STATE REVENUE REPORT

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A Second Quarter of Slow State Tax Revenue Growth

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HIGHLIGHTS

- State tax revenue was weak for the second quarter in a row, growing by only 5.1 percent in January-March compared to the same period in 2000.
- After adjusting for tax law changes and inflation, real underlying growth was 2.8 percent — the second-slowest in five years. This is still much stronger than during the depths of the last recession, when substantial year-over-year *declines* were common. Nevertheless, two-thirds of states have announced budget difficulties of some sort, and state finances could weaken further in the event of a full-blown recession.
- The Midwest and Southeast continue to have the slowest revenue growth, but there are signs that the slowing is spreading to other parts of the country.
- Fewer states are cutting taxes this year than in the last several, and some states are considering spending cuts or tax increases to balance their budgets in the face of slowing revenue growth.
- Personal income tax revenue growth recovered slightly to 8.6 percent, aided by strong estimated tax payments in January. However, withholding grew only 6.7 percent, no better than last quarter.
- Sales tax revenue growth fell to 3.3 percent, the slowest growth since the last recession.

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Table 1. Aggregate Change in Quarterly Tax Revenue, Adjusting for Legislated Tax Changes and Inflation

	Total Nominal Increase	*Adjusted Nominal Increase*	*Inflation Rate*	*Real Increase*
1994				
Jan.-Mar.	6.7%	6.3%	2.5%	3.7%
April-June	5.4	5.3	2.4	2.8
July-Sept.	6.6	6.1	2.9	3.1
Oct.-Dec.	6.8	5.8	2.7	3.0
1995				
Jan.-Mar.	7.3	6.6	2.8	3.7
April-June	7.1	6.4	3.1	3.2
July-Sept.	5.6	6.1	2.6	3.4
Oct.-Dec.	4.9	5.7	2.7	2.9
1996				
Jan.-Mar.	4.7	5.7	2.7	2.9
April-June	7.3	8.6	2.8	5.6
July-Sept.	6.2	7.4	2.9	4.4
Oct.-Dec.	6.2	7.5	3.2	4.2
1997				
Jan.-Mar.	6.0	7.4	2.9	4.4
April-June	6.2	8.3	2.3	5.9
July-Sept.	5.5	6.1	2.2	3.8
Oct.-Dec.	6.8	7.9	1.9	5.9
1998				
Jan.-Mar.	6.5	7.0	1.5	5.4
April-June	9.7	11.4	1.6	9.6
July-Sept.	6.6	7.1	1.6	5.4
Oct.-Dec.	7.5	8.0	1.5	6.4
1999				
Jan.-Mar.	4.8	6.5	1.7	4.7
April-June	5.0	8.0	2.1	5.8
July-Sept.	6.1	6.5	2.3	4.1
Oct.-Dec.	7.4	8.4	2.6	5.7
2000				
Jan.-Mar.	9.7	10.4	3.2	7.0
April-June	11.4	11.8	3.3	8.2
July-Sept.	7.1	7.7	3.5	4.1
Oct.-Dec.	4.0	5.0	3.4	1.5
2001				
Jan-Mar	5.1	6.3	3.4	2.8

Note: Inflation is measured by the Consumer Price Index. Please call Fiscal Studies Program for pre-1994 data.

Table 2. Change in Quarterly Tax Revenue by Major Tax

	PIT	*CIT*	*Sales*	*Total*
1994				
Jan.-Mar.	7.6%	6.2%	6.9%	6.7%
April-June	1.3	9.1	9.0	5.4
July-Sept.	4.2	18.9	7.8	6.6
Oct.-Dec.	4.2	12.5	9.1	6.8
1995				
Jan.-Mar.	6.4	13.2	9.0	7.3
April-June	8.3	14.3	6.1	7.1
July-Sept.	6.3	8.0	5.2	5.6
Oct.-Dec.	5.6	7.9	4.2	4.9
1996				
Jan.-Mar.	7.1	(4.8)	5.6	4.7
April-June	11.3	0.9	6.8	7.3
July-Sept.	6.9	4.0	5.8	6.2
Oct.-Dec.	9.1	(3.0)	6.1	6.2
1997				
Jan.-Mar.	7.1	9.6	4.7	6.0
April-June	8.8	7.6	4.3	6.2
July-Sept.	8.4	(2.8)	5.8	5.5
Oct.-Dec.	8.3	4.5	5.3	6.8
1998				
Jan.-Mar.	9.3	2.3	5.6	6.5
April-June	19.5	(2.1)	5.3	9.7
July-Sept.	8.9	(0.2)	5.9	6.6
Oct.-Dec.	9.5	5.2	5.5	7.5
1999				
Jan-Mar.	6.6	(2.6)	6.1	4.8
April-June	6.0	(2.1)	7.3	5.0
July-Sept.	7.6	1.4	6.7	6.1
Oct.-Dec.	9.1	3.8	7.3	7.4
2000				
Jan.-Mar.	13.6	8.0	8.2	9.7
April-June	18.8	4.2	7.3	11.4
July-Sept.	11.0	5.7	4.7	7.1
Oct.-Dec.	5.7	(7.7)	4.1	4.0
2001				
Jan-Mar	8.6	(9.1)	3.3	5.1

Note: Please call Fiscal Studies Program for pre-1994 data.

Introduction

State tax revenue growth was slightly stronger in January-March of 2001 than it had been in the previous quarter. Nevertheless, the 5.1 percent growth over the same period in 2000 was slower than that seen in most quarters over the last several years. Moreover, although early indications suggest that April final returns will show significant strength, other signs point to potential revenue weakness in the next fiscal year. Personal income tax growth has recovered some of its strength. On the other hand, sales tax growth dropped to its lowest level in almost nine years, and the corporate income tax declined sharply. When adjusted to eliminate the effects of legislated changes and inflation, real total tax revenue growth was only 2.8 percent.

Tax Revenue Growth

Table 1 shows tax revenue growth for the last 25 quarters before and after adjusting for legislated tax changes and inflation. Although up from the previous quarter's four percent nominal growth rate, the 5.1 percent growth in January-March 2001 was still the sixth slowest quarterly revenue growth rate in the last six years. The effects of legislated tax changes were relatively moderate for the quarter, but, as noted above, factoring in the effects of inflation results in a 2.8 percent real growth rate. This is the slowest real growth in five years, except for the previous quarter's anemic 1.5 percent real growth rate. Thus, while the downward trend in revenue growth stopped in the January-March quarter, growth is still slow, compared to recent years. This slowing is not yet near what one would see in the worst of a recession, where real *declines* in revenues over the course of several quarters would occur. For instance in the last recession, revenues adjusted for legislated changes and inflation were down by as much as five and six percent in some quarters.

The recent weakness was largely confined to the midsection of the country. (See Table 3.) The Great Lakes states actually had a revenue decline of 5.1 percent compared to last year, while the Plains and Southeast states had growth of only 2.6

Table 3. Change in Quarterly Tax Revenue by State, January to March, 2000 to 2001

	PIT	*CIT*	*Sales*	*Total*
United States	**8.6%**	**(9.1)%**	**3.3%**	**5.1%**
New England	**15.7**	**(8.3)**	**5.4**	**8.6**
Connecticut	26.9¶	3.6¶	2.8¶	11.1¶
Maine	8.5¶	(38.9)	(7.8)¶	(2.2)¶
Massachusetts	11.4	(8.8)	9.5	8.8
New Hampshire	NA	(12.0)	NA	(3.8)
Rhode Island	21.0	(8.7)	10.9	12.5
Vermont	29.6	(37.5)	8.1	14.3
Mid-Atlantic	**16.0**	**(10.2)**	**2.9**	**8.3**
Delaware	7.1¶	(42.1)	NA	10.8¶
Maryland	9.7¶	29.2	7.6	9.6¶
New Jersey	18.6	36.7	4.6	12.3
New York	18.9	(20.1)¶	(0.4)¶	9.3¶
Pennsylvania	7.1	(5.9)	2.9	2.9¶
Great Lakes	**(7.4)**	**(23.5)**	**0.8**	**(5.1)**
Illinois	3.3¶	(42.4)¶	0.3¶	(2.2)¶
Indiana	(5.2)	(30.3)	3.6	(1.4)
Michigan	(12.7)¶	(10.3)¶	(0.5)	(5.2)¶
Ohio	(3.4)¶	(16.2)	(2.7)	(5.4)¶
Wisconsin	(23.1)¶	(23.1)	7.4*	(13.6)¶
Plains	**5.0**	**(12.8)**	**2.4**	**2.6**
Iowa	1.2	(7.1)	0.5	1.3
Kansas	3.2	25.0	0.2	4.2
Minnesota	1.7¶	(17.3)	1.4	2.0¶
Missouri	13.9	(24.1)	5.8	ND
Nebraska	3.2	(6.5)	6.1	4.1
North Dakota	5.5	21.2	(3.3)	6.1
South Dakota	NA	NA	5.1	3.6
Southeast	**3.1**	**(11.4)**	**3.9**	**2.8**
Alabama	1.3	(30.2)	(2.3)	(6.7)
Arkansas	5.6	3.5	4.4	4.1
Florida	NA	(2.3)	0.9	0.9¶
Georgia	4.2	26.5	10.0	7.7
Kentucky	3.4	(11.0)	2.1*	2.8
Louisiana	7.0*	13.6	25.0*	12.6*
Mississippi	0.0	7.3	1.6	1.7
North Carolina	(12.6)	(47.7)	5.8	(5.8)
South Carolina	13.4	16.7	2.5¶	7.7¶
Tennessee	NA	6.3	0.4	(2.1)
Virginia	15.8¶	(34.8)¶	5.8	12.5¶
West Virginia	15.3	(26.2)*	(0.2)	8.7
Southwest	**(0.4)**	**9.3**	**4.2**	**8.2**
Arizona	(21.9)	(15.3)	4.4	(6.4)
New Mexico	45.4	47.9	13.9	31.4
Oklahoma	8.5	(6.1)	2.0*	11.3
Texas	NA	NA	3.7	8.5
Rocky Mountain	**7.0**	**7.2**	**6.3**	**5.4**
Colorado	10.2¶	(13.5)¶	6.5¶	7.8¶
Idaho	(1.3)¶	9.3	2.3	1.4¶
Montana	16.1	95.8	NA	5.6
Utah	1.7	5.1	4.9	4.9
Wyoming	NA	NA	25.0	1.5
Far West	**17.4**	**12.5**	**3.6**	**11.5**
Alaska	NA	3.0	NA	(18.9)
California	18.4	11.8	3.5	13.6
Hawaii	7.6¶	3.2¶	3.5¶	7.8¶
Nevada	NA	NA	5.0	(0.4)
Oregon	11.0	45.1	NA	11.7
Washington	NA	NA	3.8	5.3

Figure 3
Percent Change in Tax Revenue by Region, Adjusted for Legislated Changes January to March 2000 to 2001

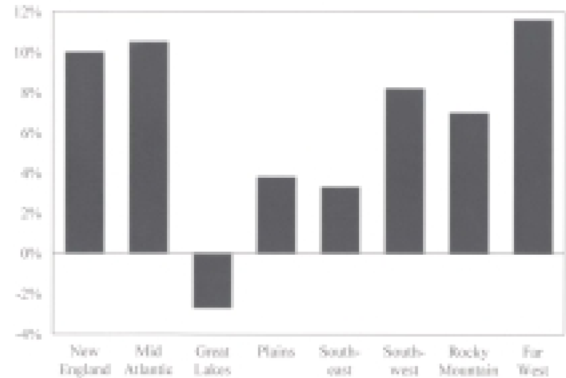


Figure 4
Change in Quarterly Tax Revenue by State, Adjusting for Legislated Changes, January-March 2000 to 2001

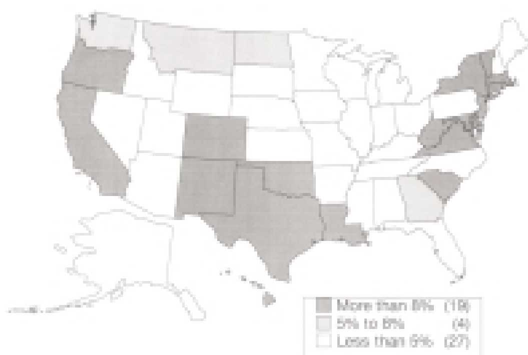
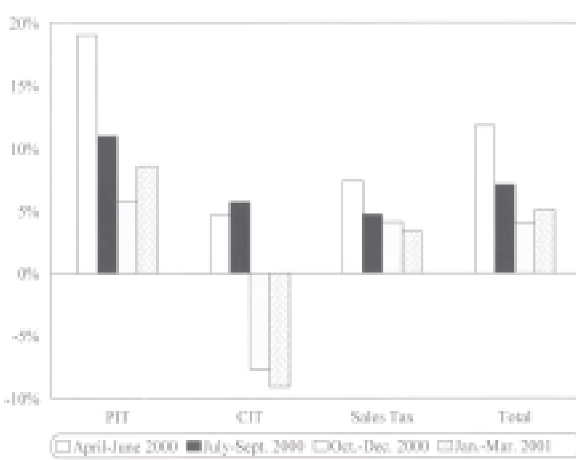


Figure 5
Change in Quarterly Tax Revenue by Tax, Last Four Quarters



percent and 2.8 percent respectively. The Far West continued its strong performance with a growth rate of 11.5 percent, while New England and the Mid Atlantic states recovered from weak quarters with growth of 8.6 percent and 8.3 percent respectively. Several large tax cuts magnified the revenue decline in the Great Lakes states, but even adjusting for those cuts, revenues dropped by 2.7 percent. Only the Great Lakes and Rocky Mountain states experienced declines in their growth from last quarter, while all other regions saw some improvement. (See Figure 3.)

The increase in revenue growth in the January-March quarter is entirely due to stronger personal income tax growth, even though personal income tax growth remains well under the very high level of a year ago. Tables 2 and 4 show year-over-year growth in the major tax sources and total tax revenue, before and after adjusting for the effects of legislated tax changes. After these adjustments, personal income tax revenues grew at a quite robust ten percent. This is a return to the double-digit underlying growth we have seen in 13 of the previous 20 quarters. Meanwhile, the underlying growth in the sales tax fell to 3.7 percent, the fifth straight quarter of slowing growth, and the slowest rate of growth since April-June 1992. The corporate income tax recorded its second straight quarter of sharp decline. In fact, the 9.1 percent decline was the sharpest ever recorded in the ten years since we began tracking these revenues.

Personal Income Tax

The January-March quarter is of interest to states with personal income taxes, particularly when the general economy shows signs of weakness. The final quarter of estimated tax payments are most often due in January, and many companies pay end-of-year bonuses in that month as well. These are evidence of whether or not high-income taxpayers have had a good year. If they have underpaid or overpaid estimated taxes, they will make it up with the last payment. In good years the bonuses can boost withholding. Since in most states the filing deadline for final personal income taxes falls in April, a picture of refunds paid to early filers begins to emerge in the January-March quarter. We

Table 4. Change in Quarterly Tax Revenue, Adjusting for Legislated Tax Changes

	PIT	*Sales*	*Total*
1994			
Jan.-Mar.	7.4%	6.3%	6.3%
April-June	1.8	8.0	5.3
July-Sept.	4.4	6.8	6.1
Oct.-Dec.	4.4	7.5	5.8
1995			
Jan.-Mar.	6.1	7.5	6.6
April-June	7.5	5.1	6.4
July-Sept.	7.2	5.4	6.1
Oct.-Dec.	7.1	4.2	5.7
1996			
Jan.-Mar.	8.8	5.7	5.7
April-June	14.1	6.5	8.6
July-Sept.	9.1	5.9	7.4
Oct.-Dec.	11.2	6.4	7.5
1997			
Jan.-Mar.	10.0	5.0	7.4
April-June	12.8	5.0	8.3
July-Sept.	9.5	6.2	6.1
Oct.-Dec.	10.7	5.9	7.9
1998			
Jan.-Mar.	10.0	6.5	7.0
April-June	23.3	5.9	11.4
July-Sept.	9.3	6.4	7.1
Oct.-Dec.	10.2	5.9	6.9
1999			
Jan.-Mar.	9.9	6.2	6.5
April-June	12.4	7.3	8.0
July-Sept.	8.3	6.9	6.5
Oct.-Dec.	11.0	7.5	8.4
2000			
Jan.-Mar.	13.8	8.8	10.4
April-June	18.6	7.8	11.8
July-Sept.	11.6	5.6	7.7
Oct.-Dec.	6.5	5.0	5.0
2001			
Jan.-Mar.	10.1	3.7	6.3

Note: The corporate income tax is not included in this table. The quarterly effect of legislation on this tax's revenue is especially uncertain. (See Technical Notes, page 13.)
For pre-1994 data, call the Fiscal Studies Program.

Key to Interpreting Tables

All percent change tables are based on year-over-year changes.
[1] March data not available.
* indicates legislation or processing/accounting changes significantly increased tax receipts (by one percentage point or more).
¶ indicates legislation or processing/accounting changes significantly decreased tax receipts.
NA means not applicable.
ND means no data.
Historical Tables (Tables 1, 2 and 4) have been shortened to provide data only back to 1994. For data through 1990, call the Fiscal Studies Program.

can even get a glimpse of final settlements in April and May from some states by the time we publish this report.

While overall personal income tax revenue growth in the first quarter of calendar 2001 was a fairly brisk 8.6 percent, this growth was by no means even throughout the country. Fifteen states experienced double-digit growth.[1] However, seven states had a decline in personal income tax revenue — Arizona, Idaho, Indiana, Michigan, North Carolina, Ohio, and Wisconsin. In Idaho, Michigan, Ohio, and Wisconsin tax cuts depressed growth rates. In most cases where personal income tax revenue declined or grew slowly, states had to make adjustments in either current spending, in their fiscal year 2002 budgets, or both.

Revenue estimators can get a good idea of how things are going by looking at a breakdown of the personal income tax into its component parts: withholding from paychecks, quarterly estimated tax payments, and final settlements. We do not have data on tax year 2000 final settlements for all states yet, but we do have information on January-March 2001 withholding and estimated tax payment data from the fourth quarterly payment for 2000.

Withholding

Table 5 shows that year-over-year withholding growth for the first quarter of calendar 2001 was very close to the fourth quarter of 2000, and well below growth in the previous two quarters. January-March's 6.7 percent growth would have been about one percentage point higher without several large tax cuts.[2]

Withholding is, in several ways, a better measure of current strength in personal income tax revenue than either quarterly estimated payments or final settlements. For one thing, withholding is based largely on current wages. Also, because it is much less volatile than either quarterly estimated/declared payments or final settlements, it is easier to spot emerging trends. Bonuses and stock options paid by companies to high-income individuals are also part of withholding, however, and they are far more volatile than income based on regular wages and salaries. The first and fourth cal-

Table 5. Change in Personal Income Tax Withholding by State, Last Four Quarters

	2000			2001
	Apr-Jun	*July-Sept*	*Oct.-Dec.*	*Jan.-Mar.*
United States	**10.1%**	**9.7%**	**6.5%**	**6.7%**
New England	**12.4**	**13.2**	**4.4**	**8.3**
Connecticut	11.8	10.6	1.2	16.3
Maine	14.3	9.9	8.7	14.3
Massachusetts	12.8	15.1	4.9	4.7
Rhode Island	7.6	8.7	8.4	11.1
Vermont	12.1	7.5	3.1	2.3
Mid-Atlantic	**11.2**	**9.7**	**8.9**	**12.6**
Delaware	(5.7)¶	(7.0)¶	(1.7)¶	7.7¶
Maryland[1]	7.9	3.9	5.8¶	4.0
New Jersey	20.9	9.9	13.4	5.8
New York	12.4	11.7	9.9	18.1
Pennsylvania	8.5	10.1	6.4	5.2
Great Lakes	**4.5**	**3.2**	**2.2**	**(2.1)**
Illinois	5.5	6.7¶	4.6¶	0.9¶
Indiana	4.8	7.4	4.3	0.0
Michigan	(0.1)¶	(1.1)¶	(2.4)¶	(5.2)¶
Ohio	5.2	7.5	4.1	3.1
Wisconsin	8.1	(7.6)¶	1.6¶	(9.7)¶
Plains	**7.0**	**6.9**	**3.7**	**5.8**
Iowa	13.9	2.8	(0.1)	2.3
Kansas	10.7	12.7	7.8	1.4
Minnesota	0.6¶	5.5¶	3.5¶	5.3¶
Missouri	10.8	8.8	3.9	12.2
Nebraska	9.4	7.8	6.3	3.2
North Dakota	10.2	5.7	3.8	2.5
Southeast	**9.0**	**8.1**	**5.9**	**5.4**
Alabama	9.3	9.0	6.1	0.7
Arkansas	6.4	8.4	5.2	3.4
Georgia	14.5	12.7	13.9	3.2
Kentucky	ND	9.1	(0.1)	7.0
Louisiana	8.8	(4.6)	5.5	1.2
Mississippi	5.7	6.0¶	3.8¶	0.6
North Carolina	8.1	8.4	7.3	5.7
South Carolina	5.8	5.7	0.7	5.2
Virginia	7.8	6.8	3.5	9.6
West Virginia	5.6	5.2	(0.9)	12.4
Southwest	**9.1**	**9.8**	**4.3**	**3.2**
Arizona	9.3	9.5	4.9	0.8
New Mexico	10.5	15.4	5.3	11.1
Oklahoma	8.4	8.2	3.2	ND
Rocky Mountain	**8.6**	**10.9**	**10.6**	**5.5**
Colorado	7.3¶	13.2	10.1	7.0¶
Idaho	17.4	15.5	14.7	4.2
Montana	6.3	7.3	10.3	6.7
Utah	7.4	5.0	9.4	3.0
Far West	**17.3**	**17.4**	**9.9**	**9.4**
California	19.0	19.3	10.7	10.2
Hawaii	6.6	4.2	4.1	5.3
Oregon	10.1	9.6	5.7	4.2

Note: Nine states — Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no personal income tax and are therefore not shown in this table.

endar quarters usually include more bonus activity than mid-year quarters, since most bonuses are given out at the end of December or the beginning of January. Stock options, on the other hand, are generally exercised based on market conditions and other factors, and follow a less regular annual pattern. Finally, progressive tax codes magnify the revenue effects of this volatility because high-income individuals—who tend to receive more in bonuses and stock options than other workers—also have higher marginal tax rates.

Many revenue estimators believed their withholding to have been inflated by stock options and bonuses during the recent period of extremely strong withholding growth — over 11 percent a year ago. The 6.7 percent withholding growth states are seeing now is much closer to what might be expected on the basis of growth in hourly or weekly earnings. Since this slower growth covers a period in which bonus activity is usually strong, however, it may be a sign that states may not be able to count on bonus and stock option withholding to generate revenues as lavishly as during the last few years.

Estimated Payments

While withholding growth has come back down to earth over the last two quarters, it does not give the total picture of personal income tax revenue growth. Overall growth was boosted by estimated payments (also known as declarations), generally paid by the highest-income taxpayers on non-wage income. This income is often from investments, especially from capital gains realized in a stock market that has been growing — if often unsteadily — by leaps and bounds. Most state estimators have given much of the credit for strong state revenue growth over the last few years to capital gains and stock options. Over the past year or so, however, stock market prices, especially those of high-tech stocks, have fallen off their record highs.

This fall in the stock market did not seem to affect estimated payments for the 2000 tax year. As shown in Table 6, most states saw double-digit growth for all four quarterly estimated tax payments combined; overall growth was 17.1

Table 6. Estimated Payments/Declarations (change year-over-year)			
State	*April-Feb. (All four payments for 2000)*	*Dec.-Feb. (Fourth 2000 payment only)*	*April (First 2001 payment)*
Average	**17.1%**	**17.1%**	**5.5%**
Alabama	1.6	(3.5)	(35.2)
Arkansas	2.7	6.2	1.1
California	30.9	25.4	(11.2)
Colorado	8.0	(9.3)	0.0
Connecticut	18.2	26.6	22.3
Delaware	1.6	(0.5)	(14.1)
Georgia	9.7	16.1	ND
Hawaii	0.2	(2.4)	12.0
Illinois	9.7	9.6	4.5
Indiana	(2.1)	(7.0)	33.9
Iowa	2.1	(11.4)	6.8
Kansas	5.6	(0.5)	3.3
Kentucky	ND	1.4	(3.4)
Louisiana	11.9	16.2	ND
Maine	12.4	18.2	15.7
Maryland	18.5	13.4	ND
Massachusetts	14.1	18.4	9.3
Michigan	5.4	(8.3)	1.6
Minnesota	3.5	2.9	ND
Mississippi	(0.6)	(4.0)	35.1
Missouri	9.4	14.4	2.6
Montana	22.2	16.1	18.6
Nebraska	9.0	3.1	10.4
New Jersey	30.3	43.0	ND
New Mexico	5.3	2.5	ND
New York	17.1	24.7	21.7
North Carolina	7.8	8.6	ND
North Dakota	7.7	13.9	16.3
Ohio	11.3	(2.8)	10.6
Oregon	5.3	0.2	(25.7)
Pennsylvania	8.4	11.4	13.9
Rhode Island	23.4	33.9	(2.0)
South Carolina	(1.2)	(9.8)	(17.5)
Vermont	4.8	(11.3)	(82.5)
Virginia	10.3	9.8	(6.0)
West Virginia	3.8	(1.0)	(7.5)
Wisconsin	17.7	14.1	ND

percent. The fourth quarterly payment (due in January, but often paid in December for federal tax reasons) confirmed this strong growth, also amounting to 17.1 percent above the previous year.[3] This would seem to indicate that taxpayers were still making strong stock market capital gains in 2000. The strong estimated tax payments helped to make 2000 a good tax collection year in most states, and the January payment helped buoy tax collections for the January-March period.

Several signs indicate that estimated tax payments may not grow as rapidly in 2001. Preliminary data for the April estimated payment, the first one for 2001, show growth of only 5.5 percent, well under the growth rate of recent years. This may be an indication that stock market capital gains have started to slow, and are no longer driving up estimated tax payments as they did before. The first payment of estimated tax, however, is not always a good indicator of what will happen for the rest of the year. Growth in later payments can vary dramatically from growth in the first payment, depending on how taxpayers respond to market conditions, tax-payment rules, and other factors.

Final Settlements — April/May Preview

The full report on state collections of final settlements (or payments with returns) will appear in the next issue of the *State Revenue Report*. In preparing this report, however, we did ask states how collections are going so far. The general picture is one of quite strong growth, confirming the growth in estimated payments and withholding for tax year 2000. Many states may even receive another "April Surprise," with strong final settlements allowing them to end fiscal year 2001 with a surplus. At the same time, the weaker estimated payments and withholding growth so far in 2001, as well as projections of continued weaker economic and revenue growth for the remainder of 2001 (at least), may cause some states to receive less pleasure from their "April Surprise" this spring. Moreover, the states that have surpluses will need them to shore up their fiscal 2002 budgets. Meanwhile, in other states even good collections on returns for the 2000 tax year will not overcome the revenue growth shortfalls they have already experienced in the fiscal year so far.

General Sales Tax

Growth in sales tax revenues continued to slow in the January-March quarter, as it had throughout 2000. Growth was only 3.3 percent over that for the same quarter last year, 3.7 percent when legislated tax cuts were taken into account. It was 8.2 percent in January-March 2000, 7.3 percent in April-June, 4.7 percent in July-September, and 4.1 percent in October-December. While most estimators had expected a slowing after the very high growth rates of previous quarters, growth has not been this slow for almost nine years.

This downward trend is probably the result of several factors, first and foremost the general slowing of the economy. Consumer confidence has dropped significantly over the last year. A negative "wealth effect" also may be causing people with declining investment portfolios to defer large purchases. In any event, consumption had been unsustainably high for some time, with extremely low — even negative — savings rates, and very high debt.[4]

The slowing has not been even across the country, although it is now quite widespread. Even with the general slowdown, five states enjoyed double-digit sales tax revenue growth rates.[5] Six states experienced declines in sales tax revenue compared to last year, only one of which was caused by a tax cut.[6] The impact of the slowdown on the states where it did occur is related to how much growth they were forecasting. Some states forecast strong retail sales growth in 2001, but now that it looks like that is not happening, those states will have to lower their revenue expectations.[7] Also, any extension of the downward trend will cause deep concern among all states with a sales tax, particularly those that rely on it for much of their total revenue. Of the 45 states that have a sales tax, the six states that have no personal income tax — Florida, Nevada, South Dakota, Tennessee, Texas, and Washington — are the most dependent on the sales tax, which accounts for between 58 and 76 percent of their tax revenues.[8]

Corporate Income Tax

For the second quarter in a row corporate income tax revenue suffered a major slump. Revenues in the first quarter of 2001 fell by 9.1 percent, after having fallen by 7.7 percent in the fourth quarter of 2000. These are the sharpest drops since the beginning of the *State Revenue Report* ten years ago. Usually, however, states are not too concerned with declines in the corporate income tax as it represents a small share of most states' revenues. Historically, it has also been the most volatile of the major state-level taxes, since payments by or refunds to a small number of companies often cause large fluctuations in revenues which sometimes have little to do with the current situation of the company or with newly legislated tax provisions. In fact, this revenue source has been weak since 1995, even while general revenue was strong. That said, the exceptionally weak performance of the corporate income tax in the last two quarters has not helped the general revenue picture.

Underlying Reasons for Trends

These revenue changes result from three kinds of underlying forces: differences in state economies, how these differences affect each state's tax system, and recently legislated tax changes.

State Economies

The general trend toward weaker revenue growth in the states over the last two quarters parallels signs of weakening growth in the national economy. Recent reports of declines in consumer confidence help explain the drop in sales tax revenue. The national unemployment rate rose from under four percent in the summer of 2000 to 4.5 percent in April 2001.[9] Real GDP growth in the fourth quarter of 2000 was only one percent, and the latest estimate for the first quarter of 2001 was 1.3 percent, well under the growth rate of recent years.[10]

The regional differences in revenue growth noted in the last *State Revenue Report* continued in the January-March quarter. The New England and Mid Atlantic states had much stronger growth this quarter than last, and the Far West remained strong. The Great Lakes, Plains, and Southeast states, however, continue to experience weaker growth than the nation as a whole. Part of the explanation for this pattern is the fact that the recent slowdown in the national economy has not affected all sectors equally. For instance, most of the jobs lost in the last few months have been in manufacturing, while service jobs have continued to grow. Thus states that depend heavily on manufacturing have suffered more from job losses than other states.[11]

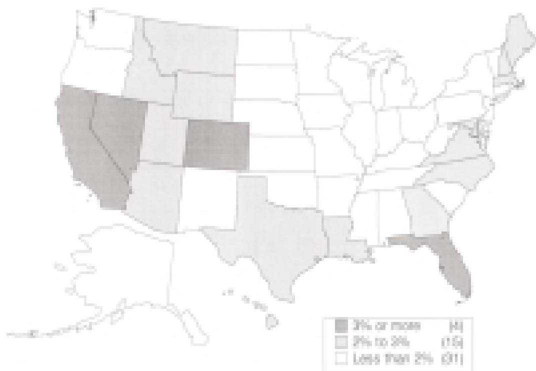
Table 7. Year-Over Change In Non-Farm Employment by State, Last Four Quarters

	2000			2001
	Apr.-Jun.	July-Sept.	Oct.-Dec	Jan.-Mar.
United States	**2.4%**	**2.0%**	**1.6%**	**1.2%**
Sum of States	**2.6**	**2.4**	**2.2**	**2.0**
New England	**2.4**	**2.2**	**2.2**	**1.9**
Connecticut	1.6	1.4	1.4	0.9
Maine	3.4	2.8	2.5	2.3
Massachusetts	2.6	2.4	2.7	2.4
New Hampshire	2.8	2.2	2.1	2.0
Rhode Island	2.4	2.1	1.4	1.4
Vermont	2.5	2.1	1.7	1.3
Mid Atlantic	**2.4**	**2.1**	**2.0**	**1.7**
Delaware	1.8	1.6	1.8	1.6
Maryland	2.9	2.7	2.2	2.3
New Jersey	2.6	2.2	2.2	1.7
New York	2.3	2.1	1.9	1.7
Pennsylvania	2.1	1.9	2.0	1.5
Great Lakes	**1.8**	**1.4**	**0.9**	**0.7**
Illinois	1.5	1.3	0.4	0.9
Indiana	1.4	1.3	0.6	(0.0)
Michigan	2.3	1.9	1.8	0.9
Ohio	1.7	1.2	0.9	0.6
Wisconsin	2.1	1.6	1.3	1.1
Plains	**1.6**	**1.3**	**1.0**	**1.1**
Iowa	0.3	0.5	0.6	0.8
Kansas	2.2	1.2	1.2	1.8
Minnesota	2.4	2.0	1.5	1.2
Missouri	1.2	1.0	0.7	0.7
Nebraska	2.2	1.7	1.3	1.3
North Dakota	1.2	0.9	0.3	1.1
South Dakota	2.0	1.1	0.7	1.3
Southeast	**2.5**	**2.4**	**2.2**	**2.1**
Alabama	0.9	0.5	0.6	0.6
Arkansas	1.9	1.5	1.4	1.0
Florida	3.7	3.9	3.7	3.5
Georgia	2.6	2.8	2.4	2.1
Kentucky	1.4	1.3	1.1	1.0
Louisiana	2.2	2.0	2.0	2.0
Mississippi	0.5	(0.1)	(0.2)	(0.6)
North Carolina	2.3	2.0	2.0	2.1
South Carolina	2.6	2.9	2.2	1.8
Tennessee	2.0	1.8	1.6	1.2
Virginia	3.0	2.9	2.4	2.5
West Virginia	1.7	1.0	1.2	1.1
Southwest	**3.2**	**3.1**	**3.0**	**2.7**
Arizona	4.0	3.9	3.4	2.8
New Mexico	2.0	2.0	1.9	1.7
Oklahoma	1.9	1.9	1.4	1.6
Texas	3.3	3.2	3.2	2.9
Rocky Mountain	**3.4**	**3.4**	**3.6**	**3.2**
Colorado	3.8	4.1	4.3	4.0
Idaho	4.3	3.7	3.8	2.7
Montana	2.2	2.2	2.4	2.1
Utah	2.6	2.8	2.8	2.4
Wyoming	2.8	2.2	2.4	2.4
Far West	**3.6**	**3.6**	**3.4**	**3.1**
Alaska	2.4	2.5	2.4	2.0
California	3.9	3.9	3.8	3.4
Hawaii	3.3	3.3	3.0	2.9
Nevada	4.4	4.7	4.6	5.0
Oregon	2.3	1.7	1.3	1.2
Washington	3.0	2.5	2.3	2.0

One problem with assessing state economies in a report such as this one is a general lack of timely state-by-state indicators. Data on non-farm employment, tracked by the Bureau of Labor Statistics, is the only broad-based, timely, high-quality state-level economic indicator available. There are some problems inherent in using these data as an indicator of revenue growth. For one thing, most taxes are based upon nominal measures such as income, wages, and profits, rather than employment. Unfortunately, however, state-level data on these nominal measures — when they are available at all — usually are reported too late to be of much use in analyzing recent revenue collections. In addition, employment data can be subject to large, retroactive revisions. In the past several years, these revisions have generally been upward, but they could go the other way during an economic slowdown.

Table 7 shows year-over-year employment growth for each state and for the nation in the last four quarters. Figure 6 maps the first quarter 2001 employment growth in the states over the same period last year. According to the Bureau of Labor Statistics' national data, employment in the January-March quarter grew 1.2 percent over last year. This represents continued slowing over the last four quarters from 2.4 percent in April-June 2000. These numbers are subject to considerable revision; moreover, the March employment figures are preliminary. Despite these caveats, the numbers do seem to point to an underlying economic cause for some of the revenue weakness in the quarter. For years, employment growth has been most rapid in the western states; that trend continues this quarter. Even in the western states, however, employment growth has dropped slightly over the last year. Employment growth has been as high as 3.6 percent in the last year, but in January-March it was only 3.2 percent in the Rocky Mountains and 3.1 percent in the Far West. Meanwhile, in the Great Lakes states, which have been experiencing rather sluggish job growth, the drop has been steeper — to 0.7 percent in the latest quarter from 1.8 percent three quarters before.

Figure 6
Change in Non-Farm Employment
January to March 2000-2001



Only four states — California, Colorado, Florida, and Nevada — saw growth of three percent or more. That is half as many as in the previous quarter. Mississippi had an employment decline for the third quarter in a row, while nine states had growth of less than one percent.[12]

A large and growing gap has appeared between the national employment data and the states' employment data. The sum of the states' growth in the last quarter was two percent, 0.8 percent higher than national growth. These numbers should be nearly equal, so it is likely that one set of data is going to need revision. If state-by-state employment data are revised, then the states' employment growth may be even weaker than present reports indicate.

Nature of the Tax System

Even if the economy were growing at an even pace across all regions and sectors, states' tax systems do not all react to similar economic situations in the same way. States that rely heavily on the personal income tax tend to have larger revenue increases during periods of economic growth. The more progressive the tax structure is, the faster tax revenue grows relative to income, especially if the state's tax brackets are not indexed to offset the effects of inflation. States that rely mostly on sales taxes do not see this same elastic revenue growth, and those few that rely almost exclusively on corporate income or severance taxes often see wild swings in revenue. (Severance taxes are taxes on the removal of natural resources, such as oil and lumber.)

These patterns have played out particularly strongly over the course of the past few years. Most states with personal income taxes have had extremely strong growth, partly because the incomes of upper-income (and thus upper-bracket) taxpayers have been growing at a much more rapid pace than those of middle-income taxpayers. Because their incomes are based more heavily upon volatile sources, such as stock options and capital gains, growth in personal income tax revenues has also been far more subject to wild swings than it would otherwise be. A market downturn that affects relatively few wage earners could turn gains into losses for investors, thus sharply contracting a hitherto rich source of revenue almost overnight; this is why many revenue estimators had been looking to April with some trepidation.

States are also learning about how sales tax revenues respond to an economic slowdown. States that have removed more stable elements of consumption from their base, such as groceries and clothing, as well as those that do not capture spending on services well in their base, are more subject to plunges in sales tax revenues as state residents become nervous about spending on optional and big-ticket items.

Finally, the recent high oil prices have been a revenue boon for many oil-producing states, such as Alaska, Texas, and New Mexico. On the other hand, the higher costs of energy and transportation have been a drag on the economies of other states, and an extra expense for state governments

Tax Law Changes Affecting This Quarter

The final element that affects trends in tax revenue growth is legislated tax changes. When states boost or depress their revenue growth with tax increases or cuts, it is difficult to draw any conclusions about their current fiscal condition. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when some large change in the manner of processing receipts has had a major impact on revenue growth, even though these are not due to legislation, as it helps the reader to know that the number is not necessarily indicative of underlying trends.

Almost $1.4 billion in net tax cuts reduced revenue growth in the January-March quarter. Without these cuts tax revenue growth would have been 6.3 percent for the quarter, instead of 5.1 percent.

About one-half of these cuts — $675 million — were to the personal income tax. Four states — Illinois, Michigan, Minnesota, and Wisconsin — had cuts of more than $50 million each. Only Louisiana had a personal income tax increase affecting this quarter.

The other half of the tax cuts were spread over many states and kinds of taxes. Other states with large net tax cuts this quarter include Florida with a big cut in its tax on intangible personal property, New York with cuts in the sales tax on clothing, its estate tax, and various business taxes, and Pennsylvania with a cut in its capital stock and franchise tax.

Early 2001 Tax Law Changes

The recent slowing of economic and revenue growth has caused many states to exercise more caution in making tax cuts. In fact, a number of states have had to trim spending in the current and/or forthcoming fiscal years.[13] However, few states have enacted, or are even considering, sizable tax increases at this point. Moreover, some states that still have healthy revenue streams and better outlooks are enacting or considering tax cuts. While the budget season is still not over, it is still possible that 2001 will see net tax cuts in the states, even if much reduced in size from those enacted in recent years. This would be the eighth year of net tax cuts.

Table 8 shows states that have enacted, or are in the process of enacting, tax cuts. Minnesota is on the verge of enacting a sales tax rebate of $856M, last year the state issued a rebate of $635M, so the net change in taxpayer liability will be only $221M. Minnesota's property tax cut will reduce the payment of local taxes, but will appear as increased spending in the state's budget. Other states — Massachusetts, New York, New Jersey, Oregon, Pennsylvania, Rhode Island, and Utah — are also seriously considering tax cuts. South Carolina may reduce its sales tax on food, even though the state already faces considerable spending reductions necessitated by declining revenue growth. Colorado will once again provide a sales tax rebate tied to the surplus above its spending cap, although the size has not yet been determined; the state may enact other cuts as well. In Virginia, Governor Gilmore (R) managed to find money to increase the reduction in the personal property tax on automobiles to 70 percent. Next year the state is set to phase out the tax completely. Governor Johnson

Table 8
Tax Cuts In 2001

State	*Amount*	*Type*
Connecticut	$111 Million $6 Million	Hospital Service Sales Tax Clothing Sales Tax Holiday
Florida	$150 Million $26 Million	Intangible Tax Clothing Sales Tax Holiday
Georgia	$166 Million	Expanded Homestead Exemption
Iowa	$103 Million*	Utility Sales Tax Phase Out
Idaho	$58 Million	PIT Rate Cut
Minnesota	$856 Million $800 Million	Sales Tax Rebate Property Tax
Oklahoma	$24 Million $22 Million	PIT Rate Earned Income Tax Credit

All amounts are FY 2002 effects, except where noted.
* Full phased in effect.

Table 9
Tax Increases In 2001

State	*Amount*	*Type of Tax*	*Purpose*
Arkansas	$40 Million	Nursing Home Bed Tax	Medicaid matching fund
Indiana	$280 Million*	Suspension of Property Tax Credit	Not specified
Louisiana	$54 Million	Dockside Gambling Tax	Education
West Virginia	$123 Million	Video Poker Tax	Not specified

All amounts are for FY 2002 except as noted.
* FY 2002-2003 biennial effect.

(R) of New Mexico vetoed a personal income tax cut that was smaller than he wanted. Governor Davis (D) of California pulled back some previously proposed tax cuts when revenue projections for fiscal 2002 turned downward.

Table 9 lists the states that have already enacted tax increases in 2001. The states have not as yet made any significant increases in major taxes such as the personal income or sales tax, and the increases that have been enacted or proposed are often tied to specific spending programs, such as Medicaid or education. This is also true of the other states that are still considering tax increases. Maine and Vermont are considering tobacco tax increases, dedicating the revenues to health care. Governor Holden (D) of Missouri proposed sales and gas tax increases to pay for a transportation infrastructure improvement plan. New Hampshire will enact a tax increase to fund education. Tennessee will likely pass some kind of tax increase to put an end to its chronic budget deficits, although the size and scope of the increase is still up in the air. In Washington State, various tax increases have been proposed to pay for a transportation improvement plan. Meanwhile, North Carolina is looking to eliminate "loopholes" in order to raise revenue to help close its budget gap.

Many states have not yet concluded the budget process, so further developments in tax cutting in the states that can afford it are possible, as are tax increases in the states that are experiencing revenue problems. At this point it is difficult to predict whether aggregate tax cuts will exceed tax increases, but if so it will be by a much smaller margin than in the last several years.

Conclusions

The first quarter of 2001 was the second quarter in a row of weaker state tax revenue growth. Despite the general weakening, the personal income tax had fairly solid growth, with strong growth in estimated tax payments for this quarter. Growth in the sales tax, however, continued to slump, while corporate income tax revenues actually declined. The slowdown shows marked regional variation, with some areas being affected negatively, while others continue to see rapid growth. The good news is that the slowdown has not worsened, and final payments of personal income taxes seem to be solid. The bad news is that the general slowing may be spreading, and estimated payments and withholding for 2001 are not growing nearly as quickly as before. While some states have been able to enact tax cuts or are still considering them, other states have had to slow spending growth or even cut it. A few are even enacting or considering tax increases. States will have to monitor the slowing economy and revenues carefully to avoid serious trouble in the coming year.

Endnotes

1 California, Colorado, Connecticut, Massachusetts, Missouri, Montana, New Jersey, New Mexico, New York, Oregon, Rhode Island, South Carolina, Vermont, Virginia, and West Virginia.

2 The following states had large personal income tax cuts affecting withholding: Colorado, Delaware, Illinois, Michigan, Minnesota, and Wisconsin.

3 We included estimated payments for February in Table 6 because Georgia had a processing delay

Table 10
Change in Tax Revenue, July-March, FY 2000 to FY 2001

	PIT	*CIT*	*Sales*	*Total*
United States	**8.4%**	**(3.7)%**	**4.0%**	**5.4%**
New England	**11.5**	**(4.9)**	**5.4**	**6.9**
Connecticut	14.7	17.5	4.5	6.8
Maine	7.2	(42.2)	(4.1)	(1.9)
Massachusetts	10.5	(9.6)	6.8	7.7
New Hampshire	NA	22.4	NA	6.7
Rhode Island	13.6	15.0	13.8	12.2
Vermont	14.4	(1.9)	1.3	6.0
Mid Atlantic	**12.2**	**(6.6)**	**3.7**	**6.4**
Delaware	(0.4)	(28.3)	NA	1.4
Maryland	9.2	33.8	8.0	8.7
New Jersey	16.0	(2.5)	5.2	8.7
New York	13.5	(9.6)	2.1	7.2
Pennsylvania	7.1	(9.8)	3.2	2.5
Great Lakes	**(1.2)**	**(11.3)**	**0.8**	**(1.3)**
Illinois	4.5	(16.6)	(0.6)	1.1
Indiana	(0.8)	(11.3)	1.1	0.4
Michigan	(5.8)	(4.7)	1.5	(1.7)
Ohio	2.8	(20.1)	0.2	(0.1)
Wisconsin	(8.8)	(12.0)	2.4	(6.2)
Plains	**6.3**	**(6.0)**	**1.8**	**4.1**
Iowa	2.8	(10.7)	0.6	0.5
Kansas	8.1	(11.9)	0.0	3.5
Minnesota	5.5	(5.0)	2.8	5.4
Missouri	8.8	(9.6)	1.5	ND
Nebraska	6.6	8.1	1.5	4.1
North Dakota	5.0	11.8	0.7	5.6
South Dakota	NA	NA	5.9	6.2
Southeast	**4.1**	**(12.9)**	**3.6**	**2.9**
Alabama	(0.6)	(25.6)	(0.7)	(2.6)
Arkansas	5.2	2.0	2.5	3.4
Florida	NA	(1.1)	2.3	2.4
Georgia	7.7	0.1	7.8	6.8
Kentucky	4.0	(4.8)	2.2	2.9
Louisiana	2.8	124.0	15.8	9.7
Mississippi	2.8	1.9	1.0	2.2
North Carolina	0.7	(44.6)	3.9	(0.6)
South Carolina	4.6	7.8	2.9	2.9
Tennessee	NA	(11.9)	1.6	1.0
Virginia	6.0	(31.6)	3.8	4.1
West Virginia	5.5	(7.9)	2.1	4.3
Southwest	**5.6**	**17.4**	**5.7**	**7.8**
Arizona	(1.2)	20.2	6.4	3.7
New Mexico	20.5	55.1	10.1	21.3
Oklahoma	7.9	(20.4)	4.5	8.8
Texas	NA	NA	5.4	7.3
Rocky Mountain	**8.8**	**9.7**	**5.6**	**7.4**
Colorado	10.3	(0.5)	6.2	8.8
Idaho	9.2	45.0	3.9	8.9
Montana	11.1	(6.3)	NA	5.4
Utah	4.5	11.6	5.3	5.4
Wyoming	NA	NA	9.4	3.9
Far West	**15.7**	**12.2**	**6.8**	**11.3**
Alaska	NA	183.2	NA	30.6
California	16.2	9.0	8.0	12.6
Hawaii	4.4	0.0	7.9	7.1
Nevada	NA	NA	5.2	2.6
Oregon	14.0	13.3	NA	13.3
Washington	NA	NA	3.0	4.5

Table 11
State Tax Revenue, January to March 2000 and 2001 (In Millions of Dollars)

	2000				*2001*			
	Personal Income	*Corporate Income*	*Sales*	*Total*	*Personal Income*	*Corporate Income*	*Sales*	*Total*
United States	**$47,396**	**$7,456**	**$41,921**	**$113,487**	**$51,494**	**$6,779**	**$43,307**	**$119,219**
New England	**3,456**	**645**	**2,029**	**7,441**	**3,999**	**591**	**2,139**	**8,080**
Connecticut	796	129	764	2,066	1,010	134	785	2,296
Maine	224	28	192	526	243	17	177	515
Massachusetts	2,179	397	873	3,934	2,427	362	956	4,282
New Hampshire	NA	50	NA	271	NA	44	NA	260
Rhode Island	166	31	153	445	201	28	170	501
Vermont	91	11	47	199	118	7	51	227
Mid Atlantic	**11,905**	**1,637**	**5,729**	**23,272**	**13,810**	**1,470**	**5,896**	**25,207**
Delaware	151	18	NA	433	162	11	NA	479
Maryland	1,183	109	619	1,997	1,298	141	666	2,189
New Jersey	1,812	107	1,343	3,984	2,149	146	1,404	4,473
New York	6,980	1,042	2,052	11,327	8,297	833	2,060	12,385
Pennsylvania	1,779	360	1,716	5,532	1,905	339	1,766	5,681
Great Lakes	**7,955**	**1,960**	**6,475**	**19,490**	**7,363**	**1,499**	**6,529**	**18,488**
Illinois	2,155	556	1,444	4,871	2,227	320	1,448	4,766
Indiana	907	109	945	2,601	859	76	979	2,566
Michigan	1,636	534	1,775	5,118	1,429	479	1,767	4,852
Ohio	1,740	567	1,456	4,202	1,681	475	1,417	3,973
Wisconsin	1,518	193	855	2,698	1,167	149	918	2,332
Plains	**4,013**	**427**	**2,859**	**6,158**	**4,233**	**372**	**2,927**	**6,316**
Iowa	630	62	403	1,203	638	58	405	1,218
Kansas	395	14	410	872	407	18	411	908
Minnesota	1,661	235	1,027	3,153	1,689	195	1,041	3,217
Missouri	1,026	59	603	ND	1,168	45	637	ND
Nebraska	259	39	227	564	268	37	241	587
North Dakota	60	18	86	216	64	21	83	229
South Dakota	NA	NA	104	150	NA	NA	110	156
Southeast	**7,729**	**1,166**	**10,524**	**23,495**	**7,967**	**1,033**	**10,931**	**24,143**
Alabama	580	48	431	1,566	588	34	421	1,462
Arkansas	435	51	410	959	459	53	428	999
Florida	NA	278	3,589	4,798	NA	271	3,623	4,841
Georgia	1,645	93	1,172	3,164	1,714	118	1,289	3,408
Kentucky	574	32	639	1,560	593	28	653	1,604
Louisiana	356	12	529	1,238	381	13	661	1,394
Mississippi	311	112	568	1,303	311	120	577	1,325
North Carolina	1,770	288	786	3,093	1,547	151	831	2,915
South Carolina	352	45	474	1,029	399	53	486	1,107
Tennessee	NA	134	1,150	1,859	NA	142	1,154	1,820
Virginia	1,495	52	542	2,294	1,732	34	574	2,582
West Virginia	212	22	235	631	244	17	235	686
Southwest	**1,056**	**158**	**5,523**	**9,687**	**1,051**	**173**	**5,757**	**10,477**
Arizona	490	52	720	1,342	382	44	752	1,256
New Mexico	150	54	296	616	218	80	337	809
Oklahoma	416	52	355	1,025	451	49	362	1,141
Texas	NA	NA	4,153	6,704	NA	NA	4,307	7,272
Rocky Mountain	**1,447**	**95**	**1,049**	**3,132**	**1,547**	**102**	**1,115**	**3,301**
Colorado	793	40	466	1,342	873	34	497	1,447
Idaho	217	18	178	546	214	20	182	554
Montana	111	10	NA	270	129	19	NA	285
Utah	326	28	346	805	332	29	363	844
Wyoming	NA	NA	59	169	NA	NA	74	172
Far West	**9,818**	**1,368**	**7,732**	**20,812**	**11,524**	**1,539**	**8,014**	**23,207**
Alaska	NA	15	NA	288	NA	16	NA	234
California	8,613	1,298	5,415	15,912	10,195	1,451	5,605	18,069
Hawaii	247	17	422	766	266	18	437	825
Nevada	NA	NA	469	635	NA	NA	492	633
Oregon	958	38	NA	1,029	1,063	55	NA	1,149
Washington	NA	NA	1,426	2,182	NA	NA	1,480	2,297

Table 12
State Tax Revenue, July to March Fiscal Years 2000 and 2001 (In Millions of Dollars)

	2000				2001			
	Personal Income	*Corporate Income*	*Sales*	*Total*	*Personal Income*	*Corporate Income*	*Sales*	*Total*
United States	**$130,746**	**$21,005**	**$122,985**	**$320,477**	**$141,760**	**$20,237**	**$127,930**	**$337,688**
New England	**9,817**	**1,265**	**5,800**	**20,420**	**10,949**	**1,204**	**6,111**	**21,838**
Connecticut	2,205	185	1,976	5,358	2,530	217	2,065	5,725
Maine	661	106	575	1,567	709	61	552	1,538
Massachusetts	6,121	808	2,623	10,944	6,766	731	2,802	11,792
New Hampshire	NA	106	NA	730	NA	130	NA	779
Rhode Island	547	34	467	1,222	622	39	532	1,371
Vermont	282	26	159	599	322	26	161	635
Mid Atlantic	**29,549**	**4,913**	**16,645**	**60,725**	**33,155**	**4,591**	**17,261**	**64,593**
Delaware	521	54	NA	1,197	518	39	NA	1,214
Maryland	2,842	246	1,613	5,124	3,104	333	1.743	5.568
New Jersey	4,340	753	3,593	10,452	5,035	734	3,780	11,366
New York	17,177	2,715	6,221	29,968	19,495	2,455	6,354	32,116
Pennsylvania	4,669	1,143	5,219	13,985	5,003	1,031	5,385	14,329
Great Lakes	**21,862**	**4,254**	**19,561**	**54,384**	**21,599**	**3,772**	**19,710**	**53,832**
Illinois	5,570	1,014	4,510	13,191	5,821	846	4,485	13,335
Indiana	2,554	529	2,760	7,755	2,534	469	2,790	7,785
Michigan	5,138	1,638	5,612	15,552	4,840	1,561	5,694	15,280
Ohio	4,845	592	4,388	10,851	4,982	473	4,395	10,836
Wisconsin	3,755	481	2,291	7,036	3,423	423	2,346	6,596
Plains	**10,662**	**1,349**	**8,563**	**17,299**	**11,334**	**1,268**	**8,713**	**18,002**
Iowa	1,637	202	1,257	3,351	1,683	181	1,265	3,369
Kansas	1,165	132	1,236	2,727	1,260	117	1,236	2,824
Minnesota	4,186	614	3,019	8,521	4,416	583	3,104	8,981
Missouri	2,758	264	1,805	ND	3,002	238	1,832	ND
Nebraska	774	92	669	1,650	824	99	679	1,718
North Dakota	142	45	255	591	149	50	256	623
South Dakota	NA	NA	323	459	NA	NA	343	488
Southeast	**23,333**	**3,844**	**30,921**	**69,390**	**24,299**	**3,347**	**32,027**	**71,395**
Alabama	1,661	173	1,285	4,349	1,652	129	1,276	4,237
Arkansas	1,156	144	1,245	2,719	1,216	147	1,276	2,812
Florida	NA	824	10,114	13,430	NA	816	10,352	13,750
Georgia	4,651	460	3,559	9,459	5,009	460	3,837	10,106
Kentucky	1,844	182	1,933	4,747	1,917	173	1,975	4,885
Louisiana	1,048	54	1,557	3,681	1,078	121	1,803	4,037
Mississippi	853	241	1,708	3,726	876	246	1,725	3,808
North Carolina	5,063	852	2,474	9,149	5,098	472	2,571	9,091
South Carolina	1,741	148	1,270	3,594	1,821	160	1,306	3,699
Tennessee	NA	415	3,431	5,323	NA	366	3,485	5,377
Virginia	4,677	273	1,648	7,336	4,959	187	1,712	7,635
West Virginia	640	77	696	1,878	675	71	711	1,959
Southwest	**3,557**	**526**	**16,258**	**28,762**	**3,754**	**617**	**17,189**	**31,013**
Arizona	1,659	293	2,084	4,272	1,639	353	2,217	4,430
New Mexico	536	105	880	1,835	647	163	968	2,225
Oklahoma	1,361	127	1,038	3,134	1,469	101	1,085	3,411
Texas	NA	NA	12,257	19,521	NA	NA	12,919	20,946
Rocky Mountain	**4,461**	**389**	**3,120**	**9,289**	**4,854**	**427**	**3,296**	**9,978**
Colorado	2,419	170	1,390	4,103	2,669	169	1,476	4,462
Idaho	610	70	560	1,559	666	101	582	1,698
Montana	327	56	NA	671	363	52	NA	708
Utah	1,105	94	1,022	2,574	1,156	105	1,077	2,714
Wyoming	NA	NA	147	382	NA	NA	161	396
Far West	**27,506**	**4,465**	**22,118**	**60,208**	**31,816**	**5,011**	**23,622**	**67,036**
Alaska	NA	78	NA	681	NA	222	NA	889
California	23,956	4,150	15,193	45,226	27,845	4,525	16,402	50,909
Hawaii	786	32	1,142	2,185	820	32	1,232	2,340
Nevada	NA	NA	1,440	1,909	NA	NA	1,515	1,958
Oregon	2,764	205	NA	3,069	3,151	232	NA	3,479
Washington	NA	NA	4,342	7,139	NA	NA	4,473	7,462

Technical Notes

This report is based on information collected from state officials, most often in state revenue departments, but in some cases from state budget offices and legislative staff. This is the forty-third in a series of such reports published by the Rockefeller Institute's Fiscal Studies Program (formerly the Center for the Study of the States.)

In most states, revenue reported is for the general fund only, but in several states a broader measure of revenue is used. The most important category of excluded revenues in most states is motor fuel taxes. Taxes on health-care providers to fund Medicaid programs are excluded as well.

California: non-general fund revenue from a sales tax increase dedicated to local governments is included.

Michigan: The Single Business Tax, a type of value-added tax, is treated here as a corporation income tax.

Several caveats are important. First, tax collections during a period as brief as three months are subject to influences that may make their interpretation difficult. For example, a single payment from a large corporation can have a significant effect on corporate tax revenues.

Second, estimates of tax adjustments are imprecise. Typically the adjustments reflect tax legislation, however they occasionally reflect other atypical changes in revenue. Unfortunately, we cannot speak with every state in every quarter. We discuss tax legislation carefully with the states that have the largest changes, but for states with smaller changes we rely upon our analysis of published sources and upon our earlier conversations with estimators.

Third, revenue estimators cannot predict the quarter-by-quarter impact of certain legislated changes with any confidence. This is true of almost all corporate tax changes, which generally are reflected in highly volatile quarterly estimated tax payments; to a lesser extent it is true of personal income tax changes that are not implemented through withholding.

Finally, many other non-economic factors affect year-over-year tax revenue growth: changes in payment patterns, large refunds or audits, and administrative changes frequently have significant impacts on tax revenue. It is not possible for us to adjust for all of these factors.

This report contains first calendar quarter revenue data for 50 states, although Missouri only had data for its three major taxes, so no totals are included.

About The Nelson A. Rockefeller Institute of Government's Fiscal Studies Program

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others. Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues, is director of Fiscal Studies.

This report was written by Nicholas W. Jenny and Donald J. Boyd. Mr. Jenny is a policy analyst with the Program and Mr. Boyd is Deputy Director of the Rockefeller Institute. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design of this report, with assistance from Michele Charbonneau.

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that pushed many of the January payments made in 2000 into the February accounting period.

4 See Donald J. Boyd, "Fiscal Issues and Risks at the Start of a New Century," Nelson A. Rockefeller Institute of Government: www.rockinst.org.

5 Georgia, Louisiana, New Mexico, Rhode Island, and Wyoming.

6 Alabama, Maine, Michigan, Ohio, North Dakota, and West Virginia. Maine had a sales tax cut.

7 See *State Fiscal Brief No. 62* "State Budgetary Assumptions in 2001 — States Will Be Lowering Their Economic Forecasts," Nelson A. Rockefeller Institute of Government: www.rockinst.org.

8 Wyoming also has a sales tax and no personal income tax, but gets much of it revenue from severance taxes.

9 United States Department of Labor, Bureau of Labor Statistics, *The Employment Situation, May 2001.*

10 United States Department of Commerce, Bureau of Economic Analysis News Release, May 25, 2001.

11 United States Department of Labor, Bureau of Labor Statistics, *The Employment Situation, May 2001.*

12 Alabama, Connecticut, Illinois, Indiana, Iowa, Michigan, Mississippi, Missouri, and Ohio.

13 See *State Fiscal Brief No. 62*, for coverage of spending cuts in the states.

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