Rockefeller Institute of Government

NEWS
March 27, 2017

For Immediate Release
Contact for Rockefeller Institute:
Robert Bullock
Senior Advisor for External Relations
(518) 443-5837
or by email at robert.bullock@rockinst.suny.edu

Tax Revenue Forecasts Are Lowered as States Enter Budget Negotiations

Based on recent tax revenue data, many forecasts could be revised downward further, creating uncertainty and potentially difficult choices for states.

Albany, NY—The Rockefeller Institute today released an analysis of states' income and sales tax revenue forecasts for fiscal years 2017 and 2018. In the face of uncertainties in the global economy, growing political risks in Europe, potential federal policy changes from the new administration, Federal Reserve Board actions, and changing demographics, many states have lowered their forecasts, expecting tax revenue to grow more slowly than they had projected in previous forecasts.

The report found:

- The median state income tax forecast for fiscal 2017 was reduced from prior forecasts from 4 percent to 3.6 percent and the median sales tax forecast for the same period has been adjusted downward from prior forecasts from 4.2 percent to 3.1 percent.

- Median income tax growth for 2018 is expected to accelerate slightly to 4.1 percent, up from 3.6 percent in 2017. Median sales tax growth for the same period is expected to accelerate slightly as well, to 3.5 percent, up from anticipated growth of 3.1 percent in 2017.

- Although these state forecasts generally call for faster growth in 2018 than in 2017, the forecasted increase is small and expected growth is slow compared to longer term trends: from 1981 to 2007, before the start of the Great Recession, state tax revenue growth averaged approximately 7 percent annually.

While states' forecasts vary, states generally expect continued sluggish revenue growth in fiscal years 2017 and 2018. The forecasts generally take into account anticipated slow national economic growth, low oil prices, changing consumption and spending habits of Americans, and long-term demographic changes. States with very recently prepared forecasts may also estimate how their own taxpayers will respond to anticipated federal tax policy changes—responses that could affect their state budgets.

Sluggish revenue growth presents state policymakers with difficult choices including increasing state taxes, reducing spending, using reserve funds for unfunded requirements, and/or one-shots and other gimmicks.

"Rockefeller Institute's fiscal studies team Lucy Dadayan and Don Boyd's findings of lowered state revenue forecasts for this year and next raises significant concerns that state policymakers will face difficulties budgeting. National and international political turbulence continue to drive much of the uncertainty, which only exacerbates the problem," stated Rockefeller Institute President Jim Malatras.

To see the report, go to www.rockinst.org/pdf/government_finance/2017-03-27-By_numbers_brief_no7.pdf.

# # #