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NCSL FISCAL BRIEF: PROJECTED STATE TAX GROWTH IN FY 2013

Sept. 25, 2012

Fiscal year (FY) 2013 marks the third consecutive year that state officials are forecasting state tax growth compared with the previous fiscal year. Despite this positive development, the robust return of state tax collections that typified previous economic recoveries remains elusive. According to the Nelson A. Rockefeller Institute of Government, following five quarters of declines brought on by the Great Recession, total state tax collections have risen for ten consecutive quarters (since the first quarter of 2010); however, growth has slowed in the last four.[1] Overall, the state revenue situation continues to improve, albeit at a leisurely pace.

Projections for FY 2013 reflect this slow growth trend as officials in nearly three-fourths of the states and the District of Columbia anticipate total tax growth between 1 percent and 4.9 percent. Only two states—Georgia and Oklahoma—have forecast tax growth of more than 5 percent for all of the three major categories (personal income, general sales and use and corporate income) this fiscal year. Also playing a role in the modest projections for FY 2013 is that 2012 has been a quiet year for notable state tax changes, which largely affect collections in FY 2013. Thus far, 2012 features the smallest aggregate tax cut (0.2 percent) in NCSL's 32-year history of collecting this data.[2]

This brief presents a summary of the projected growth for state total, personal income, sales, corporate income and other taxes compared with FY 2012 estimated collections. This brief is based on a survey of legislative fiscal directors in 50 states and the District of Columbia in the summer of 2012.[3]

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[1] Dayadan, Lucy. Nelson A. Rockefeller Institute of Government Data Alert. Sept. 19, 2012. http://www.rockinst.org/pdf/government_finance/state_revenue_report/Data%20Alert%209.19.12.pdf.

[2] For more information on 2012 tax changes please see *State Tax Update: August 2012.* http://www.ncsl.org/issues-research/budget/state-tax-update-august-2012.aspx.

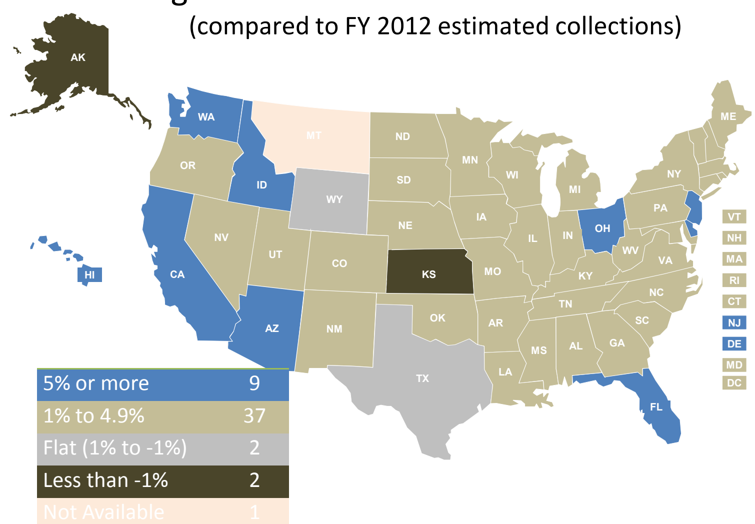
[3] Due to the biennial budgeting process in Montana no projection for FY 2013 is available. The FY 2013 tax forecast occurred in the 2011 legislative session. Collections for FY 2011 and FY 2012 are significantly higher than the 2011 forecast. However, no official change has occurred to the FY 2013 estimates, though actual revenues are anticipated to increase from FY 2012. The forecast will be revised in November 2012.

Total Tax Forecasts for FY 2013

Forty-five states and the District of Columbia expect total tax collections in FY 2013 to be higher than they were in FY 2012.

- Nine states expect total tax collections to grow at least 5 percent above FY 2012 levels (see figure 1). The largest increases are projected in California (10 percent) and Delaware (10 percent). The increase in California is subject to the passage of three separate ballot measures. Two of them, including one initiated by Governor Jerry Brown, would result in large broad-based tax increases and up to $10 billion in new revenues, while the third would cut business taxes. Delaware's growth is attributed to declines in corporate income and abandoned property collections—historically considered volatile revenue sources—in FY 2012 that effectively reduced the base.

Figure 1. Total Tax Forecast for FY 2013
(compared to FY 2012 estimated collections)



- Thirty-six states and the District of Columbia project total tax collections to grow between 1 percent (South Carolina) and 4.8 percent (Iowa).
- Texas (0.4 percent) and Wyoming (-0.6 percent) expect collections to be essentially flat.
- Only Alaska (-17.9 percent) and Kansas (-3.6 percent) anticipate FY 2013 total tax collections to decline by at least 1 percent compared with FY 2012. In Alaska, the falling price of oil is the primary driver of the decline. Kansas enacted tax policy changes that reduce state income taxes by an estimated $249.2 million in FY 2013.

The performance of total state collections is based on the performance of combined individual tax categories. The following sections summarize expectations for major state tax sources. More information is shown in Appendix 1.

Personal Income Tax Forecasts for FY 2013

Personal income taxes represent the largest share of state tax collections, accounting for approximately 34 percent of the total.[4] Forty-one states levy a broad-based personal income tax and two others—

[4] NCSL calculations based on data from the Bureau of the Census, 2012. http://www.ncsl.org/issues-research/budget/state-reliance-on-major-taxes-2010.aspx

New Hampshire and Tennessee—levy a limited tax. Of these 43 states, 41 provided a personal income tax forecast for FY 2013.[5]

- Fourteen states project personal income tax collections to rise by at least 5 percent in FY 2013 (see Table 1). Of these, only California (14 percent) is forecasting growth by more than 10 percent, which is contingent upon passage of a tax initiative on the November ballot.
- Twenty-four states expect personal income tax collections to rise between 2 percent (West Virginia) and 4.8 percent (Ohio).
- Officials in Maine (-0.6 percent) anticipate essentially flat personal income tax growth.
- Kansas (-2.8 percent) and the District of Columbia (-2.8 percent) expect personal income tax collections to fall in FY 2013 compared with FY 2012.

Table 1. Personal Income Tax Collections (FY 2013 Compared with FY 2012)

Projected Change	Number of Jurisdictions
>5%	14
1.1% to 5%	24
Flat (-1% to 1%)	1
-1.1% or less	2
Do not levy	7
Not Available	Hawaii, Montana and New Hampshire.

General Sales Tax Forecasts for FY 2013

Sales taxes account for approximately 31 percent of total state taxes—slightly less than personal income taxes. Forty-five states levy this tax, and 43 provided information on its expected performance for FY 2013.

- Six states forecast that sales tax collections will exceed last year's levels by 5 percent or more, with only one state, Oklahoma (10.1 percent) projecting growth greater than 10 percent (see Table 2). Officials in Oklahoma commented that they will be watching sales tax collections carefully as they are closely tied to the energy sector.
- Thirty-four states and the District of Columbia expect sales tax collections to rise between 1.9 percent (District of Columbia) and 4.9 percent (Louisiana).
- Sales tax collections are projected to basically remain flat in Colorado (0.5 percent) Texas (0.4 percent) and Wyoming (-0.2 percent).
- Only West Virginia (-2 percent) anticipates a decline in sales tax collections by more than 1 percent.

Table 2. Sales Tax Collections (FY 2013 Compared with FY 2012)

Projected Change	Number of Jurisdictions
>5%	6
1.1% to 5%	35
Flat (-1% to 1%)	3
-1.1% or less	1
Do not levy	5
Not Available	Hawaii

[5] Hawaii projects only an aggregate forecast, so separate information is not available for personal income, sales, and corporate income taxes. New Hampshire, which derives less than 5 percent of total tax revenue from the personal income tax, did not provide an estimate.

Corporate Income Tax Forecasts for FY 2013

For most states, corporate income tax collections represent a much smaller share of tax revenues than other sources, on average representing less than 6 percent of the total. Forty-two states provided a corporate income tax forecast.

- Nineteen states project increases of at least 5 percent, with eight projecting double-digit growth.
- Fourteen states and the District of Columbia expect corporate income tax collections to rise between 1.3 percent (Rhode Island) and 4.5 percent (New York).
- Officials in Mississippi (0 percent) project flat corporate tax growth.
- Seven states anticipate corporate income tax collections falling in FY 2013, with Minnesota (-10 percent) reporting the only double-digit decline. The decline is due primarily to a projected decline in corporate profits, which lowers projected corporate payments for FY 2013 and results in a higher projected level of refunds in 2013.

Other Tax Forecasts for FY 2013

States also rely on a variety of miscellaneous taxes for revenue. These include taxes on oil and gas production, real estate transfers, tobacco, meals and rooms, insurance premiums, gambling, estates and others.

- Nine states project severance taxes performing above FY 2012 levels. Three states anticipate essentially flat collections, and six states expect severance tax collections below prior year. Several officials commented that recent tax changes are the reason for the projected decline in severance tax collections.
- In fifteen states and the District of Columbia officials project that FY 2013 real estate transfer taxes will exceed FY 2012 collections. Essentially flat growth is expected in five states, and only Minnesota forecast that real estate transfer tax collections will decline in FY 2013.
- Miscellaneous taxes such as cigarette (Connecticut, 4.1 percent), insurance (Missouri, 9.7 percent) and inheritance (4.1 percent, Pennsylvania) are projected to increase in FY 2013; while motor vehicle (Texas, -3.4 percent), riverboat wagering (Indiana, -7.3 percent) and tobacco (Arkansas, -4.1 percent) are anticipated to decline.

Long-term Tax Forecasts

States vary in their approaches to revenue forecasting, including the length of the forecast horizon. Some states limit their forecasts to the coming fiscal year or biennium while others look ahead five years or more. Generally speaking, the longer the time horizon the less accurate the forecasts will be because economic and fiscal circumstances can change. Despite this limitation, lawmakers in states with long-term forecasts see value in getting a general sense of the future revenue situation.

FY 2014

Thirty-one states and the District of Columbia provided forecasts for FY 2014.

- Twenty-five states and the District of Columbia expect FY 2014 collections to grow between 1.2 percent (Wyoming) and 7.6 percent (Oregon).
- California anticipates flat growth.
- Four states—Alaska (-12.4 %), Kansas (-12.1%), Maine (-2%) and Delaware (-1.5%)—forecast a decline.

FY 2015

Twenty-six states and the District of Columbia provided forecasts for FY 2015.

- Twenty five states and the District of Columbia forecast FY 2015 revenue growth between 1.2 percent (Wyoming) and 8 percent (California).
- Only Illinois (4.1%), reflecting the expiration of a temporary tax increase, projects a decline.

Appendix 1. FY 2013 Tax Forecast
(compared to FY 2012 estimated collections)

State/ Jurisdiction	Total Tax	Personal Income Tax	General Sales Tax	Corporate Income Tax	Severance Tax[1]	Real Estate Transfer[2]	Other (Type)	Other
Alabama	1.0%	3.0%	3.0%	5.0%	4.0%	0.0%		
Alaska	-17.9%	X	X	9.5%	-22.3%	X	Oil Royalties	-4.6%
Arizona	5.1%	5.6%	4.7%	9.7%	N/A	X		
Arkansas	3.0%	2.8%	3.6%	4.2%	7.7%	0.0%	Tobacco	-4.1%
California	10.0%	14.0%	9.0%	3.0%	N/A	X		
Colorado	3.1%	3.5%	0.5%	2.1%	-56.4%	N/A	Miscellaneous taxes	18.3%
Connecticut	4.1%	3.2%	4.4%	9.7%	X	3.4%	Cigarettes	4.1%
Delaware	10.0%	4.0%	X	53.0%	X	5.0%		
District of Columbia	1.7%	-2.8%	1.9%	3.1%	X	6.1%		
Florida	5.8%	X	4.5%	14.7%	-3.8%	22.0%	Motor Vehicle Fees, Court Fees, County Medicaid Payments	131.9% -14.5% 62.5%
Georgia	4.7%	6.0%	5.0%	9.0%	X	N/A		
Hawaii	5.3%	N/A	N/A	N/A	X	N/A		
Idaho	5.8%	6.1%	6.8%	3.4%	N/A	X	Product and miscellaneous taxes	-2.2%
Illinois	1.8%	3.1%	2.5%	2.4%	N/A	N/A		
Indiana	2.5%	4.0%	3.7%	-1.3%	N/A	X	Riverboat Wagering	-7.3%
Iowa	4.0%	4.7%	3.3%	3.3%	X	N/A	Insurance Premium Tax, Inheritance Tax, Cigarette Tax, Tobacco Tax, Beer Tax, Franchise Tax	3.4%
Kansas	-3.6%	-2.8%	5.0%	8.0%	10.2%	N/A		
Kentucky	2.4%	2.3%	2.3%	7.8%	3.2%	N/A		
Louisiana	2.3%	5.7%	4.9%	11.0%	1.8%	X		
Maine	1.7%	-0.6%	3.7%	-6.6%	N/A	14.2%	Cigarette and Tobacco Taxes	-1.8%
Maryland	4.4%	4.3%	2.7%	26.3%	N/A	10.8%		
Massachusetts	4.5%	5.2%	4.2%	2.5%	X	N/A	Unspecified	2.8%
Michigan	1.0%	4.3%	2.4%	See Notes	0.5%	7.0%		
Minnesota	3.9%	6.5%	2.5%	-10.0%	N/A	-3.9%		
Mississippi	1.3%	2.4%	2.3%	0.0%	0.9%	X	Gaming	0.0%
Missouri	3.3%	3.2%	2.5%	3.3%	N/A	X	Insurance	9.7%
Montana	N/A	N/A	X	N/A	N/A	X		
Nebraska	3.4%	5.0%	3.9%	6.0%	N/A	N/A	Miscellaneous tax category	-10.0%
Nevada	2.1%	X	3.0%	X	N/A	3.7%	Tax on Gross Gaming	2.7%

Appendix 1. FY 2013 Tax Forecast
(compared to FY 2012 estimated collections)

State/ Jurisdiction	Total Tax	Personal Income Tax	General Sales Tax	Corporate Income Tax	Severance Tax[1]	Real Estate Transfer[2]	Other (Type)	Other
New Hampshire	2.5%	N/A	X	3.0%	N/A	2.0%	Combined all other sources	2.4%
New Jersey	8.6%	8.3%	4.7%	10.9%	X	23.1%		
New Mexico	2.8%	2.3%	3.8%	21.0%	4.9%	X	Rents and Royalties	-2.6%
New York	3.2%	3.8%	2.8%	4.5%	X	8.2%	Estate Tax	4.5%
North Carolina	3.3%	3.1%	3.9%	1.8%	N/A	N/A		
North Dakota	4.1%	4.1%	4.1%	4.1%	9.0%	X	Motor Vehicle Excise Tax	4.1%
Ohio	6.7%	4.8%	4.3%	X	N/A	N/A	Cigarette	-6.3%
Oklahoma	4.8%	9.3%	10.1%	58.2%	-43.3%	N/A		
Oregon	2.7%	5.4%	X	-5.4%	N/A	X		
Pennsylvania	3.4%	4.5%	4.8%	9.0%	X	9.4%	Inheritance Tax	4.1%
Rhode Island	3.0%	3.3%	4.8%	1.3%	X	0.0%		
South Carolina	3.8%	4.2%	4.2%	-8.4%	N/A	2.6%		
South Dakota	1.7%	X	3.6%	X	11.7%	N/A		
Tennessee	3.6%	9.1%	4.0%	4.1%	0.0%	N/A	Gasoline	0.4%
Texas	0.4%	X	0.4%	X	See other	X	Motor vehicle Franchise Natural gas Oil production	-3.4% 2.7% -23.0% -9.9%
Utah	4.2%	6.6%	2.2%	8.1%	-1.0%	X		
Vermont	3.4%	6.1%	3.1%	-1.8%	X	9.6%	Rooms & Meals Cigarette/Tobacco	3.6% -3.4%
Virginia	3.7%	3.6%	4.6%	7.0%	N/A	0.0%	All other sources	0.7%
Washington	5.2%	X	5.1%	X	1.2%	0.3%	Gross receipts	7.9%
West Virginia	1.0%	2.0%	-2.0%	32.0%	-1.0%	5.0%		
Wisconsin	2.1%	2.7%	2.8%	-2.7%	N/A	3.9%		
Wyoming	-0.6%	X	-0.2%	X	-1.8%	X		

Key: NR=No Response; NA=Not Available; X=Does Not Levy.

[1]According to the Commerce Clearing House State Tax Guide, 39 states collect severance taxes under a variety of different tax titles. Many of these account for a relatively small portion of general fund collections, are not deposited to the general fund and may not be forecasted. For more information on severance tax rates and collections please see: http://www.ncsl.org/issues-research/budget/real-estate-transfer-taxes.aspx

[2]For more information on real estate transfer taxes please see: http://www.ncsl.org/issues-research/budget/real-estate-transfer-taxes.aspx

Source: NCSL survey of state legislative fiscal offices, 2012.

Appendix 2. Notes Regarding the FY 2013 Tax Forecast

State/Jurisdiction	Notes
Alabama	One-time revenues are down.
Alaska	Oil prices are the primary driver of the severance and total tax declines.
Arizona	
Arkansas	Real estate transfer general revenue is capped, thus, the growth rate will always be zero.
California	The final budget package assumes passage of the governor's tax initiative, which would temporarily increase the sales tax and personal income tax rates for upper-income taxpayers. The administration estimates the tax initiative to have $8.5 billion general fund benefit for FY 2012 and FY 2013 combined. The final budget package also assumes collection of $45 million in estate tax revenues. The estate tax was not collected in FY 2012. Total tax collections include fees and transfers and loans to/from other funds.
Colorado	The total tax estimate refers to general fund collections only, which excludes the severance tax. The negative growth for severance tax is because of the lower prices and the ad valorem property tax credit, which producers can use to offset their severance tax liability. The 18.3 percent increase for other tax is mainly because the FY 2013 forecast assumes that Colorado will collect an estate tax for the first time since 2005.
Connecticut	
Delaware	The high growth for the corporate income tax is attributable to an estimated $65 million in IRS audit proceeds in FY 2013.
District of Columbia	
Florida	The FY 2013 corporate income tax estimate was increased by $100 million because of a change in the payment date; there is an offsetting decrease in FY 2014. The general revenue share of real estate transfer taxes is expected to grow by 22 percent. The overall tax is expected to grow by 9 percent. Motor vehicle title fee revenue was shifted to the State Transportation Trust Fund. Certain court filing fees related to foreclosures were shifted to general revenue. For county Medicaid payments, a new collection methodology is expected to increase FY 2013 general revenue by $75.2 million, resulting in a 62.5 percent increase over FY 2012.
Georgia	
Hawaii	The State Council on Revenues provides an aggregate projection for all revenues.
Idaho	
Illinois	Growth of economically related sources is expected to moderate considerably from what was a very good year of growth in FY 2012. Eventually, the economic "soft patch" will manifest in receipts of income and sales taxes. The growth rates provided reflect "base" growth assumptions and do not incorporate timing elements that will serve to significantly impact them. For example, when included, personal growth will only be 1 percent, while corporate will grow 6.8 percent. These rates were established in February 2012, and are likely to be revised in the coming months. Most indications are that the rates of growth could be adjusted down based on what appears to be a likely stalling out of recovery momentum.
Indiana	
Iowa	The total FY 2012 tax collections percentage is gross tax receipts only, and not "other receipts" such as fees, judicial revenue, and liquor profits. If those are included, the growth figure is 3.8 percent, largely due to a decline in fee revenue.
Kansas	Lawmakers passed a tax reduction bill during the 2012 session that reduces state income taxes by an estimated $249.2 million and increases severance tax by $18 million in FY 2013.
Kentucky	
Louisiana	Based on the forecast as of April 24, 2012.

Appendix 2. Notes Regarding the FY 2013 Tax Forecast

State/Jurisdiction	Notes
Maine	The FY 2013 decline for corporate income is based on the assumption that FY 2012 estimated payments failed to account for the new Maine Capital Investment Credit and conformity with section 179 expensing. FY 2014 growth is projected at 23.3 percent. The personal income tax decline in FY 2013 is related to legislative reductions.
Maryland	The large increase in the corporate income tax is due to a law change that alters the distribution to the general fund. The real estate transfer tax is not a general fund revenue source.
Massachusetts	
Michigan	FY 2012 and FY 2013 are transition years for moving from the Michigan Business Tax (MBT) to a corporate income tax (CIT). The overall revenue from the CIT is forecast to generate substantially less revenue than generated by the MBT. Both taxes show positive baseline growth, but due to the transition net MBT/CIT revenue is expected to decline.
Minnesota	The decline in corporate tax revenue is due primarily to two factors. The major one is a forecast decline in corporate profits (based on the Global Insights, Inc. forecast in February that the revenue projection is based on) from the winter of FY 2012, which lowers projected corporate payments for FY 2013 and also results in a higher projected level of corporate tax refunds in 2013. The second major factor is the rise in the use of a new historic structure rehabilitation tax credit that accounts for about $8 million of the decrease from FY 2012 to FY 2013.
Mississippi	General fund estimates for FY 2013 were adopted March 2012.
Missouri	
Montana	Montana budgets on a biennial basis. The FY 2013 tax forecast occurred in the 2011 legislative session. Collections for FY 2011 and FY 2012 are significantly higher than the 2011 forecast. However, no official change has occurred to the FY 2013 estimates, though actual revenues are anticipated to increase from FY 2012. The forecast will be revised in November 2012.
Nebraska	Percent changes are nominal and are not adjusted for rate and base changes. The miscellaneous category includes dozens of diverse and relatively small volume tax types. The largest include cigarettes, liquor and investment income. Officials categorize transfers from other funds to the general fund as a miscellaneous receipt. The decline is in large part driven by lower volume of transfers from other funds this year as compared to the prior year. Most of the transfers are discretionary (a decision made case by case by legislative action), year-to-year as to volume.
Nevada	The total FY 2013 tax collections growth rate includes taxes not listed on the table. Projected growth rates for FY 2013 are based on economic forum May 2011 forecasts.
New Hampshire	As compared to FY 2012 estimates.
New Jersey	Collections include about $500 million of non-tax revenue one-time resources, which inflate the underlying growth rate of FY 2013 total revenues.
New Mexico	Robust corporate income tax growth rates can be explained by changes generated in state and federal statutes. The growth rate in FY 2013 is driven by the expiration of provisions that allow businesses to fully expense the cost of capital equipment. (All estimates are from the December 2011 consensus revenue forecast).
New York	Corporate income includes corporate franchise, corporate utilities, bank tax, insurance and petroleum business taxes.
North Carolina	
North Dakota	

Appendix 2. Notes Regarding the FY 2013 Tax Forecast

State/Jurisdiction	Notes
Ohio	Comparisons are to FY 2012 actual receipts; the FY 2013 forecast is about a year old. Except for the cigarette tax, the increases shown are due in part to reductions in revenue sharing with local governments. Similarly, general fund revenue from the commercial activity tax, a tax on gross receipts of general business, is forecast to grow by 81.9 percent in FY 2013, due primarily to a reduction in revenue sharing with local governments. The FY 2013 forecast revenue would make this tax Ohio's fourth-largest source of tax revenue for the general fund.
Oklahoma	The large decrease in severance collections was due to a tax credit for horizontal drilling coming back on line. The legislature placed a two year moratorium on that credit and others during the 2010 session. Officials will be watching sales and corporate income tax collections closely as they are tied rather closely to the energy sector. If prices for oil and natural gas remain below estimate, there may be significant deviations in other income categories as well.
Oregon	The total tax estimate includes some non-tax general fund revenue sources.
Pennsylvania	Based on estimates provided by the Office of the Budget and the Department of Revenue.
Rhode Island	
South Carolina	The negative growth in corporate income is directly tied to a projected slowdown in corporate profits.
South Dakota	Increased production for gas, oil and minerals accounts for the growth in the severance tax.
Tennessee	The personal income tax is based on income from dividends on stocks or interest on certain bonds. Real estate transfer tax detail is not available.
Texas	A substantial portion of franchise tax collections are dedicated for property tax relief and are deposited outside of the general fund. Consequently, this analysis includes total all fund franchise tax collections.
Utah	
Vermont	Projections reflect the FY 2013 forecast adopted July 20, 2012.
Virginia	The total tax estimate reflects general fund revenues only. It does not include the severance tax. Eight counties levy a local severance tax, which is not a state revenue source.
Washington	
West Virginia	According to the state tax department growth is expected in the personal income tax, corporate net income tax and insurance premium tax collections. Expiration of some tax credits, no new tax credits passed this session and business expansion is contributing to the growth of the corporate income tax. Additionally, Marcellus Shale legislation is expected to be a boost to the state's economy with additional businesses created to support a shale plant.
Wisconsin	
Wyoming	Tax sources are limited to forecasts for the state's general fund.
Source: NCSL survey of legislative fiscal offices, 2012.	

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NATIONAL CONFERENCE OF STATE LEGISLATURES

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