

April State Personal Income Tax Revenues Decline Severely

Based on a Survey by the

**Nelson A. Rockefeller Institute of Government
National Governors Association
National Conference of State Legislatures
Federation of Tax Administrators
National Association of State Budget Officers**

While the overall economic situation seemed to improve in early 2002, this was not the case with state personal income tax revenues. To help gauge the breadth and the depth of the drop in state income tax revenues, state officials in the 41 states that have a broad-based personal income tax and the District of Columbia were surveyed.¹ The survey looked at withholding, personal returns, and declarations of estimated taxes. In addition, personal income tax refund payments for April 2002 and January-April 2002 were compared to the comparable periods one year earlier. The survey also asked states to compare the actual 2002 receipts to their estimates. Finally, the survey asked open-ended questions on the perceived causes of the drop-off in receipts and the impact the 2002 performance would have on future budget periods.

The survey revealed that state personal income tax receipts, particularly those from non-wage income not subject to tax withholding, declined sharply from one year ago. Nearly every state experienced such a decline, and the drop-off often exceeded 25 percent. In addition, average withholding tax receipts are slightly below last year and income tax refund payments are up moderately. As a result, personal income tax revenues through April are below projected amounts in nearly every state, and the trend in collections portends continued difficult fiscal conditions ahead.

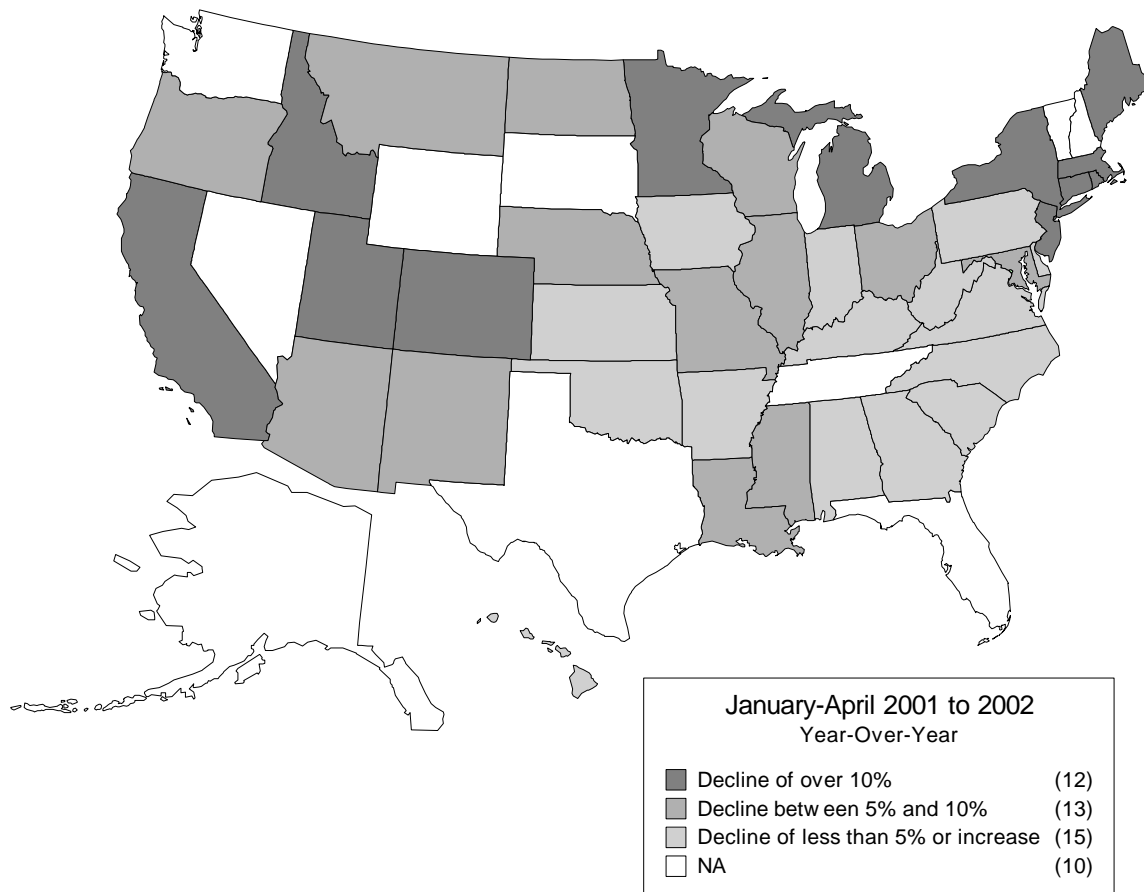
The spring months are critical to yearlong income tax receipts because they reflect the height of the income tax processing season with final payments – due April 15 in most states – are received and most income tax refunds are processed.² The comparison of receipts from one year to the next can be substantially affected by changes in processing flows, particularly when looking at a single month. For example, if the rate of refund processing changes, this may cause distortions – either up or down – for total income tax collections in any given month. For that reason, we urge that these results be viewed cautiously, focusing on the January-April figures, rather than on April alone. The final picture on income tax receipts will become clear only as May receipts are recorded.

¹ The survey was conducted cooperatively by the Federation of Tax Administrators, National Association of State Budget Officers, National Conference of State Legislatures, and Nelson A. Rockefeller Institute of Government of the State University of New York. Survey responses were provided by state tax administrators and budget agencies, and other state fiscal officials.

² Six states have individual income tax return due dates later than the usual April 15. Hawaii returns are due on April 20. Delaware and Iowa are due on April 30. Virginia requires returns to be filed by May 1, while Arkansas and Louisiana have a May 15 due date.

While these estimates are preliminary, they point to a rather ominous situation. Total income tax collections for January through April were 14.0 percent or about \$14.7 billion below the level of a year ago. In April alone, collections fell by 21.4 percent. The problem seems to be in both wages and salaries where the withholding tax collections for the first four months of the calendar year were down 3.2 percent relative to last year, as well as in the other components of personal income, i.e., rents, interests, dividends, and capital gains. This non-wage and salary category seems to have fallen the greatest in percentage terms. Figure 1 shows the state-by-state declines in total tax collections in January-April.

Figure 1.
Change in Total Personal Income Tax Collections



NA – States without a personal income tax and Vermont which had serious processing problems in 2001

Only two states reported that January-April collection were on or above budgeted or estimated amounts. Of all the states that reported collections below budget, 12 indicated that January-April collections are below forecast by more than 10 percent. The data is not available to pinpoint the reasons for the drop off, but it is likely to be attributable to income not subject to withholding such as capital gains, interest and dividends, as well as stock options and bonuses. It is also true that estimated payments received in the first four months of 2002 were 27 percent behind the same period. This is a bad harbinger for revenues the rest of the year.

- * Total personal income tax collections in January-April 2002 were 14.0 percent or about \$14.7 billion below the level of a year ago. In April alone, when many states receive the bulk of their balance due or final payments, collections fell by 21.4 percent, or \$8.6 billion. Income tax receipts from these sources in the first four months of April 2002 were greater than in 2001 in only seven states.
- * Withholding tax collections, influenced by the recent drop in employment and probably by a decline in stock option income, were off by 3.2 percent during the first four months of the year. They declined by 0.2 percent in April, compared with April of last year.
- * Final payments with personal income tax returns were down by 26.3 percent through April, and down 28.7 percent in the month of April alone. Payments with returns in January – April 2002 exceeded 2001 in only seven states. In three cases, (Vermont, Pennsylvania and West Virginia) much of the excess was attributed to speedier processing of payments received in April 2002. Hawaii reported that much of the growth was due to extraordinary, non-recurring payments.
- * Estimated payments received in the first four months of 2002, generally considered to be a harbinger of expected receipts in the year ahead, were running 26.9 percent behind the same period in 2001. Receipts in April 2002 for the 2nd quarter installment decreased 24.5 percent from a year earlier. Only three states (Arizona, Vermont and West Virginia) showed any improvement from 2001 on this measure.
- * Meanwhile, the amount of personal income tax refunds processed by states increased by 13.9 percent during the 2002 processing season. [It increased by 24.8 percent in April alone, but one-month figures in this area carry little meaning.] While the number of refund returns processed has increased only 3.3 percent in January-April 2002, the average refund amount has increased by 10.3 percent—to \$457.81. In total, states have paid out about \$2.3 billion more in refunds in 2002 than in 2001 through April.
- * Of the states that compared collections with budgeted amounts, only two states reported that January-April collections were on or above the budgeted or estimated amounts contained in the official state revenue forecast. Georgia reported collections about \$60 million or 2.2 percent above expectations. West Virginia reported collections were \$22.2 million or 5.8 percent above the estimate, but indicated that accelerated tax processing accounted for some significant portion of the performance.
- * All of the other states reported collections below budgeted targets, with 12 states reporting January-April collections are below budgeted forecast by more than 10 percent.
- * In discussing causes of the drop-off, nearly every state noted that it would not be able to pinpoint the precise causes until substantially later this year when all returns are processed and available for analysis. They noted, however, that the decline would likely be attributable to substantially lower amounts of income not subject to withholding, such as capital gains, interest and dividends. A number of states also noted the decline in stock options and employee bonus compensation as a contributor to the decline. Several noted that the increased refunds were most likely attributable to greater than anticipated short-term layoffs, reduced hours and other forms of wage and salary income. Finally, states noted that estimated declarations are likely to decline as taxpayers adjust their projected tax payments to a lower earnings forecast.

Tables displaying the collection figures from individual states as well as their responses to the open-ended questions can be found on the National Conference of State Legislatures website.
www.ncsl.org

Contact Information:

Nicholas W. Jenny
Senior Policy Analyst
Fiscal Studies Program
The Nelson A. Rockefeller Institute of Government
411 State Street
Albany, NY 12203-1003

(518) 443-5833

(518) 443-5274(fax)

jennyn@rockinst.org

www.rockinst.org