Third Quarter Has Worst State Tax Revenue Decline Yet

January-March 2002 Preliminary State Revenues

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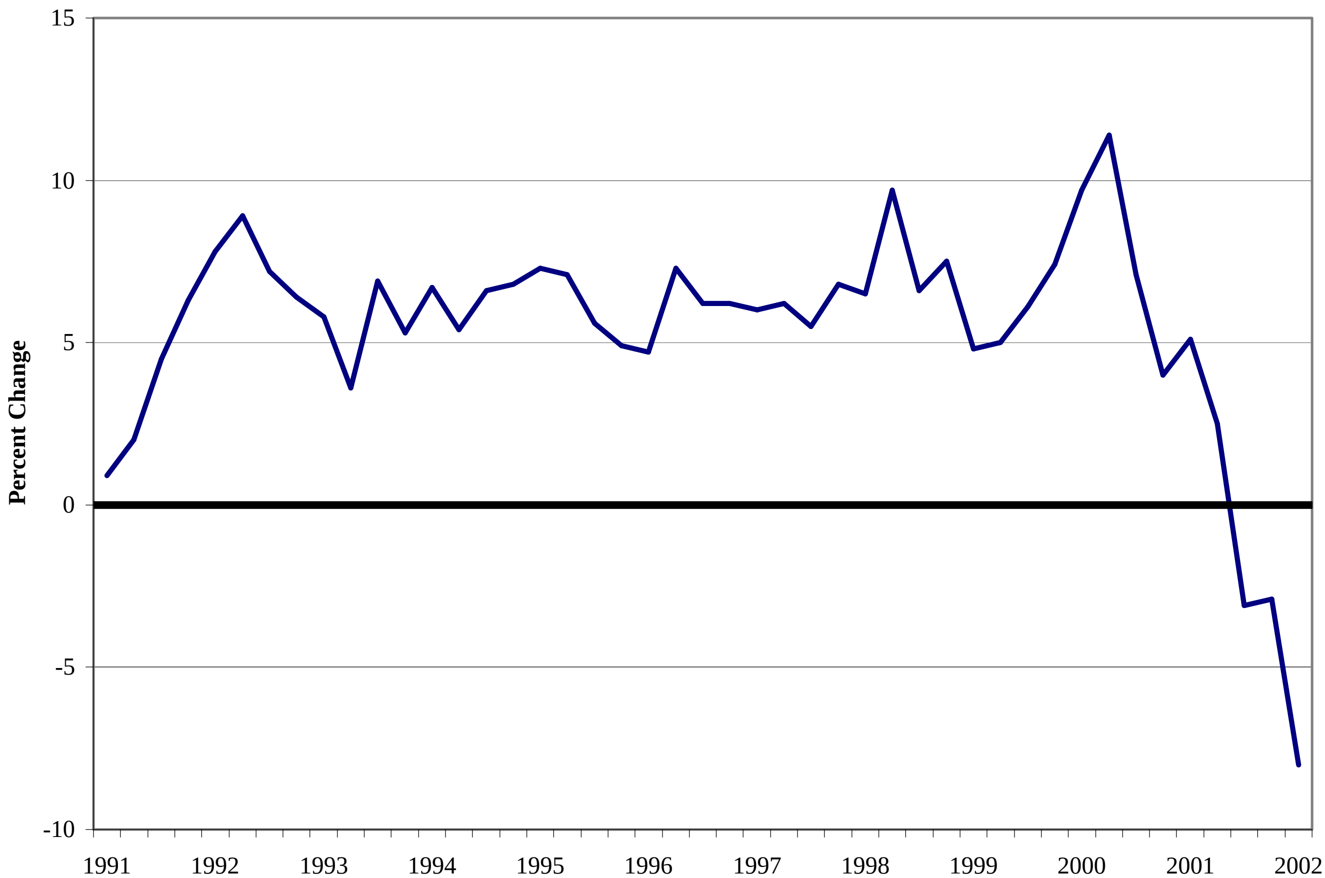
Preliminary revenue numbers for the January-March 2002 quarter show that total state tax revenues declined by eight percent, the third – and largest - year-over-year drop in a row. All major tax sources were weak. Particularly startling was the 14.4 percent decline in personal income tax revenues. Sales tax revenue moved into the negative range for the first time since the recession – perhaps now over – began, declining by one percent for the quarter. Corporate income tax revenues declined sharply for the sixth quarter in a row, falling by 18.4 percent. These numbers for the January-March quarter are preliminary and subject to change, but are likely to give a good overall picture of the quarter's weakness. Figure 1 charts the changes in total state tax collections since 1991, and Table 1 breaks this down for the major types of tax since 1996.

Figure 1.

Year-Over-Year Change in Total Tax Collections, 1991-2002



Source: Data complied by the Fiscal Studies Program of the Nelson A. Rockefeller Institute of Government

Table 1. Year-Over-Year Percentage Change in Quarterly State Tax Revenue by Major Tax

	PIT	CIT	Sales Tax	Total
1996				
Jan.-Mar.	7.1	(4.8)	5.6	4.7
April-June	11.3	0.9	6.8	7.3
July-Sept.	6.9	4.0	5.8	6.2
Oct.-Dec.	9.1	(3.0)	6.1	6.2
1997				
Jan.-Mar.	7.1	9.6	4.7	6.0
April-June	8.8	7.6	4.3	6.2
July-Sept.	8.4	(2.8)	5.8	5.5
Oct.-Dec.	8.3	4.5	5.3	6.8
1998				
Jan.-Mar.	9.3	2.3	5.6	6.5
April-June	19.5	(2.1)	5.3	9.7
July-Sept.	8.9	(0.2)	5.9	6.6
Oct.-Dec.	9.5	5.2	5.5	7.5
1999				
Jan.-Mar.	6.6	(2.6)	6.1	4.8
April-June	6.0	(2.1)	7.3	5.0
July-Sept.	7.6	1.4	6.7	6.1
Oct.-Dec.	9.1	3.8	7.3	7.4
2000				
Jan.-Mar.	13.6	8.0	8.2	9.7
April-June	18.8	4.2	7.3	11.4
July-Sept.	11.0	5.7	4.6	7.1
Oct.-Dec.	5.8	(7.7)	4.2	4.0
2001				
Jan.-Mar.	8.7	(9.1)	3.4	5.1
April-June	5.4	(13.1)	0.5	2.5
July-Sept.	(3.7)	(24.0)	0.0	(3.1)
Oct.-Dec.	(2.7)	(31.8)	1.0	(2.7)
2002				
Jan.-Mar.(p)	(14.4)	(18.4)	(1.0)	(8.0)

(p) - preliminary
Note: Please Call Fiscal Studies Program for pre-1996 data.

Table 2. Percentage Change in Total Quarterly Tax Revenue by State

January-March, 2001 to 2002 (preliminary)

Alaska	(38.0)	Kansas	(5.6)
California	(20.0)	Michigan	(5.4)
Delaware	(15.2)	New Jersey	(5.1)
Oregon	(15.1)	Ohio	(5.0)
Massachusetts	(14.7)	Kentucky	(4.9)
New York	(13.5)	Maryland	(4.3)
Colorado	(11.5)	Minnesota	(4.3)
Connecticut	(10.8)	Indiana	(4.2)
Oklahoma	(9.6)	Illinois	(4.1)
Nebraska	(9.1)	Arizona	(2.1)
New Mexico	(8.8)	Iowa	(2.1)
Georgia	(8.7)	Pennsylvania	(1.5)
Wisconsin	(8.3)	Mississippi	(1.2)
		Tennessee	(0.9)
United States	**(8.0)**	West Virginia	(0.3)
		Texas	(0.1)
Hawaii	(7.7)	Montana	0.1
Rhode Island	(7.6)	Florida	0.6
Idaho	(7.5)	South Dakota	1.2
Virginia	(7.5)	Alabama	2.0
Utah	(6.8)	Wyoming	3.2
Maine	(5.9)	North Carolina	3.4
North Dakota	(5.8)	New Hampshire	21.1

Note: Numbers in parentheses are negative.

Table 2 shows the percentage change in total quarterly tax revenue, ordered from the states with the largest declines to the states with the largest increases. It only includes states for which we have data for the whole January-March quarter. Alaska's large drop is attributable to its heavy reliance on volatile taxes tied to oil production. While some part of the largest revenue declines may be due to tax cuts or processing issues, most of the declines are likely to reflect significant underlying weakness in tax revenue. In all, revenues declined in 36 of the 43 states for which we have the whole quarter's numbers.

The large decline in personal income tax revenues drove the total revenue decline in this quarter. States that do not have a personal income tax – including Florida, New Hampshire, South Dakota, Tennessee, Texas, and Wyoming – tended to have either much smaller declines or increases in their tax revenues. In addition, the tax revenue increases in New Hampshire and North Carolina were due in part to tax increases.

This revenue decline is occurring even as the general economy seems to be recovering. In part, this is because states are still collecting revenues arising from economic activity in 2001. However the decline in the sales tax, a more "current" revenue source, may suggest that state revenues will take a while longer to recover from this recession.

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. All data used in this report is from the Institute's state revenue database. For more, see the *State Revenue Report* .

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