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**Contact:**

Robert Bullock  
Deputy Director for Operations  
518-443-5837

or by email at [robert.bullock@rockinst.suny.edu](mailto:robert.bullock@rockinst.suny.edu)

**“April Surprises” Left Many States with Bad News**

*Preliminary Figures for the Second Quarter of 2014 Reveal  
Declines in Personal Income Tax and Total Tax Collections*

*Lucy Dadayan and Donald J. Boyd*

“April surprises” brought bad news for many states as personal income tax collections showed significant declines in the second quarter of 2014. However, the declines were much anticipated and were driven by the temporary bubble in income tax collections, which we believe was mostly attributable to the so-called federal “fiscal cliff” (when many taxpayers shifted income from tax year 2013 to tax year 2012 to minimize federal tax liability).

Preliminary data for the April-June quarter of 2014 show significant declines in personal income taxes and overall tax collections for the nation. This is the second quarter in a row that states reported declines in personal income tax collections. The trends observed in the first and second quarters of 2014 are consistent with our previous comments that the strong growth in personal income tax collections in the first half of 2013 would not be sustainable and would be followed by considerable weakening in the subsequent quarters. However, personal income tax collections are expected to resume growth in the second half of 2014.

We will provide a complete analysis of tax revenue collections for the second quarter of 2014 after the Census Bureau’s data for the quarter are available.

The Rockefeller Institute’s compilation of preliminary data from 48 states shows that collections from major tax sources declined by 1.7 percent in nominal terms in the second quarter of 2014 compared to the same quarter of 2013. This is the weakest quarter since the first quarter of 2010. Among 48 early-reporting states, 29 states reported declines while 19 states reported gains in total tax revenue collections. Personal income tax collections declined sharply in nominal terms, by 7.1 percent. This is the first time since the fourth quarter of 2009 that state personal income tax revenue has declined for two consecutive quarters. The growth in sales tax collections was relatively strong at 4.2 percent, while

corporate income tax declined by 0.1 percent. (See Table 1 for national-level changes in revenues since 2008.)

<b>Year/Quarter</b>	<b>PIT</b>	<b>CIT</b>	<b>Sales</b>	<b>Total</b>
2008 Q1	5.6	(1.4)	0.7	2.9
2008 Q2	7.8	(7.0)	1.0	5.3
2008 Q3	0.7	(13.2)	4.7	2.7
2008 Q4	(1.4)	(23.0)	(5.3)	(3.9)
2009 Q1	(19.2)	(20.2)	(8.4)	(12.2)
2009 Q2	(27.4)	3.0	(9.5)	(16.2)
2009 Q3	(11.5)	(21.3)	(10.1)	(10.9)
2009 Q4	(4.1)	0.7	(4.8)	(3.1)
2010 Q1	3.8	0.3	0.1	3.4
2010 Q2	1.5	(19.0)	5.7	2.2
2010 Q3	4.5	0.5	4.7	5.7
2010 Q4	10.8	12.1	5.5	8.2
2011 Q1	12.3	4.1	6.4	10.1
2011 Q2	15.3	18.3	6.1	11.2
2011 Q3	9.2	0.9	1.7	5.1
2011 Q4	2.9	(3.3)	2.9	3.1
2012 Q1	4.4	3.6	5.0	3.9
2012 Q2	5.9	(3.0)	1.7	3.5
2012 Q3	5.3	8.5	1.8	3.6
2012 Q4	10.9	3.0	2.7	5.7
2013 Q1	18.1	9.4	5.6	9.8
2013 Q2	18.2	10.4	5.2	10.1
2013 Q3	5.1	1.5	5.8	5.5
2013 Q4	0.3	2.9	5.5	3.4
2014 Q1	(1.2)	1.4	1.7	(0.3)
<b>2014 Q2 (preliminary)</b>	<b>(7.1)</b>	<b>(0.1)</b>	<b>4.2</b>	<b>(1.7)</b>

Table 2 shows state-by-state changes in major tax revenues during the second quarter of 2014 compared to the same quarter a year earlier. Oregon and Texas reported the largest increases in overall tax collections, at 8.1 and 7.7 percent, respectively. Twenty-nine states reported declines in overall tax collections, with Kansas and Alaska reporting the largest declines at 21.9 and 15.7 percent, respectively. The large declines in Alaska are mostly due to declines in oil and gas severance taxes, while the declines in Kansas are mostly attributable to legislated tax changes.

As shown in Table 2, 36 states reported declines in income tax collections, with 12 states reporting double-digit declines. Kansas and North Dakota reported the largest declines at 42.9 and 32.8 percent, respectively. Both states reduced incomes tax rates for tax year 2013. Thus, the declines are at least partially due to the legislated changes.

Sales tax collections declined in seven of 43 early reporting states, with Arizona and Kansas reporting the largest declines at 17.7 and 3.6 percent, respectively. The large declines in Arizona are mostly attributable to the expiration of a temporary one-cent tax increase for fiscal years 2011-2013.

State tax revenues had been continuously recovering for four straight years, before declining in the first and second quarters of 2014. However, the recovery has been much slower and more prolonged than in previous recoveries. State tax revenues were particularly strong in the first half of calendar year 2013, and particularly weak in the second half of calendar year 2013 and falling short in the first half of 2014. This volatility does not appear to be due to underlying economic factors, but instead appears largely attributable to the implications of policy changes on the federal level as well as to legislated tax changes in many states. While the federal fiscal cliff might have lingering effects on state personal income tax collections in the next few years, we believe the worst is behind and personal income tax collections should resume growth in the second half of 2014.

**Table 2: Percent Change in State Quarterly Tax Revenue**  
April-June 2013 to 2014, Percent Change

	PIT	CIT	Sales	Total
<b>United States</b>	<b>(7.1)</b>	<b>(0.1)</b>	<b>4.2</b>	<b>(1.7)</b>
<b>New England</b>	<b>(5.2)</b>	<b>2.5</b>	<b>2.7</b>	<b>(2.5)</b>
Connecticut	(5.4)	(2.8)	(3.3)	(7.7)
Maine	(9.2)	3.0	12.7	(3.4)
Massachusetts	(4.3)	5.1	6.9	0.7
New Hampshire	NA	(4.4)	NA	(1.7)
Rhode Island	(1.8)	12.3	1.4	2.7
Vermont	(11.8)	36.7	3.1	3.7
<b>Mid-Atlantic</b>	<b>(6.6)</b>	<b>5.6</b>	<b>4.2</b>	<b>(2.9)</b>
Delaware	2.7	(4.5)	NA	4.5
Maryland	(2.6)	16.5	4.0	(1.6)
New Jersey	(5.4)	(17.6)	4.2	(4.4)
New York	(9.1)	31.4	3.0	(3.7)
Pennsylvania	(3.4)	(1.9)	5.8	(0.8)
<b>Great Lakes</b>	<b>(16.6)</b>	<b>(13.6)</b>	<b>4.9</b>	<b>(8.0)</b>
Illinois	(7.3)	(14.5)	5.2	(5.3)
Indiana	(7.4)	7.5	3.7	(2.3)
Michigan	(12.1)	(43.0)	1.7	(7.2)
Ohio	(32.5)	(109.4)	10.1	(13.4)
Wisconsin	(24.6)	0.5	3.0	(12.0)
<b>Plains</b>	<b>(10.6)</b>	<b>(12.4)</b>	<b>1.3</b>	<b>(4.6)</b>
Iowa	(21.4)	(1.0)	2.5	(14.4)
Kansas	(42.9)	(3.2)	(3.6)	(21.9)
Minnesota	6.7	(34.7)	0.2	4.7
Missouri	(5.7)	(5.4)	4.8	(1.8)
Nebraska	(16.5)	7.3	(0.5)	(8.6)
North Dakota	(32.8)	6.5	6.7	(4.4)
South Dakota	NA	NA	3.9	2.8
<b>Southeast</b>	<b>(7.5)</b>	<b>(1.5)</b>	<b>5.3</b>	<b>(1.6)</b>
Alabama	(5.1)	13.0	2.4	(2.0)
Arkansas	(10.4)	(8.4)	0.5	(5.0)
Florida	NA	11.1	7.0	1.6
Georgia	(1.3)	4.7	7.8	3.9
Kentucky	(3.1)	19.9	5.1	0.4
Louisiana	(4.8)	(33.3)	(0.1)	(6.0)
Mississippi	(7.3)	(5.9)	8.7	2.1
North Carolina	(17.9)	(0.6)	4.4	(9.7)
South Carolina	2.6	(23.1)	3.0	0.8
Tennessee	(7.5)	(2.8)	3.5	(0.5)
Virginia	(6.3)	(4.6)	7.8	(3.2)
West Virginia	(11.8)	(25.4)	(2.3)	2.6
<b>Southwest</b>	<b>(3.9)</b>	<b>(22.0)</b>	<b>3.0</b>	<b>4.2</b>
Arizona	(5.3)	(17.1)	(17.7)	(11.3)
New Mexico	ND	ND	ND	ND
Oklahoma	(1.9)	(28.8)	6.5	0.7
Texas	NA	NA	6.0	7.7
<b>Rocky Mountain</b>	<b>(5.0)</b>	<b>2.0</b>	<b>7.5</b>	<b>(0.4)</b>
Colorado	(2.4)	3.1	11.2	1.2
Idaho	(4.7)	(12.5)	4.8	(0.9)
Montana	(10.2)	9.9	NA	(0.5)
Utah	(8.3)	6.0	4.0	(2.4)
Wyoming	NA	NA	ND	ND
<b>Far West</b>	<b>(1.9)</b>	<b>7.6</b>	<b>4.4</b>	<b>1.7</b>
Alaska	NA	(24.5)	NA	(15.7)
California	(2.6)	9.0	3.9	1.9
Hawaii	0.9	(30.1)	(2.1)	(5.4)
Nevada	NA	NA	5.4	4.1
Oregon	5.3	52.0	NA	8.1
Washington	NA	NA	8.7	4.4

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

**Notes:** NA - not applicable; ND - no data.

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### **About the Rockefeller Institute of Government**

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