

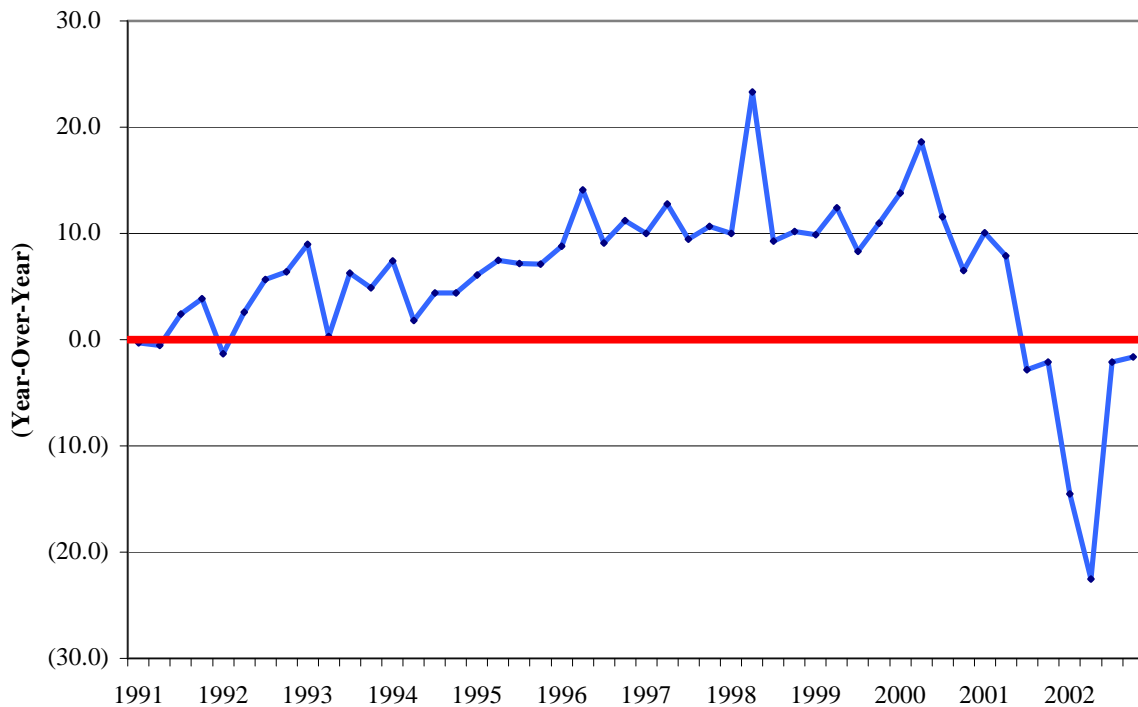
The Personal Income Tax Once Strong Source of State Revenue Growth Is Now Source of Budget Problems

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Most states have the same deadline for personal income tax final returns as does the federal government, April 15th. This year, as states count up their collections, it will be with the knowledge that over the last decade April has been both the kindest and the cruelest month for state budgets.

State personal income tax revenue growth was extremely strong in the late 1990s. From 1996 to 2000, state personal income tax collections grew at a year-over-year rate averaging about ten percent. (See Figure 1.) In two quarters —April-June 1998 and April-June 2000 —this growth rate was close to or over 20 percent. These were the largest of the so-called “April Surprises.” This strong revenue growth took place even though many states were making cuts in the personal income tax at the same time. This booming revenue helped to pay for these tax cuts. It also allowed states to increase expenditures on favored programs, and build up “rainy day” funds and other budget reserves.

Figure 1
Percentage Change Personal Income Tax, Adjusted for Legislation

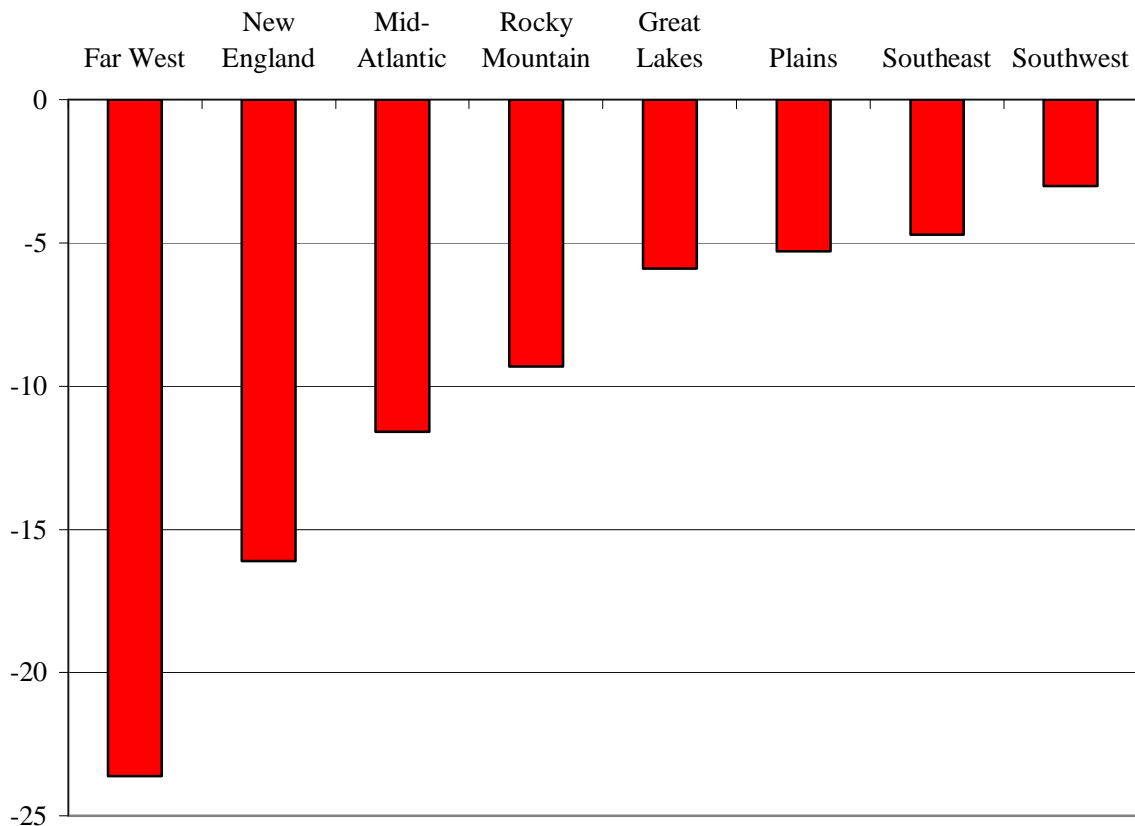


Source: The Nelson A. Rockefeller Institute of Government.

In 2001 and 2002, the picture changed abruptly. Personal income tax growth turned into decline, and in April 2002 there was a negative “April Surprise” that saw personal income tax collections decline by over 20 percent. The unanticipated severity of this decline helped to punch huge holes into the budgets of many states.

The decline in personal income tax revenue did not occur evenly across the country. (See Figure 2.) While every region saw declines, the decline was the worst in the Far West, and very bad in New England and the Mid-Atlantic states.¹

Figure 2
Percent Decline in PIT Revenue by Region,
Adjusted for Legislated Changes,
Fiscal Year 2001 to Fiscal Year 2002



¹ Figure 2 and Table 1 use a standardized fiscal year of July 1 to June 30.

Table 1 shows the state-by-state breakdown of what happened to state personal income tax revenue in fiscal year 2002. The largest decline was in California, where personal income tax collections declined by over 25 percent. The other five states with declines of more than the national average of 12 percent were all located in New England or the Mid-Atlantic region. Six states had increases, but in no state was the increase more than 2.6 percent, barely enough to keep pace with inflation.

Table 1
Percentage Change in Personal Income Tax Revenues,
By State, Adjusted for Legislation, FY 2001 to FY 2002

California	(25.6)	Montana	(6.1)
Massachusetts	(18.5)	Nebraska	(6.0)
Vermont	(16.6)	South Carolina	(5.9)
New York	(14.3)	Ohio	(5.6)
New Jersey	(13.8)	Utah	(5.4)
Connecticut	(13.7)	Maryland	(4.6)
United States	(12.0)	Pennsylvania	(4.6)
Colorado	(11.7)	Wisconsin	(4.2)
Rhode Island	(11.1)	Mississippi	(4.0)
Oregon	(10.5)	North Dakota	(2.9)
Arizona	(8.6)	Kentucky	(2.7)
Maine	(8.6)	Missouri	(2.7)
Idaho	(8.3)	Iowa	(2.2)
Minnesota	(7.9)	Arkansas	(0.8)
Kansas	(7.5)	Delaware	(0.6)
Virginia	(7.1)	Alabama	0.3
Michigan	(6.7)	Oklahoma	0.7
Georgia	(6.3)	West Virginia	1.9
Indiana	(6.3)	New Mexico	2.2
North Carolina	(6.2)	Hawaii	2.4
Illinois	(6.1)	Louisiana	2.6

More information related to this and related topics on state and local government spending, taxation and employment can be found on *The Gateway to State and Local Government*, <http://stateandlocalgateway.rockinst.org>.

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