

STATE REVENUE REPORT

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State Tax Revenue Ends 2004 in Solid Shape

Nicholas W. Jenny

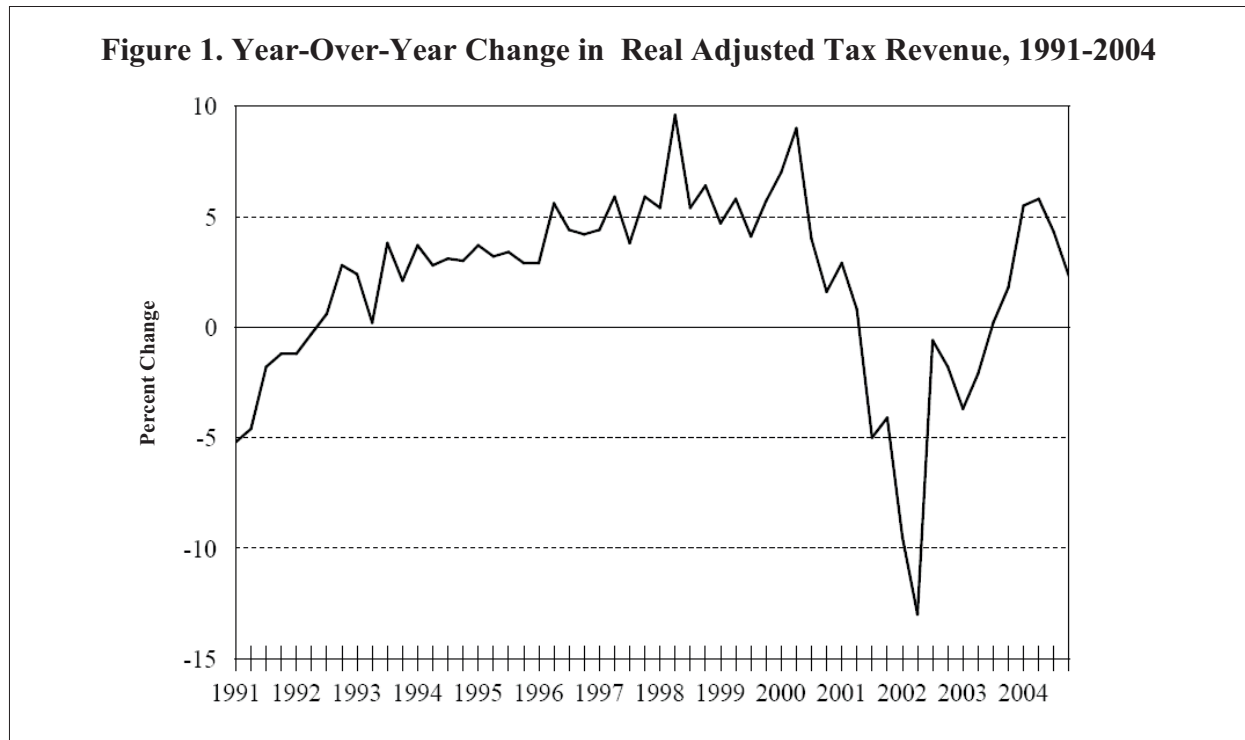
HIGHLIGHTS

- ❖ State tax revenue in the October-December 2004 quarter grew 7.8 percent compared to the same period in 2003. This was the strongest fourth-quarter growth seen since at least 1991.
- ❖ This growth was boosted considerably by relatively strong inflation of 4.9 percent annual rate, and less so by newly enacted changes in state tax laws, which contributed 0.5 percentage points to the growth.
- ❖ After adjusting for these tax law changes and inflation, real underlying state tax revenue growth was a more modest 2.3 percent.
- ❖ All three major tax sources showed strong growth, with the sharpest gains recorded in the corporate income tax.
- ❖ Revenue growth was strongest in the Far West region (12.1 percent) and weakest in the Great Lakes states (2.9 percent).
- ❖ National employment growth was 1.6 percent in the quarter, but there was significant variability across the nation. Five states had job growth of over 2.5 percent, while two states actually lost jobs.

Tax Revenue Change

State tax revenue increased 7.8 percent in the October-December quarter of 2004 compared to the same quarter the year before. This is the strongest fourth-quarter nominal revenue growth seen since at

least 1991. State tax revenue growth has been slowing now for the last two quarters, but this may just be a reversion to the pre-recession pattern of a very strong April-June quarter overshadowing the rest of the year. Tax revenue changes for the last 28 quarters are shown in Table 1.



Tax increases made a relatively minor contribution to state tax collections, and were concentrated in a few states. Without the modest boost from net enacted tax increases, state tax revenue growth would have been 7.3 percent. Inflation, however, was a relatively high 4.9 percent this quarter and played a much greater role in tax collections. If we take into account the effects of the enacted tax increases and inflation, real adjusted state tax revenue grew 2.3 percent; this is also shown in Table 1. The states now have had five straight quarters of real adjusted growth, after experiencing nine straight quarters of decline. For the first time since the end of the recession, this has been a quarter of growth compared to a quarter of real adjusted growth the previous year. (See 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.

All three major state taxes showed growth this quarter. The strongest growth, by far, was the 27 percent increase recorded by the corporate income tax, but this tax still only accounted for about six percent of total tax revenue. The personal income tax (8.8 percent growth) and the sales tax (six percent growth) also performed well. Personal income tax revenue growth picked up a bit from the

July-September quarter, though not nearly to the level of the April-June quarter. Corporate income tax collections added a fifth quarter of double-digit growth compared to the prior year. Sales tax growth was slightly faster than in the previous quarter. Table 2 shows the last 28 quarters of change in state collections of the major state tax sources.

Every region experienced revenue growth in the October-December quarter. (See Table 3.) The Far West region had the strongest growth at 12.1 percent. The slowest growth was in the Great Lakes states at 2.9 percent. Fourteen states recorded growth of more than ten percent.

Mid-Atlantic states had most of the net legislated tax increases this quarter, with some tax increases in the Southeast also. (See Figure 2.) The other regions had relatively small tax increases or cuts that had little effect on tax revenue growth. In all, states implemented net tax hikes generating a little over \$600 million in the October-December 2004 quarter. Table 4 shows the overall effect of legislated tax changes and processing variations and Table 5 shows the percentage change in each state's total tax revenue adjusted for legislated tax changes and inflation.

State Tax Revenue Ends 2004 in Solid Shape

	<i>Total Nominal Change</i>	<i>Adjusted Nominal Change</i>	<i>Inflation Rate</i>	<i>Adjusted Real Increase</i>
2004				
Oct.-Dec.	7.8	7.3	4.9	2.3
July-Sept.	8.6	8.1	3.7	4.2
April-June	11.2	9.0	3.2	5.6
Jan.-Mar.	8.1	7.1	1.5	5.5
2003				
Oct.-Dec.	7.3	4.9	2.3	2.5
July-Sept.	4.5	2.6	2.8	(0.2)
April-June	3.2	0.4	3.0	(2.5)
Jan.-Mar.	1.4	(1.0)	4.2	(5.0)
2002				
Oct.-Dec.	1.9	0.3	3.0	(2.6)
July-Sept.	2.5	0.7	2.5	(1.8)
April-June	(10.6)	(12.1)	2.3	(14.1)
Jan.-Mar.	(7.8)	(8.2)	2.0	(10.0)
2001				
Oct.-Dec.	(2.7)	(2.2)	2.1	(4.2)
July-Sept.	(3.1)	(2.4)	2.6	(4.9)
April-June	2.5	4.2	3.2	1.0
Jan.-Mar.	5.1	6.3	3.4	2.8
2000				
Oct.-Dec.	4.0	5.0	4.2	0.8
July-Sept.	7.1	7.7	4.5	3.1
April-June	11.4	11.8	4.5	7.0
Jan.-Mar.	9.7	10.4	4.8	5.3
1999				
Oct.-Dec.	7.4	8.4	3.7	4.5
July-Sept.	6.1	6.7	3.2	3.4
April-June	5.0	8.0	2.7	5.2
Jan.-Mar.	4.8	6.5	2.0	4.4
1998				
Oct.-Dec.	7.5	8.0	1.8	6.1
July-Sept.	6.6	7.1	1.9	5.1
April-June	9.7	11.4	1.6	9.6
Jan.-Mar.	6.5	7.0	1.3	5.6

Note: Inflation is measured by the BEA State and Local Government Implicit Price Deflator.

	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total[^]</i>
2004				
Oct.-Dec.	8.8	27.0	6.0	7.8
July-Sept.	8.3	23.2	5.8	8.6
April-June	15.6	13.6	7.1	11.2
Jan.-Mar.	8.7	15.2	8.3	8.1
2003				
Oct.-Dec.	6.6	11.1	6.6	7.3
July-Sept.	5.1	9.0	3.7	4.5
April-June	(0.9)	17.9	2.9	3.1
Jan.-Mar.	(3.1)	10.3	1.9	1.4
2002				
Oct.-Dec.	(0.7)	22.4	0.7	1.9
July-Sept.	(1.6)	4.8	3.8	2.5
April-June	(22.3)	(11.7)	1.5	(10.4)
Jan.-Mar.	(14.3)	(16.1)	(1.0)	(7.8)
2001				
Oct.-Dec.	(2.7)	(31.8)	1.0	(2.7)
July-Sept.	(3.7)	(24.0)	0.0	(3.1)
April-June	5.4	(13.1)	0.5	2.5
Jan.-Mar.	8.7	(9.1)	3.4	5.1
2000				
Oct.-Dec.	5.8	(7.7)	4.2	4.0
July-Sept.	11.0	5.7	4.6	7.1
April-June	18.8	4.2	7.3	11.4
Jan.-Mar.	13.6	8.0	8.2	9.7
1999				
Oct.-Dec.	9.1	3.8	7.3	7.4
July-Sept.	7.6	1.4	6.7	6.1
April-June	6.0	(2.1)	7.3	5.0
Jan.-Mar.	6.6	(2.6)	6.1	4.8
1998				
Oct.-Dec.	9.5	5.2	5.5	7.5
July-Sept.	8.9	(0.2)	5.9	6.6
April-June	19.5	(2.1)	5.3	9.7
Jan.-Mar.	9.3	2.3	5.6	6.5

[^] Total equals sum of PIT, CIT, sales, and other taxes not shown.

State specific data, including state rankings and percent change in tax revenue from the previous quarter are available at:

http://stateandlocalgateway.rockinst.org/RFS/state_specific_data.htm.

Personal Income Tax

Personal income tax revenue grew 8.8 percent in the October-December quarter compared to the same quarter the year before. This was slightly better than the 8.3 percent growth of the previous quarter, but still well short of the 15.6 percent

growth of the April-June quarter, which was boosted by strong payments with final returns. This was the sixth straight quarter of growth after two years of decline. The strongest growth was in the Far West region at 12.4 percent. The Great Lakes and Plains states tied at 5.1 percent for the slowest growth. Growth was widespread, affecting 38 of the 41 states having broad-based personal income tax. The exceptions were Maine, Mississippi, and New Mexico, with New Mexico declining 7.7 percent — though we only had data for two months for that state. New Jersey had the strongest growth with a 14.7 percent increase, aided by an increase

in the top rate. Eight other states had double-digit increases.¹

The states will not know their total personal income tax collections for the 2004 tax year until taxpayers finish filing their income tax returns, mostly in April 2005. However, we now have data on withholding through the end of 2004, and have a preliminary look at the fourth quarter's estimated tax payment, made in December 2004 and January 2005.

Withholding

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and because it is much less volatile than estimated payments or final settlements. Table 6 shows that withholding for the October-December 2004 quarter increased 6.3 percent over the same quarter of the year before. Enacted changes in withholding boosted collections by about four-tenths of a percent this quarter. This was up from 5.5 percent growth in the previous quarter.

Estimated Payments

The highest-income taxpayers generally pay most estimated tax payments (also known as declarations) on their income not subject to withholding tax. This income often comes from investments, especially capital gains realized in the stock market. A strong stock market should eventually translate into capital gains and higher estimated tax payments.

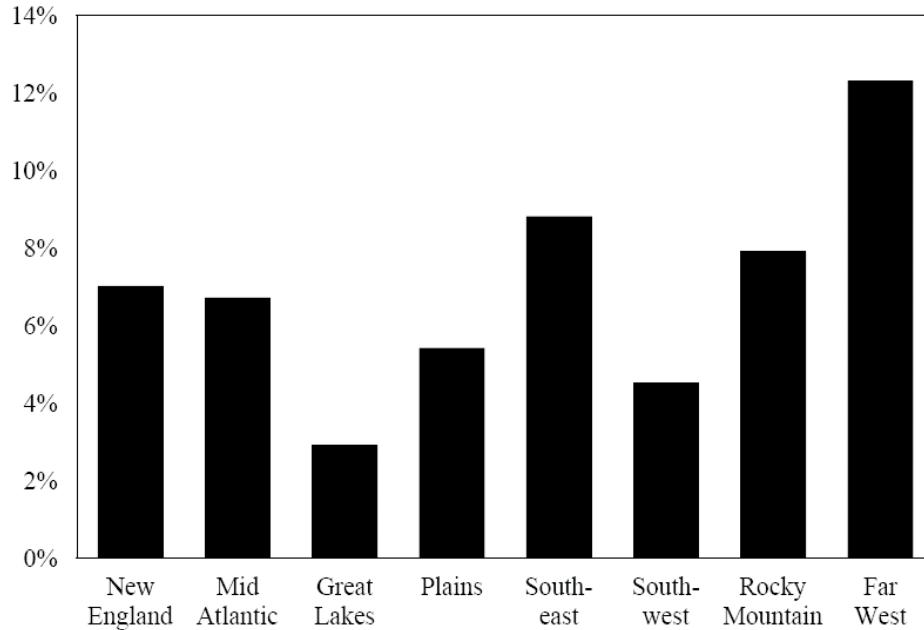
In the 32 states for which we have complete data, the fourth-quarterly payment for 2004, paid in December or January, grew 25.2 percent compared to the year before. While some of the larger states had particularly large increases, the median increase was still a strong 21.1 percent. The cumulative four-quarter increase for these 32 states in 2004 was 21.0 percent, with a median of 17.0 percent. This was the first year of estimated payments growth after three years of decline. It would seem that high-income taxpayers are finally reaping some significant income gains, which is consistent with the stronger performance of the stock market in 2004.

Table 3. Change in Quarterly Tax Revenue by State, October-December, 2003 to 2004

	<i>PIT</i>	<i>CIT</i>	<i>Sales</i>	<i>Total</i>
United States	8.8%	27.0%	6.0%	7.8%
New England	7.7	48.1	1.9	7.3
Connecticut	8.0	90.4	2.6	8.6
Maine	(0.4)	8.9	(1.0)	3.6
Massachusetts	8.4	25.3	2.7	6.4
New Hampshire	NA	20.7*	NA	9.6*
Rhode Island	9.9*	105.2*	5.3	12.0*
Vermont	9.5	13.5*	(18.0)	5.7
Mid-Atlantic	11.1	22.5	5.4	8.9
Delaware	14.1	(100.0)	NA	13.1
Maryland	7.3	518.0*	6.9	15.4
New Jersey	14.7*	(8.9)*	5.2	6.0*
New York	9.9	19.0*	6.1*	8.8*
Pennsylvania	14.2*	19.4	4.3	8.6*
Great Lakes	5.1	(0.8)	2.4	2.9
Illinois	2.7*	(32.7)*	0.1	(2.4)
Indiana	7.4	98.7	4.3	8.3
Michigan	2.7¶	3.1	2.3	3.8
Ohio	6.6	NM	3.0	2.5
Wisconsin	7.8	14.5	2.9	5.6
Plains	5.1	32.2	4.5	5.1
Iowa	7.2	32.4	4.5¶	6.9¶
Kansas	2.1	16.9	4.5	4.1
Minnesota	5.1	48.9	4.1	4.1
Missouri	4.4	2.5*	1.1	3.1
Nebraska	6.9	41.3	14.2	12.3
North Dakota	7.3	36.2	0.5	11.6
South Dakota	NA	NA	7.5	4.8
Southeast	7.3	46.0	7.3	9.4
Alabama	8.8	46.8	2.8	9.7*
Arkansas	8.4	106.7*	6.5*	10.3*
Florida	NA	(8.8)	9.4	9.3
Georgia	12.7	113.3	4.5	10.6
Kentucky	5.6	35.1	2.4	6.8
Louisiana	10.3	49.9	11.4	15.3
Mississippi	(1.2)	97.5	3.2	4.9
North Carolina	2.9	53.5	11.3	7.9
South Carolina	9.0	44.5	3.1	6.8
Tennessee	NA	230.3	3.6	5.3
Virginia	7.7	228.4*	17.3*	15.5*
West Virginia	0.4	65.7	2.7	6.3
Southwest	8.2	131.2	6.6	4.6
Arizona	14.4	57.5	9.5	15.4
New Mexico ¹	(7.7)	768.7	7.7	16.6*
Oklahoma	5.7	NM	3.1	6.5
Texas	NA	NA	6.3	1.0
Rocky Mountain	10.0	30.6	6.5	7.9
Colorado	8.7	34.4	4.2	7.5
Idaho	8.7	74.3	8.7	9.4
Montana	10.6	15.6	NA	0.3
Utah	12.6	6.9	7.9	9.8
Wyoming	NA	NA	5.9	7.3
Far West	12.4	26.9	9.0	12.1
Alaska	NA	51.8	NA	43.2
California	13.4	30.6	8.2	13.0
Hawaii	5.1	NM	10.3¶	9.8
Nevada	NA	NA	18.4	18.3
Oregon	6.2	(58.8)	NA	1.4
Washington	NA	NA	8.0¶	8.2

See p. 5 for notes

Figure 2
Percent Change in Tax Revenue by Region,
Adjusted for Legislated Changes, October-December, 2003 to 2004



Final payments usually reflect the performance of withholding and estimated payments throughout the year, which should give hope that April 2005 will be good to the states.

General Sales Tax

Sales tax revenue in the October-December 2004 quarter increased six percent over the same quarter the year before. This is a bit higher than the 5.8 percent growth the previous quarter.

Sales tax revenue grew fastest in the Far West region with nine percent growth. The weakest growth was in the New England region, where sales tax revenue increased 1.9 percent. Six states had double-digit growth in sales tax revenue.² Two states — Maine and Vermont — had sales tax revenue declines.

Corporate Income Tax

Corporate income tax revenue grew 27 percent in the October-December quarter, up from the previous quarter's 23.2 percent. Corporate income

tax revenue has had double-digit growth for eight of the last nine quarters.

Underlying Reasons for Trends

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

State Economies

The national economy is now experiencing sustained growth, though still with some areas of continued weakness. The Bureau of Economic Analysis' (BEA's) preliminary estimate for the real Gross Domestic Product (GDP) showed growth of 3.8 percent for the fourth quarter of 2004.³ The national unemployment rate was 5.4 percent for the fourth quarter, down slightly from 5.5 percent the previous quarter.⁴

	<i>PIT</i>	<i>Sales</i>	<i>Total</i>
2004			
Oct.-Dec.	8.3	5.7	7.3
July-Sept.	7.3	5.6	8.1
April-June	12.6	6.4	9.0
Jan.-Mar.	7.7	6.8	7.0
2003			
Oct.-Dec.	5.3	4.2	4.9
July-Sept.	3.9	1.9	2.6
April-June	(2.0)	1.3	0.4
Jan.-Mar.	(4.4)	1.0	(1.0)
2002			
Oct.-Dec.	(1.6)	0.7	0.3
July-Sept.	(2.1)	2.7	0.7
April-June	(22.5)	0.1	(11.9)
Jan.-Mar.	(14.5)	(2.4)	(8.4)
2001			
Oct.-Dec.	(2.1)	1.2	(2.3)
July-Sept.	(2.8)	0.4	(2.4)
April-June	7.9	0.6	4.2
Jan.-Mar.	10.1	3.7	6.3
2000			
Oct.-Dec.	6.5	5.0	5.0
July-Sept.	11.6	5.6	7.7
April-June	18.6	7.8	11.8
Jan.-Mar.	13.8	8.8	10.4
1999			
Oct.-Dec.	11.0	7.5	8.4
July-Sept.	8.3	6.9	6.7
April-June	12.4	7.3	8.0
Jan.-Mar.	9.9	6.2	6.5
1998			
Oct.-Dec.	10.2	5.9	8.0
July-Sept.	9.3	6.4	7.1
April-June	23.3	5.9	11.4
Jan.-Mar.	10.0	6.5	7.0

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

The difficulty with assessing state economies in a report such as this is a general lack of timely state indicators. Data on non-farm employment, tracked by the Bureau of Labor Statistics (BLS), are the only broad-based, timely, high-quality state-level economic indicators available. Yet, these data are far from ideal indicators of revenue growth. For instance, the Rocky Mountain states led the nation in job creation in the October-December quarter, but ranked 5th among the eight regions in overall revenue growth. Most taxes are based upon nominal measures such as income, wages, and profits, rather

United States	2.3%
New England	2.0
Connecticut	3.7
Maine	(1.9)
Massachusetts	1.4
New Hampshire	3.5
Rhode Island	3.8
Vermont	0.4
Mid-Atlantic	1.7
Delaware	7.8
Maryland	9.2
New Jersey	(3.0)
New York	2.7
Pennsylvania	0.4
Great Lakes	(1.9)
Illinois	(7.7)
Indiana	3.2
Michigan	(0.4)
Ohio	(2.3)
Wisconsin	0.7
Plains	0.5
Iowa	4.0
Kansas	(0.8)
Minnesota	(0.8)
Missouri	(1.8)
Nebraska	7.1
North Dakota	6.4
South Dakota	0.4
Southeast	3.7
Alabama	3.1
Arkansas	1.8
Florida	4.2
Georgia	5.5
Kentucky	1.8
Louisiana	10.0
Mississippi	(0.1)
North Carolina	2.9
South Carolina	2.1
Tennessee	0.4
Virginia	6.0
West Virginia	1.3
Southwest	(1.0)
Arizona	10.0
New Mexico ¹	(4.1)
Oklahoma	1.5
Texas	(3.7)
Rocky Mountain	1.9
Colorado	2.5
Idaho	4.3
Montana	(4.4)
Utah	1.0
Wyoming	2.5
Far West	7.1
Alaska	35.7
California	7.7
Hawaii	5.3
Nevada	12.8
Oregon	(2.8)
Washington	2.8

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

State Tax Revenue Ends 2004 in Solid Shape

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

	2004			
	Jan.-Mar.	Apr.-June	July-Sept	Oct.-Dec.
United States	9.4%	4.9%	5.5%	6.3%
New England	8.0	5.1	4.9	6.4
Connecticut	14.9	2.7	3.9	12.1
Maine	6.5	9.8	3.7	6.0
Massachusetts	4.9	5.4	4.7	4.3
Rhode Island	10.6	5.7	11.5*	3.2*
Vermont	7.3	5.3	7.4	5.0
Mid-Atlantic	17.8	0.9	6.6	4.4
Delaware	8.6	8.7	4.3	9.9
Maryland	27.5*	(25.2)¶	6.8*	(5.1)
New Jersey	10.0	4.8*	6.4*	7.0*
New York	19.0*	7.4*	4.4	4.9
Pennsylvania	10.1	13.6*	14.4*	13.9*
Great Lakes	4.4	3.9	4.1	4.6
Illinois	6.7	3.3	2.8*	4.6*
Indiana	4.5	5.9	5.3	4.5
Michigan	0.5¶	1.0¶	1.1	1.9¶
Ohio	5.0	5.2	5.2	4.8
Wisconsin	5.1	5.0	8.1	7.8
Plains	6.1	5.8	2.6	5.0
Iowa	8.4	8.0	5.5	5.8
Kansas	4.3	6.8	4.2	5.6
Minnesota	4.8	6.6	0.5	4.7
Missouri	7.8	2.6	1.8	4.5
Nebraska	4.6*	6.5*	5.5	6.4
North Dakota	4.9	5.7	9.3	3.5
Southeast	6.8	8.2	6.4	7.5
Alabama	2.7	8.6	4.6	6.5
Arkansas	5.8	8.5	5.7	6.4
Georgia	12.3	16.7	7.6	12.6
Kentucky	4.6	5.6	4.1	5.2
Louisiana	6.8*	9.1*	5.6	11.2
Mississippi	5.0	5.2	5.5	17.1
North Carolina	7.2	4.6	4.6	4.3
South Carolina	4.5	3.6	4.4	7.8
Virginia	9.1	6.7	10.1	5.8
West Virginia	0.5	5.8	5.7*	4.3
Southwest	4.9	2.5	4.8	3.8
Arizona ¹	4.8	(0.9)	9.2	7.1
New Mexico ¹	(2.8)¶	3.2¶	(3.9)	(10.9)
Oklahoma	8.3	4.0	4.1	5.5
Rocky Mountain	4.8	5.5	5.5	6.2
Colorado	3.8	5.1	5.3	6.7
Idaho	7.9	8.0	5.9	7.7
Montana	3.3	6.1	7.5	2.1
Utah ¹	5.8	5.1	5.1	5.2
Far West	8.5	7.1	6.0	10.1
California	8.7	7.2	6.1	11.0
Hawaii	3.9¶	6.3¶	6.4	9.4
Oregon	7.9	6.2	5.2	4.0

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

See page 8 for notes.

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

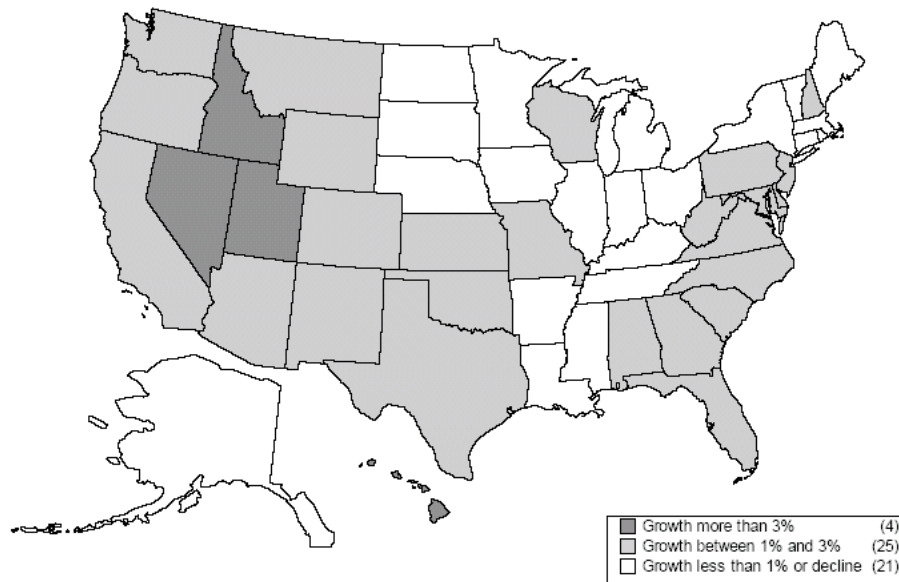
Table 8 shows year-over-year employment growth for the nation and for each state for all four quarters of 2004 using BLS data. Figure 3 maps the change in fourth quarter 2004 employment compared to the same period in 2003. By this measure, employment in the October-December 2004 quarter grew 1.6 percent compared to the year before. This is the fourth quarter of growth in national employment numbers, after nine straight quarters of decline. The growth is gathering steam, and has now extended to every region of the country. Employment growth was strongest in the Rocky Mountain region at 2.2 percent; the weakest growth — 0.2 percent — was in the Great Lakes region. Employment grew in all but two states; last quarter there were only three states with employment declines. Thirty-one states had employment growth of one percent or more, up from 24 the previous quarter. Nevada continues to lead the country with very strong 4.9 percent employment growth. Three other states — Hawaii, Idaho, and Utah — also had strong growth of over three percent. Michigan continues to have the worst employment decline, 0.9 percent in this quarter.

Overall, the employment picture moved into solid growth in 2004. The states with the strongest growth are concentrated in the southern and western regions of the country, the pattern seen before the recent recession, and consistent with the overall pattern of population growth. Over 85 percent of these states in the Southeast, Southwest, Rocky Mountain, and Far West regions recorded job gains in each quarter during 2004. There are ever fewer problem areas where employment is still declining or stagnant.

Nature of the Tax System

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

Figure 3
Change in Non-Farm Employment, July-September 2003 to 2004



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

Because high-end incomes are based more heavily upon volatile sources such as stock options and capital gains, growth in personal income tax revenue is far more subject to dramatic fluctuations than it would be if it were based entirely on wages and salaries. In the recent recession, we saw the downside of this volatility. While initially the market downturn affected relatively few wage earners, it turned gains into losses for investors, thus sharply contracting almost overnight a hitherto

rich source of tax revenue. Meanwhile, stock options became both less common and less lucrative. The recession lasted only eight months, but it had significant aftereffects as the loss of investment capital manifested itself in weak employment numbers, which in turn depressed withholding. However, now the stock market recovery seems to be leading to stronger overall growth.

Key to Interpreting Tables

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

1 indicates data through November only.

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

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

NA indicates not applicable.

ND indicates no data.

NM indicates not meaningful.

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

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

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

Tax Law Changes Affecting This Quarter

The final element affecting trends in tax revenue growth is changes in states' tax laws. When states boost or depress their revenue growth with tax increases or cuts, it can be difficult to draw any conclusions about their current fiscal condition from nominal collections data. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when 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 October-December 2004 quarter, enacted tax changes and processing variations increased state revenue by an estimated net of over \$600 million, compared to the same period in 2003. There now have been net enacted state tax increases for every quarter of the last three years.

Enacted tax changes increased personal income tax collections by a net of over \$200 million. New Jersey raised its top personal income tax rate;

**Table 7. Estimated Payments/Declarations
(Change Year-Over-Year)**

<i>State</i>	<i>April 2004 - January 2005 (All Four Payments for 2004)</i>	<i>December 2004 and January 2005 (Fourth Payment)</i>
Average (Mean)	21.0%	25.2%
Median	17.0	21.1
Alabama	24.3	23.3
Arkansas	30.9	40.6
California	21.8	27.6
Colorado	21.0	29.5
Delaware	20.9	30.9
Georgia	3.0	(2.7)
Hawaii	36.5	25.8
Illinois	17.3	23.6
Indiana	7.3	14.1
Iowa	16.8	26.8
Kansas	10.2	7.9
Kentucky	3.1	15.0
Maine	10.4	10.1
Maryland	20.7	21.8
Massachusetts	17.1	20.2
Michigan	2.5	4.6
Mississippi	(81.1)	(50.6)
Montana	30.8	45.4
Nebraska	19.5	28.8
New Jersey	38.3	52.8
New York	36.8	31.5
North Dakota	12.7	16.9
Ohio	13.8	24.2
Oklahoma	15.5	16.3
Oregon	(5.7)	20.4
Pennsylvania	17.7	13.0
Rhode Island	23.4	31.2
South Carolina	10.7	2.4
Vermont	(15.2)	(54.1)
Virginia	18.7	23.5
West Virginia	9.0	12.8
Wisconsin	14.1	17.9

See p. 8 for notes.

the state will not see most of the effects of this increase until the full final estimated tax payment and final settlements, but it probably boosted revenue by about \$100 million this quarter. A higher flat tax rate in Pennsylvania raised over \$150 million more in revenue.

New York re-instituted its sales tax on clothing, boosting collections by about \$100 million. Virginia raised the sales tax on non-food items, increased the tobacco tax, and made several other tax changes for a net increase of over \$100 million. There were also many other smaller tax increases and/or cuts in other states.

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

	2004			
	Jan.- Mar.	Apr.- June	July- Sept.	Oct.- Dec.
United States	0.3%	1.1%	1.4%	1.6%
Sum of States	0.5	0.8	1.0	1.2
New England	(0.4)	(0.1)	0.2	0.5
Connecticut	(0.6)	(0.1)	0.2	0.4
Maine	0.6	0.8	0.8	1.0
Massachusetts	(1.1)	(0.7)	(0.3)	0.1
New Hampshire	1.1	1.5	1.6	1.6
Rhode Island	1.5	0.7	0.9	0.8
Vermont	0.7	0.9	0.6	0.9
Mid Atlantic	0.3	0.8	1.1	1.2
Delaware	1.1	1.4	1.6	2.0
Maryland	0.9	1.4	1.8	2.1
New Jersey	1.2	1.5	1.6	1.7
New York	0.1	0.6	0.8	0.7
Pennsylvania	(0.4)	0.2	0.8	1.2
Great Lakes	(0.2)	(0.1)	0.1	0.2
Illinois	(0.3)	(0.2)	0.2	0.2
Indiana	0.7	0.5	0.5	0.5
Michigan	(1.1)	(0.9)	(1.0)	(0.9)
Ohio	(0.3)	(0.5)	(0.4)	(0.2)
Wisconsin	1.1	1.4	1.8	2.3
Plains	0.3	0.8	0.9	1.2
Iowa	0.7	0.6	0.6	0.8
Kansas	0.0	0.5	1.2	1.9
Minnesota	0.5	1.0	0.7	0.9
Missouri	0.2	1.1	1.4	1.5
Nebraska	(0.3)	0.2	0.5	0.8
North Dakota	1.0	0.3	0.3	0.5
South Dakota	0.9	1.0	0.8	0.6
Southeast	1.0	1.3	1.3	1.4
Alabama	0.2	0.2	0.5	1.0
Arkansas	0.3	0.7	0.8	0.7
Florida	1.9	2.3	2.0	2.3
Georgia	0.6	1.1	0.9	1.0
Kentucky	0.7	0.3	0.7	0.8
Louisiana	0.3	0.0	0.2	0.1
Mississippi	0.4	0.8	0.9	0.8
North Carolina	0.5	1.0	1.2	1.8
South Carolina	0.8	1.1	1.3	1.4
Tennessee	1.1	0.8	0.6	0.5
Virginia	2.2	2.5	2.4	2.2
West Virginia	(0.3)	(0.1)	0.9	1.5
Southwest	0.4	1.1	1.4	1.6
Arizona	2.2	2.4	2.4	2.8
New Mexico	1.3	2.0	2.1	2.1
Oklahoma	(1.0)	0.5	1.5	1.4
Texas	0.2	0.8	1.1	1.3
Rocky Mountain	0.4	1.2	1.7	2.2
Colorado	(0.6)	0.7	0.9	1.6
Idaho	1.3	2.2	2.7	3.4
Montana	1.3	1.2	1.6	1.7
Utah	1.3	1.6	2.7	3.1
Wyoming	2.1	1.9	1.8	2.0
Far West	0.7	1.2	1.4	1.5
Alaska	1.6	1.0	1.3	1.0
California	0.4	0.7	0.9	1.0
Hawaii	1.8	2.3	2.7	3.3
Nevada	4.2	4.5	4.5	4.9
Oregon	0.4	2.2	2.5	2.3
Washington	1.1	1.9	2.0	2.4

Source: Bureau of Labor Statistics.

Conclusions

States finished 2004 in good shape as far as tax revenue growth is concerned. Most encouraging are that the October-December quarter's growth was on top of a quarter of real adjusted growth the previous year, and that most of the state tax growth is from growth in tax bases and not from legislated tax increases.

However, states are going to need every dime of this growth, and possibly more, to deal with other problems and pressures. States made use of many one-time or temporary measures to balance their budgets in the lean years during and after the recent recession. They now need to find ongoing revenue to replace these measures. In addition, some parts of state budgets, such as Medicaid, are growing even more rapidly than revenues. Finally, there is not much good news for states, and potentially many expensive challenges in the latest proposed federal budget.

Therefore, states may feel some confidence that state tax revenue is growing, and this April will probably bring more good news. This growth is likely not sufficient, however, to solve all of the states' budget problems, both current and emerging.

Endnotes

- 1 Arizona, California, Delaware, Georgia, Louisiana, Montana, Pennsylvania, and Utah.
- 2 Hawaii, Louisiana, Nebraska, Nevada, North Carolina, and Virginia.
- 3 United States Department of Commerce, Bureau of Economic Analysis News Release, February 25, 2005.
- 4 United States Department of Labor, Bureau of Labor Statistics, *Labor Force Statistics From the Current Population Survey*, www.bls.gov.

State Tax Revenue Ends 2004 in Solid Shape

Table 9
Change in Tax Revenue by State, July-December, FY 2004 to FY 2005

	<i>Personal Income</i>	<i>Corporate Income</i>	<i>Sales</i>	<i>Total</i>
United States	8.5%	25.1%	5.9%	8.2%
New England	8.4	26.5	2.0	7.3
Connecticut	9.5	74.3	1.7	7.8
Maine	3.7	30.3	(0.8)	9.6
Massachusetts	8.4	5.2	3.2	6.1
New Hampshire	NA	12.6	NA	9.1
Rhode Island	11.1	61.5	4.9	10.5
Vermont	8.7	42.3	(13.5)	7.1
Mid Atlantic	11.5	16.4	5.3	8.8
Delaware	9.5	(5.6)	NA	12.3
Maryland	16.8	248.2	6.9	19.8
New Jersey	15.7	(6.9)	5.1	6.7
New York	8.8	6.4	6.3	7.8
Pennsylvania	14.5	18.6	3.6	8.4
Great Lakes	4.9	7.6	4.3	4.5
Illinois	2.9	(8.2)	3.0	2.5
Indiana	8.0	69.7	5.4	8.2
Michigan	0.8	1.8	2.7	2.9
Ohio	7.3	(200.0)	7.4	5.6
Wisconsin	7.5	19.1	2.5	6.1
Plains	4.3	28.4	4.2	4.8
Iowa	7.4	31.2	4.9	7.8
Kansas	2.3	32.1	2.2	3.6
Minnesota	3.3	41.3	2.9	3.1
Missouri	3.5	(2.6)	2.6	2.9
Nebraska	7.7	34.5	12.3	12.1
North Dakota	7.7	25.6	8.5	12.0
South Dakota	NA	NA	6.7	5.6
Southeast	7.6	39.0	6.8	9.1
Alabama	5.9	20.7	6.1	8.2
Arkansas	8.4	41.2	6.8	8.6
Florida	NA	18.0	8.9	10.9
Georgia	12.1	87.2	9.1	12.5
Kentucky	5.5	42.5	3.2	6.8
Louisiana	10.4	92.3	5.6	12.0
Mississippi	2.3	20.2	3.1	3.4
North Carolina	3.9	51.2	5.7	7.1
South Carolina	7.1	23.2	3.7	6.0
Tennessee	NA	31.5	3.5	3.9
Virginia	9.6	63.6	12.9	13.0
West Virginia	3.1	41.8	2.6	8.3
Southwest	8.6	84.8	6.3	8.1
Arizona	13.1	52.2	9.6	14.8
New Mexico ¹	2.8	259.1	4.7	11.7
Oklahoma	5.8	147.3	5.3	6.6
Texas	NA	NA	5.9	6.5
Rocky Mountain	8.6	34.5	7.0	8.1
Colorado	7.5	31.4	4.6	7.0
Idaho	7.4	51.8	9.5	9.3
Montana	11.7	38.7	NA	6.1
Utah	10.4	27.9	8.3	9.3
Wyoming	NA	NA	7.0	9.6
Far West	10.8	28.0	7.5	11.6
Alaska	NA	45.5	NA	37.0
California	11.4	30.0	6.8	11.5
Hawaii	11.7	230.0	10.0	12.7
Nevada	NA	NA	17.7	22.1
Oregon	6.5	(23.2)	NA	4.1
Washington	NA	NA	5.6	9.6

See p. 8 for notes.

Table 10
State Tax Revenue, October to December, 2003 and 2004 (In Millions of Dollars)

	2003				2004			
	<i>Personal Income</i>	<i>Corporate Income</i>	<i>Sales</i>	<i>Total</i>	<i>Personal Income</i>	<i>Corporate Income</i>	<i>Sales</i>	<i>Total</i>
United States	\$46,746	\$5,863	\$46,638	\$118,893	\$50,871	\$7,448	\$49,424	\$128,225
New England	3,706	256	2,209	7,511	3,991	379	2,251	8,058
Connecticut	1,028	90	793	2,320	1,110	170	814	2,519
Maine	303	26	230	654	302	28	227	678
Massachusetts	2,048	92	925	3,575	2,221	116	950	3,805
New Hampshire	NA	33	NA	276	NA	40	NA	303
Rhode Island	216	8	197	462	237	17	208	517
Vermont	111	7	64	224	121	8	53	237
Mid Atlantic	10,425	1,534	6,665	21,841	11,587	1,878	7,029	23,776
Delaware	185	6	NA	401	211	0	NA	453
Maryland	1,067	45	715	2,006	1,145	278	764	2,316
New Jersey	1,727	595	1,507	4,537	1,980	542	1,585	4,811
New York	5,876	499	2,530	10,250	6,457	594	2,683	11,151
Pennsylvania	1,571	389	1,915	4,647	1,794	465	1,996	5,046
Great Lakes	7,324	1,142	7,695	19,680	7,694	1,133	7,878	20,245
Illinois	1,798	410	1,665	4,683	1,846	276	1,667	4,569
Indiana	842	126	1,152	2,494	904	250	1,202	2,700
Michigan	1,624	447	1,974	5,699	1,667	460	2,019	5,915
Ohio	1,775	0	1,940	4,131	1,892	(36)	1,997	4,235
Wisconsin	1,285	160	965	2,674	1,385	183	993	2,825
Plains	3,694	345	3,072	8,147	3,882	455	3,209	8,564
Iowa	581	52	421	1,114	623	69	440	1,192
Kansas	451	33	449	1,028	460	38	469	1,069
Minnesota	1,360	142	1,080	3,323	1,430	212	1,124	3,461
Missouri	961	75	640	1,675	1,003	77	647	1,727
Nebraska	297	29	262	618	317	40	299	694
North Dakota	45	14	97	214	49	19	98	239
South Dakota	NA	NA	123	174	NA	NA	132	182
Southeast	9,004	1,027	11,581	25,919	9,662	1,499	12,423	28,361
Alabama	572	71	477	1,592	623	104	491	1,748
Arkansas	410	35	452	967	445	71	482	1,067
Florida	NA	402	3,814	5,170	NA	366	4,171	5,651
Georgia	1,699	63	1,172	3,255	1,916	135	1,224	3,601
Kentucky	700	71	718	1,830	739	96	735	1,955
Louisiana	466	62	499	1,364	513	92	556	1,573
Mississippi	258	44	605	1,235	255	87	624	1,296
North Carolina	2,008	150	1,028	3,494	2,066	230	1,144	3,769
South Carolina	765	32	518	1,468	833	46	534	1,568
Tennessee	NA	28	1,415	1,997	NA	94	1,465	2,103
Virginia	1,889	38	620	2,845	2,034	125	727	3,285
West Virginia	237	32	263	701	238	53	270	746
Southwest	1,334	115	5,879	10,268	1,443	266	6,268	10,743
Arizona	628	113	795	1,584	719	178	871	1,829
New Mexico ¹	162	7	238	516	149	58	256	602
Oklahoma	544	(5)	390	1,169	575	29	402	1,246
Texas	NA	NA	4,457	6,998	NA	NA	4,739	7,067
Rocky Mountain	1,651	92	1,158	3,449	1,816	120	1,233	3,721
Colorado	814	42	462	1,357	885	57	482	1,458
Idaho	227	14	253	600	247	24	275	657
Montana	117	12	NA	278	129	14	NA	279
Utah	493	24	358	1,001	555	26	386	1,099
Wyoming	NA	NA	86	213	NA	NA	91	229
Far West	9,608	1,353	8,378	22,079	10,797	1,717	9,133	24,757
Alaska	NA	11	NA	222	NA	17	NA	318
California	8,245	1,270	5,807	16,010	9,352	1,659	6,283	18,099
Hawaii	297	0	438	807	312	11	483	886
Nevada	NA	NA	613	792	NA	NA	725	937
Oregon	1,066	72	NA	1,183	1,132	30	NA	1,200
Washington	NA	NA	1,520	3,065	NA	NA	1,642	3,317

See p. 8 for notes.

State Tax Revenue Ends 2004 in Solid Shape

Table 11
State Tax Revenue, July to December, Fiscal Year 2004 and Fiscal Year 2005 (In Millions of Dollars)

	FY 2004				FY 2005			
	Personal Income	Corporate Income	Sales	Total	Personal Income	Corporate Income	Sales	Total
United States	\$91,447	\$12,138	\$91,245	\$231,688	\$99,266	\$15,179	\$96,601	\$250,750
New England	6,928	635	4,125	14,325	7,513	803	4,208	15,365
Connecticut	1,691	148	1,297	3,821	1,851	257	1,318	4,119
Maine	525	47	408	1,154	544	61	405	1,265
Massachusetts	4,069	340	1,886	7,374	4,409	357	1,947	7,822
New Hampshire	NA	66	NA	573	NA	74	NA	625
Rhode Island	424	19	414	958	471	31	434	1,058
Vermont	219	16	121	444	238	22	104	476
Mid Atlantic	19,888	2,951	12,672	41,768	22,172	3,435	13,341	45,453
Delaware	369	21	NA	803	404	20	NA	902
Maryland	1,885	141	1,179	3,542	2,201	492	1,261	4,242
New Jersey	2,847	976	2,555	7,564	3,293	909	2,685	8,069
New York	11,563	1,107	5,053	20,492	12,581	1,178	5,327	22,087
Pennsylvania	3,224	705	3,886	9,368	3,693	836	4,024	10,152
Great Lakes	14,424	2,066	14,915	37,550	15,125	2,223	15,561	39,237
Illinois	3,610	607	3,252	9,004	3,715	557	3,350	9,230
Indiana	1,746	240	2,325	4,963	1,885	407	2,450	5,372
Michigan	3,230	906	3,958	10,985	3,255	922	4,065	11,304
Ohio	3,542	17	3,739	8,000	3,801	(17)	4,014	8,451
Wisconsin	2,296	297	1,642	4,598	2,469	354	1,683	4,879
Plains	7,513	702	6,099	15,995	7,834	901	6,353	16,763
Iowa	1,152	90	864	2,227	1,237	119	906	2,402
Kansas	908	69	925	2,088	929	91	945	2,163
Minnesota	2,785	304	2,036	6,215	2,878	429	2,094	6,410
Missouri	1,969	152	1,285	3,406	2,038	148	1,318	3,504
Nebraska	605	62	542	1,284	652	83	608	1,439
North Dakota	94	25	188	419	102	31	204	470
South Dakota	NA	NA	260	357	NA	NA	278	376
Southeast	17,623	2,132	22,721	50,732	18,962	2,964	24,261	55,336
Alabama	1,146	138	916	3,097	1,214	166	971	3,351
Arkansas	836	97	914	1,992	906	136	976	2,163
Florida	NA	591	7,477	9,897	NA	698	8,139	10,979
Georgia	3,263	137	2,286	6,268	3,656	256	2,494	7,053
Kentucky	1,404	150	1,443	3,514	1,481	214	1,489	3,753
Louisiana	944	80	1,041	2,756	1,042	154	1,100	3,085
Mississippi	542	115	1,139	2,439	554	139	1,174	2,522
North Carolina	3,863	338	2,139	6,842	4,012	511	2,261	7,330
South Carolina	1,492	72	879	2,718	1,598	89	911	2,880
Tennessee	NA	184	2,862	4,193	NA	242	2,963	4,358
Virginia	3,650	151	1,109	5,570	4,001	247	1,251	6,295
West Virginia	484	80	518	1,446	499	113	531	1,566
Southwest	2,708	285	11,756	20,990	2,942	527	12,501	22,684
Arizona	1,207	225	1,594	3,176	1,366	343	1,748	3,646
New Mexico ¹	412	32	600	1,318	424	116	628	1,472
Oklahoma	1,089	28	765	2,362	1,153	68	806	2,516
Texas	NA	NA	8,796	14,134	NA	NA	9,319	15,050
Rocky Mountain	3,205	230	2,331	6,716	3,482	309	2,494	7,259
Colorado	1,644	110	952	2,784	1,768	144	996	2,978
Idaho	428	37	523	1,188	459	56	572	1,299
Montana	256	24	NA	514	286	33	NA	546
Utah	879	59	733	1,939	970	76	794	2,119
Wyoming	NA	NA	124	290	NA	NA	132	317
Far West	19,158	3,138	16,625	43,613	21,236	4,017	17,880	48,653
Alaska	NA	22	NA	493	NA	32	NA	675
California	16,476	2,952	11,370	32,200	18,349	3,839	12,145	35,897
Hawaii	572	8	911	1,626	638	26	1,003	1,832
Nevada	NA	NA	1,209	1,517	NA	NA	1,424	1,852
Oregon	2,111	156	NA	2,352	2,249	120	NA	2,448
Washington	NA	NA	3,134	5,426	NA	NA	3,310	5,949

See p. 8 for notes.

Technical Notes

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

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

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

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

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

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

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

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

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

This report contains fourth calendar quarter revenue data for all 50 states.

About The Nelson A. Rockefeller Institute of Government's Fiscal Studies Program

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others. Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues, is director of Fiscal Studies.

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

You can contact the Fiscal Studies Program at The Nelson A Rockefeller Institute of Government, 411 State Street, Albany, NY 12203-1003, (518) 443-5285 (phone), (518) 443-5274 (fax), fiscal@rockinst.org (e-mail).

Fiscal Studies Program

**The Nelson A. Rockefeller
Institute of Government**

State University of New York
411 State Street
Albany, New York 12203-1003

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