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States Forecast Sluggish Tax Revenue Growth as Budget Negotiations Start

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WASHINGTON – States face sluggish tax revenue growth due to uncertainties as they begin negotiating budgets for fiscal year 2018, the Rockefeller Institute of Government said in a report released Monday.

"Based on recent tax revenue data, many forecasts could be revised downward further, creating uncertainty and potentially difficult choices for states," the group said in a release on the report.

"States have lowered their forecasts and expect tax revenue to grow more slowly than in the quarter-century before the Great Recession, despite recent strength in the economy," wrote the report's authors Lucy Dadayan and Donald J. Boyd.

Revenue forecasters worry about risks and, in their latest forecasts, they were concerned about uncertainties related to the potential federal policy changes from the Trump administration, Federal Reserve Board actions, changing demographics, the global economy and political risks in Europe, the report found.

Dadayan and Boyd looked at the two largest state taxes – state income taxes and sales taxes.

The median income tax forecast calls for 3.6% growth for fiscal 2017, down from the previous forecasted median of 4.0%, they wrote. The median income tax forecast for fiscal 2018 is 4.1% growth.

The median sales tax forecast for the year calls for 3.1% growth, down from the previous forecasted median of 4.2%, they added. The median estimate for fiscal 2018 is for 3.5% growth.

"If projected revenue is lower than expected or desired, legislators and governors may decide to raise taxes, cut spending, or withdraw money from reserve funds," the two authors wrote, adding that shortfalls can also lead to attempts to generate funds through budget gimmicks. Greater than expected projected revenue growth can lead to reduced taxes and increased spending.

Revenue forecasts vary significantly from state to state, reflecting state economic conditions, oil supplies and prices, financial and real estate market developments, reliance on capital gains, and state-specific policy changes, among other factors, according to the report.

The median state forecast for personal income tax growth of 3.6% for fiscal 2017 is slightly faster than the actual growth rate of 2.8% in fiscal 2016. Dadayan and Boyd found that for fiscal 2017, 14 states forecasted slower growth and four states projected declines – Arkansas, Maine, Oklahoma and Tennessee.

For the median income tax growth of 4.1% growth for fiscal 2018, the report found 23 of the 40 income tax states with data anticipated faster growth, while 17 expected slower growth. Two states – Ohio and West Virginia – expected year-over-year declines. The declines in Ohio were mostly due to an

across-the-board reduction in personal income tax rates, the authors wrote.

The 3.1% median state forecast for sales tax growth in fiscal 2017 is up from actual growth of 2.6% in fiscal 2016. The authors found 17 states estimated slower sales tax growth in fiscal 2017 and five states projected declines – Kansas, Michigan, New Mexico, Oklahoma, and Wyoming.

For the median sales tax growth of 3.5% projected for fiscal 2018, about half the states with data expected faster growth and half expected slowing growth. Two states – Connecticut and West Virginia --anticipate year-over-year declines.

Dadayan and Boyd found the forecasts for weak revenue growth in fiscal 2018 reflected estimated slow economic growth, low oil prices, the changing consumption and spending habits of Americans, long-term demographic changes, and expected federal tax policy changes that will impact state budgets, among other factors.