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HIGHLIGHTS

- State tax revenues grew by 3.5 percent in the fourth quarter of 2013, according to Rockefeller Institute research and Census Bureau data. This is down from 5.7 percent in the third quarter and from 9-plus percent in each of the two quarters before that.
- The Plains region showed the greatest growth at 7.8 percent while the Mid-Atlantic states showed the weakest growth at 0.5 percent in the fourth quarter.
- Growth in personal income tax collections softened significantly in the third and fourth quarters of 2013, likely due to the mirror-image effect of the initial fiscal cliff on taxpayer behavior, which had driven tax collections upward a year ago.
- At the end of FY 2013, inflation-adjusted total tax revenues for the first time surpassed the peak levels reported in FY 2008. However, the sales tax collections were below the peak levels.
- Preliminary figures for the first quarter of 2014 indicate possible declines in personal income tax collections.
- Local property tax revenues grew by 3.0 percent in the fourth quarter, marking the seventh consecutive quarter of growth in nominal terms.

STATE REVENUE REPORT

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Personal Income Tax Revenues Show Significant Softening in the Fourth Quarter of 2013

Preliminary Figures for the First Quarter of 2014 Signal Possible Declines in Income Tax Collections

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Overall State Taxes and Local Taxes

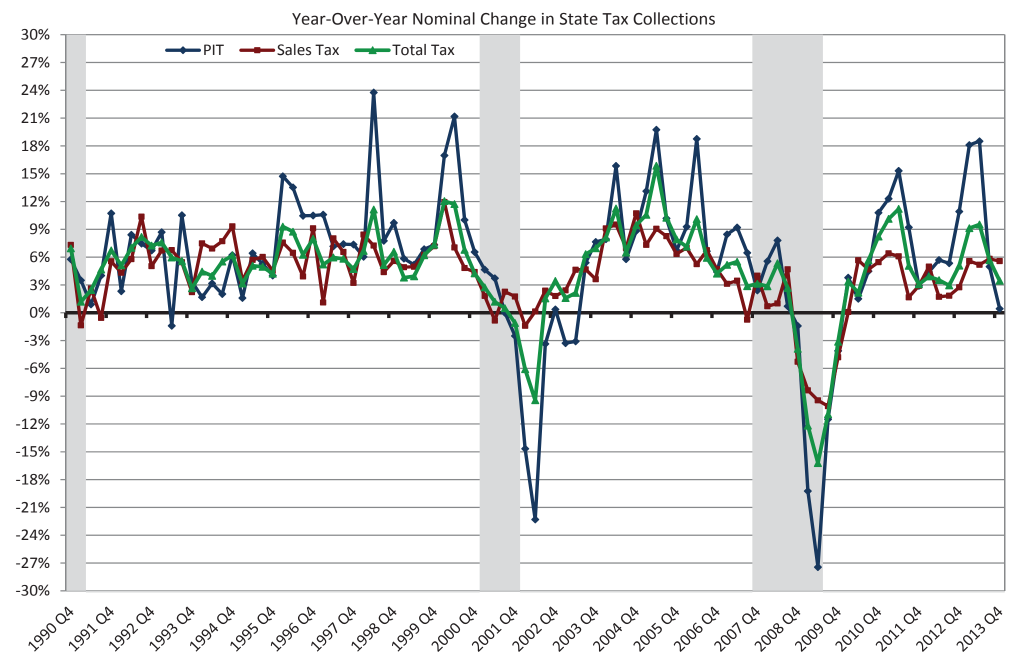
Total state tax collections have grown in each quarter of the last four years. However, growth softened significantly in the third and fourth quarters of 2013. Early figures for the first quarter of 2014 indicate even further softening in state tax collections, and possible declines in personal income tax collections.

Officials in many states have been facing extraordinary challenges in forecasting income taxes due to uncertainties related to capital gains, which can have a large impact on estimated taxes paid in December and January, and on payments with tax returns filed in April. The uncertainty has been heightened this year due to the strong performance of the stock market in 2013 and the unintended consequences of the fiscal cliff. Calendar year 2013 ended up being a remarkable year for the stock market, gaining 19 percent as measured by the S&P 500 Index, creating a favorable environment for capital gains.[1] On the other hand, for reasons discussed within, many taxpayers appear to have accelerated income from calendar year 2013 to calendar year 2012 to avoid higher federal tax rates, likely creating a "trough" in capital gains in 2013. This creates great uncertainty for states: Was the stock market strong enough to more than offset the "trough" effect related to the fiscal cliff, so that capital gains would be strong in 2013, or would the latter effect dominate, resulting in a large decline in capital gains?

The weak income tax in the fourth quarter and the weakness in the preliminary data for the first quarter suggest that the capital gains may have declined substantially in 2013 despite the strong stock market. Some preliminary information from federal tax returns has been good, but we are aware of some shortfalls in individual states, so it is too early to tell. We will say more about this after we have data from tax collections in April and early May.

Overall state tax revenues increased by 3.5 percent in the fourth quarter of 2013 compared to 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 March 2014 by the Census Bureau, which reported an

Figure 1. Downward Turn in Personal Income Tax Collections



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.

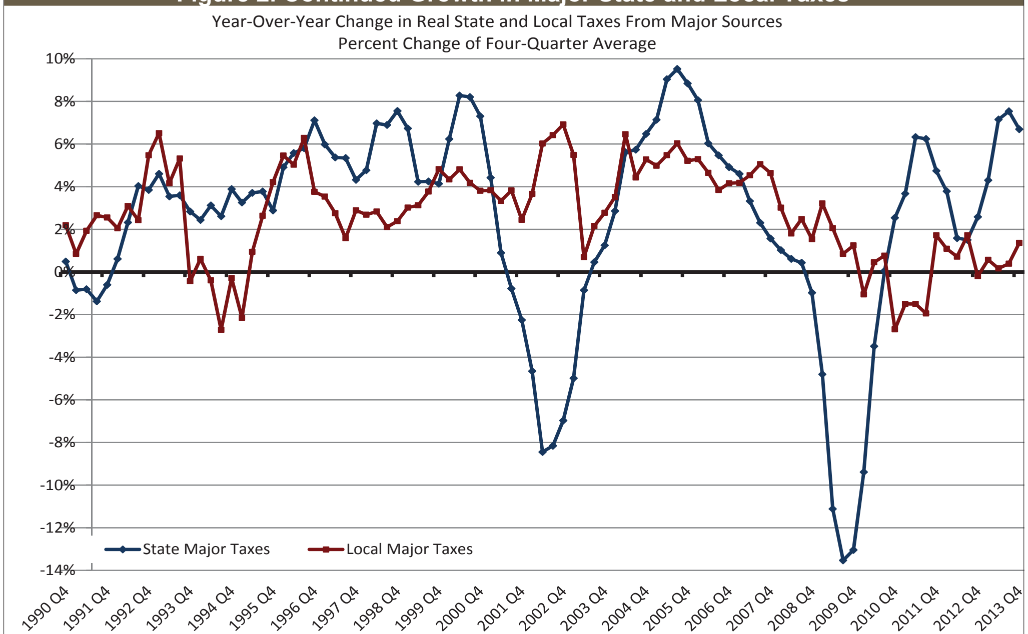
overall increase of 3.4 percent. We have updated those figures to reflect data we have since obtained and to reflect differences in how we measure revenue for purposes of the *State Revenue Report*. (See "Adjustments to Census Bureau Tax Collection Data" on page 24.[2])

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 the previous two recessions. The graph also shows rapid income tax growth in the last quarter of 2012 and first and second quarters of 2013, which is consistent with the caution mentioned in the previous *State Revenue Reports*. Much of that strong growth likely was attributable to the behavioral responses of the highest income taxpayers. Due to scheduled increases in federal income tax rates for 2013, many high income taxpayers sought to avoid the possible higher rates and "accelerated" their capital gains realizations and some other income into 2012.[3]

Overall state tax collections, as well as personal income tax revenues, showed significant softening in the third and fourth quarters of 2013. The large fluctuations in personal income tax collections throughout the calendar year 2013 is mostly due to the temporary impact of the fiscal cliff on taxpayer behavior. Personal income tax collections increased by 5 percent and 0.4 percent in the third and fourth quarters of 2013, respectively. The growth in sales tax collections was more stable. Sales tax collections rose by 5.8 and 5.6 percent, respectively, in the third and fourth quarters of 2013.

Total state tax collections in the fourth quarter of 2013 were above the previous peak levels in most states, in nominal terms. In the fourth quarter of 2013, forty-two states reported higher tax revenue collections than in the same quarter of 2007, which marked the start of the Great Recession. If we adjust the numbers for inflation, nationwide tax receipts show 2.8 percent growth in the fourth quarter of 2013 compared to the same quarter of 2007.

Figure 2. Continued Growth in Major State and Local Taxes



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) Data is for major taxes only, including sales tax, personal income tax, corporate income tax, and property tax. (3) No adjustments for legislative changes.

This is the fifth consecutive time since the start of the Great Recession that inflation adjusted quarterly state tax collections are higher compared to the peak levels. Despite the growth in overall state tax collections, inflation adjusted sales tax receipts for the nation show 2.9 percent decline in the fourth quarter of 2013 compared to the same quarter of 2007.

Figure 2 shows the four-quarter moving average of inflation adjusted year-over-year change in state tax collections and local tax collections from major sources such as personal income, corporate income, and sales and property taxes. Beginning with the third quarter of 2013, the Census Bureau redesigned the local nonproperty tax survey instrument and now collects data only from the four largest tax categories: property, sales, personal income, and corporate income taxes. Therefore, Figure 2 is based on tax collections from those four major tax categories only and excludes revenue collections from smaller taxes, such as motor fuel sales taxes, tobacco product, and alcoholic beverage sales taxes, among other smaller sources of taxes. For comparative purposes, we have excluded smaller taxes from the total state government taxes as well. Overall, smaller taxes represent around one quarter of total state government tax collections and less than 10 percent of total local government tax collections. In addition, we have adjusted the Census Bureau's local property tax revenues to reflect differences between the Census Bureau's prior survey methodology and a revised survey methodology being used since the fourth quarter of 2008 for collecting property tax revenues.[4] As shown in Figure 2, the year-over-year change in state major taxes, adjusted for inflation, has averaged 6.7 percent over the last four quarters. This represents considerable improvement from the 2.6 percent average growth of a year ago and was driven upward by three artificially boosted quarters.

Local major tax revenues grew for the fourth consecutive quarter. Local taxes grew in real, year-over-year terms—by an average of 1.4 percent over the last four quarters, a significant improvement over the 0.2 percent decline of the preceding year.

Inflation over the year, as measured by the gross domestic product deflator, was 1.4 percent.

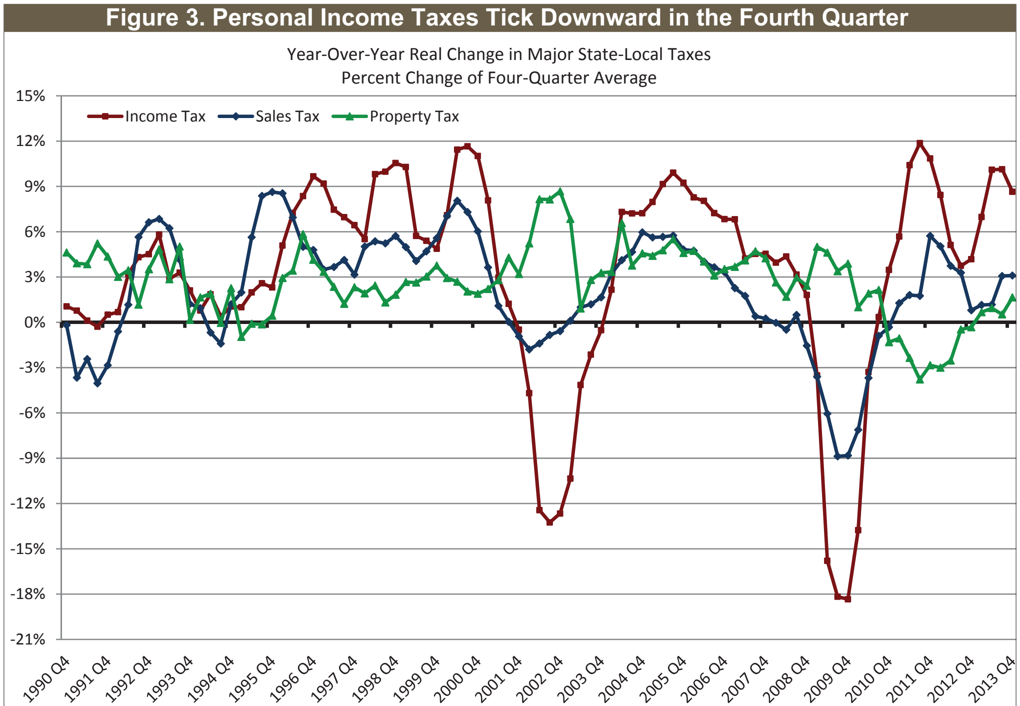
Local tax collections from major sources have been relatively weak by historical standards over the last five years due in part to the lagged impact of falling housing prices on property tax collections. For the quarter ending in December 2013, the 1.4 percent growth in the four-quarter moving average of local major tax collections is relatively weak compared to historical averages. The largest year-over-year growth in local major tax collections in the last decade was recorded in the second quarter of 2004, at 6.5 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. Local property tax revenues showed a growth of 3.0 percent in nominal terms in the fourth quarter of 2013 compared to the same quarter of 2012.

Local sales tax collections, the second largest contributor to overall local tax revenues, declined by 5.4 percent in the fourth quarter of 2013 in nominal terms. Collections from local individual income taxes, a much smaller contributor to overall local revenues, showed an increase of 17.2 percent, while collections from corporate income taxes declined by 12.3 percent.

Figure 3 shows the four-quarter moving 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 growth of 8.7 percent, which marks the fourteenth consecutive quarter of growth. However, the growth in income tax collections ticked downward in the fourth quarter of 2013. State-local sales tax collections showed growth of 3.1 percent in the fourth quarter of 2013. After nine consecutive quarterly declines, the four-quarter average of year-over-year

Figure 3. Personal Income Taxes Tick Downward in the Fourth Quarter



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.

changes in state-local property taxes showed growth of 1.6 percent, marking the fourth consecutive quarter of growth.

State Tax Revenue

Total state tax revenue rose in the fourth quarter of 2013 by 3.5 percent relative to a year ago, before adjustments for inflation and legislated changes (such as changes in tax rates). The individual income tax increased by an insignificant 0.4 percent, while the sales tax and corporate income tax grew by 5.6 and 4.6 percent, respectively. Tables 1 and 2 portray growth in tax revenue with and without adjustment for inflation, and growth by major tax. Thirteen states reported declines in total tax revenue during the fourth quarter of 2013, while five states reported double-digit increases in the fourth quarter (see Tables 7 and 8 on pages 17-18). All regions reported growth in total collections. The Plains region showed the largest gain at 7.8 percent, followed by the Southwest region at 5.4 percent. The Mid-Atlantic region showed the weakest growth at 0.5 percent.

Preliminary figures collected by the Rockefeller Institute for the January-March quarter of 2014 indicate that collections in personal income tax revenues declined.[5] Moreover, the early figures indicate less than 1 percent growth in total collections in the first quarter of 2014. Overall tax collections in forty-five early reporting states showed growth of 0.7 percent in the first quarter of 2014 compared to the same quarter of 2013.

Personal Income Tax

In the fourth quarter of 2013, personal income tax revenue made up at least a third of total tax revenue in twenty-nine states, and was larger than the sales tax in twenty-six states. Personal income tax revenues showed modest growth at 0.4 percent in the fourth quarter of 2013 compared to the same period in 2012, which marks the sixteenth consecutive quarter growth. However, the growth in income tax collections in the fourth quarter is extremely modest and is much weaker compared to the 10.9 percent growth reported in the same quarter of 2012. Personal income tax collections were above the recessionary peak for the quarter in nominal terms, ending 18.4 percent higher than in the fourth quarter of 2007. Inflation-adjusted figures indicate that personal income tax collections were only 8.3 percent above the recessionary peak reported in the fourth quarter of 2007.

All regions but the Southwest and Mid-Atlantic reported increases in personal income tax collections. The Southwest and Mid-Atlantic regions reported declines in personal income tax collections at 10 and 0.9 percent, respectively. The largest growth was in the Rocky Mountain region where collections increased by 4.4 percent in the fourth quarter of 2013.

Overall, twenty-six states reported growth in personal income tax collections for the quarter with three states reporting double-digit increases. The three states reporting double-digit growth

Table 1. Quarterly State Tax Revenue

Year-Over-Year Percent Change

Quarter	Total Nominal Change	Inflation Rate	Adjusted Real Change
2013 Q4	3.5	1.4	2.0
2013 Q3	5.7	1.3	4.3
2013 Q2	9.5	1.3	8.1
2013 Q1	9.1	1.6	7.4
2012 Q4	5.1	1.8	3.2
2012 Q3	3.0	1.6	1.3
2012 Q2	3.5	1.7	1.8
2012 Q1	3.9	1.9	2.0
2011 Q4	3.1	1.8	1.2
2011 Q3	5.1	2.2	2.9
2011 Q2	11.5	2.0	9.3
2011 Q1	10.5	1.8	8.5
2010 Q4	7.9	1.8	6.0
2010 Q3	5.3	1.6	3.7
2010 Q2	1.9	1.1	0.8
2010 Q1	3.3	0.5	2.8
2009 Q4	(3.1)	0.4	(3.5)
2009 Q3	(11.0)	0.3	(11.2)
2009 Q2	(16.3)	1.0	(17.2)
2009 Q1	(12.2)	1.6	(13.6)
2008 Q4	(4.0)	1.9	(5.8)
2008 Q3	2.8	2.1	0.6
2008 Q2	5.4	1.8	3.6
2008 Q1	2.6	1.9	0.7
2007 Q4	3.6	2.5	1.1
2007 Q3	3.1	2.4	0.6
2007 Q2	5.5	2.8	2.7
2007 Q1	5.2	3.0	2.1
2006 Q4	4.2	2.7	1.5
2006 Q3	5.9	3.1	2.7
2006 Q2	10.1	3.3	6.5
2006 Q1	7.1	3.2	3.8
2005 Q4	7.9	3.4	4.4
2005 Q3	10.2	3.3	6.7
2005 Q2	15.9	3.0	12.5
2005 Q1	10.6	3.1	7.2
2004 Q4	9.4	3.1	6.2
2004 Q3	6.5	2.9	3.5
2004 Q2	11.2	2.7	8.3
2004 Q1	8.1	2.2	5.7
2003 Q4	7.0	2.0	4.8
2003 Q3	6.3	2.0	4.2
2003 Q2	2.1	1.9	0.2
2003 Q1	1.6	2.0	(0.5)
2002 Q4	3.4	1.7	1.7
2002 Q3	1.6	1.5	0.1
2002 Q2	(9.4)	1.4	(10.6)
2002 Q1	(6.1)	1.6	(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	2.4	0.3

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
2013 Q4	0.4	4.6	5.6	3.5
2013 Q3	5.0	1.5	5.8	5.7
2013 Q2	18.5	10.3	5.2	9.5
2013 Q1	18.1	9.4	5.6	9.1
2012 Q4	10.9	3.0	2.7	5.1
2012 Q3	5.3	8.5	1.8	3.0
2012 Q2	5.7	(3.0)	1.7	3.5
2012 Q1	4.4	3.6	5.0	3.9
2011 Q4	2.9	(3.3)	2.9	3.1
2011 Q3	9.1	0.9	2.0	5.1
2011 Q2	15.8	18.3	6.1	11.5
2011 Q1	13.6	4.1	6.4	10.5
2010 Q4	9.8	12.1	5.5	7.9
2010 Q3	3.9	0.5	4.3	5.3
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

Source: U.S. Census Bureau (tax revenue).

in personal income tax collections are Idaho, Indiana, and Vermont. Seventeen states reported declines in personal income tax collections with the following six states reporting double-digit declines: Delaware, Kansas, New Hampshire, New Mexico, North Dakota, and Tennessee. The declines in two of these six states — New Hampshire and Tennessee — are not meaningful as both states don't have broad-based income tax and the tax is on interest and dividends income only. The large declines in Delaware, Kansas, and North Dakota are mostly attributable to the legislative changes that cut income tax rates as well as restructured tax brackets. Delaware, Kansas, and North Dakota were not the only states cutting personal income tax rates. State legislatures also cut rates in Maine, Michigan, Nebraska, and Ohio. The declines in income tax collections in the fourth quarter of 2013 in Maine, Michigan, and Ohio are likely at least partially attributable to cuts in tax rates. Personal income tax collections grew in Nebraska in the fourth quarter of 2013 despite rate cuts for brackets with income below $27,000. Nebraska illustrates that cutting tax rates can have little impact if tax brackets are not adjusted to reflect income growth. In fact, only a handful of states revise income bracket levels to adjust for inflation every year. In the case of Nebraska, Governor Heineman proposed eliminating the state individual and corporate income taxes, which make up about 50 percent of total taxes.[6]

The large declines in personal income tax collections in many states during the fourth quarter of 2013 are also at least partially attributable to the disappearance of the temporary shifts in income tax collections driven by the fiscal cliff, as discussed below.

In terms of dollar value, the largest increases were reported in California, where personal income tax collections grew by $176 million, or 1.2 percent. The growth in personal income tax collections in California is at least partially driven by legislated tax changes. 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 from January 1, 2012, through December 31, 2018. California also has the largest share of personal income tax revenues. In the fourth quarter of 2013, personal income tax revenues in California made up 20 percent of total personal income tax collections for the nation. If we exclude California, personal income tax collections show a growth of 0.2 percent for the nation.

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.

Table 3. Personal Income Tax Withholding, By State

Last Four Quarters, Percent Change

	2012 vs. 2013			
	Jan-Mar	*Apr-June*	*July-Sep*	*Oct-Dec*
United States	**3.6**	**3.6**	**4.4**	**1.1**
New England	**1.2**	**2.1**	**3.6**	**1.9**
Connecticut	2.5	3.0	1.8	1.7
Maine	(3.0)	(2.2)	(2.2)	(3.6)
Massachusetts	1.4	1.9	5.2	2.5
Rhode Island	(4.3)	1.5	2.6	2.4
Vermont	3.8	10.2	6.5	5.7
Mid-Atlantic	**4.2**	**3.5**	**4.5**	**1.9**
Delaware	2.0	3.9	5.5	2.3
Maryland	1.2	1.8	3.5	0.9
New Jersey	4.5	6.8	11.9	2.5
New York	5.4	3.6	3.5	2.1
Pennsylvania	2.3	2.6	2.3	2.1
Great Lakes	**1.8**	**4.0**	**4.0**	**(0.4)**
Illinois	3.4	2.4	3.0	1.8
Indiana	(0.4)	7.4	(0.1)	4.2
Michigan	2.3	2.4	4.4	2.6
Ohio	3.3	6.0	2.4	(4.1)
Wisconsin	(1.9)	3.5	14.0	(7.2)
Plains	**2.8**	**1.8**	**3.9**	**0.1**
Iowa	5.8	2.7	2.3	2.7
Kansas	(9.3)	(13.9)	9.8	(15.6)
Minnesota	4.5	7.2	5.1	5.0
Missouri	3.5	1.0	1.5	0.1
Nebraska	2.3	2.8	(2.7)	(0.8)
North Dakota	24.1	11.9	16.1	(1.9)
Southeast	**2.9**	**2.9**	**3.5**	**1.8**
Alabama	1.0	4.9	(1.2)	1.9
Arkansas	0.5	5.3	0.2	1.1
Georgia	1.9	3.1	3.5	1.4
Kentucky	1.9	(0.5)	5.6	1.1
Louisiana	(0.8)	2.9	9.9	(2.8)
Mississippi	(0.9)	5.8	0.8	4.7
North Carolina	5.2	4.6	3.1	3.5
South Carolina	4.2	3.6	4.9	1.4
Virginia	4.6	0.5	4.9	2.1
West Virginia	(2.5)	3.2	(5.1)	1.7
Southwest	**2.0**	**3.9**	**4.1**	**0.1**
Arizona	0.7	2.6	5.8	(1.4)
New Mexico	(0.4)	5.6	(1.8)	(1.6)
Oklahoma	4.7	4.9	4.4	3.0
Rocky Mountain	**2.3**	**5.7**	**3.3**	**3.7**
Colorado	4.3	5.0	4.0	3.0
Idaho	0.8	1.0	3.2	8.2
Montana	3.6	3.6	6.0	(0.2)
Utah	(1.4)	10.0	1.3	4.3
Far West	**6.4**	**5.0**	**6.0**	**0.6**
California	7.0	5.0	6.1	0.0
Hawaii	7.2	7.3	3.1	2.3
Oregon	0.4	4.1	5.7	5.2

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.

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 October-December 2013 quarter increased by 1.1 percent for the 41 states with broad-based personal income taxes, which is considerably weaker than the 4.4 percent rate reported in the July-September quarter. Wages are the largest component of taxable income by far, and with only 1.1 percent growth in withholding taxes on wages, the income tax cannot maintain its rapid growth without extraordinary increases in investment income. While 2013, with its strong stock market, was a good year for investors' assets, taxable investment income may nonetheless be extremely weak in the coming quarters because of the accelerations discussed earlier.

Thirty-one states reported growth in withholding for the fourth quarter of 2013, while ten states reported declines. Idaho and Vermont reported the strongest growth in the fourth quarter of 2013, at 8.2 and 5.7 percent, respectively. Among the ten states reporting declines, Kansas reported the largest decline at 15.6 percent, followed by Wisconsin and Ohio where withholding declined by 7.2 and 4.1 percent, respectively. The large declines in Kansas are mostly due to the legislated changes. Earlier in 2013, the governor of Kansas signed into law a tax-cut measure that reduced the number of income tax brackets from three to two, as well as cut the rates. The tax rates were cut from 3.5 percent to 3.0 percent for the bottom bracket, which includes people making less than $30,000 per year. The top two brackets were consolidated into a single bracket and the tax rates were reduced from 6.45 percent and 6.25 percent to a single rate of 4.9 percent for taxpayers earning over $30,000 per year. Therefore, the tax cuts were more advantageous for higher income taxpayers as it was cut by 1.35 percent for taxpayers earning between $30,000 and $60,000 and by 1.55 percent for taxpayers earning over $60,000 annually. The rate was cut by 0.5 percent only for taxpayers earning less than $30,000 annually. Beginning in tax year 2014, the income tax rates

Table 4. Estimated Payments/Declarations, By State

Year-Over-Year Percent Change

	April-January (all four payments of 2013)	December-January (fourth payment of 2013)
Average (Mean)	**5.1**	**(8.7)**
Median	**6.4**	**(8.2)**
Alabama	(2.6)	(18.9)
Arizona	(0.3)	(14.3)
Arkansas	0.2	(14.0)
California	(6.5)	(30.6)
Colorado	18.6	(14.0)
Connecticut	4.8	1.2
Delaware	7.6	1.4
Georgia	(21.3)	(8.0)
Hawaii	11.2	(24.6)
Illinois	7.7	(0.9)
Indiana	(0.9)	(7.0)
Iowa	(2.3)	(21.5)
Kansas	(36.8)	(45.8)
Kentucky	10.6	(9.0)
Louisiana	6.4	(7.8)
Maine	(6.7)	(25.8)
Maryland	3.7	(7.7)
Massachusetts	8.0	3.0
Michigan	13.4	3.4
Minnesota	25.8	23.7
Mississippi	4.7	(35.8)
Missouri	12.4	6.4
Montana	6.4	(0.7)
Nebraska	7.3	(10.4)
New Jersey	9.8	5.1
New York	20.3	3.8
North Carolina	(7.5)	(10.7)
North Dakota	51.0	(25.3)
Ohio	(0.6)	(15.2)
Oklahoma	8.1	(8.6)
Oregon	9.0	0.3
Pennsylvania	(0.5)	(8.4)
Rhode Island	2.4	(8.9)
South Carolina	1.0	(7.7)
Vermont	14.2	14.8
Virginia	9.4	(0.3)
West Virginia	(3.7)	(4.8)
Wisconsin	8.2	(8.8)

Source: Individual state data, analysis by Rockefeller Institute.

on the bottom and top brackets will be reduced further to 2.7 and 4.8 percent, respectively. Moreover, the tax rates will continue to drop through tax year 2018.

Among the regions, the Rocky Mountain region reported the largest growth in withholding at 3.7 percent, while the Great Lakes region reported declines in withholding at 0.4 percent.

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 normally represent a relatively small proportion of overall income-tax revenues, but can have a disproportionate impact on the direction of overall collections. In the fourth quarter of 2013, the estimated payments accounted for $8.5 billion, or roughly 12 percent, of all personal income tax revenues.

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 (although many high-income taxpayers make this last state income tax payment in December, so that it is deductible on the federal tax return for that year, rather than the next). In the thirty-eight states for which we have complete data for all four payments (mostly attributable to the 2013 tax year), the median payment was up by 6.4 percent compared to the previous year (see Table 4). Declines were recorded in twelve of thirty-eight states for all four payments. The median growth of 6.4 percent reported for all four payments of tax year 2013 is a significant softening compared to the median growth of 14.1 percent reported for all payments of tax year 2012.

The median fourth estimated payment for this year declined by 8.2 percent, whereas the median fourth payment last year grew by 25.2 percent. Declines were recorded in twenty-eight states for the fourth payment, with fourteen states reporting double-digit declines.

The large change in the fourth payment of this year versus last year is not surprising and appears to be related to federal tax policy and the uncertainty that was tied to the "fiscal cliff." If Congress had not taken any actions to address the "fiscal cliff," tax rates would have risen on several types of income, including capital gains. (And tax rates did end up increasing as mentioned above, although Congressional action muted those increases.)

Therefore, many taxpayers accelerated the realization of some income, such as capital gains, from tax year 2013 into tax year 2012. This resulted in a strong growth in estimated payments for the fourth payment of tax year 2012 and, subsequently, led to declines in the fourth payment of the tax year 2013. The uncertain implications of the federal policy created a further burden for states trying to make accurate projections of personal income taxes.

Final Payments

Final payments normally represent a smaller share of total personal income tax revenues in the first, third, and fourth quarters of the tax year, and a much larger share in the second quarter of the tax year due to the April 15th income tax return deadline. In the fourth quarter of 2013, final payments accounted for $4.3 billion, or roughly 6 percent, of all personal income tax revenues. Final payments with personal income tax returns in the thirty-nine early reporting states grew by 27.3 percent in the fourth quarter of 2013 compared to the same quarter of 2012. Payments with returns in the October-December quarter of 2013 exceeded 2012 levels in all but four states.

Refunds

Personal income tax refunds paid by thirty-nine states grew by 20.4 percent in the fourth quarter of 2013 compared to the same quarter of 2012. In total, these thirty-nine early reporting states paid out about $1 billion more in refunds in the October-December quarter of 2013 than in 2012. Overall, twenty-nine states paid out more refunds while ten states paid out less refunds in the fourth quarter of 2013 compared to the same quarter of 2012.

General Sales Tax

State sales tax collections in the October-December 2013 quarter showed growth of 5.6 percent from the same period in 2012. This is the sixteenth quarter in a row that sales tax collections rose. Increases in collections were reported during the fourth quarter in all regions. The Plains and Far West regions reported the largest increases in sales tax collections at 15.1 and 10.4 percent, respectively.

Thirty-seven of forty-five states with broad-based sales taxes reported growth in collections for the quarter; six states reported double-digit gains. Eight states reported declines in sales tax collections in the fourth quarter of 2013, with Arizona and Michigan reporting the largest declines at 10.7 and 6.5 percent, respectively. The large declines in tax revenues in Arizona were mostly due to expiration of the temporary one-cent sales tax increase that was in place from June 2010 to June 2013.

The largest growth in terms of dollar value was reported in California, where sales tax collections grew by $1.2 billion, or 15.8 percent, which is mostly attributable to Proposition 30, which increased sales tax rates by 25 percent for tax years 2013 to 2016. If we exclude California, sales tax collections show a growth of 4.1 percent for the nation in the fourth quarter of 2013.

After sixteen consecutive quarters of growth, state sales tax revenues were 6.1 percent higher in the fourth quarter of 2013 compared to the same quarter of six years ago. However, if we adjust the numbers for inflation, sales tax receipts show 2.9 percent decline in the fourth quarter of 2013 compared to the same quarter of 2007.

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 4.6 percent in the fourth quarter of 2013 compared to a year earlier. All regions but Southwest and Mid-Atlantic reported growth in corporate income tax collections in the fourth quarter of 2013, where collections declined by 13.6 and 9.8 percent, respectively. The Far West and New England regions reported the largest growth at 26.2 and 18.6 percent, respectively.

Among forty-six states that have a corporate income tax, twenty-two reported growth, with eighteen enjoying double-digit gains. Twenty-four states reported declines for the fourth quarter of 2013 compared to the same quarter of the previous year, of which sixteen states reported double-digit declines. The largest decline in terms of dollar value was reported in New York, where corporate income tax collections fell by $312 million or 26.2 percent. On the contrary, the largest growth in terms of dollar value was reported in California, where corporate income tax collections grew by $330 million, or 32 percent.

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

Revenues from smaller tax sources showed a mixed picture in the fourth quarter of 2013. The motor fuel sales tax, the most significant of the smaller taxes, showed a 0.6 percent growth for the nation, which is the second consecutive quarter of growth. State property taxes, a relatively small revenue source for states, grew by 0.4 percent. Collections from tobacco product sales taxes declined for the tenth consecutive quarter, by 2.4 percent. Tax revenues from alcoholic beverage sales declined by 0.5 percent, while tax revenues from motor vehicle and operators′ licenses remained unchanged compared to the same quarter of 2012.

Table 5. 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), last 12 months	$13,195	$42,121	$16,977	$6,029	$25,726	$132,967
2013 Q4	0.4	0.6	(2.4)	(0.5)	0.0	4.4
2013 Q3	1.9	0.1	(0.9)	(1.9)	(0.5)	2.7
2013 Q2	(1.1)	(0.6)	(3.3)	(1.4)	(1.1)	0.9
2013 Q1	(3.2)	(0.6)	(2.5)	0.1	0.4	1.6
2012 Q3	(4.7)	(0.1)	(2.4)	2.4	2.1	0.8
2012 Q3	(9.1)	(0.3)	(3.2)	3.6	3.2	2.7
2012 Q2	(10.5)	(1.1)	(2.1)	3.2	3.3	4.7
2012 Q1	(8.9)	0.2	(2.4)	0.8	2.2	7.7
2011 Q4	(9.2)	3.0	(1.7)	(0.4)	1.9	11.9
2011 Q3	(5.7)	5.7	(0.9)	0.6	0.4	12.2
2011 Q2	(2.0)	8.8	0.7	1.6	1.6	12.4
2011 Q1	0.4	8.2	2.8	3.2	3.3	9.3
2010 Q4	6.0	5.3	3.1	3.3	4.1	7.4
2010 Q3	11.2	2.4	2.3	3.1	5.7	4.3
2010 Q2	11.2	0.7	0.6	2.2	3.9	(2.3)
2010 Q1	9.9	(0.8)	(1.1)	0.8	1.5	(9.1)
2009 Q4	6.1	(1.9)	(1.5)	0.6	0.2	(13.6)
2009 Q3	(0.5)	(3.1)	0.4	0.1	(1.2)	(13.3)
2009 Q2	(2.0)	(5.3)	1.3	(0.1)	(0.9)	(6.7)
2009 Q1	(3.7)	(5.9)	2.6	0.4	(0.4)	3.9
2008 Q4	(2.8)	(4.9)	3.1	0.5	(1.1)	7.5
2008 Q3	1.9	(3.3)	3.5	(0.1)	(0.5)	9.9
2008 Q2	3.4	(1.7)	5.9	0.6	(0.3)	7.8
2008 Q1	4.1	(1.1)	6.2	0.6	(1.0)	3.4
2007 Q4	3.6	(1.7)	6.2	0.6	(0.4)	2.4
2007 Q3	1.6	(0.6)	4.0	1.7	(0.8)	(0.2)
2007 Q2	(0.1)	(1.1)	0.6	1.5	(0.8)	(1.2)
2007 Q1	1.8	0.1	1.7	0.7	0.6	(0.9)
2006 Q4	0.3	0.8	2.8	1.2	1.1	(0.2)
2006 Q3	(0.2)	(1.0)	5.5	1.3	1.0	2.1
2006 Q2	(0.0)	1.5	9.1	1.3	0.8	4.3
2006 Q1	0.9	1.6	7.0	2.6	0.2	5.3
2005 Q4	2.0	2.2	5.5	1.7	0.4	7.2
2005 Q3	3.5	3.7	4.3	(0.1)	2.0	6.4
2005 Q2	3.6	1.0	2.3	(0.5)	2.8	5.0
2005 Q1	1.8	1.5	3.0	(2.3)	3.7	5.8
2004 Q4	(4.8)	1.7	3.6	(1.4)	5.6	6.1
2004 Q3	(2.3)	1.6	3.6	0.1	6.1	7.6
2004 Q2	3.6	2.2	4.9	0.5	6.7	9.0
2004 Q1	1.1	0.5	10.6	4.4	5.6	7.6
2003 Q4	8.7	(0.9)	17.2	4.1	4.0	5.7
2003 Q3	5.7	(1.1)	26.3	2.4	2.9	3.9
2003 Q2	(1.0)	(0.3)	35.9	3.2	2.8	2.7
2003 Q1	(4.9)	0.8	27.2	0.7	3.7	2.3
2002 Q4	(4.8)	1.1	17.3	0.0	2.9	2.1
2002 Q3	(6.7)	0.7	5.6	2.7	2.6	2.6
2002 Q2	(4.3)	1.2	(5.9)	(0.1)	0.6	3.4
2002 Q1	5.1	1.7	(5.0)	(0.2)	(1.2)	2.1
2001 Q4	2.7	2.5	(1.5)	0.5	(2.9)	2.5
2001 Q3	(0.4)	3.4	2.5	(1.4)	(3.4)	1.4
2001 Q2	(5.1)	2.4	7.5	1.6	(0.7)	0.8
2001 Q1	(12.6)	1.1	8.3	1.3	2.3	3.5

Source: U.S. Census Bureau.

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.

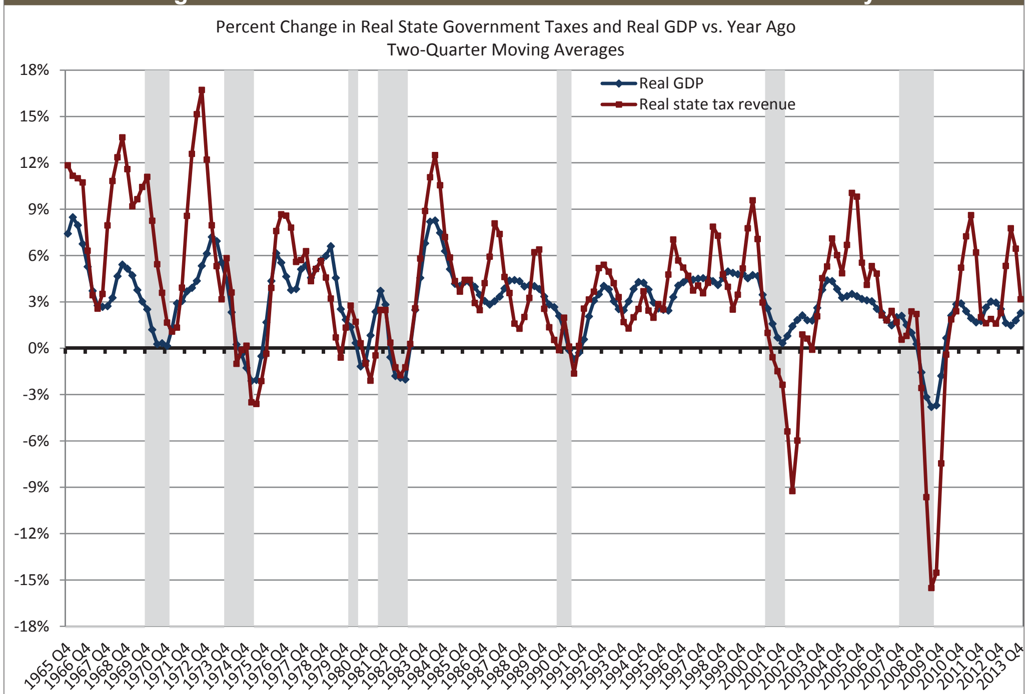
Economic Changes

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 usually related to economic growth. As shown in Figure 4, in the fourth quarter of 2013 real state tax revenue showed 3.2 percent growth on this moving-average basis. This was the fifteenth consecutive quarter of growth. Real Gross Domestic Product (GDP) showed growth for the sixteenth consecutive quarter at 2.3 percent. Postrecession growth in real GDP has been fairly weak, varying between 1.5 and 3 percent.

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 was not far from the growth rate in the overall economy throughout 2012, state tax revenues have been more volatile than the

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.

Table 6. Nonfarm Employment, By State

Last Four Quarters, Year-Over-Year Percent Change

	Jan-March	*April-June*	*July-Sep*	*Oct-Dec*
United States	**1.7**	**1.7**	**1.8**	**1.6**
New England	**1.0**	**1.2**	**1.1**	**1.1**
Connecticut	0.4	1.1	1.0	0.8
Maine	0.3	0.3	0.8	1.0
Massachusetts	1.4	1.5	1.3	1.4
New Hampshire	0.9	1.1	0.7	0.7
Rhode Island	1.0	1.2	1.3	1.1
Vermont	0.7	0.8	0.0	0.7
Mid-Atlantic	**0.8**	**1.0**	**1.1**	**0.9**
Delaware	1.7	1.7	2.1	2.1
Maryland	1.0	1.0	0.8	0.6
New Jersey	1.1	1.2	1.3	0.9
New York	1.1	1.3	1.4	1.2
Pennsylvania	0.2	0.1	0.4	0.4
Great Lakes	**1.2**	**1.1**	**1.2**	**1.2**
Illinois	1.0	0.7	0.6	0.9
Indiana	0.8	0.9	1.1	1.5
Michigan	1.9	1.8	1.7	1.5
Ohio	1.1	1.2	1.5	1.0
Wisconsin	1.2	0.6	1.2	1.2
Plains	**1.5**	**1.4**	**1.5**	**1.6**
Iowa	1.1	1.0	1.6	1.8
Kansas	0.8	0.9	1.5	1.5
Minnesota	1.9	1.6	1.6	1.7
Missouri	1.4	1.6	1.4	1.5
Nebraska	1.1	0.9	1.2	0.8
North Dakota	4.6	3.1	3.1	3.6
South Dakota	1.1	0.6	0.9	0.4
Southeast	**1.5**	**1.4**	**1.7**	**1.6**
Alabama	0.9	1.0	1.0	1.0
Arkansas	0.0	(0.3)	0.0	0.5
Florida	2.3	2.2	2.7	2.7
Georgia	1.9	1.8	2.3	1.9
Kentucky	1.0	0.7	1.0	0.3
Louisiana	1.3	0.9	1.5	1.5
Mississippi	0.7	0.7	0.7	1.4
North Carolina	1.7	1.7	1.8	1.9
South Carolina	1.7	1.9	2.2	2.2
Tennessee	1.4	1.2	1.3	1.3
Virginia	1.0	0.9	0.8	0.1
West Virginia	(0.3)	(0.6)	(0.0)	(0.1)
Southwest	**2.7**	**2.5**	**2.5**	**2.2**
Arizona	2.2	2.2	2.2	1.8
New Mexico	1.1	0.9	0.8	(0.6)
Oklahoma	1.5	1.1	1.2	0.8
Texas	3.1	2.9	2.9	2.7
Rocky Mountain	**2.9**	**2.7**	**2.8**	**2.4**
Colorado	2.9	2.9	3.2	2.8
Idaho	2.8	3.2	2.7	1.6
Montana	2.6	2.1	1.7	1.3
Utah	3.7	2.9	3.2	2.8
Wyoming	0.0	0.2	0.5	0.8
Far West	**2.8**	**2.8**	**3.0**	**2.4**
Alaska	0.7	0.5	0.7	(0.4)
California	3.1	3.1	3.3	2.5
Hawaii	2.6	1.8	1.5	1.5
Nevada	2.3	2.4	2.8	3.2
Oregon	1.6	1.9	2.2	2.4
Washington	2.5	2.2	2.4	1.9

Source: Bureau of Labor Statistics (CES, seasonally unadjusted).

general economy in prior years as well as throughout 2013.

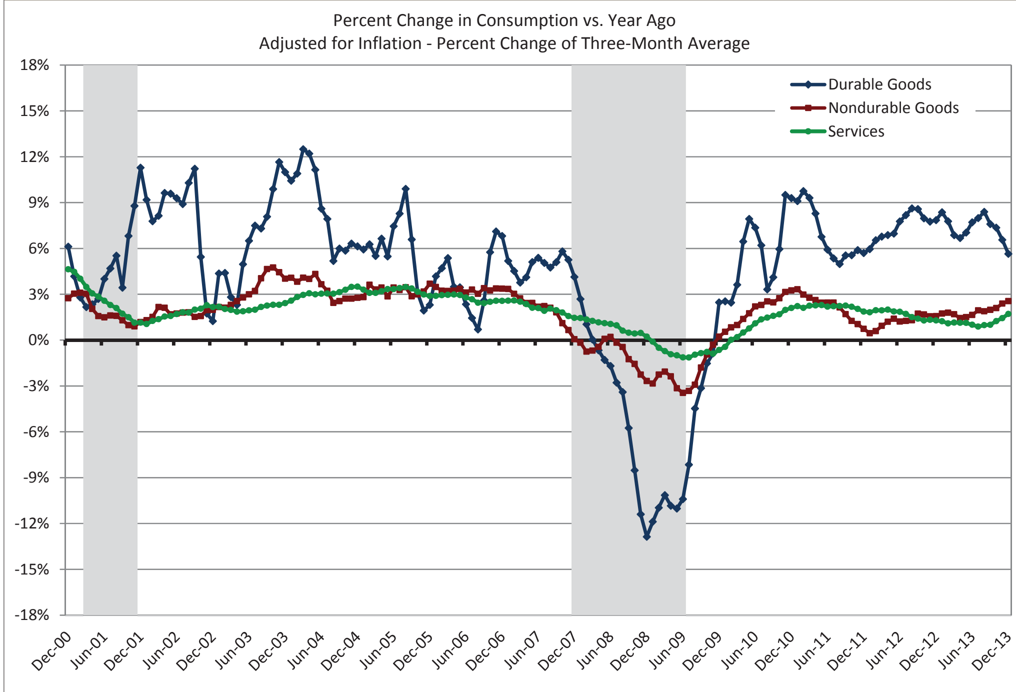
State-by-state data on income and consumption are not available on a timely basis, and so we cannot easily see variation across the country in these trends. Instead, like other researchers, the Rockefeller Institute relies partly on employment data from the Bureau of Labor Statistics to examine state-by-state economic conditions. These data are relatively timely and are of high quality. Table 6 shows year-over-year employment growth over the last four quarters. For the nation as a whole, employment grew by 1.6 percent relative to the October-December quarter of 2013. On a year-over-year basis, employment grew in all states but Alaska, New Mexico, and West Virginia. North Dakota reported the largest growth at 3.6 percent in the fourth quarter of 2013. In total, ten states reported growth of over 2.0 percent.

All regions reported growth in employment in the fourth quarter of 2013, but job gains are not evenly distributed among the regions. The Mid-Atlantic region reported the weakest growth in employment at 0.9 percent. The Rocky Mountain and Far West regions reported the largest increase in employment at 2.4 percent each. 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 very 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.[7] These indexes can be used to measure the scope of economic decline or growth.

The analysis of coincident indexes indicates that, as of February 2014, economic activity nationwide increased by 0.6 percent compared to three months earlier and by 2.8 percent compared to a year earlier. At the state level, forty-nine states reported growth in economic activity compared to three months earlier, and Kansas was the only state reporting declines. The number of states reporting declines in economic activity has been rather stable and varied — between one and two in the last six months. The data underlying these indexes are subject to revision, and so tentative conclusions drawn

Figure 5. Consumption of Durable Goods Is Softening



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

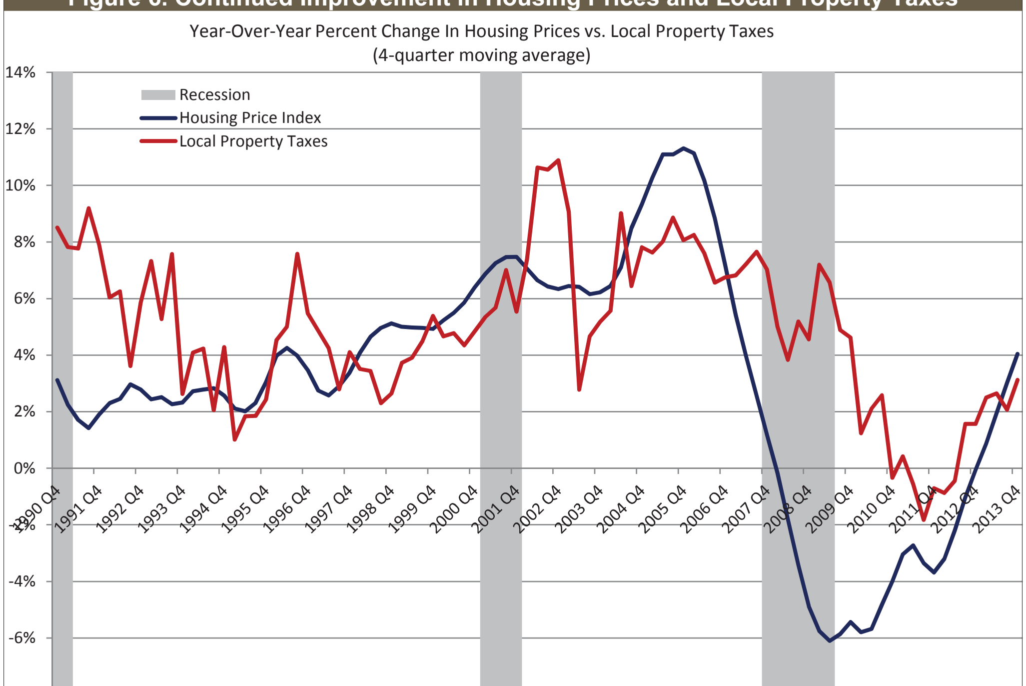
now could change at a later date.

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 and services remained relatively stagnant in the last few months. Growth in the consumption of durable goods, an important element of state sales tax bases, has been downward and weakened considerably in the last five months.

Figure 6 shows the year-over-year percent change in the four-quarter moving average housing price index and local property taxes for the nation from the fourth quarter of 1990 through the fourth quarter of 2013. 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.[8]

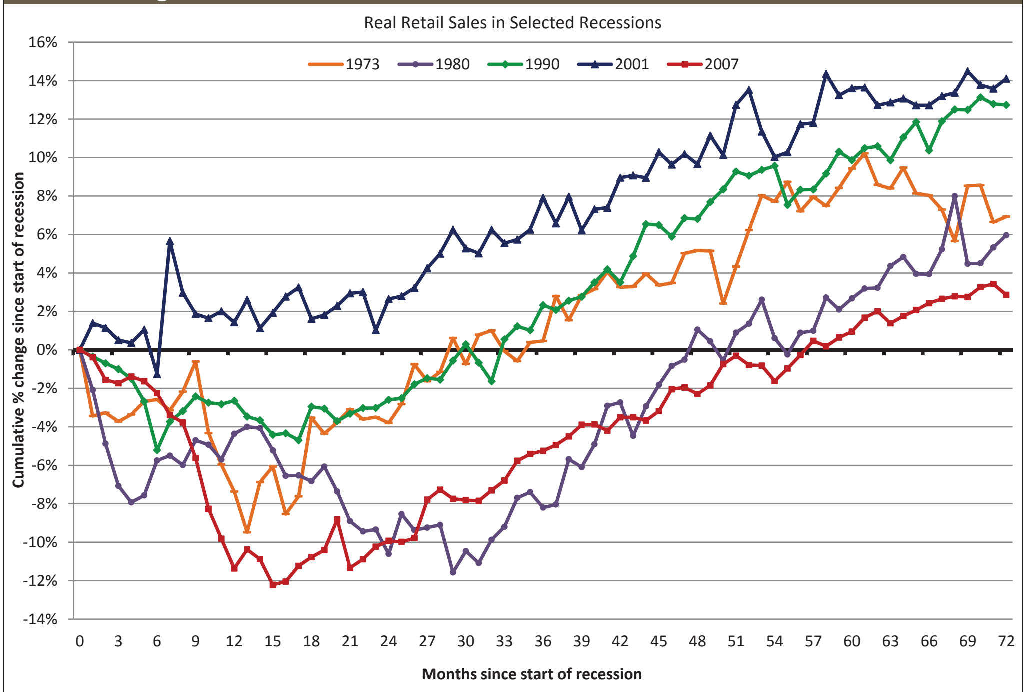
As Figure 6 shows, the trend in the housing price index has been downward since mid-2005, with steeply negative movement from the

Figure 6. Continued Improvement in Housing Prices and Local Property Taxes



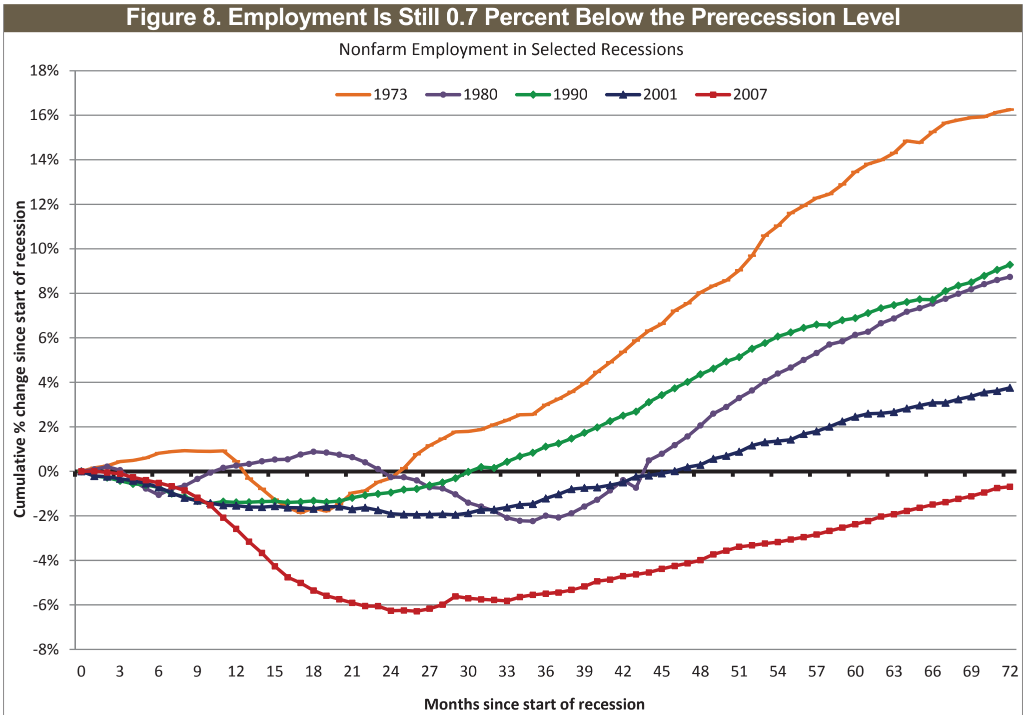
Source: U.S. Census Bureau Quarterly Summary of State and Local Government Tax Revenue and Federal Housing Finance Agency, House Price Indexes data (All Transactions).

Figure 7. Real Retail Sales Are Now Above the Prerecession Levels



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

Figure 8. Employment Is Still 0.7 Percent Below the Prerecession Level



Source: Bureau of Labor Statistics (CES, seasonally adjusted).

last quarter of 2005 through the second quarter of 2009. The trend in the housing price index has been generally upward since mid-2009 and strengthened continuously throughout 2013. In the fourth quarter of 2013, the housing price index showed growth at 4 percent. This is the fourth consecutive quarter of growth and is proceeding after twenty consecutive quarterly declines, which is highly encouraging. Figure 6 also shows that the decline in local property taxes lagged behind the decline in housing prices. The four-quarter moving average of year-over-year change in local property taxes showed 3.1 percent growth in the fourth quarter of 2013, marking six consecutive quarters of growth.

Tax Law Changes Affecting This Quarter

Another important element affecting trends in tax revenue growth is changes in states' tax laws. During the October-December 2013 quarter, enacted tax increases and decreases produced an estimated loss of $477 million compared to the same period in 2013.[9] Enacted tax changes decreased personal income tax by approximately $328 million, decreased

Table 7. State Tax Revenue, October-December 2012 and 2013 ($ in millions)

	October-December 2012				October-December 2013			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**70,223**	**8,730**	**61,511**	**194,091**	**70,530**	**9,128**	**64,939**	**200,795**
New England	**5,294**	**613**	**2,873**	**11,567**	**5,454**	**726**	**3,008**	**11,917**
Connecticut	1,615	48	1,036	3,581	1,656	192	1,046	3,757
Maine	374	34	265	948	359	39	293	953
Massachusetts	2,872	347	1,270	5,379	2,982	359	1,355	5,629
New Hampshire	8	124	NA	477	6	113	NA	387
Rhode Island	277	29	218	655	288	6	225	640
Vermont	148	30	84	527	164	19	89	551
Mid-Atlantic	**15,190**	**2,378**	**8,340**	**34,587**	**15,059**	**2,145**	**8,711**	**34,756**
Delaware	289	61	NA	706	198	45	NA	529
Maryland	1,595	152	1,013	3,936	1,615	145	1,041	4,202
New Jersey	2,551	460	1,951	6,116	2,612	500	2,094	6,466
New York	8,425	1,191	3,041	16,576	8,262	879	3,204	16,243
Pennsylvania	2,330	515	2,336	7,253	2,372	575	2,372	7,316
Great Lakes	**10,476**	**1,530**	**9,040**	**29,738**	**10,533**	**1,532**	**9,321**	**30,638**
Illinois	3,436	891	2,103	8,719	3,566	948	2,165	9,440
Indiana	985	199	1,650	3,939	1,092	195	1,701	4,068
Michigan	1,870	251	2,046	6,440	1,860	191	1,912	6,315
Ohio	2,231	5	2,154	6,378	2,163	(21)	2,381	6,493
Wisconsin	1,956	184	1,087	4,262	1,853	219	1,163	4,321
Plains	**5,404**	**674**	**3,913**	**13,997**	**5,431**	**715**	**4,505**	**15,089**
Iowa	842	118	619	2,057	820	70	651	1,979
Kansas	785	103	721	1,924	626	120	695	1,747
Minnesota	1,982	284	848	4,955	2,153	349	1,355	5,664
Missouri	1,258	59	751	2,633	1,296	56	798	2,708
Nebraska	431	67	401	1,050	450	61	427	1,092
North Dakota	105	38	348	1,004	86	54	342	1,491
South Dakota	NA	5	225	375	NA	6	238	407
Southeast	**12,882**	**1,754**	**14,592**	**40,931**	**12,983**	**1,924**	**15,228**	**42,297**
Alabama	723	68	581	2,178	748	74	594	2,237
Arkansas	620	71	702	2,283	637	68	772	2,404
Florida	NA	531	4,897	8,541	NA	450	5,121	8,883
Georgia	2,404	122	1,270	4,369	2,420	185	1,209	4,626
Kentucky	911	143	751	2,808	925	125	779	2,556
Louisiana	734	17	722	2,208	726	198	742	2,564
Mississippi	473	60	760	1,837	443	104	804	1,865
North Carolina	2,797	203	1,361	5,807	2,834	227	1,410	5,906
South Carolina	1,060	58	723	2,283	1,072	184	869	2,562
Tennessee	10	214	1,701	2,810	6	162	1,755	2,842
Virginia	2,743	206	813	4,495	2,767	95	865	4,581
West Virginia	406	60	311	1,312	405	52	310	1,271
Southwest	**2,264**	**274**	**9,162**	**17,949**	**2,037**	**236**	**9,292**	**18,916**
Arizona	964	119	1,404	3,245	967	118	1,254	3,058
New Mexico	551	42	519	1,562	357	63	540	1,554
Oklahoma	749	112	633	2,123	713	55	650	2,130
Texas	NA	NA	6,606	11,019	NA	NA	6,848	12,175
Rocky Mountain	**2,497**	**265**	**1,558**	**6,154**	**2,606**	**281**	**1,592**	**6,359**
Colorado	1,261	131	594	2,631	1,293	166	633	2,765
Idaho	303	35	324	867	337	38	333	893
Montana	247	41	NA	643	248	28	NA	647
Utah	686	59	460	1,509	728	48	438	1,548
Wyoming	NA	NA	180	505	NA	NA	188	504
Far West	**16,215**	**1,242**	**12,033**	**39,168**	**16,426**	**1,568**	**13,283**	**40,823**
Alaska	NA	90	NA	1,553	NA	84	NA	855
California	14,276	1,032	7,676	28,067	14,452	1,362	8,888	30,275
Hawaii	433	6	691	1,426	410	35	694	1,427
Nevada	NA	NA	877	1,596	NA	NA	921	1,697
Oregon	1,505	114	NA	2,206	1,565	87	NA	2,217
Washington	NA	NA	2,788	4,319	NA	NA	2,779	4,351

Source: U.S. Census Bureau.

Table 8. Quarterly Tax Revenue By Major Tax
October-December, 2012-2013, Percent Change

	PIT	CIT	Sales	Total
United States	**0.4**	**4.6**	**5.6**	**3.5**
New England	**3.0**	**18.6**	**4.7**	**3.0**
Connecticut	2.5	296.7	1.0	4.9
Maine	(4.2)	14.4	10.7	0.5
Massachusetts	3.8	3.3	6.7	4.6
New Hampshire	(26.1)	(9.0)	NA	(18.9)
Rhode Island	3.9	(79.8)	3.3	(2.2)
Vermont	10.7	(36.7)	5.2	4.6
Mid-Atlantic	**(0.9)**	**(9.8)**	**4.4**	**0.5**
Delaware	(31.3)	(25.1)	NA	(25.0)
Maryland	1.3	(4.4)	2.8	6.8
New Jersey	2.4	8.8	7.3	5.7
New York	(1.9)	(26.2)	5.4	(2.0)
Pennsylvania	1.8	11.8	1.6	0.9
Great Lakes	**0.5**	**0.1**	**3.1**	**3.0**
Illinois	3.8	6.4	2.9	8.3
Indiana	10.9	(1.8)	3.1	3.3
Michigan	(0.5)	(24.0)	(6.5)	(1.9)
Ohio	(3.0)	(507.7)	10.5	1.8
Wisconsin	(5.2)	18.4	6.9	1.4
Plains	**0.5**	**6.0**	**15.1**	**7.8**
Iowa	(2.6)	(40.6)	5.1	(3.8)
Kansas	(20.2)	16.1	(3.7)	(9.2)
Minnesota	8.6	22.6	59.7	14.3
Missouri	3.0	(4.6)	6.3	2.8
Nebraska	4.2	(9.2)	6.6	4.1
North Dakota	(18.5)	41.4	(1.7)	48.5
South Dakota	NA	15.5	5.5	8.7
Southeast	**0.8**	**9.7**	**4.4**	**3.3**
Alabama	3.5	8.8	2.2	2.7
Arkansas	2.6	(4.1)	10.0	5.3
Florida	NA	(15.2)	4.6	4.0
Georgia	0.7	51.7	(4.9)	5.9
Kentucky	1.6	(12.2)	3.7	(9.0)
Louisiana	(1.0)	1,066.0	2.7	16.1
Mississippi	(6.2)	72.9	5.7	1.5
North Carolina	1.3	11.6	3.6	1.7
South Carolina	1.1	215.6	20.1	12.2
Tennessee	(41.9)	(24.4)	3.2	1.2
Virginia	0.8	(54.0)	6.4	1.9
West Virginia	(0.3)	(14.2)	(0.2)	(3.2)
Southwest	**(10.0)**	**(13.6)**	**1.4**	**5.4**
Arizona	0.3	(0.9)	(10.7)	(5.8)
New Mexico	(35.2)	49.0	4.0	(0.5)
Oklahoma	(4.8)	(50.8)	2.7	0.4
Texas	NA	NA	3.7	10.5
Rocky Mountain	**4.4**	**6.0**	**2.2**	**3.3**
Colorado	2.6	27.4	6.5	5.1
Idaho	11.1	10.4	2.5	3.1
Montana	0.5	(31.5)	NA	0.7
Utah	6.0	(17.9)	(4.6)	2.6
Wyoming	NA	NA	4.6	(0.3)
Far West	**1.3**	**26.2**	**10.4**	**4.2**
Alaska	NA	(6.9)	NA	(45.0)
California	1.2	32.0	15.8	7.9
Hawaii	(5.4)	441.8	0.5	0.1
Nevada	NA	NA	5.0	6.4
Oregon	4.0	(23.5)	NA	0.5
Washington	NA	NA	(0.3)	0.7

Source: U.S. Census Bureau.

sales tax by $55 million, increased corporate income taxes by $60 million, increased cigarette taxes by $129 million, and decreased some other taxes by $283 million.

Among the enacted personal income tax changes, the most noticeable ones are the increase of tax rates in Minnesota for higher income taxpayers, and the decrease of tax rates in North Carolina, Ohio, and Wisconsin. In Ohio alone, the legislated tax changes are estimated to cause a $1.6 billion loss in fiscal year 2014. Other major and noticeable tax changes were the expiration of a temporary increase in sales tax in Arizona, sales tax rate increases in Ohio and Virginia, and cigarette and tobacco tax increases in Massachusetts and Minnesota.

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 seventy-two months following the start of each recession from 1973 forward.[10] 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 were also quite sharp. While real retail sales have been rising continuously from their lows in the last four years, at the end of December 2013 they were only 2.9 percent above the prerecession levels.

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 seventy-two months following the start of each recession from 1973 forward.[11] The last point for the 2007 recession is December 2013, month seventy-two. As the graph shows, the 0.7 percent employment drop as of December 2013 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 will take several more months before employment attains its prerecession peak.

The Outlook for State Fiscal Year 2014

Through the first two quarters of fiscal 2014, states collected $395.2 billion in total tax revenues, a gain of 4.5 percent from $378 billion in the same period of fiscal 2013, according to Census data (see Tables 9 and 10). The personal income tax and sales tax both showed growth at 2.6 and 5.7 percent, respectively, in the first two quarters of fiscal 2014 compared to the same period of 2013, and corporate income tax increased by 3 percent. All regions reported growth in overall tax collections in the first two quarters of fiscal 2014, with the Plains region reporting the largest growth at 7.6 percent, while the Mid-Atlantic region reported the weakest growth at 2.2 percent.

Among individual states, forty states reported growth in the first half of fiscal 2014 while ten states reported declines. The largest growth for the first half of fiscal 2014 was reported in North Dakota at 38.6 percent, while the largest decline was reported in Alaska at 31.9 percent. Thirty-nine of forty-five states with broad-based sales tax collections reported growth in sales tax collections, with four states reporting double-digit growth. Finally, thirty-two states reported growth in personal income tax collections, while eleven states reported declines.

Preliminary data for the January-March quarter of 2014 suggest that tax growth is softening significantly. Moreover, personal income tax collections may decline in the first quarter of 2014. With early data for January-March 2014 now available for forty-five states, total tax revenues increased by 0.7 percent compared to the same period of 2013. According to the preliminary data, personal income tax collections declined by 0.5 percent, while sales tax collections showed growth at 1.0 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 uninterrupted growth in the last four years. Still, the recovery in state fiscal conditions has been extremely long and muted, in part because the economic recovery has been weak and in part because states do not tax the broad economy. Overall, state tax systems are much more reliant on narrower and more volatile forms of economic activity. Moreover, state tax revenues became more volatile in the last decade. The temporary solutions to address budget shortfalls caused by the Great Recession, as well as federal actions related to the "fiscal cliff" and sequestration, led to further growth in revenue volatility. In many states, officials are puzzled with the uncertainty and are facing challenges in forecasting revenues due to growing revenue volatility driven by uncontrollable factors.

State Tax Revenues Compared to Their Peak Levels

In this report, we augment analysis of recent trends in state tax revenues with analysis of revenues for fiscal 2013 compared to

Table 9. State Tax Revenue, FYTD 2013 and FYTD 2014 ($ in millions)

	July 2012-December 2012				July 2013-December 2013			
	PIT	CIT	Sales	Total	PIT	CIT	Sales	Total
United States	**135,092**	**17,481**	**119,927**	**378,049**	**138,624**	**18,007**	**126,753**	**395,196**
New England	**9,839**	**1,286**	**5,206**	**21,417**	**10,306**	**1,494**	**5,559**	**22,520**
Connecticut	2,593	113	1,518	5,600	2,690	270	1,635	5,966
Maine	686	71	475	1,740	664	79	520	1,752
Massachusetts	5,697	750	2,590	10,755	6,043	827	2,757	11,472
New Hampshire	23	247	NA	919	21	250	NA	860
Rhode Island	543	50	451	1,421	566	25	470	1,439
Vermont	295	55	173	982	322	43	177	1,032
Mid-Atlantic	**29,745**	**4,452**	**15,715**	**67,489**	**30,012**	**4,100**	**16,468**	**69,004**
Delaware	561	123	NA	1,455	593	105	NA	1,442
Maryland	2,992	397	1,698	7,644	3,117	353	1,736	8,262
New Jersey	4,358	903	3,258	10,792	4,557	923	3,536	11,517
New York	17,162	2,113	6,097	33,006	16,967	1,751	6,431	32,981
Pennsylvania	4,672	916	4,663	14,591	4,778	968	4,765	14,802
Great Lakes	**21,283**	**2,929**	**17,633**	**59,123**	**21,725**	**3,018**	**18,750**	**61,459**
Illinois	6,840	1,669	4,097	17,274	7,174	1,826	4,331	18,538
Indiana	2,209	431	3,355	8,199	2,255	415	3,461	8,331
Michigan	4,418	401	4,337	14,001	4,397	338	4,384	14,103
Ohio	4,448	52	4,015	12,353	4,452	(18)	4,602	12,869
Wisconsin	3,369	376	1,829	7,296	3,448	458	1,973	7,617
Plains	**10,536**	**1,252**	**7,935**	**27,416**	**10,714**	**1,345**	**8,808**	**29,509**
Iowa	1,414	156	1,055	3,484	1,429	123	1,127	3,525
Kansas	1,508	212	1,454	3,788	1,211	202	1,443	3,511
Minnesota	4,024	532	1,946	9,812	4,359	623	2,566	10,968
Missouri	2,480	140	1,544	5,263	2,576	155	1,633	5,469
Nebraska	906	117	820	2,172	934	127	873	2,257
North Dakota	203	78	683	2,145	204	102	696	2,973
South Dakota	NA	16	432	751	NA	12	470	806
Southeast	**25,217**	**3,714**	**29,144**	**80,566**	**25,721**	**4,046**	**30,081**	**83,405**
Alabama	1,466	145	1,143	4,311	1,531	135	1,178	4,384
Arkansas	1,279	168	1,415	4,266	1,307	178	1,578	4,525
Florida	NA	970	9,928	16,828	NA	892	10,330	17,496
Georgia	4,638	302	2,592	8,634	4,763	394	2,420	9,218
Kentucky	1,813	303	1,512	5,377	1,857	325	1,557	5,223
Louisiana	1,430	95	1,412	4,554	1,529	234	1,500	5,139
Mississippi	834	127	1,405	3,294	801	211	1,488	3,437
North Carolina	5,486	498	2,806	11,499	5,597	586	2,898	11,788
South Carolina	2,094	140	1,240	4,336	2,143	257	1,299	4,563
Tennessee	14	471	3,460	5,796	10	429	3,577	5,901
Virginia	5,323	368	1,606	9,030	5,363	292	1,633	9,108
West Virginia	840	129	625	2,640	819	113	624	2,623
Southwest	**3,940**	**576**	**17,785**	**35,773**	**3,721**	**459**	**18,011**	**37,358**
Arizona	1,857	295	2,841	6,497	1,920	252	2,530	6,162
New Mexico	629	46	670	2,025	441	66	690	2,133
Oklahoma	1,454	235	1,275	4,250	1,361	141	1,298	4,167
Texas	NA	NA	12,998	23,001	NA	NA	13,494	24,896
Rocky Mountain	**4,829**	**568**	**3,211**	**11,889**	**5,061**	**565**	**3,287**	**12,334**
Colorado	2,481	285	1,211	5,270	2,585	312	1,285	5,524
Idaho	591	74	674	1,702	636	87	700	1,780
Montana	479	82	NA	1,175	501	61	NA	1,205
Utah	1,278	127	954	2,950	1,339	105	913	3,042
Wyoming	NA	NA	371	792	NA	NA	388	782
Far West	**29,703**	**2,704**	**23,299**	**74,376**	**31,365**	**2,981**	**25,788**	**79,609**
Alaska	NA	332	NA	2,642	NA	225	NA	1,800
California	25,841	2,112	15,107	53,163	27,365	2,458	17,300	58,461
Hawaii	868	33	1,430	2,869	863	80	1,338	2,873
Nevada	NA	NA	1,163	2,214	NA	NA	1,223	2,354
Oregon	2,994	227	NA	4,377	3,137	218	NA	4,506
Washington	NA	NA	5,599	9,112	NA	NA	5,926	9,614

Source: U.S. Census Bureau.

Table 10. FYTD Tax Revenue by Major Tax

FYTD 2013 vs. FYTD 2014, Percent Change

	PIT	CIT	Sales	Total
United States	**2.6**	**3.0**	**5.7**	**4.5**
New England	**4.7**	**16.2**	**6.8**	**5.2**
Connecticut	3.7	138.4	7.7	6.5
Maine	(3.2)	11.4	9.5	0.7
Massachusetts	6.1	10.4	6.5	6.7
New Hampshire	(8.0)	1.2	NA	(6.4)
Rhode Island	4.2	(51.2)	4.2	1.3
Vermont	9.0	(22.1)	2.5	5.1
Mid-Atlantic	**0.9**	**(7.9)**	**4.8**	**2.2**
Delaware	5.5	(14.9)	NA	(0.9)
Maryland	4.2	(10.9)	2.3	8.1
New Jersey	4.6	2.2	8.5	6.7
New York	(1.1)	(17.1)	5.5	(0.1)
Pennsylvania	2.3	5.7	2.2	1.5
Great Lakes	**2.1**	**3.1**	**6.3**	**3.9**
Illinois	4.9	9.4	5.7	7.3
Indiana	2.1	(3.7)	3.2	1.6
Michigan	(0.5)	(15.6)	1.1	0.7
Ohio	0.1	(135.5)	14.6	4.2
Wisconsin	2.3	21.7	7.9	4.4
Plains	**1.7**	**7.4**	**11.0**	**7.6**
Iowa	1.1	(21.3)	6.8	1.2
Kansas	(19.7)	(4.4)	(0.8)	(7.3)
Minnesota	8.3	17.1	31.8	11.8
Missouri	3.9	10.4	5.8	3.9
Nebraska	3.1	8.7	6.4	3.9
North Dakota	0.4	30.7	1.9	38.6
South Dakota	NA	(26.4)	8.8	7.3
Southeast	**2.0**	**8.9**	**3.2**	**3.5**
Alabama	4.4	(6.9)	3.0	1.7
Arkansas	2.2	6.3	11.6	6.1
Florida	NA	(8.0)	4.0	4.0
Georgia	2.7	30.4	(6.7)	6.8
Kentucky	2.4	7.1	3.0	(2.9)
Louisiana	6.9	147.4	6.3	12.8
Mississippi	(3.9)	66.1	5.9	4.3
North Carolina	2.0	17.8	3.3	2.5
South Carolina	2.3	83.5	4.8	5.2
Tennessee	(29.1)	(8.9)	3.4	1.8
Virginia	0.8	(20.6)	1.7	0.9
West Virginia	(2.5)	(12.0)	(0.3)	(0.6)
Southwest	**(5.6)**	**(20.4)**	**1.3**	**4.4**
Arizona	3.4	(14.8)	(10.9)	(5.2)
New Mexico	(29.9)	44.8	2.9	5.3
Oklahoma	(6.4)	(40.0)	1.8	(1.9)
Texas	NA	NA	3.8	8.2
Rocky Mountain	**4.8**	**(0.6)**	**2.4**	**3.7**
Colorado	4.2	9.3	6.1	4.8
Idaho	7.6	18.1	3.8	4.6
Montana	4.5	(25.5)	NA	2.5
Utah	4.7	(17.6)	(4.3)	3.1
Wyoming	NA	NA	4.6	(1.3)
Far West	**5.6**	**10.2**	**10.7**	**7.0**
Alaska	NA	(32.3)	NA	(31.9)
California	5.9	16.4	14.5	10.0
Hawaii	(0.6)	145.3	(6.5)	0.2
Nevada	NA	NA	5.2	6.4
Oregon	4.8	(3.9)	NA	3.0
Washington	NA	NA	5.8	5.5

Source: U.S. Census Bureau.

their prerecession peak levels. Table 11 shows nominal and real percent change for each state's total tax collections from its peak level to fiscal year 2013, as well as similar data for sales and personal income taxes. Table 12 provides the peak year for total taxes, as well as sales and personal income taxes for each individual state.

The numbers in Table 11 indicate that overall state tax revenues are slowly recovering from the deep declines caused by the Great Recession. At the end of fiscal 2013, overall tax collections were 8.5 percent above the peak tax collections levels, sales tax collections were 6.1 percent above, and personal income tax collections were 11.4 percent above the peak levels. The large growth in income tax collections are mostly attributable to two states: California and Illinois. If we exclude both California and Illinois, personal income tax collections show a growth of 6.8 in nominal terms, but a decline of 0.5 percent in real terms for the nation in fiscal 2013 compared to fiscal 2008. Inflation-adjusted figures indicate that in fiscal 2013 state sales taxes were still below the peak levels at 1.2 percent.

The extent of revenue recovery varies dramatically among the states. Forty-one states reported fiscal 2013 collections that were higher than previous peak levels in nominal terms. However, after adjusting for inflation, only twenty-five states reported higher total tax collections in 2013 compared to their respective peak years. Thirty-two states reported sales tax collections in fiscal 2013 that surpassed earlier peak revenues in nominal terms and only sixteen states reported higher sales tax collections in 2013 in real terms. Finally, personal income tax collections in 2013 surpassed the peak levels in thirty-four states in nominal terms and in twenty states in real terms. The picture remains dire for sales tax collections. Among forty-five states with sales taxes, thirteen states reported declines in nominal sales tax collections in fiscal 2013 compared to their peak levels, with three states reporting double-digit declines. If we adjust the numbers for inflation, declines were recorded in twenty-nine states, with nine states reporting double-digit declines.

Among individual states, the largest declines were in Alaska and Wyoming, where nominal total tax collections were down by 41.2 and 20.9 percent, respectively, in fiscal 2013 compared to their peak levels.

Total state tax revenue collections in fiscal 2013 were above the peak levels both in nominal and real terms. However, inflation-adjusted figures indicate that sales tax collections were still below the peak

Table 11. Nominal & Real % Change From Peak to FY 2013 in State Tax Collections

State	Nominal % change, peak to 2013			Real % change, peak to 2013		
	Total tax	Sales tax	PIT	Total tax	Sales tax	PIT
United States	**8.5**	**6.1**	**11.4**	**1.1**	**(1.2)**	**3.8**
Alabama	2.2	1.9	4.1	(4.8)	(5.0)	(3.1)
Alaska	(41.2)	N/A	N/A	(45.2)	N/A	N/A
Arizona	(6.5)	(2.1)	(9.3)	(14.5)	(10.5)	(17.1)
Arkansas	14.0	(2.3)	13.0	6.2	(10.7)	5.3
California	13.5	3.8	19.8	5.7	(5.1)	11.7
Colorado	16.8	4.5	9.1	8.9	(2.6)	1.6
Connecticut	15.7	8.7	14.0	7.8	1.3	6.2
Delaware	14.2	N/A	10.2	6.4	N/A	0.8
Florida	(13.8)	(9.0)	N/A	(23.3)	(16.8)	N/A
Georgia	(2.5)	(10.8)	(0.8)	(10.9)	(18.5)	(7.6)
Hawaii	18.4	12.4	11.2	10.3	4.7	1.7
Idaho	(2.0)	(1.7)	(10.1)	(8.7)	(8.4)	(16.3)
Illinois	28.8	2.8	60.3	17.7	(4.2)	49.3
Indiana	12.0	9.5	2.9	4.3	2.8	(4.2)
Iowa	19.9	14.5	20.7	12.6	7.5	12.4
Kansas	6.4	27.9	0.4	(0.8)	19.2	(6.5)
Kentucky	7.7	5.1	6.9	0.3	(2.1)	(0.4)
Louisiana	(16.2)	(18.8)	(14.8)	(21.9)	(25.8)	(22.1)
Maine	2.6	1.1	(2.0)	(4.4)	(5.8)	(8.7)
Maryland	15.1	6.8	10.9	7.2	0.3	3.3
Massachusetts	8.3	26.5	3.0	0.9	17.9	(4.0)
Michigan	1.2	4.2	14.7	(5.7)	(7.2)	6.9
Minnesota	14.8	10.1	15.1	7.0	2.6	7.2
Mississippi	9.7	1.1	13.2	2.2	(7.5)	5.4
Missouri	2.0	(3.6)	5.1	(4.9)	(11.9)	(2.1)
Montana	7.6	N/A	20.2	0.2	N/A	12.0
Nebraska	11.6	8.8	21.8	4.0	1.4	13.4
Nevada	11.4	13.2	N/A	1.9	3.5	N/A
New Hampshire	5.3	N/A	(16.0)	(1.9)	N/A	(21.8)
New Jersey	(5.0)	(5.2)	(3.9)	(11.5)	(11.6)	(10.5)
New Mexico	(5.9)	1.6	3.6	(14.0)	(7.1)	(3.5)
New York	12.9	7.3	9.2	5.2	(0.0)	2.6
North Carolina	4.2	6.1	0.7	(2.9)	(1.1)	(6.2)
North Dakota*	129.2	109.0	73.4	113.5	96.2	62.8
Ohio	4.8	9.7	0.2	(2.3)	2.2	(6.6)
Oklahoma	6.7	16.5	4.6	(0.6)	9.4	(2.5)
Oregon	18.3	N/A	11.9	8.1	N/A	2.3
Pennsylvania	5.7	4.2	3.5	(1.5)	(2.9)	(3.5)
Rhode Island	6.3	0.7	(0.2)	(2.8)	(8.0)	(7.1)
South Carolina	0.4	(1.0)	0.9	(8.3)	(9.5)	(6.0)
South Dakota	14.3	12.8	N/A	7.3	5.9	N/A
Tennessee	7.2	(3.0)	(9.7)	(0.1)	(9.6)	(15.8)
Texas	13.6	20.8	N/A	5.8	12.5	N/A
Utah	3.6	(4.1)	10.0	(3.5)	(10.6)	2.5
Vermont	12.3	2.5	6.4	2.7	(4.5)	(0.9)
Virginia	2.8	2.0	6.5	(6.0)	(6.7)	(2.7)
Washington	3.9	(2.0)	N/A	(3.2)	(8.7)	N/A
West Virginia	10.2	11.1	15.3	2.6	1.6	8.3
Wisconsin	10.8	3.3	14.1	3.2	(3.7)	4.3
Wyoming	(20.9)	(29.0)	N/A	(25.7)	(33.3)	N/A

Source: Rockefeller Institute analysis of Census Bureau data.

N/A = not applicable.

*Tax revenues showed continuous growth; the 129.2% is relative to FY 2008.

Table 12. Peak Years for State Tax Collections

State	Total Taxes	Sales tax	PIT
United States	**2008**	**2008**	**2008**
Alabama	2008	2008	2008
Alaska	2008	N/A	N/A
Arizona	2007	2007	2007
Arkansas	2008	2007	2008
California	2008	2007	2008
Colorado	2008	2008	2008
Connecticut	2008	2008	2008
Delaware	2008	N/A	2007
Florida	2006	2007	N/A
Georgia	2007	2007	2007
Hawaii	2008	2008	2008
Idaho	2008	2008	2008
Illinois	2007	2008	2008
Indiana	2008	2009	2008
Iowa	2009	2009	2008
Kansas	2008	2008	2008
Kentucky	2008	2008	2008
Louisiana	2008	2007	2007
Maine	2008	2008	2008
Maryland	2008	2009	2008
Massachusetts	2008	2008	2008
Michigan	2008	2009	2008
Minnesota	2008	2008	2008
Mississippi	2008	2007	2008
Missouri	2008	2007	2008
Montana	2008	N/A	2008
Nebraska	2008	2008	2008
Nevada	2007	2007	N/A
New Hampshire	2008	N/A	2008
New Jersey	2008	2008	2008
New Mexico	2007	2007	2008
New York	2008	2008	2009
North Carolina	2008	2008	2008
North Dakota	*	2009	2009
Ohio	2008	2008	2008
Oklahoma	2008	2009	2008
Oregon	2007	N/A	2007
Pennsylvania	2008	2008	2008
Rhode Island	2007	2007	2008
South Carolina	2007	2007	2008
South Dakota	2009	2009	N/A
Tennessee	2008	2008	2008
Texas	2008	2008	N/A
Utah	2008	2008	2008
Vermont	2007	2008	2008
Virginia	2007	2007	2007
Washington	2008	2008	N/A
West Virginia	2008	2007	2009
Wisconsin	2008	2008	2008
Wyoming	2009	2009	N/A

Source: Rockefeller Institute analysis of Census Bureau data.
*Total tax revenues showed continuous growth in North Dakota.

levels. Moreover, if we exclude California and Illinois, two states where strong revenue growth in the recent quarters were mostly driven by legislated changes, inflation adjusted figures show declines for personal income as well as total taxes for the rest of the nation. Therefore, the inflation-adjusted tax revenues are still below the peak levels in many states. And states still have a long road to go before reaching full recovery.

Adjustments to Census Bureau Tax Collection Data

The numbers in this report differ somewhat from those released by the Bureau of the Census in March of 2014. 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 3.5 percent in the fourth quarter, compared with the 3.4 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 on 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 for the first quarter of 2014 for forty-five states; while the numbers are preliminary, they are still 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, payments of estimated income tax, final payment, and refunds, all 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. Normally, we use the Census data without adjustment for full quarterly *State Revenue Reports*. In the last three years, states have been slow in reporting tax revenues to the Census Bureau on a timely manner due to furloughs and reduced workforce. For example, as of now, the Census Bureau did not receive data for six states for the second quarter of 2013, and for three states for both the third and fourth quarters of 2013. Therefore, the Census Bureau reported estimated figures for those states and for those quarters. We have made some adjustments to the Census data. Table 13 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 March 11, 2014; (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 13. RIG vs. Census Bureau Quarterly Tax Revenue By Major Tax

October-December, 2012 to 2013, Percent Change

	PIT	CIT	Sales	Total
RIG Data Alert	1.0	5.5	5.5	3.0
Census Bureau Preliminary	(0.3)	6.1	6.1	3.4
Census Bureau Preliminary with RIG Adjustments	0.4	4.6	5.6	3.5

The last set of numbers with our adjustments is what we use as the basis for this report. For the fourth quarter of 2013, we made adjustment for the following five states — Kansas, Maryland, Oklahoma, Ohio, and Oregon — based upon data and information provided to us directly by these states. For three of five states, the Census Bureau had not received a response in time for its publication and used imputed data that will be revised in later reports. However, the Institute obtained data from all three; 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 adjusted tax collections for some previous quarters for those states where Census Bureau reported imputed values or where preliminary figures were questionable. For example, we made adjustments to sales and total tax numbers for Arizona for several quarters, for which Census Bureau did not report the temporary one-cent sales tax collections. In addition, we made adjustments for personal income and total tax collections for Maryland for several quarters. We also made adjustments for some other states for the previous six quarters.

Endnotes

1 The 19 percent is based on calendar year average and is not adjusted for dividends. For more information, see the S&P 500 database available through the Federal Reserve Bank of St. Louis at: http://research.stlouisfed.org/fred2/series/SP500/downloaddata.

2 We made adjustments to Census Bureau data for the third and fourth quarters of 2013 for nine states — Arizona, Connecticut, Kansas, Maryland, Minnesota, Oklahoma, Ohio, Oregon, and Washington — based upon data and information provided to us directly by these states or based on the revised data provided to us by the Census Bureau. In addition, we made adjustments to tax numbers for the previous quarters for several states, where Census Bureau reported imputed data. These revisions together account for some noticeable differences between the Census Bureau figures and the Rockefeller Institute estimates.

3 Lucy Dadayan and Donald J. Boyd, "State Tax Revenues Continue Slow Rebound," *State Revenue Report*, No. 90 (Albany, NY: The Nelson A. Rockefeller Institute of Government, February 2013), http://www.rockinst.org/pdf/government_finance/state_revenue_report/SSR-90.pdf.

4 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.

5 Preliminary figures for the January-March quarter of 2014 are not available for the following five states: Hawaii, Missouri, Nevada, New Mexico, and Wyoming. Total tax collections for these five states combined

represent about 3-4 percent of nationwide tax collections. In addition, two of these five states — Nevada and Wyoming — don't have personal income taxes and collections for the remaining three states combined represent about 2-3 percent of nationwide personal income tax collections. Therefore, it is unlikely that the nationwide picture for collections during the first quarter of 2014 will change significantly once we have complete data for all fifty states for the first quarter of 2014.

6 See, for example, "Gov. Heineman: Eliminate the Income Tax for Nebraskans & Corporate Tax for Businesses," News Release, January 15, 2013, http://www.governor.nebraska.gov/news/2013/01/15_sots_tax_reform.html.

7 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), pp. 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* (1989), pp. 351-94. The data and several papers are available at http://www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident/.

8 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 Nelson A. Rockefeller Institute of Government, July 2012), http://www.rockinst.org/pdf/government_finance/2012-07-16-Recession_Local_%20Property_Tax.pdf.

9 Rockefeller Institute analysis of data from the National Association of State Budget Officers.

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

11 Ibid.

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

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

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

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all fifty 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.

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