

TAXES

Examining inflation-adjusted total, sales, individual income, and corporate income tax revenue data for all 50 states and DC during the most recent four quarters compared with the previous four quarters.

Total state tax revenue (<http://www.urban.org/policy-centers/cross-center-initiatives/state-local-finance-initiative/state-and-local-backgrounders/state-and-local-revenues>) increased 3.3 percent in real terms during the year ending in the first quarter of 2018 compared with the previous yearlong period. This uptick tracks other reports of increasing state tax revenue (<http://rockinst.org/issue-area/new-federal-tax-law-makes-it-difficult-for-states-to-provide-accurate-revenue-forecasts/>), but because some of this is related to how the Tax Cuts and Jobs Act (<https://www.taxpolicycenter.org/feature/states-and-tax-cuts-and-jobs-act>) interacts with state taxpayers and state tax systems, there is still a large degree of uncertainty going forward.

Total real tax revenues increased in 43 states and the District of Columbia. North Dakota's 11.8 percent increase in total tax revenue was the largest of any state. While the state saw large percentage increases in individual income tax and corporate income tax revenue, the total tax revenue increase was mostly because of rebounding severance tax revenue (<https://www.urban.org/policy-centers/cross-center-initiatives/state-local-finance-initiative/state-and-local-backgrounders/severance-taxes>). The next largest real total tax revenue increases were in Oklahoma (8.5 percent) and Kansas (8.4 percent). Sales taxes and severance taxes were mostly responsible for Oklahoma's revenue growth, while individual income taxes drove Kansas's gains. Real total tax revenue also increased 5.0 percent or more in California, Colorado, Idaho, Michigan, Oregon, and Utah.

Real total tax revenue declined in seven states. The largest declines in real total tax revenue were in Iowa (-3.0 percent), Florida (-2.9 percent), New Hampshire (-2.5 percent), and Connecticut (-2.1 percent). The drop was less than 1.0 percent in North Carolina, Ohio, and Vermont. No tax was singularly responsible for the declines in these states.

Total general sales tax (<http://www.urban.org/policy-centers/cross-center-initiatives/state-local-finance-initiative/projects/state-and-local-backgrounders/sales-taxes>) revenue increased 1.6 percent in real terms over the year ending in the first quarter of 2018 compared with the previous four quarters.

Sales tax revenue increased the most in Wyoming (14.3 percent), New Mexico (13.1 percent), and Oklahoma (11.6 percent). None of these states made major changes to their sales tax laws over the past two years. Sales tax revenue also increased more than 5.0 percent in Colorado, Hawaii, Idaho, Michigan, Nevada, and Utah.

Revenue declined in eight of the 45 states that levy a general sales tax. The largest declines were in Ohio (-3.8 percent), Illinois (-2.4 percent), and Connecticut (-1.3 percent). None of these states recently decreased their state sales tax rates (<http://www.taxpolicycenter.org/statistics/state-sales-tax-rates>).

Total individual income tax (<http://www.urban.org/policy-centers/cross-center-initiatives/state-local-finance-initiative/projects/state-and-local-backgrounders/individual-income-taxes>) revenue increased 5.4 percent in real terms during the year ending in the first quarter of 2018 compared with the previous four quarters.

Among the 35 states that saw real increases in individual income tax revenues, Kansas saw the largest growth at 24.1 percent. In June 2017, Kansas (<http://www.taxpolicycenter.org/taxvox/what-kansas-tax-cut-about-face-means>) reversed some of the tax cuts it passed in 2012. Three additional states also saw real income tax revenue increase more than 10.0 percent: Idaho, Illinois, and North Dakota. Illinois (<https://www.taxpolicycenter.org/taxvox/dont-laugh-illinois-your-state-could-be-next>) increased its single income tax rate from 3.8 percent to 5.0 percent last summer, but the other two states did not raise their tax rates.

Only six of the 41 states with broad-based income taxes experienced real income tax revenue declines over the year. The largest drops were in New Mexico (-9.6 percent) and Iowa (-3.8 percent). Neither significantly changed their income taxes over the period, although Iowa (<https://href.li/?https://www.desmoinesregister.com/story/news/politics/2018/05/05/republican-iowa-lawmakers-approve-massive-tax-cuts-reynolds-trump/583569002/>) passed a large individual income tax cut during this year's legislative session. The decline in individual income tax revenue was less than 1.0 percent in Alabama, Arkansas, Connecticut, and North Carolina.

Total corporate income tax (<http://www.urban.org/policy-centers/cross-center-initiatives/state-local-finance-initiative/projects/state-and-local-backgrounders/corporate-income-taxes>) increased 7.1 percent in real terms over the year ending in the first quarter of 2018 compared with the previous year.

State corporate income tax revenue is always volatile: profits fluctuate; the timing of tax payments changes as states offer amnesty programs; and corporate tax filers can offset current profits with previous losses, which can create fluctuations in state tax revenue from year to year. The new federal tax law could also affect corporate investments and other business decisions that affect state taxes. Moreover, corporate income taxes raise relatively little revenue, so small changes in absolute dollars can create dramatic percentage changes.

This is evident in Alaska, which saw a 139 percent real increase in corporate tax revenue over the past year (from \$58 million to \$139 million). The next largest increases were in Montana (58.5 percent) and Hawaii (42.9 percent). Real revenue also increased in the District of Columbia and 29 of the 44 states with a broad-based corporate income tax.

Real corporate income tax revenue declined the most in Mississippi (-29.4 percent) and Indiana (-22.1 percent). Four other states experienced real corporate income tax revenue declines of 10.0 percent or more: Arizona, Massachusetts, North Carolina, and Oklahoma.