

BUSINESS CYCLES & ARKANSAS INCOME REVENUES

(March 2022) The natural state of the U.S. economy is *expansion*, though *recessions* occur as a result of the business cycle. The economy is in the 13th expansion of the postwar era, according to the Cambridge-based National Bureau of Economic Research (NBER), the arbiter of the U.S. cycle.

In the post-war era, the U.S. economy expanded in 86% of total months. It contracted 14% of the time. The average expansion is five years and three months, with the longest determined to be 128 months (June 2009 to February 2020) and the shortest 12 months (July 1980 to July 1981). The average recession is 10 months, with the longest determined to be 18 months (December 2007 to June 2009) and the shortest only two months (February to April 2020), according to the NBER's business cycle chronology.

The business cycle is important because of its potential impact on Arkansas income revenues and government's ability to fund programs or cut tax rates.

Income Tax Collections & The Cycle

A state Bureau of Legislative Research report (September 2021) shows income tax collections by fiscal year, along with the percentage increase or decrease in revenues. The tax collection data starts with FY 1991-92 and ends with FY 2020-21, and is presented as a chart on the following page.

Per the NBER, four expansions occurred in the three-decade period. These were from March 1991 to March 2001, November 2001 to December 2007, June 2009 to February 2020, and the expansion that began in April 2020.

Three recessions occurred in the period. These were from March to November 2001, December 2007 to June 2009, and February to April 2020.

Income tax revenues increased in each expansion. They fell only five times in the 30-year period, with declines occurring around all three NBER recessions.

Fiscal Year	Income Tax Collections	Percentage Change
1991-92	\$1,111,117,653.92	6.4%
1992-93	\$1,217,484,027.72	9.6%
1993-94	\$1,321,978,701.93	8.6%
1994-95	\$1,427,501,832.24	8.0%
1995-96	\$1,566,173,806.02	9.7%
1996-97	\$1,677,325,468.95	7.1%
1997-98	\$1,860,669,438.84	10.9%
1998-99	\$1,936,936,567.98	4.1%
1999-2000	\$1,981,635,877.51	2.3%
2000-01	\$2,056,209,550.00	3.8%

2001-02	\$2,023,674,531.69	-1.6%
2002-03	\$2,070,010,529.54	2.3%
2003-04	\$2,223,305,959.11	7.4%
2004-05	\$2,480,721,389.25	11.6%
2005-06	\$2,754,342,938.21	11.0%
2006-07	\$2,952,866,398.00	7.2%
2007-08	\$3,142,818,081.59	6.4%
2008-09	\$3,113,894,157.55	-0.9%
2009-10	\$3,027,811,275.45	-2.8%
2010-11	\$3,162,898,004.45	4.5%
2011-12	\$3,358,689,675.50	6.2%
2012-13	\$3,607,450,578.31	7.4%
2013-14	\$3,555,440,212.35	-1.4%
2014-15	\$3,725,258,352.78	4.8%
2015-16	\$3,638,868,042.26	-2.3%
2016-17	\$3,653,966,159.64	0.4%
2017-18	\$3,769,318,820.89	3.2%
2018-19	\$4,176,624,553.16	10.8%
2019-20	\$3,906,569,963.87	-6.5%
2020-21	\$4,631,352,955.84	18.6%

The relationship between income tax revenues and the business cycle is a factor when enacting multi-year rate reductions that rely on revenue triggers.

-- Greg Kaza