



**THE NELSON A.
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Poor Performance in State Tax Revenues: Weak Growth in the First Quarter, Declines in the Second Quarter

Albany, NY — State and local government tax revenues showed continued slowdown in the first half of 2016, mostly attributable to weak performance of the stock market and steep declines in oil prices. Year-over-year growth in state and local tax was a mere 3.0 percent in the first quarter of 2016, which is a substantial slowing from the 5.4 percent average for the four previous quarters. Overall, state governments have been hit harder than localities by slowing tax revenue growth. Total state tax revenue from all sources grew by 1.6 percent and local tax revenue from major sources grew by 4.4 percent in the first quarter of 2016.

The just-released *State Revenue Report (SRR)* of the Nelson A. Rockefeller Institute of Government provides detailed analysis of state government tax revenues in the first quarter of 2016 and provides an overview of preliminary data for the second quarter of 2016. The report also provides state forecasts for fiscal year 2017 for personal income and sales tax collections.

According to preliminary data, state tax revenues declined by 2.1 percent in the second quarter of 2016. Declines were widespread, affecting about half of the states. Those declines came at a time when most states had already adopted 2017 budgets. They may leave many 2017 state budgets with holes to fix.

State personal income tax revenues grew 1.8 percent on a year-over-year basis in the first quarter of 2016, down from the 8.1 percent average for the four previous quarters. Overall, 16 states reported quarterly declines in personal income tax collections.

Preliminary data for the second quarter of 2016 show declines of 3.3 percent in personal income tax collections. The declines in state income tax collections in the second quarter were driven in large part by substantial and widespread declines in the estimated and final tax payments. We believe these declines were primarily caused by the weak stock market performance in 2015 and early 2016, which led to lower capital gains.

Growth was also weak in state sales tax collections, which increased by 2.4 percent in the first quarter of 2016, a slowdown from the 3.6 percent average for the four previous quarters. Most of the weakness in sales tax collections was caused by slow growth in taxable consumption. Year-over-year growth in nominal consumption of durable goods was 2.7 percent in the first and second quarters of 2016. Nondurable goods actually saw declines throughout 2015 but resumed growth in 2016. The declines in nondurable goods consumption were driven by sharp declines in oil and gas prices.

State tax performance was also poor in the corporate income tax, which declined by 4.5 percent and the motor fuel tax, which only increased by 1.9 percent.

Most states forecast weak income tax and sales tax revenue growth in fiscal 2017. The median forecast for income tax growth in the 36 states for which the Rockefeller Institute was able to gather forecasts is 4.0 percent for 2017. The median forecast for sales tax growth in 39 states is 3.8 percent for 2017. In many states, 2017 forecasts were prepared before the negative April income tax surprises. Therefore, state forecasters may make downward revisions in their next official forecasts for fiscal 2017.

"The outlook for state budgets in the 2016-17 state fiscal year, which began on July 1st in forty-six states, remains gloomy," wrote study authors Lucy Dadayan and Donald J. Boyd.

To read the *State Revenue Report*, go to www.rockinst.org/pdf/government_finance/state_revenue_report/2016-09-23-SRR_104.pdf.

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