	9.4
New Hampshire	N/A	69.7	N/A	19.3
Rhode Island	8.3 ¶	(5.5)	1.6	2.8
Vermont	1.5	9.7	1.7	29.5 *
<b>Mid-Atlantic</b>	<b>13.8</b>	<b>13.1</b>	<b>4.1</b>	<b>9.6</b>
Delaware	(4.8)	(50.8) ¶	N/A	(6.6)
Maryland	7.2	(6.7)	1.6	3.7
New Jersey	15.7	12.9 *	21.6 *	11.3 *
New York	17.1 ¶	16.3 ¶	(4.6) ¶	12.9 ¶
Pennsylvania	4.8	20.7 ¶	2.2	5.2
<b>Great Lakes</b>	<b>4.0</b>	<b>6.4</b>	<b>(0.9)</b>	<b>1.2</b>
Illinois	11.4	12.6	(2.7)	5.7
Indiana	3.4	137.1	1.8	4.2
Michigan	4.5	(7.3)	(3.7)	(2.0)
Ohio	(2.7) ¶	(1.1) ¶	1.9	(3.3) ¶
Wisconsin	(1.0)	21.5 ¶	(0.3)	2.0
<b>Plains</b>	<b>5.7</b>	<b>6.2</b>	<b>2.0</b>	<b>4.0</b>
Iowa	6.1 ¶	23.5	0.3	4.9
Kansas	12.7	(2.0)	1.7	4.8
Minnesota	3.5	4.1	(2.2)	1.2
Missouri	5.8	8.2	5.4	6.6
Nebraska	3.4 ¶	0.6	6.1 ¶	3.2 ¶
North Dakota	16.8	9.3	6.4	8.2
South Dakota	N/A	N/A	13.7 ¶	10.0 ¶
<b>Southeast</b>	<b>8.5</b>	<b>10.3</b>	<b>1.5</b>	<b>3.8</b>
Alabama	4.8 ¶	(6.5)	4.0	3.8
Arkansas	3.5	2.7	3.6	3.6
Florida	N/A	(5.8)	(1.9)	(4.2) ¶
Georgia	9.2	3.4	6.5	6.1
Kentucky	7.1	4.4 ¶	2.3	5.4 ¶
Louisiana	4.2	35.2	(1.0)	6.8
Mississippi	13.4	11.3	(1.5)	4.4
North Carolina	15.6	36.8	3.8	8.3
South Carolina	18.0	18.7	5.4	11.4 *
Tennessee	N/A	55.4	5.1	10.8
Virginia	4.6	5.3 ¶	1.7	2.2
West Virginia	3.1	(35.4) ¶	2.7	0.0
<b>Southwest</b>	<b>3.4</b>	<b>54.6</b>	<b>8.9</b>	<b>8.1</b>
Arizona	14.5 ¶	23.3 ¶	5.1	8.5 ¶
New Mexico	(3.3)	8.0	10.4	3.3
Oklahoma	(7.2) ¶	165.0	2.5	6.3 ¶
Texas	N/A	N/A	10.2	8.8 ¶
<b>Rocky Mountain</b>	<b>12.6</b>	<b>6.0</b>	<b>9.5</b>	<b>10.5</b>
Colorado	16.2	(19.1)	9.2	11.8
Idaho	26.2	(28.2)	26.3	18.1
Montana	2.8	51.7	N/A	16.5 ¶
Utah	0.1 ¶	47.0	0.4 ¶	2.9 ¶
Wyoming	N/A	N/A	11.6 ¶	2.3 ¶
<b>Far West</b>	<b>0.2</b>	<b>0.7</b>	<b>1.4</b>	<b>1.7</b>
Alaska	N/A	367.8	N/A	89.0
California	0.7	(2.6)	(0.6)	(0.6)
Hawaii	(4.1)	658.2	3.8	0.9
Nevada	N/A	N/A	2.4	1.8
Oregon	(3.5)	(27.8)	N/A	(4.0)
Washington	N/A	N/A	7.5	8.5

Source: Individual state data, analysis by Rockefeller Institute.  
See page 9 for notes.

This is almost half of the 5.0 percent growth the previous quarter and the weakest growth since the first quarter of 2003.

The Great Lakes region showed a net loss in sales tax revenue for the first quarter of 2007. Sales tax revenue grew fastest in the Rocky Mountain region at 9.5 percent, followed by the Southwest at 8.9 percent. Idaho had the highest increase at 26.3 percent, up from a 22 percent increase in the fourth quarter of 2006. The only other state with an increase over 20 percent was New Jersey, at 21.6 percent. Nine states reported a decline in sales tax revenue; New York showed the largest decline at 4.6 percent.

### Corporate Income Tax

Corporate income tax made up 7.0 percent of total revenue in the first quarter of 2007 and 8.0 percent of revenue in the 45 states that impose corporate income taxes.

Nominal tax revenue increased 14.3 percent in the January-March quarter, weaker than the 16.8 percent growth in the fourth quarter of 2006, but much stronger than the 13.8 percent regression in the first quarter last year. The New England region reported the largest increase with 66.8 percent, due largely to Massachusetts's 126.5 percent increase. However, 15 states showed a decrease in corporate tax revenue, led by Delaware's 50.8 percent decline. Corporate income tax is an unstable revenue source; many states report sizeable changes from quarter to quarter.

### Underlying Reasons for Trends

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

### National and State Economies

National economic growth showed signs of slowing in the first quarter. Bureau of Economic Analysis (BEA) estimates indicate that real Gross Domestic Product (GDP) grew at an annual rate of 0.6 percent (GDP percent change

	PIT	Sales	Total
<b>2007</b>			
Jan.-Mar.	8.2 %	2.6 %	5.8 %
<b>2006</b>			
Oct.-Dec.	5.3	4.7	5.0
July-Sept.	8.1	4.2	5.5
April-June	15.4	6.5	9.9
Jan.-Mar.	10.9	7.4	6.8
<b>2005</b>			
Oct.-Dec.	6.0	6.4	7.7
July-Sept.	9.2	8.6	9.7
April-June	17.7	7.8	12.9
Jan.-Mar.	11.2	6.0	9.5
<b>2004</b>			
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
<b>2003</b>			
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)
<b>2002</b>			
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)
<b>2001</b>			
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
<b>2000</b>			
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
<b>1999</b>			
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

Source: Individual state data, NCSL, analysis by Rockefeller Institute.  
*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).

based on chained 2000 dollars, seasonally adjusted annual rates) this quarter, compared to 2.5 percent the previous quarter. This was the smallest increase since the fourth quarter of 2002. The first quarter of 2006 showed a 5.6 percent increase. The January-March 2007 quarter's slight growth was attributed to an increase in imports, state and local government spending, consumer spending on durable goods, services, and equipment and software. Declining in growth were exports, federal government spending, consumer spending on non-durable

<b>United States</b>	<b>1.4 %</b>
<b>New England</b>	<b>(0.7)</b>
Connecticut	(11.4)
Maine	(1.0)
Massachusetts	4.9
New Hampshire	14.4
Rhode Island	(1.2)
Vermont	22.2
<b>Mid-Atlantic</b>	<b>4.9</b>
Delaware	(10.2)
Maryland	(0.2)
New Jersey	(2.0)
New York	11.0
Pennsylvania	1.2
<b>Great Lakes</b>	<b>0.1</b>
Illinois	1.2
Indiana	(1.7)
Michigan	(6.0)
Ohio	5.9
Wisconsin	(2.1)
<b>Plains</b>	<b>0.7</b>
Iowa	1.2
Kansas	0.9
Minnesota	(2.6)
Missouri	2.2
Nebraska	3.2
North Dakota	3.7
South Dakota	21.1
<b>Southeast</b>	<b>(0.1)</b>
Alabama	0.1
Arkansas	(0.7)
Florida	(6.6)
Georgia	1.9
Kentucky	2.6
Louisiana	2.7
Mississippi	0.2
North Carolina	3.8
South Carolina	2.7
Tennessee	6.0
Virginia	(1.8)
West Virginia	(4.0)
<b>Southwest</b>	<b>7.3</b>
Arizona	8.8
New Mexico	(1.7)
Oklahoma	4.5
Texas	8.4
<b>Rocky Mountain</b>	<b>7.0</b>
Colorado	7.4
Idaho	13.2
Montana	11.7
Utah	1.5
Wyoming	1.6
<b>Far West</b>	<b>(2.6)</b>
Alaska	81.2
California	(4.7)
Hawaii	(3.3)
Nevada	(2.4)
Oregon	(8.0)
Washington	3.0

Source: Individual state data, NCSL, analysis by Rockefeller Institute.  
 Inflation is measured by BEA State and Local Government Consumption Expenditures and Gross Investment Price Index.  
 See page 9 for notes.



**Table 6**  
**Personal Income Tax Withholding, by State**  
**Last Four Quarters, Percent Change**

	2006		2007	
	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.
<b>United States</b>	<b>6.6 %</b>	<b>4.0 %</b>	<b>6.1 %</b>	<b>7.1 %</b>
<b>New England</b>	<b>6.7</b>	<b>5.8</b>	<b>6.0</b>	<b>6.5</b>
Connecticut	7.7	6.1 ¶	6.1 ¶	7.8 ¶
Maine	5.6 ¶	4.0	4.6	2.6
Massachusetts	6.4	5.5	6.2	6.3
Rhode Island	6.8	10.5	5.6	9.9 ¶
Vermont	5.6	5.4	4.7	1.3
<b>Mid-Atlantic</b>	<b>4.4</b>	<b>0.4</b>	<b>5.5</b>	<b>11.6</b>
Delaware	13.0	11.8	3.3	(6.4)
Maryland	5.8	(11.2)	5.4	5.9
New Jersey	16.1 *	(3.1)	10.8	11.4
New York	6.4 *	3.0 ¶	4.3 ¶	15.6 ¶
Pennsylvania	(11.8)	7.9	4.6	4.1
<b>Great Lakes</b>	<b>4.4</b>	<b>3.7</b>	<b>1.9</b>	<b>1.6</b>
Illinois	7.1	8.1	6.4	5.4
Indiana	5.6	4.7	2.1	4.6
Michigan	(0.5)	1.9	0.4	3.6
Ohio	3.3 ¶	0.7 ¶	(4.1) ¶	(3.6) ¶
Wisconsin	7.2	3.8	6.1	(0.6)
<b>Plains</b>	<b>7.0</b>	<b>5.2</b>	<b>14.3</b>	<b>4.5</b>
Iowa	4.4 ¶	5.1	6.8	3.6 ¶
Kansas	10.0	8.8	9.7	6.7
Minnesota	6.1	2.6 ¶	4.9 ¶	4.3
Missouri	6.2	6.3	36.2	4.1
Nebraska	13.8	7.5	9.3	4.8 ¶
North Dakota	10.3 ¶	10.7	3.7	9.9
<b>Southeast</b>	<b>7.6</b>	<b>5.6</b>	<b>6.5</b>	<b>7.2</b>
Alabama	7.9	9.7	6.1	4.3 ¶
Arkansas	9.9 ¶	8.9	7.5	3.8
Georgia	6.3	6.3	5.2	17.6
Kentucky	0.3 ¶	0.1	5.5	2.2
Louisiana	10.2	7.4	15.9	(5.4)
Mississippi	9.5	11.8	4.2	9.9
North Carolina	7.5	6.1	6.4	9.1
South Carolina	7.9	4.9	6.2	8.8
Virginia	10.0 ¶	4.0	5.7	7.6
West Virginia	6.2	0.0	14.2	3.5
<b>Southwest</b>	<b>8.5</b>	<b>3.8</b>	<b>5.6</b>	<b>4.0</b>
Arizona	9.9	5.4 ¶	11.4 ¶	18.6 ¶
New Mexico	0.5 ¶	(2.8)	3.1	3.0
Oklahoma	8.5 ¶	4.5	(0.1)	(1.9) ¶
<b>Rocky Mountain</b>	<b>8.9</b>	<b>10.2</b>	<b>6.4</b>	<b>8.3</b>
Colorado	8.2	7.4	5.5	7.5
Idaho	11.1	11.2	9.7	17.7
Montana	8.9	11.9	6.4	9.3
Utah	9.1	14.4 ¶	6.3 ¶	4.9 ¶
<b>Far West</b>	<b>9.6</b>	<b>4.7</b>	<b>6.7</b>	<b>6.5</b>
California	10.3	4.6	6.6	7.7
Hawaii	5.5	5.5	5.6	(4.2)
Oregon	5.7	5.1	7.8	0.4

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.

Source: Individual state data, analysis by Rockefeller Institute.

See page 9 for notes.

goods, and private inventory and residential fixed investments.<sup>1</sup> The national unemployment rate remained stable at 4.5 percent, but lower than the first quarter of 2006 rate of 4.7 percent, and the lowest first quarter unemployment rate since the first quarter of 2001.<sup>2</sup>

Stock-market trends influence state tax revenues in several important ways. In states such as California and New York, financial-market activity has particularly dramatic implications for personal income tax revenue. Fluctuations in corporate profits drive changes both in stock values and in corporate income taxes. Higher stock values may also lead to increases in consumer purchases, and thus sales tax revenue. For the year ending March 31, 2007, the S&P 500 index rose 9.3 percent. Although the index fluctuated during the first quarter of 2007, it ended the quarter essentially unchanged from its end-of-year 2006 close. The year ending March 31, 2006 saw the S&P rise 10.1 percent.<sup>3</sup>

Productivity, another gauge of economic strength, is measured by the increase in output per labor hour. Thus, it can increase with improved output or reduction in hours worked. Productivity rose 1.0 percent in the January-March quarter compared to the previous quarter. In comparison, the percent change from the first quarter of 2005 to the first quarter of 2006 was 2.0 percent, and 2.4 percent from the first quarter of 2004 to the first quarter of 2005, indicating a slower first quarter rate. Output increased by 2.0 percent from the first quarter of 2006, down from an increase of 4.4 percent from the first quarter of 2005 to the first quarter of 2006, and an increase of 3.8 percent in year-over-year change for the first quarters from 2004 to 2005. Total hours worked increased by 1.1 percent year-over-year for the first quarter of 2007; compensation increased by 3.2 percent, and real compensation increased by 0.7 percent.<sup>4</sup>

Income growth also provides an important outlook on economic strength. Hourly compensation increased by 3.2 percent year-over-year from the first quarter of 2006 to the first quarter of 2007, 5.7 percent from 2005 to 2006, and 4.6 percent from 2004 to 2005. Hourly compensation includes wages and salaries, supplements, employer contributions to employee benefit

**Table 7**  
**Estimated Payments/Declarations, by State**  
**Year-Over-Year (2006-07) Percent Change**

	April-January (All four payments)	December-January (Fourth payment)	April (First payment)
<b>Average (Mean)</b>	<b>14.9 %</b>	<b>11.9 %</b>	<b>8.6 %</b>
<b>Median</b>	<b>13.0</b>	<b>7.9</b>	<b>10.1</b>
Alabama	19.4	25.6	8.6
Arizona	10.5	(14.5)	(62.1)
Arkansas	6.4	(4.2)	15.3
California	11.1	(2.3)	5.1
Colorado	29.1	18.5	15.3
Connecticut	7.4	5.7	(0.5)
Delaware	5.2	1.1	(0.6)
Georgia	16.6	10.2	N/D
Hawaii	18.3	14.3	(58.9)
Illinois	18.2	20.4	27.4
Indiana	10.0	6.9	8.6
Iowa	11.7	9.0	77.6
Kansas	22.0	17.5	11.8
Kentucky	(14.6)	(15.7)	(35.2)
Louisiana	48.0	69.5	N/D
Maine	6.6	6.3	11.3
Maryland	14.4	9.4	14.3
Massachusetts	11.1	3.7	(8.5)
Michigan	5.5	0.2	13.7
Minnesota	16.3	18.1	N/D
Missouri	11.2	1.9	N/D
Montana	25.6	26.1	N/D
Nebraska	21.8	39.0	8.8
New Jersey	7.5	5.2	18.0
New Mexico	37.5	49.7	(42.6)
New York	13.3	9.0	7.3
North Carolina	12.7	3.3	17.1
North Dakota	34.7	29.6	10.9
Ohio	4.8	5.4	7.9
Oklahoma	17.7	5.4	(0.2)
Oregon	10.6	1.4	(3.8)
Pennsylvania	13.9	8.2	14.2
Rhode Island	7.7	8.6	11.4
South Carolina	23.1	23.5	151.3
Vermont	8.6	1.5	13.8
Virginia	17.6	20.9	4.7
West Virginia	15.0	7.5	10.1
Wisconsin	9.5	6.5	11.4

Source: Individual state data, analysis by Rockefeller Institute.

plans, and taxes. Real hourly compensation measures hourly compensation adjusted for changes in consumer prices. From the first quarter of 2006 to the first quarter of 2007, real hourly compensation increased by 0.7 percent, down from 1.9 percent from the year-over-year percent change from the first quarter of 2005 to 2006, and 1.5 percent from the first quarter of 2004 to 2005. Real hourly compensation declined 0.1 percent this quarter after increasing 13.6 percent in the fourth quarter of 2006.<sup>5</sup>

Comparing productivity and hourly compensation shows the change in unit labor costs. Unit labor costs were 2.2 percent higher in the first quarter than a year earlier. In comparison, the year-over-year increase for the first quarter of 2005 to 2006 was 3.6 percent. Unit labor costs increased 1.6 percent from the fourth quarter of 2006 to the first quarter of 2007 and by 8.9 percent from the third to the fourth quarter of 2006.<sup>6</sup>

Consumer spending increased 1.9 percent in the January-March 2007 period, a smaller growth rate than previous years. The annual percent change in the first quarter of 2006 was 2.7 percent, 3.3 percent in 2005, and 4.3 percent in 2004. All economic indicators, GDP, productivity, hourly compensation, unit labor costs, and consumer spending showed weaker growth than the same quarter a year ago.

The general lack of timely state-level indicators presents a challenge to an assessment of state economies. Data on nonfarm employment (not seasonally adjusted), 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 measures such as income, wages, and profits, rather than employment. Unfortunately, state-level data on such measures — when they are available at all — usually are reported too late to be of much use in analyzing recent revenue collections.

On a national basis, nonfarm employment continued to exhibit growth. Employment in the January-March 2007 quarter showed a 1.4 percent growth rate compared to a year earlier. That increase was down slightly from the fourth quarter's 1.6 percent, but still within the 1.4-1.7 percent range over the last four quarters. The disparity in employment growth among the regions remains pronounced. Table 8 shows year-over-year employment growth for the nation and for each state for the first quarter of 2007 and last three quarters



of 2006. Figure 3 maps the change in the first quarter 2007 employment compared to the same period in 2006.<sup>7</sup>

Job growth continues to be concentrated in the western states. The Rocky Mountain and Southwest regions have vied for the lead in creating jobs in recent quarters. This quarter, the Rocky Mountain states again came out on top, at 3.0 percent growth from a year earlier, versus the Southwest's 2.6 percent growth rate. The Far West grew 1.9 percent, and was slightly higher than the Southeast's 1.7 percent. In total, 19 states in these four regions grew faster than the nation. Two states are on par with the national rate: Georgia and South Carolina recorded the same growth rate of 1.4 percent. Utah led the nation with strong 4.5 percent growth, just ahead of Louisiana at 4.4 percent, and Arizona at 4.1 percent. Those states and three others — Idaho, Nevada, and Wyoming — recorded growth of more than double the national rate. In contrast, job growth remains sluggish in the Great Lakes region, which expanded jobs at a rate of 0.1 percent. This slow job growth was broad-based, with all five of the region's states posting a growth rate less than the national average. Both Michigan and Ohio showed a negative growth rate. None of the states in the New England or Mid-Atlantic regions matched the national growth rate, and only three of seven Plains states — Kansas, North Dakota, and South Dakota — matched or exceeded the national rate. After reporting a positive employment growth rate for the first time since the

### Key to Interpreting Tables

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

\* 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.

NM indicates not meaningful.

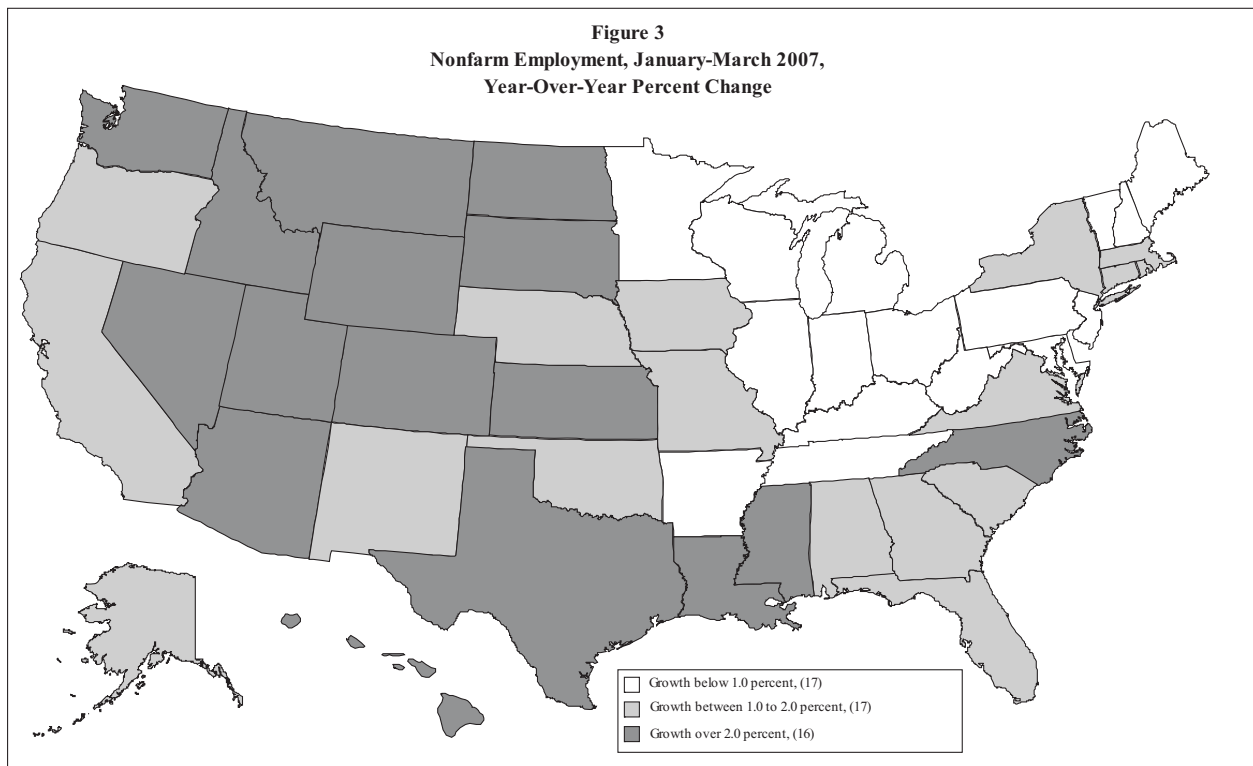
Historical Tables (Tables 1, 2, and 4) have been shortened to provide data only back to 1999. Data through 1991 are available at:

[www.rockinst.org/research/sl\\_finance/2column.aspx?id=828](http://www.rockinst.org/research/sl_finance/2column.aspx?id=828).

**Table 8**  
**Nonfarm Employment, by State**  
**Last Four Quarters, Year-Over-Year Percent Change**

	2006			2007
	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.
<b>United States</b>	<b>1.7</b>	<b>1.5</b>	<b>1.6</b>	<b>1.4</b>
<b>New England</b>	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>	<b>1.1</b>
Connecticut	0.9	1.2	1.1	1.1
Maine	0.6	0.3	0.3	0.4
Massachusetts	1.0	0.9	1.0	1.2
New Hampshire	0.3	0.3	0.2	0.6
Rhode Island	0.4	0.2	0.9	1.3
Vermont	0.7	0.2	0.4	0.3
<b>Mid-Atlantic</b>	<b>1.0</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>
Delaware	1.5	0.5	0.6	0.8
Maryland	1.4	0.8	1.0	0.9
New Jersey	0.8	0.7	0.9	0.7
New York	0.9	0.9	1.0	1.2
Pennsylvania	0.9	0.7	0.9	1.0
<b>Great Lakes</b>	<b>0.4</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>
Illinois	1.3	1.1	1.1	1.0
Indiana	0.7	0.4	0.4	0.2
Michigan	(1.1)	(1.3)	(1.3)	(1.1)
Ohio	0.3	0.0	0.1	(0.2)
Wisconsin	0.9	0.3	0.4	0.3
<b>Plains</b>	<b>1.3</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>
Iowa	1.7	1.2	1.2	1.2
Kansas	1.0	1.8	2.3	2.3
Minnesota	1.1	1.1	0.7	0.7
Missouri	1.4	1.0	1.3	1.1
Nebraska	1.1	1.0	1.4	1.9
North Dakota	2.0	2.0	2.8	2.3
South Dakota	2.0	2.1	2.5	2.4
<b>Southeast</b>	<b>1.8</b>	<b>1.5</b>	<b>1.9</b>	<b>1.7</b>
Alabama	2.0	1.8	1.5	1.7
Arkansas	2.0	1.7	1.4	0.8
Florida	2.9	2.2	2.0	1.6
Georgia	2.3	1.7	1.5	1.4
Kentucky	1.2	0.8	0.8	0.8
Louisiana	(4.9)	(2.1)	5.3	4.4
Mississippi	0.6	1.3	2.4	2.1
North Carolina	3.1	2.7	2.6	2.3
South Carolina	2.2	1.3	1.7	1.4
Tennessee	1.6	1.4	1.1	1.0
Virginia	1.9	1.3	1.3	1.2
West Virginia	1.1	0.8	1.2	0.5
<b>Southwest</b>	<b>3.7</b>	<b>3.3</b>	<b>3.2</b>	<b>2.6</b>
Arizona	5.3	5.1	4.9	4.1
New Mexico	3.1	3.0	2.7	1.9
Oklahoma	2.7	2.5	1.9	1.3
Texas	3.5	3.0	2.9	2.5
<b>Rocky Mountain</b>	<b>3.8</b>	<b>3.3</b>	<b>3.2</b>	<b>3.0</b>
Colorado	2.6	2.2	2.1	2.0
Idaho	4.9	4.3	4.5	3.5
Montana	3.7	2.7	2.2	2.1
Utah	5.1	4.8	4.5	4.5
Wyoming	5.0	4.4	4.2	4.0
<b>Far West</b>	<b>2.3</b>	<b>2.2</b>	<b>2.0</b>	<b>1.9</b>
Alaska	2.2	1.2	1.5	1.5
California	1.9	1.8	1.7	1.7
Hawaii	2.4	2.1	2.4	2.3
Nevada	5.1	4.1	3.7	3.4
Oregon	3.2	3.0	2.2	1.8
Washington	3.0	2.9	2.6	2.1

Source: Bureau of Labor Statistics, analysis by Rockefeller Institute.



Source: Bureau of Labor Statistics, analysis by Rockefeller Institute

second quarter of 2005, Louisiana showed a slight decline, from 5.3 percent in the fourth quarter of 2006 to 4.4 percent in the first quarter of 2007.<sup>8</sup>

### ***Nature of the Tax System***

Even if 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. 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, as higher incomes are taxed 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. In the last recession, we saw the downside of this volatility. Declines in the stock market and other investments pushed personal and corporate income tax collections down much faster than the economy and created large holes in almost every state's budget.

Sales tax revenue generally fluctuates less rapidly than the personal income or corporate income taxes and does not capture spending on services well. 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 plunge as

**Table 9**  
**Year-to-Date Tax Revenue by Major Tax, by State**  
**July-March 2005-06 to 2006-07, Percent Change**

	PIT	CIT	Sales	Total
	%	%	%	%
<b>United States</b>	<b>6.0</b>	<b>14.3</b>	<b>3.8</b>	<b>4.7</b>
<b>New England</b>	<b>3.7</b>	<b>42.7</b>	<b>1.3</b>	<b>3.0</b>
Connecticut	(2.9)	(5.7)	(0.2)	(2.3)
Maine	6.8	(13.0)	3.6	2.0
Massachusetts	6.4	78.8	1.7	5.5
New Hampshire	N/A	51.4	N/A	5.8
Rhode Island	8.3	(8.5)	1.6	3.1
Vermont	3.3	2.5	1.7	9.0
<b>Mid-Atlantic</b>	<b>8.2</b>	<b>18.9</b>	<b>4.1</b>	<b>6.5</b>
Delaware	2.2	(20.0)	N/A	(1.3)
Maryland	4.3	(13.7)	2.2	2.4
New Jersey	6.9	1.8	19.8	5.4
New York	9.9	41.1	(3.1)	8.8
Pennsylvania	6.2	14.9	2.9	4.8
<b>Great Lakes</b>	<b>3.5</b>	<b>5.9</b>	<b>0.1</b>	<b>1.6</b>
Illinois	8.4	16.2	2.0	5.6
Indiana	5.3	14.7	2.5	4.0
Michigan	2.2	(7.9)	(2.8)	(1.5)
Ohio	(1.6)	(3.5)	(0.6)	(2.5)
Wisconsin	3.2	24.0	0.3	3.9
<b>Plains</b>	<b>6.1</b>	<b>12.8</b>	<b>2.2</b>	<b>3.9</b>
Iowa	5.7	35.9	0.6	5.5
Kansas	11.8	34.6	2.8	7.7
Minnesota	4.3	14.7	0.5	1.9
Missouri	5.6	(5.1)	3.3	4.1
Nebraska	7.8	(18.0)	3.2	1.3
North Dakota	13.0	25.9	10.3	10.9
South Dakota	N/A	N/A	5.1	7.0
<b>Southeast</b>	<b>7.9</b>	<b>15.2</b>	<b>3.7</b>	<b>5.4</b>
Alabama	8.5	18.7	5.2	6.5
Arkansas	6.5	(4.1)	4.9	4.7
Florida	N/A	6.2	1.6	(1.0)
Georgia	7.4	4.1	2.9	6.0
Kentucky	1.2	22.3	2.5	3.4
Louisiana	23.3	64.2	6.5	17.9
Mississippi	15.9	21.9	4.6	8.3
North Carolina	9.2	23.1	4.1	8.5
South Carolina	10.6	22.1	7.4	9.1
Tennessee	N/A	34.6	4.8	7.3
Virginia	3.7	(3.0)	8.4	3.0
West Virginia	6.5	14.4	1.4	5.5
<b>Southwest</b>	<b>4.2</b>	<b>36.6</b>	<b>9.9</b>	<b>6.9</b>
Arizona	9.2	23.1	7.6	9.0
New Mexico	0.4	11.4	10.2	3.1
Oklahoma	(0.4)	114.4	6.2	6.8
Texas	N/A	N/A	10.7	6.8
<b>Rocky Mountain</b>	<b>8.8</b>	<b>13.3</b>	<b>7.4</b>	<b>7.8</b>
Colorado	9.6	(1.2)	5.0	7.2
Idaho	14.6	(10.8)	16.3	12.2
Montana	3.8	40.5	N/A	7.5
Utah	6.1	36.8	3.2	6.4
Wyoming	N/A	N/A	15.7	4.5
<b>Far West</b>	<b>4.2</b>	<b>4.3</b>	<b>3.0</b>	<b>3.8</b>
Alaska	N/A	155.1	N/A	24.4
California	4.5	4.0	1.3	2.9
Hawaii	1.1	(47.1)	7.1	3.0
Nevada	N/A	N/A	2.6	2.2
Oregon	2.6	(17.1)	N/A	1.1
Washington	N/A	N/A	7.9	7.9

Source: Individual state data, analysis by Rockefeller Institute. See page 9 for notes.

consumers became nervous about spending on optional and big-ticket items. The sales tax generally maintained slow growth in the latest economic downturn, but grew rapidly and remained steady as general economic conditions improved. The decline in growth this quarter could be due to market conditions such as the housing market and gasoline prices. In *The Beige Book*, published April 25, 2007, the Federal Reserve Board (FRB) reported that only the Northeast showed an increase in residential housing market activity. Both the New England and Mid-Atlantic regions saw sales tax revenue rise more rapidly than the national average during this quarter. High housing prices and interest rates may be diverting consumer spending from other areas. Decreased activity in the housing market may be associated with fewer purchases of new household items, which can be seen in *The Beige Book's* account of many districts reporting a weak demand for home goods. The rising price of gasoline may also have diminished consumer purchases. Although many states will see an increase in gasoline sales taxes collected, it could be at the expense of other sales taxes from items such as large sport utility vehicles. The FRB stated that most districts had a decrease in vehicle sales, with Atlanta and Chicago reporting a strong demand for fuel-efficient vehicles.<sup>9</sup>

### **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 January-March 2007 quarter, enacted tax changes and processing variations decreased state revenue by an estimated net of \$1.3 billion compared to the same period in 2006.<sup>10</sup>

Personal income tax reductions totaled \$816 million compared to the total reduction for states of \$696 million the previous quarter. Ohio accounted for \$455 million, more than twice the \$160 million in the fourth quarter of 2006. New York showed the second largest income tax reduction, with a net decline of \$197 million. Among all states, legislated changes increased sales tax revenue in the first quarter of 2007 by a net \$110 million compared to a \$154 million increase in the fourth

quarter of 2006. New Jersey reported the largest sales tax increase for the third consecutive quarter, totaling \$435 million in the first quarter of 2007, \$485 million in the fourth quarter of 2006, and \$251 million in the third quarter of 2006. New York showed the largest reduction at \$213 million, up from the fourth quarter reduction of \$200 million, and the third quarter reduction of \$202 million.<sup>11</sup>

## Conclusions

Total revenue growth increased in January-March 2007, but still lags behind long-term historical levels. Two of the three major taxes showed a weaker performance than the previous quarter. However, the increase in personal income

## 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:* Nongeneral 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 noneconomic 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.

tax collections outweighed the weaker increases of the corporate income tax and sales tax. Although personal income tax was stronger in the first quarter compared to growth in previous quarters, it remains to be seen if it can continue to grow and reach a strong level, or if the growth rate will weaken again because of stock market performance or other legislated tax reductions. Corporate income tax has expanded and diminished, depending on timely receipts and compliance. Sales tax growth rates had remained moderate until declining to a very weak increase for the first quarter of 2007.

The GDP increased only 0.6 percent in the first quarter, showing weak economic growth for the nation as a whole. State tax collection strength was in line with the national economy, as the GDP and other economic indicators exhibited slower expansion, mirroring state sales tax revenue growth. Although the personal income tax revenue and total revenue were slightly stronger than the previous quarter, neither exhibit their traditional strength, and both are below the first quarter growth rates of

2006, 2005, and 2004. Revenue growth has fluctuated greatly in the past few quarters, with personal income tax weakening in the fourth quarter of 2006, followed by the sales tax in the first quarter of 2007.

## Endnotes

- 1 Bureau of Economic Analysis data.
- 2 Bureau of Labor Statistics data.
- 3 Standard & Poor's S&P 500 Index.
- 4 Bureau of Economic Analysis data.
- 5 Bureau of Economic Analysis data.
- 6 Bureau of Economic Analysis data.
- 7 Bureau of Labor Statistics data.
- 8 Bureau of Labor Statistics data.
- 9 Federal Reserve Board, *The Beige Book*, April 25, 2007.
- 10 National Conference of State Legislatures data.
- 11 National Conference of State Legislatures data.



**Table 10**  
**State Tax Revenue, January-March, 2006 and 2007 (\$ in millions)**

	2006				2007			
	Personal Income	Corporate Income	Sales	Total	Personal Income	Corporate Income	Sales	Total
<b>United States</b>	<b>57,547</b>	<b>9,850</b>	<b>53,978</b>	<b>146,885</b>	<b>61,448</b>	<b>11,263</b>	<b>55,496</b>	<b>153,992</b>
<b>New England</b>	<b>4,395</b>	<b>915</b>	<b>2,349</b>	<b>9,502</b>	<b>4,449</b>	<b>1,527</b>	<b>2,435</b>	<b>9,812</b>
Connecticut	1,642	212	854	3,270	1,440	122	901	2,988
Maine	207	32	227	613	227	34	234	633
Massachusetts	2,243	527	974	4,402	2,459	1,194	1,002	4,814
New Hampshire	N/A	50	N/A	351	N/A	85	N/A	419
Rhode Island	207	74	206	612	225	70	209	629
Vermont	97	21	88	255	98	22	89	330
<b>Mid-Atlantic</b>	<b>16,153</b>	<b>2,108</b>	<b>7,119</b>	<b>31,439</b>	<b>18,379</b>	<b>2,384</b>	<b>7,414</b>	<b>34,446</b>
Delaware	261	39	N/A	635	248	19	N/A	593
Maryland	1,532	211	839	2,707	1,642	196	852	2,808
New Jersey	2,517	367	1,645	5,777	2,912	415	2,001	6,428
New York	9,449	1,046	2,586	14,658	11,066	1,217	2,467	16,555
Pennsylvania	2,395	444	2,049	7,661	2,510	536	2,094	8,062
<b>Great Lakes</b>	<b>7,641</b>	<b>1,724</b>	<b>7,801</b>	<b>19,797</b>	<b>7,945</b>	<b>1,834</b>	<b>7,734</b>	<b>20,040</b>
Illinois	2,510	398	1,736	5,490	2,795	448	1,689	5,801
Indiana	971	37	1,331	2,765	1,004	87	1,355	2,880
Michigan	1,057	415	1,978	3,821	1,104	384	1,905	3,745
Ohio	1,831	655	1,769	4,900	1,783	648	1,802	4,737
Wisconsin	1,271	220	987	2,821	1,258	267	983	2,876
<b>Plains</b>	<b>4,853</b>	<b>602</b>	<b>3,405</b>	<b>10,136</b>	<b>5,129</b>	<b>639</b>	<b>3,474</b>	<b>10,545</b>
Iowa	749	66	466	1,348	795	82	468	1,415
Kansas	481	44	500	1,141	542	43	508	1,196
Minnesota	1,879	327	1,147	3,761	1,946	340	1,122	3,805
Missouri	1,342	78	711	2,613	1,420	84	749	2,786
Nebraska	319	57	322	760	330	84	341	784
North Dakota	82	29	117	316	96	32	125	342
South Dakota	N/A	N/A	142	198	N/A	N/A	162	218
<b>Southeast</b>	<b>9,058</b>	<b>1,936</b>	<b>14,656</b>	<b>31,903</b>	<b>9,825</b>	<b>2,134</b>	<b>14,883</b>	<b>33,122</b>
Alabama	805	95	543	2,112	843	89	565	2,192
Arkansas	605	76	536	1,296	626	78	556	1,344
Florida	N/A	522	5,087	6,777	N/A	492	4,991	6,494
Georgia	1,731	221	1,486	3,891	1,890	229	1,583	4,128
Kentucky	591	116	774	2,062	633	121	792	2,173
Louisiana	646	58	710	1,808	673	79	703	1,932
Mississippi	188	154	798	1,493	213	171	786	1,559
North Carolina	1,870	271	1,151	4,364	2,163	370	1,195	4,727
South Carolina	333	69	609	1,183	393	82	643	1,319
Tennessee	N/A	163	1,639	2,376	N/A	253	1,722	2,632
Virginia	1,993	118	1,036	3,656	2,085	124	1,054	3,738
West Virginia	296	73	288	885	305	47	295	885
<b>Southwest</b>	<b>1,412</b>	<b>284</b>	<b>7,170</b>	<b>13,332</b>	<b>1,460</b>	<b>439</b>	<b>7,811</b>	<b>14,407</b>
Arizona	642	111	1,097	1,974	735	137	1,153	2,142
New Mexico	256	99	422	998	248	107	465	1,031
Oklahoma	514	74	443	1,363	477	195	454	1,448
Texas	N/A	N/A	5,209	8,997	N/A	N/A	5,739	9,786
<b>Rocky Mountain</b>	<b>1,619</b>	<b>153</b>	<b>1,348</b>	<b>3,716</b>	<b>1,823</b>	<b>162</b>	<b>1,476</b>	<b>4,106</b>
Colorado	863	58	534	1,481	1,003	47	583	1,655
Idaho	222	33	249	683	280	24	314	807
Montana	163	13	N/A	348	167	19	N/A	405
Utah	372	49	460	1,030	372	72	461	1,061
Wyoming	N/A	N/A	105	173	N/A	N/A	118	177
<b>Far West</b>	<b>12,416</b>	<b>2,130</b>	<b>10,131</b>	<b>27,061</b>	<b>12,440</b>	<b>2,144</b>	<b>10,270</b>	<b>27,515</b>
Alaska	N/A	21	N/A	402	N/A	98	N/A	760
California	10,915	2,044	6,932	20,470	10,993	1,991	6,893	20,351
Hawaii	356	1	638	1,107	341	9	662	1,116
Nevada	N/A	N/A	760	984	N/A	N/A	779	1,002
Oregon	1,146	64	N/A	1,295	1,105	46	N/A	1,243
Washington	N/A	N/A	1,800	2,803	N/A	N/A	1,936	3,042

Source: Individual state data, analysis by Rockefeller Institute. See page 9 for notes.

**Personal Income Tax Revenue Rebounds As Sales Tax Falters**

**Table 11  
State Tax Revenue, July-March, FY 2006 and 2007 (\$ in millions)**

	FY 2006				FY 2007			
	Personal Income	Corporate Income	Sales	Total	Personal Income	Corporate Income	Sales	Total
<b>United States</b>	<b>164,184</b>	<b>28,927</b>	<b>157,930</b>	<b>423,754</b>	<b>174,035</b>	<b>33,074</b>	<b>163,934</b>	<b>443,620</b>
<b>New England</b>	<b>12,275</b>	<b>1,969</b>	<b>6,782</b>	<b>26,314</b>	<b>12,728</b>	<b>2,811</b>	<b>6,868</b>	<b>27,090</b>
Connecticut	3,629	499	2,216	7,710	3,523	471	2,211	7,533
Maine	730	123	664	1,952	780	107	688	1,991
Massachusetts	6,897	1,034	3,000	12,862	7,338	1,849	3,052	13,571
New Hampshire	N/A	154	N/A	1,137	N/A	233	N/A	1,203
Rhode Island	673	112	652	1,681	729	102	662	1,733
Vermont	346	48	251	971	358	49	255	1,058
<b>Mid-Atlantic</b>	<b>39,849</b>	<b>6,118</b>	<b>20,683</b>	<b>80,857</b>	<b>43,111</b>	<b>7,276</b>	<b>21,530</b>	<b>86,093</b>
Delaware	699	87	N/A	1,619	714	70	N/A	1,598
Maryland	3,925	603	2,184	7,202	4,096	520	2,232	7,378
New Jersey	6,207	1,546	4,396	14,910	6,636	1,575	5,268	15,713
New York	22,661	2,489	7,917	38,033	24,911	3,511	7,668	41,394
Pennsylvania	6,357	1,392	6,186	19,094	6,754	1,600	6,363	20,011
<b>Great Lakes</b>	<b>23,603</b>	<b>4,179</b>	<b>23,555</b>	<b>60,586</b>	<b>24,426</b>	<b>4,426</b>	<b>23,569</b>	<b>61,540</b>
Illinois	6,446	1,091	5,294	15,254	6,989	1,268	5,401	16,113
Indiana	2,855	448	3,903	8,316	3,005	513	4,003	8,653
Michigan	4,387	1,342	6,062	14,773	4,483	1,236	5,895	14,544
Ohio	5,897	731	5,551	13,772	5,801	705	5,516	13,433
Wisconsin	4,017	567	2,745	8,471	4,148	703	2,755	8,798
<b>Plains</b>	<b>13,226</b>	<b>1,821</b>	<b>10,051</b>	<b>29,360</b>	<b>14,036</b>	<b>2,054</b>	<b>10,275</b>	<b>30,518</b>
Iowa	1,988	201	1,412	3,826	2,102	274	1,421	4,034
Kansas	1,501	189	1,499	3,524	1,678	254	1,541	3,797
Minnesota	4,975	844	3,334	10,790	5,188	968	3,353	10,995
Missouri	3,551	325	2,090	7,401	3,751	308	2,158	7,706
Nebraska	1,019	183	947	2,356	1,099	150	977	2,387
North Dakota	193	80	329	864	218	100	363	958
South Dakota	N/A	N/A	440	600	N/A	N/A	462	642
<b>Southeast</b>	<b>29,459</b>	<b>6,088</b>	<b>41,916</b>	<b>94,954</b>	<b>31,781</b>	<b>7,010</b>	<b>43,470</b>	<b>100,037</b>
Alabama	2,128	303	1,614	5,779	2,307	360	1,698	6,157
Arkansas	1,585	263	1,590	3,666	1,687	252	1,668	3,840
Florida	N/A	1,555	14,241	19,160	N/A	1,650	14,474	18,964
Georgia	5,658	586	4,278	11,704	6,075	610	4,402	12,409
Kentucky	2,106	523	2,342	6,624	2,131	639	2,400	6,851
Louisiana	1,661	249	1,970	5,072	2,049	408	2,098	5,981
Mississippi	778	284	2,141	4,206	901	346	2,240	4,556
North Carolina	6,313	882	3,586	13,397	6,893	1,086	3,733	14,543
South Carolina	2,021	168	1,580	4,224	2,235	205	1,696	4,607
Tennessee	N/A	480	4,832	7,119	N/A	646	5,063	7,637
Virginia	6,360	589	2,885	11,416	6,597	571	3,128	11,763
West Virginia	849	207	857	2,587	905	237	869	2,729
<b>Southwest</b>	<b>4,951</b>	<b>972</b>	<b>21,193</b>	<b>39,405</b>	<b>5,160</b>	<b>1,328</b>	<b>23,299</b>	<b>42,117</b>
Arizona	2,310	510	3,143	6,280	2,522	628	3,381	6,843
New Mexico	866	283	1,273	3,107	869	315	1,402	3,205
Oklahoma	1,776	180	1,304	4,137	1,769	385	1,385	4,418
Texas	N/A	N/A	15,474	25,881	N/A	N/A	17,132	27,652
<b>Rocky Mountain</b>	<b>5,442</b>	<b>638</b>	<b>3,963</b>	<b>11,572</b>	<b>5,923</b>	<b>723</b>	<b>4,255</b>	<b>12,470</b>
Colorado	2,765	256	1,577	4,677	3,030	253	1,656	5,012
Idaho	731	117	800	2,035	838	104	931	2,284
Montana	479	76	N/A	967	497	107	N/A	1,039
Utah	1,467	190	1,324	3,432	1,558	260	1,366	3,652
Wyoming	N/A	N/A	261	462	N/A	N/A	302	482
<b>Far West</b>	<b>35,379</b>	<b>7,142</b>	<b>29,786</b>	<b>80,707</b>	<b>36,871</b>	<b>7,446</b>	<b>30,668</b>	<b>83,754</b>
Alaska	N/A	75	N/A	1,472	N/A	190	N/A	1,831
California	30,677	6,718	20,198	59,583	32,065	6,989	20,461	61,324
Hawaii	1,060	75	1,768	3,193	1,072	39	1,894	3,290
Nevada	N/A	N/A	2,346	3,029	N/A	N/A	2,407	3,097
Oregon	3,641	275	N/A	4,202	3,735	228	N/A	4,249
Washington	N/A	N/A	5,475	9,229	N/A	N/A	5,907	9,963

Source: Individual state data, analysis by Rockefeller Institute. See page 9 for notes.

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