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States See a Slip in Tax Collections That's Not Totally Unexpected.

The federal tax overhaul and stock market volatility help to explain some recent income tax revenue trends.

Income tax collections in December were short of expectations and prior year levels in New York, California and other states, Moody's Investors Service noted in a brief last week.

The trend is not entirely surprising and underscores the uncertainty state revenue forecasters face as taxpayer behavior changes in response to the 2017 federal tax overhaul, and recent stock market volatility potentially shakes up collections tied to capital gains.

"We expected to get a lower number in December," John Hicks, executive director of the National Association of State Budget Officers, said by phone on Friday as he discussed income tax collections. "As to whether it's so low that it's a problem: Don't know yet."

"Revenue estimators will say, particularly with personal income tax, there's a lot of uncertainty around taxpayer behavior," he added.

States in December 2017 saw personal income tax revenues swell. The uptick has been widely attributed to high-income taxpayers making early payments so they could claim tax breaks that would be curtailed under the changes to federal tax law enacted that year.

So, in other words, because income tax revenues in December 2017 were unusually high, it makes sense that December 2018 collections would be lower by comparison.

At the same time, how the 2017 federal tax overhaul will affect state income tax revenues in the long run is still coming into focus.

In New York gross personal income tax collections were not only $2.8 billion less than a year earlier, according to the Moody's brief, but also $500 million shy of the state's revenue forecast. Total gross personal income tax revenues in New York through December were down about 1.6 percent for the same period during the prior year.

State income tax collections around December are generally seen as a barometer of how income tax receipts will stack up when they're totaled up in April, Moody's points out.

NASBO has said previously that in fiscal 2018 states funded on average nearly 46 percent of their budgets with income taxes.

California, Massachusetts and New Jersey were among the other states that reported lower than anticipated income tax collections in December, according to Moody's. In California, for instance, receipts for the month were down $4.7 billion from the prior year.

Hicks said that running up to December, personal income tax growth was generally strong across the country. “It’s not to say that people aren’t watching closely,” he added.

A key factor affecting state income tax revenues in the December-January timeframe are what’s known as “estimated payments,” which are typically made by taxpayers with sizable income from sources other than wages—like stock market gains.

Moody’s says January collections could make up for the slide in December income tax revenue in some states, but also highlighted that New York reduced its personal income tax forecast for its current budget cycle and future years.

“We expect continued uncertainty to cloud state revenue forecasts in fiscal 2020,” the brief from the ratings agency says. Analysts there added: “It will take the passage of time and more missed revenue forecasts for state revenue analysts to capture new trends.”

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