# STATE REVENUE REPORT

Fiscal Studies Program
The Nelson A. Rockefeller Institute of Government

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No. 48

# Worst Quarter of State Tax Revenue Decline

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## HIGHLIGHTS

- State tax revenue in the January-March 2002 quarter declined by 7.9 percent compared to the same period in 2001.
- January-April payments of personal income tax with returns were off by 26.3 percent.
- State tax revenue decline is accelerating even as the national economy is improving.
- After adjusting for tax law changes and inflation, real underlying state tax revenue declined by 9.5 percent, the worst decline in at least eleven years.
- This was the third straight quarter of revenue decline, resulting from the national recession and sharp declines in stock market related income.
- There was a net tax increase for the first time since 1995. Legislated tax changes added over $600 million to state tax revenue.
- Personal income tax revenue declined by 14.3 percent, the third straight quarter of decline.
- The corporate income tax continued its six-quarter-long collapse, declining by over 18 percent.
- Sales tax revenue declined by one percent, the first decline in eleven years.

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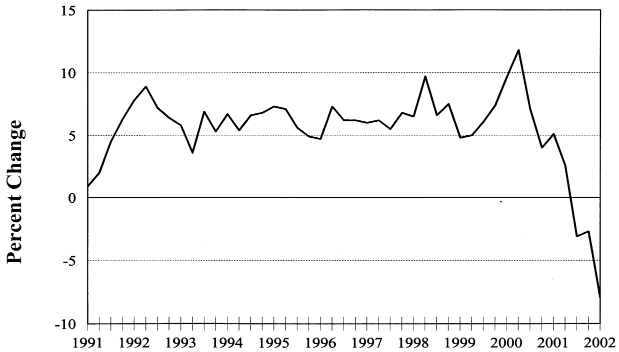



**Figure 2. Year-Over-Year Change in Real Adjusted Tax Revenue, 1991-2002**

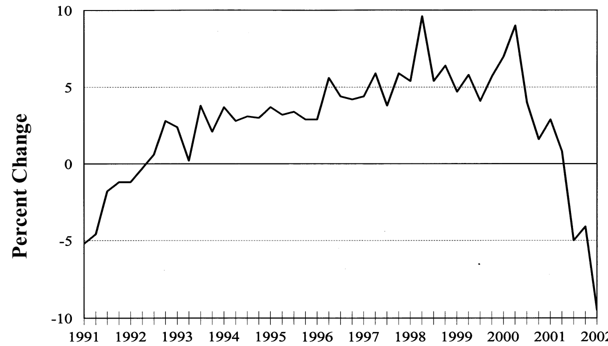



**Table 1. Year-Over-Year Change in Quarterly State Tax Revenue, Adjusting for Legislated Tax Changes and Inflation**

| | *Total Nominal Increase* | *Adjusted Nominal Increase* | *Inflation Rate* | *Real Increase* |
|---|---|---|---|---|
| **1995** | | | | |
| Jan.-Mar. | 7.3% | 6.6% | 2.8% | 3.7% |
| April-June | 7.1 | 6.4 | 3.1 | 3.2 |
| July-Sept. | 5.6 | 6.1 | 2.6 | 3.4 |
| Oct.-Dec. | 4.9 | 5.7 | 2.7 | 2.9 |
| **1996** | | | | |
| Jan.-Mar. | 4.7 | 5.7 | 2.7 | 2.9 |
| April-June | 7.3 | 8.6 | 2.8 | 5.6 |
| July-Sept. | 6.2 | 7.4 | 2.9 | 4.4 |
| Oct.-Dec. | 6.2 | 7.5 | 3.2 | 4.2 |
| **1997** | | | | |
| Jan.-Mar. | 6.0 | 7.4 | 2.9 | 4.4 |
| April-June | 6.2 | 8.3 | 2.3 | 5.9 |
| July-Sept. | 5.5 | 6.1 | 2.2 | 3.8 |
| Oct.-Dec. | 6.8 | 7.9 | 1.9 | 5.9 |
| **1998** | | | | |
| Jan.-Mar. | 6.5 | 7.0 | 1.5 | 5.4 |
| April-June | 9.7 | 11.4 | 1.6 | 9.6 |
| July-Sept. | 6.6 | 7.1 | 1.6 | 5.4 |
| Oct.-Dec. | 7.5 | 8.0 | 1.5 | 6.4 |
| **1999** | | | | |
| Jan.-Mar. | 4.8 | 6.5 | 1.7 | 4.7 |
| April-June | 5.0 | 8.0 | 2.1 | 5.8 |
| July-Sept. | 6.1 | 6.5 | 2.3 | 4.1 |
| Oct.-Dec. | 7.4 | 8.4 | 2.6 | 5.7 |
| **2000** | | | | |
| Jan.-Mar. | 9.7 | 10.4 | 3.2 | 7.0 |
| April-June | 11.4 | 11.8 | 3.3 | 8.2 |
| July-Sept. | 7.1 | 7.7 | 3.5 | 4.1 |
| Oct.-Dec. | 4.0 | 5.0 | 3.4 | 1.5 |
| **2001** | | | | |
| Jan-Mar | 5.1 | 6.3 | 3.4 | 2.8 |
| April-June | 2.6 | 4.2 | 3.4 | 0.8 |
| July-Sept. | (3.1) | (2.4) | 2.7 | (5.0) |
| Oct.-Dec. | (2.7) | (2.3) | 1.9 | (4.1) |
| **2002** | | | | |
| Jan.-Mar. | (7.9) | (8.4) | 1.2 | (9.5) |

*Note:* Inflation is measured by the Consumer Price Index. Please call Fiscal Studies Program for pre-1995 data.

**Table 2. Year-Over-Year Change in Quarterly State Tax Revenue by Major Tax**

| | *PIT* | *CIT* | *Sales* | *Total* |
|---|---|---|---|---|
| **1995** | | | | |
| Jan.-Mar. | 6.4% | 13.2% | 9.0% | 7.3% |
| April-June | 8.3 | 14.3 | 6.1 | 7.1 |
| July-Sept. | 6.3 | 8.0 | 5.2 | 5.6 |
| Oct.-Dec. | 5.6 | 7.9 | 4.2 | 4.9 |
| **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 | 4.7 | 7.1 |
| Oct.-Dec. | 5.7 | (7.7) | 4.1 | 4.0 |
| **2001** | | | | |
| Jan-Mar | 8.6 | (9.1) | 3.3 | 5.1 |
| April-June | 5.6 | (13.7) | 0.5 | 2.6 |
| July-Sept. | (3.4) | (25.5) | 0.0 | (3.1) |
| Oct.-Dec. | (2.7) | (31.8) | 1.0 | (2.7) |
| **2202** | | | | |
| Jan.-Mar. | (14.3) | (18.4) | (1.0) | (7.9) |

*Note:* Please call Fiscal Studies Program for pre-1995 data.

## Introduction

State tax revenue declined more sharply in the January-March quarter of 2002 than it had since the Rockefeller Institute of Government began to track state revenues in 1991. It was the third consecutive quarter of tax revenue decline. These revenue declines are continuing to punch large holes in the budgets of just about every state. The decline in state tax revenue was 7.9 percent for the quarter. Personal income tax revenue declined by 14.3 percent, the third straight quarter of decline in this revenue source. Sales tax revenues were down by one percent, the first time that this revenue source had declined since January-March 1991. Corporate income taxes were down by 18.4 percent, the sixth consecutive quarter of decline. When adjusted to reflect the effects of legislated tax changes and inflation, real state tax revenue declined by 9.5 percent — the worst real decline since we began tracking revenue in 1991.

When we look at April, when states process most final income tax returns, things only get worse. Total personal income tax collections in April of 2002 declined by 21.4 percent. This decline was the result of a huge drop in payments with final returns, and another round of weak quarterly estimated personal income tax payments. This will likely make the April-June 2002 quarter another down one, and fiscal 2002 will be a tax revenue disaster for most states. While there are some signs of recovery in the general economy, continued weakness in employment and financial markets is likely to depress state revenue collections for some time.

## Tax Revenue Growth

Table 1 shows tax revenue growth for the last 29 quarters before and after adjusting for legislated tax changes and inflation. The nominal 7.9 percent decline in the January-March quarter was considerably worse than the declines of the previous two quarters, and the worst quarter in over a decade. For the first quarter since April-June 1995, legislated tax changes resulted in a net increase in taxes. Without this increase, revenues would have declined by 8.2 percent. Adjusting for inflation brought the real decline to 9.3 percent. The worst previous real decline we had tracked was the 6.3 percent drop in January-April 1991.

The decline in the January-March quarter was by far the sharpest in the Far West, which had a 17.5 percent decline in total tax collections. The New England and Mid-Atlantic states also had tax revenue decline faster than the national average. Every region of the nation experienced some revenue decline this quarter. The relatively small net tax increase had little effect on these numbers. Generally, the regions that were doing the best a year ago, before the recession officially started, are now doing the worst. (See Table 3 and Figures 3 and 4.)

Table 2 shows the last 29 quarters of changes in state collections for all the major taxes. In the January-March 2002 quarter, personal income tax collections were the worst of three straight quarters of decline. The corporate income tax continued its long-term decline, at a slightly slower pace than the previous two quarters. The sales tax has finally moved into negative territory, but is still the strongest performer of the three major state tax sources.

In Table 4, we adjust for the effects of legislated tax cuts. As can be seen, the sales tax decline would have been worse if not for some tax increases. There was little net legislated change in the personal income tax.

### *Personal Income Tax*

The January-March quarter is of particular interest to states that have a personal income tax, particularly when the general economy is weak. The final quarter of estimated tax payments is most often due in January, the month many companies have traditionally paid end-of-year bonuses. These are evidence of whether or not high-income taxpayers have had a good or bad year. If they have overpaid or underpaid estimated taxes, they will try to correct it with the last payment. Likewise, in a good year bonuses can boost withholding. Since in most states the filing deadline for final personal income taxes falls in April, an idea of the pattern of refund payments begins to emerge in the January-March quarter. In this report, we also have a first look at how April final settlement payments have worked out in most states.

**Figure 3**
**Percent Change in Tax Revenue by Region, Adjusted for Legislated Changes January-March 2001 to 2002**

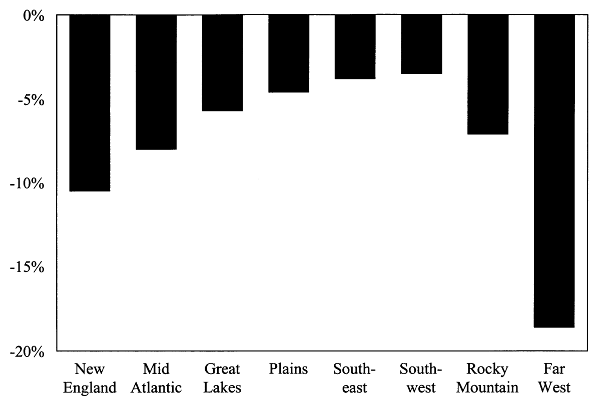



**Figure 4**
**Change in Quarterly Tax Revenue by State, Adjusted for Legislated Changes, January-March 2001 to 2002**

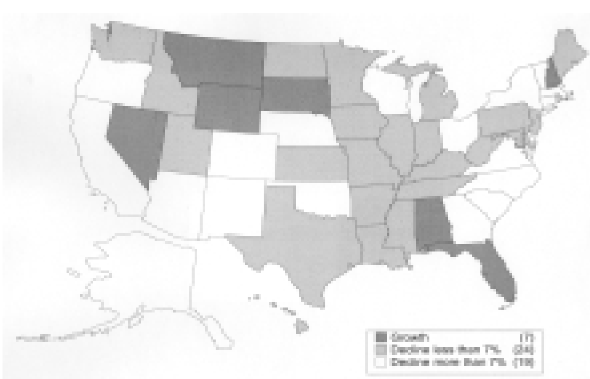


**Figure 5**
**Change in Quarterly Tax Revenue by Tax, Last Four Quarters**

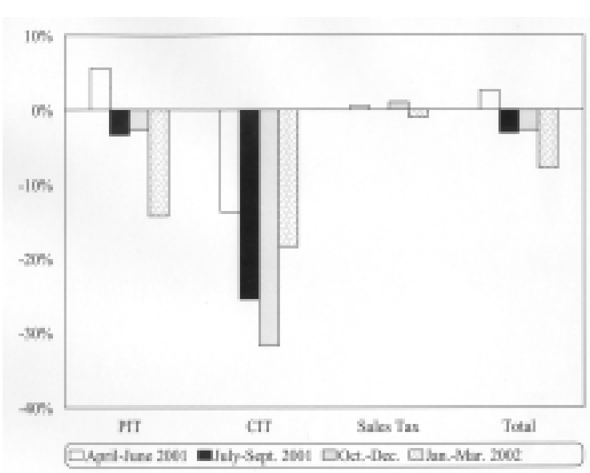



**Table 3. Percent Change in Quarterly Tax Revenue by State, January-March 2001 to 2002**

| | *PIT* | *CIT* | *Sales* | *Total* |
|---|---|---|---|---|
| **United States** | **(14.3)%** | **(18.4)%** | **(1.0)%** | **(7.9)%** |
| **New England** | **(18.5)** | **(33.2)** | **(1.7)** | **(11.5)** |
| Connecticut | (14.3) | (43.2)¶ | (3.2)¶ | (10.8)¶ |
| Maine | (20.7) | (44.0) | 5.6* | (5.9) |
| Massachusetts | (19.6)¶ | (29.5) | (3.9) | (14.7)¶ |
| New Hampshire | NA | (6.2)* | NA | 21.1* |
| Rhode Island | (14.7)¶ | (50.5) | 4.7 | (7.6)¶ |
| Vermont | (34.0) | NM | 14.3 | (16.5) |
| **Mid-Atlantic** | **(14.9)** | **(16.3)** | **1.3** | **(8.5)** |
| Delaware | 1.2 | NM | NA | (15.2) |
| Maryland | (6.2)¶ | (16.3) | (1.3) | (4.3)¶ |
| New Jersey | (15.5) | 9.1 | 5.3 | (5.1) |
| New York | (19.1) | (19.4)¶ | 0.6 | (13.5) |
| Pennsylvania | (3.3) | (14.2) | (0.1) | (1.5) |
| **Great Lakes** | **(9.0)** | **(13.6)** | **(1.8)** | **(5.2)** |
| Illinois | (5.4) | (23.1) | 0.3* | (4.1) |
| Indiana | (7.7) | (42.3) | (3.8) | (4.2) |
| Michigan | (13.2)¶ | (12.7)¶ | (3.3) | (5.4)¶ |
| Ohio | (6.1)* | (10.9) | 1.0 | (5.0)* |
| Wisconsin | (15.9) | 10.0 | (4.2) | (8.3) |
| **Plains** | **(4.9)** | **(12.1)** | **(2.8)** | **(4.4)** |
| Iowa | 1.6 | (28.8) | 1.0 | (2.1) |
| Kansas | (7.1) | (94.3) | 2.9 | (5.6) |
| Minnesota | (6.5) | (11.2) | (6.4)* | (4.3) |
| Missouri | 2.6 | 48.1 | (3.7) | ND |
| Nebraska | (10.6) | (29.9) | (3.0) | (9.1) |
| North Dakota | 0.5 | (2.3) | (2.9) | (5.8) |
| South Dakota | NA | NA | 0.4 | (1.2)¶ |
| **Southeast** | **(5.9)** | **(8.8)** | **0.5** | **(2.3)** |
| Alabama | (0.4) | (121.7) | 0.0 | (2.0) |
| Arkansas | 0.1 | (30.4) | 0.6* | 0.1* |
| Florida | NA | (17.2) | (0.2) | 0.6 |
| Georgia | (10.5) | 8.0 | (5.0) | (8.7) |
| Kentucky | (6.3) | NM | 2.0 | (4.9) |
| Louisiana | (0.3) | 61.2 | (8.0)* | (4.0) |
| Mississippi | (3.2) | (22.3) | 2.1 | (1.2) |
| North Carolina (p) | (0.8)* | 4.5* | 14.8* | 3.4* |
| South Carolina[1] | (12.5) | NM | 4.0* | (5.8)* |
| Tennessee | NA | (4.2) | 0.8 | (0.9) |
| Virginia | (10.0) | (21.5) | (3.8) | (7.5) |
| West Virginia | (2.3) | (81.3) | 7.7 | (0.3) |
| **Southwest** | **1.2** | **(26.6)** | **(0.9)** | **(2.1)** |
| Arizona | (4.4)¶ | (29.2) | (0.1)* | (2.1)* |
| New Mexico | 18.0* | (54.5) | (0.1) | (8.8)* |
| Oklahoma | (2.3) | 20.9 | 1.0 | (9.6) |
| Texas | NA | NA | (1.2) | (0.1) |
| **Rocky Mountain** | **(13.9)** | **(18.6)** | **(1.8)** | **(7.9)** |
| Colorado | (14.3) | (32.0) | (5.7)¶ | (11.5) |
| Idaho | (15.7)¶ | (6.0)¶ | 2.1 | (7.5)¶ |
| Montana | (7.9) | (9.1) | NA | 0.1 |
| Utah | (14.1) | (17.3) | 1.3 | (6.8) |
| Wyoming | NA | NA | 1.6 | 3.2 |
| **Far West** | **(25.9)** | **(26.1)** | **(3.2)** | **(17.5)** |
| Alaska | NA | (27.2) | NA | (38.0) |
| California | (27.6) | (25.6) | (2.9)* | (20.0)* |
| Hawaii | 0.2¶ | 4.4¶ | (9.4)¶ | (7.7)¶ |
| Nevada | NA | NA | 0.5 | 1.3* |
| Oregon | (16.2) | (49.4) | NA | (15.1) |
| Washington | NA | NA | (3.8) | (4.6) |

See p. 5 for notes.

**Table 4. Change in Quarterly Tax Revenue, Adjusting for Legislated Tax Changes**

| | *PIT* | *Sales* | *Total* |
|---|---|---|---|
| **1995** | | | |
| Jan.-Mar. | 6.1% | 7.5% | 6.6% |
| April-June | 7.5 | 5.1 | 6.4 |
| July-Sept. | 7.2 | 5.4 | 6.1 |
| Oct.-Dec. | 7.1 | 4.2 | 5.7 |
| **1996** | | | |
| Jan.-Mar. | 8.8 | 5.7 | 5.7 |
| April-June | 14.1 | 6.5 | 8.6 |
| July-Sept. | 9.1 | 5.9 | 7.4 |
| Oct.-Dec. | 11.2 | 6.4 | 7.5 |
| **1997** | | | |
| Jan.-Mar. | 10.0 | 5.0 | 7.4 |
| April-June | 12.8 | 5.0 | 8.3 |
| July-Sept. | 9.5 | 6.2 | 6.1 |
| Oct.-Dec. | 10.7 | 5.9 | 7.9 |
| **1998** | | | |
| Jan.-Mar. | 10.0 | 6.5 | 7.0 |
| April-June | 23.3 | 5.9 | 11.4 |
| July-Sept. | 9.3 | 6.4 | 7.1 |
| Oct.-Dec. | 10.2 | 5.9 | 6.9 |
| **1999** | | | |
| Jan.-Mar. | 9.9 | 6.2 | 6.5 |
| April-June | 12.4 | 7.3 | 8.0 |
| July-Sept. | 8.3 | 6.9 | 6.5 |
| Oct.-Dec. | 11.0 | 7.5 | 8.4 |
| **2000** | | | |
| Jan.-Mar. | 13.8 | 8.8 | 10.4 |
| April-June | 18.6 | 7.8 | 11.8 |
| July-Sept. | 11.6 | 5.6 | 7.7 |
| Oct.-Dec. | 6.5 | 5.0 | 5.0 |
| **2001** | | | |
| Jan.-Mar. | 10.1 | 3.7 | 6.3 |
| April-June | 7.9 | 0.6 | 4.2 |
| July-Sept. | (2.8) | 0.4 | (2.4) |
| Oct.-Dec. | (2.1) | 1.2 | (2.3) |
| **2002** | | | |
| Jan.-Mar. | (14.5) | (2.4) | (8.4) |

Note: The corporate income tax is not included in this table. The quarterly effect of legislation on this tax's revenue is especially uncertain. (See Technical Notes, page 15.)
For pre-1995 data, call the Fiscal Studies Program.

Personal income tax revenue declined by a very sharp 14.3 percent in the first quarter of the 2002 calendar year, the worst decline since the *State Revenue Report* began. There was a slight net tax increase in the quarter, and adjusting for this shows a decline of 14.5 percent. The worst decline was in the Far West, where personal income tax collections were down by over 25 percent from last year. Personal income tax revenues also fell by double-digit percentages in the New England, Mid-Atlantic, and Rocky Mountain regions. The Southwest region had 1.2 percent personal income tax growth, the only region with any growth. Only one state had double-digit growth, and that was in part because that state — New Mexico — allowed some taxpayers to defer payments to this quarter because of forest fires last year. Thirty-six of 41 states with a personal income tax had declines in the January-March quarter. In 18 of these states, the declines were in the double-digits. The worst decline was in California with a stunning 27.6 percent decline, this enormous decline in the largest state was enough to skew down the national numbers considerably. Legislated tax changes reduced personal income tax revenue significantly in seven states.[1] Legislated tax changes increased personal income tax revenues significantly in Ohio, New Mexico, and North Carolina.

We can get a more detailed idea of how things are going by breaking down the personal income tax into its component parts: withholding, quarterly estimated tax payments, and final settlements. We have withholding for January-March, and estimated payments for the fourth quarterly payment for 2001 and the first for 2002. We have final returns data through April, but some states were still processing returns in May, so the last word on that will have to wait until the next *State Revenue Report*.

## Key to Interpreting Tables

All percent change tables are based on year-over-year changes.
* indicates legislation or processing/accounting changes significantly increased tax receipts (by one percentage point or more).
¶ indicates legislation or processing/accounting changes significantly decreased tax receipts.
1 March data not available.
p means preliminary.
NA means not applicable.
NM means not meaningful.
ND means no data.
Historical Tables (Tables 1, 2 and 4) have been shortened to provide data only back to 1995. For data through 1991 call the Fiscal Studies Program.

**Table 5. Change in Personal Income Tax Withholding by State, Last Four Quarters**

| | 2001 | | | 2002 |
|---|---|---|---|---|
| | *Apr.-June* | *July-Sept.* | *Oct.-Dec.* | *Jan-Mar* |
| **United States** | **3.3%** | **(1.1)%** | **0.1%** | **(4.3)%** |
| **New England** | **2.1** | **(5.4)** | **(0.6)** | **(9.8)** |
| Connecticut | 2.0 | 0.2 | 3.7 | (5.7) |
| Maine | 7.1 | 2.3 | 1.0 | (6.5) |
| Massachusetts | 1.3 | (8.8)¶ | (2.6)¶ | (12.7)¶ |
| Rhode Island | 4.9 | 0.7 | (0.5) | (5.1)¶ |
| Vermont | 4.1 | 1.9 | 4.9 | 1.1 |
| **Mid-Atlantic** | **4.7** | **(1.2)** | **0.3** | **(6.4)** |
| Delaware | 4.0 | 7.6 | 2.9 | 2.1 |
| Maryland | 8.7¶ | 1.4¶ | 7.2 | (0.3)¶ |
| New Jersey | 4.7 | (5.1) | (7.6) | (1.2) |
| New York | 3.1 | (1.2) | (0.3) | (10.8) |
| Pennsylvania | 4.7 | (1.9) | 1.9 | 0.1 |
| **Great Lakes** | **1.1** | **0.3** | **2.4** | **(4.0)** |
| Illinois | 6.2¶ | (1.4) | 1.3 | (1.7) |
| Indiana | 1.0 | 0.2 | 2.3 | (2.7) |
| Michigan | 0.9¶ | 2.8 | 0.1 | (8.7)¶ |
| Ohio | 2.5 | 0.3 | 3.3 | (2.0) |
| Wisconsin | (6.5)¶ | (0.9) | 5.8 | (4.5) |
| **Plains** | **3.5** | **1.6** | **2.5** | **1.2** |
| Iowa | 4.9 | 0.0 | 1.1 | 4.8 |
| Kansas | 3.2 | 2.7 | 2.7 | 2.8 |
| Minnesota | 2.6¶ | 0.4 | (1.0) | (2.6) |
| Missouri | 3.7 | 2.7 | 8.1 | 4.2 |
| Nebraska | 4.1 | 5.5 | 3.7 | 0.3 |
| North Dakota | 5.9 | 3.0 | 6.2 | 3.7 |
| **Southeast** | **5.4** | **2.4** | **1.6** | **1.9** |
| Alabama | 3.3 | 4.4 | (3.9) | 3.8 |
| Arkansas | 6.4 | 5.5 | 2.0 | 2.4 |
| Georgia | 10.1 | (1.9) | (0.1) | 2.6 |
| Kentucky | (0.8) | 1.7 | ND | 1.0 |
| Louisiana | 17.0 | 19.7 | 8.5 | (1.2) |
| Mississippi | 3.3 | 3.5 | 1.8 | (0.2) |
| North Carolina | 2.3 | 1.7 | 0.4 | 3.4* |
| South Carolina | 2.2 | 2.1 | 2.0 | (1.7) |
| Virginia | 6.9 | 3.5 | 2.7 | 2.0 |
| West Virginia | 5.5 | 1.9 | 16.3 | (2.1) |
| **Southwest** | **6.1** | **4.4** | **3.4** | **(7.1)** |
| Arizona | 4.7 | 1.2 | 1.4 | (5.9) |
| New Mexico | 7.9 | 5.0 | 5.9 | (2.2) |
| Oklahoma | 7.0 | 7.9 | 4.8 | (10.5) |
| **Rocky Mountain** | **1.6** | **(2.0)** | **(2.0)** | **(4.7)** |
| Colorado | 0.4 | (4.9) | (4.1) | (7.5) |
| Idaho | 0.3 | (7.6)¶ | (10.2)¶ | (0.1)¶ |
| Montana | 7.2 | 4.4 | 3.4 | 2.6 |
| Utah | 3.2 | 5.4¶ | 6.0¶ | (3.4) |
| **Far West** | **1.9** | **(5.8)** | **(4.2)** | **(9.6)** |
| California | 2.2 | (6.7) | (5.1) | (10.4) |
| Hawaii | (0.9) | 2.7¶ | (1.7)¶ | (2.3)¶ |
| Oregon | 0.7 | (2.3) | 1.2 | (5.4) |

Note: Nine states — Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no personal income tax and are therefore not shown in this table.

## *Withholding*

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and because it is much less volatile than estimated/declared payments or final settlements. Looking at Table 5, we see that withholding for the first quarter of calendar 2002 decreased by 4.9 percent, the second quarter of decline in the last three. Much of this decline is probably from a large drop in bonuses, as the financial and high-tech sectors have taken serious hits to their profits. Unemployment has also increased, which should have taken its toll on wages and withholding. Since employment has only declined by one percent, the withholding decline cannot be accounted entirely by the decline in the economy, just as the large withholding increases in the late 1990s could not be acconted for by the actual increase in wage and salary income. Net legislated tax cuts depressed withholding by only about two-tenths of a percentage point in the January-March quarter.[2]

## *Estimated Payments*

The highest-income taxpayers generally pay most estimated tax payments (also known as declarations) on their non-wage income. This income is often from investments, especially capital gains realized in the stock market. Most state estimators gave much of the credit for strong state revenue growth in the late 1990s to big increase in capital gains and stock options. Since the end of 1999, however, stock prices, especially those of high-tech stocks, have fallen off their record highs. The fall in stock prices has received much of the blame for the current decline in estimated tax payments.

The decline in estimated tax payments for the 2001 tax year was 13.8 percent compared to the year before. (See Table 6.) There were some very large declines in some of the large states — especially California — so the median or "typical" state only had a decline of 7.5 percent. The decline grew worse as the year progressed. By the fourth quarterly payment — usually paid in December or January — estimated payments were down by 26.5 percent, a median state decline of

| Table 6. Estimated Payments/Declarations (change year-over-year) | | | |
|---|---|---|---|
| *State* | *April-Jan. (All 4 payments for 2001)* | *Dec.-Jan. (Fourth 2001 payment only)* | *April 2002 (First 2002 payment)* |
| **Average (Mean)** | **(13.8)%** | **(26.5)%** | **(24.3)%** |
| **Median** | **(7.5)** | **(14.3)** | **(13.8)** |
| Alabama | (8.7) | (18.8) | 118.1 |
| Arizona | 13.3 | 103.3 | 33.0 |
| Arkansas | 1.2 | (3.8) | (10.0) |
| California | (24.2) | (36.9) | (26.2) |
| Colorado | (20.1) | (27.3) | (39.0) |
| Connecticut | (11.8) | (24.5) | (20.0) |
| Delaware | (9.6) | (12.4) | 2.3 |
| Georgia | (8.9) | (31.5) | 210.0 |
| Hawaii | 4.1 | 2.0 | (12.4) |
| Illinois | (9.6) | (14.6) | (25.7) |
| Indiana | (2.6) | 0.9 | 4.2 |
| Iowa | (6.3) | (12.5) | 0.0 |
| Kansas | (2.6) | (11.8) | (22.1) |
| Kentucky | ND | ND | (8.9) |
| Louisiana | 19.0 | 9.8 | (21.4) |
| Maine | (10.4) | (22.8) | (19.4) |
| Maryland | (4.6) | (16.9) | (25.5) |
| Massachusetts | (16.5) | (35.7) | (25.6) |
| Michigan | (13.6) | (19.3) | (22.7) |
| Minnesota | (10.4) | (27.4) | (52.5) |
| Mississippi | 5.5 | 4.3 | 1.8 |
| Missouri | (11.0) | (22.0) | (19.0) |
| Montana | (0.1) | 17.6 | ND |
| Nebraska | (3.6) | (8.9) | 0.0 |
| New Jersey | (20.1) | (37.0) | (23.8) |
| New Mexico | 0.6 | 10.1 | (5.0) |
| New York | (7.6) | (22.7) | (35.8) |
| North Carolina | (9.4) | (19.8) | (21.4) |
| North Dakota | 4.4 | (4.8) | (17.4) |
| Ohio | (19.5) | (13.9) | (10.0) |
| Oklahoma | 5.5 | (9.5) | (12.9) |
| Oregon | (7.4) | (11.9) | 10.4 |
| Pennsylvania | (6.3) | (13.8) | (14.7) |
| Rhode Island | (18.0) | (32.9) | (14.9) |
| South Carolina | (5.4) | (9.7) | (46.7) |
| Vermont | (16.2) | (40.1) | 617.6 |
| Virginia | (5.5) | (18.8) | 24.2 |
| West Virginia | 1.8 | 1.7 | (0.4) |
| Wisconsin | (16.6) | (20.4) | (5.6) |

14.3 percent. Some states, notably New York, granted extensions because of the September 11th attacks. These deferred payments should have shown up in the fourth quarter payment and actually inflated this payment above what it would have been — without these deferred payments the fourth quarter would have been even worse.

The first quarterly payment for 2002 was made in April. The trend is still sharply down, a mean decline of 24.3 percent, and a median state decline of 13.8 percent. In most states, taxpayers only have to pay as much as they owed the year before in order to avoid penalties, and this will likely depress estimated payments for the whole year, reflecting the fall-off in non-wage income in 2001. Even if the stock market improves dramatically, states may not reap a significant benefit until next April.

### *Final Settlements*

Final settlements are the payments that taxpayers make, or the refunds that they receive when they file their annual tax returns. In most states, the filing deadline is April 15th, but some state deadlines are later and they do not collect all final payments until May. However, the numbers through the end of April confirm the bad news from estimated payments for 2001. Table 7 shows that payments with returns were down an average of 26.3 percent from the year before, with a mean state decline of 19.3 percent. Refunds were up by 13.8 percent.

Through the late 1990s and into 2000 and 2001, there was an "April Surprise," as states collected more from final settlements than they had expected. This year was different. While most had predicted that final settlements would be down in 2002, the actual decline was worse than expected. This has created a negative "April Surprise," with states having even less money than they thought they would have a few months ago. In many states, this has thrown fiscal 2002 budgets further out of balance, and made it more difficult to devise balanced budgets for fiscal 2003.

## General Sales Tax

Sales tax revenue in the January-March 2002 quarter declined by one percent. This was the first decline in 11 years. Adjusting for legislated changes increases the decline to two percent. This decline comes after three quarters of very slow growth.

The decline was not even across the country. The Far West had the fastest decline, 3.2 percent.

**Table 7. Payments With Returns and Refunds (percent change year-over-year)**

| | *January-April 2002* | |
|---|---|---|
| *State* | *Payments with Returns* | *Refunds* |
| **Average (Mean)** | **(26.3)%** | **13.8%** |
| **Median** | **(19.3)** | **12.1** |
| Alabama | (32.0) | (21.5) |
| Arizona | (11.6) | 2.6 |
| Arkansas | 0.7 | 20.7 |
| California | (42.5) | 23.7 |
| Colorado | (6.6) | (4.3) |
| Connecticut | (34.5) | 19.5 |
| Delaware | (5.7) | (11.4) |
| Georgia | 5.1 | ND |
| Hawaii | 50.7 | 5.9 |
| Idaho | (34.5) | 3.8 |
| Illinois | (16.5) | 5.5 |
| Indiana | (11.4) | 5.6 |
| Iowa | (27.8) | 20.6 |
| Kansas | (2.8) | 27.5 |
| Kentucky | 16.6 | 4.3 |
| Louisiana | (25.8) | 12.1 |
| Maine | (22.8) | 14.6 |
| Maryland | (15.6) | 15.2 |
| Massachusetts | (33.1) | ND |
| Michigan | (25.1) | 6.8 |
| Minnesota | (21.4) | (6.5) |
| Mississippi | (51.9) | (11.1) |
| Missouri | (25.0) | 27.1 |
| Montana | (25.6) | ND |
| Nebraska | (19.2) | 20.3 |
| New Jersey | (23.0) | 2.9 |
| New Mexico | (16.9) | 25.8 |
| New York | (29.5) | 25.1 |
| North Carolina | (9.9) | 2.7 |
| North Dakota | (19.4) | 11.9 |
| Ohio | (21.9) | (18.1) |
| Oklahoma | (0.5) | 8.4 |
| Oregon | (17.1) | 19.2 |
| Pennsylvania | 27.1 | 14.2 |
| Rhode Island | (25.8) | 17.4 |
| South Carolina | (5.0) | 13.5 |
| Utah | (23.6) | 24.4 |
| Vermont | NM | ND |
| Virginia | (19.6) | 46.8 |
| West Virginia | 6.6 | 12.1 |
| Wisconsin | (17.3) | 12.4 |

Source: Survey conducted by the Nelson A. Rockefeller Institute of Government, the National Conference of State Legislatures, the National Association of State Budget Officers, and the Federation of Tax Administrators.

Meanwhile, sale tax revenue increased by 1.3 percent in the Mid-Atlantic states. Twenty-three states had declines in their sales tax revenues. In three states, the declines were due at least in part to legislated tax changes.[3] On the other hand, eight states had legislated tax changes that increased collections significantly.[4] The increase in North Carolina was enough to drive its sales tax revenues to a double-digit percentage increase. Vermont was the only state that managed to have a double-digit increase without a legislated tax change.

The sales tax is responsive to current economic conditions, so its decline is troubling. As consumer spending was about the only thing that was helping state revenues in late 2001, any loss in this regard makes a bad revenue situation worse. This tax will bear watching in the coming quarters, and further declines will be a very bad sign for state revenues in the coming year.

### *Corporate Income Tax*

January-March 2002 is the sixth straight quarter of declines in corporate income tax revenue, which declined by 18.4 percent compared to the year before. The only good thing about this decline is that it is the first of the recent series of declining quarters when the decline did not get progressively worse. Still, this is the third worst decline since we began tracking it in 1991. In addition, this decline comes on top of already reduced corporate income tax revenue a year ago. There is still no sign that this revenue source has hit bottom.

## Underlying Reasons for Trends

These revenue changes result from three kinds of underlying forces: differences in state economies, how these differences affect each state's tax system, and recently legislated tax changes.

### *State Economies*

There are now some definite signs that the national economy is recovering from the recession. The Bureau of Economic Analysis preliminary estimate for real Gross Domestic Product growth in the first quarter of 2002 was a very strong 5.6 percent.[5] The June Blue Chip Economic Indicators projects growth of 2.8 percent for 2002, up from a

**Table 8. Year-Over-Year Percentage Change In Non-Farm Employment by State, Last Four Quarters**

| | 2001 | | | 2002 |
|---|---|---|---|---|
| | *Apr.-June* | *July-Sept.* | *Oct.-Dec.* | *Jan.-Mar.* |
| **United States** | **0.5%** | **0.3%** | **(0.6)%** | **(1.0)%** |
| **Sum of States** | **0.4** | **(0.1)** | **(0.8)** | **(0.9)** |
| **New England** | **0.5** | **(0.3)** | **(1.1)** | **(1.0)** |
| Connecticut | 0.6 | (1.0) | (1.3) | (0.9) |
| Maine | 0.9 | 0.9 | 0.3 | 0.0 |
| Massachusetts | 0.9 | (0.3) | (1.5) | (1.6) |
| New Hampshire | 1.0 | 0.1 | (0.6) | (0.4) |
| Rhode Island | 0.6 | 0.3 | (0.3) | 0.4 |
| Vermont | 0.5 | (0.6) | (1.1) | (1.5) |
| **Mid Atlantic** | **0.4** | **0.1** | **(0.8)** | **(1.0)** |
| Delaware | 0.2 | (0.7) | (0.9) | (0.8) |
| Maryland | 0.7 | 0.8 | (0.1) | (0.2) |
| New Jersey | 0.9 | 0.3 | 0.2 | (0.2) |
| New York | 0.2 | (0.1) | (1.4) | (1.6) |
| Pennsylvania | 0.4 | (0.0) | (0.8) | (1.1) |
| **Great Lakes** | **(1.2)** | **(1.4)** | **(1.7)** | **(1.2)** |
| Illinois | (0.4) | (0.9) | (1.6) | (1.4) |
| Indiana | (2.3) | (2.1) | (2.1) | (1.3) |
| Michigan | (2.1) | (2.2) | (2.3) | (1.3) |
| Ohio | (1.2) | (1.3) | (1.4) | (1.1) |
| Wisconsin | (0.3) | (0.6) | (0.7) | (0.6) |
| **Plains** | **0.0** | **(0.3)** | **(0.9)** | **(0.8)** |
| Iowa | (0.3) | (1.0) | (1.1) | (0.7) |
| Kansas | 0.5 | 1.0 | 0.7 | 0.7 |
| Minnesota | 0.3 | (0.6) | (1.5) | (1.3) |
| Missouri | (0.3) | (0.7) | (1.5) | (1.8) |
| Nebraska | (0.2) | 0.0 | 0.1 | 0.6 |
| North Dakota | 1.1 | 0.2 | 0.6 | 1.0 |
| South Dakota | 0.2 | 0.6 | 0.2 | (0.3) |
| **Southeast** | **0.1** | **(0.2)** | **(0.7)** | **(0.7)** |
| Alabama | (1.0) | (1.1) | (1.2) | (0.8) |
| Arkansas | (0.0) | (0.5) | (0.6) | (0.5) |
| Florida | 2.1 | 1.3 | 0.3 | (0.1) |
| Georgia | 0.8 | (0.5) | (1.5) | (2.6) |
| Kentucky | (0.8) | (0.3) | (0.7) | 0.1 |
| Louisiana | 0.2 | 0.8 | 1.0 | 0.7 |
| Mississippi | (2.3) | (1.6) | (1.3) | (0.5) |
| North Carolina | (1.4) | (1.7) | (1.1) | (1.2) |
| South Carolina | (2.0) | (0.8) | (1.3) | (0.5) |
| Tennessee | (0.9) | (1.0) | (0.8) | (0.3) |
| Virginia | 0.7 | (0.2) | (1.4) | (1.3) |
| West Virginia | (0.3) | (0.2) | (0.4) | (0.1) |
| **Southwest** | **1.5** | **0.5** | **(0.4)** | **(0.7)** |
| Arizona | 1.4 | 0.8 | (0.7) | (1.2) |
| New Mexico | 1.9 | 1.2 | 0.9 | 0.9 |
| Oklahoma | 1.4 | 1.0 | 0.7 | 0.8 |
| Texas | 1.5 | 0.3 | (0.7) | (1.0) |
| **Rocky Mountain** | **1.5** | **0.5** | **(0.5)** | **(0.9)** |
| Colorado | 1.6 | 0.1 | (1.3) | (1.8) |
| Idaho | 1.9 | 1.2 | 0.9 | 0.4 |
| Montana | 1.2 | 0.7 | 1.0 | 0.7 |
| Utah | 1.0 | 0.3 | (0.8) | (0.7) |
| Wyoming | 2.5 | 2.8 | 2.6 | 1.9 |
| **Far West** | **1.4** | **0.7** | **(0.4)** | **(0.6)** |
| Alaska | 1.8 | 2.2 | 2.4 | 1.6 |
| California | 1.8 | 1.0 | 0.0 | (0.2) |
| Hawaii | 1.0 | 0.4 | (2.0) | (1.2) |
| Nevada | 3.4 | 2.3 | 0.5 | 0.7 |
| Oregon | (0.2) | (1.4) | (2.2) | (1.9) |
| Washington | 0.0 | (0.9) | (2.1) | (2.4) |

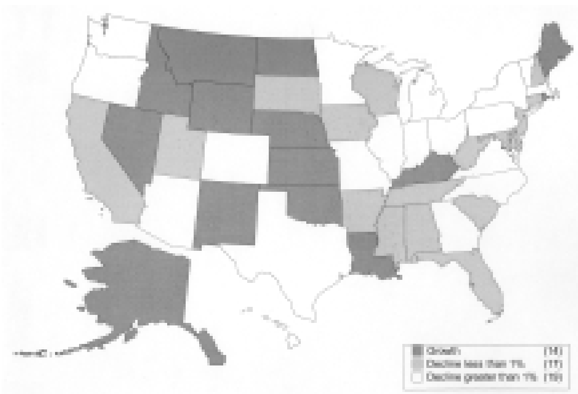
projection of only one percent annual growth in January of this year.[6] On the other hand, the unemployment rate was 5.8 percent in May, a slight decline from six percent in April, but still not moving down significantly.[7] Even if we are moving into recovery from what was a relatively brief and mild recession, the timing and impact of this recovery may very greatly from state to state. In order to gauge the impact of the recession on state revenues we need to look at the economy on the state level.

One problem with assessing state economies in a report such as this is a general lack of timely state indicators. Data on non-farm employment, tracked by the Bureau of Labor Statistics, is the only broad-based, timely, high-quality state-level economic indicator available. Yet these data are a far from ideal indicator of revenue growth. For one thing, most taxes are based upon nominal measures such as income, wages, and profits, rather than employment. Unfortunately, state-level data on these nominal measures—when they are available — are usually reported too late to be of much use in analyzing recent revenue collections. In addition, employment data can be subject to large retroactive revisions. In times of growth, these revisions are usually upwards, but in the recent economic downturn there have been significant downward revisions.

Table 8 shows year-over-year employment growth for the nation and for each state during the last four quarters. Figure 6 maps first quarter 2002 employment growth compared to the same period last year. According to the Bureau of Labor Statistics' national data, employment in the January-March quarter declined by one percent compared to the year before. This is the second quarter of decline in the national employment numbers. The recent revision in the employment data has brought the sum of the state numbers closer to the national number than it had been, so we are probably getting a clearer picture of the real employment decline across the country.

Employment declined in every region of the country in the January-March quarter. The largest decline was in the Great Lakes states.

**Figure 6**
**Change in Non-Farm Employment**
**January-March 2001 to 2002**



However, employment decline did not vary much across the regions, the slowest decline was only six-tenths of a percentage point less than the most rapid decline. This is very different than in the late 1990s when employment growth grew at a rate that was two or more percentage points faster in the West and South then in the rest of the country.

Thirty-six states had employment declines, up from 34 in the October-December 2001 quarter. Nineteen states had declines of over one percent, with Georgia and Washington having declines of over two percent. Only three states had employment increases of over one percent — Alaska, North Dakota, and Wyoming. No state was even close to three percent growth, our usual benchmark for high employment growth.

## *Nature of the Tax System*

Even if the recession and recovery affected all regions and states to exactly the same degree and at exactly the same time, the impact on state revenues would still vary because states' tax systems react differently to similar economic situations. States that rely heavily on the personal income tax have taken a harder hit from this recession, since it has reduced income earned at the high end of the income scale, the income that is taxed most heavily. This is even more evident in the case of states with more progressive income tax structures. The sales tax is very responsive to economic conditions, but is historically less elastic than the personal income tax—dropping more slowly in bad times and increasing more slowly in good times. The states that rely more on corporate income taxes or severance taxes often see wild swings in revenue that are not necessarily related to general economic conditions. (Severance taxes are taxes on the removal of natural resources, such as oil and lumber.)

The upside of these patterns played out particularly strongly in the late 1990s and into 2000. Most states with personal income taxes have had extremely strong revenue growth, partly because the incomes of upper-income (and thus upper-bracket) taxpayers grew at a much more rapid pace than those of middle-income taxpayers. Because these high-end incomes are based more heavily upon volatile sources such as stock options and capital gains, growth in personal income tax revenues has also been far more subject to wild swings than it would be if based entirely on wages and salaries. In an economic downturn, we see the downside of this volatility. While the recent market downturn affected relatively few wage earners, it turned gains into losses for investors, thus sharply contracting a hitherto rich source of revenue almost overnight. Meanwhile stock options became both less common and less lucrative.

States are also learning about how sales tax revenues respond to an economic slowdown. States that have removed more stable elements of consumption, such as groceries and clothing, from their bases, as well as those that do not capture spending on services well, are more subject to plunges in sales tax revenues as state residents become nervous about spending on optional and big-ticket items. Thus far, however, the sales tax is reacting to the latest economic downturn more moderately than the personal income or corporate income taxes — declining only slightly in the latest quarter.

Oil has been the wild card in state tax revenues in recent years. When the price of oil increases, it helps states such as Alaska, Oklahoma and Wyoming, which are major producers. When the price falls, it tends to hurt the revenues of these states. This can operate, for the most part, independently of the general economy.

**Table 9**
**Change in Tax Revenue by State, July-March, FY 2001 to FY 2002**

| | *PIT* | *CIT* | *Sales* | *Total* |
|---|---|---|---|---|
| **United States** | **(7.2)%** | **(24.4)%** | **0.0%** | **(4.7)%** |
| **New England** | **(9.3)** | **(47.0)** | **(1.2)** | **(7.4)** |
| Connecticut | (4.5) | (75.3) | (3.3) | (7.0) |
| Maine | (5.5) | (23.2) | 1.1 | (1.8) |
| Massachusetts | (11.3) | (43.1) | (1.3) | (9.9) |
| New Hampshire | NA | (20.6) | NA | 9.7 |
| Rhode Island | (8.5) | (93.9) | 3.9 | (4.6) |
| Vermont | (13.0) | (38.4) | 3.7 | (5.9) |
| **Mid Atlantic** | **(7.8)** | **(20.8)** | **0.1** | **(5.3)** |
| Delaware | 1.5 | 12.4 | NA | (0.3) |
| Maryland | (3.4) | (35.1) | 0.2 | (3.0) |
| New Jersey | (12.6) | (17.8) | 2.7 | (5.6) |
| New York | (9.2) | (23.7) | (2.4) | (7.9) |
| Pennsylvania | (0.9) | (12.5) | 1.0 | (0.7) |
| **Great Lakes** | **(3.0)** | **(15.0)** | **2.3** | **(1.0)** |
| Illinois | (1.9) | (18.4) | 2.2 | (1.3) |
| Indiana | (4.3) | (15.2) | 2.1 | (0.6) |
| Michigan | (3.9) | (11.3) | 2.3 | (0.9) |
| Ohio | (1.5) | (26.2) | 1.6 | (1.1) |
| Wisconsin | (4.5) | (8.8) | 3.6 | (0.9) |
| **Plains** | **(1.3)** | **(20.8)** | **(0.4)** | **(2.7)** |
| Iowa | 0.6 | (19.2) | 0.6 | (0.5) |
| Kansas | (1.1) | (71.4) | 4.1 | (2.2) |
| Minnesota | (4.5) | (26.2) | (3.7) | (4.1) |
| Missouri | 2.0 | 16.5 | 0.7 | ND |
| Nebraska | (0.6) | (28.2) | 1.4 | (1.7) |
| North Dakota | 3.2 | (8.8) | 0.0 | (2.2) |
| South Dakota | NA | NA | 1.5 | (0.1) |
| **Southeast** | **(0.8)** | **(13.2)** | **0.5** | **(0.6)** |
| Alabama | (0.2) | 12.3 | 0.9 | 0.0 |
| Arkansas | 1.9 | (27.1) | 1.3 | 0.4 |
| Florida | NA | (13.7) | 0.8 | 0.7 |
| Georgia | (4.8) | (29.6) | (5.0) | (7.1) |
| Kentucky | (1.0) | (38.5) | 3.2 | (0.3) |
| Louisiana | 10.2 | 46.2 | 0.9 | 5.9 |
| Mississippi | 0.7 | (22.3) | 1.6 | (0.7) |
| North Carolina | 1.8 | 25.4 | 5.1 | 2.8 |
| South Carolina | (2.0) | (49.0) | (0.9) | (2.8) |
| Tennessee | NA | (30.0) | (0.3) | (1.8) |
| Virginia | (3.1) | (24.0) | (0.3) | (2.5) |
| West Virginia | 5.4 | (18.9) | 4.1 | 3.7 |
| **Southwest** | **1.4** | **(33.0)** | **1.9** | **(1.0)** |
| Arizona | (2.4) | (43.3) | (0.4) | (4.1) |
| New Mexico | 11.4 | (40.8) | 2.7 | (1.8) |
| Oklahoma | 1.3 | 15.4 | 2.4 | (4.5) |
| Texas | NA | NA | 2.1 | 0.4 |
| **Rocky Mountain** | **(7.7)** | **(39.0)** | **(0.1)** | **(5.4)** |
| Colorado | (10.2) | (32.7) | (3.0) | (8.5) |
| Idaho | (11.5) | (57.3) | 1.7 | (8.3) |
| Montana | (2.9) | (19.7) | NA | 6.1 |
| Utah | (1.5) | (41.2) | 1.0 | (2.3) |
| Wyoming | NA | NA | 11.3 | 0.3 |
| **Far West** | **(16.7)** | **(35.4)** | **(3.4)** | **(12.5)** |
| Alaska | NA | (53.4) | NA | (37.8) |
| California | (17.1) | (33.5) | (4.5) | (14.1) |
| Hawaii | (0.5) | (37.2) | (1.7) | (2.1) |
| Nevada | NA | NA | 1.5 | 1.3 |
| Oregon | (17.4) | (54.2) | NA | (18.6) |
| Washington | NA | NA | (1.4) | (2.8) |

**Table 10**
**State Tax Revenue, January to March 2001 and 2002 (In Millions of Dollars)**

| | *2001* | | | | *2002* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Personal Income* | *Corporate Income* | *Sales* | *Total* | *Personal Income* | *Corporate Income* | *Sales* | *Total* |
| **United States** | **$51,244** | **$6,688** | **$43,158** | **$118,605** | **$43,929** | **$5,458** | **$42,726** | **$109,223** |
| **New England** | **3,999** | **592** | **2,139** | **8,083** | **3,258** | **395** | **2,101** | **7,156** |
| Connecticut | 1,009 | 134 | 785 | 2,299 | 865 | 76 | 759 | 2,050 |
| Maine | 243 | 17 | 177 | 515 | 193 | 9 | 187 | 485 |
| Massachusetts | 2,427 | 362 | 956 | 4,282 | 1,950 | 255 | 918 | 3,654 |
| New Hampshire | NA | 44 | NA | 260 | NA | 41 | NA | 315 |
| Rhode Island | 201 | 28 | 170 | 501 | 172 | 14 | 178 | 463 |
| Vermont | 118 | 7 | 51 | 227 | 78 | 0 | 59 | 189 |
| **Mid Atlantic** | **13,810** | **1,470** | **5,896** | **25,207** | **11,747** | **1,231** | **5,972** | **23,054** |
| Delaware | 162 | 11 | NA | 479 | 164 | (9) | NA | 406 |
| Maryland | 1,298 | 141 | 666 | 2,189 | 1,217 | 118 | 657 | 2,095 |
| New Jersey | 2,149 | 146 | 1,404 | 4,473 | 1,815 | 160 | 1,479 | 4,246 |
| New York | 8,297 | 833 | 2,060 | 12,385 | 6,710 | 671 | 2,072 | 10,715 |
| Pennsylvania | 1,905 | 339 | 1,766 | 5,681 | 1,842 | 291 | 1,764 | 5,593 |
| **Great Lakes** | **7,363** | **1,499** | **6,529** | **18,485** | **6,701** | **1,295** | **6,414** | **17,529** |
| Illinois | 2,227 | 320 | 1,448 | 4,766 | 2,106 | 246 | 1,452 | 4,570 |
| Indiana | 859 | 76 | 979 | 2,566 | 793 | 44 | 943 | 2,458 |
| Michigan | 1,429 | 479 | 1,767 | 4,850 | 1,241 | 418 | 1,709 | 4,589 |
| Ohio | 1,681 | 475 | 1,417 | 3,973 | 1,579 | 424 | 1,431 | 3,776 |
| Wisconsin | 1,167 | 148 | 918 | 2,330 | 982 | 163 | 879 | 2,137 |
| **Plains** | **4,233** | **372** | **2,927** | **6,314** | **4,025** | **327** | **2,844** | **6,036** |
| Iowa | 638 | 58 | 405 | 1,218 | 627 | 41 | 409 | 1,193 |
| Kansas | 407 | 18 | 411 | 906 | 378 | 1 | 423 | 855 |
| Minnesota | 1,689 | 195 | 1,041 | 3,217 | 1,579 | 173 | 975 | 3,080 |
| Missouri | 1,168 | 45 | 673 | ND | 1,137 | 66 | 614 | ND |
| Nebraska | 268 | 37 | 241 | 587 | 239 | 26 | 233 | 534 |
| North Dakota | 64 | 21 | 83 | 229 | 64 | 21 | 81 | 216 |
| South Dakota | NA | NA | 110 | 156 | NA | NA | 110 | 158 |
| **Southeast** | **7.721** | **963** | **10.775** | **23.580** | **7.265** | **879** | **10.834** | **23.037** |
| Alabama | 588 | 34 | 421 | 1,433 | 585 | 75 | 421 | 1,461 |
| Arkansas | 459 | 53 | 428 | 999 | 459 | 37 | 430 | 1,000 |
| Florida | NA | 271 | 3,634 | 4,852 | NA | 224 | 3,643 | 4,881 |
| Georgia | 1,714 | 118 | 1,289 | 3,408 | 1,534 | 127 | 1,224 | 3,110 |
| Kentucky | 593 | 28 | 653 | 1,604 | 556 | (14) | 666 | 1,525 |
| Louisiana | 381 | 13 | 661 | 1,394 | 380 | 22 | 608 | 1,338 |
| Mississippi | 158 | 106 | 577 | 1,158 | 153 | 82 | 589 | 1,144 |
| North Carolina(p) | 1,547 | 151 | 831 | 2,915 | 1,534 | 157 | 954 | 3,013 |
| South Carolina[1] | 306 | (2) | 319 | 730 | 268 | 3 | 332 | 668 |
| Tennessee | NA | 142 | 1,154 | 1,820 | NA | 136 | 1,164 | 1,804 |
| Virginia | 1,732 | 34 | 574 | 2,582 | 1,558 | 27 | 552 | 2,388 |
| West Virginia | 244 | 17 | 235 | 686 | 239 | 3 | 253 | 684 |
| **Southwest** | **1,051** | **173** | **5,757** | **10,484** | **1,064** | **127** | **5,703** | **10,265** |
| Arizona | 382 | 44 | 752 | 1,256 | 366 | 31 | 751 | 1,229 |
| New Mexico | 218 | 80 | 337 | 815 | 257 | 36 | 337 | 743 |
| Oklahoma | 451 | 49 | 362 | 1,141 | 441 | 60 | 358 | 1,031 |
| Texas | NA | NA | 4,307 | 7,272 | NA | NA | 4,256 | 7,261 |
| **Rocky Mountain** | **1,546** | **102** | **1,122** | **3,301** | **1,331** | **83** | **1,101** | **3,042** |
| Colorado | 872 | 34 | 496 | 1,444 | 747 | 23 | 468 | 1,278 |
| Idaho | 214 | 20 | 182 | 554 | 180 | 19 | 186 | 513 |
| Montana | 129 | 19 | NA | 285 | 118 | 17 | NA | 285 |
| Utah | 332 | 29 | 363 | 847 | 285 | 24 | 368 | 789 |
| Wyoming | NA | NA | 81 | 172 | NA | NA | 79 | 177 |
| **Far West** | **11,521** | **1,517** | **8,014** | **23,151** | **8,538** | **1,121** | **7,757** | **19,105** |
| Alaska | NA | 16 | NA | 234 | NA | 12 | NA | 145 |
| California | 10,192 | 1,429 | 5,605 | 18,069 | 7,381 | 1,063 | 5,443 | 14,448 |
| Hawaii | 266 | 18 | 437 | 825 | 266 | 19 | 396 | 762 |
| Nevada | NA | NA | 492 | 577 | NA | NA | 494 | 584 |
| Oregon | 1,063 | 55 | NA | 1,149 | 891 | 28 | NA | 975 |
| Washington | NA | NA | 1,480 | 2,297 | NA | NA | 1,424 | 2,191 |

**Table 11**
**State Tax Revenue, July to March, FY 2001 and 2002 (In Millions of Dollars)**

| | *FY 2001* | | | | *FY 2002* | | | |
|---|---|---|---|---|---|---|---|---|
| | ***PIT*** | ***CIT*** | ***Sales*** | ***Total*** | ***PIT*** | ***CIT*** | ***Sales*** | ***Total*** |
| **United States** | **141,280** | **20,125** | **127,330** | **335,995** | **131,126** | **15,221** | **127,376** | **320,306** |
| **New England** | **10,830** | **1,197** | **6,060** | **21,614** | **9,856** | **638** | **5,980** | **20,030** |
| Connecticut | 2,530 | 217 | 2,065 | 5,728 | 2,416 | 54 | 1,997 | 5,326 |
| Maine | 709 | 61 | 552 | 1,538 | 670 | 47 | 558 | 1,510 |
| Massachusetts | 6,766 | 731 | 2,802 | 11,792 | 5,999 | 416 | 2,765 | 10,625 |
| New Hampshire | NA | 130 | NA | 779 | NA | 103 | NA | 854 |
| Rhode Island | 622 | 39 | 532 | 1,371 | 569 | 2 | 552 | 1,307 |
| Vermont | 204 | 19 | 109 | 408 | 202 | 16 | 108 | 408 |
| **Mid Atlantic** | **33,155** | **4,591** | **17,261** | **64,593** | **30,578** | **3,637** | **17,270** | **61,144** |
| Delaware | 518 | 39 | NA | 1,214 | 526 | 44 | NA | 1,210 |
| Maryland | 3,104 | 333 | 1,743 | 5,568 | 2,998 | 216 | 1,746 | 5,399 |
| New Jersey | 5,035 | 734 | 3,780 | 11,366 | 4,403 | 603 | 3,882 | 10,729 |
| New York | 19,495 | 2,455 | 6,354 | 32,166 | 17,693 | 1,872 | 6,203 | 29,580 |
| Pennsylvania | 5,003 | 1,031 | 5,385 | 14,329 | 4,958 | 902 | 5,439 | 14,226 |
| **Great Lakes** | **21,599** | **3,772** | **19,710** | **53,824** | **20,959** | **3,208** | **20,156** | **53,300** |
| Illinois | 5,821 | 846 | 4,485 | 13,335 | 5,710 | 690 | 4,584 | 13,167 |
| Indiana | 2,534 | 469 | 2,790 | 7,785 | 2,424 | 398 | 2,848 | 7,742 |
| Michigan | 4,840 | 1,561 | 5,694 | 15,272 | 4,649 | 1,385 | 5,827 | 15,138 |
| Ohio | 4,982 | 473 | 4,395 | 10,836 | 4,907 | 349 | 4,467 | 10,716 |
| Wisconsin | 3,423 | 423 | 2,346 | 6,596 | 3,269 | 386 | 2,430 | 6,538 |
| **Plains** | **11,334** | **1,268** | **8,713** | **18,001** | **11,190** | **1,005** | **8,683** | **17,510** |
| Iowa | 1,683 | 181 | 1,265 | 3,369 | 1,693 | 146 | 1,272 | 3,352 |
| Kansas | 1,260 | 117 | 1,236 | 2,822 | 1,246 | 33 | 1,287 | 2,760 |
| Minnesota | 4,416 | 583 | 3,104 | 8,981 | 4,217 | 431 | 2,987 | 8,612 |
| Missouri | 3,002 | 238 | 1,832 | ND | 3,061 | 278 | 1,845 | ND |
| Nebraska | 824 | 99 | 679 | 1,718 | 819 | 71 | 688 | 1,689 |
| North Dakota | 149 | 50 | 256 | 623 | 154 | 46 | 256 | 610 |
| South Dakota | NA | NA | 343 | 488 | NA | NA | 348 | 487 |
| **Southeast** | **23,939** | **3,242** | **31,650** | **70,345** | **23,759** | **2,823** | **31,834** | **69,936** |
| Alabama | 1,652 | 129 | 1,276 | 4,207 | 1,648 | 145 | 1,288 | 4,207 |
| Arkansas | 1,216 | 147 | 1,276 | 2,812 | 1,239 | 107 | 1,292 | 2,824 |
| Florida | NA | 816 | 10,348 | 13,746 | NA | 704 | 10,430 | 13,849 |
| Georgia | 5,009 | 460 | 3,837 | 10,106 | 4,767 | 324 | 3,645 | 9,390 |
| Kentucky | 1,917 | 173 | 1,975 | 4,885 | 1,899 | 107 | 2,038 | 4,873 |
| Louisiana | 1,002 | 107 | 1,596 | 3,623 | 1,115 | 173 | 1,634 | 3,903 |
| Mississippi | 686 | 210 | 1,725 | 3,581 | 690 | 163 | 1,753 | 3,555 |
| North Carolina(p) | 5,098 | 472 | 2,571 | 9,091 | 5,191 | 592 | 2,703 | 9,349 |
| South Carolina[1] | 1,728 | 105 | 1,139 | 3,322 | 1,694 | 54 | 1,130 | 3,230 |
| Tennessee | NA | 366 | 3,485 | 5,377 | NA | 256 | 3,475 | 5,282 |
| Virginia | 4,959 | 187 | 1,712 | 7,635 | 4,805 | 142 | 1,706 | 7,443 |
| West Virginia | 675 | 71 | 711 | 1,959 | 711 | 57 | 740 | 2,032 |
| **Southwest** | **3,754** | **617** | **17,189** | **31,020** | **3,808** | **413** | **17,509** | **30,717** |
| Arizona | 1,639 | 353 | 2,217 | 4,430 | 1,600 | 200 | 2,209 | 4,249 |
| New Mexico | 647 | 163 | 968 | 2,232 | 720 | 97 | 995 | 2,192 |
| Oklahoma | 1,469 | 101 | 1,085 | 3,411 | 1,488 | 117 | 1,111 | 3,256 |
| Texas | NA | NA | 12,919 | 20,946 | NA | NA | 13,194 | 21,020 |
| **Rocky Mountain** | **4,854** | **427** | **3,312** | **9,977** | **4,478** | **260** | **3,308** | **9,439** |
| Colorado | 2,669 | 169 | 1,476 | 4,462 | 2,397 | 114 | 1,431 | 4,083 |
| Idaho | 666 | 101 | 582 | 1,698 | 590 | 43 | 592 | 1,557 |
| Montana | 363 | 52 | NA | 708 | 353 | 42 | NA | 750 |
| Utah | 1,156 | 104 | 1,077 | 2,715 | 1,139 | 61 | 1,088 | 2,652 |
| Wyoming | NA | NA | 177 | 395 | NA | NA | 197 | 396 |
| **Far West** | **31,814** | **5,011** | **23,436** | **66,621** | **26,497** | **3,237** | **22,637** | **58,230** |
| Alaska | NA | 222 | NA | 889 | NA | 103 | NA | 553 |
| California | 27,843 | 4,525 | 16,402 | 50,909 | 23,080 | 3,007 | 15,660 | 43,745 |
| Hawaii | 820 | 32 | 1,232 | 2,340 | 817 | 20 | 1,212 | 2,291 |
| Nevada | NA | NA | 1,328 | 1,543 | NA | NA | 1,354 | 1,559 |
| Oregon | 3,150 | 232 | NA | 3,479 | 2,601 | 106 | NA | 2,833 |
| Washington | NA | NA | 4,473 | 7,462 | NA | NA | 4,411 | 7,250 |

## *Tax Law Changes Affecting This Quarter*

The final element that affects trends in tax revenue growth is legislated tax changes. When states boost or depress their revenue growth with tax increases or cuts, it can be difficult to draw any conclusions about their current fiscal condition. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when changes in the manner of processing receipts have had a major impact on revenue growth, even though these are not due to legislation, as it helps the reader to know that the number is not necessarily indicative of underlying trends.

For the first time in many quarters, the net effect of tax changes in the January-March 2002 quarter was to increase state revenues. The overall effect was a net increase of a little over $600 million.

Some of the largest tax increases resulted from states not continuing prior tax cuts. California allowed a temporary sales tax cut to lapse after one year, increasing revenues by almost $300M in the quarter. In Ohio, the personal income tax rates returned to their normal level, after having been reduced for the last several years as a mechanism for returning state budget surpluses. This increased revenues by almost $200 million.

Arizona voters approved a referendum that increased the sales tax, with the money to go to education. This raised additional revenues of about $130 million. North Carolina passed a significant tax increase last year, including temporary personal income and sales tax hikes. This increased total net tax collections by over $300 million this quarter.

There were relatively few large tax cuts affecting this quarter. Michigan is reducing its flat personal income tax rate, and its flat Single Business Tax rate, reducing total collections by about $70 million in the quarter. New York cut corporate taxes by about $60 million. Connecticut implemented a number of tax cuts, reducing state revenues by about $60 million.

In percentage terms, Hawaii and Idaho had the largest cuts. In both states tax cut packages reduced revenues by over three percent in the January-March quarter. However, most states did not enact new tax cuts last year — since revenues were beginning to weaken.

## Conclusions

January-March 2002 was the third quarter in a row of state tax revenue decline. It was also the worst quarter of the three. In addition, personal income collections in April were even worse than expected. There is not any major sector of state tax revenue that did not decline in the quarter. At the moment, things look very bleak for state budget makers as they try to finish work on the fiscal 2002 budget. While the improvement in the general economy is a good sign, it may take a while to have a beneficial impact on state revenues.

## Endnotes

1 Arizona, Hawaii, Idaho, Maryland, Massachusetts, Michigan, and Rhode Island.

2 States that had significant personal income tax cuts affecting withholding were: Hawaii, Idaho, Maryland, Massachusetts, and Rhode Island.

3 Colorado, Connecticut, and Hawaii.

4 Arizona, Arkansas, California, Louisiana, Illinois, Maine, Minnesota, and North Carolina.

6 United States Department of Commerce, Bureau of Economic Analysis News Release, May 24, 2002.

7 *Blue Chip Economic Indicators*, Vol. 27, No. 4, April 10, 2002; "Growth Likely to Slow in 2nd Quarter, Survey Says," *Los Angeles Times,* June 10, 2002.

7 United States Department of Labor, Bureau of Labor Statistics, *The Employment Situation, May 2002,* June 7, 2002.

## Technical Notes

This report is based on information collected from state officials, most often in state revenue departments, but in some cases from state budget offices and legislative staff. This is the latest in a series of such reports published by the Rockefeller Institute's Fiscal Studies Program (formerly the Center for the Study of the States).

In most states, revenue reported is for the general fund only, but in several states a broader measure of revenue is used. The most important category of excluded revenues in most states is motor fuel taxes. Taxes on health-care providers to fund Medicaid programs are excluded as well.

*California*: Non-general fund revenue from a sales tax increase dedicated to local governments is included.

*Michigan*: The Single Business Tax, a type of value-added tax, is treated here as a corporation income tax.

Several caveats are important. First, tax collections during a period as brief as three months are subject to influences that may make their interpretation difficult. For example, a single payment from a large corporation can have a significant effect on corporate tax revenues.

Second, estimates of tax adjustments are imprecise. Typically the adjustments reflect tax legislation, however they occasionally reflect other atypical changes in revenue. Unfortunately, we cannot speak with every state in every quarter. We discuss tax legislation carefully with the states that have the largest changes, but for states with smaller changes we rely upon our analysis of published sources and upon our earlier conversations with estimators.

Third, revenue estimators cannot predict the quarter-by-quarter impact of certain legislated changes with any confidence. This is true of almost all corporate tax changes, which generally are reflected in highly volatile quarterly estimated tax payments; to a lesser extent it is true of personal income tax changes that are not implemented through withholding.

Finally, many other non-economic factors affect year-over-year tax revenue growth: changes in payment patterns, large refunds or audits, and administrative changes frequently have significant impacts on tax revenue. It is not possible for us to adjust for all of these factors.

This report contains first calendar quarter revenue data for 50 states, although Missouri only had data for its three major taxes, so no totals are included.

## About The Nelson A. Rockefeller Institute of Government's Fiscal Studies Program

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others. Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues, is director of Fiscal Studies.

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