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Report: States' Tax Revenue Grew by Only 1.7% Last Year

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WASHINGTON - States' tax revenue rose by 1.7% in fiscal 2003, marking the second weakest year of tax revenue growth in more than a decade, according to an annual fiscal analysis released yesterday by the Nelson A. Rockefeller Institute of Government.

"States have had a lot of trouble with revenues, so it's going to take them a while to get out of this situation, the recession and its aftermath," said the report's author, **Nicholas W. Jenny**, senior policy analyst at the Albany, N.Y.-based think tank's fiscal studies program. The institute began tracking state revenues in 1991.

"Essentially [the data] just means this was the second bad year in a row," Jenny said in an interview yesterday. "But it was not quite as bad as the previous one, and things are starting to look up now."

Although the figures in the report paint a gloomy picture, the outlook for states has improved since fiscal 2003, which for most states ended June 30, Jenny said, giving as an example the strong growth in the gross domestic product.

The 1.7% increase in fiscal 2003 came after state tax revenues dipped by 5.7% in fiscal 2002, which is the only year in the past 11 when revenues fell. State tax revenues rose 4.7%, 8.7%, and 5.7%, in fiscal 2001, 2000, and 1999, respectively, the report said.

Comparing fiscal 2003 to fiscal 2002, the largest increase in tax revenue occurred in **Indiana**, where collections rose by 13.4%. Next was **Tennessee** at 12.8%, **New Jersey** at 9.1%, and **Oregon** at 9.0%, the report said. In the same period, the largest decrease in tax revenue took place in **New York** where collections fell by 6.7%. Next in the list of declining revenues was **Colorado** at 5.1%, **Oklahoma** at 4.0%, and **Louisiana** at 3.9%.

Meanwhile, a separate, newly released study of the nation's 8,019 state, county, and city jurisdictions that charge a sales tax indicated that state and local sales tax rates are at their highest average level in at least 20 years.

The combined average tax rate, which includes the average rates levied by states, counties, cities, and districts, rose to 8.534% in 2003 from 8.396% in 2002, the largest single-year increase since 1992, according to the study by **Vertex** Inc., a company based in Berwyn, Pa.

The firm describes itself as a provider of tax technology solutions "across every major line of business tax including income, sales, consumer use, value added, communications, payroll, and property." Vertex began tracking sales tax rate data in 1981 and said the latest combined rate compared with 8.276% in 2001.

"State and local jurisdictions that are grappling with budget deficits and a struggling economy are adding sales taxes or increasing their rates to recoup lost revenue," **Diana DiBello**, the firm's director of tax, said in a statement. She declined to elaborate on the report, saying through a spokeswoman that her firm gathers the sales tax data but does not interpret it.

In response to the Vertex report, the Rockefeller Institute's Jenny said there is "still more room for the sales tax rates to rise, but they can't go up indefinitely." The report also noted that in 1992 the combined average rate for sales taxes rose to 8.007%, up from 7.865% the year before. The combined average rate has risen almost every year since 1981 when it was 6.515%.

State and territorial sales tax rates peaked at an average of 5.326% last year, up from 5.217% in 2002. Back in 1981, the average rate was 4.101%. Last year four states - **Idaho**, New York, **Ohio**, and **Vermont** - increased their sales tax rate, the report noted. The average rate for counties rose to 1.6319% in 2003, up from 1.607% the year before. In 1981, the average county rate was 1.153%, according to the report.

The average sales tax rate for cities and taxing districts was 1.5757% in 2003, up from 1.572% the previous year. In 1981, the average rate was 1.261%, the report said.