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Looks like SC has 2nd greatest tax revenue slide in the nation

States blame fiscal cliff for tax revenue slide

By **Reid Wilson**

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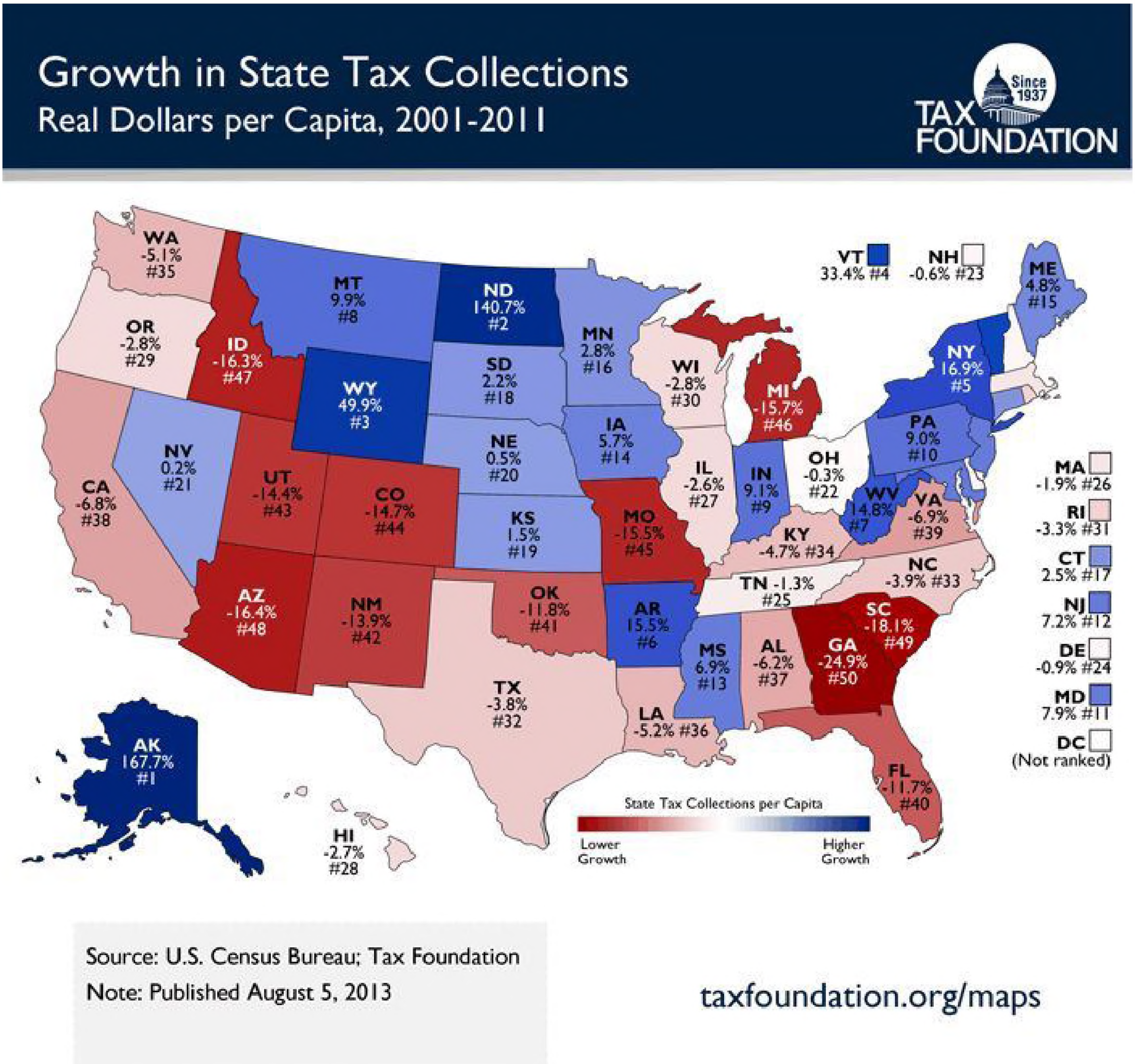

Source: The Tax Foundation

Tax revenues have dropped in numerous states for the first time since the end of the great recession, in large part due to lingering affects from the fiscal cliff negotiations that embroiled Congress at the

end of 2012.
The expectation that tax rates would rise as a result of those negotiations led many money managers, corporations and high-income earners to report income or sell stock at the end of 2012. Those transactions resulted in huge windfalls in the first half of last year, when personal income tax revenue soared 18 percent and corporate income taxes rose about 10 percent.
Now states are seeing the downside: corporate tax rates declined in 20 states in the first quarter of 2014, while personal income tax revenues fell in 10.
"We had this unusually strong year in 2013, attributable in a lot of places to capital gains," said Brenna Erford, who manages state budget policy work at the Pew Charitable Trusts. "A lot of taxpayers were making this very conscious choice to take those gains in the prior year to avoid tax changes."
The decline in tax revenues isn't entirely due to the fiscal cliff. Some states reduced tax rates and others saw their coffers drop because of the bad weather that froze much of the country this winter.
The Affordable Care Act also played a role. A provision that called for a 3.8 percent surcharge on investment income on taxpayers who made more than $250,000 a year caused many wealthy investors to cash out at the end of 2012, before the provision took effect.
Many states planned ahead for the expected dropoff from last year, while others are now dealing with considerable budget problems.
Standard & Poor's and Fitch Ratings both downgraded New Jersey's credit rating after the state disclosed an $807 million budget gap last week, forcing painful cuts just two months before the end of the fiscal year. Moody's cut Kansas's bond ratings after tax revenues dropped 45 percent from a year ago, in part due to the fiscal cliff. Gov. Sam Brownback (R) blamed the Obama administration.
"What we are seeing today is the effect of tax increases implemented by the Obama administration that resulted in lower income tax payments and a depressed environment," Brownback said in a statement.
The fiscal cliff came about after a series of fights between Republicans in Congress and President Obama over deep spending cuts, known as sequestration, raising the nation's borrowing limit and extending tax cuts passed under President George W. Bush. The tax and sequestration cuts faced a New Year's Day 2013 deadline, which became known as the fiscal cliff. If lawmakers failed to act, across the board tax rates would rise and government spending would be slashed – so much so that economists warned of another recession.
Lawmakers avoided the cliff with an early morning deal on New Year's Day that raised taxes on the wealthiest Americans and delayed the effects of sequestration. But their inability to come to an agreement before then led many individuals and companies to assume that their taxes would rise.
Overall, total personal income tax revenue across the country fell by 0.4 percentage points in the first quarter of 2014, according to data compiled by the Rockefeller Institute, the first year-over-year decline since the last three months of 2009.
The numbers in some states are significant: In the first three months of the year, personal income tax revenue dropped 15.3 percent in Maine, 4.1 percent in Iowa, and 3.7 percent in both Mississippi and South Carolina.

“The fiscal cliff deal skews what the prior year number means in a lot of states,” said Christian Soura, South Carolina Gov. Nikki Haley’s deputy chief of staff for budget and policy. “Many corporate interests had tax reasons to recognize profits at the end of calendar year 2012 before the fiscal cliff took effect.”

Revenues from personal income taxes fell by 1.1 percent in Virginia, though higher corporate tax revenue and a modest increase in sales tax collections meant overall revenue ticked up 0.3 percent in the commonwealth.

Maryland posted a slight 1.5 percent increase in personal income tax collections, and a 10.4 percent boost in corporate income tax revenue. Tax revenue data for Washington, D.C. wasn’t immediately available.

California had a particularly precipitous drop, thanks to another factor: Wealthy investors who sold stock in 2012 had to pay extra taxes after a state initiative retroactively boosted capital gains taxes. That meant California collected even more capital gains taxes in early 2013 than it would have otherwise. As a result, personal income tax revenue dropped 11.1 percent in the first quarter of 2014.

“The growth that we’ve seen in revenues is tied to capital gains, which is the most volatile source of revenue there is,” said H.D. Palmer, a spokesman for California’s Department of Finance. “We weren’t caught by surprise by it. We knew there were some factors that would cause the prior year to be higher than it normally would have been.”

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