The Collapse of the Corporate Income Tax

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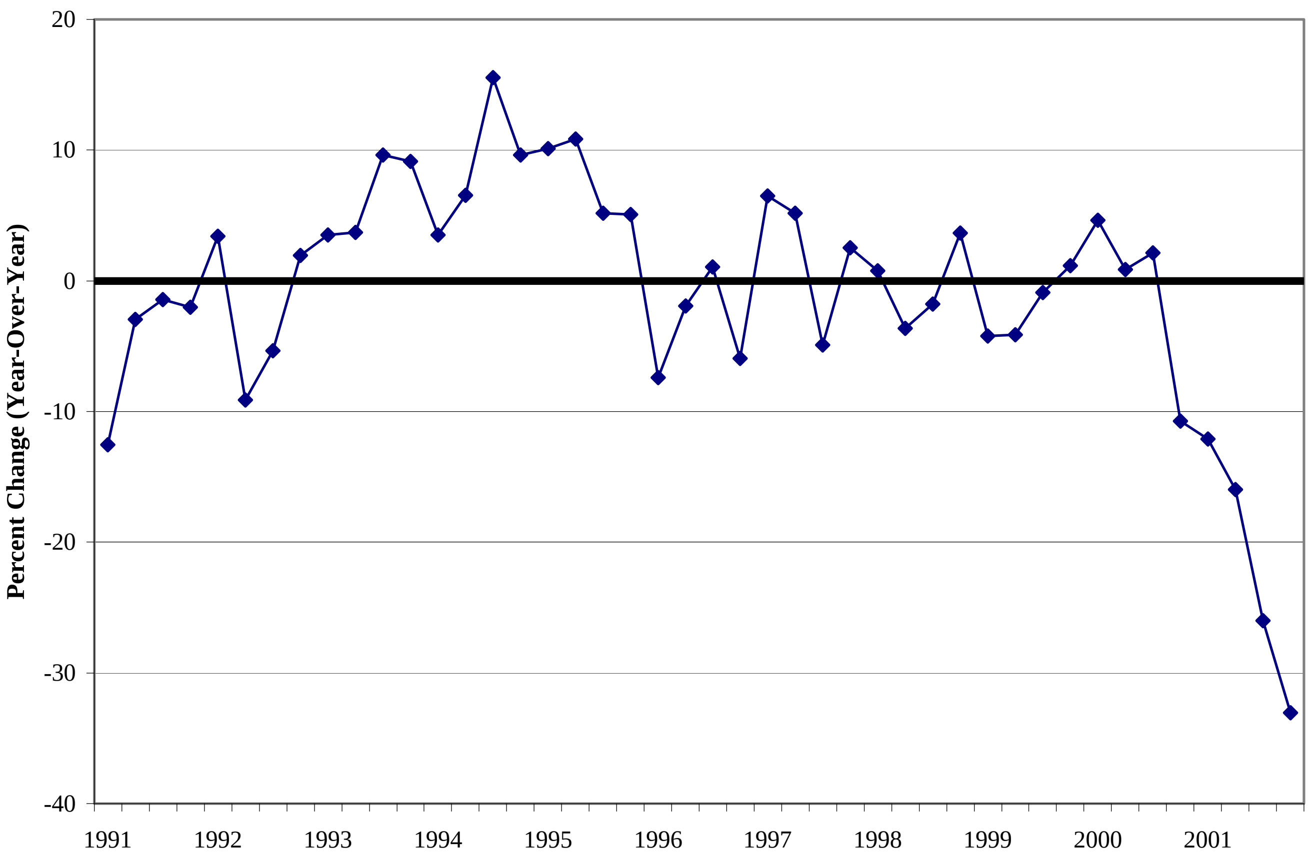
For the last five straight quarters, the corporate income tax component of state tax revenues has declined sharply. In the October -December 2001 quarter the year-over-year decline was over 30 percent. Figure 1 shows the change in the corporate income tax over the last eleven years. The CIT is the most volatile of the major state taxes, its growth rate often varying by 10 percent or more from quarter to quarter. The decline of the last fifteen months, however, was unique.

Figure 1.

Quarterly Change in Corporate Income Tax Revenue, Adjusted for Inflation.

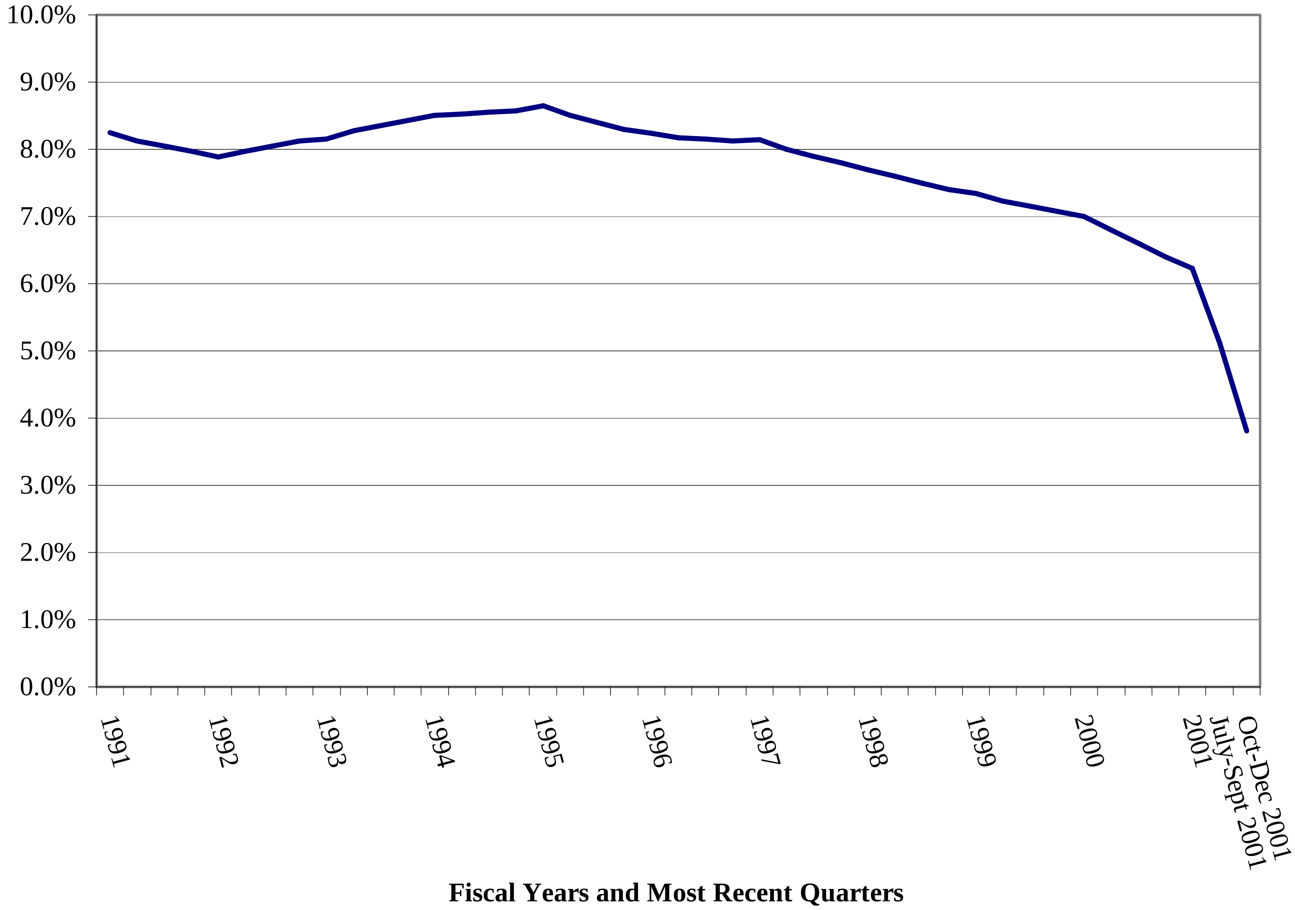


Source: State revenue data collected by The Nelson A. Rockefeller Institute of Government.

The corporate income tax has been in decline as a component of state tax revenue. It contributed about eight percent of total tax revenue in the early and mid 1990s. This had declined to a little over six percent by fiscal year 2001. In the recent sharp decline, it has fell to less than four percent of total tax revenue. (See Figure 2.) The initial part of the decline was the result of the corporate income tax not growing as quickly as the other major state taxes – the personal income and sales taxes. In fiscal 2001, there was an absolute decline in corporate income tax collections.

Figure 2.

Percent of Total State Tax Revenues from the Corporate Income Tax



Source: State revenue data collected by The Nelson A. Rockefeller Institute of Government.

There is certainly some connection between the recession in the economy and this decline in the corporate income tax. This decline however started before the recession and has been much deeper than either the general economic decline or the decline in other major taxes. The federal corporate income tax has been declining along with the state corporate income taxes.

The corporate income tax is more important to some states than to others. Table 1 lists the states in order of the contribution of the corporate income tax to their general revenues in 1999 (the latest year for which Census data is available). General revenue includes tax revenue with fees, charges, and intergovernmental revenue added. Of the 45 states with a corporate income tax, the contribution to revenues ranged from 8.2 percent in New Hampshire to 0.9 percent in Hawaii.

Table 1.
Contribution of CIT to General State Revenues, 1999

State	Percent of General State Revenues From Corporate Income Tax	State	Percent of General State Revenues From Corporate Income Tax
New Hampshire	8.2%	Nebraska	2.7%
Michigan	6.6%	Oregon	2.7%
Illinois	5.9%	Colorado	2.6%
Delaware	5.7%	Mississippi	2.6%
Indiana	5.6%	Utah	2.6%
Massachusetts	4.9%	Arkansas	2.5%
California	4.6%	Idaho	2.5%
New Jersey	4.5%	Iowa	2.5%
Arizona	4.2%	Maryland	2.5%
Minnesota	4.1%	Kentucky	2.3%
Pennsylvania	4.0%	New Mexico	2.3%
West Virginia	4.0%	Ohio	2.3%
Tennessee	3.9%	South Carolina	2.1%
Georgia	3.7%	Louisiana	2.0%
North Dakota	3.7%	Virginia	2.0%
Alaska	3.6%	Oklahoma	1.9%
New York	3.6%	Alabama	1.8%
North Carolina	3.6%	Missouri	1.8%
Wisconsin	3.5%	Vermont	1.8%
		Rhode Island	1.7%
United States	**3.4%**	Hawaii	0.9%
		Nevada	NA
Kansas	3.3%	South Dakota	NA
Connecticut	3.2%	Texas	NA
Florida	3.2%	Washington	NA
Maine	3.0%	Wyoming	NA
Montana	2.9%		

Source: U.S. Census Bureau, Governments Division.

NA - Not Applicable (State Does Not Have Corporate Income Tax)

In Table 2, we compare corporate income tax collections in calendar year 2001 and 2000, as a percentage of states' total tax revenues. We adjusted the numbers in this table for the effects of legislated tax changes. The total national decline was 1.2 percent of total tax revenue, with 39 of 45 states with a corporate income tax showing some decline. The worst affected state was Idaho with a decline in the corporate income tax equal to 2.8 percent of its total tax revenues. Eight states had declines of two percent or more of total tax revenue. The only state with an increase of more than two percent was Alaska, which benefited from higher oil company profits.

Table 2.
Year-Over-Year Change in Corporate Income Tax Revenue
(Percent of Total Tax Revenue)
(Calendar Year 2001 vs. Calendar Year 2000)

State		**State**	
Idaho	-2.8%	Indiana	-1.2%
Oregon	-2.3%	Arkansas	-1.1%
New Hampshire	-2.2%	South Carolina	-1.1%
Massachusetts	-2.2%	Delaware	-1.0%
Kansas	-2.1%	Georgia	-1.0%
Rhode Island	-2.1%	North Carolina	-1.0%
Illinois	-2.0%	Vermont	-0.9%
California	-2.0%	Iowa	-0.9%
Minnesota	-1.9%	New Jersey	-0.9%
Arizona	-1.7%	Florida	-0.8%
Missouri	-1.7%	Mississippi	-0.7%
Virginia	-1.6%	Ohio	-0.7%
Pennsylvania	-1.4%	Michigan	-0.6%
Connecticut	-1.4%	Kentucky	-0.6%
Utah	-1.4%	Colorado	-0.5%
New York	-1.3%	Oklahoma	-0.4%
Alabama	-1.3%	West Virginia	-0.4%
Wisconsin	-1.3%	New Mexico	-0.3%
Maine	-1.2%	Hawaii	0.0%
Nebraska	-1.2%	Tennessee	0.2%
		North Dakota	0.3%
United States	**-1.2%**	Louisiana	0.3%
		Montana	0.7%
Maryland	-1.2%	Alaska	2.2%

Source: State revenue data collected by The Nelson A. Rockefeller Institute of Government.

Note: What we call the corporate income tax in this article is called by different names in some states, including Corporate Franchise Tax and Business Profits Tax. It also includes the Single Business Tax in Michigan.

The Nelson A. Rockefeller Institute of Government is the public policy research arm of the State University of New York. Nick Jenny is a Senior Policy Analyst in the Institute's Fiscal Studies Program. Some data used in this report is from the Institute's state revenue database. For more, see the State Revenue Report.

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