



Rockefeller Institute Fiscal Features

May 1, 2008

State Revenue Flash Report: Sales Tax Declines in Most States

Donald J. Boyd and Lucy Dadayan

Preliminary tax collection data for the January-March quarter show widespread declines in state sales tax revenue — the largest or second-largest tax source in most states. With 36 of 45 sales-tax states reporting so far, fully 21 had sales tax declines compared with the same quarter last year.¹ (See Figure 1 and Table 1.) Nine of the 21 declining states were in the Southeast, which has been hit especially hard by the subprime mortgage crisis, and had a total sales tax decline of 3.8 percent. The Rocky Mountain region was next weakest, with three out of four sales-tax states reporting declines, for an average decline of 1.8 percent.

Sales tax revenue declined by 0.1 percent for the nation as a whole (counting only the reporting states), the first such decline since the first quarter of 2002. Inflation-adjusted sales tax revenue declined in at least 27 states, depending on the precise adjustment used.

The sales tax declines suggest that consumption, retail sales, and the income needed to support spending are slowing considerably. Figure 2 shows year-over-year growth through February in inflation-adjusted consumption and income, and indeed both income and spending have slowed.² Advance retail sales data for March suggest that retail spending weakened considerably further and declined in inflation-adjusted terms. Much of the sales tax attributable to March economic activity will be collected in April, boding ill for the April-June quarter.

The income tax was stronger than the sales tax in the January-March quarter. For 36 of 41 income-tax states that have reported so far, revenue was up 4.7 percent over the same period last year.

1 The largest decline — 7.6 percent in South Carolina — reflects elimination of the sales tax on unprepared food in addition to underlying economic trends. Without this legislative change, the South Carolina decline would have been less severe. The state with the largest increase, Maryland, increased its rate from 5 percent to 6 percent in January.

2 The figure includes consumption of durable and nondurable goods, which factor heavily in most states' sales tax bases. It excludes consumption of services, many of which are included in sales tax bases and many of which are excluded. Spending on many services tends to be more stable than spending on goods.

The tax was weakest in the Rocky Mountain region — where quarterly collections were down 2.1 percent from the year before — and it grew a mere 1.4 percent in the Southeast. By contrast, the tax held up much better in most other areas of the country. The April-June quarter, when tax returns for 2007 are filed, will be extremely important for this tax.

Largely due to relative strength in the income tax, overall tax revenue rose by a modest 1.7 percent despite the sales tax deterioration and widespread declines in the volatile corporate income tax.

The news for the current quarter is likely to spell further budget troubles in many states. The Institute will analyze the causes and implications of revenue weakness in greater depth in its next regular quarterly report.

Figure 1. State Sales Taxes Declined in at Least 21 States in the January-March Quarter

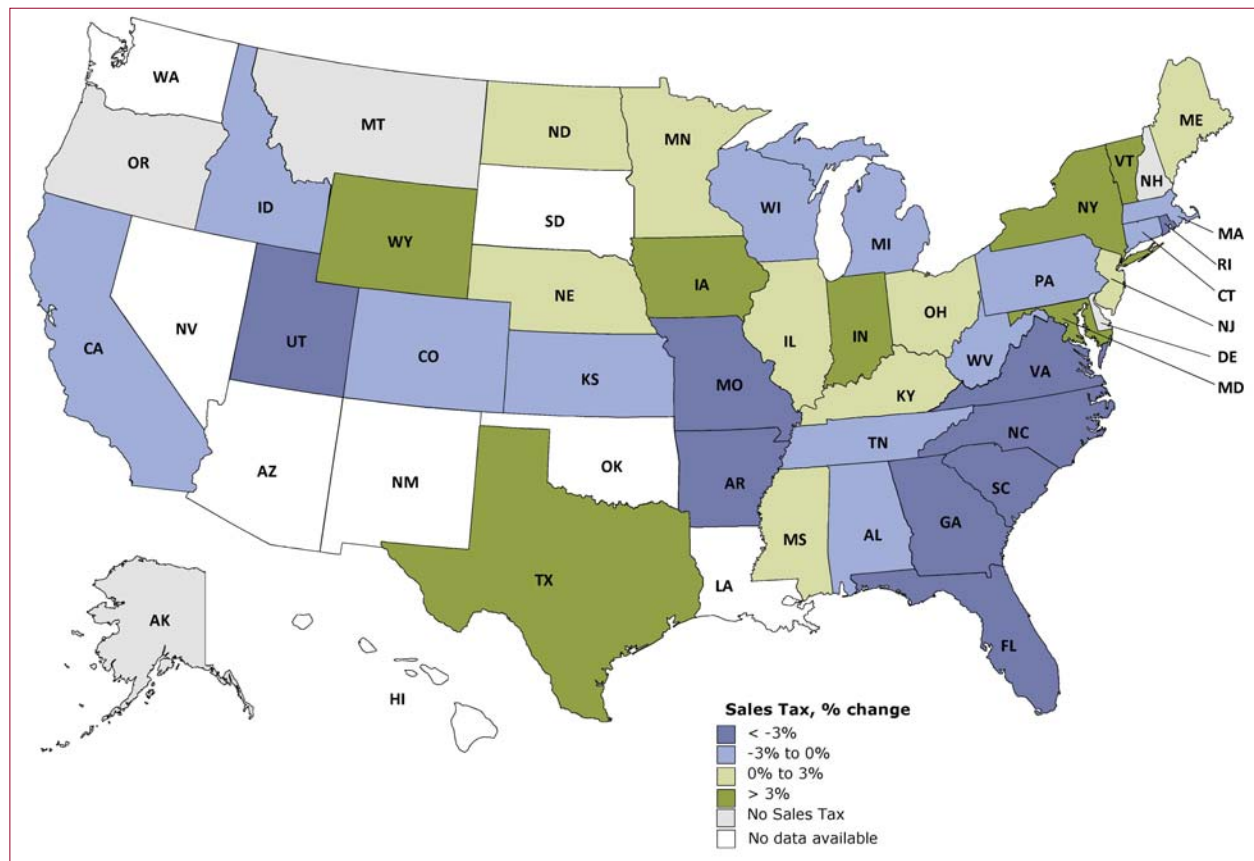
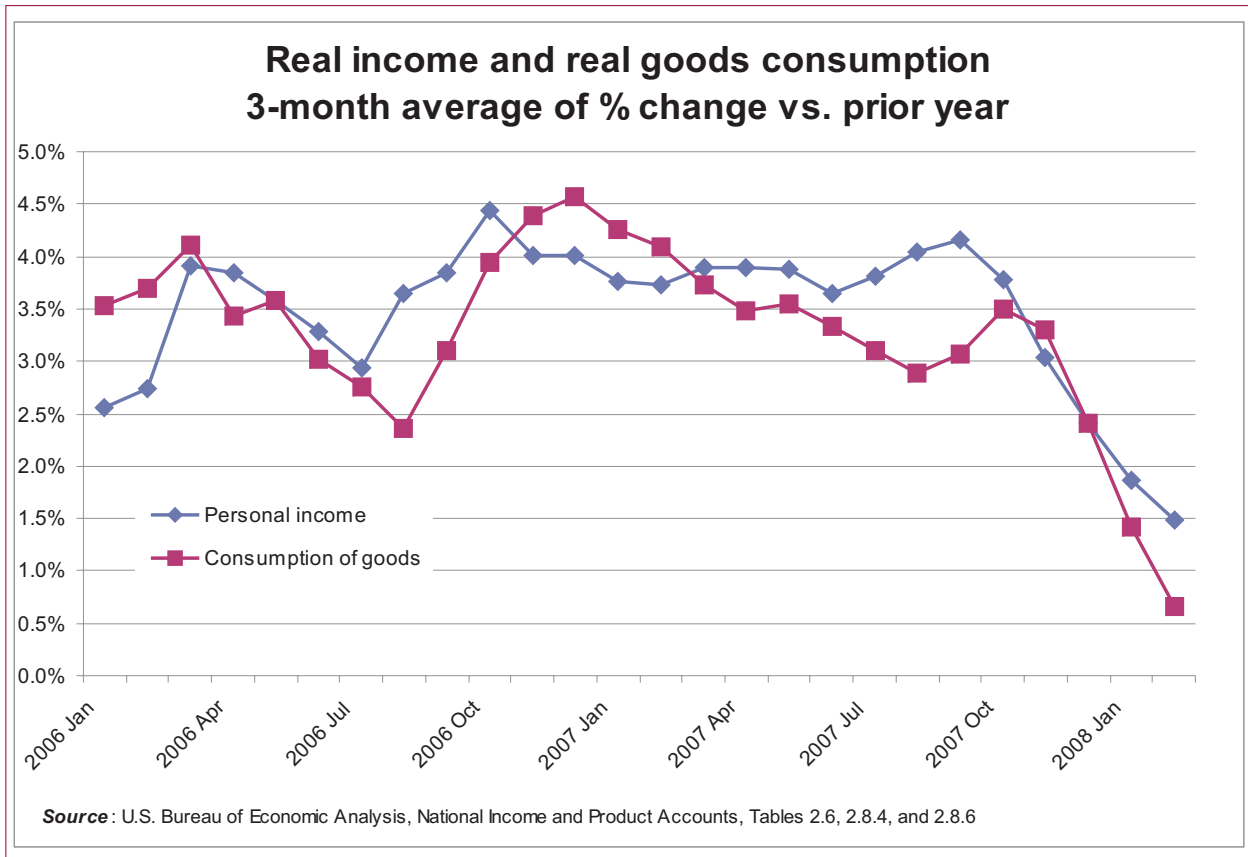


Figure 2. Personal Income and Consumption Have Slowed Sharply



Donald J. Boyd is a senior fellow at the Rockefeller Institute of Government. Lucy Dadayan is a senior policy analyst in state and local government finance at the Institute. The Fiscal Studies Program of the Rockefeller Institute is headed by Robert B. Ward, deputy director of the Institute. Production work on the report was done by Michael Cooper, director of publications.

Table 1. Percent Change in Tax Revenue, Early-Reporting States

Percent Change in Quarterly Tax Revenue by State, January-March, 2007 to 2008				
	Personal Income Tax	Corporate Income Tax	Sales Tax	Total Taxes [^]
United States	4.7	(3.3)	(0.1)	1.7
New England	10.2	(9.2)	(0.9)	5.3
Connecticut	6.8	(15.4)	(0.2)	1.9
Maine	4.6	8.4	0.3	2.8
Massachusetts	14.7	(6.9)	(1.4)	9.6
New Hampshire	NA	(23.3)	NA	5.6
Rhode Island	(12.2)	2.5	(5.5)	(6.2)
Vermont	13.5	(21.6)	4.9	1.5
Mid Atlantic	5.1	16.2	2.4	3.6
Delaware	(3.6)	10.6	NA	0.3
Maryland	2.9	15.8	8.5	6.2
New Jersey	0.3	6.9	1.1	(0.3)
New York	5.8	17.8	4.2	5.2
Pennsylvania	10.0	19.9	(1.0)	2.8
Great Lakes	8.3	(9.6)	0.5	2.6
Illinois	5.2	22.8	0.1	3.6
Indiana	5.5	(56.0)	3.2	1.7
Michigan	13.6	(16.8)	(0.7)	2.1
Ohio	4.9	(15.3)	0.5	(1.2)
Wisconsin	17.5	(24.6)	(0.1)	8.1
Plains	5.5	(10.6)	0.1	3.8
Iowa	10.2	29.8	5.2	11.4
Kansas	8.8	49.4	(1.3)	5.9
Minnesota	6.1	(28.4)	0.0	1.1
Missouri	9.0	0.0	(3.0)	2.4
Nebraska	(7.8)	9.4	1.3	(1.9)
North Dakota	(67.1)	(70.5)	2.6	20.2
South Dakota	NA	NA	ND	ND
Southeast	1.4	(10.6)	(3.8)	(2.6)
Alabama	4.4	23.7	(1.8)	2.4
Arkansas	11.8	(20.8)	(3.4)	2.8
Florida	NA	(8.9)	(6.0)	(10.3)
Georgia	(4.9)	(11.4)	(3.0)	(3.8)
Kentucky	10.8	(68.2)	2.5	1.2
Louisiana	ND	ND	ND	ND
Mississippi	(32.7)	34.4	0.4	(1.0)
North Carolina	2.4	(46.0)	(4.1)	(3.0)
South Carolina	(18.7)	(15.7)	(7.6)	(8.1)
Tennessee	NA	(9.8)	(0.7)	0.6
Virginia	4.5	16.9	(7.0)	0.7
West Virginia	17.3	128.0	(0.7)	14.1
Southwest	ND	ND	6.7	4.4
Arizona	ND	ND	ND	ND
New Mexico	ND	ND	ND	ND
Oklahoma	ND	ND	ND	ND
Texas	NA	NA	6.7	4.4
Rocky Mountain	(2.1)	(17.3)	(1.8)	(2.1)
Colorado	1.2	17.8	(0.6)	1.0
Idaho	(12.9)	(1.3)	(1.9)	(1.0)
Montana	(5.9)	(41.0)	NA	(10.8)
Utah	(1.3)	(39.2)	(4.7)	(5.6)
Wyoming	NA	NA	4.5	5.8
Far West	3.0	(6.9)	(0.9)	0.7
Alaska	NA	ND	NA	ND
California	2.5	(7.9)	(0.9)	0.1
Hawaii	ND	ND	ND	ND
Nevada	NA	NA	ND	ND
Oregon	7.9	35.6	NA	9.5
Washington	NA	NA	ND	ND

[^] - Total taxes equal sum of PIT, CIT, sales, and other taxes not shown.
NA – Not applicable.
ND – No data.
Source: Data from Nelson A. Rockefeller Institute of Government Revenue Report Database.