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HIGHLIGHTS

- State tax revenues grew by 8.6 percent in the first quarter of 2013, boosted by personal income tax as many taxpayers appear to have accelerated income into 2012 in anticipation of federal tax law changes, as the Rockefeller Institute has discussed in previous reports.
- The Far West and Plains states showed the largest tax revenue gains in the quarter.
- Inflation-adjusted state tax revenues surpassed the peak levels of five years ago. However, the revenue recovery remains weak by historical standards, and service demands are far higher than they were five years ago.
- Personal income tax revenues showed the strongest growth since the start of the Great Recession, at 18.4 percent, in large part due to the acceleration of income into calendar year 2012.
- State personal income, sales, and corporate income tax revenue have been recovering far more slowly from the recent recession than from previous recessions.
- Local property tax revenues grew by 2.9 percent in the first quarter, marking the fourth consecutive quarter growth in nominal terms.

STATE REVENUE REPORT

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Strong Gains in the First Quarter; Mounting Uncertainty for the Rest of 2013

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Overall State Taxes and Local Taxes

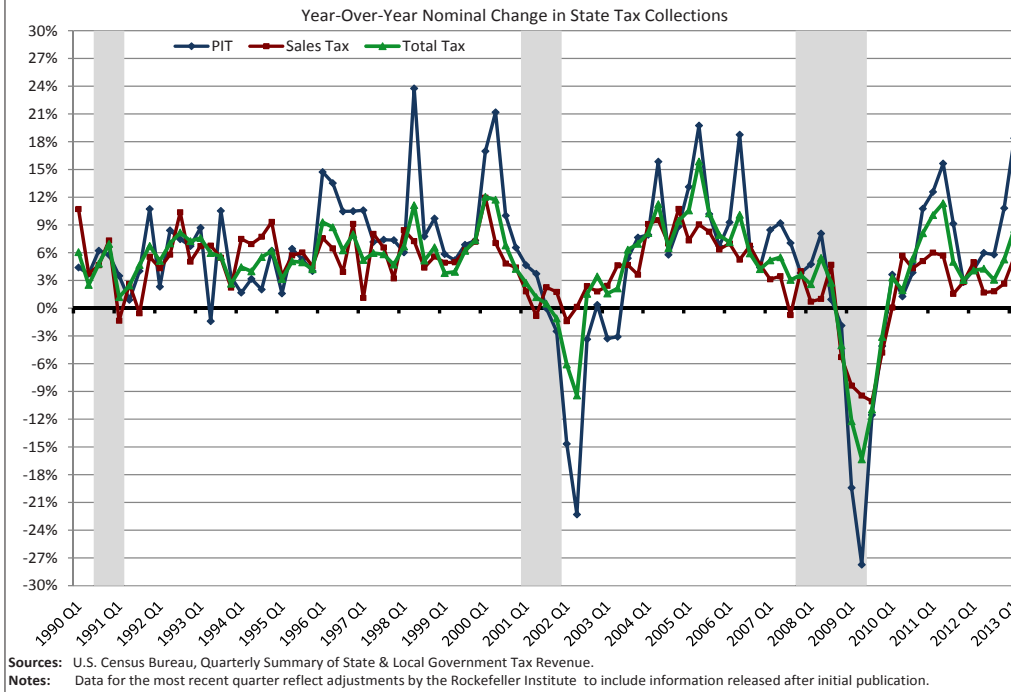
Total state tax collections showed growth for the thirteenth consecutive quarter. Overall state tax revenues increased by 8.6 percent in the first quarter of 2013 compared to the same quarter of the previous year, according to data collected by the Rockefeller Institute and the Census Bureau. The Institute's findings indicate slightly weaker fiscal conditions for states than the preliminary data released in June 2013 by the Census Bureau, which reported an overall increase of 8.9 percent. We have updated those figures to reflect data we have since obtained and to reflect differences in how we measure revenue for purposes of the *State Revenue Report*. (See "Adjustments to Census Bureau Tax Collection Data" on page 23.¹)

Figure 1 shows the nominal percent change over time in state tax collections for personal income tax, sales tax and total taxes. As shown there, declines in personal income tax and sales tax collections, as well as in overall state tax collections, were steeper during and after the Great Recession that began in December 2007 than around the previous two recessions. Overall state tax collections, as well as personal income and sales tax revenues, showed continued and strong growth in the first quarter of 2013. The growth in total tax collections was much stronger than in the previous six quarters, mostly due to strong growth in personal income tax collections. Personal income tax collections increased by 18.4 percent, while sales tax collections rose by 5.5 percent.

The rapid income tax growth in the last quarter of 2012 and first quarter of 2013 is consistent with the caution mentioned in the previous *State Revenue Reports*. The strong growth in income tax collections are considerably attributable to the behavioral responses of the highest income taxpayers. Due to uncertainty about the "fiscal cliff," many high income taxpayers sought to avoid the possible higher income tax rates and "accelerated" their capital gains realizations into 2012.²

Total state tax collections in the first quarter of 2013 were above the previous peak levels in most states. In the first quarter of 2013, thirty-nine states reported higher tax revenue collections than in the same quarter of 2008, just shortly after the start of the recession in December of 2007. If we adjust the numbers for inflation, nationwide tax receipts show 4.2 percent growth in the first quarter of 2013 compared to the same quarter of 2008. This is the second consecutive time since the start of the Great Recession that

Figure 1. State Tax Collections Continue Rebounding



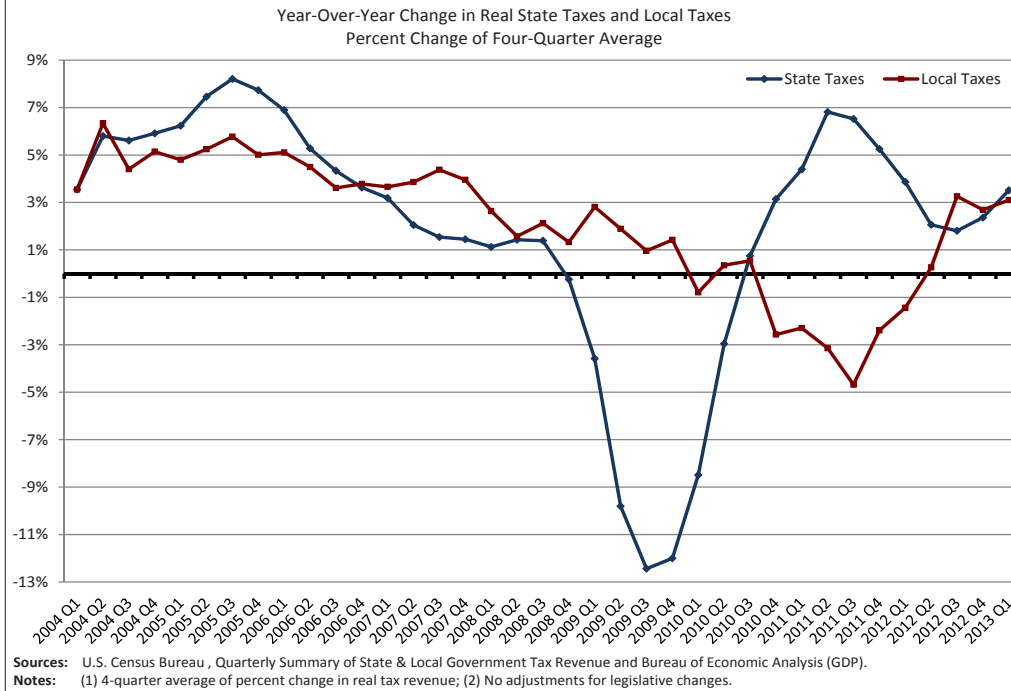
inflation adjusted quarterly state tax collections are higher compared to the peak levels, although as noted above, the last quarter of 2012 and the first quarter of 2013 were artificially boosted.

Figure 2 shows the four-quarter moving average of year-over-year change in state tax collections and local tax collections, after adjusting for inflation. In addition, we have adjusted the Census Bureau's local tax revenues to reflect differences between the

Census Bureau's prior survey methodology and a revised survey methodology now used for collecting property tax revenues.³ As shown in Figure 2, the year-over-year change in state taxes, adjusted for inflation, has averaged 3.5 percent over the last four quarters. This represents notable softening from the 3.9 percent average growth of a year ago and a 4.4 percent average growth of two years ago.

Local tax revenues grew for the fourth consecutive quarter after six consecutive quarters of decline. Local taxes grew in real, year-over-year terms — by an average of 3.1 percent over the last four quarters, a significant improvement over the 1.4 percent decline of the preceding year and a 2.3 percent average decline of two years ago. Inflation over the year, as measured by the gross domestic product deflator, was 1.6 percent.

Figure 2. Continued Growth in State and Local Taxes



Local tax collections have been relatively weak by historical standards over the last three years, due in part to the lagged impact of falling housing prices on property tax collections. For the quarter ending in March, the 3.1 percent growth in the four-quarter moving average of local tax collections is relatively weak compared to historical averages. The largest year-over-year growth in local tax collections in recent history was recorded in the second quarter of 2004, at 6.3 percent.

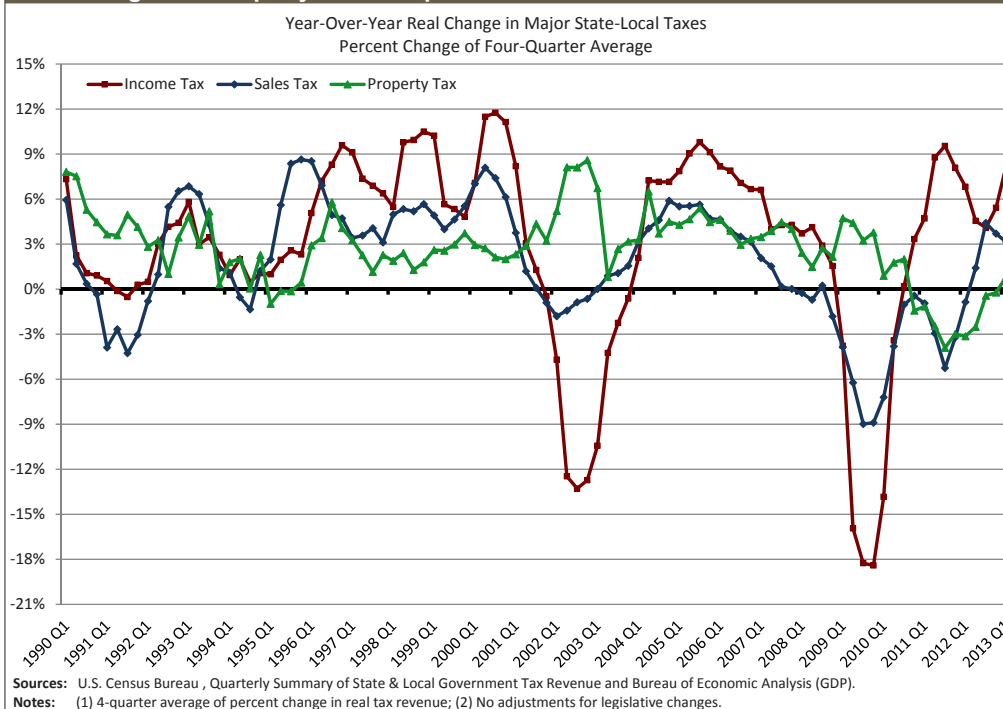
Most local governments rely heavily on property taxes, which tend to be relatively stable and respond to property value declines more slowly than income, sales, and corporate taxes respond to declines in the overall economy. Over the last two decades, property taxes have consistently made up at least two-thirds of total local tax collections. Collections from local property taxes made up 76 percent of such receipts during the first quarter of 2013. Local property tax revenues showed a growth of 2.9 percent in nominal terms in the first quarter of 2013 compared to the same quarter of 2012.

Sales taxes represented about 8.2 percent of local tax revenues in the first quarter of 2013. Local sales tax collections increased by 2.8 percent in the first quarter of 2013 in nominal terms. Collections from local individual income taxes, a much smaller contributor to overall local revenues, showed an increase of 12.3 percent.

Figure 3 shows the four-quarter average of year-over-year growth in state and local income, sales, and property taxes, adjusted for inflation. Both the income tax and the sales tax showed slower growth, and then outright decline, from 2006 through most of 2009. By this measure, income tax showed some growth for the

eleventh consecutive quarter. State-local sales tax collections showed some growth in the first quarter of 2013. The growth in the first quarter of 2013 marks the fourth consecutive quarter growth, which is followed after fourteen consecutive quarter declines. After nine consecutive quarter declines, the four-quarter average of year-over-year comparisons in state-local property taxes showed a growth of 0.9 percent in the first quarter of 2013.

Figure 3. Property Taxes Reported Positive Growth in the First Quarter



State Tax Revenue

Total state tax revenue rose in the first quarter of 2013 by 8.6 percent relative to a year ago, before adjustments for inflation and legislated changes (such as changes in tax rates). The income tax and sales tax grew 18.4 and 5.5 percent, respectively, and the corporate income tax increased by 9.4 percent. Tables 1 and 2 portray growth in tax revenue with and without adjustment for inflation, and growth by major tax. Ten states reported declines in total tax revenue during the first quarter of 2013, while five states reported double-digit increases in the first quarter (see Tables 7 and 8 on pages 14 and 15). All regions reported growth in total collections. The Far West region showed the largest gain at 20.7 percent, followed by the Plains region at 13.2 percent. The New England region showed the weakest growth at 3.6 percent.

Preliminary figures collected by the Rockefeller Institute for the April-May months of 2013 indicate that revenues in most states continued to grow.⁴ Overall collections in forty-seven early reporting states showed growth of 13.7 percent in the April-May months of 2013 compared to the same months of 2012. However, June is the most important month in the quarter and these early results may not reflect the full quarter.

Personal Income Tax

In the first quarter of 2013, personal income tax revenue made up at least a third of total tax revenue in twenty-one states, and was larger than the sales tax in twenty-six states. Personal income tax revenues rose for the thirteenth consecutive quarter, with 18.4 percent growth in the January-March 2013 quarter compared to the same period in 2012. Personal income tax collections were above the recessionary peak for the quarter in nominal terms, ending 15.9 percent higher than in the first quarter of 2008.

All regions reported increases in personal income tax collections. The largest growth was in the Far West and Plains regions, where collections increased by 47.9 and 20.1 percent, respectively, in the first quarter of 2013. The strong growth in the Far West region is mostly attributable to a single state — California — where personal income tax collections showed a strong 52.2 percent growth in the first quarter of 2013 compared to the same quarter of 2012 (driven in part by accelerated income and tax law changes, as discussed below).

Overall, six states reported declines in personal income tax collections; thirty-seven states reported growth in personal income tax collections for the quarter with nineteen states reporting double-digit increases. The six states reporting declines in personal income tax collections are Delaware, Idaho, Indiana, Rhode Island, Utah, and West Virginia. The largest declines were reported in Delaware at 15.8 percent. In terms of dollar value, the largest increases were reported in California and New York, where personal income tax collections grew by \$6.3 billion and \$1.0 billion, respectively. The large increases in personal income

Table 1. Quarterly State Tax Revenue

Quarter	Adjusted for Inflation		
	Year-Over-Year Percent Change		
	Total Nominal Change	Inflation Rate	Adjusted Real Change
2013 Q1	8.6	1.6	6.9
2012 Q4	5.3	1.8	3.4
2012 Q3	3.1	1.6	1.4
2012 Q2	4.3	1.7	2.5
2012 Q1	4.1	2.0	2.1
2011 Q4	3.0	2.0	1.0
2011 Q3	5.0	2.4	2.5
2011 Q2	11.3	2.2	9.0
2011 Q1	10.1	2.0	8.0
2010 Q4	8.1	1.8	6.1
2010 Q3	5.3	1.6	3.6
2010 Q2	1.9	1.3	0.7
2010 Q1	3.3	0.6	2.6
2009 Q4	(3.1)	0.5	(3.6)
2009 Q3	(11.0)	0.3	(11.3)
2009 Q2	(16.3)	1.0	(17.1)
2009 Q1	(12.2)	1.8	(13.7)
2008 Q4	(4.0)	2.1	(6.0)
2008 Q3	2.8	2.5	0.3
2008 Q2	5.4	2.0	3.3
2008 Q1	2.6	2.1	0.5
2007 Q4	3.6	2.6	0.9
2007 Q3	3.1	2.6	0.4
2007 Q2	5.5	3.1	2.4
2007 Q1	5.2	3.3	1.8
2006 Q4	4.2	2.9	1.3
2006 Q3	5.9	3.2	2.6
2006 Q2	10.1	3.5	6.3
2006 Q1	7.1	3.3	3.7
2005 Q4	7.9	3.5	4.3
2005 Q3	10.2	3.4	6.6
2005 Q2	15.9	3.1	12.4
2005 Q1	10.6	3.3	7.1
2004 Q4	9.4	3.2	6.0
2004 Q3	6.5	3.0	3.4
2004 Q2	11.2	2.8	8.2
2004 Q1	8.1	2.2	5.7
2003 Q4	7.0	2.1	4.8
2003 Q3	6.3	2.1	4.1
2003 Q2	2.1	2.0	0.1
2003 Q1	1.6	2.2	(0.6)
2002 Q4	3.4	1.8	1.6
2002 Q3	1.6	1.5	0.0
2002 Q2	(9.4)	1.4	(10.7)
2002 Q1	(6.1)	1.7	(7.6)
2001 Q4	(1.1)	2.0	(3.0)
2001 Q3	0.5	2.2	(1.7)
2001 Q2	1.2	2.5	(1.3)
2001 Q1	2.7	2.3	0.4
2000 Q4	4.2	2.4	1.8
2000 Q3	6.8	2.3	4.4
2000 Q2	11.7	2.0	9.5
2000 Q1	12.0	2.0	9.9

Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).

Table 2. Quarterly State Tax Revenue By Major Tax

Quarter	Year-Over-Year Percent Change			
	PIT	CIT	General Sales	Total
2013 Q1	18.4	9.4	5.5	8.6
2012 Q4	10.8	3.8	2.6	5.3
2012 Q3	5.8	8.5	1.8	3.1
2012 Q2	6.0	(3.0)	1.7	4.3
2012 Q1	4.2	3.6	5.0	4.1
2011 Q4	2.8	(3.3)	2.8	3.0
2011 Q3	9.1	0.9	1.5	5.0
2011 Q2	15.6	18.3	5.7	11.3
2011 Q1	12.6	4.1	6.0	10.1
2010 Q4	10.8	12.1	5.1	8.1
2010 Q3	3.9	0.5	4.3	5.3
2010 Q2	1.3	(19.0)	5.7	1.9
2010 Q1	3.6	0.3	0.1	3.3
2009 Q4	(4.1)	0.7	(4.8)	(3.1)
2009 Q3	(11.5)	(21.3)	(10.1)	(11.0)
2009 Q2	(27.7)	3.0	(9.5)	(16.3)
2009 Q1	(19.4)	(20.2)	(8.4)	(12.2)
2008 Q4	(1.9)	(23.0)	(5.3)	(4.0)
2008 Q3	0.9	(13.2)	4.7	2.8
2008 Q2	8.1	(7.0)	1.0	5.4
2008 Q1	4.8	(1.4)	0.7	2.6
2007 Q4	3.8	(14.5)	4.0	3.6
2007 Q3	7.0	(4.3)	(0.7)	3.1
2007 Q2	9.2	1.7	3.5	5.5
2007 Q1	8.5	14.8	3.1	5.2
2006 Q4	4.4	12.6	4.7	4.2
2006 Q3	6.6	17.5	6.7	5.9
2006 Q2	18.8	1.2	5.2	10.1
2006 Q1	9.3	9.6	7.0	7.1
2005 Q4	6.7	33.4	6.4	7.9
2005 Q3	10.2	24.4	8.3	10.2
2005 Q2	19.7	64.1	9.1	15.9
2005 Q1	13.1	29.8	7.3	10.6
2004 Q4	8.8	23.9	10.7	9.4
2004 Q3	5.8	25.2	7.0	6.5
2004 Q2	15.8	3.9	9.5	11.2
2004 Q1	7.9	5.4	9.1	8.1
2003 Q4	7.6	12.5	3.6	7.0
2003 Q3	5.4	12.6	4.7	6.3
2003 Q2	(3.1)	5.1	4.6	2.1
2003 Q1	(3.3)	8.3	2.4	1.6
2002 Q4	0.4	34.7	1.8	3.4
2002 Q3	(3.4)	7.4	2.4	1.6
2002 Q2	(22.3)	(12.3)	0.1	(9.4)
2002 Q1	(14.7)	(15.7)	(1.4)	(6.1)
2001 Q4	(2.5)	(34.0)	1.8	(1.1)
2001 Q3	(0.0)	(27.2)	2.3	0.5
2001 Q2	3.7	(11.0)	(0.8)	1.2
2001 Q1	4.6	(8.4)	1.8	2.7
2000 Q4	6.5	(0.4)	4.4	4.2
2000 Q3	10.0	8.2	4.8	6.8
2000 Q2	21.2	4.2	7.0	11.7
2000 Q1	17.0	11.0	11.9	12.0

Source: U.S. Census Bureau (tax revenue).

tax collections in California and New York as well as in many other states during the first quarter of 2013 are at least partially attributable to the acceleration of income by some taxpayers driven by the fear of potential federal tax rate increases.⁵

The large growth in personal income tax collections in California is at least partially driven by legislated tax changes. On November 6, 2012, California voters adopted Proposition 30, which increased the personal income tax rate on taxpayers making over \$500,000 for a seven year period that is retroactive to January 1, 2012, through December 31, 2018. In addition, in California capital gains represent the significant portion of personal income tax revenues, and about 40 to 50 percent of personal income tax revenues was paid by one percent of tax filers. "Capital gains are a large portion of these taxpayers' income, and their income tax liabilities attributable to capital gains vary widely from year to year, principally based on trends in prices of stocks and property.... The role of capital gains in the state budget recently was highlighted by the influx of \$4.5 billion of unanticipated revenues between January and April."⁶ Such large increases in personal income tax collections would undoubtedly lead to lower amounts in coming years. According to the California Legislative Analyst's Office forecasts, "total PIT revenues will be over \$3 billion lower in 2013-14 than in 2012-13. This drop is explained partly by the significant amount of assumed capital gains "accelerations" from 2013 to 2012 related to the lower federal tax rates that were then in effect."⁷

California also has the largest share of personal income tax revenues nationwide. In the first quarter of 2013, personal income tax revenues in California made up 25 percent of total personal income tax collections for the nation. If we exclude California, personal income tax collections show a growth of 10.2 percent for the nation and a growth of 11.3 percent for the Far West region in the first quarter of 2013.

We can get a clearer picture of collections from the personal income tax by breaking this source down into two major components for which we have data: withholding and quarterly estimated payments. The Census Bureau, the source of much of the data in this report, does not collect data on individual components of personal income tax collections. The data presented here were collected by the 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 3 shows that withholding for the January-March 2013 quarter continued to improve, increasing by 3.6 percent for the forty-one states with broad-based personal income taxes. However, the growth was weaker compared to 7.8 percent growth rate reported in the last quarter of 2012.

Table 3. Personal Income Tax Withholding, By State

Last Four Quarters, Percent Change

	2012			2013
	Apr-June	July-Sep	Oct-Dec	Jan-Mar
United States	4.8	2.7	7.8	3.6
New England	4.1	0.8	1.2	1.2
Connecticut	6.9	1.1	(8.7)	2.5
Maine	3.0	1.8	1.5	(3.0)
Massachusetts	3.1	0.6	6.3	1.4
Rhode Island	3.4	1.6	4.5	(4.3)
Vermont	1.7	(2.9)	4.4	3.8
Mid-Atlantic	2.0	(0.2)	4.0	4.2
Delaware	4.3	2.7	9.1	2.0
Maryland	6.3	1.9	3.9	1.2
New Jersey	0.8	(5.4)	6.8	4.5
New York	(0.0)	(0.4)	3.3	5.4
Pennsylvania	3.6	2.7	3.3	2.3
Great Lakes	7.0	4.1	7.6	1.8
Illinois	3.3	2.6	5.1	3.4
Indiana	6.0	8.8	3.7	(0.4)
Michigan	11.3	9.9	8.3	2.3
Ohio	5.1	5.0	6.5	3.3
Wisconsin	11.9	(6.5)	17.1	(1.8)
Plains	6.0	5.2	7.4	2.8
Iowa	6.3	7.2	6.4	5.8
Kansas	8.9	7.3	8.1	(9.3)
Minnesota	3.4	3.7	7.7	4.5
Missouri	7.5	3.0	6.8	3.5
Nebraska	7.3	9.7	6.9	2.3
North Dakota	7.2	8.4	16.0	24.1
Southeast	5.3	3.0	5.7	2.9
Alabama	5.4	6.3	3.4	1.0
Arkansas	4.7	8.0	4.8	0.5
Georgia	4.5	4.2	7.5	1.9
Kentucky	8.7	(1.2)	4.3	1.9
Louisiana	5.8	2.7	19.2	(0.8)
Mississippi	5.8	6.5	3.5	(0.9)
North Carolina	4.0	4.2	4.9	5.2
South Carolina	2.7	3.9	5.1	4.2
Virginia	6.7	(0.7)	3.8	4.6
West Virginia	8.0	4.1	2.2	(2.5)
Southwest	2.8	1.8	5.0	2.0
Arizona	4.0	2.2	8.5	0.7
New Mexico	(2.1)	1.2	0.2	(0.4)
Oklahoma	3.5	1.6	2.6	4.7
Rocky Mountain	6.1	6.1	10.2	2.3
Colorado	5.4	5.6	10.0	4.3
Idaho	4.3	3.5	0.9	0.8
Montana	9.4	7.4	12.9	3.6
Utah	7.3	8.1	14.9	(1.4)
Far West	5.8	4.1	17.5	6.4
California	6.2	4.3	19.3	7.0
Hawaii	(0.4)	4.9	8.6	7.2
Oregon	4.2	2.2	6.0	0.4

Source: Individual state data, analysis by Rockefeller Institute.**Note:** Nine states — Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no broad-based personal income tax and are therefore not shown in this table.

Thirty-one states reported growth in withholding for the first quarter of 2013, while ten states reported declines, with Kansas reporting the largest decline at 9.3 percent. Among individual states, North Dakota and Hawaii reported the strongest growth in the first quarter of 2013, at 24.1 and 7.2 percent, respectively. The Far West and Mid-Atlantic regions reported the largest growth in withholding at 6.4 and 4.2 percent, respectively, while the New England region reported the weakest growth in withholding at 1.2 percent.

Estimated Payments

The highest income taxpayers generally make 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. Estimated payments normally represent a relatively small proportion of overall income tax revenues, but can have a disproportionate impact on the direction of overall collections. In the first quarter of 2013 the estimated payments accounted for \$20.1 billion, or roughly 28 percent of all personal income tax revenues.

The first payment for each tax year is due in April in most states and the second, third, and fourth are generally due in June, September, and January. In the thirty-eight states for which we have complete data for all four payments (mostly attributable to the 2012 tax year), the median payment was up by 14.1 percent. The median growth was particularly strong for the fourth payment at 25.2 percent compared to the previous year (see Table 4). Declines were recorded in two of thirty-eight states for all four payments, and in three states for the fourth payment.

In addition to the data for the January-March quarter of 2013, which is the main subject of this report, we have conducted a special survey of states to collect data on the April estimated payment and April final tax returns. Preliminary numbers for the first payment on 2013 income indicate that the median payment was up by 11.2 percent in April of 2013. Twenty-eight of thirty-eight states reported growth in estimated payments in April 2013.

Table 4. Estimated Payments/Declarations, By State

	Year-Over-Year Percent Change		
	April-Jan (all four payments of 2012)	Dec.-January (fourth payment of 2012)	April (first payment of 2013)
Average (Mean)	14.4	28.5	13.5
Median	14.1	25.2	11.2
Alabama	21.0	41.0	15.3
Arizona	6.6	(0.3)	5.0
Arkansas	21.0	41.4	(7.9)
California	56.6	126.9	26.6
Colorado	15.8	28.9	57.0
Connecticut	21.3	36.0	1.3
Delaware	12.2	23.3	7.9
Georgia	0.4	17.4	(68.7)
Hawaii	10.9	(61.8)	(29.1)
Illinois	24.1	46.3	13.2
Indiana	8.7	20.5	(0.2)
Iowa	28.7	56.4	17.9
Kansas	15.5	23.8	(39.6)
Kentucky	(1.1)	30.0	45.8
Louisiana	11.3	41.8	35.2
Maine	17.9	46.0	(2.9)
Maryland	13.8	29.0	11.1
Massachusetts	10.4	24.1	11.3
Michigan	21.0	34.2	15.2
Minnesota	15.7	26.7	45.5
Mississippi	21.4	62.9	(52.5)
Missouri	10.0	21.2	18.3
Montana	18.5	50.4	14.5
Nebraska	19.7	35.9	20.1
New Jersey	9.7	24.0	9.8
New York	4.7	22.0	51.5
North Carolina	11.5	22.7	(9.1)
North Dakota	22.1	72.5	203.1
Ohio	10.4	20.9	16.8
Oklahoma	15.2	13.9	27.9
Oregon	7.6	27.7	(8.8)
Pennsylvania	14.0	17.7	2.6
Rhode Island	(2.2)	2.6	18.4
South Carolina	15.9	26.3	4.4
Vermont	16.5	14.8	8.7
Virginia	0.9	0.2	(10.6)
West Virginia	5.2	(1.2)	0.3
Wisconsin	14.2	17.8	35.9

Source: Individual state data, analysis by Rockefeller Institute.

The strong growth in estimated payments for the fourth payment, as well as for the first payment of 2013, is not surprising and is not necessarily a sign of improvement in personal income tax revenues. The growth is strongly related to federal tax policy and the uncertainty that was tied to the “fiscal cliff.” If Congress had not taken any actions to address the “fiscal cliff,” tax rates would have risen on several types of income, including capital gains. (And tax rates did end up increasing, although congressional action muted those increases.) Therefore, many taxpayers accelerated the realization of some income, such as capital gains particularly, from later years into tax year 2012. The strong growth in the December-January estimated payments is a significant indicator that income was accelerated into tax year 2012. The uncertain implications of this acceleration for future payments creates a further burden for states trying to make accurate projections of personal income taxes in the coming quarters.

Final Payments

Final payments normally represent a smaller share of total personal income tax revenues in the first, third, and fourth quarters of the tax year, and much larger share in the second quarter of tax year due to the April 15 income tax return deadline. Final payments with personal income tax returns in the thirty-nine early reporting states were down by 6.7 percent in the first quarter of 2013 compared to the same quarter of 2012. The decline in final payments follows eight consecutive quarter growth trend. Payments with returns in the January-March quarter of 2013 exceeded 2012 levels in thirteen of thirty-nine reporting states.

Refunds

Personal income tax refunds paid by thirty-nine states declined by 5 percent in the first quarter of 2013 compared to the same quarter of 2012. In total, these thirty-nine early reporting states paid out about \$1.3 billion less in refunds in the January-March quarter of 2013 than in 2012. Overall, twelve of thirty-nine states paid out more refunds while twenty-seven states paid out less refunds in the first quarter of 2013 compared to the same quarter of 2012.

General Sales Tax

State sales tax collections in the January-March 2013 quarter showed growth of 5.5 percent from the same period in 2012. This is the thirteenth quarter in a row that sales tax collections rose. Increases in collections were reported during the first quarter in all regions but New England, Great Lakes, and Rocky Mountains, where receipts declined by 2.1, 1.5, and 0.5 percent, respectively. The Plains and Far West regions reported the largest increases in sales tax collections at 25.9 and 12.6 percent, respectively.

Thirty-two of forty-five states with broad-based sales taxes reported growth in collections for the quarter; three states reported double-digit gains. Minnesota and Nevada reported the largest growth at 88.1 and 36.2 percent, respectively. Thirteen states reported declines in sales tax collections in the first quarter of 2013, with Wyoming and Michigan reporting the largest declines at 13.3 and 13.1 percent, respectively. The largest growth in terms of dollar value was reported in California, where sales tax collections grew by slightly over \$1 billion or 13.3 percent, which is mostly attributable to Proposition 30, which increased sales tax rates by 25 percent for tax years 2013 to 2016. If we exclude California, sales tax collections show a growth of 4.4 percent for the nation in the first quarter of 2013.

After thirteen consecutive quarters of growth, state sales tax revenues were 7.7 percent higher in the first quarter of 2013 compared to the same quarter of five years ago. However, if we adjust the numbers for inflation, sales tax receipts show a 0.5 percent decline in the first quarter of 2013 compared to the same quarter of 2008.

Corporate Income Tax

Corporate income tax revenue is highly variable because of volatility in corporate profits and in the timing of tax payments. Many states, such as Delaware, Hawaii, Montana, Rhode Island, and Vermont, collect relatively little revenue from corporate taxes, and can experience large fluctuations in percentage terms. For all these reasons, there is often significant variation in states' gains or losses for this tax.

Corporate tax revenue increased by 9.4 percent in the first quarter of 2013 compared to a year earlier. All regions reported growth in corporate income tax collections in the first quarter of 2013, with the Rocky Mountain region reporting the largest growth at 58 percent and the Plains region reporting the weakest growth at 3.2 percent.

Among forty-six states that have a corporate income tax, thirty reported growth, with twenty-two enjoying double-digit gains. Sixteen states reported declines for the first quarter of 2013 compared to the same quarter of the previous year, of which twelve states reported double-digit declines. The largest decline in terms of dollar value was reported in Virginia, where corporate income tax collections fell by \$87 million or 57.8 percent. On the contrary,

Table 5. Real Percent Change in State Taxes Other Than PIT, CIT, and General Sales Taxes

	Year-Over-Year Real Percent Change; Four-Quarter Moving Averages					
	Property tax	Motor fuel sales tax	Tobacco product sales tax	Alcoholic beverage sales tax	Motor vehicle & operators license taxes	Other taxes
Nominal collections (mlns), last 12 months	\$13,051	\$41,163	\$17,082	\$5,935	\$25,131	\$127,237
2013 Q1	(2.9)	(0.7)	(2.6)	(0.0)	(0.0)	1.3
2012 Q4	(5.3)	(0.0)	(2.8)	2.4	1.8	1.5
2012 Q3	(10.0)	(0.3)	(3.7)	3.4	2.8	3.4
2012 Q2	(10.6)	(1.3)	(2.6)	2.9	3.1	5.4
2012 Q1	(9.0)	0.1	(2.7)	0.6	2.1	7.6
2011 Q4	(9.3)	2.8	(1.9)	(0.6)	1.8	11.5
2011 Q3	(5.8)	5.6	(1.0)	0.4	0.3	11.9
2011 Q2	(2.1)	8.6	0.6	1.5	1.5	12.2
2011 Q1	0.3	8.1	2.6	3.1	3.2	9.2
2010 Q4	5.9	5.2	3.0	3.1	3.9	7.2
2010 Q3	11.0	2.3	2.1	2.9	5.5	4.2
2010 Q2	11.1	0.5	0.4	2.0	3.7	(2.5)
2010 Q1	9.8	(0.8)	(1.2)	0.7	1.4	(9.2)
2009 Q4	6.0	(2.0)	(1.6)	0.5	0.1	(13.7)
2009 Q3	(0.7)	(3.3)	0.3	(0.0)	(1.3)	(13.4)
2009 Q2	(2.2)	(5.5)	1.1	(0.3)	(1.1)	(6.9)
2009 Q1	(3.9)	(6.1)	2.4	0.2	(0.6)	3.7
2008 Q4	(3.1)	(5.1)	2.9	0.2	(1.3)	7.2
2008 Q3	1.6	(3.6)	3.3	(0.3)	(0.8)	9.6
2008 Q2	3.2	(1.9)	5.7	0.3	(0.5)	7.5
2008 Q1	3.9	(1.4)	6.0	0.4	(1.2)	3.1
2007 Q4	3.3	(1.9)	5.9	0.4	(0.6)	2.1
2007 Q3	1.3	(0.9)	3.8	1.5	(1.0)	(0.5)
2007 Q2	(0.3)	(1.3)	0.3	1.3	(1.0)	(1.4)
2007 Q1	1.7	(0.1)	1.5	0.5	0.4	(1.1)
2006 Q4	0.1	0.7	2.6	1.0	0.9	(0.4)
2006 Q3	(0.3)	(1.1)	5.3	1.1	0.8	2.0
2006 Q2	(0.1)	1.4	8.9	1.1	0.7	4.2
2006 Q1	0.8	1.5	6.9	2.5	0.1	5.2
2005 Q4	1.9	2.1	5.4	1.6	0.3	7.1
2005 Q3	3.4	3.6	4.2	(0.2)	1.9	6.3
2005 Q2	3.5	0.9	2.1	(0.6)	2.7	4.9
2005 Q1	1.7	1.4	2.9	(2.4)	3.6	5.7
2004 Q4	(4.9)	1.6	3.6	(1.4)	5.6	6.0
2004 Q3	(2.3)	1.5	3.6	0.0	6.0	7.6
2004 Q2	3.6	2.1	4.8	0.5	6.6	9.0
2004 Q1	1.0	0.4	10.5	4.3	5.5	7.5
2003 Q4	8.6	(1.0)	17.0	3.9	3.9	5.6
2003 Q3	5.6	(1.2)	26.2	2.2	2.8	3.8
2003 Q2	(1.1)	(0.4)	35.7	3.1	2.6	2.6
2003 Q1	(5.0)	0.7	27.1	0.6	3.6	2.2
2002 Q4	(4.8)	1.0	17.2	(0.1)	2.9	2.1
2002 Q3	(6.7)	0.7	5.6	2.7	2.5	2.6
2002 Q2	(4.4)	1.1	(5.9)	(0.2)	0.6	3.4
2002 Q1	5.1	1.7	(5.0)	(0.2)	(1.2)	2.1
2001 Q4	2.7	2.5	(1.5)	0.5	(2.9)	2.5
2001 Q3	(0.3)	3.5	2.6	(1.4)	(3.3)	1.5
2001 Q2	(5.0)	2.5	7.6	1.7	(0.7)	0.9
2001 Q1	(12.6)	1.2	8.4	1.4	2.4	3.6
2000 Q4	(11.1)	1.2	5.9	1.8	5.9	4.2
2000 Q3	(4.1)	1.3	1.7	3.2	6.9	6.5
2000 Q2	(2.6)	1.2	(1.3)	2.2	5.9	7.9
2000 Q1	2.5	2.3	(4.5)	3.2	3.0	4.7

Source: U.S. Census Bureau.

the largest growth in terms of dollar value was reported in New York, where corporate income tax collections grew by \$239 million or 15.5 percent.

Other Taxes

Census Bureau quarterly data on state tax collections provide detailed information for some of the smaller taxes not broken out separately in the data collected by the Rockefeller Institute. In Table 5, we show four-quarter moving average real growth rates for the nation as a whole.

Revenues from smaller tax sources showed a mixed picture. The motor fuel sales tax, the most significant of the smaller taxes, showed a 0.7 percent decline for the nation, which is the fourth consecutive quarter decline. State property taxes, a relatively small revenue source for states, fell by 2.9 percent and revenues from tobacco product sales taxes declined by 2.6 percent. Tax revenues from alcoholic beverage sales and from motor vehicle and operators' licenses both showed negligible declines.

Underlying Reasons for Trends

State revenue changes result from three kinds of underlying forces: state-level changes in the economy (which often differ from national trends), the different ways in which economic changes affect each state’s tax system, and legislated tax changes. The next two sections discuss the economy and recent legislated changes.

Economic Changes

Most state tax revenue sources are heavily influenced by the economy. The income tax rises when income rises, the sales tax generates more revenue when consumers increase their purchases of taxable items, and so on. When the economy booms, tax revenue tends to rise rapidly, and when it declines, tax revenue tends to decline. Figure 4 shows year-over-year growth for two-quarter moving averages in inflation-adjusted state tax revenue and in real gross domestic product, to smooth short-term fluctuations and illustrate the interplay between the economy and state revenues.

Tax revenue is related to economic growth. As shown in Figure 4, in the first quarter of 2013 real state tax revenue showed 5.1 percent growth on this moving-average basis. This was the twelfth consecutive quarter of growth. Real Gross Domestic Product (GDP) showed growth for the thirteenth consecutive quarter at 1.6 percent. Growth in Real GDP is now fairly weaker than the 2.2 percent growth reported in the first quarter of 2012 and the 2.1 percent growth reported in the first quarter of 2011.

Yet there is volatility in tax revenue that is not explained by real GDP, a broad measure of the economy. Throughout 2011, state tax revenue has risen significantly while the overall economy has been growing at a relatively slow pace in the wake of the Great Recession. Also, in much of 2009 and 2010, state revenue declines were much larger than the quarterly reductions in real GDP. Thus, although the growth rate in state tax revenues was not far from the growth rate in the

Figure 4. State Tax Revenue Is More Volatile Than the Economy

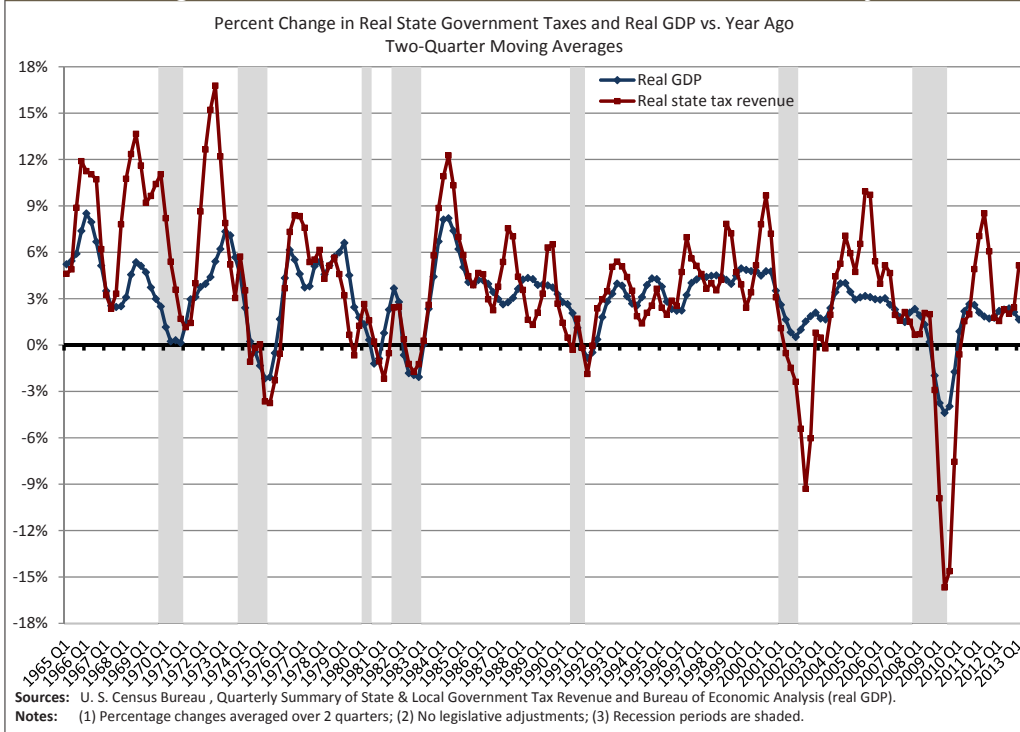


Table 6. Nonfarm Employment, By State

Last Four Quarters, Year-Over-Year Percent Change

	2012		2013	
	July-Sep	Oct-Dec	Jan-March	April-June
United States	1.6	1.6	1.6	1.5
New England	1.0	0.9	0.9	1.1
Connecticut	0.7	0.7	0.3	0.8
Maine	0.3	0.0	0.2	0.0
Massachusetts	1.2	1.2	1.4	1.6
New Hampshire	1.4	0.8	1.1	1.3
Rhode Island	0.8	0.4	0.4	0.3
Vermont	1.3	1.3	1.3	1.4
Mid-Atlantic	1.1	0.9	0.9	1.1
Delaware	0.3	0.7	1.8	1.7
Maryland	1.1	1.3	1.3	1.5
New Jersey	1.2	1.3	1.3	1.7
New York	1.2	1.0	1.0	1.1
Pennsylvania	0.7	0.5	0.3	0.4
Great Lakes	1.4	1.2	0.9	0.8
Illinois	1.1	1.3	1.0	0.9
Indiana	2.3	1.9	1.6	1.4
Michigan	1.6	1.0	1.1	1.2
Ohio	1.3	0.9	0.4	0.3
Wisconsin	0.8	0.7	0.9	0.4
Plains	1.4	1.3	1.4	1.4
Iowa	1.4	1.4	1.4	1.3
Kansas	1.2	1.2	1.1	0.9
Minnesota	1.3	1.2	2.0	1.5
Missouri	0.5	0.7	0.7	1.4
Nebraska	1.6	0.9	0.6	0.8
North Dakota	8.7	6.8	5.0	3.2
South Dakota	1.5	1.2	1.3	1.0
Southeast	1.3	1.5	1.5	1.4
Alabama	0.6	0.7	0.5	0.7
Arkansas	0.1	0.2	0.4	0.6
Florida	2.0	1.9	1.8	1.6
Georgia	1.2	1.6	2.0	1.9
Kentucky	1.5	1.2	1.3	0.9
Louisiana	0.8	1.5	1.4	1.1
Mississippi	0.9	1.4	1.4	1.8
North Carolina	1.7	2.1	2.1	1.7
South Carolina	1.1	1.8	1.5	1.4
Tennessee	1.7	1.8	1.9	1.6
Virginia	0.9	1.0	1.0	1.2
West Virginia	0.6	0.4	0.4	0.7
Southwest	2.4	2.7	2.6	2.4
Arizona	2.2	2.0	1.9	2.0
New Mexico	(0.2)	0.4	0.6	0.9
Oklahoma	1.6	1.5	1.2	1.0
Texas	2.8	3.2	3.2	2.8
Rocky Mountain	2.4	2.5	2.7	2.4
Colorado	2.3	2.6	2.7	2.4
Idaho	1.7	1.9	2.8	2.9
Montana	2.2	2.2	2.1	1.7
Utah	3.4	3.6	3.6	2.8
Wyoming	0.2	(0.2)	(0.2)	(0.1)
Far West	2.1	2.1	2.0	1.7
Alaska	1.2	0.8	0.6	(0.4)
California	2.3	2.2	2.1	1.8
Hawaii	2.2	2.1	1.7	1.3
Nevada	1.6	2.1	2.3	1.9
Oregon	1.3	1.1	1.4	1.5
Washington	1.7	1.9	2.2	1.8

Source: Bureau of Labor Statistics (CES, seasonally unadjusted).

overall economy throughout 2012, state tax revenues have been more volatile than the general economy in prior years.

State-by-state data on income and consumption are not available on a timely basis, and so we cannot easily see variation across the country in these trends. Instead, like other researchers, the Rockefeller Institute relies partly on employment data from the Bureau of Labor Statistics to examine state-by-state economic conditions. These data are relatively timely and are of high quality. Table 6 shows year-over-year employment growth over the last four quarters. For the nation as a whole, employment grew for the twelfth quarter in a row — by 1.5 percent relative to the previous year — in the April-June quarter of 2013. On a year-over-year basis, employment grew in all states but Alaska and Wyoming. North Dakota reported the largest growth at 3.2 percent, followed by Idaho at 2.9 percent in the second quarter of 2013. In total, six states reported growth of over 2.0 percent.

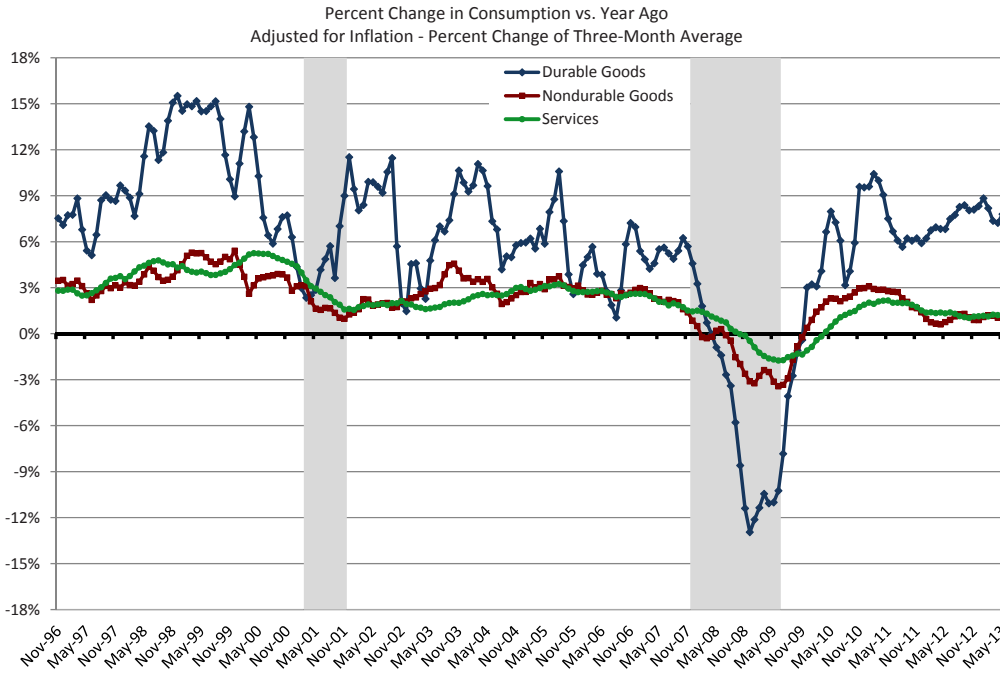
All regions reported growth in employment in the second quarter of 2013, but job gains are not evenly distributed among the regions. The Great Lakes region reported the weakest growth in employment at 0.8 percent. The Southwest and Rocky Mountain regions reported the largest increase in employment at 2.4 percent each. These employment data are compared to the same period a year ago rather than to preceding months.

Economists at the Philadelphia Federal Reserve Bank developed broader and highly timely measures known as “coincident economic indexes” intended to provide information about current economic activity in individual states. Unlike leading indexes, these measures are not designed to predict where the economy is headed; rather, they are intended to tell us where we are now.⁸ These indexes can be used to measure the scope of economic decline or growth.

The analysis of coincident indexes indicates that, as of June 2013, economic activity nationwide increased by 0.7 percent compared to three months earlier and by 3.3 percent compared to a year earlier. At the state level, forty-three states reported growth in economic activity compared to three months earlier, while seven states reported decline.

The number of states reporting declines in economic activity is nearly the same at the end of June 2013 as it was a year ago. In the month of June 2012,

Figure 5. Consumption of Nondurable Goods and Services Remains Stagnant



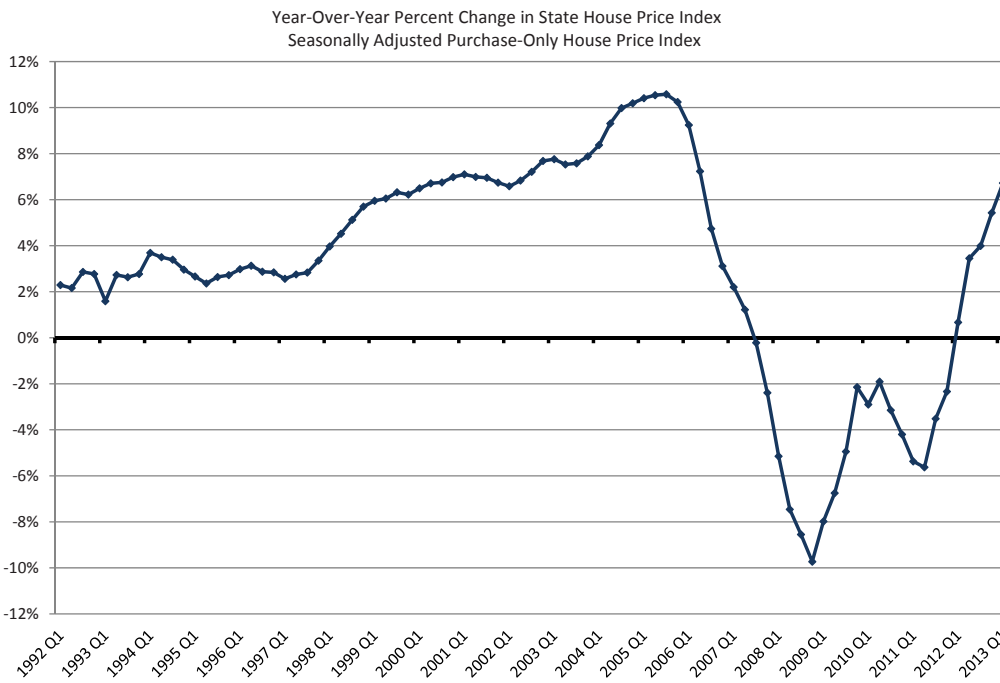
Source: U. S. Bureau of Economic Analysis, National Income and Product Accounts, Table 2.8.6.

nine states reported declines in economic activity. The number of states reporting declines in economic activity decreased in the subsequent months of 2012, but has been increasing throughout 2013. The data underlying these indexes are subject to revision, and so tentative conclusions drawn now could change at a later date.

Figure 5 shows national consumption of durable goods, nondurable goods, and services — factors likely to be related to sales tax revenues.

The decline in consumption of durable and nondurable goods during the recent downturn was much sharper than in the last recession. Consumption of nondurable goods and services remained relatively stagnant in the last few months. Growth in the consumption of durable goods weakened in the last three months.

Figure 6. Housing Price Index Shows Continued Improvement



Source: U.S. Federal Housing Finance Agency, Purchase-Only Indexes.

Figure 6 shows the year-over-year percent change in the federal government's seasonally adjusted, purchase-only house price index from 1992 through the first quarter of 2013. Declines in housing prices usually lead to declines in property taxes, with some lag. The deep declines in housing prices caused by the Great Recession led to significant reductions in property taxes in the past two years.⁹ As Figure 6 shows, the trend in housing

prices has been downward since mid-2005, with steeply negative movement from the last quarter of 2005 through the end of 2008. Housing prices strengthened in 2009 and the first half of 2010, but the direction of change shifted downward from the second half of 2010 to the first half of 2011. However, the trend has been upward since the second half of 2011. In the first quarter of 2013, the housing price index showed a strong growth at 6.7 percent. This is the fifth consecutive quarter growth and is proceeding after eighteen consecutive quarter declines, which is highly encouraging.

Tax Law Changes Affecting This Quarter

Another important element affecting trends in tax revenue growth is changes in states' tax laws. During the January-March 2013 quarter, enacted tax increases and decreases produced an estimated gain of \$1.5 billion compared to the same period in 2012.¹⁰ Enacted tax changes increased personal income tax by approximately \$1.4 billion, decreased sales tax by \$365 million, decreased corporate income taxes by \$31 million, increased cigarette taxes by \$62 million, and decreased some other taxes by \$220 million.

Among the enacted tax changes, the most noticeable ones are the increase of personal income tax rates in California for higher income taxpayers, the restructuring of personal income tax brackets in New York, personal income tax rate reductions in Kansas, and temporary sales tax increases in Arizona and California.

The Impact of Two Major Taxes

States rely on the sales tax for about 30 percent of their tax revenue, and it was hit far harder during and after the last recession

than in previous recessions. Retail sales and consumption are major drivers of sales taxes. Figure 7 shows the cumulative percentage change in inflation-adjusted retail sales in the sixty-five months following the start of each recession from 1973 forward.¹¹ Real retail sales in the Great Recession (the solid red line) plummeted after December 2007, falling sharply and almost continuously until December 2008, by which point they were more than 10 percent below the

Figure 7. Real Retail Sales Are Now Above the Precession Levels

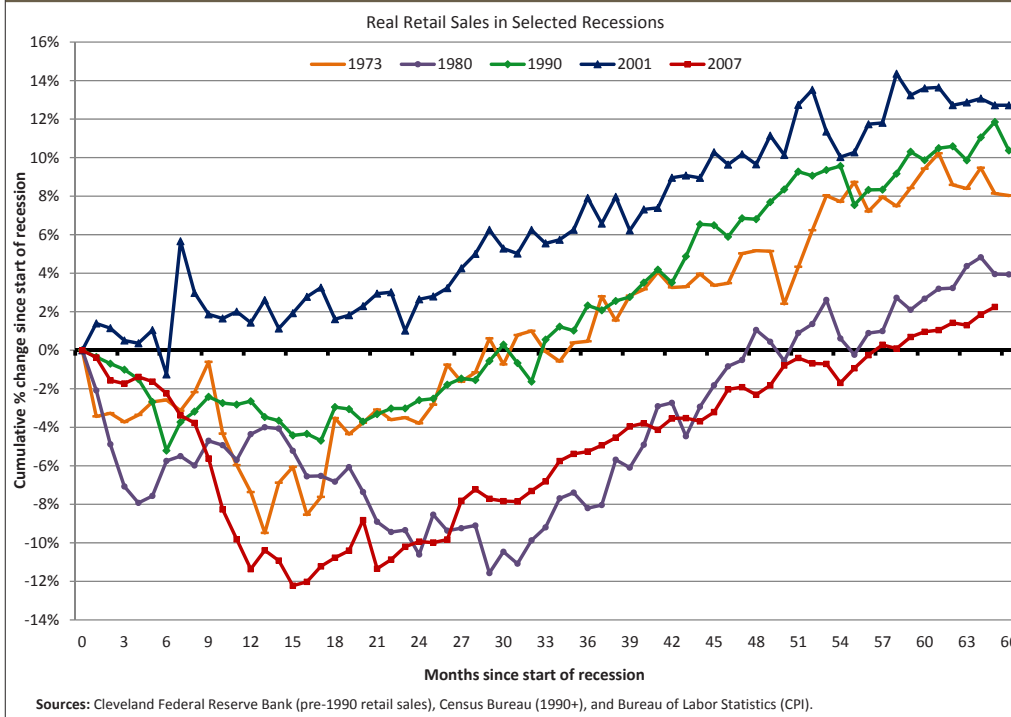
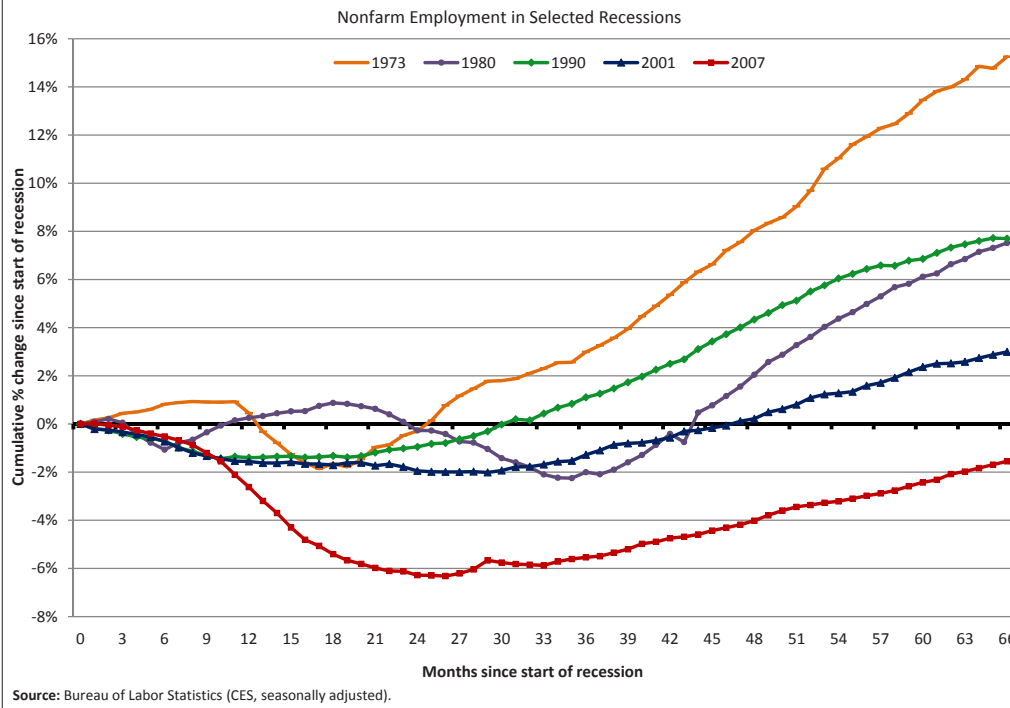


Figure 8. Employment Is Still 1.6 Percent Below The Prerecession Level



prerecession peak. This was deeper than in most recessions, although the declines in the 1973 and 1980 recessions also were quite sharp. While real retail sales have been rising from their lows for nearly three years now, at the end of May 2013 they were only 2.3 percent above the prerecession levels.

States on average count on the income tax for about 36 percent of their tax revenue. Employment and associated wage payments are major drivers of income taxes.

Figure 8 shows the cumulative percentage change in nonfarm employment for the nation as a whole in the sixty-six months following the start of each recession from 1973 forward.¹² The last point for the 2007 recession is June 2013, month sixty-six. As the graph shows, the 1.6 percent employment drop as of June 2013 is still far worse than declines seen in and around previous recessions. The trends depicted in Figure 8 suggest that, unless the pace of growth accelerates, it will take several more months before employment attains its prerecession peak.

Looking Ahead

Through the first three quarters of fiscal 2013, states collected \$583.3 billion in total tax revenues, a gain of 5.7 percent from \$551.9 billion in the same period of fiscal 2012, according to Census data (see Tables 9 and 10). That fiscal 2013 figure is about 8.7 percent above the levels reported in the first three quarters of fiscal 2008. The personal income tax and sales tax both showed growth at 11.6 and 3.4 percent, respectively, in the first three quarters of fiscal 2013 compared to the same period of 2012, and corporate income tax increased by 7.3 percent. All regions reported growth in overall tax collections in the first three quarters of fiscal 2013, with the Far West region reporting the largest growth at 10 percent, while New England region reporting the weakest growth at 2.6 percent.

Preliminary data for the April-May months of 2013 suggest that tax conditions continue showing further growth in the second quarter of 2013, although some of the growth, particularly in

	January-March 2012				January-March 2013			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	61,556	9,328	60,402	188,453	72,865	10,205	63,746	204,589
New England	4,757	1,033	2,728	11,599	5,135	1,067	2,672	12,015
Connecticut	1,687	213	947	3,754	1,795	208	879	3,784
Maine	247	48	245	764	279	33	240	775
Massachusetts	2,506	581	1,243	5,196	2,748	634	1,252	5,573
New Hampshire	15	114	NA	811	16	121	NA	826
Rhode Island	202	54	202	643	189	46	208	617
Vermont	99	22	92	431	108	25	92	440
Mid-Atlantic	18,028	2,591	8,042	40,791	19,661	2,799	8,317	43,342
Delaware	411	65	NA	956	346	73	NA	883
Maryland	1,119	229	1,014	3,402	1,312	213	1,005	3,710
New Jersey	2,696	356	1,904	6,433	3,052	287	2,089	7,050
New York	11,450	1,542	2,908	20,109	12,434	1,781	3,026	21,653
Pennsylvania	2,352	399	2,216	9,892	2,516	445	2,196	10,045
Great Lakes	9,174	1,359	8,858	26,713	10,025	1,654	8,726	28,144
Illinois	4,198	834	1,926	9,083	4,345	1,028	1,963	9,819
Indiana	1,005	34	1,655	3,472	1,000	(10)	1,697	3,460
Michigan	1,030	159	2,270	4,847	1,511	206	1,972	5,190
Ohio	1,891	86	1,997	6,179	2,062	151	2,063	6,409
Wisconsin	1,051	245	1,010	3,133	1,106	279	1,032	3,267
Plains	4,156	547	4,124	13,197	4,991	564	5,191	14,938
Iowa	618	93	589	1,811	721	66	603	1,897
Kansas	502	51	700	1,635	509	38	711	1,645
Minnesota	1,598	281	1,177	4,493	2,175	302	2,214	6,244
Missouri	971	7	793	2,380	1,079	43	798	2,512
Nebraska	375	67	370	1,041	379	69	370	991
North Dakota	93	34	289	1,464	129	40	282	1,276
South Dakota	NA	13	206	374	NA	5	214	374
Southeast	9,050	1,619	14,962	36,972	9,977	1,762	15,313	38,326
Alabama	696	99	563	2,218	740	107	564	2,293
Arkansas	438	89	693	1,681	489	103	699	1,753
Florida	NA	425	5,107	8,672	NA	422	5,417	9,024
Georgia	1,540	136	1,311	3,560	1,655	193	1,350	3,755
Kentucky	697	70	757	2,486	750	103	737	2,488
Louisiana	443	(57)	741	1,872	524	(25)	739	2,008
Mississippi	200	187	763	1,687	333	159	785	1,787
North Carolina	2,278	196	1,367	5,218	2,403	218	1,330	5,338
South Carolina	243	60	702	1,444	321	105	720	1,569
Tennessee	19	256	1,756	2,978	21	274	1,767	3,041
Virginia	2,113	150	873	3,925	2,377	63	888	4,077
West Virginia	384	7	329	1,230	363	39	317	1,192
Southwest	1,113	286	8,259	16,827	1,194	331	8,604	17,623
Arizona	424	111	1,199	2,459	461	109	1,245	2,542
New Mexico	184	63	513	1,256	217	73	506	1,303
Oklahoma	506	112	608	1,917	516	148	612	1,894
Texas	NA	NA	5,939	11,195	NA	NA	6,240	11,883
Rocky Mountain	1,889	131	1,540	5,352	2,075	207	1,532	5,549
Colorado	1,018	51	576	2,291	1,184	89	588	2,492
Idaho	221	30	295	737	220	31	318	742
Montana	159	3	NA	481	182	23	NA	537
Utah	491	47	477	1,322	489	63	460	1,319
Wyoming	NA	NA	192	520	NA	NA	166	458
Far West	13,389	1,762	11,888	37,001	19,807	1,821	13,392	44,653
Alaska	NA	34	NA	1,715	NA	29	NA	995
California	11,978	1,624	7,892	26,202	18,237	1,682	8,941	33,768
Hawaii	277	40	711	1,343	351	19	758	1,391
Nevada	NA	NA	675	1,494	NA	NA	920	1,805
Oregon	1,134	64	NA	1,703	1,219	92	NA	1,918
Washington	NA	NA	2,610	4,543	NA	NA	2,773	4,776

Source: U.S. Census Bureau.

Table 8. Quarterly Tax Revenue By Major Tax

	January-March, 2012-2013, Percent Change			
	PIT	CIT	Sales	Total
United States	18.4	9.4	5.5	8.6
New England	7.9	3.3	(2.1)	3.6
Connecticut	6.4	(2.2)	(7.2)	0.8
Maine	13.1	(30.9)	(1.8)	1.5
Massachusetts	9.6	9.1	0.8	7.3
New Hampshire	9.5	5.5	NA	1.8
Rhode Island	(6.6)	(16.3)	2.9	(4.1)
Vermont	8.7	13.0	0.2	2.2
Mid-Atlantic	9.1	8.0	3.4	6.3
Delaware	(15.8)	11.0	NA	(7.6)
Maryland	17.3	(7.0)	(0.9)	9.1
New Jersey	13.2	(19.5)	9.7	9.6
New York	8.6	15.5	4.1	7.7
Pennsylvania	7.0	11.8	(0.9)	1.6
Great Lakes	9.3	21.7	(1.5)	5.4
Illinois	3.5	23.3	1.9	8.1
Indiana	(0.5)	(129.3)	2.5	(0.3)
Michigan	46.7	29.4	(13.1)	7.1
Ohio	9.1	75.1	3.3	3.7
Wisconsin	5.2	13.8	2.2	4.3
Plains	20.1	3.2	25.9	13.2
Iowa	16.7	(28.5)	2.4	4.7
Kansas	1.4	(25.0)	1.5	0.6
Minnesota	36.1	7.3	88.1	39.0
Missouri	11.2	478.0	0.6	5.5
Nebraska	1.1	3.5	0.0	(4.8)
North Dakota	38.6	18.2	(2.4)	(12.8)
South Dakota	NA	(60.3)	3.8	0.1
Southeast	10.2	8.8	2.3	3.7
Alabama	6.3	7.9	0.2	3.4
Arkansas	11.7	14.7	0.9	4.3
Florida	NA	(0.6)	6.1	4.1
Georgia	7.5	41.5	3.0	5.5
Kentucky	7.7	47.4	(2.6)	0.1
Louisiana	18.3	(56.0)	(0.3)	7.2
Mississippi	66.1	(15.3)	2.8	5.9
North Carolina	5.5	11.6	(2.7)	2.3
South Carolina	32.1	74.8	2.6	8.7
Tennessee	12.2	7.1	0.6	2.1
Virginia	12.5	(57.8)	1.8	3.9
West Virginia	(5.6)	452.4	(3.6)	(3.1)
Southwest	7.3	15.4	4.2	4.7
Arizona	8.7	(2.0)	3.8	3.4
New Mexico	18.4	16.4	(1.3)	3.7
Oklahoma	2.0	32.2	0.7	(1.2)
Texas	NA	NA	5.1	6.1
Rocky Mountain	9.8	58.0	(0.5)	3.7
Colorado	16.3	74.0	2.0	8.8
Idaho	(0.4)	3.2	7.9	0.6
Montana	14.4	653.0	NA	11.7
Utah	(0.5)	36.2	(3.6)	(0.3)
Wyoming	NA	NA	(13.3)	(11.9)
Far West	47.9	3.4	12.6	20.7
Alaska	NA	(14.8)	NA	(42.0)
California	52.2	3.5	13.3	28.9
Hawaii	27.0	(51.3)	6.6	3.6
Nevada	NA	NA	36.2	20.8
Oregon	7.5	43.0	NA	12.6
Washington	NA	NA	6.3	5.1

Source: U.S. Census Bureau.

personal income tax revenues, is artificially boosted at the expense of later years. With early data for April-May 2013 now available for forty-seven states, tax revenue increased by 13.7 percent compared to the same months of the previous year. According to the preliminary data, personal income tax collections grew by 27.2 percent and sales tax collections by 4.5 percent. Because April is the month in which most personal income tax returns for 2012 income are filed, the April-May revenue surge is consistent with acceleration of income into tax year 2012.

Starting at the end of calendar year 2008 and extending through 2009, states suffered five straight quarters of decline in tax revenues. They now have enjoyed thirteen consecutive quarters of growth. Overall, tax revenues across the states are improving, but states continue to face long-term fiscal challenges and structural imbalances.

State tax revenues are recovering, but not as quickly as the broader economy is improving. This reflects the fact that states do not tax the broad economy: their tax systems are much more reliant on narrower and more volatile forms of economic activity – and forms that, in this environment, have not been recovering as quickly as the broad economy.

State tax revenues became more volatile in the last decade. Moreover, the temporary solutions to address budget shortfalls caused by the Great Recession might have contributed to further growth of revenue volatility. In addition, federal actions related to the “fiscal cliff” and sequestration would likely increase state tax revenue volatility even further. States should revisit the composition of their tax structures and consider broadening tax bases to achieve more predictable and less volatile tax revenues.

Table 9. State Tax Revenue, FYTD 2012 and FYTD 2013 (\$ in millions)								
	July 2011-March 2012				July 2012-March 2013			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	186,990	25,874	177,121	551,928	208,764	27,760	183,081	583,293
New England	14,395	2,420	7,792	32,589	14,973	2,353	7,878	33,432
Connecticut	4,297	401	2,391	9,353	4,388	322	2,397	9,384
Maine	931	157	718	2,500	965	104	716	2,515
Massachusetts	8,014	1,359	3,784	15,707	8,445	1,384	3,842	16,328
New Hampshire	32	353	NA	1,637	40	368	NA	1,745
Rhode Island	737	84	637	2,023	732	96	658	2,038
Vermont	384	65	262	1,371	403	80	265	1,423
Mid-Atlantic	46,823	6,411	23,607	107,176	49,846	7,250	24,032	111,572
Delaware	936	153	NA	2,340	908	196	NA	2,339
Maryland	4,442	548	2,674	11,260	4,744	610	2,703	11,800
New Jersey	6,822	1,242	5,191	17,214	7,410	1,190	5,347	17,842
New York	27,798	3,396	8,931	52,402	29,596	3,894	9,123	54,955
Pennsylvania	6,825	1,072	6,810	23,961	7,188	1,361	6,859	24,636
Great Lakes	29,332	3,856	27,378	84,371	31,675	4,656	26,349	86,934
Illinois	10,722	2,129	6,002	25,799	11,185	2,698	6,060	27,093
Indiana	3,203	475	4,918	10,835	3,301	494	5,042	11,051
Michigan	5,093	536	7,535	19,103	5,929	607	6,308	19,191
Ohio	6,095	92	6,113	18,379	6,785	203	6,078	19,037
Wisconsin	4,220	623	2,809	10,255	4,475	655	2,860	10,563
Plains	13,937	1,524	12,167	39,944	15,527	1,816	13,044	42,642
Iowa	1,935	205	1,612	5,092	2,135	223	1,658	5,381
Kansas	1,839	169	2,105	5,107	2,017	250	2,164	5,433
Minnesota	5,385	741	3,572	14,287	6,199	834	4,161	16,059
Missouri	3,288	102	2,310	7,403	3,560	184	2,342	7,775
Nebraska	1,227	158	1,085	3,101	1,285	186	1,108	3,164
North Dakota	264	102	829	3,800	331	119	965	3,706
South Dakota	NA	47	654	1,154	NA	21	646	1,125
Southeast	32,395	4,867	43,015	113,275	35,195	5,477	44,450	118,890
Alabama	2,111	245	1,673	6,459	2,207	252	1,707	6,604
Arkansas	1,629	262	2,102	5,865	1,768	270	2,114	6,019
Florida	NA	1,244	14,263	24,393	NA	1,392	15,344	25,852
Georgia	5,940	360	3,827	11,839	6,293	495	3,942	12,389
Kentucky	2,426	343	2,268	7,637	2,563	406	2,249	7,866
Louisiana	1,721	(27)	2,167	6,089	1,954	70	2,151	6,562
Mississippi	925	314	2,120	4,796	1,167	286	2,190	5,081
North Carolina	7,533	701	4,186	16,301	7,889	716	4,137	16,838
South Carolina	1,709	139	1,883	5,004	2,415	245	1,960	5,905
Tennessee	26	704	5,127	8,647	36	744	5,226	8,837
Virginia	7,210	473	2,438	12,449	7,700	431	2,495	13,107
West Virginia	1,165	111	961	3,797	1,204	169	935	3,830
Southwest	4,634	825	23,982	49,834	5,134	906	25,921	53,475
Arizona	2,156	437	3,477	8,256	2,318	404	3,618	8,572
New Mexico	586	119	1,164	3,002	846	119	1,177	3,328
Oklahoma	1,892	269	1,784	6,147	1,970	383	1,887	6,144
Texas	NA	NA	17,557	32,429	NA	NA	19,239	35,432
Rocky Mountain	6,271	567	4,584	16,595	6,904	775	4,743	17,422
Colorado	3,271	252	1,711	7,188	3,665	374	1,799	7,762
Idaho	803	109	919	2,348	811	105	992	2,428
Montana	594	74	NA	1,623	661	106	NA	1,713
Utah	1,603	132	1,379	4,028	1,767	190	1,414	4,269
Wyoming	NA	NA	575	1,407	NA	NA	538	1,250
Far West	39,203	5,405	34,595	108,144	49,511	4,526	36,665	118,926
Alaska	NA	362	NA	4,694	NA	361	NA	3,636
California	34,179	4,751	22,907	77,001	44,078	3,794	24,048	86,931
Hawaii	1,035	32	1,994	3,887	1,220	52	2,188	4,260
Nevada	NA	NA	1,788	3,618	NA	NA	2,083	4,019
Oregon	3,989	259	NA	5,845	4,213	319	NA	6,220
Washington	NA	NA	7,907	13,098	NA	NA	8,347	13,860

Source: U.S. Census Bureau.

Table 10. FYTD Tax Revenue by Major Tax				
FYTD 2012 vs. FYTD 2013, Percent Change				
	PIT	CIT	Sales	Total
United States	11.6	7.3	3.4	5.7
New England	4.0	(2.8)	1.1	2.6
Connecticut	2.1	(19.8)	0.2	0.3
Maine	3.7	(33.9)	(0.3)	0.6
Massachusetts	5.4	1.8	1.5	4.0
New Hampshire	25.2	4.3	NA	6.6
Rhode Island	(0.7)	14.7	3.3	0.8
Vermont	5.0	21.6	1.2	3.8
Mid-Atlantic	6.5	13.1	1.8	4.1
Delaware	(3.1)	27.8	NA	(0.0)
Maryland	6.8	11.4	1.1	4.8
New Jersey	8.6	(4.2)	3.0	3.6
New York	6.5	14.7	2.1	4.9
Pennsylvania	5.3	26.9	0.7	2.8
Great Lakes	8.0	20.8	(3.8)	3.0
Illinois	4.3	26.7	1.0	5.0
Indiana	3.0	3.9	2.5	2.0
Michigan	16.4	13.3	(16.3)	0.5
Ohio	11.3	119.4	(0.6)	3.6
Wisconsin	6.1	5.1	1.8	3.0
Plains	11.4	19.2	7.2	6.8
Iowa	10.3	8.6	2.9	5.7
Kansas	9.7	47.5	2.8	6.4
Minnesota	15.1	12.5	16.5	12.4
Missouri	8.3	80.3	1.4	5.0
Nebraska	4.7	17.6	2.1	2.0
North Dakota	25.4	16.7	16.4	(2.5)
South Dakota	NA	(54.1)	(1.1)	(2.5)
Southeast	8.6	12.5	3.3	5.0
Alabama	4.5	2.9	2.0	2.2
Arkansas	8.6	3.3	0.6	2.6
Florida	NA	11.9	7.6	6.0
Georgia	5.9	37.7	3.0	4.6
Kentucky	5.7	18.2	(0.8)	3.0
Louisiana	13.6	(359.7)	(0.7)	7.8
Mississippi	26.1	(9.0)	3.3	5.9
North Carolina	4.7	2.2	(1.2)	3.3
South Carolina	41.3	77.1	4.0	18.0
Tennessee	36.0	5.8	1.9	2.2
Virginia	6.8	(8.9)	2.3	5.3
West Virginia	3.4	53.0	(2.8)	0.9
Southwest	10.8	9.9	8.1	7.3
Arizona	7.5	(7.5)	4.1	3.8
New Mexico	44.5	0.0	1.0	10.9
Oklahoma	4.1	42.7	5.8	(0.0)
Texas	NA	NA	9.6	9.3
Rocky Mountain	10.1	36.7	3.5	5.0
Colorado	12.0	48.2	5.1	8.0
Idaho	1.0	(3.6)	7.9	3.4
Montana	11.3	42.7	NA	5.5
Utah	10.2	44.7	2.6	6.0
Wyoming	NA	NA	(6.4)	(11.1)
Far West	26.3	(16.3)	6.0	10.0
Alaska	NA	(0.4)	NA	(22.5)
California	29.0	(20.2)	5.0	12.9
Hawaii	17.9	61.1	9.7	9.6
Nevada	NA	NA	16.5	11.1
Oregon	5.6	23.2	NA	6.4
Washington	NA	NA	5.6	5.8

Source: U.S. Census Bureau.

Where Do We Stand Now?

As we have noted in prior *State Revenue Reports*, state tax revenue has begun to recover slowly and has now grown on a year-over-year basis for thirteen consecutive quarters. This certainly is good news, but sometimes it is interpreted as meaning that state finances have recovered almost fully, and that is not correct.

States suffered dramatic declines in all major taxes. Figure 9 shows the cumulative percentage change in state tax revenue since the start of each of the last three recessions, after adjusting for inflation and smoothing the data by averaging over four quarters. State tax revenues declined insignificantly during the 1990 recession and much more substantially during the 2001 recession. However, the impact of the Great Recession on state tax revenue collections was much worse. Nearly five years after the start of the Great Recession, state tax revenues remain below prerecession levels. The decline in state tax revenues was much deeper and longer and the recovery has been much slower.

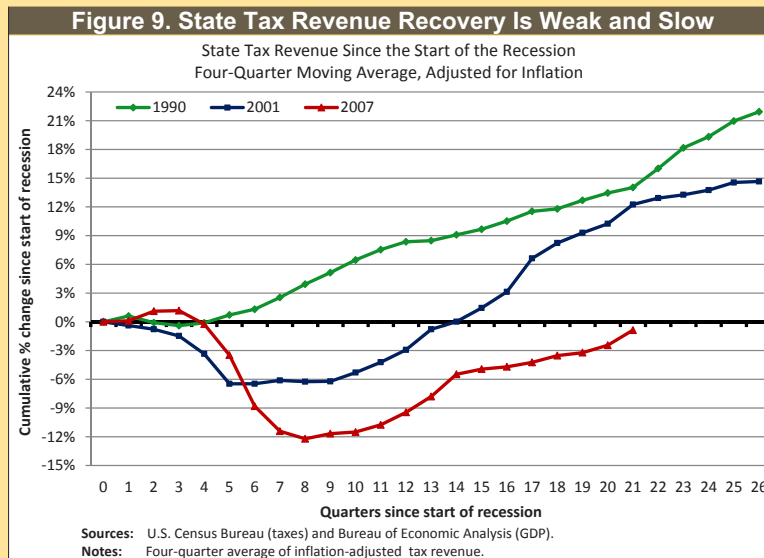


Figure 10 shows the same thing for state sales tax collections. The sales tax remains 5.1 percent below its level at the start of the Great Recession. Consumer spending, particularly on taxable goods, has recovered weakly. As a result, sales tax collections have been relatively stagnant in the last year.

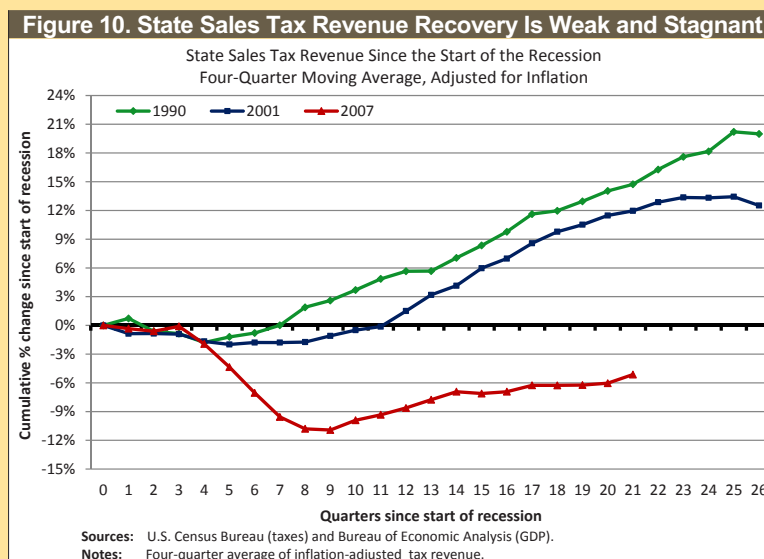


Figure 11 repeats the analysis for state personal income tax collections. The personal income tax has recovered substantially from its lowest level and is only about 0.3 percent above where it was at the start of the recession. Its recovery is in part an artifact of large tax increases imposed in several states, particularly California, Illinois, and New York, as well as due to acceleration of income tax into 2012. Without these factors, personal income tax revenue would look much weaker.

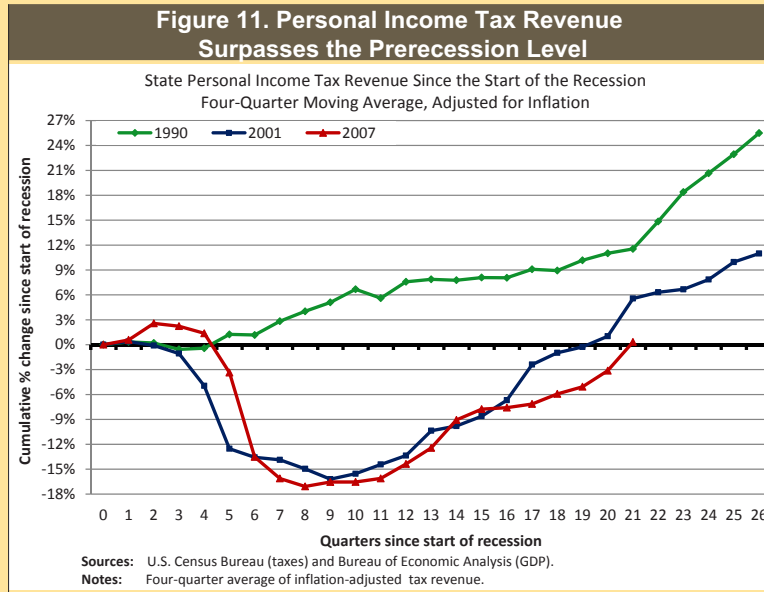


Figure 12 repeats the analysis for corporate income tax collections. Corporate income tax revenue fell, from the start of the recession to the trough, by about as much in the 2001 recession as it did in the Great Recession. However, about four years into that recession, corporate income tax revenue showed robust and continuous recovery until the start of the Great Recession. But five years after the start of the Great Recession, corporate income tax revenues remain about 21 percent below their level at the start of the recession and there is no sign of recovery on the horizon.

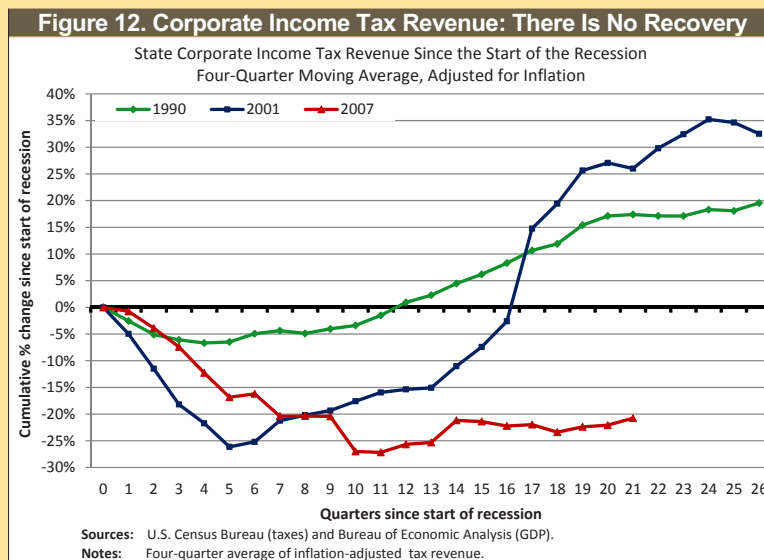
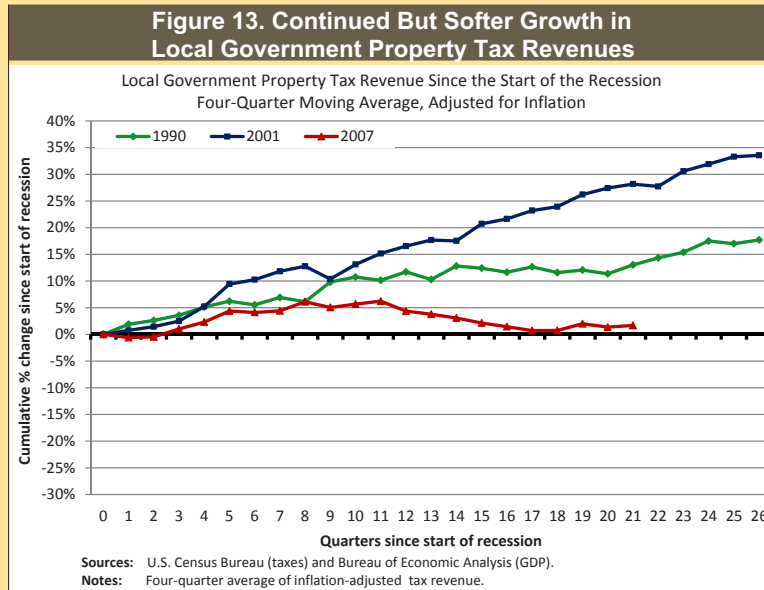


Figure 13 shows similar analysis for local property tax collections. Property tax revenues not only did not experience any declines in the 1990 or 2001 recessions, but continued strong and continuous growth during and after both recessions. By contrast, local property tax revenues showed some declines in the start of the Great Recession but quickly resumed the growth until mid-2010. Since then the growth has been much softer and generally has been slowing. Many local governments will face substantial fiscal challenges if this trend continues.



In sum, while state tax revenues are recovering, they remain below their prior peak and well below where previous trends would have suggested. While the Great Recession ended over three years ago, the damage caused by the Great Recession on state tax revenues is significant and it will take years before the states fully recover.

Adjustments to Census Bureau Tax Collection Data

The numbers in this report differ somewhat from those released by the Bureau of the Census in June of 2013. For reasons we describe below, we have adjusted Census data for selected states to arrive at figures that we believe are best-suited for our purpose of examining underlying economic and fiscal conditions. As a result of these adjustments, we report a year-over-year increase in tax collections of 8.6 percent in the first quarter, compared with the 8.9 percent increase that can be computed from data on the Census Bureau's Web site (www.census.gov/govs/www/qtax.html). In this section we explain how and why we have adjusted Census Bureau data, and the consequences of these adjustments.

The Census Bureau and the Rockefeller Institute engage in two related efforts to gather data on state tax collections, and we communicate frequently in the course of this work. The Census Bureau has a highly rigorous and detailed data collection process that entails a survey of state tax collection officials, coupled with Web and telephone follow-up. It is designed to produce, after the close of each quarter, comprehensive tax collection data that, in their final form after revisions, are highly comparable from state to state. These data abstract from the fund structures of individual states (e.g., taxes will be counted regardless of whether they are deposited to the general fund or to a fund dedicated for other purposes such as education, transportation, or the environment).

The Census Bureau's data collection procedure is of high quality but is labor-intensive and time-consuming. States that do not report in time, do not report fully, or that have unresolved questions may be included in the Census Bureau data on an estimated basis, in some cases with data imputed by the Census Bureau. These imputations can involve methods such as assuming that collections for a missing state in the current quarter are the same as those for the same state in a previous quarter, or assuming that collections for a tax not yet reported in a given state will have followed the national pattern for that tax. In addition, state accounting and reporting for taxes can change from one quarter to another, complicating the task of reporting taxes on a consistent basis. For these reasons, some of the initial Census Bureau data for a quarter may reflect estimated amounts or amounts with unresolved questions, and will be revised in subsequent quarters when more data are available. As a result, the historical data from the Census Bureau are comprehensive and quite comparable across states, but on occasion amounts reported for the most recent quarter may not reflect all important data for that quarter.

The Rockefeller Institute also collects data on tax revenue, but in a different way and for different reasons. Because historical Census Bureau data are comprehensive and quite comparable, we rely almost exclusively on Census data for our historical analysis. Furthermore, in recent years Census Bureau data have become far more timely and, where practical, we use them for the most recent quarter as well, although we supplement Census data for certain purposes. We collect our own data on a monthly basis so that we can get a more current read on the economy and state finances. For example, as this report goes to print we have data on tax collections for the months of April and May for forty-seven states — not enough to use as the basis for a comprehensive report, but useful in understanding what is happening to state finances.

In addition, we collect certain information that is not available in the Census Data — figures on withholding tax collections, payments of estimated income tax, final payment and refunds, all of which are important to understanding income tax collections more fully. Our main uses for the data we collect are to report more frequently and currently on state fiscal conditions, and to report on the income tax in more detail.

Ordinarily, there are not major differences between our data for a quarter and the Census data. Normally we use the Census data without adjustment for full quarterly *State Revenue Reports*. In the last two years, states have been slow in reporting tax revenues to the Census Bureau on a timely manner due to furloughs and reduced workforce. For example, for the January-March quarter, the Census Bureau did not receive data for five states and reported estimated figures for those five

states. Therefore, we have made some adjustments to the Census data. Table 11 shows the year-over-year percent change in national tax collections for the following sources: (1) preliminary figures collected by the Rockefeller Institute that appeared in our “Data Alert” dated June 5, 2013; (2) preliminary figures as reported by the Census Bureau; and (3) the Census Bureau’s preliminary figures with selected adjustments by the Rockefeller Institute.

	January-March, 2012 to 2013, Percent Change			
	PIT	CIT	Sales	Total
RIG Data Alert	17.6	3.5	6.0	9.3
Census Bureau Preliminary	19.1	9.5	5.7	8.9
Census Bureau Preliminary with RIG Adjustments	18.4	9.4	5.5	8.6

The last set of numbers with our adjustments is what we use as the basis for this report. For the first quarter of 2013, we made adjustment for five states — Indiana, Oregon, Rhode Island, Washington, and West Virginia — based upon data and information provided to us directly by these states. For all of these five states, the Census Bureau had not received a response in time for its publication and so used imputed data that will be revised in later reports. However, the Institute obtained data from all five; these data may not be as comprehensive as what would be used by the Census Bureau, but we believe they provide a better picture of fiscal conditions than imputed data. We also made adjustments to tax collections for some previous quarters for those states where the Census Bureau reported imputed or preliminary figures. For example, we made adjustments to tax numbers for the fourth quarter of 2012 for the following four states — Indiana, Oregon, Washington, and Wisconsin — for which Census Bureau still did not receive revenue data from the states and reported estimated data.

Endnotes

- 1 We made adjustments to Census Bureau data for the first quarter of 2013 for five states — Indiana, Oregon, Rhode Island, Washington, and West Virginia — based upon data and information provided to us directly by these states. In addition, we made adjustments to tax numbers for the second, third and fourth quarters of 2012 for several states. These revisions together account for some noticeable differences between the Census Bureau figures and the Rockefeller Institute estimates.
- 2 Lucy Dadayan and Donald J. Boyd, “State Tax Revenues Continue Slow Rebound,” *State Revenue Report* No. 90 (Albany, NY: The Nelson A. Rockefeller Institute of Government, February 2013), http://www.rockinst.org/pdf/government_finance/state_revenue_report/SSR-90.pdf.
- 3 We have adjusted the historical data for local property tax revenue as reported by the Census Bureau, revising the data for the third quarter of 2008 and earlier periods upward by 7.7 percent, consistent with the higher level of property tax revenue in the new sample compared with the previous sample, as reported in the Census Bureau’s “bridge study.” For more information on methodological changes to the local property tax and the results of the bridge study, please see <http://www2.census.gov/govs/qtax/bridgestudy.pdf>.
- 4 Preliminary figures for April-May 2013 are not available for the following three states: Minnesota, New Mexico, and Wyoming. Total tax collections for these three states combined represent about 3-4 percent of nationwide tax collections. Therefore, it is unlikely that the nationwide picture for collections during these two months will change once we have complete data for all fifty states for the months of April and May of 2013.
- 5 For a fuller discussion, see “Bumpy Ride Ahead: The Behavioral Impact of the Fiscal Cliff on State Tax Revenue” in Dadayan and Boyd, *op. cit.*, 8.

- 6 See Mac Taylor, "The 2013-14 Budget: Overview of the May Revision" (Sacramento, CA: California Legislative Analyst's Office, May 17, 2013), <http://www.lao.ca.gov/reports/2013/bud/may-revise/overview-may-revise-051713.pdf>.
- 7 Ibid.
- 8 For a technical discussion of these indexes and their national counterpart, see Theodore M. Crone and Alan Clayton-Matthews. "Consistent Economic Indexes for the 50 States," *Review of Economics and Statistics* 87, 4 (2005), pp. 593-603; Theodore M. Crone, "What a New Set of Indexes Tells Us About State and National Business Cycles," *Business Review*, Federal Reserve Bank of Philadelphia (First Quarter 2006), http://www.philadelphiafed.org/research-and-data/publications/business-review/2006/q1/Q1_06_NewIndexes.pdf; and James H. Stock and Mark W. Watson, "New Indexes of Coincident and Leading Economic Indicators," *NBER Macroeconomics Annual* (1989), pp. 351-94. The data and several papers are available at www.philadelphiafed.org/econ/indexes/coincident.
- 9 For more discussion of the relationship between property tax and housing prices see Lucy Dadayan, *The Impact of the Great Recession on Local Property Taxes* (Albany, NY: The Nelson A. Rockefeller Institute of Government, July 2012), http://www.rockinst.org/pdf/government_finance/2012-07-16-Recession_Local_Property_Tax.pdf.
- 10 Rockefeller Institute analysis of data from the National Association of State Budget Officers.
- 11 This treats the 1980-82 "double-dip" recession as a single long recession.
- 12 Ibid.

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 University at Albany, 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 fifty states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others.

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