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Tax Revenues Continue to Grow in Early 2012

But Trends Vary; Twelve States Reported Declines in Tax Revenues in the First Quarter of 2012, While Local Taxes Fall

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HIGHLIGHTS

- State tax revenues grew by 4.7 percent in the first quarter of 2012, according to Rockefeller Institute research and Census Bureau data. This is the ninth consecutive quarter that states reported growth in collections on a year-over-year basis.
- Overall state tax revenues are now above prerecession as well as peak levels that came several months into the Great Recession. In the first quarter of 2012, total state tax revenues were 4.8 percent higher than during the same quarter of 2008. However, after adjusting to inflation, state tax revenues were still 1.6 percent lower compared to the same quarter of four years ago, in 2008.
- In 21 states, total tax collections in the first quarter of 2012 were still lower compared to the same quarter of 2008. Ten of the 21 states reporting declines were located in New England and the Southeast.
- Preliminary figures for April and May 2012 indicate further growth in state tax revenues. Overall collections in 46 early-reporting states showed growth of 5.8 percent compared to the same months of 2011.
- Local property tax revenues, however, declined by 0.9 percent in the first quarter of 2012.

Overall State Taxes and Local Taxes

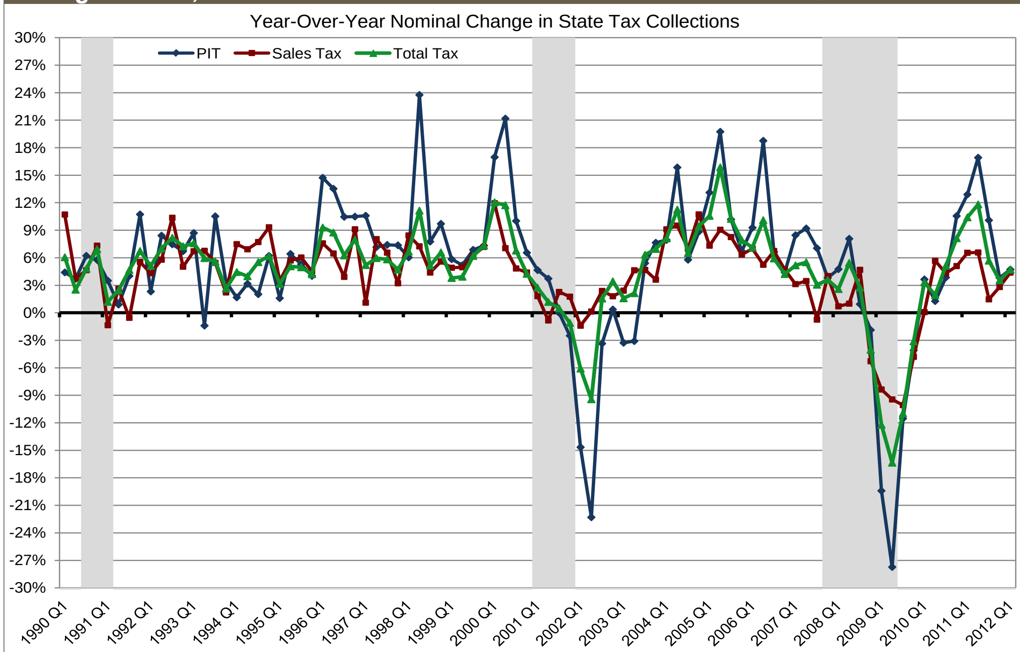
Total state tax collections grew for the ninth consecutive quarter in January-March 2012. Overall state tax revenues increased by 4.7 percent from the same quarter of the previous year, according to data collected by the Rockefeller Institute and the Census Bureau. The Institute's findings indicate slightly stronger fiscal conditions for states than the preliminary data released in late June 2012 by the Census Bureau, which reported an overall increase of 4.5 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 18.[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 previous recessions. Overall tax collections as well as personal income and sales tax revenues showed continued growth in the first quarter of 2012. Personal income tax collections increased by 4.7 percent and sales tax collections rose by 4.4 percent.

After nine straight quarter increases, total state tax collections in the first quarter of 2012 are above the peak levels in most states. State tax revenues were 4.8 percent higher in the first quarter of 2012 than in the same quarter of 2008. In the first quarter of 2012, 29 states reported higher tax revenue collections than in the same quarter of 2008. However, if we adjust the numbers for inflation, nationwide tax receipts show a 1.6 percent decline in the first quarter of 2012 compared to the same quarter of 2008.

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 Bureau's prior survey methodology and a revised survey methodology now used for collecting property tax revenues.[2] As shown in Figure 2, the year-over-year change in state taxes, adjusted for inflation, has averaged 4.4 percent over the last four quarters. This

Figure 1. PIT, Sales & Overall Tax Growth Was Above 4% in the First Quarter of 2012



Sources: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue.
Notes: Data for the most recent quarter reflect adjustments by the Rockefeller Institute to include information released after initial publication.

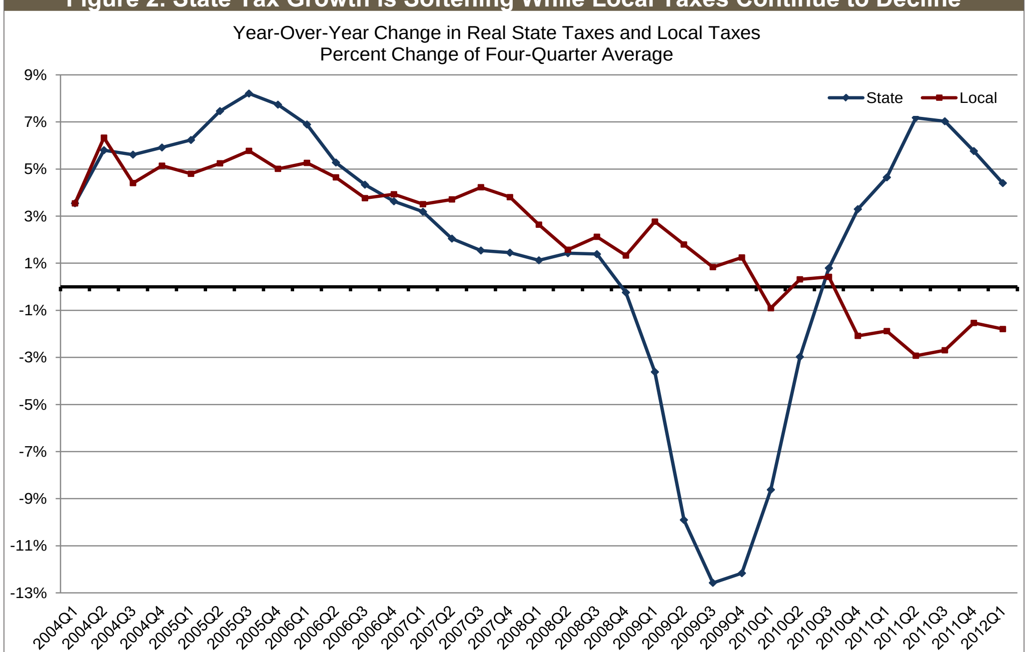
represents some softening from the 4.6 percent average growth of a year ago, but a substantial improvement from the 8.6 percent average decline of two years ago.

While state tax collections have been steadily recovering, the trend for local governments is quite different. Local taxes fell in real, year-over-year terms — by an average of 1.8 percent over the last four quarters, only a slight improvement over the 1.9 percent decline of the preceding year. Inflation over the year, as measured by the gross domestic product deflator, was 2.0 percent.

Until the end of 2010, local tax collections grew during most quarters, though the rate of growth was weak after 2007. However, declines in local taxes have persisted over the last six quarters, due in part to the lagged impact of falling housing prices on property tax collections. For the quarter ending in March, the 1.8 percent decline 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 third quarter of 2005, at 5.8 percent.

Most local governments rely heavily on property taxes, which tend to be relatively stable and respond to property value

Figure 2. State Tax Growth is Softening While Local Taxes Continue to Decline



Sources: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (GDP).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

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 81.6 percent of such receipts during the first quarter of 2012. Local property tax revenues showed a decline of 0.9 percent in nominal terms in the first quarter of 2012 compared to the same quarter of 2011. Moreover, local property taxes were 4.6 and 1.3 percent lower than during the same quarters of 2009 and 2010, respectively.

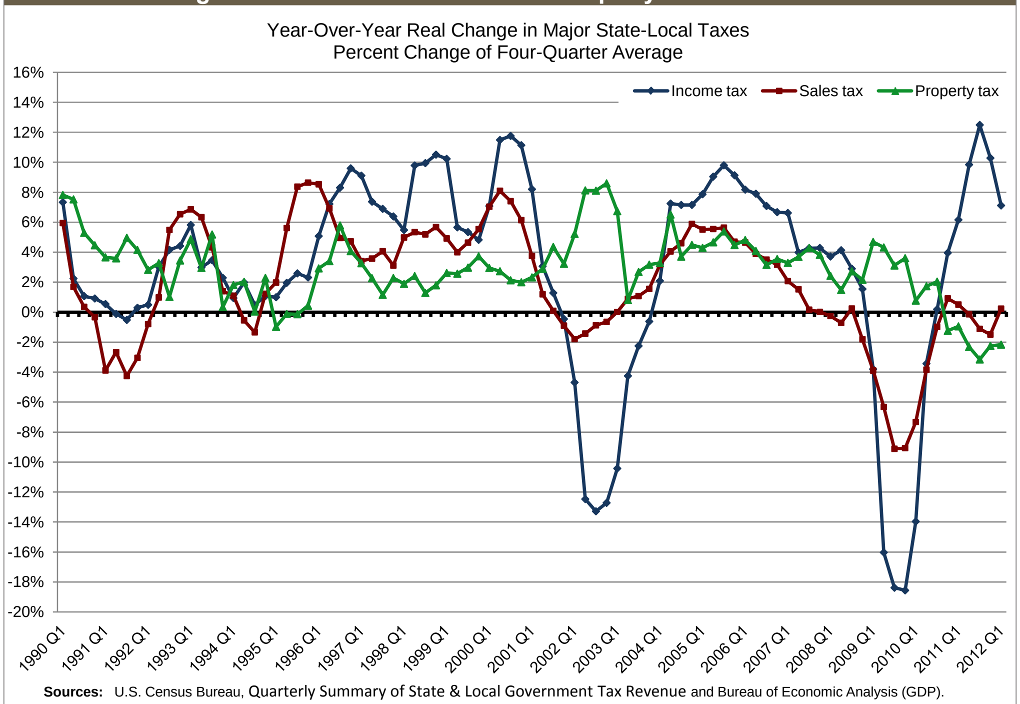
Sales taxes represented about 7.9 percent of local tax revenues in the first quarter of 2012. Local sales tax collections rose by 13.2 percent in the first quarter of 2012 in nominal terms. Collections from local individual income taxes, a much smaller contributor to overall local revenues, showed a decline of 27.1 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 seventh consecutive quarter. On the other hand, the four-quarter average of year-over-year comparisons showed declines in state-local property taxes for the sixth consecutive quarter.

State Tax Revenue

Total state tax revenue rose in the first quarter of 2012 by 4.7 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 both showed growth at 4.7 and 4.4 percent respectively, and the corporate income tax grew by 2.8 percent. Tables 1 and 2 portray growth in tax revenue with and without adjustment for inflation, and growth by major tax. Twelve states reported declines in total tax revenue during the first quarter of 2012, while another 12 states reported double-digit increases in the first quarter. All regions but the Far West reported growth in total collections. The Great

Figure 3. Continued Weakness in Property Tax Collections



Sources: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (GDP).
Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

Lakes region showed the largest gain at 13.2 percent, followed by the Southwest states at 7.9 percent. The Far West region showed a decline of 0.9 percent. Revenue gains were once again particularly strong in North Dakota at 52.6 percent, mostly due to the booming oil and natural gas industries (see Tables 6 and 7).

Preliminary figures collected by the Rockefeller Institute for the April-May months of 2012 indicate that revenues in most states continued to grow, although the rate of growth is less than it was a year ago.[3] Overall collections in 46 early reporting states showed growth of 5.8 percent in the April-May months of 2012 compared to the same months of 2011.

Personal Income Tax

In the first quarter of 2012, personal income tax revenue made up at least a third of total tax revenue in 17 states, and was larger than the sales tax in 27 states. Personal income tax revenues rose for the ninth consecutive quarter, with 4.7 percent growth in the January-March 2012 quarter compared to the same period in 2011.

However, personal income tax collections were still below the recessionary peak for the quarter in nominal terms, ending 1.3 percent lower than in the first quarter of 2008. All regions except for the Plains and Far West reported increases in personal income tax collections. The largest growth was in the Southwest and Great Lakes regions, where collections increased by 27.1 and 24.2 percent, respectively. The Plains and Far West regions reported declines in personal income tax collections at 2.9 and 0.7 percent, respectively.

The strong growth in the Great Lakes is largely attributable to a single state, Illinois, where personal income tax collections grew by 41.1 percent, mostly driven by the legislated tax changes. Michigan also reported strong growth in personal income tax collections, mostly due to recent restructuring of personal income taxes in the state. On the other hand, the declines in the Plains and Far West regions are partially attributable to legislated income tax reductions. For example, declines in personal income tax collections in California are driven by the expiration of a temporary 0.25 percent personal income tax increase and the expiration of the dependent care credit. Lawmakers in North Dakota cut the personal income tax rate from 4.8 percent to 3.99 percent.

Overall, 16 states reported declines in personal income tax collections; 27 states reported growth in personal income tax collections for the quarter with 12 states reporting double-digit increases. Michigan and Delaware reported the largest increases at 103.9 and 85.8 percent, respectively. As mentioned above, the gain in Michigan is mostly attributable to legislated tax changes, which include imposing income taxes on pensions and retirement income and the elimination of certain income tax credits, including the earned income tax credit and the property tax credit. The largest gain in terms of dollar value was in Illinois, where personal income tax collections grew by $1.4 billion. If we exclude

Table 1. Quarterly State Tax Revenue

Adjusted for Inflation
Year-Over-Year Percent Change

Quarter	Total Nominal Change	Inflation Rate	Adjusted Real Change
2012 Q1	4.7	2.0	2.7
2011 Q4	3.5	2.1	1.4
2011 Q3	5.7	2.4	3.2
2011 Q2	11.8	2.1	9.5
2011 Q1	10.4	1.8	8.4
2010 Q4	8.1	1.6	6.5
2010 Q3	5.1	1.4	3.7
2010 Q2	1.9	1.1	0.8
2010 Q1	3.3	0.6	2.7
2009 Q4	(3.1)	0.7	(3.8)
2009 Q3	(11.0)	0.5	(11.4)
2009 Q2	(16.3)	1.2	(17.3)
2009 Q1	(12.2)	1.9	(13.9)
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
1999 Q4	7.3	1.6	5.6
1999 Q3	6.2	1.5	4.7
1999 Q2	3.9	1.5	2.4
1999 Q1	3.8	1.3	2.4

Sources: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (GDP).

Table 2. Quarterly State Tax Revenue By Major Tax

Year-Over-Year Percent Change

Quarter	PIT	CIT	General Sales	Total
2012 Q1	4.7	2.8	4.4	4.7
2011 Q4	3.8	(8.8)	2.8	3.5
2011 Q3	10.1	0.6	1.5	5.7
2011 Q2	16.9	19.1	6.6	11.8
2011 Q1	12.9	5.7	6.5	10.4
2010 Q4	10.6	18.1	5.1	8.1
2010 Q3	3.9	0.5	4.3	5.1
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
1999 Q4	7.3	4.7	7.2	7.3
1999 Q3	6.9	4.3	6.2	6.2
1999 Q2	5.2	5.4	5.0	3.9
1999 Q1	5.8	(5.4)	4.9	3.8

Source: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue.

Table 3. Personal Income Tax Withholding, By State

Last Four Quarters, Percent Change

	2011			2012
	Apr-June	July-Sep	Oct-Dec	Jan-Mar
United States	**6.1**	**6.7**	**3.5**	**4.4**
New England	**7.3**	**6.7**	**9.1**	**6.1**
Connecticut	10.5	10.6	28.1	12.0
Maine	2.2	1.3	5.7	(0.1)
Massachusetts	6.8	5.7	2.1	3.4
Rhode Island	5.8	2.9	0.1	11.5
Vermont	3.6	11.3	1.9	2.5
Mid-Atlantic	**1.2**	**3.4**	**2.3**	**(1.5)**
Delaware	5.9	5.1	2.9	1.8
Maryland	3.0	1.1	3.6	2.7
New Jersey	5.7	0.7	2.1	4.1
New York	1.0	4.9	1.7	(5.2)
Pennsylvania	(5.0)	3.6	2.8	4.1
Great Lakes	**18.5**	**19.6**	**17.0**	**9.7**
Illinois	71.7	67.0	64.5	22.7
Indiana	5.9	4.0	4.9	3.5
Michigan	3.3	3.2	1.6	8.1
Ohio	3.3	4.0	4.1	4.9
Wisconsin	2.5	5.9	(2.9)	(0.6)
Plains	**4.9**	**4.8**	**3.7**	**4.5**
Iowa	3.5	3.1	3.5	2.7
Kansas	5.3	5.4	4.2	6.5
Minnesota	5.6	6.4	4.1	5.1
Missouri	1.4	2.4	2.5	3.3
Nebraska	6.4	5.0	3.8	6.0
North Dakota	47.9	19.9	13.0	3.9
Southeast	**4.4**	**4.4**	**1.7**	**4.4**
Alabama	1.1	1.1	1.1	2.1
Arkansas	4.5	3.8	4.3	3.2
Georgia	4.3	4.0	(0.9)	6.5
Kentucky	4.5	5.1	4.1	3.6
Louisiana	7.9	4.4	(1.8)	(0.0)
Mississippi	2.9	3.0	3.5	5.2
North Carolina	4.3	5.3	2.4	4.7
South Carolina	4.1	4.8	2.0	4.1
Virginia	4.8	4.0	2.1	4.0
West Virginia	4.4	8.5	7.4	7.9
Southwest	**8.9**	**6.4**	**4.4**	**4.6**
Arizona	11.8	5.2	1.9	2.6
New Mexico	7.0	5.2	(0.3)	5.0
Oklahoma	5.9	8.5	10.1	7.0
Rocky Mountain	**3.7**	**5.2**	**(0.6)**	**7.1**
Colorado	4.0	4.0	(0.9)	7.1
Idaho	3.7	3.5	3.6	(1.0)
Montana	5.7	4.3	6.1	9.4
Utah	2.5	8.9	(4.3)	10.9
Far West	**4.3**	**4.6**	**(4.3)**	**7.6**
California	4.0	4.2	(5.9)	7.8
Hawaii	7.7	5.2	3.7	3.4
Oregon	5.8	7.8	7.6	6.8

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.

Illinois, personal income tax collections show a growth of 2.4 percent only for the nation in the first quarter of 2012.

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 2012 quarter continued to improve for the ninth quarter in a row, increasing by 4.4 percent for the 41 states with broad-based personal income taxes.

Thirty-six states reported growth in withholding for the first quarter of 2012, with four states showing double-digit growth. Among individual states, Illinois and Connecticut reported the strongest growth in the first quarter of 2012, at 22.7 and 12 percent, respectively. The Great Lakes and Far West regions reported the largest growth in withholding at 9.7 and 7.6 percent, respectively, while the Mid-Atlantic region reported a decline at 1.5 percent. The decline in the Mid-Atlantic region is mostly attributable to New York, where lawmakers restructured the personal income tax brackets. New York tax rates were reduced for the most part but increased for the highest bracket from 6.85 percent to 8.92 percent for income above $1.0 million for single filers and $2.0 million for married couples.

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 represent a relatively small proportion of overall income-tax revenues — some

$13.2 billion, or roughly 22 percent of all income-tax revenues, in the first quarter of 2012 — but can have a disproportionate impact on the direction of overall collections.

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 38 states for which we have complete data, the median payment was up by 11.3 percent for all four payments compared to the previous year. Arkansas was the only state reporting declines in estimated payments for all four payments while 23 states reported double-digit increases for all four payments. (We will release a separate report focusing on personal income tax collections in August.)

General Sales Tax

State sales tax collections in the January-March 2012 quarter showed growth of 4.4 percent from the same period in 2011, a modest improvement compared to the 1.5 and 2.8 percent gains reported in the third and fourth quarters of 2011, respectively. Moreover, sales tax collections were up by 2.0 percent from the same period of 2008. This is the ninth quarter in a row that sales tax collections rose. Increases in collections were reported during the first quarter in all regions but the Far West and Rocky Mountain, where receipts declined by 1.4 and 0.3 percent, respectively. The Plains and New England regions reported the largest increases in sales tax collections at 9.1 and 8.2 percent, respectively. The decline in the Far West region is mostly attributable to California, where collections fell by 4.2 percent as a temporary 1 percent addition to the statewide sales and use tax expired. If we exclude California, sales tax collections show a growth of 5.8 percent for the nation in the first quarter of 2012.

Thirty-eight of 45 states with broad-based sales taxes reported growth in collections for the quarter; six states reported double-digit gains. North Dakota and Oklahoma reported the largest growth at 44.3 and 14.6 percent, respectively. In addition to California, six other states reported declines in sales tax collections in the first quarter of 2012. Arizona reported the largest decline at 17.2 percent followed by Wyoming at 10.5 percent. The decline in Arizona is mostly attributable to the exemption of temporary tax measures.

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 2.8 percent in the first quarter of 2012 compared to a year earlier. Three regions — the

Southeast, Mid-Atlantic, and Southwest — reported double-digit increases at 28.8, 18.8, and 13.1 percent, respectively. Three other regions — the Far West, Great Lakes, and Rocky Mountain states — reported declines in corporate income tax collections at 20.4, 14.3, and 5.9 percent, respectively.

Among 46 states that have a corporate income tax, 28 reported growth, with 23 enjoying double-digit gains. Eighteen states reported declines for the first quarter of 2012 compared to the same quarter of the previous year. Most of the declines were large; only three states reported single-digit declines. The largest declines in terms of dollar value were reported in California, where corporate income tax collections fell by $0.4 billion or 21.3 percent. The decline in California is partially due to changes in Corporation Tax Law, which reduced the number of required estimated payments from four to three and eliminated the third estimated payment due in September. If we exclude California, corporate income tax collections show a growth of 9.9 percent for the nation in the first quarter of 2012.

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 4, we show four-quarter moving average real growth rates for the nation as a whole.

Table 4. 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), latest 12 months	$14,113	$40,954	$17,312	$5,860	$24,119	$124,202
2012Q1	(3.0)	0.6	(2.2)	0.9	3.0	8.3
2011Q4	(10.9)	3.2	(1.5)	(1.0)	2.2	12.3
2011Q3	(7.3)	5.8	(0.6)	0.0	(1.0)	12.1
2011Q2	(3.4)	8.9	0.6	1.6	(1.4)	11.8
2011Q1	0.7	8.3	2.8	3.3	(0.1)	9.3
2010Q4	6.1	5.4	3.2	3.3	1.7	7.4
2010Q3	11.1	2.4	2.2	3.0	4.4	4.2
2010Q2	11.0	0.5	0.4	2.0	3.7	(2.5)
2010Q1	9.7	(1.0)	(1.3)	0.5	1.3	(9.3)
2009Q4	5.8	(2.1)	(1.8)	0.3	(0.1)	(13.9)
2009Q3	(0.8)	(3.4)	0.1	(0.2)	(1.4)	(13.5)
2009Q2	(2.3)	(5.6)	1.0	(0.4)	(1.2)	(7.0)
2009Q1	(3.9)	(6.2)	2.3	0.1	(0.7)	3.6
2008Q4	(3.1)	(5.1)	2.9	0.2	(1.3)	7.2
2008Q3	1.6	(3.6)	3.3	(0.3)	(0.8)	9.6
2008Q2	3.2	(1.9)	5.7	0.3	(0.5)	7.5
2008Q1	3.9	(1.4)	6.0	0.4	(1.2)	3.1
2007Q4	3.3	(1.9)	5.9	0.4	(0.6)	2.1
2007Q3	1.3	(0.9)	3.8	1.5	(1.0)	(0.5)
2007Q2	(0.3)	(1.3)	0.3	1.3	(1.0)	(1.4)
2007Q1	1.7	(0.1)	1.5	0.5	0.4	(1.1)
2006Q4	0.1	0.7	2.6	1.0	0.9	(0.4)
2006Q3	(0.3)	(1.1)	5.3	1.1	0.8	2.0
2006Q2	(0.1)	1.4	8.9	1.1	0.7	4.2
2006Q1	0.8	1.5	6.9	2.5	0.1	5.2
2005Q4	1.9	2.1	5.4	1.6	0.3	7.1
2005Q3	3.4	3.6	4.2	(0.2)	1.9	6.3
2005Q2	3.5	0.9	2.1	(0.6)	2.7	4.9
2005Q1	1.7	1.4	2.9	(2.4)	3.6	5.7
2004Q4	(4.9)	1.6	3.6	(1.4)	5.6	6.0
2004Q3	(2.3)	1.5	3.6	0.0	6.0	7.6
2004Q2	3.6	2.1	4.8	0.5	6.6	9.0
2004Q1	1.0	0.4	10.5	4.3	5.5	7.5
2003Q4	8.6	(1.0)	17.0	3.9	3.9	5.6
2003Q3	5.6	(1.2)	26.2	2.2	2.8	3.8
2003Q2	(1.1)	(0.4)	35.7	3.1	2.6	2.6
2003Q1	(5.0)	0.7	27.1	0.6	3.6	2.2
2002Q4	(4.8)	1.0	17.2	(0.1)	2.9	2.1
2002Q3	(6.7)	0.7	5.6	2.7	2.5	2.6
2002Q2	(4.4)	1.1	(5.9)	(0.2)	0.6	3.4
2002Q1	5.1	1.7	(5.0)	(0.2)	(1.2)	2.1
2001Q4	2.7	2.5	(1.5)	0.5	(2.9)	2.5
2001Q3	(0.3)	3.5	2.6	(1.4)	(3.3)	1.5
2001Q2	(5.0)	2.5	7.6	1.7	(0.7)	0.9
2001Q1	(12.6)	1.2	8.4	1.4	2.4	3.6
2000Q4	(11.1)	1.2	5.9	1.8	5.9	4.2
2000Q3	(4.1)	1.3	1.7	3.2	6.9	6.5
2000Q2	(2.6)	1.2	(1.3)	2.2	5.9	7.9
2000Q1	2.5	2.3	(4.5)	3.2	3.0	4.7
1999Q4	1.2	2.4	(5.3)	2.7	1.7	3.6
1999Q3	(1.5)	1.6	(2.9)	1.7	1.2	2.9
1999Q2	0.8	2.1	(1.0)	1.4	0.9	1.3
1999Q1	3.9	2.5	1.3	1.5	1.0	2.8

Source: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue.

Revenues from all smaller tax sources, except for property taxes and tobacco product sales taxes, showed at least modest growth. The motor fuel tax, the most significant of the smaller taxes, showed nationwide growth of 0.6 percent. State property taxes, a relatively small revenue source for states, fell by 3.0 percent and revenues from tobacco product sales taxes declined by 2.2 percent. Gains of 0.9 and 3.0 percent were reported for alcoholic beverage sales tax and revenue from motor vehicle and operators' licenses, respectively.

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

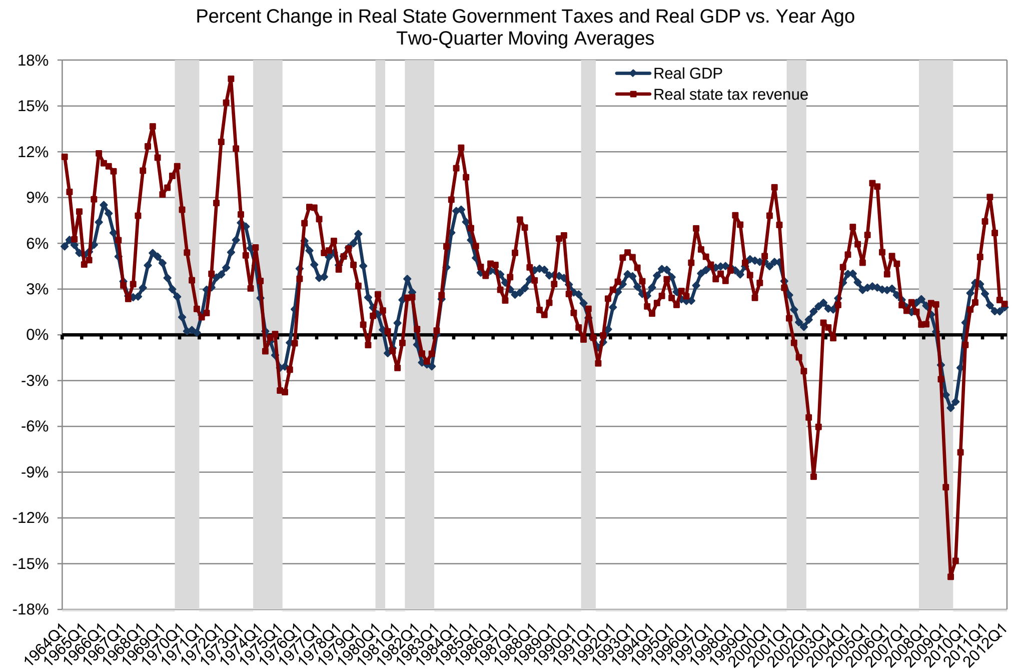
Most state tax revenue sources are heavily influenced by the economy. The income tax rises when income rises, the sales tax generates more revenue when consumers increase their purchases of taxable items, and so on. When the economy booms, tax revenue tends to rise rapidly, and when it declines, tax 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 2012 real state tax revenue showed 2.0 percent growth on this moving-average basis. This was the eighth consecutive quarter of growth. Real Gross Domestic Product showed growth for the ninth consecutive quarter at 1.8 percent. Growth in Real Gross Domestic Product is now much slower than the 2.7 percent growth reported in the first quarter of 2011; and the same is true for overall real tax collections, which reported 7.4 percent growth 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 is not far from the growth rate in the overall economy in 2012, state tax revenues have been more volatile than the general economy in prior years.

Durable goods consumption, an important element of state sales tax bases, showed an increase of 6.9 percent in the first

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



Sources: U. S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue and Bureau of Economic Analysis (real GDP).
Notes: (1) Percentage changes averaged over 2 quarters; (2) No legislative adjustments; (3) Recession periods are shaded.

quarter of 2012 relative to the same quarter a year ago. However, the growth in durable goods has softened compared to the 10 percent growth reported in the same quarter of 2011. A 1.3 percent growth was reported in consumption of services, an important sector that comprises nearly 50 percent of total real GDP.[4]

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 5 shows year-over-year employment growth over the last four quarters. For the nation as a whole, employment grew for the seventh quarter in a row — by 1.3 percent relative to the previous year — in the January-March quarter of 2012. On a year-over-year basis, employment declined in three states: Montana, Rhode Island, and Wisconsin. North Dakota and Oklahoma reported the largest growth in employment at 6.6 and 2.7 percent, respectively. Seven states reported growth of over 2.0 percent.

All regions reported growth in employment in the the first quarter of 2012, but job gains are not evenly distributed among the regions. The New England region reported the weakest growth in employment at 0.5 percent. The Southwest region reported the largest increase in employment at 2.3 percent, followed by the Rocky Mountain region reporting 1.9 percent growth. 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.[5] These indexes can be used to measure the scope of economic decline or growth.

Table 5. Nonfarm Employment, By State

Last Four Quarters, Year-Over-Year Percent Change

	2011			2012
	April-June	*July-Sep*	*Oct-Dec*	*Jan-March*
United States	**1.0**	**1.1**	**0.9**	**1.3**
New England	**0.7**	**0.6**	**0.2**	**0.5**
Connecticut	1.1	0.7	0.5	0.7
Maine	(0.1)	0.3	(0.1)	0.3
Massachusetts	0.8	0.7	0.1	0.5
New Hampshire	0.3	0.6	0.1	0.5
Rhode Island	0.6	0.4	(0.4)	(0.3)
Vermont	0.4	0.4	0.8	1.1
Mid-Atlantic	**0.8**	**1.2**	**1.0**	**1.3**
Delaware	1.1	0.2	0.0	0.2
Maryland	0.6	1.1	1.5	1.8
New Jersey	(0.4)	0.5	0.8	1.3
New York	1.1	1.7	1.2	1.5
Pennsylvania	1.1	1.0	0.7	0.9
Great Lakes	**1.2**	**1.0**	**0.6**	**0.9**
Illinois	1.0	0.8	0.5	0.6
Indiana	1.1	0.9	1.2	1.6
Michigan	2.0	1.8	1.5	1.5
Ohio	1.0	1.0	0.6	1.3
Wisconsin	0.9	0.4	(0.8)	(0.9)
Plains	**0.9**	**0.8**	**0.4**	**0.9**
Iowa	0.4	0.7	0.4	1.0
Kansas	0.5	0.4	0.4	0.9
Minnesota	1.6	1.4	0.7	1.1
Missouri	0.2	(0.0)	(0.4)	0.2
Nebraska	0.5	0.2	0.3	0.5
North Dakota	4.4	5.0	5.2	6.6
South Dakota	1.0	0.6	0.2	0.5
Southeast	**0.9**	**0.9**	**0.9**	**1.3**
Alabama	(0.4)	(0.4)	(0.3)	0.2
Arkansas	0.0	(0.8)	(0.4)	0.5
Florida	1.0	1.1	1.1	1.2
Georgia	1.2	0.9	0.8	1.4
Kentucky	1.0	1.0	0.9	2.1
Louisiana	0.6	1.2	1.8	2.6
Mississippi	(0.5)	(0.4)	(0.2)	0.0
North Carolina	1.2	1.1	0.7	1.2
South Carolina	1.0	1.0	1.1	1.6
Tennessee	1.2	1.7	1.7	1.8
Virginia	0.9	1.0	1.0	1.2
West Virginia	0.6	0.8	1.4	1.9
Southwest	**1.6**	**2.0**	**1.7**	**2.3**
Arizona	0.6	1.4	1.3	1.7
New Mexico	(0.1)	0.4	0.3	0.7
Oklahoma	1.1	1.3	1.7	2.7
Texas	2.0	2.3	1.9	2.4
Rocky Mountain	**1.2**	**1.5**	**1.4**	**1.9**
Colorado	1.4	1.7	1.6	2.1
Idaho	0.3	0.4	0.6	1.6
Montana	0.1	(0.5)	(0.6)	(0.2)
Utah	1.8	2.6	2.5	2.5
Wyoming	1.0	1.3	0.5	1.2
Far West	**0.7**	**0.9**	**0.9**	**1.3**
Alaska	1.5	0.8	0.1	0.7
California	0.6	0.7	0.9	1.4
Hawaii	0.7	0.9	0.7	0.7
Nevada	0.2	0.9	1.4	0.8
Oregon	1.0	1.0	0.5	0.5
Washington	1.1	1.5	1.3	1.6

Source: Bureau of Labor Statistics, Current Employment Statistics.

The analysis of coincident indexes indicates that as of June 2012, the economic activity nationwide increased by 0.6 percent compared to three months earlier and by 2.7 percent compared to a year earlier. At the state level, 41 states reported growth in economic activity compared to three months earlier, while nine states reported decline. North Dakota and Massachusetts reported the largest increases in economic activity among all states.

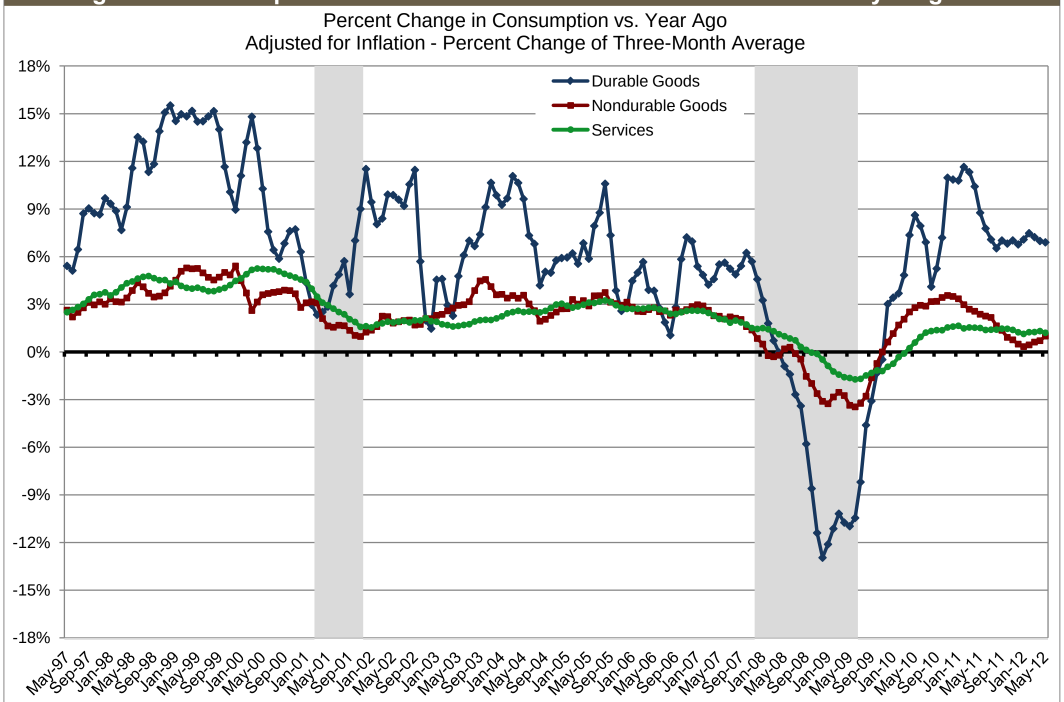
Figure 5 shows national consumption of durable goods, nondurable goods, and services — factors likely to be related to sales tax revenues. The decline in consumption of durable and nondurable goods during the recent downturn was much sharper than in the last recession. Consumption of nondurable goods as well as consumption of services remained relatively stagnant in the last few months. Growth in the consumption of durable goods softened in the last three months.

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 2012. 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.[6] As Figure 6 shows, the trend in housing prices has been downward since mid-2005, with steeply negative movement from the last quarter of 2004 through the end of 2008. While housing prices strengthened in 2009 and the first half of 2010, the direction of change has been downward since the second half of the 2010 — with the third and fourth quarters of 2011 showing some improvement from preceding quarters. In addition, housing price indexes nationwide showed growth at 0.5 percent in the first quarter of 2012. While such growth is modest, it is cautiously encouraging after 18 consecutive quarter declines. However, the states in the West continue to see large declines in the housing price index.

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 2012 quarter, enacted tax increases and decreases produced an estimated net loss of $175 million compared to the same period in 2011.[7] Enacted tax changes increased personal income tax for approximately $278 million, decreased sales tax by $177 million, decreased corporate income taxes by $623 million, and increased some other taxes by $306 million.

Figure 5. Consumption of Nondurable Goods and Services Is Relatively Stagnant



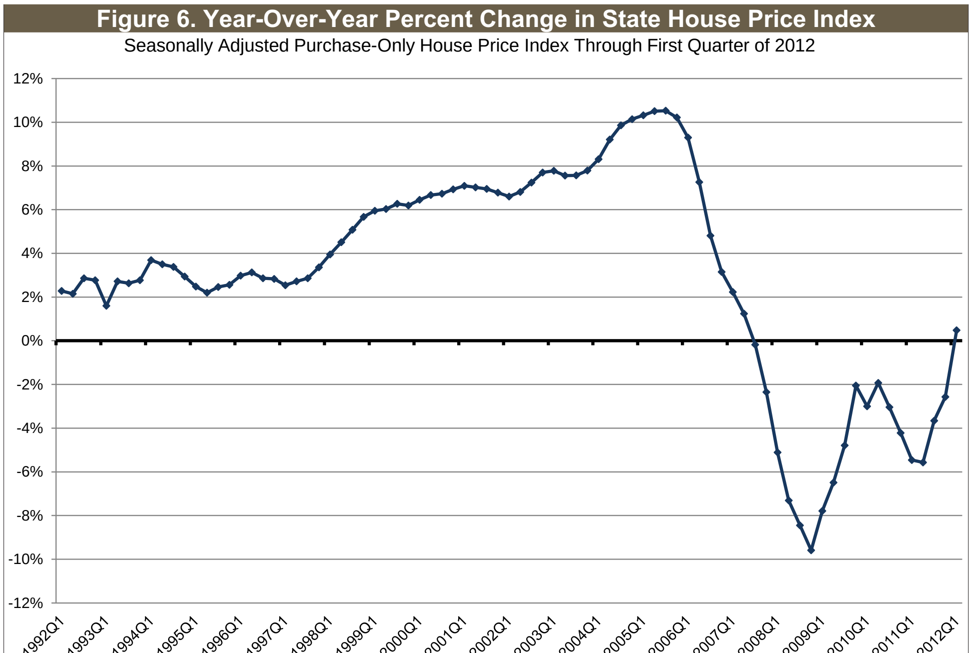
Source: U. S. Bureau of Economic Analysis , National Income and Product Accounts, Table 2.8.6.

Five states enacted sales tax reductions in their fiscal 2012 budgets, 14 states in personal income taxes, 13 states in corporate income taxes, and 9 states in other taxes. In contrast, 8 states enacted sales tax increases, 3 states in personal income taxes, 4 states in corporate income taxes, and 9 states in other taxes. Among the enacted tax changes, the most noticeable ones are the expiration of temporary sales tax in North Carolina, the increased sales tax in Connecticut, and the personal and corporate income tax changes in Connecticut and Michigan.[8]

The Impact of Two Major Taxes

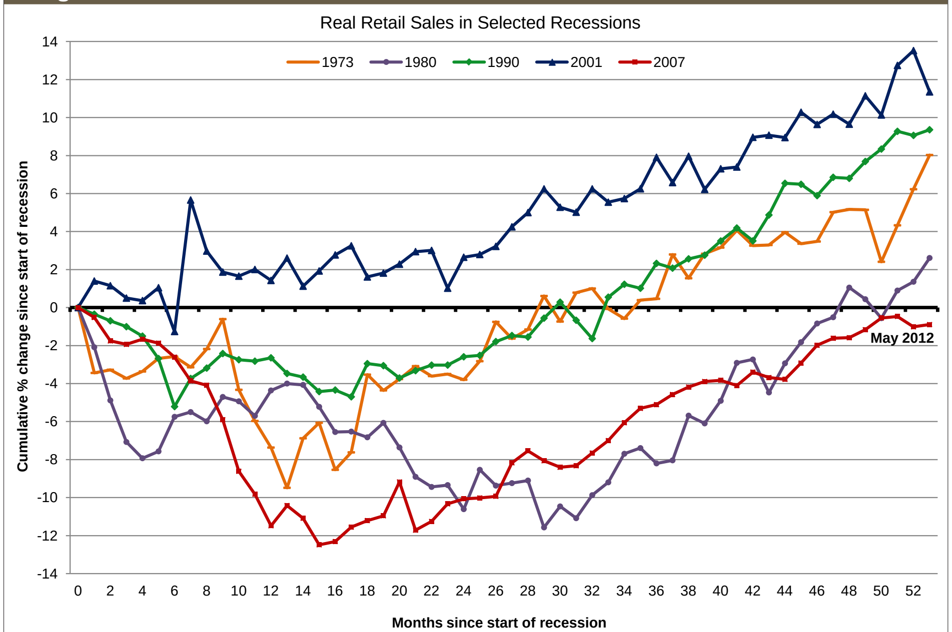
States rely on the sales tax for about 30 percent of their tax revenue, and it was hit far harder during and after the last recession than in previous recessions. Retail sales and consumption are major drivers of sales taxes. Figure 7 shows the cumulative percentage change in inflation-adjusted retail sales in the 53 months following the start of each recession from 1973 forward.[9] 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 prerecession peak. This

Figure 6. Year-Over-Year Percent Change in State House Price Index



Source: U.S. Federal Housing Finance Agency.

Figure 7. Real Retail Sales Have Stabilized But Are Still About 1% Below Peak

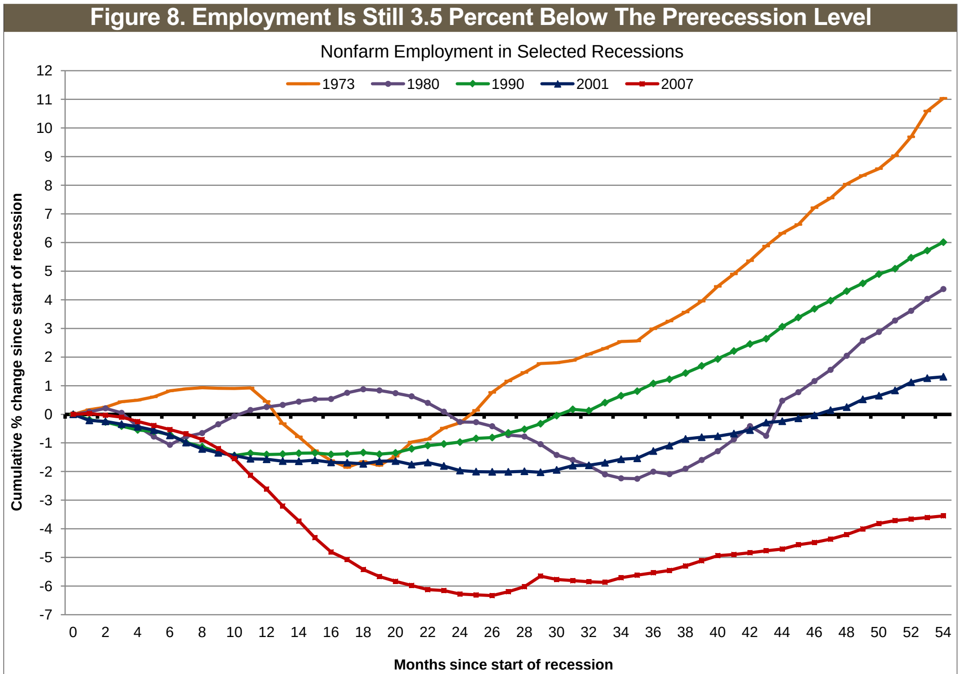


Sources: Cleveland Federal Reserve Bank (pre-1990 retail sales), Census Bureau (1990+), and Bureau of Labor Statistics (CPI).

was deeper than in most recessions, although the declines in the 1973 and 1980 recessions were also quite sharp. While real retail sales have been rising from their lows for more than two years now, they are still about 1 percent below their prerecession peak.

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 50 months following the start of each recession from 1973 forward.[10] The last point for the 2007 recession is June 2012, month 54. As the graph shows, the 3.5 percent employment drop as of June 2012 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 may take several years before employment attains its prerecession peak.

Figure 8. Employment Is Still 3.5 Percent Below The Prerecession Level



Source: Bureau of Labor Statistics, Current Employment Statistics .

Looking Ahead

Through the first three quarters of fiscal 2012, states collected $555.4 billion in total tax revenues, a gain of 4.6 percent from $530.9 billion in the same period of fiscal 2011, according to Census data (see Tables 8 and 9). That fiscal 2012 figure is about 3.5 percent above the levels reported in the first three quarters of fiscal 2008. The personal income tax and sales tax both showed growth at 6.1 and 4.2 percent, respectively, in the first three quarters of fiscal 2012 compared to the same period of 2011, while

Table 6. State Tax Revenue, January-March, 2011 and 2012 ($ in millions)

	January-March 2011				January-March 2012			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**59,266**	**9,138**	**57,834**	**181,632**	**62,062**	**9,397**	**60,370**	**190,176**
New England	**4,509**	**1,026**	**2,523**	**11,041**	**4,757**	**1,033**	**2,728**	**11,443**
Connecticut	1,506	193	832	3,325	1,687	213	947	3,604
Maine	259	45	233	758	247	48	245	764
Massachusetts	2,454	607	1,178	5,105	2,506	581	1,243	5,196
New Hampshire	15	100	NA	825	15	114	NA	811
Rhode Island	186	61	193	619	202	54	202	639
Vermont	87	20	87	409	99	22	92	429
Mid-Atlantic	**17,993**	**2,182**	**7,714**	**39,255**	**18,028**	**2,591**	**8,042**	**40,261**
Delaware	221	55	NA	730	411	65	NA	956
Maryland	1,067	193	945	3,041	1,119	229	1,014	3,417
New Jersey	2,518	258	1,758	6,047	2,696	356	1,904	6,433
New York	11,778	1,321	2,917	19,934	11,450	1,542	2,908	19,561
Pennsylvania	2,409	355	2,094	9,503	2,352	399	2,216	9,894
Great Lakes	**7,975**	**1,369**	**8,338**	**25,059**	**9,905**	**1,173**	**8,858**	**28,374**
Illinois	3,502	766	1,757	8,065	4,942	669	1,926	9,662
Indiana	986	41	1,592	3,432	1,005	34	1,655	3,472
Michigan	505	182	2,165	3,974	1,030	137	2,270	5,958
Ohio	1,909	145	1,864	6,458	1,891	86	1,997	6,163
Wisconsin	1,072	236	960	3,130	1,037	247	1,010	3,119
Plains	**4,054**	**502**	**3,750**	**11,993**	**3,936**	**540**	**4,093**	**12,817**
Iowa	620	57	546	1,726	618	93	570	1,792
Kansas	497	36	652	1,553	287	51	700	1,420
Minnesota	1,598	283	1,096	4,273	1,593	275	1,165	4,356
Missouri	892	43	729	2,242	971	7	793	2,380
Nebraska	339	51	335	905	375	67	370	1,032
North Dakota	108	26	200	959	93	34	289	1,464
South Dakota	NA	5	194	335	NA	13	206	374
Southeast	**8,607**	**1,470**	**14,222**	**35,332**	**9,050**	**1,893**	**14,962**	**37,232**
Alabama	679	53	527	2,092	696	99	563	2,268
Arkansas	438	79	662	1,647	438	89	693	1,674
Florida	NA	346	4,745	8,320	NA	425	5,107	8,731
Georgia	1,439	217	1,253	3,473	1,540	136	1,311	3,560
Kentucky	693	68	706	2,329	697	343	757	2,760
Louisiana	466	(57)	699	1,835	443	(57)	741	1,873
Mississippi	175	148	721	1,524	200	187	763	1,687
North Carolina	2,202	144	1,507	5,172	2,278	196	1,367	5,219
South Carolina	206	91	660	1,337	243	60	702	1,444
Tennessee	20	175	1,622	2,662	19	256	1,756	2,865
Virginia	1,961	118	829	3,697	2,113	150	873	3,925
West Virginia	330	89	291	1,246	384	7	329	1,227
Southwest	**876**	**253**	**7,687**	**15,707**	**1,113**	**286**	**8,259**	**16,953**
Arizona	257	84	1,449	2,805	424	111	1,199	2,459
New Mexico	171	62	477	1,171	184	63	513	1,256
Oklahoma	448	108	530	1,756	506	112	608	1,928
Texas	NA	NA	5,230	9,975	NA	NA	5,939	11,310
Rocky Mountain	**1,770**	**139**	**1,542**	**4,981**	**1,889**	**131**	**1,538**	**5,166**
Colorado	956	59	552	2,028	1,018	51	576	2,105
Idaho	226	37	306	746	221	30	295	737
Montana	139	16	NA	479	159	3	NA	481
Utah	449	27	470	1,202	491	47	476	1,322
Wyoming	NA	NA	215	526	NA	NA	192	520
Far West	**13,483**	**2,197**	**12,057**	**38,265**	**13,385**	**1,749**	**11,888**	**37,930**
Alaska	NA	57	NA	1,188	NA	21	NA	1,773
California	12,045	2,063	8,234	28,160	11,978	1,624	7,892	27,078
Hawaii	285	3	653	1,204	272	40	711	1,338
Nevada	NA	NA	690	1,578	NA	NA	675	1,494
Oregon	1,152	73	NA	1,752	1,134	64	NA	1,703
Washington	NA	NA	2,480	4,383	NA	NA	2,610	4,543

Source: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue.

Table 7.Quarterly Tax Revenue by Major Tax
January-March, 2011 to 2012, Percent Change

	PIT	CIT	Sales	Total
United States	**4.7**	**2.8**	**4.4**	**4.7**
New England	**5.5**	**0.7**	**8.2**	**3.6**
Connecticut	12.0	10.2	13.9	8.4
Maine	(4.8)	6.6	5.0	0.8
Massachusetts	2.1	(4.2)	5.5	1.8
New Hampshire	(1.6)	14.3	NA	(1.6)
Rhode Island	8.7	(10.2)	4.7	3.1
Vermont	13.9	7.9	5.7	5.1
Mid-Atlantic	**0.2**	**18.8**	**4.2**	**2.6**
Delaware	85.8	19.0	NA	30.9
Maryland	4.8	18.4	7.3	12.4
New Jersey	7.1	38.2	8.3	6.4
New York	(2.8)	16.8	(0.3)	(1.9)
Pennsylvania	(2.4)	12.2	5.8	4.1
Great Lakes	**24.2**	**(14.3)**	**6.2**	**13.2**
Illinois	41.1	(12.7)	9.6	19.8
Indiana	1.9	(15.7)	4.0	1.2
Michigan	103.9	(24.6)	4.8	49.9
Ohio	(1.0)	(40.5)	7.2	(4.6)
Wisconsin	(3.2)	4.7	5.2	(0.4)
Plains	**(2.9)**	**7.6**	**9.1**	**6.9**
Iowa	(0.4)	62.8	4.5	3.9
Kansas	(42.4)	39.0	7.4	(8.6)
Minnesota	(0.3)	(2.9)	6.3	1.9
Missouri	8.8	(82.7)	8.8	6.1
Nebraska	10.7	31.9	10.6	13.9
North Dakota	(13.8)	29.9	44.3	52.6
South Dakota	NA	155.7	6.4	11.6
Southeast	**5.1**	**28.8**	**5.2**	**5.4**
Alabama	2.5	88.9	6.7	8.4
Arkansas	0.0	12.7	4.6	1.6
Florida	NA	22.9	7.6	4.9
Georgia	7.0	(37.0)	4.6	2.5
Kentucky	0.5	407.6	7.2	18.5
Louisiana	(4.9)	(0.7)	6.1	2.1
Mississippi	14.6	26.2	5.8	10.7
North Carolina	3.4	36.0	(9.3)	0.9
South Carolina	18.1	(34.1)	6.4	8.0
Tennessee	(5.2)	46.5	8.3	7.6
Virginia	7.7	27.1	5.3	6.2
West Virginia	16.6	(92.0)	13.1	(1.5)
Southwest	**27.1**	**13.1**	**7.4**	**7.9**
Arizona	64.7	33.3	(17.2)	(12.4)
New Mexico	7.5	1.3	7.6	7.3
Oklahoma	12.9	4.2	14.6	9.8
Texas	NA	NA	13.5	13.4
Rocky Mountain	**6.7**	**(5.9)**	**(0.3)**	**3.7**
Colorado	6.5	(13.6)	4.4	3.8
Idaho	(2.3)	(18.2)	(3.8)	(1.1)
Montana	14.5	(80.2)	NA	0.6
Utah	9.4	70.2	1.3	10.0
Wyoming	NA	NA	(10.5)	(1.1)
Far West	**(0.7)**	**(20.4)**	**(1.4)**	**(0.9)**
Alaska	NA	(63.6)	NA	49.3
California	(0.6)	(21.3)	(4.2)	(3.8)
Hawaii	(4.6)	1045.8	8.9	11.1
Nevada	NA	NA	(2.1)	(5.3)
Oregon	(1.6)	(12.0)	NA	(2.8)
Washington	NA	NA	5.2	3.7

Source: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue.

corporate income tax declined by 1.9 percent. All regions, except the Far West, reported growth in overall tax collections in the first three quarters of fiscal 2012.

Preliminary data for the April-May months of 2012 suggest that tax conditions continued to improve in the second quarter of 2012. With early data for April-May 2012 now available for 46 states, tax revenue increased by 5.8 percent compared to the same months of the previous year. According to the preliminary data, personal income tax collections grew by 5.8 percent and sales tax collections by 2.8 percent.

Starting at the end of the calendar 2008 and extending through 2009, states suffered five straight quarters of decline in tax revenues. They now have enjoyed nine consecutive periods of growth, and the second quarter of 2012 will most likely extent the string to ten. Overall, tax revenues across the states are improving, while states continue to face significant fiscal challenges.

Analysis of economic factors suggest that state tax revenues are recovering in step with an improving national economy. However, state fiscal conditions are improving at a very slow pace driven by the slow recovery of employment, real retail sales, and housing prices. Overall, state tax revenues are now above the prerecession and peak levels in nominal terms.

There are large and growing differences in the recovery of different types of taxes. For example, the recovery of personal income taxes has been more robust than the recovery of sales taxes. Preliminary figures for the first three quarters of fiscal 2012 indicate that personal income tax collections are 2.9 percent above compared to the same period of fiscal 2008. In contrast, sales tax collections are still 0.3 percent below the peak level recorded in the first three quarters of fiscal 2008.

The slow recovery in sales tax collections is partially attributable to weak consumer confidence and conservative discretionary spending. In addition, there is a growing divergence between the trends in state and local government tax revenue collections, driven by the differences in tax bases and the impact of the Great Recession on these tax bases. State tax revenue collections have been slowly but steadily recovering in the last two years, while fiscal pressures have been continuously mounting for the local governments and the depressed housing prices are now causing declines in local property taxes. Local property tax revenues will likely continue to decline in the coming quarters caused by the lagged response to falling house prices. In addition, many state governments have been cutting aid to localities.

Table 8. State Tax Revenue, FYTD 2011 and FYTD 2012 ($ in millions)

	July 2010-March 2011				July 2011-March 2012			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**177,673**	**26,371**	**172,041**	**530,878**	**188,521**	**25,862**	**177,031**	**555,403**
New England	**13,449**	**2,464**	**7,297**	**30,970**	**14,395**	**2,420**	**7,796**	**32,291**
Connecticut	3,700	346	2,109	8,190	4,297	401	2,395	9,060
Maine	916	144	683	2,436	931	157	718	2,500
Massachusetts	7,748	1,439	3,644	15,400	8,014	1,359	3,784	15,707
New Hampshire	36	363	NA	1,694	32	353	NA	1,637
Rhode Island	693	97	613	1,929	737	84	637	2,018
Vermont	355	75	248	1,322	384	65	262	1,369
Mid-Atlantic	**46,109**	**6,203**	**23,515**	**102,547**	**46,823**	**6,411**	**23,607**	**106,062**
Delaware	685	165	NA	1,991	936	153	NA	2,340
Maryland	4,279	480	2,547	10,700	4,442	548	2,674	11,368
New Jersey	6,892	1,180	5,728	17,813	6,822	1,242	5,191	17,214
New York	27,525	3,245	8,799	48,783	27,798	3,396	8,931	51,178
Pennsylvania	6,728	1,133	6,441	23,260	6,825	1,072	6,810	23,963
Great Lakes	**25,154**	**3,798**	**25,516**	**78,185**	**31,125**	**3,506**	**27,378**	**86,919**
Illinois	7,813	2,251	5,532	22,443	12,528	1,800	6,002	27,276
Indiana	2,991	350	4,659	10,257	3,203	475	4,918	10,835
Michigan	4,322	456	6,848	17,323	5,093	514	7,535	20,214
Ohio	5,871	141	5,782	18,114	6,095	92	6,113	18,362
Wisconsin	4,157	601	2,696	10,048	4,206	625	2,809	10,232
Plains	**13,148**	**1,386**	**11,134**	**36,352**	**13,682**	**1,544**	**12,090**	**39,638**
Iowa	1,866	109	1,517	4,799	1,935	205	1,567	5,046
Kansas	1,746	177	1,835	4,748	1,627	169	2,105	4,895
Minnesota	5,036	762	3,375	13,264	5,342	762	3,540	14,267
Missouri	3,120	138	2,211	7,202	3,288	102	2,310	7,403
Nebraska	1,131	95	1,014	2,779	1,227	158	1,085	3,072
North Dakota	248	96	575	2,529	264	102	829	3,800
South Dakota	NA	10	608	1,033	NA	47	654	1,154
Southeast	**30,735**	**4,918**	**41,718**	**109,705**	**32,392**	**5,197**	**43,003**	**113,484**
Alabama	2,043	282	1,606	6,358	2,111	245	1,673	6,509
Arkansas	1,562	243	2,068	5,706	1,629	262	2,102	5,872
Florida	NA	1,185	13,536	23,766	NA	1,244	14,263	24,605
Georgia	5,560	487	3,739	11,568	5,940	360	3,827	11,839
Kentucky	2,368	291	2,156	7,390	2,426	617	2,268	7,884
Louisiana	1,708	36	2,106	6,070	1,721	(27)	2,167	6,089
Mississippi	867	266	2,045	4,511	925	314	2,120	4,796
North Carolina	7,172	631	4,615	16,123	7,533	701	4,186	16,301
South Carolina	1,589	133	1,798	4,803	1,709	139	1,883	5,004
Tennessee	32	614	4,801	7,738	26	704	5,127	8,310
Virginia	6,788	447	2,375	11,965	7,210	473	2,438	12,449
West Virginia	1,047	302	872	3,706	1,163	167	949	3,827
Southwest	**4,074**	**693**	**22,791**	**46,499**	**4,634**	**825**	**23,982**	**49,985**
Arizona	1,852	325	4,123	8,756	2,156	437	3,477	8,256
New Mexico	547	147	1,451	3,282	586	119	1,164	3,002
Oklahoma	1,676	221	1,616	5,464	1,892	269	1,784	6,113
Texas	NA	NA	15,601	28,997	NA	NA	17,557	32,614
Rocky Mountain	**5,932**	**497**	**4,574**	**15,547**	**6,271**	**567**	**4,579**	**16,110**
Colorado	3,123	218	1,633	6,388	3,271	252	1,711	6,704
Idaho	779	97	903	2,303	803	109	919	2,348
Montana	523	60	NA	1,492	594	74	NA	1,623
Utah	1,507	122	1,383	3,816	1,603	132	1,374	4,028
Wyoming	NA	NA	654	1,548	NA	NA	575	1,407
Far West	**39,073**	**6,412**	**35,497**	**111,074**	**39,198**	**5,392**	**34,595**	**110,912**
Alaska	NA	374	NA	2,865	NA	349	NA	4,753
California	34,521	5,721	24,413	83,191	34,179	4,751	22,907	79,715
Hawaii	829	22	1,843	3,439	1,030	32	1,994	3,883
Nevada	NA	NA	1,566	3,527	NA	NA	1,788	3,618
Oregon	3,723	294	NA	5,353	3,989	259	NA	5,845
Washington	NA	NA	7,675	12,699	NA	NA	7,907	13,098

Source: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue.

Table 9. FYTD Tax Revenue by Major Tax

FYTD 2011 vs. FYTD 2012, Percent Change

	PIT	CIT	Sales	Total
United States	**6.1**	**(1.9)**	**2.9**	**4.6**
New England	**7.0**	**(1.8)**	**6.9**	**4.3**
Connecticut	16.1	16.1	13.6	10.6
Maine	1.6	9.2	5.1	2.6
Massachusetts	3.4	(5.6)	3.8	2.0
New Hampshire	(11.1)	(2.6)	NA	(3.4)
Rhode Island	6.4	(13.7)	4.0	4.6
Vermont	8.1	(13.1)	5.7	3.6
Mid-Atlantic	**1.5**	**3.4**	**0.4**	**3.4**
Delaware	36.7	(6.9)	NA	17.5
Maryland	3.8	14.2	5.0	6.2
New Jersey	(1.0)	5.2	(9.4)	(3.4)
New York	1.0	4.6	1.5	4.9
Pennsylvania	1.4	(5.4)	5.7	3.0
Great Lakes	**23.7**	**(7.7)**	**7.3**	**11.2**
Illinois	60.4	(20.0)	8.5	21.5
Indiana	7.1	36.0	5.6	5.6
Michigan	17.8	12.6	10.0	16.7
Ohio	3.8	(34.5)	5.7	1.4
Wisconsin	1.2	4.0	4.2	1.8
Plains	**4.1**	**11.4**	**8.6**	**9.0**
Iowa	3.7	87.7	3.3	5.2
Kansas	(6.8)	(4.3)	14.7	3.1
Minnesota	6.1	0.0	4.9	7.6
Missouri	5.4	(25.9)	4.5	2.8
Nebraska	8.4	66.9	7.0	10.6
North Dakota	6.6	5.8	44.3	50.3
South Dakota	NA	349.3	7.6	11.8
Southeast	**5.4**	**5.7**	**3.1**	**3.4**
Alabama	3.4	(13.3)	4.2	2.4
Arkansas	4.3	7.6	1.6	2.9
Florida	NA	4.9	5.4	3.5
Georgia	6.8	(26.1)	2.4	2.3
Kentucky	2.5	111.8	5.2	6.7
Louisiana	0.7	(174.9)	2.9	0.3
Mississippi	6.7	18.2	3.7	6.3
North Carolina	5.0	11.0	(9.3)	1.1
South Carolina	7.6	4.1	4.7	4.2
Tennessee	(17.7)	14.7	6.8	7.4
Virginia	6.2	5.9	2.7	4.0
West Virginia	11.0	(44.8)	8.9	3.3
Southwest	**13.7**	**19.0**	**5.2**	**7.5**
Arizona	16.4	34.8	(15.7)	(5.7)
New Mexico	7.1	(19.6)	(19.8)	(8.5)
Oklahoma	12.9	21.4	10.4	11.9
Texas	NA	NA	12.5	12.5
Rocky Mountain	**5.7**	**14.1**	**0.1**	**3.6**
Colorado	4.8	15.9	4.8	4.9
Idaho	3.1	12.2	1.8	1.9
Montana	13.5	24.1	NA	8.8
Utah	6.4	7.5	(0.7)	5.6
Wyoming	NA	NA	(12.2)	(9.1)
Far West	**0.3**	**(15.9)**	**(2.5)**	**(0.1)**
Alaska	NA	(6.5)	NA	65.9
California	(1.0)	(17.0)	(6.2)	(4.2)
Hawaii	24.3	44.9	8.2	12.9
Nevada	NA	NA	14.2	2.6
Oregon	7.1	(11.8)	NA	9.2
Washington	NA	NA	3.0	3.1

Source: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue.

Adjustments to Census Bureau Tax Collection Data

The numbers in this report differ somewhat from those released by the Bureau of the Census at the end of June 2012. 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 4.7 percent in the first quarter, compared with the 4.5 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 in April and May in 46 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 and payments of estimated income tax, both 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, so when we do a full quarterly report we use the Census data without adjustment. But in the January-March quarter there were enough large differences for some states that we decided to adjust the Census data. Table 10 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 7, 2012; (2) preliminary figures as reported by the Census Bureau; and (3) the Census Bureau's preliminary figures with selected adjustments by the Rockefeller Institute.

Table 10. RIG vs. Census Bureau Quarterly Tax Revenue By Major Tax January-March, 2011 to 2012, Percent Change

January-March, 2011 to 2012, Percent Change

	PIT	CIT	Sales	Total
RIG Data Alert	3.2	2.2	5.0	4.1
Census Bureau Preliminary	5.0	(0.3)	4.3	4.5
Census Bureau Preliminary with RIG Adjustments	4.7	2.8	4.4	4.7

The last set of numbers with our adjustments is what we use as the basis for this report. We make such adjustments for six states: Alaska, Arizona, Hawaii, Minnesota, Rhode Island, and Wisconsin. For five of these six 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. In addition, we revised preliminary data reported by the Census Bureau for Arizona's corporate income tax collections in the first quarter of 2011 based on information obtained from the state.

Endnotes

1 We made adjustments to Census Bureau data for the first quarter of 2012 for five states — Alaska, Hawaii, Minnesota, Rhode Island, and Wisconsin — based upon data and information provided to us directly by these states. In addition, we made adjustments to Arizona's corporate income tax numbers for the first quarter of 2011. These revisions together account for some noticeable differences between the Census Bureau figures and the Rockefeller Institute estimates.

2 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 .

3 Preliminary figures for April-May 2012 are not available for the following four states: Hawaii, Minnesota, New Mexico, and South Dakota. Total tax collections for these five states combined represent about 4-5 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 50 states for the months of April and May 2012.

4 See Bureau of Economic Analysis, National Income and Products Accounts Table (Table 1.1.11).

5 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 (2005): 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); and James H. Stock and Mark W. Watson. "New Indexes of Coincident and Leading Economic Indicators," *NBER Macroeconomics Annual* 4 (1989): 351-94. The data and several papers are available at www.philadelphiafed.org/econ/indexes/coincident.

6 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: Rockefeller Institute of Government, July 2012).

7 Rockefeller Institute analysis of data from the National Association of State Budget Officers and from reports in several individual states.

8 See "The Fiscal Survey of the States" (Washington, DC: National Governors Association and National Association of State Budget Officers, Fall 2011), http://www.nga.org/files/live/sites/NGA/files/pdf/FSS1111.PDF.

9 This treats the 1980-82 "double-dip" recession as a single long recession.

10 This also treats the 1980-82 "double-dip" recession as a single long recession.

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 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others.

This report was researched and written by Lucy Dadayan, senior policy analyst. Thomas Gais, director of the Institute provided valuable feedback on the report. Michael Cooper, the Rockefeller Institute's director of publications, did the layout and design of this report, with assistance from Michele Charbonneau.

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