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State Tax Revenues at Record Low, Rockefeller Institute Finds

By [MICHAEL COOPER](#)

The anemic economy decimated state tax collections during the first three months of the year, according to a [report](#) released Friday by the Rockefeller Institute of Government. The drop in revenues was the steepest in the 46 years that quarterly data has been available.

The blow to state coffers, which the report said appeared to worsen in the second quarter of the year, reflects the gravity of the recession and suggests the extent to which many states will probably have to resort to more spending cuts or tax increases to balance their budgets.

Over all, the report found that state tax collections dropped 11.7 percent in the first three months of 2009, compared with the same period last year. After adjusting for inflation, new changes in tax rates and other anomalies, the report found that tax revenues had declined in 47 of the 50 states in the quarter.

All the major sources of state tax revenue — sales taxes, personal income taxes and corporate income taxes — took serious blows, the report found.

As more people lost their jobs, took pay cuts or worked fewer hours, personal income tax collections fell 17.5 percent in the quarter. Weak retail sales sent sales tax collections down 8.3 percent. Corporate income tax collections, which are often highly variable, declined 18.8 percent.

States in the Far West had the largest declines in tax revenue, the report found. Arizona reported the largest drop in personal income tax collections, at 56.1 percent. Alaska experienced the largest overall drop in tax collections, 72 percent in the first quarter, and that was attributed to the state's unusually high revenue collections in recent years because of high oil prices.

Local governments have fared better during the downturn. The report found that local tax collections rose 3.9 percent in the first quarter, largely because of increased property tax collections, which tend to be relatively stable and which are often based on assessments of value that do not keep pace with true market conditions.

As bad as the first quarter was, the second quarter is shaping up to be even worse, the report said. Preliminary data for the first two months of the quarter, April and May, collected from 45 states, indicated that tax revenues declined by 20 percent compared with the same period last year.

That will force states — many of which are already raising taxes or fees, resorting to layoffs or furloughing employees — to come up with more ways to raise or save money.

“The continuing sharp decline in revenues will likely force more unwanted choices for states in the months ahead,” wrote the report’s authors, Donald J. Boyd and Lucy Dadayan.

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