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Temporary "Bubble" in Income Tax Receipts

States Reported the Strongest Growth in Personal Income Tax Collections Since the Great Recession

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Preliminary data for the April-June quarter of 2013 show that rapid income tax growth in the second quarter of 2013 is consistent with our previous comments that personal income tax collections would grow strongly in the fourth quarter of 2012, as well as in the first and second quarters of 2013.

The strong growth in overall state tax collections is mostly driven by very strong growth in personal income tax collections. State personal income tax returns for 2012 generally were due on April 15, and these payments appear to have been influenced by taxpayer actions to accelerate income into 2012 to avoid federal tax increases, the strong stock market in 2012, slow but continuing improvement in the current economy, and the impact of a large tax increase in California. The growth in personal income tax collections was the strongest since the start of the Great Recession. However, with California excluded, the growth was considerably weaker.

We will provide a full report on April-June tax revenue collections after the Census Bureau's data for the quarter are available.

The Rockefeller Institute's compilation of preliminary data from 46 states shows that collections from major tax sources increased by 11 percent in nominal terms in the second quarter of 2013 compared to the same quarter of 2012. Among 46 early-reporting states, 43 states reported gains while three states reported declines in total tax revenue collections. Sales tax growth was 5 percent, and corporate income tax growth was 7.1 percent. (See Table 1 for national-level changes in revenues since 2007.)

Personal income tax collections had the strongest growth among the major taxes, at 20.3 percent. However, the strong growth is attributable not only to the acceleration of income into calendar year 2012 and the 2012 stock market, but also to strong growth in a single state, California, where income tax collections grew by nearly \$7.1 billion, or 40.7 percent, in the second quarter of 2013. The large growth in income tax collections in California reflects the acceleration, as well as recent increases in income tax rates that were only partially reflected in withholding. On November 6, 2012, California voters adopted Proposition 30, which increased the personal income tax rate on taxpayers making over \$500,000 for a seven-year period that is retroactive to January 1, 2012, through December 31, 2018. If we exclude California, income tax collections in the remainder of the nation grew 14.9 percent in the second quarter of 2013.

Table 2 shows state-by-state changes in major tax revenues during the second quarter of 2013 compared to the same quarter a year earlier. California and Nebraska reported the largest increases in overall tax

collections, at 27.7 and 21.4 percent, respectively. Another 12 states also indicated double-digit growth in overall tax collections.

State tax revenues have been continuously recovering for over three years now. However, the state revenue recovery has been much slower and more prolonged than in previous recoveries, and revenue is still far from full recovery. While state tax revenues have shown strong growth in the fourth quarter of calendar year 2012, as well as in the first and second quarters of calendar year 2013, that is likely not an indication of rapid improvement in underlying economic factors. The strong growth in personal income tax collections appears in large part attributable to:

1. taxpayers' efforts to shift income from 2013 to 2012 in order to avoid paying higher income rates in 2013 as a result of the American Taxpayer Relief Act, which would have boosted estimated payments of income taxes and withholding on bonuses in the first and second quarters of 2013; and
2. the idiosyncratic timing of California's tax increase.

The strong growth in tax revenues in the second quarter of 2013 is also due to the April 15th income tax return deadline. However, the state tax revenue outlook remains cloudy for the rest of the calendar year 2013, particularly for states that rely heavily on personal income tax collections. The "bubble" in income tax receipts most definitely would be short-lived, and in fact should lead to slower growth later in year. Therefore, state officials should be cautious about using any unanticipated revenue for ongoing spending increases or revenue reductions.

Year/Quarter	PIT	CIT	Sales	Total
2007 Q1	8.5	14.8	3.1	5.2
2007 Q2	9.2	1.7	3.5	5.5
2007 Q3	7.0	(4.3)	(0.7)	3.1
2007 Q4	3.8	(14.5)	4.0	3.6
2008 Q1	4.8	(1.4)	0.7	2.6
2008 Q2	8.1	(7.0)	1.0	5.4
2008 Q3	0.9	(13.2)	4.7	2.8
2008 Q4	(1.9)	(23.0)	(5.3)	(4.0)
2009 Q1	(19.4)	(20.2)	(8.4)	(12.2)
2009 Q2	(27.7)	3.0	(9.5)	(16.3)
2009 Q3	(11.5)	(21.3)	(10.1)	(11.0)
2009 Q4	(4.1)	0.7	(4.8)	(3.1)
2010 Q1	3.6	0.3	0.1	3.3
2010 Q2	1.3	(19.0)	5.7	1.9
2010 Q3	3.9	0.5	4.3	5.3
2010 Q4	10.8	12.1	5.1	8.1
2011 Q1	12.6	4.1	6.0	10.1
2011 Q2	15.6	18.3	5.7	11.3
2011 Q3	9.1	0.9	1.5	5.0
2011 Q4	2.8	(3.3)	2.8	3.0
2012 Q1	4.2	3.6	5.0	4.1
2012 Q2	6.0	(3.0)	1.7	4.3
2012 Q3	5.8	8.5	1.8	3.1
2012 Q4	10.8	3.8	2.6	5.3
2013 Q1	18.4	9.4	5.5	8.6
2013 Q2 (preliminary)	20.3	7.1	5.0	11.0

Table 2: Percent Change in State Quarterly Tax Revenue
April-June 2012 to 2013, Percent Change

	PIT	CIT	Sales	Total
United States	20.3	7.1	5.0	11.0
New England	11.8	(9.9)	4.4	7.8
Connecticut	11.4	11.0	5.4	10.7
Maine	10.4	(9.0)	3.0	7.2
Massachusetts	12.0	(22.6)	3.6	6.7
New Hampshire	NA	14.1	NA	4.0
Rhode Island	7.7	(8.4)	5.8	3.1
Vermont	20.8	(18.4)	2.5	5.3
Mid-Atlantic	18.5	11.6	4.5	10.8
Delaware	11.9	11.4	NA	4.0
Maryland	ND	ND	ND	ND
New Jersey	19.8	4.9	5.4	10.2
New York	21.1	26.0	6.0	15.5
Pennsylvania	9.4	6.6	1.8	2.9
Great Lakes	14.1	1.7	4.2	8.8
Illinois	11.8	30.2	3.6	12.4
Indiana	7.2	(2.3)	2.9	3.2
Michigan	31.8	(59.6)	4.3	7.9
Ohio	17.6	138.3	5.2	12.7
Wisconsin	9.2	(13.3)	4.8	4.8
Plains	18.6	16.0	4.6	10.9
Iowa	24.9	(9.7)	(0.9)	11.3
Kansas	(3.3)	25.2	2.1	(2.0)
Minnesota	20.5	46.6	10.1	15.4
Missouri	17.0	5.5	3.1	10.2
Nebraska	33.4	17.6	2.2	21.4
North Dakota	57.8	(9.4)	3.5	9.2
South Dakota	NA	NA	5.1	2.3
Southeast	11.0	2.1	2.3	5.0
Alabama	8.9	2.3	2.2	7.1
Arkansas	14.1	(6.8)	2.3	8.5
Florida	NA	(10.9)	6.7	7.1
Georgia	11.7	31.2	(8.1)	3.2
Kentucky	6.7	(1.1)	(1.5)	3.0
Louisiana	8.1	(14.0)	2.0	(0.3)
Mississippi	1.5	35.3	(0.6)	1.5
North Carolina	12.9	9.8	4.3	5.7
South Carolina	ND	ND	ND	ND
Tennessee	NA	8.3	1.4	4.1
Virginia	11.3	(7.0)	1.8	6.6
West Virginia	8.2	(3.0)	1.2	3.7
Southwest	11.6	18.7	5.6	7.4
Arizona	15.2	22.4	2.0	9.5
New Mexico	ND	ND	ND	ND
Oklahoma	7.1	13.9	(0.0)	7.1
Texas	NA	NA	6.7	7.0
Rocky Mountain	20.7	15.6	5.1	13.7
Colorado	16.2	15.9	4.5	13.2
Idaho	17.3	19.7	10.7	10.9
Montana	36.4	NM	NA	15.8
Utah	26.9	7.4	2.0	15.6
Wyoming	NA	NA	ND	ND
Far West	37.0	12.3	8.7	20.0
Alaska	NA	(13.3)	NA	(36.3)
California	40.7	15.9	9.3	27.7
Hawaii	2.0	49.4	7.5	8.0
Nevada	NA	NA	5.4	6.1
Oregon	11.4	(22.2)	NA	7.6
Washington	NA	NA	7.7	4.4

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

Notes: NA - not applicable; NM - not meaningful; ND - no data.

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