THE NELSON A. ROCKEFELLER INSTITUTE OF GOVERNMENT
UNIVERSITY AT ALBANY
State University of New York

HIGHLIGHTS

- State tax revenues grew by 3.2 percent in the second quarter of 2012, according to Rockefeller Institute research and Census Bureau data. This is the tenth consecutive quarter that states reported growth in collections on a year-over-year basis.
- Total state tax revenues in the second quarter of 2012 were 2 percent lower than the peak levels reported in 2008. After adjusting for inflation, state tax revenues were 7.7 percent lower than in the same quarter of four years ago, in 2008.
- In 24 states, total tax collections were lower than in the same quarter of 2008. Ten of the 24 states reporting declines were located in Rocky Mountain and the Southeast.
- For the year ending in June 2012, the period corresponding to 46 states' fiscal years, total state tax collections increased by $31.8 billion or 4.2 percent from the previous year.
- Preliminary figures for July and August 2012 indicate further growth in state tax revenues. Overall collections in 44 early-reporting states showed growth of 8.7 percent compared to the same months of 2011. However, September is the most important month in the quarter and these early results may not reflect the full quarter.

STATE REVENUE REPORT

WWW.ROCKINST.ORG OCTOBER 2012, No. 89

Sales Tax Revenues Show Slowest Growth in the Last Two Years

Seven States Reported Declines in Overall Tax Revenues in the Second Quarter of 2012

Lucy Dadayan and Donald J. Boyd

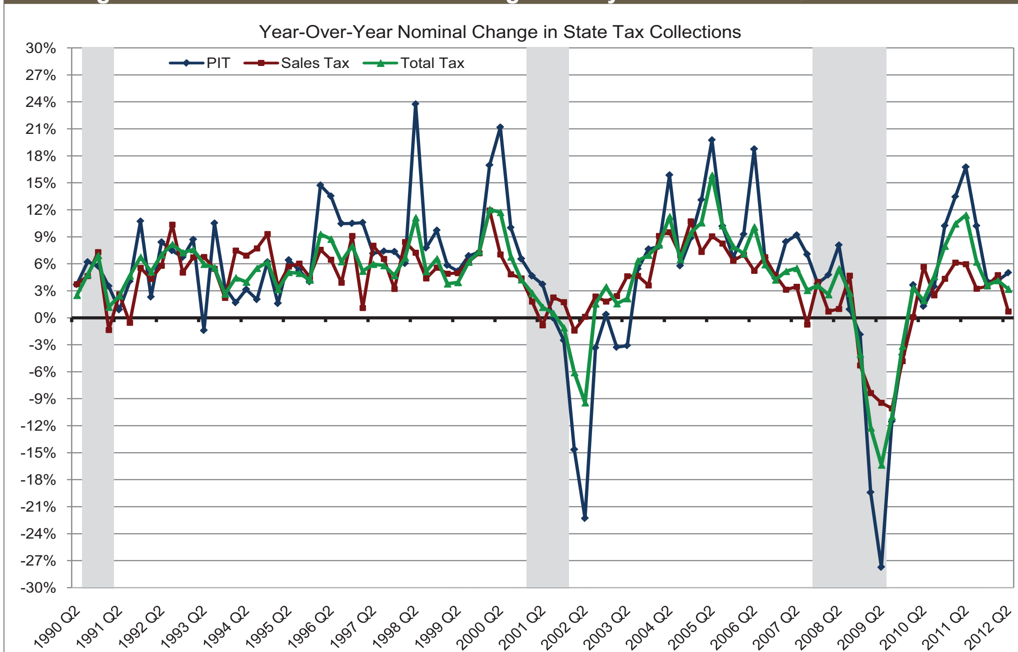
Overall State Taxes and Local Taxes

Total state tax collections grew for the tenth consecutive quarter in April-June 2012. Overall state tax revenues increased by 3.2 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 September 2012 by the Census Bureau, which reported an overall increase of 1.8 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 21.[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 second quarter of 2012. However, the growth in sales tax collections and total tax collections was considerably softer than in the previous quarters. Personal income tax collections increased by 5 percent and sales tax collections rose by 0.7 percent.

April-June is usually the strongest revenue collections quarter due to the April 15 deadline for personal income returns. As reported before, nominal tax revenue collections surpassed the recessionary peaks in the last quarter of 2011 and first quarter of 2012. However, that was not the case in the second quarter of 2012. After ten straight quarter increases, total state tax collections in the second quarter of 2012 were below the peak levels in most states. State tax revenues were 2 percent lower in the second quarter of 2012 than in the same quarter of 2008. In the second quarter of 2012, 24 states reported lower tax revenue collections than in the same quarter of 2008. However, if we adjust the numbers for inflation, nationwide tax receipts show a 7.7 percent decline in the second quarter of 2012 compared to the same quarter of 2008.

Figure 1. Sales Tax Growth Softened Significantly in the Second Quarter of 2012



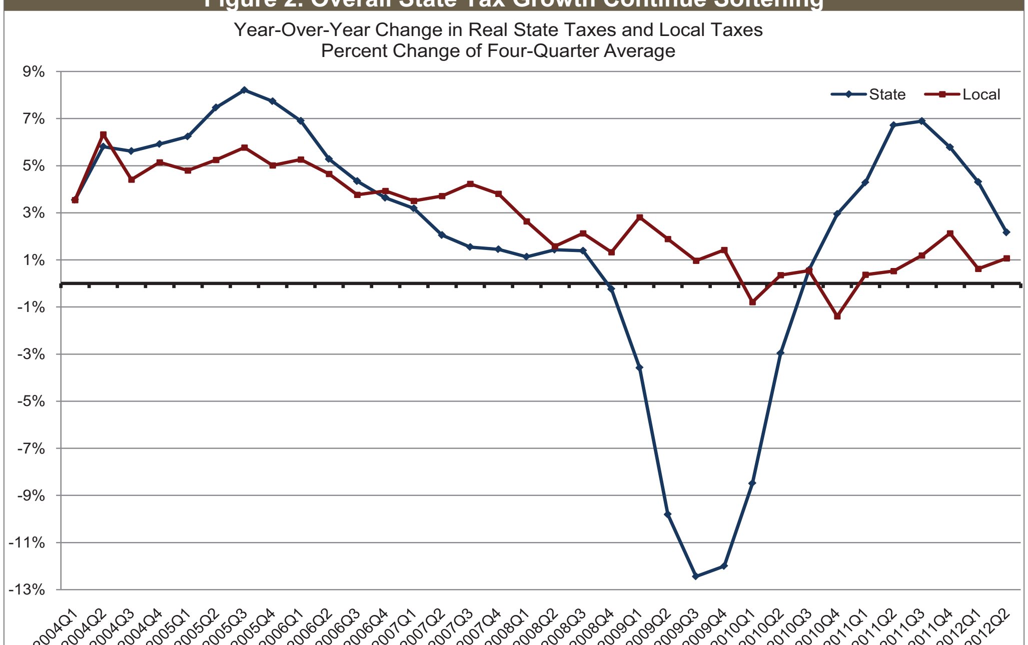
Sources: U.S. Census Bureau, Quarterly Summary of State & Local Government Tax Revenue.
Notes: Data for the most recent quarter reflect adjustments by the Rockefeller Institute to include information released after initial publication.

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 2.2 percent over the last four quarters. This represents considerable softening from the 6.7 percent average growth of a year ago, but a substantial improvement from the 3 percent average decline of two years ago.

Overall, the growth in state tax collections has been softening in the last four quarters, while local tax collections have been relatively stagnant in the last two quarters. Local taxes grew in real, year-over-year terms — by an average of 1.1 percent over the last four quarters, only a slight improvement over the 0.5 percent growth of the preceding year. Inflation over the year, as measured by the Gross Domestic Product deflator, was 1.7 percent.

Local tax collections have been relatively weak by historical standards over the last three

Figure 2. Overall State Tax Growth Continue Softening



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.

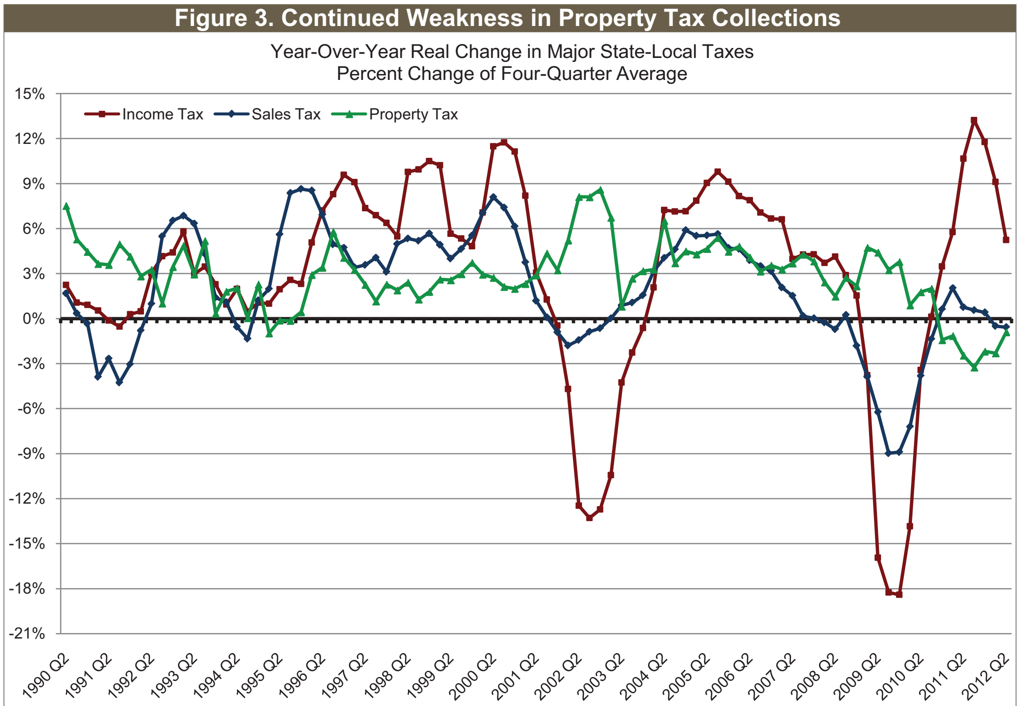
years due in part to the lagged impact of falling housing prices on property tax collections. For the quarter ending in June, the 1.1 percent growth in the four-quarter moving average of local tax collections is relatively weak compared to historical averages. The largest year-over-year growth in local tax collections in recent history was recorded in the 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 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 70.6 percent of such receipts during the second quarter of 2012. Local property tax revenues showed a growth of 6.2 percent in nominal terms in the second quarter of 2012 compared to the same quarter of 2011.

Sales taxes represented about 8.8 percent of local tax revenues in the second quarter of 2012. Local sales tax collections declined by 5.1 percent in the second quarter of 2012 in nominal terms. Collections from local individual income taxes, a much smaller contributor to overall local revenues, showed a growth of 5.4 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 eighth consecutive quarter, although the growth has been softening for the third consecutive quarter. On the other hand, the four-quarter average of year-over-year comparisons showed declines in state-local property taxes for the seventh consecutive quarter. State-local sales tax collections also showed some decline in the second quarter of 2012. The box "Where Do We Stand Now?" discusses the current state tax revenue situation relative to the start of the recession.

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.

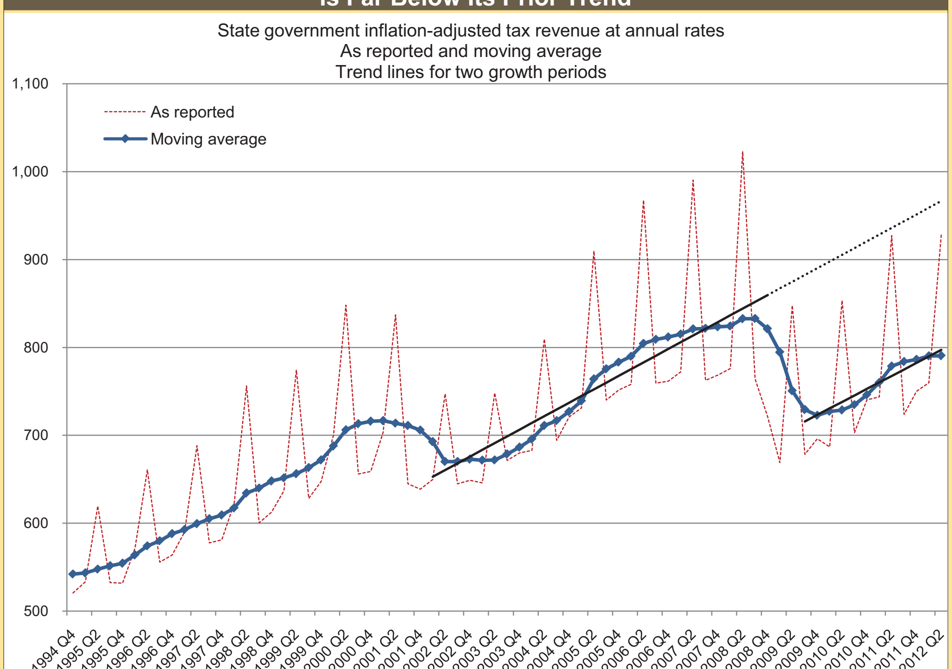
Where Do We Stand Now?

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

Figure 4 shows inflation-adjusted state tax revenue.[3] The dashed line shows reported data at annual rates. The solid line shows the rolling annual total, which has the effect of removing seasonal fluctuations.[4] The rolling annual total peaked at $832 billion in the third quarter of 2008, and then fell by $110 billion to its nadir of $723 billion in the fourth quarter of 2009. Revenue has grown continually since then, reaching $790 billion in the April-June quarter of 2012. However, this is $42 billion (about 5 percent) lower than the prior peak.

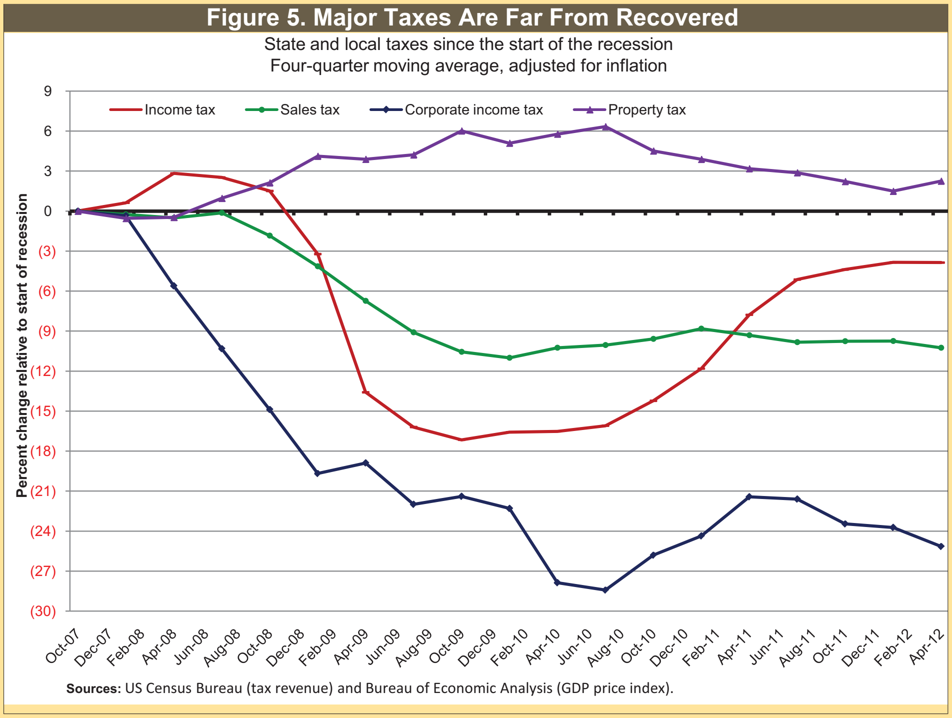
This understates the consequences of the slow recovery: If the economy had kept growing, revenue would have continued to grow, helping state governments meet growing spending pressures. One way to gain insight into this is to compare tax revenue with the path it used to be on. Figure 4 includes two trend lines (the straight thin lines): (1) the trend for the 2002 through 2008 growth period, with a dashed extension through the latest quarter, and (2) the trend from mid-2009 through the most recent quarter.[5]As the figure shows, inflation-adjusted tax revenue now is more than $100 billion below what its prior path might have suggested. This likely overstates the "revenue gap" states currently face — prior revenue trends were boosted artificially by frothing stock and real estate markets. Nonetheless, while revenue is now growing, it has not kept up with the pressures states face.

Figure 4. State Tax Revenue Remains Below Its Prior Peak and Is Far Below Its Prior Trend



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

Figure 5 shows how four major state and local taxes have fared since the start of the recession, adjusted for inflation. Income, sales, and corporate income taxes are used predominantly by state governments, and property taxes are used predominantly by local governments. The corporate income tax is by far the smallest of the taxes shown. Each line shows, in percentage terms, how far tax collections are above or below their level at the start of the recession.



States suffered dramatic declines in all major taxes. The personal income tax has recovered substantially from its lowest level but is still about four percent below where it was at the start of the recession. Its recovery is in part an artifact of large tax increases imposed in several states, particularly California, Illinois, and New York; without those increases it would look weaker still. The sales tax remains 10 percent below its level at the start of the recession. Consumer spending, particularly on taxable goods, has recovered very little. The corporate income tax fell sharply at the start of the recession and never looked back; fortunately, it is a relatively small share of tax collections in most states.

The property tax appears healthy by comparison. It continued to grow after the start of the recession. It has fallen by about 4 percentage points from its postrecession peak but remains above where it was when the recession began. While this is an accurate depiction of national trends, as we have discussed previously these trends vary enormously around the country, reflecting differences in property tax laws and procedures, and differences in economic conditions. Thus, in California, where Proposition 13 makes it difficult to raise tax rates, tax revenue has fallen significantly in response to large declines in property values. In some other states, local governments have raised tax rates significantly, stabilizing property tax revenue.[6] We expect to address these issues in more depth in future reports.

In sum, while state tax revenue is recovering, it remains well below where previous trends would have suggested. Furthermore, recent economic and revenue trends suggest tax revenue may weaken in coming months. While the worst may be behind states, they are not out of the woods.

State Tax Revenue

Total state tax revenue rose in the second quarter of 2012 by 3.2 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 5 and 0.7 percent, respectively, and the corporate income tax declined by 2.7 percent. Tables 1 and 2 portray growth in tax revenue with and without adjustment for inflation, and growth by major tax. Seven states reported declines in total tax revenue during the second quarter of 2012, while eight states reported double-digit increases in the second quarter. All regions but the Far West and Mid-Atlantic reported growth in total collections. The Plains region showed the largest gain at 10.8 percent, followed by the Southwest states at 10.7 percent. The Mid-Atlantic and Far West region showed decline of 2 and 1.6 percent, respectively. Revenue gains were once again particularly strong in North Dakota at 40.7 percent, mostly due to the booming oil and natural gas industries.

Preliminary figures collected by the Rockefeller Institute for the July-August months of 2012 indicate that revenues in most states continued to grow.[3] Overall collections in 44 early reporting states showed growth of 8.7 percent in the July-August months of 2012 compared to the same months of 2011.

Personal Income Tax

In the second quarter of 2012, personal income tax revenue made up at least a third of total tax revenue in 32 states, and was larger than the sales tax in 29 states. Personal income tax revenues rose for the tenth consecutive quarter, with 5 percent growth in the April-June 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 10.3 percent lower than in the second quarter of 2008.

All regions except for the Mid-Atlantic reported increases in personal income tax collections. The largest growth was in the Great Lakes and Rocky Mountain regions, where collections increased by 11.1 and 9.4 percent, respectively, in the second quarter of 2012. The Mid-Atlantic region reported decline in personal income tax collections at 0.6 percent, mostly attributable to New York, where collections declined by 3.1 percent.

The strong growth in Great Lakes is largely attributable to a single state of Illinois, where personal income tax collections grew by 25.5 percent, mostly driven by the legislated tax changes. On the other hand, the decline in the Mid-Atlantic region is mostly attributable to legislated income tax rate cuts in New York.

Overall, eight states reported declines in personal income tax collections; 35 states reported growth in personal income tax collections for the quarter with six states reporting double-digit increases. Illinois and Hawaii reported the largest increases at 25.5

Table 1. Quarterly State Tax Revenue

Adjusted for Inflation

Year-Over-Year Percent Change

Quarter	Total Nominal	Inflation Rate	Adjusted Real Change
2012 Q2	3.2	1.7	1.4
2012 Q1	4.1	2.0	2.1
2011 Q4	3.6	2.0	1.6
2011 Q3	6.2	2.4	3.7
2011 Q2	11.4	2.2	9.0
2011 Q1	10.4	2.0	8.3
2010 Q4	8.0	1.8	6.0
2010 Q3	4.6	1.6	2.9
2010 Q2	1.9	1.3	0.7
2010 Q1	3.3	0.6	2.6
2009 Q4	(3.1)	0.5	(3.6)
2009 Q3	(11.0)	0.3	(11.3)
2009 Q2	(16.3)	1.0	(17.1)
2009 Q1	(12.2)	1.8	(13.7)
2008 Q4	(4.0)	2.1	(6.0)
2008 Q3	2.8	2.5	0.3
2008 Q2	5.4	2.0	3.3
2008 Q1	2.6	2.1	0.5
2007 Q4	3.6	2.6	0.9
2007 Q3	3.1	2.6	0.4
2007 Q2	5.5	3.1	2.4
2007 Q1	5.2	3.3	1.8
2006 Q4	4.2	2.9	1.3
2006 Q3	5.9	3.2	2.6
2006 Q2	10.1	3.5	6.3
2006 Q1	7.1	3.3	3.7
2005 Q4	7.9	3.5	4.3
2005 Q3	10.2	3.4	6.6
2005 Q2	15.9	3.1	12.4
2005 Q1	10.6	3.3	7.1
2004 Q4	9.4	3.2	6.0
2004 Q3	6.5	3.0	3.4
2004 Q2	11.2	2.8	8.2
2004 Q1	8.1	2.2	5.7
2003 Q4	7.0	2.1	4.8
2003 Q3	6.3	2.1	4.1
2003 Q2	2.1	2.0	0.1
2003 Q1	1.6	2.2	(0.6)
2002 Q4	3.4	1.8	1.6
2002 Q3	1.6	1.5	0.0
2002 Q2	(9.4)	1.4	(10.7)
2002 Q1	(6.1)	1.7	(7.6)
2001 Q4	(1.1)	2.0	(3.0)
2001 Q3	0.5	2.2	(1.7)
2001 Q2	1.2	2.5	(1.3)
2001 Q1	2.7	2.3	0.4
2000 Q4	4.2	2.4	1.8
2000 Q3	6.8	2.3	4.4
2000 Q2	11.7	2.0	9.5
2000 Q1	12.0	2.0	9.9
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 (tax revenue) and Bureau of Economic Analysis (GDP price index).

Table 2. Quarterly State Tax Revenue By Major Tax

Year-Over-Year Percent Change

Quarter	PIT	CIT	General Sales	Total
2012 Q2	5.0	(2.7)	0.7	3.2
2012 Q1	4.1	0.2	4.8	4.1
2011 Q4	4.0	(8.8)	3.5	3.6
2011 Q3	10.2	0.6	3.2	6.2
2011 Q2	16.8	15.1	6.0	11.4
2011 Q1	13.5	5.9	6.1	10.4
2010 Q4	10.2	18.5	4.3	8.0
2010 Q3	3.4	0.5	2.5	4.6
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 (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	**6.7**	**3.5**	**4.4**	**4.9**
New England	**6.7**	**9.1**	**6.1**	**4.1**
Connecticut	10.6	28.1	12.0	6.9
Maine	1.3	5.7	(0.1)	3.0
Massachusetts	5.7	2.1	3.4	3.1
Rhode Island	2.9	0.1	11.5	3.4
Vermont	11.3	1.9	2.5	1.7
Mid-Atlantic	**3.4**	**2.3**	**(1.5)**	**2.0**
Delaware	5.1	2.9	1.8	4.3
Maryland	1.1	3.6	2.7	6.3
New Jersey	0.7	2.1	4.1	0.8
New York	4.9	1.7	(5.2)	(0.0)
Pennsylvania	3.6	2.8	4.1	3.6
Great Lakes	**19.6**	**17.0**	**9.7**	**7.0**
Illinois	67.0	64.5	22.7	3.3
Indiana	4.0	4.9	3.5	6.0
Michigan	3.2	1.6	8.1	11.3
Ohio	4.0	4.1	4.9	5.1
Wisconsin	5.9	(2.9)	(0.6)	11.9
Plains	**4.8**	**3.7**	**4.5**	**7.5**
Iowa	3.1	3.5	2.7	6.3
Kansas	5.4	4.2	6.5	8.9
Minnesota	6.4	4.1	5.1	ND
Missouri	2.4	2.5	3.3	7.5
Nebraska	5.0	3.8	6.0	7.3
North Dakota	19.9	13.0	3.9	7.2
Southeast	**4.4**	**1.7**	**4.4**	**5.3**
Alabama	1.1	1.1	2.1	5.4
Arkansas	3.8	4.3	3.2	4.7
Georgia	4.0	(0.9)	6.5	4.5
Kentucky	5.1	4.1	3.6	8.7
Louisiana	4.4	(1.8)	(0.0)	5.8
Mississippi	3.0	3.5	5.2	5.8
North Carolina	5.3	2.4	4.7	4.0
South Carolina	4.8	2.0	4.1	2.7
Virginia	4.0	2.1	4.0	6.7
West Virginia	8.5	7.4	7.9	8.0
Southwest	**6.4**	**4.4**	**4.6**	**3.3**
Arizona	5.2	1.9	2.6	4.0
New Mexico	5.2	(0.3)	5.0	0.9
Oklahoma	8.5	10.1	7.0	3.5
Rocky Mountain	**5.2**	**(0.6)**	**7.1**	**6.2**
Colorado	4.0	(0.9)	7.1	5.4
Idaho	3.5	3.6	(1.0)	4.3
Montana	4.3	6.1	9.4	9.4
Utah	8.9	(4.3)	10.9	7.5
Far West	**4.6**	**(4.3)**	**7.6**	**5.8**
California	4.2	(5.9)	7.8	6.2
Hawaii	5.2	3.7	3.4	(0.4)
Oregon	7.8	7.6	6.8	4.2

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.
ND = No data

and 22.7 percent, respectively. As mentioned above, the gain in Illinois is mostly attributable to legislated tax changes, where the personal income tax rate increased from 3 percent to 5 percent. In Illinois personal income tax collections grew by $1.1 billion, which is the largest gain nationwide. If we exclude Illinois, personal income tax collections show a growth of 3.9 percent only for the nation in the second 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 tenth quarter in a row, increasing by 4.9 percent for the 40 states with broad-based personal income taxes and for which we have preliminary data.

Thirty-eight states reported growth in withholding for the second quarter of 2012, with two states showing double-digit growth. Among individual states, Wisconsin reported the strongest growth in the second quarter of 2012, at 11.9 percent. The Plains and Great Lakes regions reported the largest growth in withholding at 7.5 and 7 percent, respectively, while the Mid-Atlantic region reported the weakest growth at 2 percent. The weak growth 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 $21 billion, or roughly 24 percent of all income-tax revenues, in the second 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 37 states for which we have complete data, the median payment was up by 9.8 percent for the first payment and by 6.6 percent for the first two payments compared to the previous year. Eight states reported declines for the first payment and seven states reported declines for the two payments.

General Sales Tax

State sales tax collections in the April-June 2012 quarter showed growth of 0.7 percent from the same period in 2011, a significant softening compared to the 4.8 percent gains reported in the first quarter of 2011. This is the tenth quarter in a row that sales tax collections rose. Increases in collections were reported during the second quarter in all regions but the Far West, Great Lakes, and Mid-Atlantic, where receipts declined by over 4 percent. The Southwest and Plains regions reported the largest increases in sales tax collections at 9.4 and 9.1 percent, respectively. The decline in the Far West region are particularly significant in California, where collections fell by $0.6 billion or 6.8 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 2 percent for the nation in the second quarter of 2012.

Thirty-six of 45 states with broad-based sales taxes reported growth in collections for the quarter; six states reported double-digit gains. North Dakota and West Virginia reported the largest growth at 45.5 and 14.4 percent, respectively. In addition to California, eight other states reported declines in sales tax collections in the second quarter of 2012. Some of such declines are partially 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.

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	$13,009	$40,817	$17,303	$5,931	$24,728	$128,015
2012Q2	(10.5)	(1.4)	(1.8)	2.4	0.7	7.4
2012Q1	(9.0)	0.1	(2.4)	0.8	1.3	9.0
2011Q4	(9.2)	2.8	(1.7)	(1.1)	1.5	12.2
2011Q3	(5.7)	5.5	(0.8)	(0.2)	0.5	12.0
2011Q2	(1.9)	8.6	0.3	1.3	2.3	11.7
2011Q1	0.5	8.1	2.5	3.1	3.3	9.1
2010Q4	5.9	5.2	3.0	3.1	3.9	7.2
2010Q3	11.0	2.3	2.1	2.9	5.5	4.2
2010Q2	11.1	0.5	0.4	2.0	3.7	(2.5)
2010Q1	9.8	(0.8)	(1.2)	0.7	1.4	(9.2)
2009Q4	6.0	(2.0)	(1.6)	0.5	0.1	(13.7)
2009Q3	(0.7)	(3.3)	0.3	(0.0)	(1.3)	(13.4)
2009Q2	(2.2)	(5.5)	1.1	(0.3)	(1.1)	(6.9)
2009Q1	(3.9)	(6.1)	2.4	0.2	(0.6)	3.7
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.

Corporate tax revenue decreased by 2.7 percent in the second quarter of 2012 compared to a year earlier. Two regions — the Plains and Rocky Mountain — reported double-digit increases at 33.7 and 17.8 percent, respectively. Two other regions — the Far West and Mid-Atlantic states — reported declines in corporate income tax collections at 17.9 and 14.3 percent, respectively.

Among 46 states that have a corporate income tax, 30 reported growth, with 22 enjoying double-digit gains. Sixteen states reported declines for the second quarter of 2012 compared to the same quarter of the previous year, of which nine states reported double-digit declines. The largest declines in terms of dollar value were reported in California, where corporate income tax collections fell by $0.8 billion or 19.2 percent. The decline in California is partially due to changes in the 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 2.9 percent for the nation in the second 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.

Revenues from smaller tax sources showed mixed picture. The motor fuel sales tax, the most significant of the smaller taxes, showed nationwide decline of 1.4 percent after eight consecutive quarter growth. State property taxes, a relatively small revenue source for states, fell by 10.5 percent and revenues from tobacco product sales taxes declined by 1.8 percent. Gains of 2.4 and 0.7 percent were reported for alcoholic beverage sales tax and revenue from motor vehicle and operators' licenses, respectively.

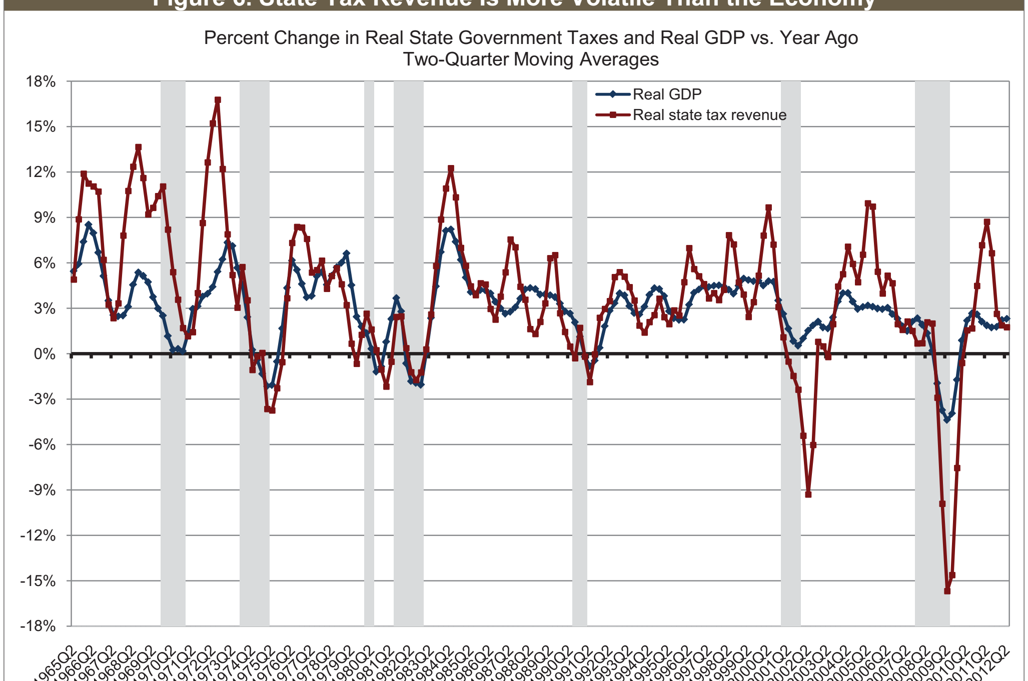
Underlying Reasons for Trends

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 6 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.

Figure 6. 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.

Tax revenue is related to economic growth. As shown in Figure 6, in the second quarter of 2012 real state tax revenue showed 1.7 percent growth on this moving-average basis. This was the ninth consecutive quarter of growth. However such growth has been

Table 5. Nonfarm Employment, By State

Last Four Quarters, Year-Over-Year Percent Change

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

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

softening in the last four quarters, and was much weaker compared to the 8.7 percent growth reported a year ago. Real Gross Domestic Product showed growth for the tenth consecutive quarter at 2.3 percent. Growth in Real Gross Domestic Product is now slightly stronger than the 1.9 percent growth reported in the second quarter of 2011.

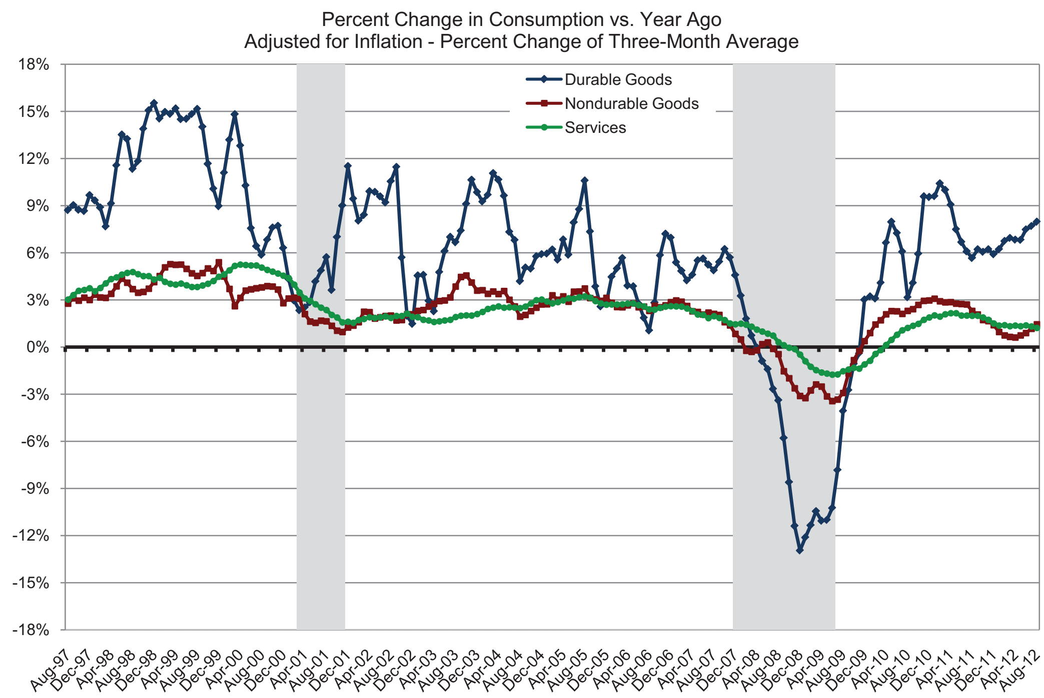
Yet there is volatility in tax revenue that is not explained by real GDP, a broad measure of the economy. Throughout 2011, state tax revenue has risen significantly while the overall economy has been growing at a relatively slow pace in the wake of the Great Recession. Also, in much of 2009 and 2010, 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 7.5 percent in the second quarter of 2012 relative to the same quarter a year ago. The growth in durable goods was moderately stronger compared to the 6.7 growth reported in the same quarter of 2011. A 1.4 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 eighth quarter in a row — by 1.2 percent relative to the previous year — in the April-June quarter of 2012. On a year-over-year basis, employment declined in seven states: Maine, Mississippi, Missouri, New Hampshire, New Mexico, Rhode Island, and Wisconsin. North Dakota reported the largest growth at 6.6 percent, followed by Louisiana and Oklahoma both reporting 2.4 percent growth in employment in the second quarter of 2012. Six states reported growth of over 2.0 percent.

All regions reported growth in employment in the second 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

Figure 7. Consumption of Services Is Relatively Stagnant



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

region reported the largest increase in employment at 2.0 percent followed by the Rocky Mountain region reporting 1.6 percent growth. These employment data are compared to the same period a year ago rather than to preceding months.

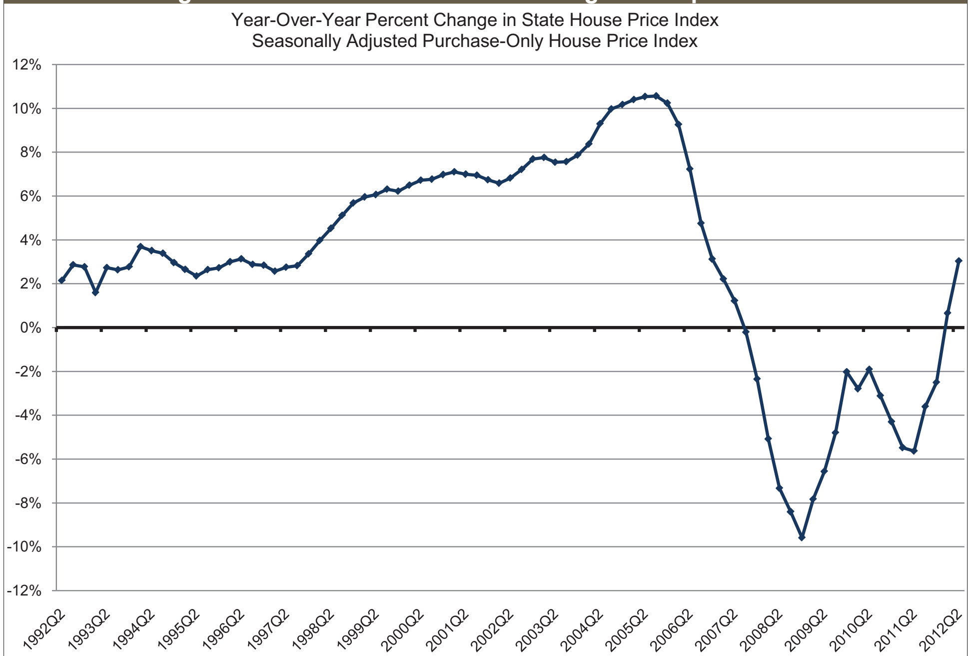
Economists at the Philadelphia Federal Reserve Bank developed broader and highly timely measures known as "coincident economic indexes" intended to provide information about current economic activity in individual states. Unlike leading indexes, these measures are not designed to predict where the economy 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.

The analysis of coincident indexes indicates that as of August 2012, the economic activity nationwide increased by 0.5 percent compared to three months earlier and by 2.7 percent compared to a year earlier. At the state level, 29 states reported growth in economic activitycompared to three months earlier, while 21 states reported decline. North Dakota and Wyoming reported the largest increases in economic activity among all states, while Michigan and West Virginia reported the largest declines.

The number of states reporting declines in economic activity has grown considerably since May 2012. In the month of April 2012 only three states reported declines in economic activity. The number of states reporting declines in economic activity increased to 7 in the month of June, to 16 in July, and to 21 in August. The data underlying these indexes are subject to revision, and so tentative conclusions drawn now could change at a later date. Moreover, this analysis is based on economic activity compared to three months earlier. If we look at state economic activity compared to a year earlier, then declines are reported in two states.

Figure 7 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

Figure 8. House Price Index Shows Signs of Improvement



Source: U.S. Federal Housing Finance Agency.

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

Figure 8 shows the year-over-year percent change in the federal government's seasonally adjusted, purchase-only house price index from 1992 through the second 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 8 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. Housing prices strengthened in 2009 and the first half of 2010, but the direction of change shifted downward from the second half of the 2010 to the first half of 2011. However, the trend has been upward since the second half of 2011 — with the first and second quarters of 2012 showing growth of 0.7 and 3.0 percent, respectively. Such growth is highly encouraging as it is following 18 consecutive quarter declines.

Tax Law Changes Affecting This Quarter

Another important element affecting trends in tax revenue growth is changes in states' tax laws. During the April-June 2012 quarter, enacted taxes increases and decreases produced an estimated net loss of $572 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 decreased some other taxes by $91 million.

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 rate in

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

	April-June 2011				April-June 2012			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**84,680**	**15,951**	**64,763**	**228,732**	**88,916**	**15,513**	**65,223**	**236,023**
New England	**7,233**	**1,094**	**2,699**	**14,676**	**7,573**	**1,175**	**2,901**	**15,523**
Connecticut	2,299	300	817	4,217	2,550	210	924	4,689
Maine	505	65	327	1,240	511	75	346	1,277
Massachusetts	3,849	492	1,277	6,527	3,916	642	1,340	6,797
New Hampshire	47	174	NA	550	50	168	NA	539
Rhode Island	332	33	200	794	331	49	211	851
Vermont	201	30	78	1,348	215	31	80	1,368
Mid-Atlantic	**20,986**	**3,521**	**9,841**	**44,633**	**20,869**	**3,017**	**9,509**	**43,749**
Delaware	277	126	NA	1,001	241	189	NA	1,006
Maryland	2,366	296	1,349	5,302	2,435	333	1,402	5,559
New Jersey	4,270	1,087	3,008	10,517	4,287	704	2,755	9,666
New York	10,969	1,167	2,973	18,728	10,631	1,027	2,995	18,503
Pennsylvania	3,104	845	2,511	9,085	3,275	765	2,357	9,016
Great Lakes	**13,138**	**1,878**	**9,466**	**32,319**	**14,603**	**2,058**	**9,053**	**33,719**
Illinois	4,489	900	1,889	9,367	5,632	1,192	2,033	11,127
Indiana	1,593	368	1,611	4,456	1,562	483	1,704	4,665
Michigan	1,836	264	2,566	5,985	1,627	80	1,935	4,675
Ohio	2,949	96	1,987	7,212	3,215	25	1,902	7,495
Wisconsin	2,272	250	1,413	5,299	2,565	278	1,479	5,758
Plains	**6,742**	**778**	**4,034**	**15,929**	**7,153**	**1,040**	**4,400**	**17,649**
Iowa	798	140	565	1,992	873	180	640	2,190
Kansas	972	90	653	2,095	1,053	141	720	2,287
Minnesota	2,446	242	1,283	5,703	2,603	325	1,371	6,273
Missouri	1,751	186	762	3,278	1,844	200	794	3,434
Nebraska	590	50	369	1,237	612	76	371	1,278
North Dakota	185	64	202	1,294	168	114	294	1,820
South Dakota	NA	5	200	331	NA	5	211	367
Southeast	**12,765**	**3,139**	**15,335**	**43,379**	**13,733**	**3,417**	**15,761**	**45,666**
Alabama	720	129	558	2,091	877	139	590	2,293
Arkansas	708	134	669	2,267	773	142	708	2,417
Florida	NA	685	4,842	8,997	NA	760	5,140	9,429
Georgia	2,113	186	1,289	4,156	2,203	230	1,317	4,355
Kentucky	1,050	225	740	2,810	1,086	232	785	2,860
Louisiana	680	228	774	2,429	723	254	755	2,605
Mississippi	531	82	867	1,978	576	82	895	2,077
North Carolina	2,698	461	1,570	6,247	2,850	519	1,388	6,382
South Carolina	820	76	996	2,378	891	90	1,043	2,512
Tennessee	158	455	1,667	3,282	156	522	1,776	3,590
Virginia	2,743	352	1,086	5,319	3,007	366	1,050	5,591
West Virginia	546	128	276	1,425	591	82	316	1,555
Southwest	**1,971**	**440**	**7,810**	**20,272**	**2,124**	**464**	**8,542**	**22,435**
Arizona	859	236	1,143	3,013	938	210	1,209	3,131
New Mexico	310	69	485	1,369	304	76	508	1,382
Oklahoma	802	134	576	2,280	883	177	632	2,412
Texas	NA	NA	5,605	13,610	NA	NA	6,193	15,510
Rocky Mountain	**2,889**	**428**	**1,448**	**6,909**	**3,161**	**505**	**1,548**	**7,453**
Colorado	1,418	166	541	2,611	1,581	240	591	2,911
Idaho	391	73	284	959	410	80	305	1,027
Montana	289	64	NA	812	306	58	NA	836
Utah	791	125	463	1,661	863	127	478	1,782
Wyoming	NA	NA	160	867	NA	NA	173	897
Far West	**18,954**	**4,672**	**14,131**	**50,615**	**19,700**	**3,837**	**13,510**	**49,830**
Alaska	NA	353	NA	2,343	NA	308	NA	2,347
California	16,781	4,083	9,207	36,959	17,370	3,300	8,579	35,993
Hawaii	402	62	653	1,314	494	57	704	1,521
Nevada	NA	NA	1,366	2,807	NA	NA	1,461	2,845
Oregon	1,770	175	NA	2,562	1,836	172	NA	2,652
Washington	NA	NA	2,905	4,630	NA	NA	2,767	4,472

Source: U.S. Census Bureau.

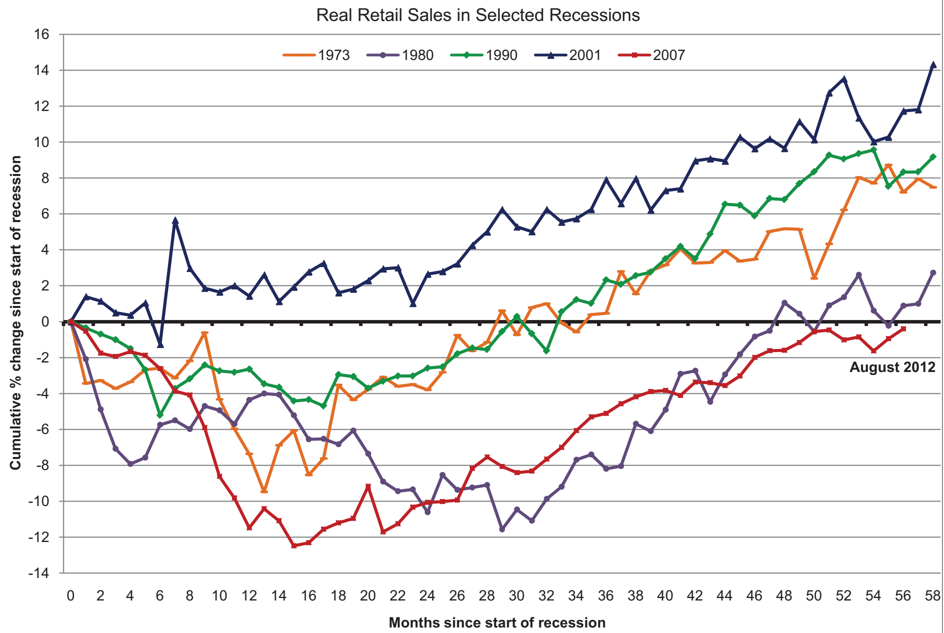
Table 7. Quarterly Tax Revenue by Major Tax

April-June, 2011 to 2012, Percent Change

	PIT	CIT	Sales	Total
United States	**5.0**	**(2.7)**	**0.7**	**3.2**
New England	**4.7**	**7.4**	**7.5**	**5.8**
Connecticut	10.9	(30.0)	13.0	11.2
Maine	1.2	15.3	5.9	3.0
Massachusetts	1.7	30.3	4.9	4.1
New Hampshire	5.1	(3.4)	NA	(2.0)
Rhode Island	(0.4)	48.6	5.3	7.3
Vermont	6.9	4.6	2.9	1.5
Mid-Atlantic	**(0.6)**	**(14.3)**	**(3.4)**	**(2.0)**
Delaware	(13.0)	49.9	NA	0.5
Maryland	2.9	12.3	3.9	4.8
New Jersey	0.4	(35.3)	(8.4)	(8.1)
New York	(3.1)	(12.0)	0.7	(1.2)
Pennsylvania	5.5	(9.4)	(6.1)	(0.8)
Great Lakes	**11.1**	**9.6**	**(4.4)**	**4.3**
Illinois	25.5	32.4	7.6	18.8
Indiana	(1.9)	31.5	5.8	4.7
Michigan	(11.4)	(69.6)	(24.6)	(21.9)
Ohio	9.0	(74.0)	(4.3)	3.9
Wisconsin	12.9	11.2	4.7	8.7
Plains	**6.1**	**33.7**	**9.1**	**10.8**
Iowa	9.4	28.0	13.2	9.9
Kansas	8.4	57.3	10.2	9.1
Minnesota	6.4	34.1	6.9	10.0
Missouri	5.3	7.4	4.2	4.8
Nebraska	3.6	51.8	0.7	3.3
North Dakota	(9.1)	76.8	45.5	40.7
South Dakota	NA	(2.5)	5.4	10.8
Southeast	**7.6**	**8.9**	**2.8**	**5.3**
Alabama	21.8	7.9	5.7	9.6
Arkansas	9.1	6.5	5.8	6.6
Florida	NA	11.0	6.2	4.8
Georgia	4.2	23.9	2.2	4.8
Kentucky	3.5	2.9	6.0	1.8
Louisiana	6.3	11.4	(2.5)	7.2
Mississippi	8.6	(0.9)	3.2	5.0
North Carolina	5.7	12.7	(11.6)	2.2
South Carolina	8.7	19.0	4.7	5.7
Tennessee	(1.0)	14.8	6.5	9.4
Virginia	9.6	3.9	(3.4)	5.1
West Virginia	8.3	(36.2)	14.4	9.2
Southwest	**7.8**	**5.6**	**9.4**	**10.7**
Arizona	9.1	(10.8)	5.8	3.9
New Mexico	(1.8)	10.1	4.6	1.0
Oklahoma	10.0	32.0	9.7	5.8
Texas	NA	NA	10.5	14.0
Rocky Mountain	**9.4**	**17.8**	**6.9**	**7.9**
Colorado	11.5	44.7	9.3	11.5
Idaho	5.0	8.9	7.7	7.1
Montana	5.9	(9.4)	NA	3.0
Utah	9.1	1.4	3.4	7.3
Wyoming	NA	NA	7.9	3.6
Far West	**3.9**	**(17.9)**	**(4.4)**	**(1.6)**
Alaska	NA	(12.7)	NA	0.2
California	3.5	(19.2)	(6.8)	(2.6)
Hawaii	22.7	(7.2)	7.9	15.7
Nevada	NA	NA	7.0	1.3
Oregon	3.7	(1.6)	NA	3.5
Washington	NA	NA	(4.8)	(3.4)

Source: U.S. Census Bureau.

Figure 9. Real Retail Sales Are Now Approaching the Prerecession Peak Levels



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

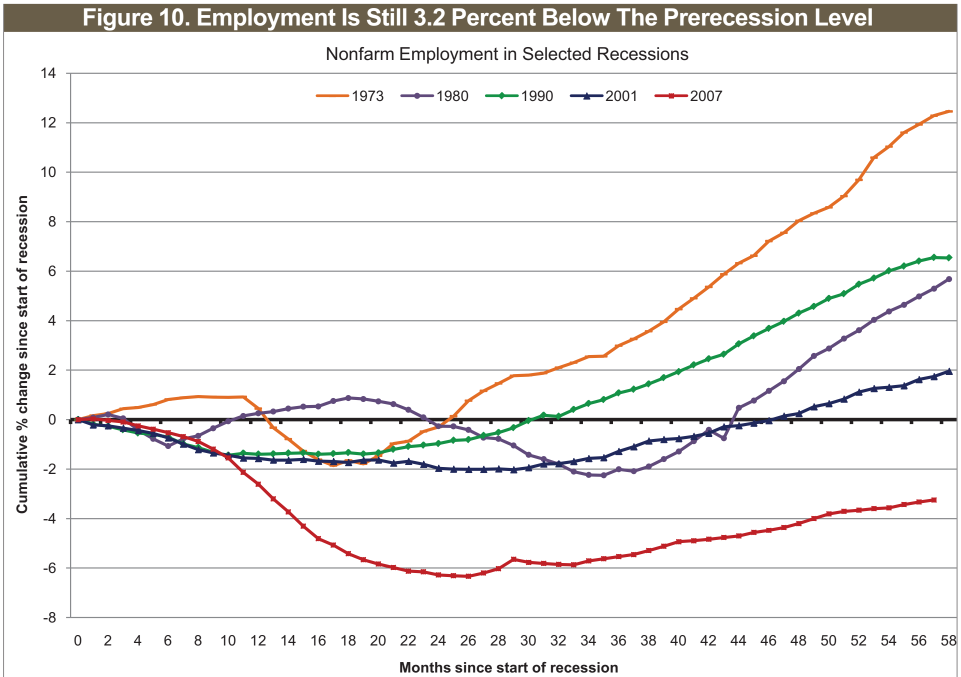
Connecticut, and the personal and corporate income tax changes in Connecticut and Michigan.[8]

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 9 shows the cumulative percentage change in inflation-adjusted retail sales in the 58 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 was deeper than in most recessions, although the declines in the 1973 and 1980 recessions also were quite sharp. While real retail sales have been rising from their lows for more than two years now, they are still about 0.4 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 10 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 September 2012, month 57. As the graph shows, the 3.2 percent employment drop as of September 2012 is still far worse than declines seen in and around previous recessions. The trends depicted in Figure

Figure 10. Employment Is Still 3.2 Percent Below The Prerecession Level



Source: Bureau of Labor Statistics (CES).

10 suggest that, unless the pace of growth accelerates, it may take several years before employment attains its prerecession peak.

The Full Picture for State Fiscal Year 2012

With April-June collections now on the books, the totality of fiscal year 2012 has come into clear focus. As Tables 8 and 9 indicate, total tax revenues as well as tax revenues from both personal income and sales tax collections showed growth in fiscal 2012. Thirty-eight states reported growth in personal income tax collections with the national average at 5.7 percent. Forty of 45 states with broad-based sales tax collections reported growth in sales tax collections, with the average at 3.0 percent. Finally, 45 states reported growth in total tax collections with 9 states reporting double-digit growth. Nationwide, states collected $790.3 billion in total state tax collections from July of 2011 to June of 2012, a gain of 4.2 percent.

With these preliminary figures, state tax collections are finally above the peak levels reported four year ago. Relative to fiscal 2008, total tax collections showed a growth of 1.7 percent and sales tax collections a growth of 0.3 percent. However, personal income tax collections were still down by 1.9 percent in fiscal 2012 compared to fiscal 2008. In response to the Great Recession, many states took unwanted but necessary actions to balance budgets — steps such as tax increases, cuts in public services, and reductions in employee compensation. Most have also drawn heavily from rainy day funds, and many have used steps such as agency consolidations and employee furloughs to achieve some relatively modest savings. However, such actions served as temporary solutions and, while they helped to balance budgets, they also pushed some fiscal problems into subsequent fiscal years.

Looking Ahead

Preliminary data for the July-August months of 2012 suggest that tax conditions continued to improve further in the third quarter of 2012. With early data for July-August 2012 now available for 44 states, tax revenue increased by8.7 percent compared to the same months of the previous year. According to the preliminary data, personal income tax collections grew by 15.0 percent and sales tax collections by 6.3 percent.

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

Analysis of economic factors suggests 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 pre-recession and peak levels in nominal terms.

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

	July 2010-June 2011				July 2011-June 2012			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**262,244**	**42,368**	**235,194**	**758,521**	**277,175**	**41,179**	**242,203**	**790,320**
New England	**20,682**	**3,558**	**9,996**	**45,646**	**21,960**	**3,599**	**10,694**	**48,119**
Connecticut	5,999	646	2,926	12,406	6,847	611	3,315	14,054
Maine	1,421	209	1,010	3,676	1,442	232	1,064	3,777
Massachusetts	11,597	1,932	4,921	21,927	11,930	2,001	5,124	22,504
New Hampshire	83	537	NA	2,244	82	521	NA	2,176
Rhode Island	1,026	130	813	2,723	1,061	137	849	2,869
Vermont	556	105	326	2,670	598	97	342	2,739
Mid-Atlantic	**66,834**	**9,771**	**32,666**	**147,181**	**67,693**	**9,509**	**33,116**	**150,238**
Delaware	962	290	NA	2,991	1,178	342	NA	3,346
Maryland	6,645	776	3,897	16,003	6,877	880	4,077	16,799
New Jersey	10,900	2,314	8,046	27,425	11,109	2,027	7,947	26,962
New York	38,494	4,412	11,772	68,417	38,429	4,422	11,926	70,155
Pennsylvania	9,831	1,978	8,952	32,346	10,100	1,837	9,167	32,977
Great Lakes	**38,292**	**5,677**	**34,982**	**110,504**	**45,426**	**5,563**	**36,431**	**119,191**
Illinois	12,302	3,151	7,421	31,810	17,845	2,991	8,034	38,087
Indiana	4,584	717	6,270	14,713	4,766	959	6,622	15,500
Michigan	6,158	721	9,413	23,308	6,720	594	9,470	23,755
Ohio	8,820	237	7,769	25,325	9,310	117	8,016	25,858
Wisconsin	6,429	851	4,109	15,347	6,785	901	4,289	15,991
Plains	**19,890**	**2,164**	**15,167**	**52,281**	**20,878**	**2,564**	**16,522**	**57,307**
Iowa	2,664	250	2,082	6,791	2,807	385	2,207	7,236
Kansas	2,718	267	2,488	6,843	2,680	310	2,825	7,182
Minnesota	7,482	1,004	4,657	18,966	7,988	1,066	4,942	20,561
Missouri	4,871	324	2,973	10,480	5,132	302	3,103	10,838
Nebraska	1,722	145	1,383	4,015	1,838	234	1,457	4,350
North Dakota	433	161	776	3,822	433	216	1,123	5,620
South Dakota	NA	15	808	1,364	NA	51	865	1,521
Southeast	**43,500**	**8,057**	**57,052**	**153,065**	**46,126**	**8,341**	**58,765**	**158,879**
Alabama	2,763	411	2,164	8,449	2,989	384	2,263	8,802
Arkansas	2,270	377	2,737	7,954	2,402	404	2,809	8,292
Florida	NA	1,870	18,378	32,763	NA	2,003	19,404	34,034
Georgia	7,673	673	5,028	15,724	8,143	590	5,144	16,193
Kentucky	3,418	517	2,896	10,201	3,512	575	3,052	10,470
Louisiana	2,388	264	2,881	8,499	2,443	227	2,921	8,695
Mississippi	1,398	348	2,912	6,488	1,501	396	3,015	6,873
North Carolina	9,869	1,092	6,185	22,370	10,384	1,220	5,574	22,683
South Carolina	2,408	209	2,794	7,181	2,600	229	2,926	7,516
Tennessee	190	1,069	6,468	11,021	182	1,226	6,903	11,900
Virginia	9,531	798	3,461	17,285	10,216	839	3,487	18,039
West Virginia	1,593	431	1,148	5,131	1,753	249	1,266	5,382
Southwest	**6,198**	**1,133**	**29,676**	**65,707**	**6,758**	**1,289**	**32,440**	**72,335**
Arizona	2,864	560	4,341	10,706	3,094	648	4,601	11,303
New Mexico	856	217	1,937	4,651	890	195	1,672	4,384
Oklahoma	2,478	356	2,192	7,743	2,774	446	2,416	8,525
Texas	NA	NA	21,207	42,607	NA	NA	23,750	48,124
Rocky Mountain	**8,821**	**925**	**6,026**	**22,449**	**9,432**	**1,072**	**6,132**	**23,563**
Colorado	4,541	384	2,174	8,999	4,852	492	2,302	9,615
Idaho	1,169	170	1,187	3,262	1,213	189	1,225	3,374
Montana	813	124	NA	2,304	900	132	NA	2,459
Utah	2,298	248	1,850	5,470	2,466	259	1,857	5,810
Wyoming	NA	NA	815	2,415	NA	NA	748	2,305
Far West	**58,027**	**11,084**	**49,628**	**161,689**	**58,903**	**9,243**	**48,105**	**160,688**
Alaska	NA	727	NA	5,208	NA	671	NA	7,042
California	51,302	9,804	33,621	120,150	51,549	8,051	31,485	115,709
Hawaii	1,231	84	2,496	4,753	1,529	89	2,698	5,408
Nevada	NA	NA	2,932	6,334	NA	NA	3,248	6,463
Oregon	5,493	469	NA	7,914	5,825	431	NA	8,496
Washington	NA	NA	10,580	17,330	NA	NA	10,673	17,570

Source: U.S. Census Bureau.

Table 9. FY Tax Revenue by Major Tax

FYTD 2011 vs. FYTD 2012, Percent Change

	PIT	CIT	Sales	Total
United States	**5.7**	**(2.8)**	**3.0**	**4.2**
New England	**6.2**	**1.1**	**7.0**	**5.4**
Connecticut	14.1	(5.3)	13.3	13.3
Maine	1.5	11.1	5.4	2.7
Massachusetts	2.9	3.6	4.1	2.6
New Hampshire	(1.9)	(2.9)	NA	(3.0)
Rhode Island	3.4	5.6	4.4	5.4
Vermont	7.6	(8.1)	5.1	2.6
Mid-Atlantic	**1.3**	**(2.7)**	**1.4**	**2.1**
Delaware	22.4	17.7	NA	11.8
Maryland	3.5	13.5	4.6	5.0
New Jersey	1.9	(12.4)	(1.2)	(1.7)
New York	(0.2)	0.2	1.3	2.5
Pennsylvania	2.7	(7.1)	2.4	2.0
Great Lakes	**18.6**	**(2.0)**	**4.1**	**7.9**
Illinois	45.1	(5.1)	8.3	19.7
Indiana	4.0	33.7	5.6	5.3
Michigan	9.1	(17.5)	0.6	1.9
Ohio	5.6	(50.5)	3.2	2.1
Wisconsin	5.5	5.9	4.4	4.2
Plains	**5.0**	**18.5**	**8.9**	**9.6**
Iowa	5.4	54.2	6.0	6.6
Kansas	(1.4)	16.4	13.6	4.9
Minnesota	6.8	6.2	6.1	8.4
Missouri	5.3	(6.8)	4.4	3.4
Nebraska	6.8	61.6	5.3	8.3
North Dakota	(0.1)	34.2	44.6	47.0
South Dakota	NA	238.4	7.0	11.5
Southeast	**6.0**	**3.5**	**3.0**	**3.8**
Alabama	8.2	(6.7)	4.6	4.2
Arkansas	5.8	7.2	2.6	4.2
Florida	NA	7.1	5.6	3.9
Georgia	6.1	(12.3)	2.3	3.0
Kentucky	2.8	11.4	5.4	2.6
Louisiana	2.3	(14.0)	1.4	2.3
Mississippi	7.4	13.7	3.5	5.9
North Carolina	5.2	11.7	(9.9)	1.4
South Carolina	8.0	9.5	4.7	4.7
Tennessee	(3.8)	14.7	6.7	8.0
Virginia	7.2	5.1	0.8	4.4
West Virginia	10.0	(42.2)	10.2	4.9
Southwest	**9.0**	**13.8**	**9.3**	**10.1**
Arizona	8.0	15.6	6.0	5.6
New Mexico	3.9	(10.1)	(13.7)	(5.7)
Oklahoma	12.0	25.4	10.2	10.1
Texas	NA	NA	12.0	12.9
Rocky Mountain	**6.9**	**15.8**	**1.8**	**5.0**
Colorado	6.8	28.3	5.9	6.8
Idaho	3.8	10.8	3.2	3.5
Montana	10.8	6.8	NA	6.8
Utah	7.3	4.4	0.4	6.2
Wyoming	NA	NA	(8.2)	(4.6)
Far West	**1.5**	**(16.6)**	**(3.1)**	**(0.6)**
Alaska	NA	(7.8)	NA	35.2
California	0.5	(17.9)	(6.4)	(3.7)
Hawaii	24.1	6.6	8.1	13.8
Nevada	NA	NA	10.8	2.0
Oregon	6.0	(8.0)	NA	7.4
Washington	NA	NA	0.9	1.4

Source: U.S. Census Bureau.

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 September of 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 3.2 percent in the second quarter, compared with the 1.8 percent increase that can be computed from data on the Census Bureau's website (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 July and August in 44 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 April-June 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 September 19, 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

April-June, 2011 to 2012, Percent Change

	PIT	CIT	Sales	Total
RIG Data Alert	4.3	(4.7)	2.7	3.0
Census Bureau Preliminary	1.3	(2.3)	0.4	1.8
Census Bureau Preliminary with RIG Adjustments	5.0	(2.7)	0.7	3.2

The last set of numbers with our adjustments is what we use as the basis for this report except for the section titled "Where Do We Stand Now?" We make such adjustments for the 13 states: — California, Georgia, Hawaii, Kansas, Maryland, Massachusetts, New Jersey, New Mexico, Oregon, Rhode Island, South Dakota, Washington, and Wisconsin — based upon data and information provided to us directly by these states. For 9 of these 13 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 9; 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 personal income tax collections in California, Kansas, and Maryland in the second quarter of 2012 based on information obtained from these states. We also made adjustments to tax collections in Wisconsin since the preliminary Census figures did not include accrual revenues for the final month of fiscal 2012. Finally, we made adjustments to tax numbers for the second quarter of 2011 for the following five states — Missouri, New Hampshire, New Jersey, Rhode Island, and Wyoming. For 3 of these 5 states (New Hampshire, New Jersey, and Rhode Island), the Census Bureau still did not receive revenue data from the states and reported estimated data.

Endnotes

1 We made adjustments to Census Bureau data for the second quarter of 2012 for 13 states — California, Georgia, Hawaii, Kansas, Maryland, Massachusetts, New Jersey, New Mexico, Oregon, Rhode Island, South Dakota, Washington, and Wisconsin — based upon data and information provided to us directly by these states. In addition, we made adjustments to tax numbers for the second quarter of 2011 for the following states — Missouri, New Hampshire, New Jersey, Rhode Island, and Wyoming. 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 July-August 2012 are not available for the following 6 states: Hawaii, Minnesota, Nevada, New Mexico, Utah, and Wyoming. Total tax collections for these 6 states combined represent about 5-6 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 July and August of 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), http://www.philadelphiafed.org/research-and-data/publications/business-review/2006/q1/Q1_06_NewIndexes.pdf; and James H. Stock and Mark W. Watson. "New Indexes of Coincident and Leading Economic Indicators," *NBER Macroeconomics Annual* (1989): 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: The Rockefeller Institute of Government, July 2012), http://www.rockinst.org/pdf/government_finance/2012-07-16-Recession_Local_%20Property_Tax.pdf.

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: The National Governors Association and the National Association of State Budget Officers, Fall 2011), http://www.nasbo.org/sites/default/files/2011%20Fall%20Fiscal%20Survey%20of%20States.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.

11 In this section we use data, as reported by the Bureau of the Census, to ease calculations carried out over many quarters. While there are important differences between our numbers and those of the Census Bureau for the latest quarter, we believe that when averaged over multiple quarters as done here, the differences are not large enough to affect overall conclusions. The one exception to this "as reported" rule is that we have adjusted property tax revenue to account for certain changes in the Census Bureau's survey and sampling procedures.

12 First we adjusted the reported data for inflation. The dashed line shows these values multiplied by four so that they are at annual rates. The solid line shows, for a given quarter, the sum of revenue in that quarter plus the three prior quarters " — i.e., the rolling annual total. We have also experimented with seasonal adjustment methods, but sometimes they produce misleading results, and they are less transparent than rolling totals. The simple method of rolling totals is sufficient to make our points here.

13 The trend lines are derived from least-squares regressions of tax revenue against a time trend.

14 For example, see Richard Ravitch and Paul Volcker, "Full Report" (New York: State Budget Crisis Task Force, July 2012): 54, http://www.statebudgetcrisis.org/wpcms/report-1/.

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, and Donald J. Boyd, senior fellow. 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.

You can contact Lucy Dadayan at ldadayan@albany.edu.