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State Revenue Trends and Long-Term Fiscal Considerations

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Overview

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- § [Economic indicators before, during, and after the pandemic](#)
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Policy Decisions in Response to COVID-19

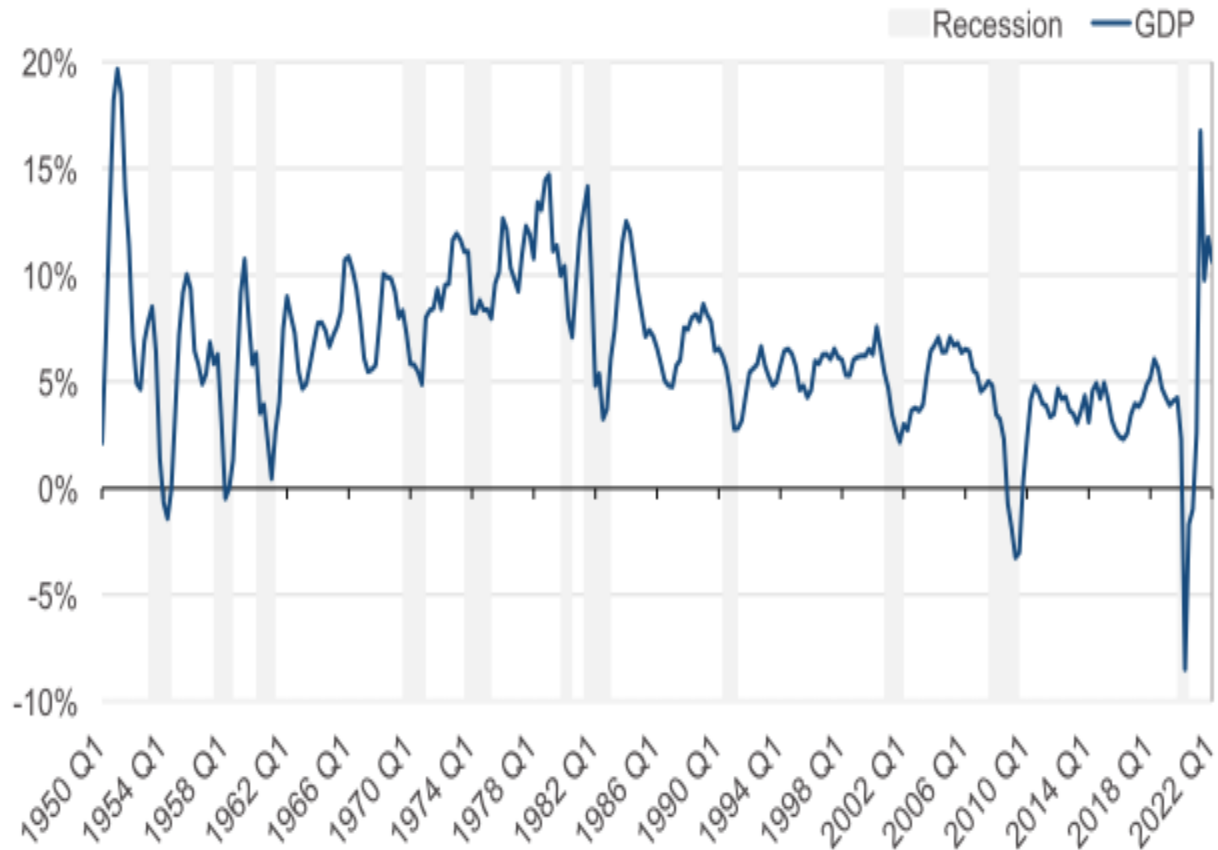
Both federal and state governments responded

- § The CARES Act provided around \$137 billion to state and local governments
- § The ARPA provides around \$350 billion to state, local and tribal governments
 - § \$195 billion to state governments
 - § \$155 billion to local & tribal governments
- § The Fed and all states with income tax extended income tax filing deadlines
 - § Tax year 2019: from April 15, 2020 to July 15, 2020
 - § Tax year 2020: from April 15, 2021 to May 17, 2021
- § Many states also extended filing and payment deadlines for sales taxes, others waived interests and penalties
- § 43 states mandated stay-at-home orders

Economic Indicators Before, During, and After the Pandemic

Steepest decline in GDP followed by strong rebound

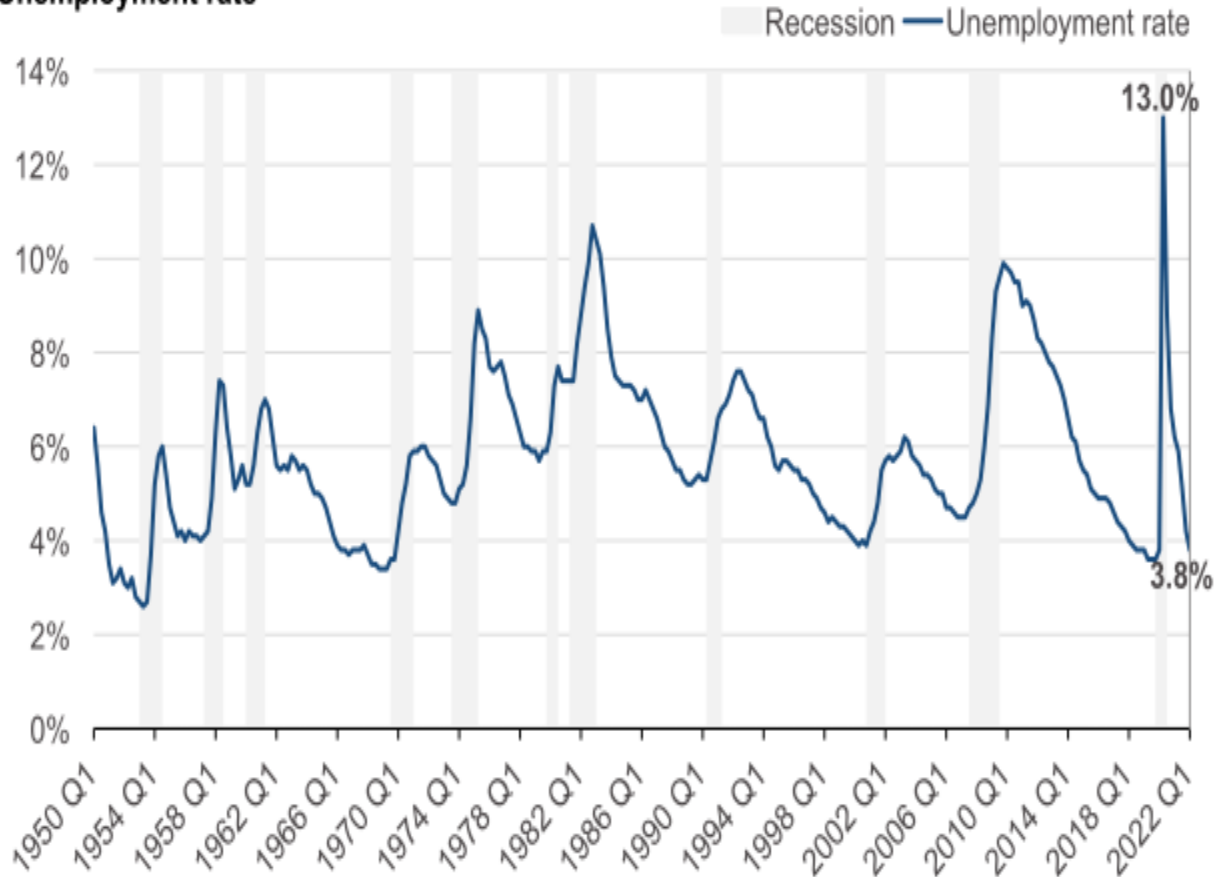
Year-over-year percent change (nominal)



Source: US Bureau of Economic Analysis, Table 1.1.5. Gross Domestic Product. Analysis by Lucy Dadayan.

Highest unemployment rate on record, but now back to pre-pandemic levels

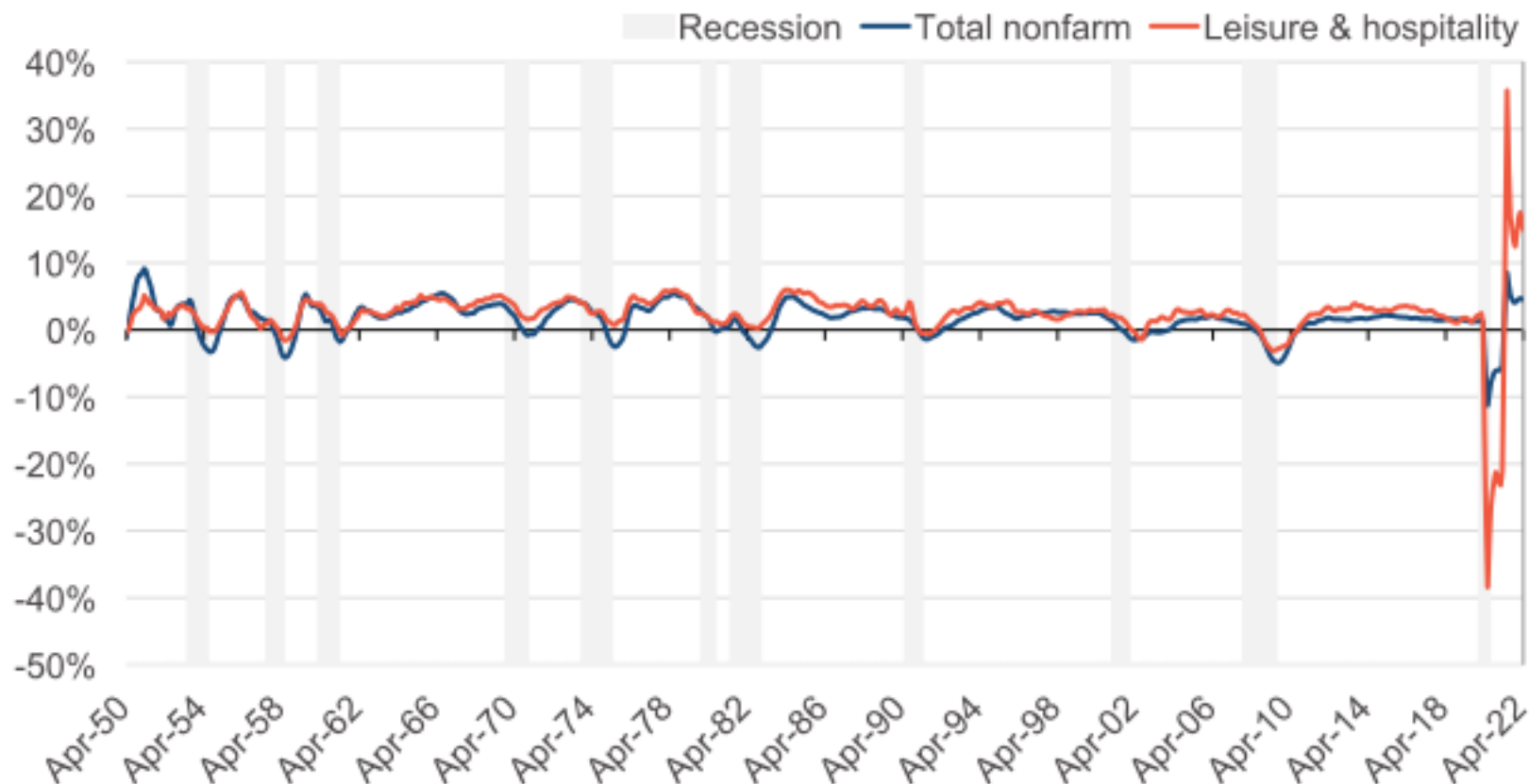
Unemployment rate



Source: US Bureau of Labor Statistics. Analysis by Lucy Dadayan.

Steepest declines in employment

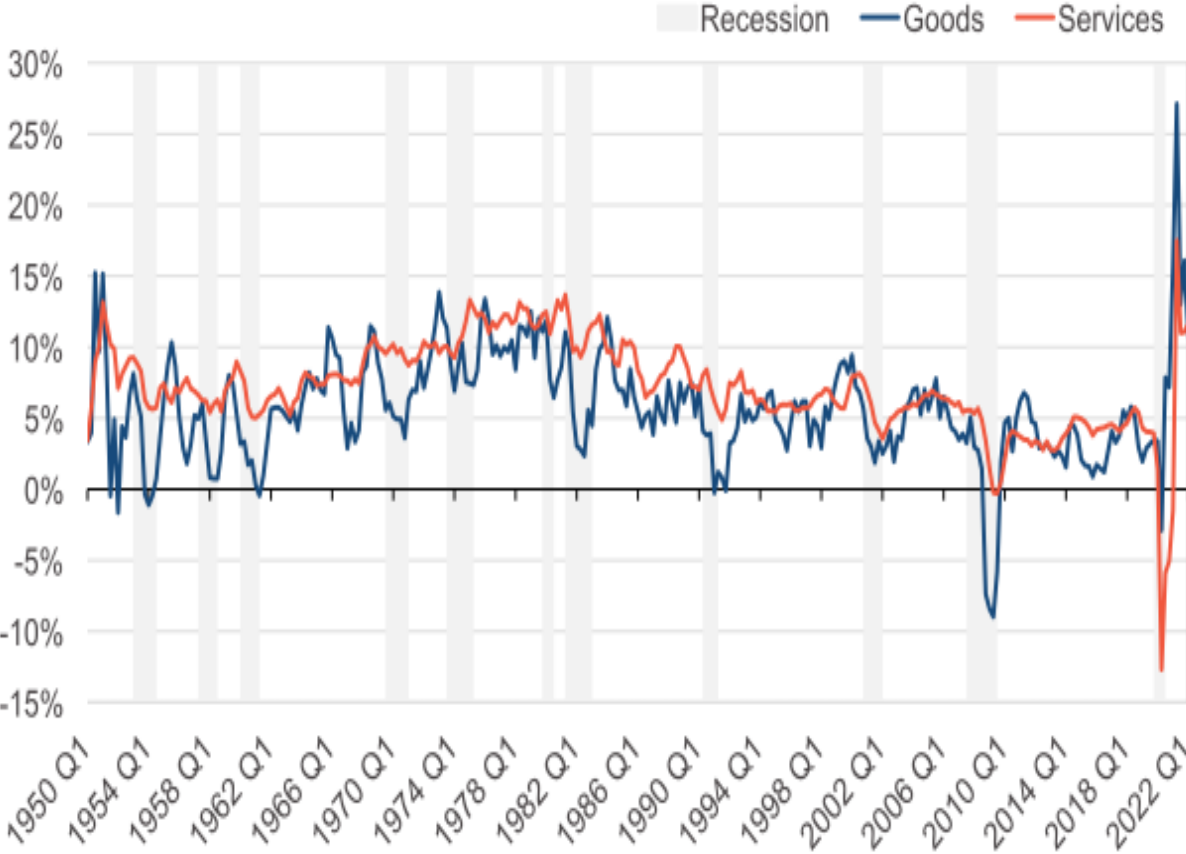
Year-over-year percent change, 3-month moving averages



Source: US Bureau of Labor Statistics. Analysis by Lucy Dadayan.

Steepest decline in spending on services

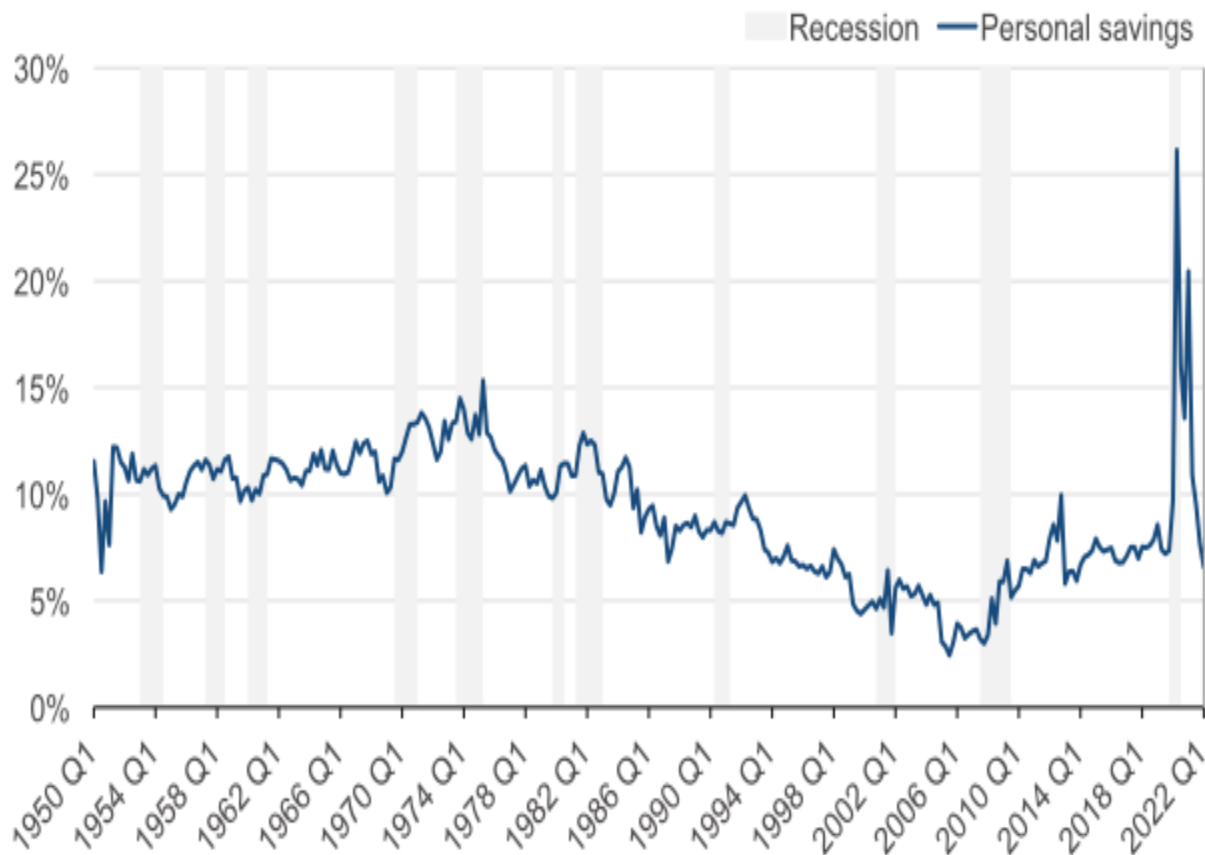
Year-over-year percent change (nominal)



Source: US Bureau of Economic Analysis, Table 1.1.5. Gross Domestic Product. Analysis by Lucy Dadayan.

Personal savings peaked during the pandemic, but are back to pre-pandemic levels

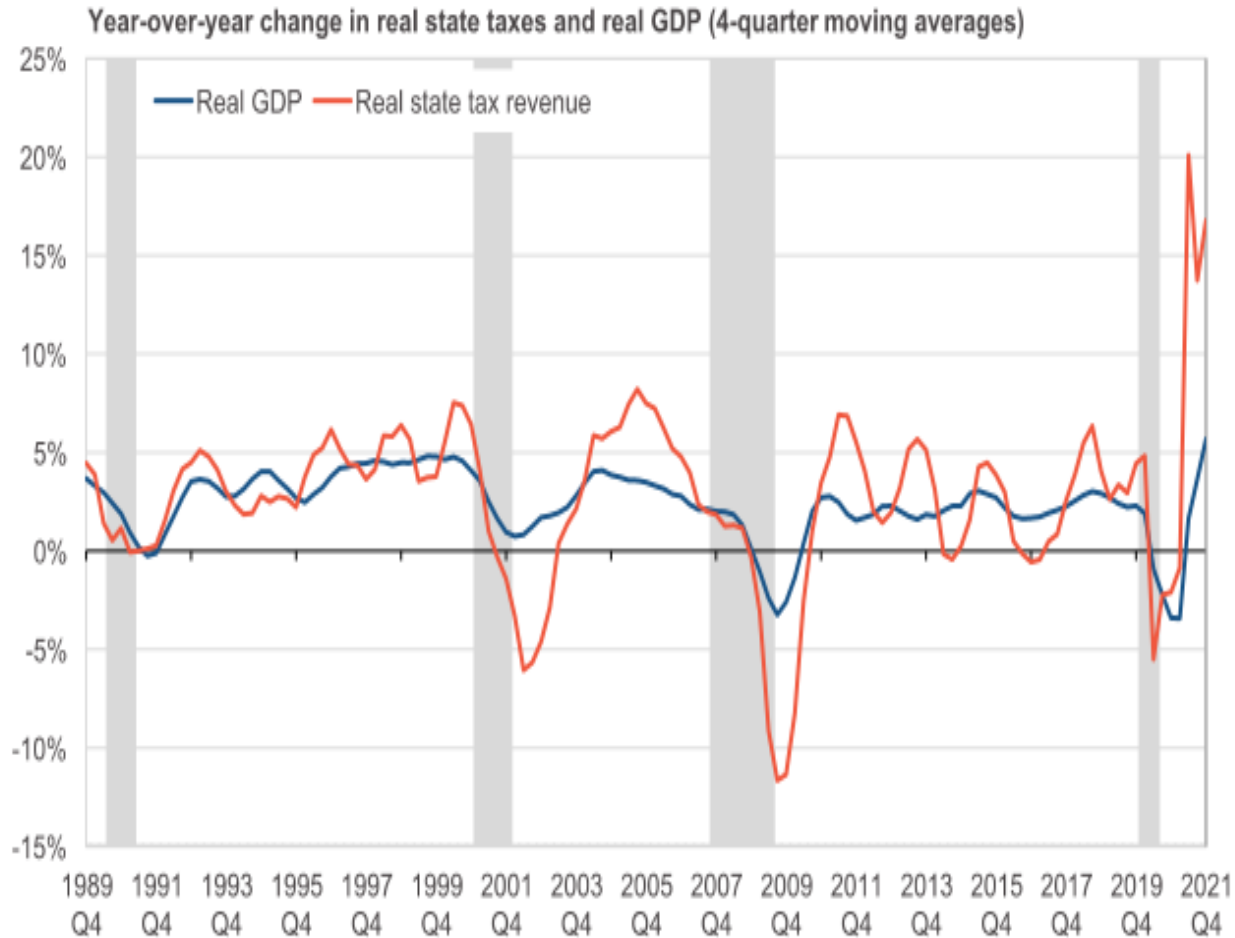
Personal savings as share of disposable personal income



Source: US Bureau of Labor Statistics. Analysis by Lucy Dadayan.

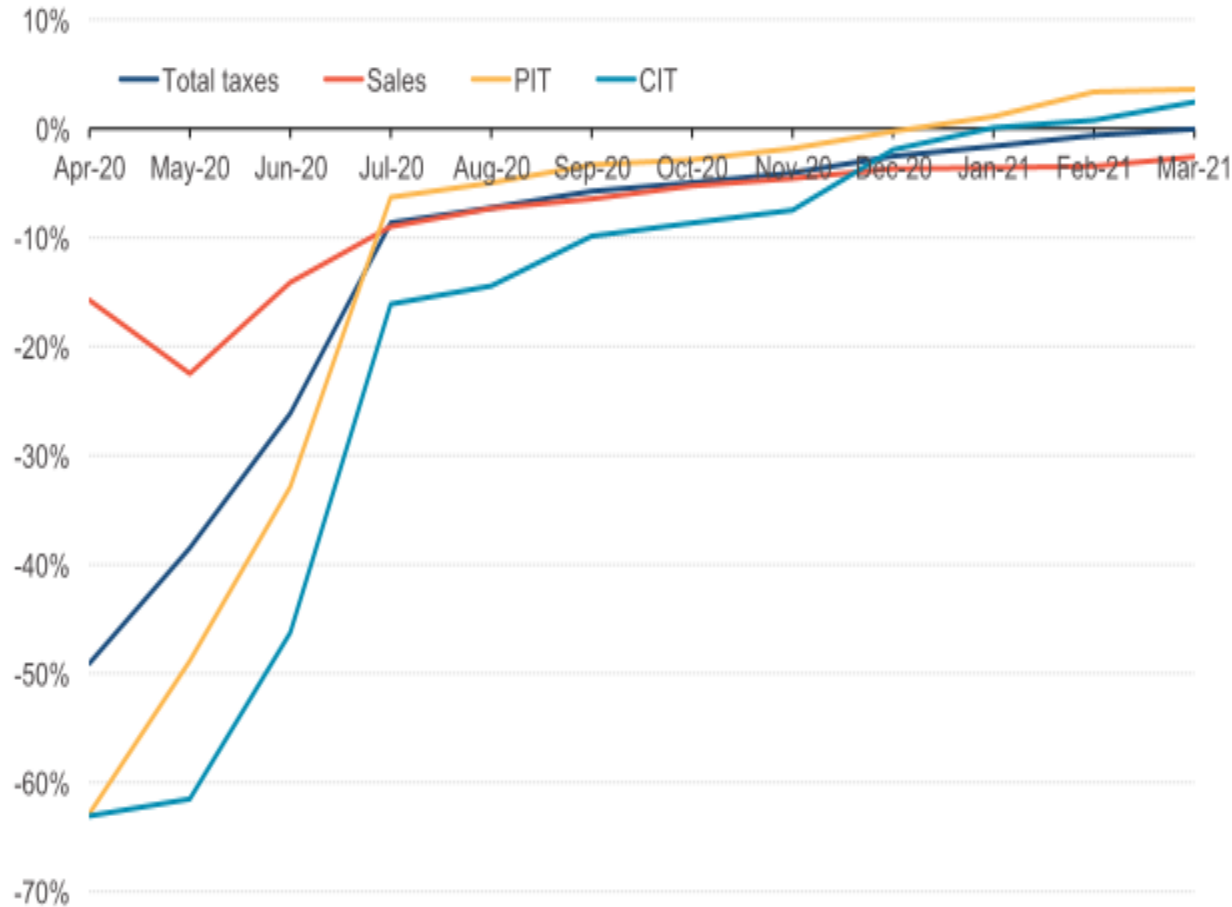
The COVID-19 Effect: Trends in Overall State Tax Revenue Collections

State revenues are more volatile than the economy



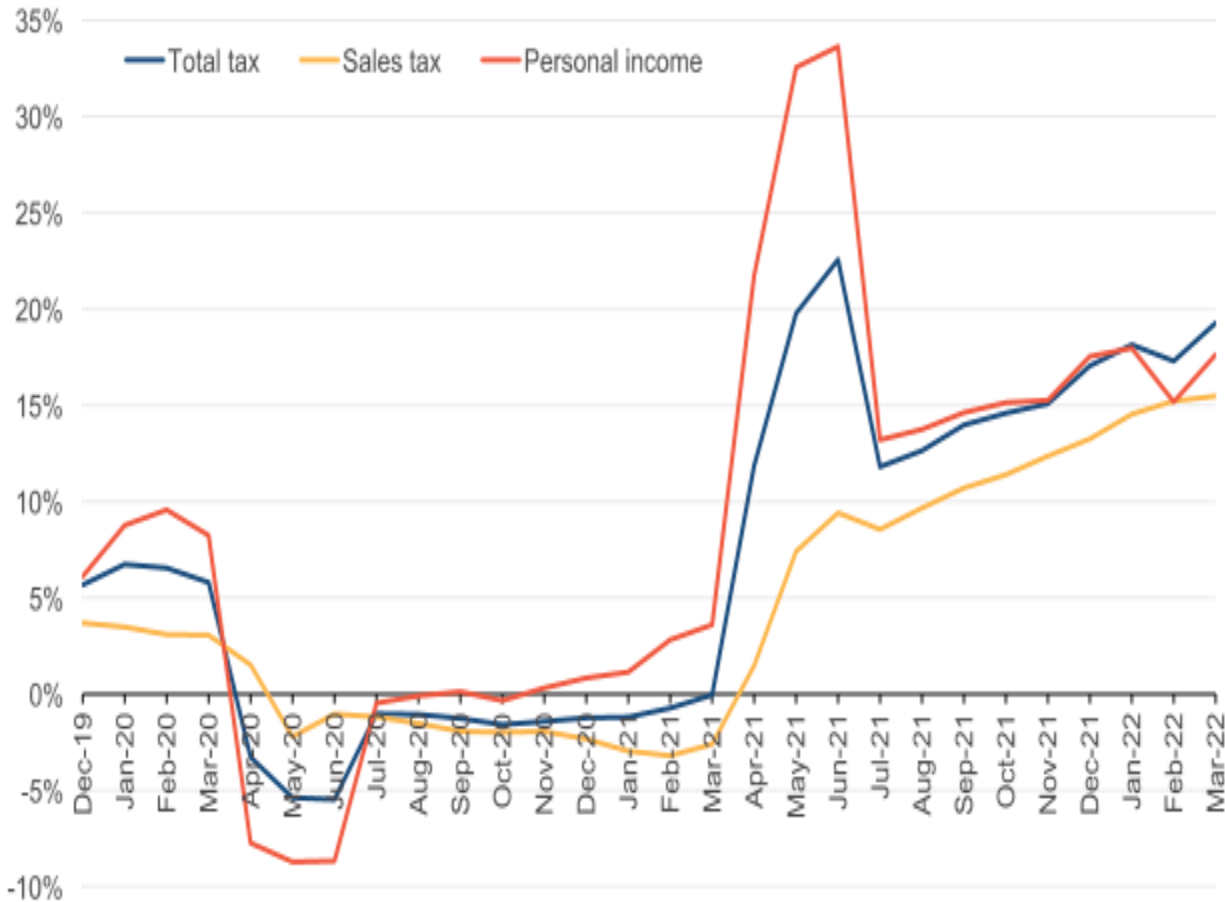
State revenues saw steep declines early in the pandemic

Year-over-year real percent change in cumulative state tax revenues



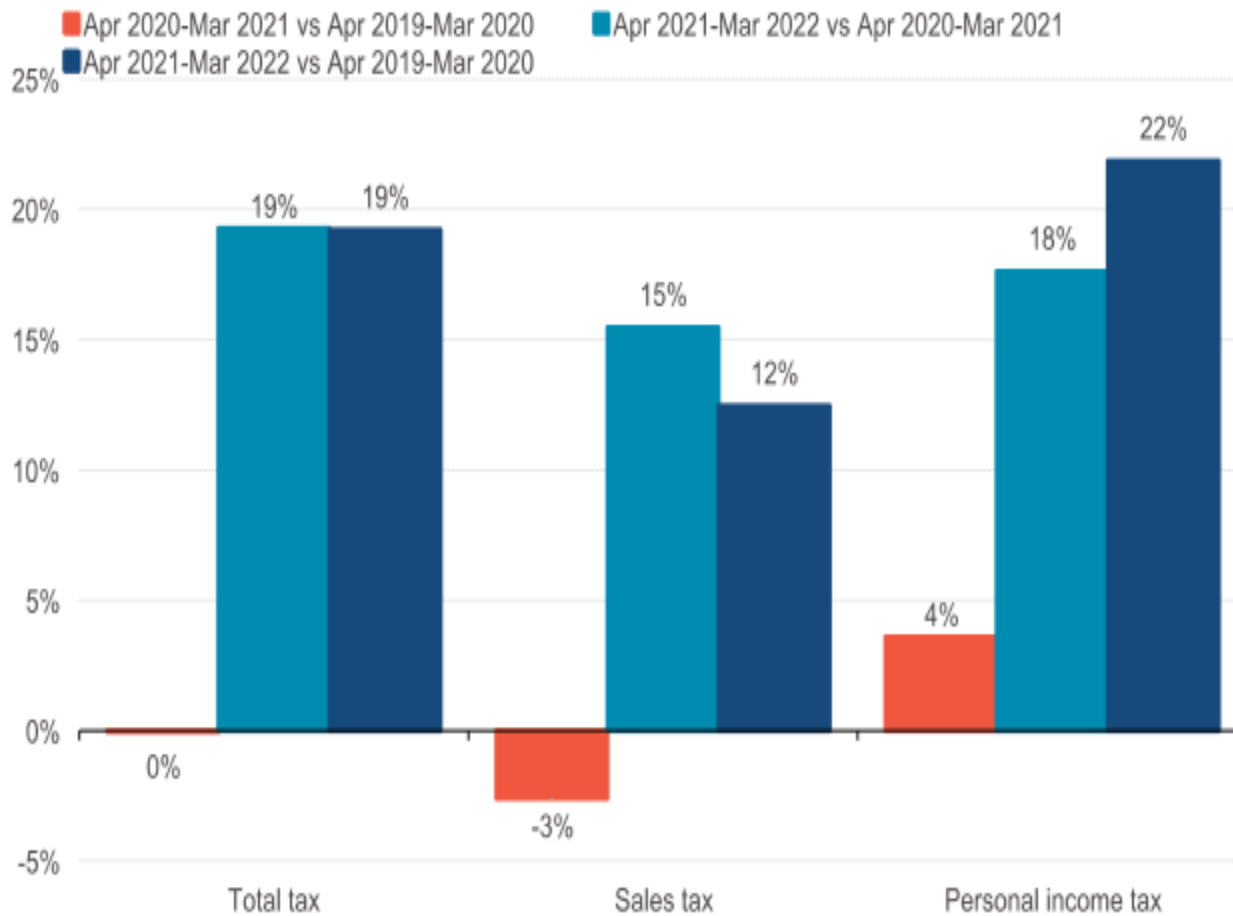
Trends in state tax revenues since the pandemic

Year-over-year percent change in inflation-adjusted state tax revenues, (12-month moving averages)



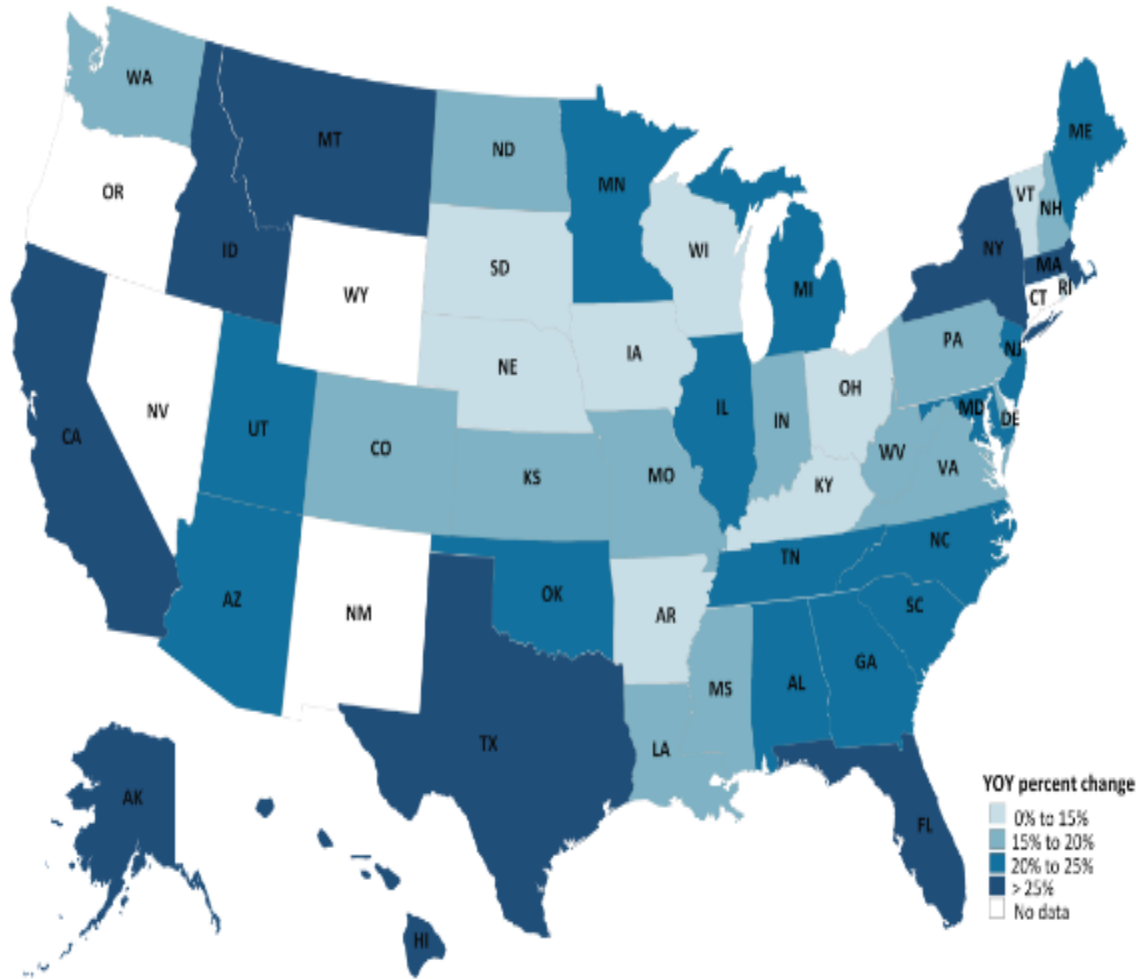
State revenues in the first & second years of the pandemic

Year-over-year real percent change



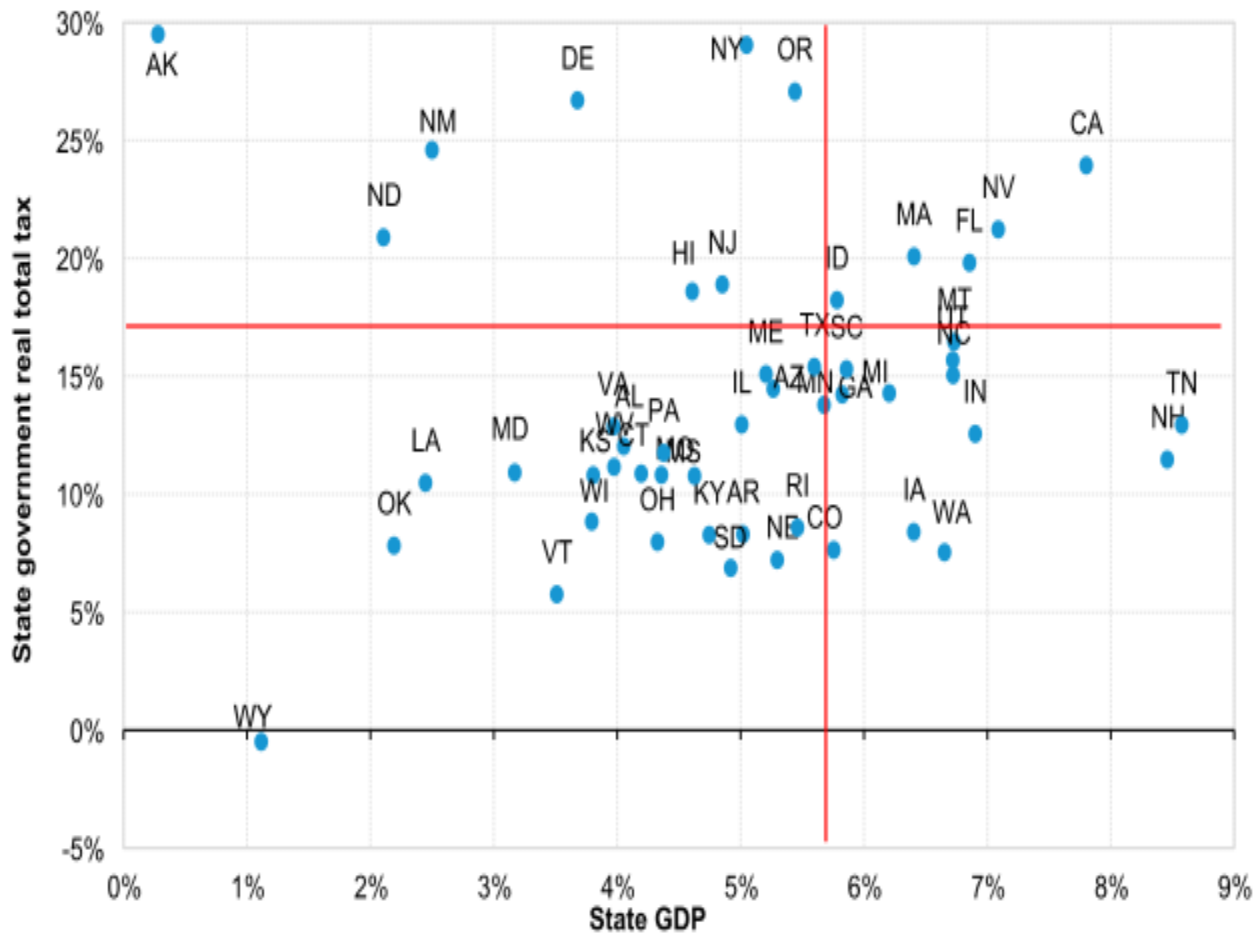
Current trends in total tax revenues: Large variation across states

April 2021-March 2022 vs April 2020-March 2021, inflation-adjusted percent change



Growth disparity: State tax revenues vs. state GDP

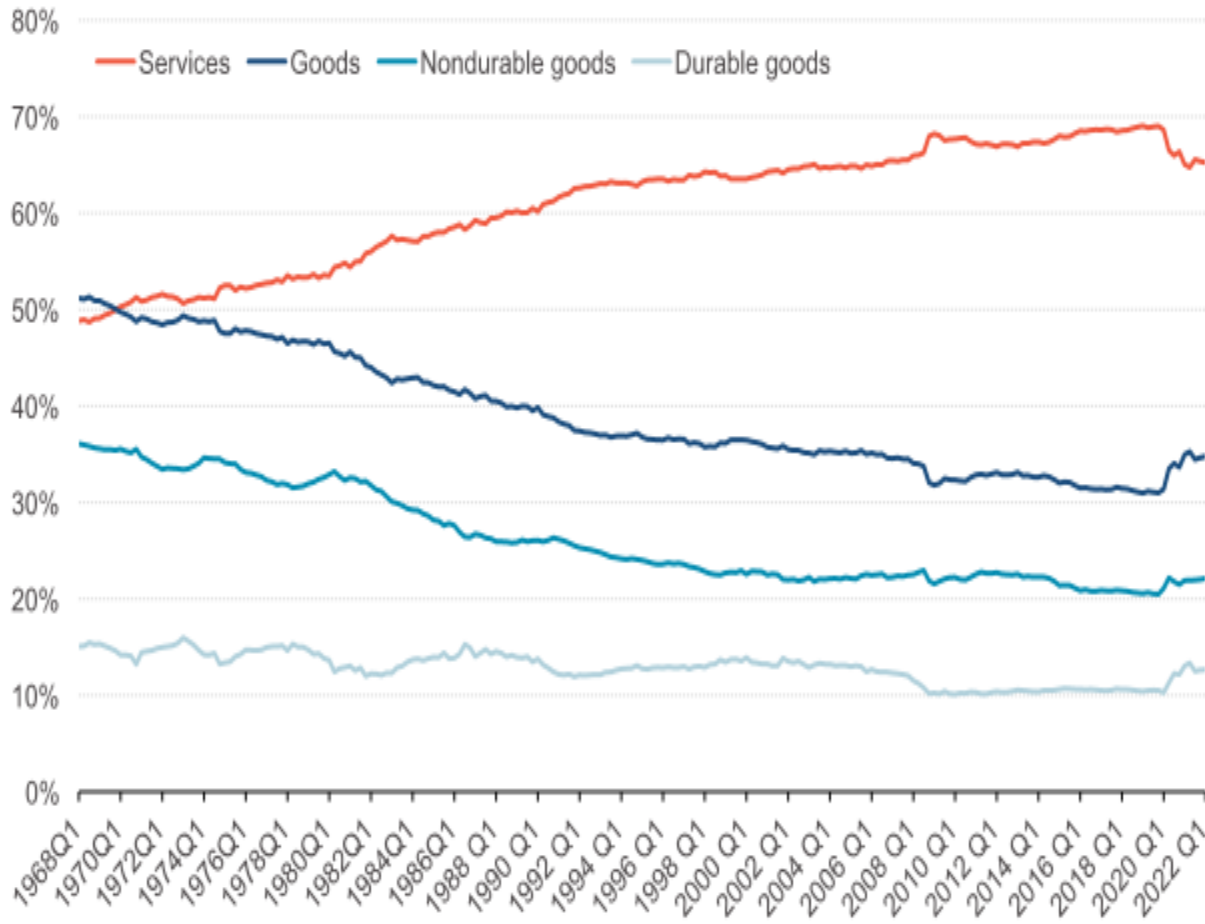
Year-over-year change in real state taxes & real GDP, 2021Q4 vs 2020 Q4



The COVID-19 Effect: State Consumption Spending & Sales Tax Revenues

Spending patterns shifted during the pandemic

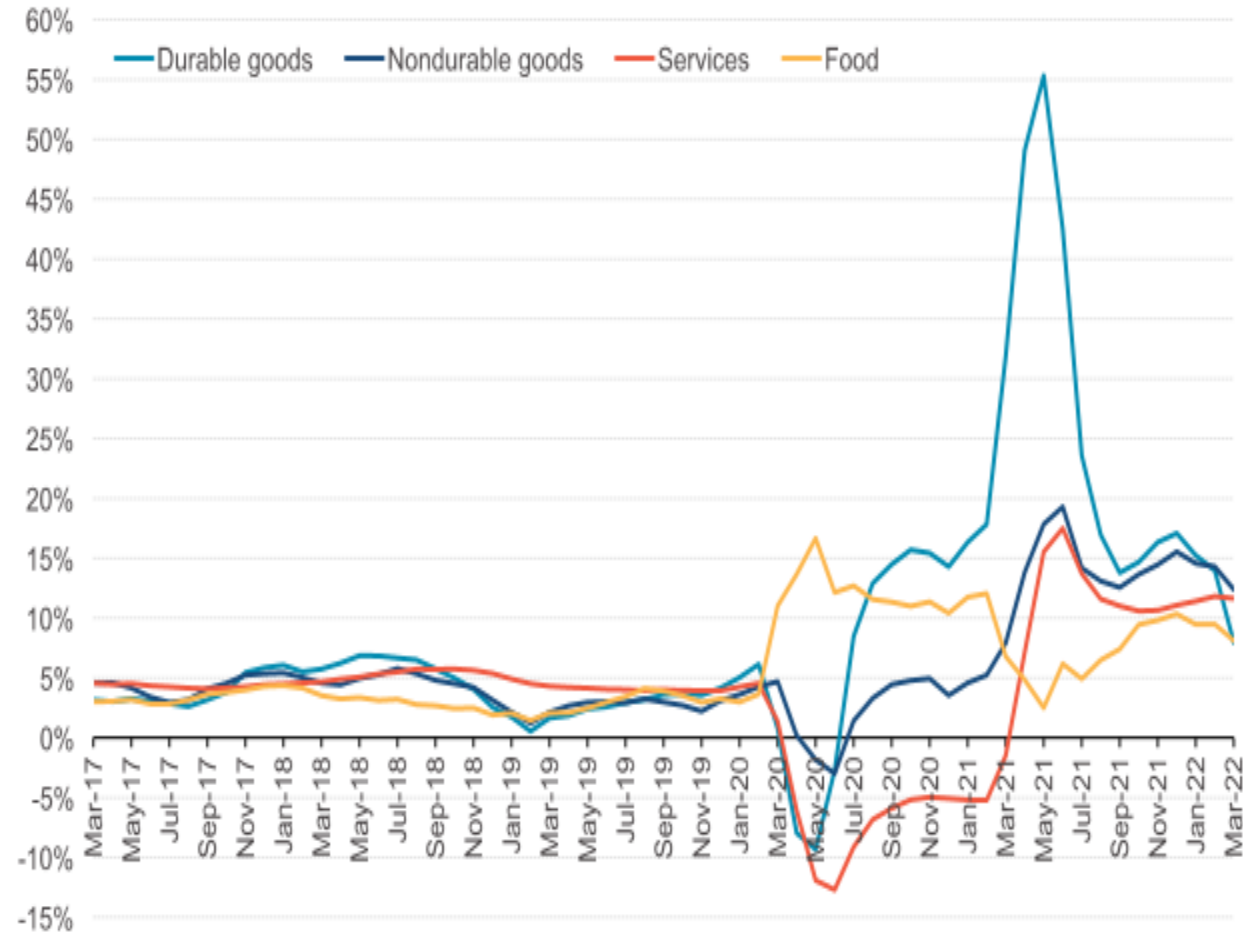
Goods and services as share of personal consumption expenditures



the pandemic, while spending on services declined

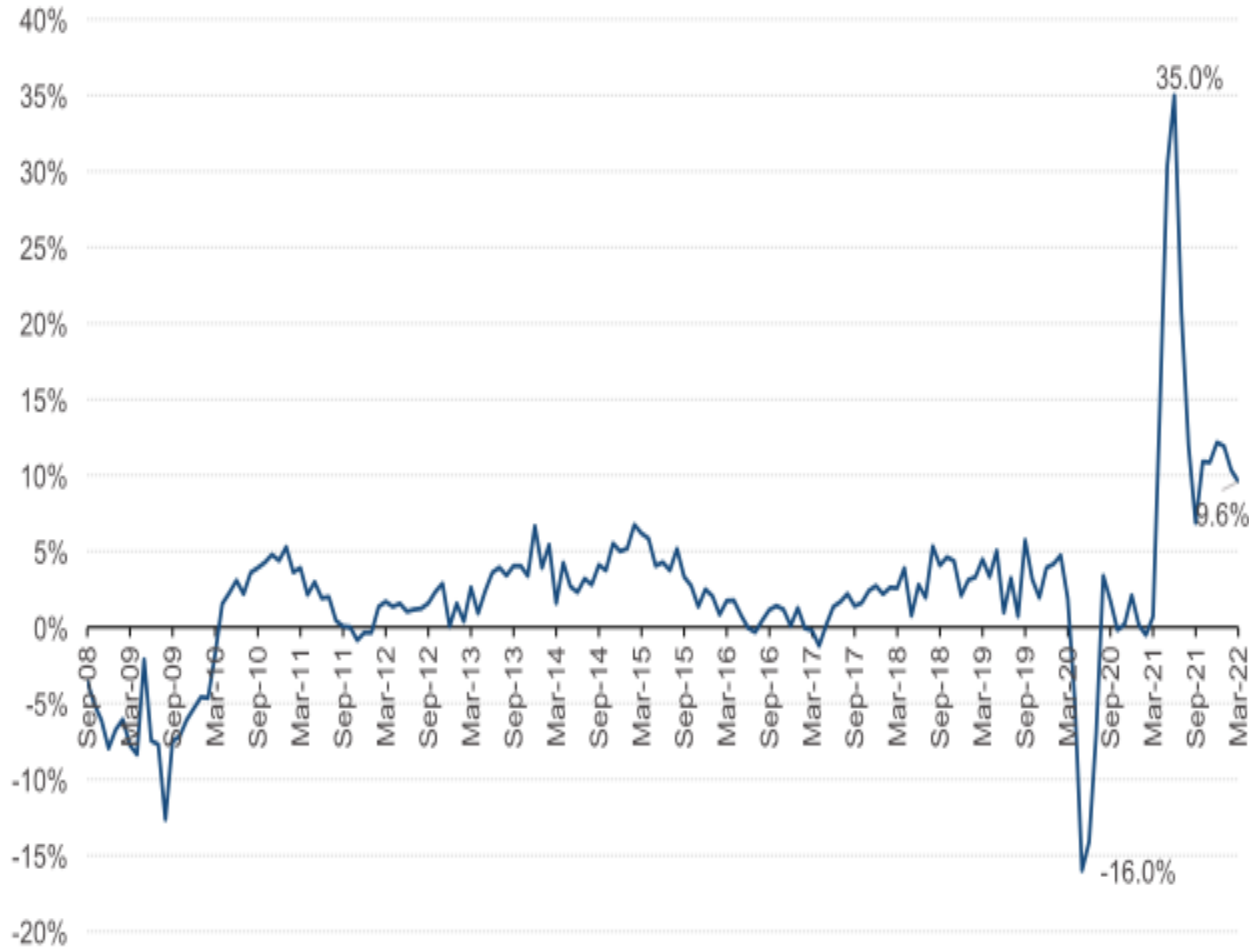


Year-over-year change in personal consumption spending (nominal, 3-month moving averages)



Trends in state sales tax revenues

Real year-over-year percent change in state sales tax revenues (3-month moving averages)



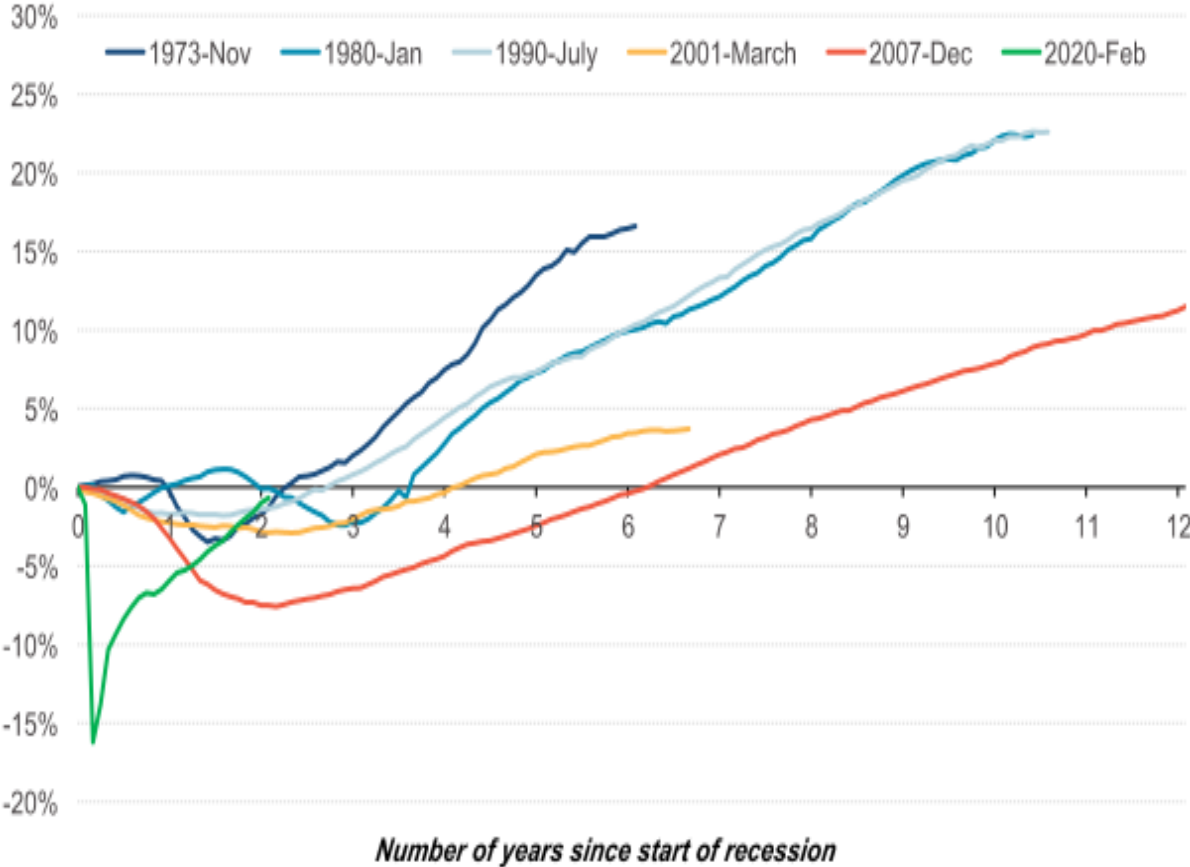
The COVID-19 Effect: Job Losses & State Personal Income Tax Revenues

COVID-19 led to free fall in private sector employment



Private sector employment in selected recessions

Cumulative percent change since start of recession



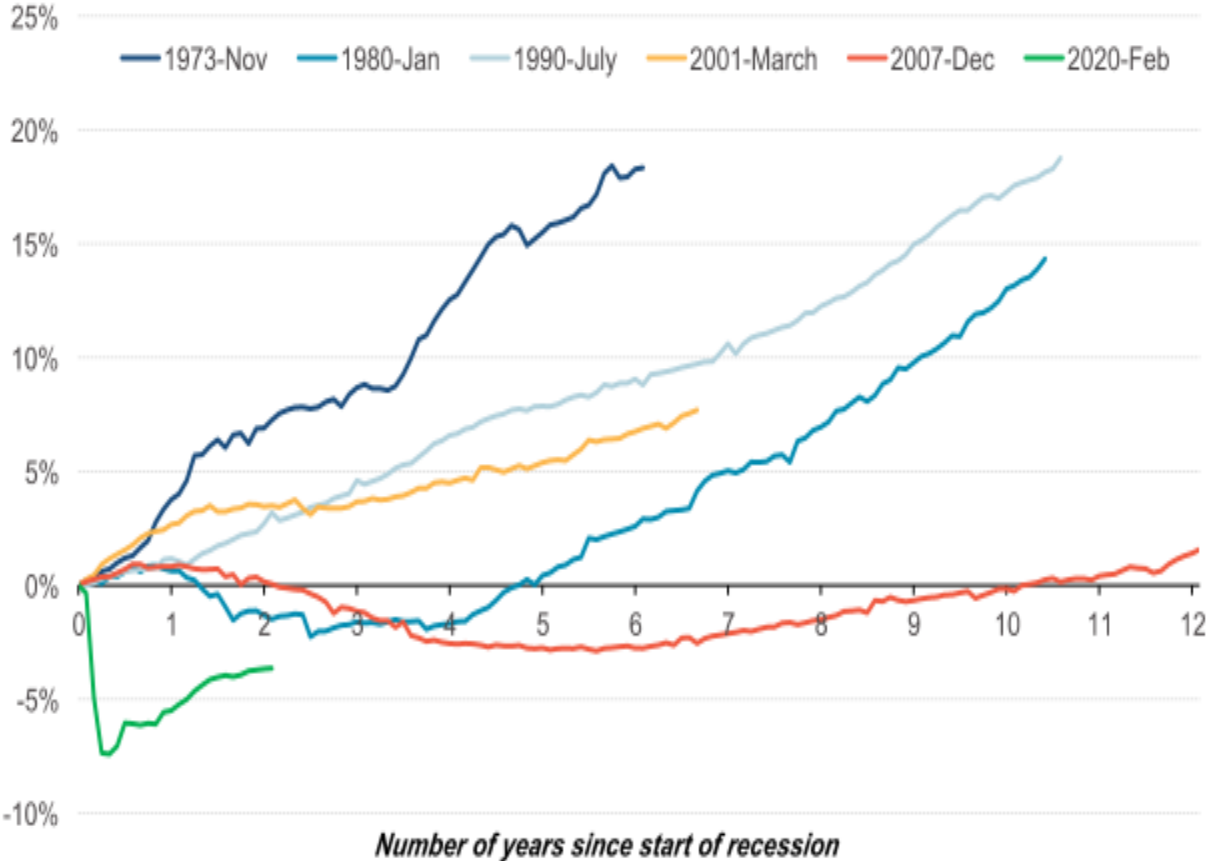
Note: Data are shown until the start of the next recession; 1980 & 1981 recessions treated as single recession.

Steepest cuts in state-local government employment



State and local government employment in selected recessions

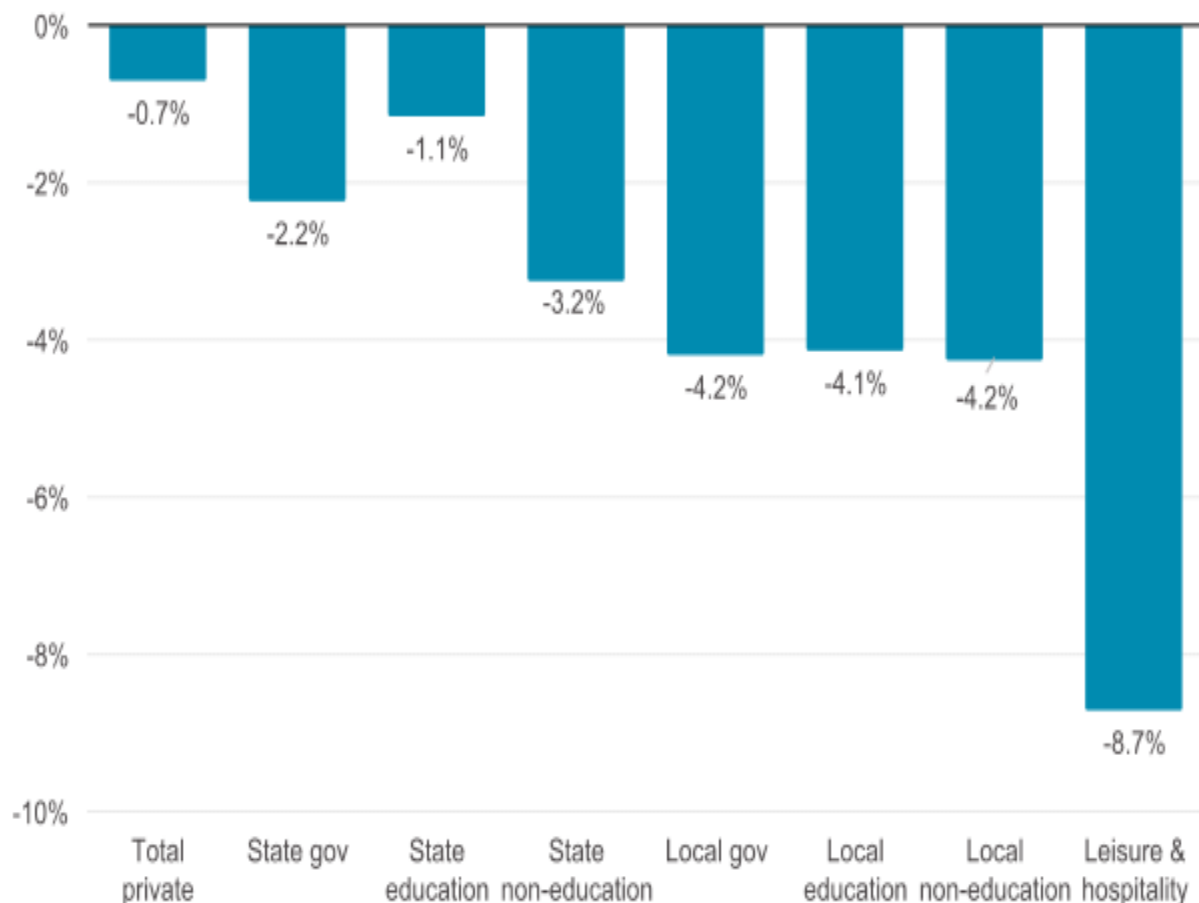
Cumulative percent change since start of recession



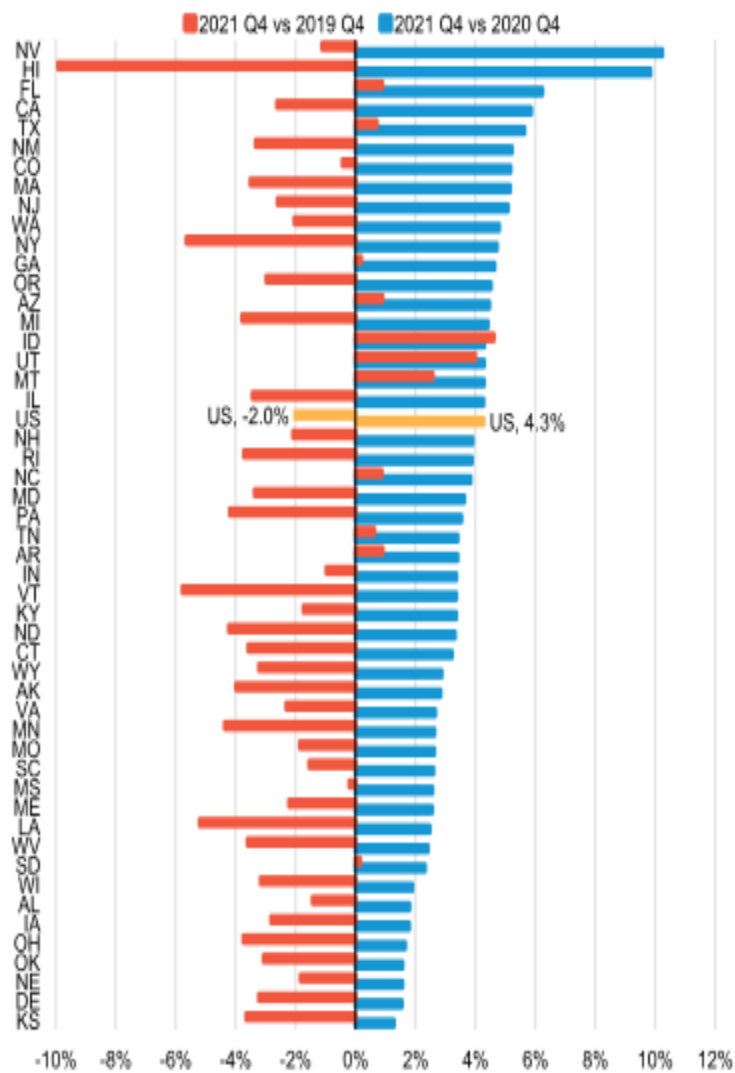
Note: Data are shown until the start of the next recession; 1980 & 1981 recessions treated as single recession.

Steep declines in public sector and leisure & hospitality employment since February 2020

Percent change in employment, March 2022 vs February 2020

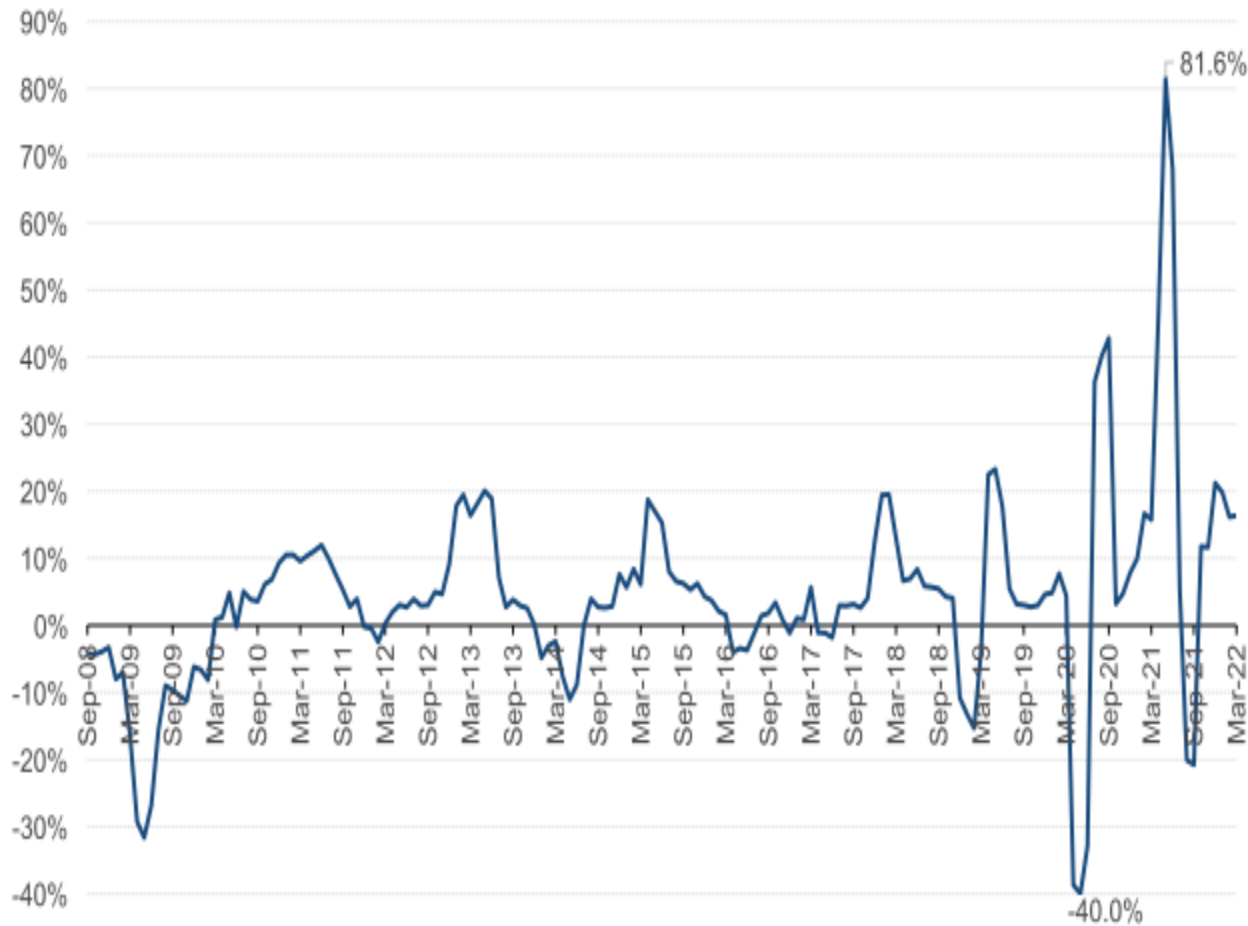


Employment rebounded in 2021Q4 but is still down compared to pre-pandemic levels



Trends in state **personal income** tax revenues

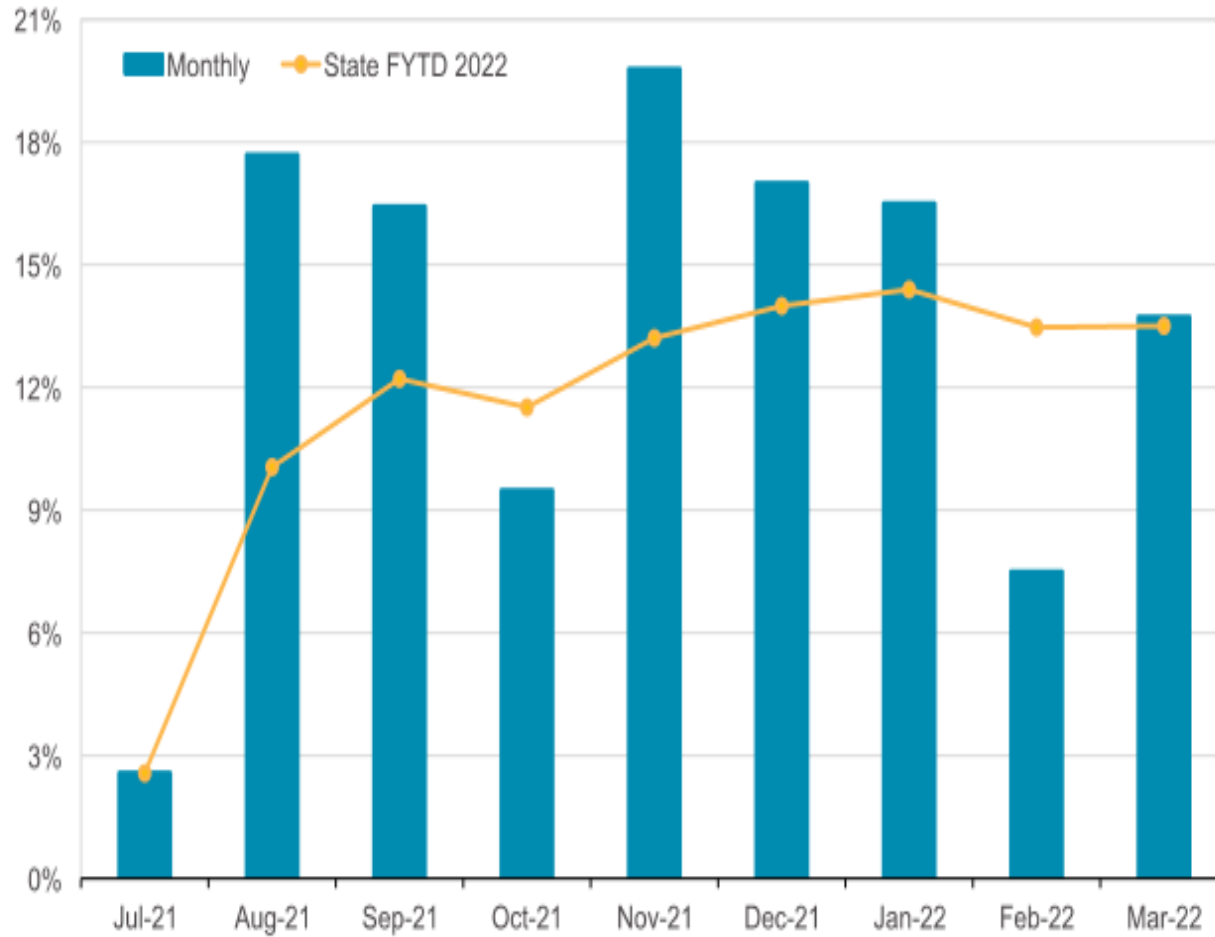
Real year-over-year percent change in state personal income tax revenues (3-month moving averages)



FY 2022, fueled by inflation

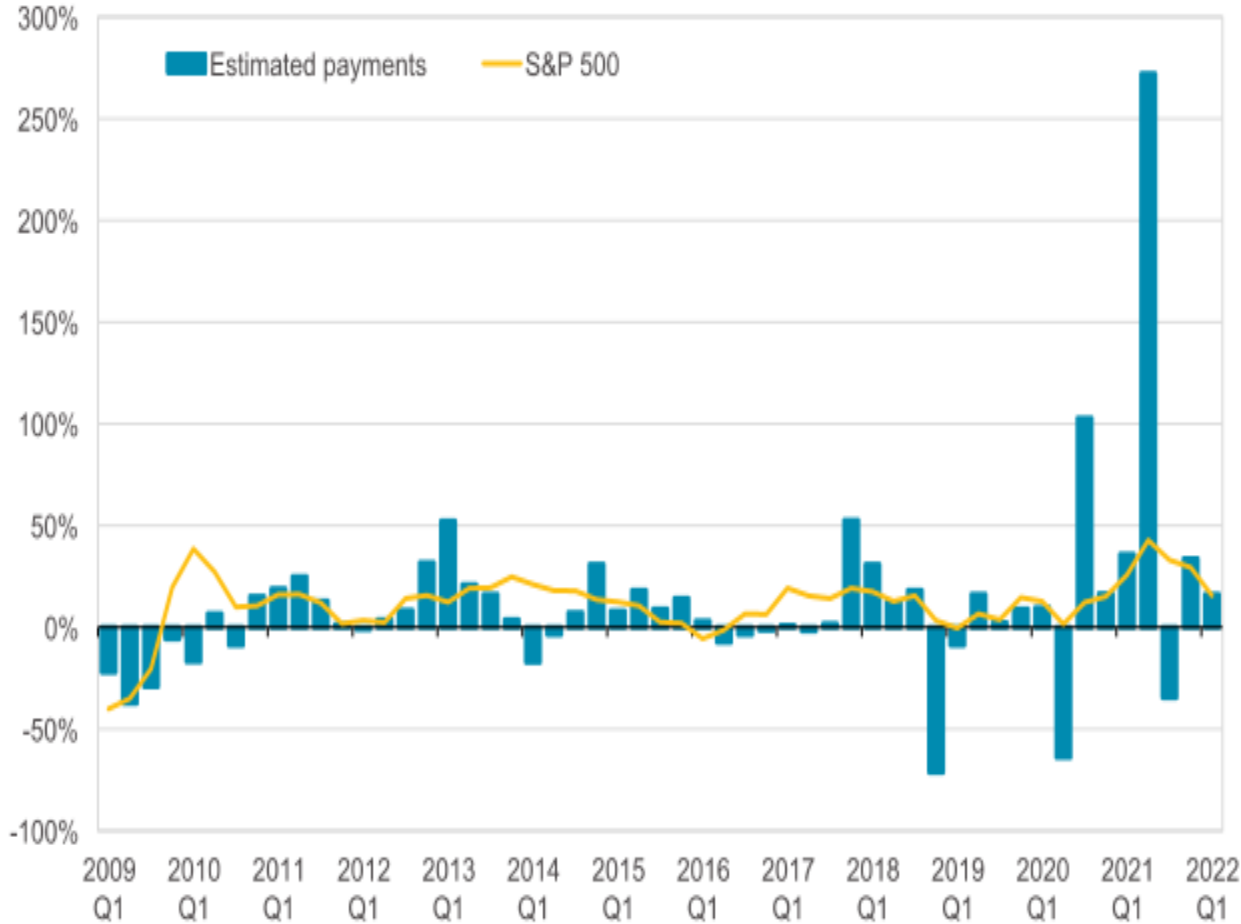


Nominal year-over-year percentage change in withholding tax collections



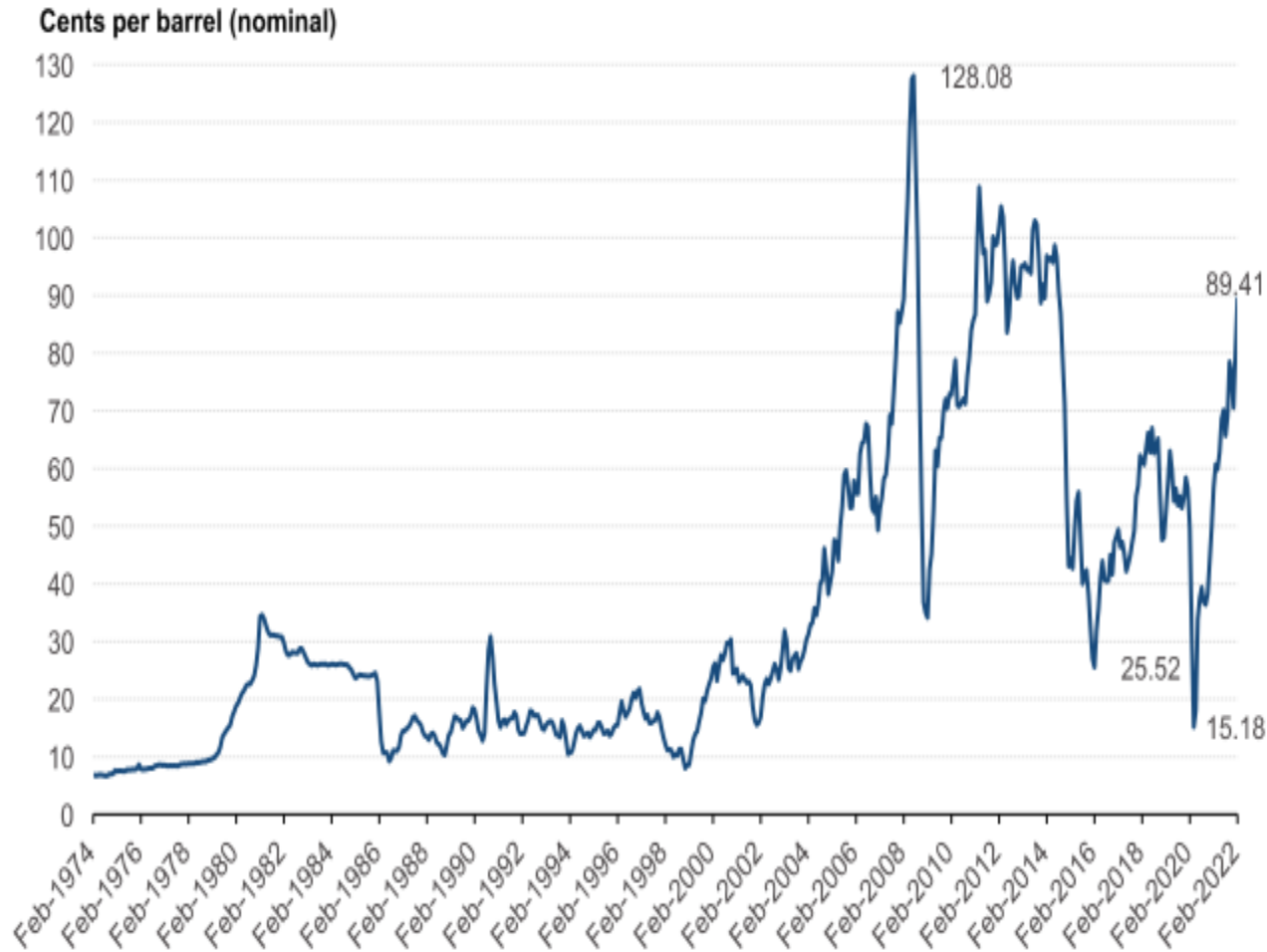
Large volatility in **estimated payments**

Year-over-year nominal percent change in estimated payments & S&P 500 index



The Winners and Losers of Rising Oil Prices

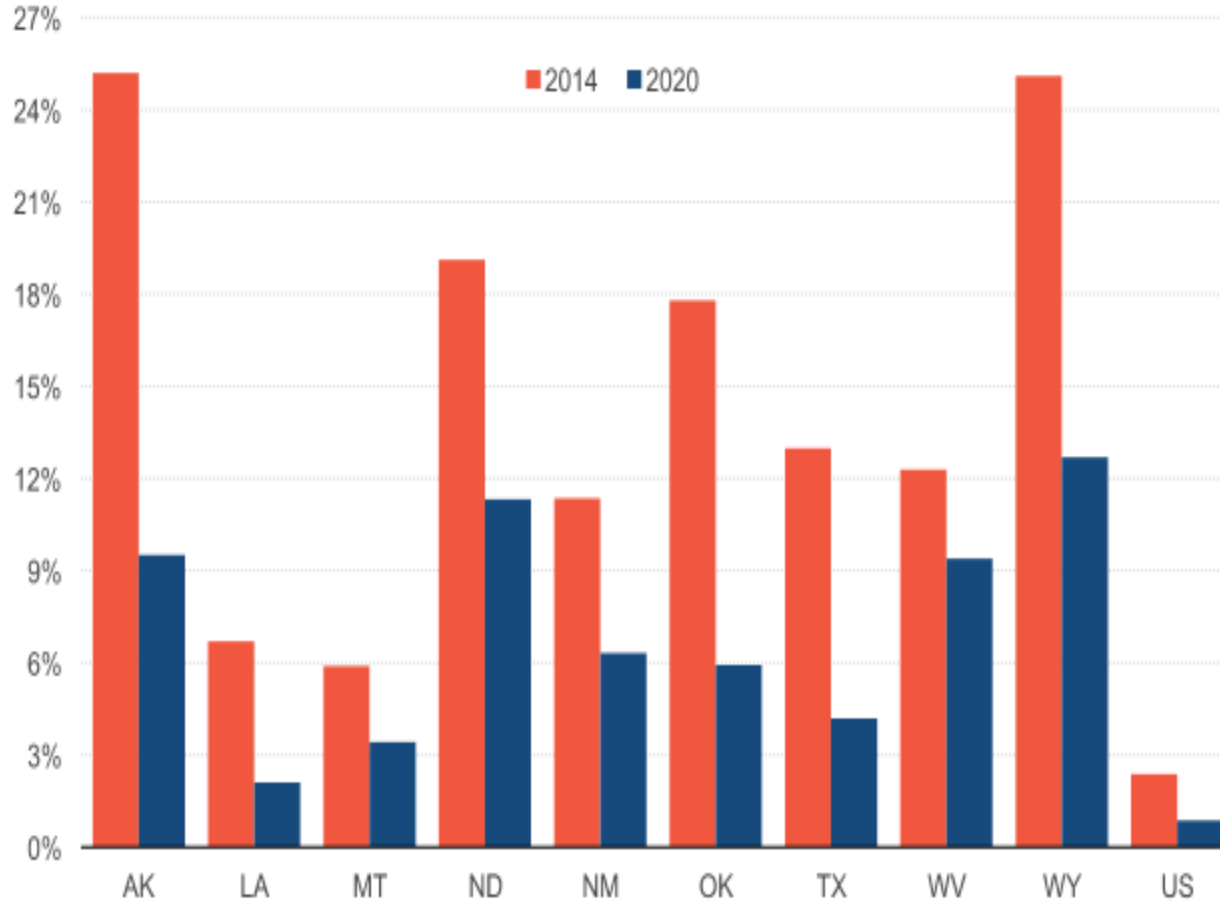
US crude oil price history, 1974-2022



Source: U.S. Energy Information Administration.

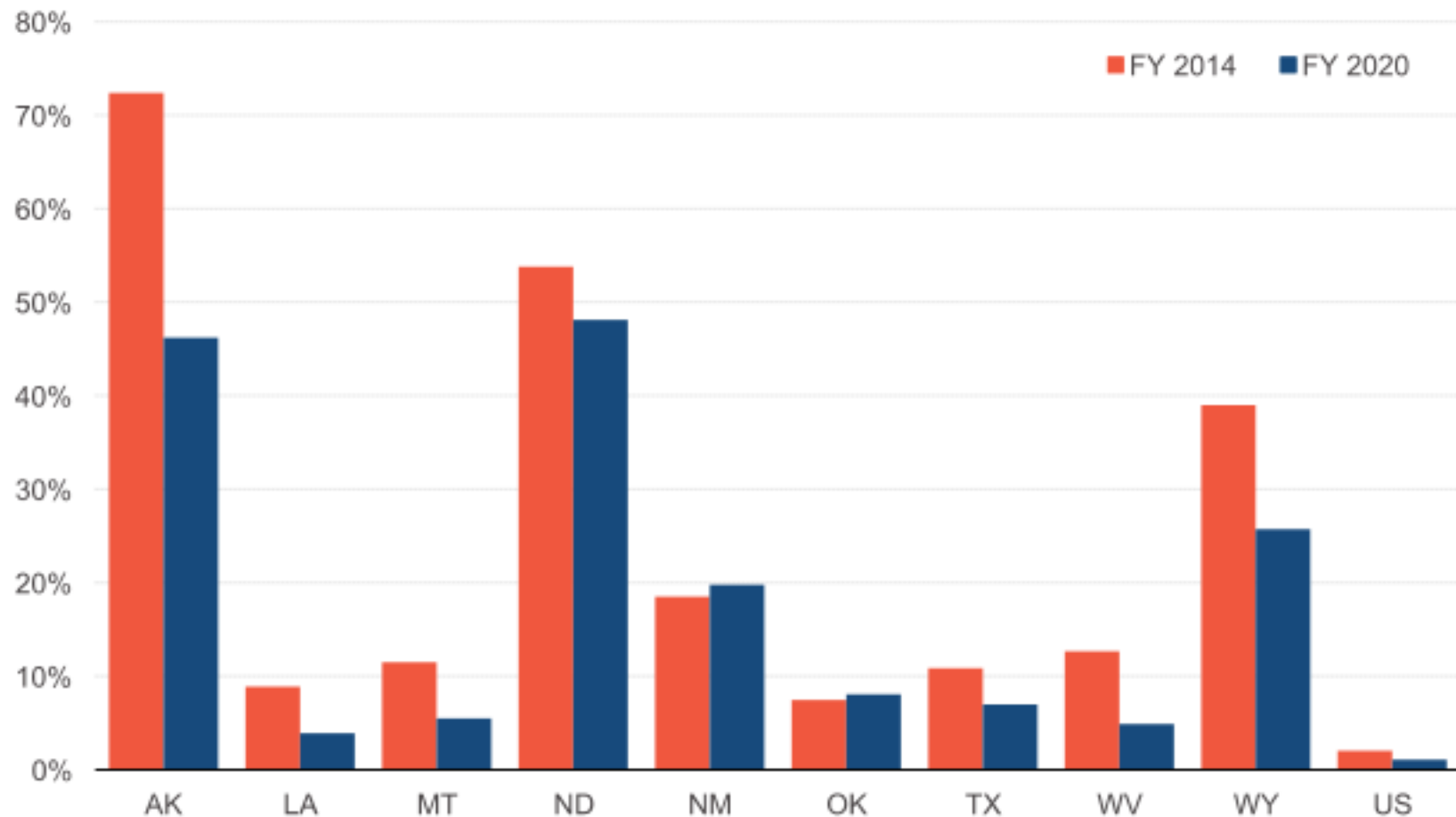
Mining industries shrank in oil dependent states

Mining industries as share of state GDP



Severance taxes declined in most oil-dep states

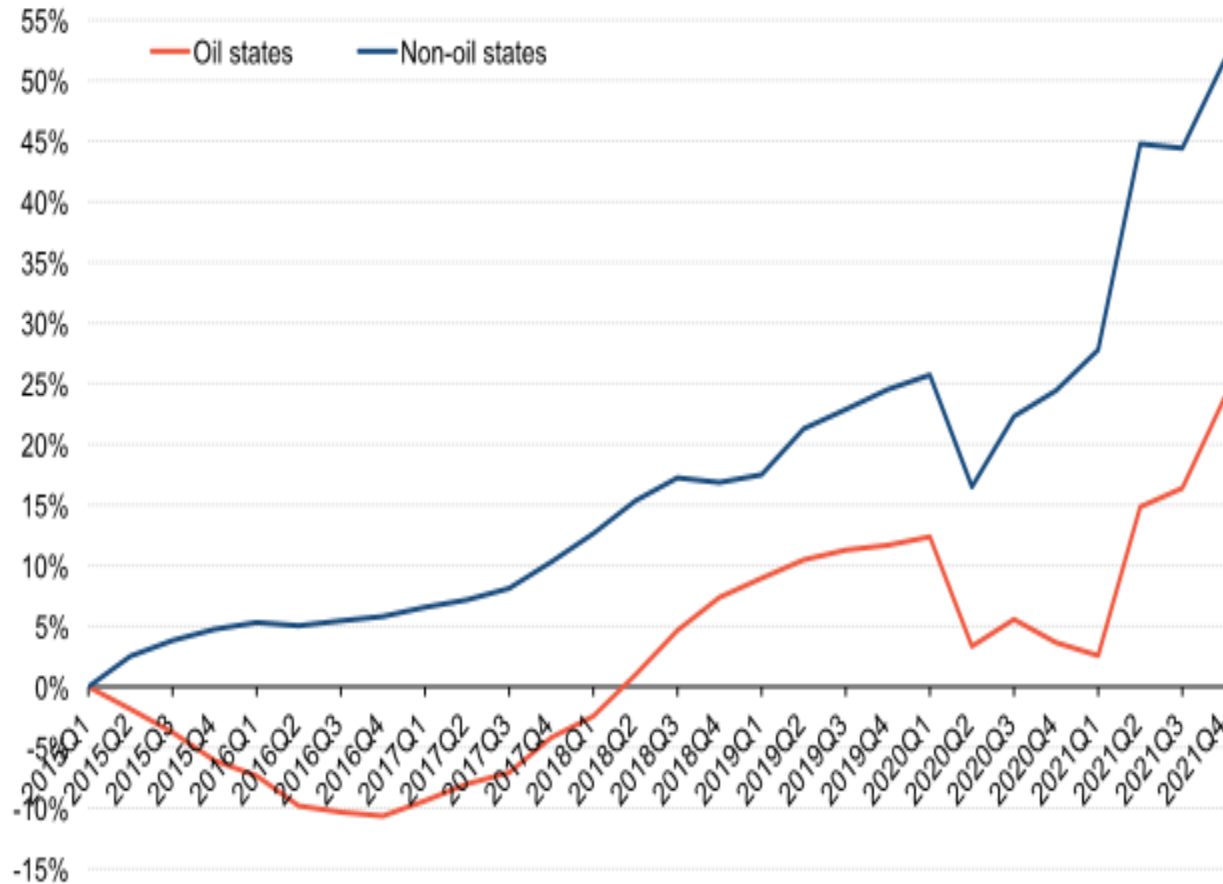
Severance taxes as share of state total taxes



Tax revenues declined in oil-dependent states in 2015-17

Cumulative nominal percent change in state total tax revenues

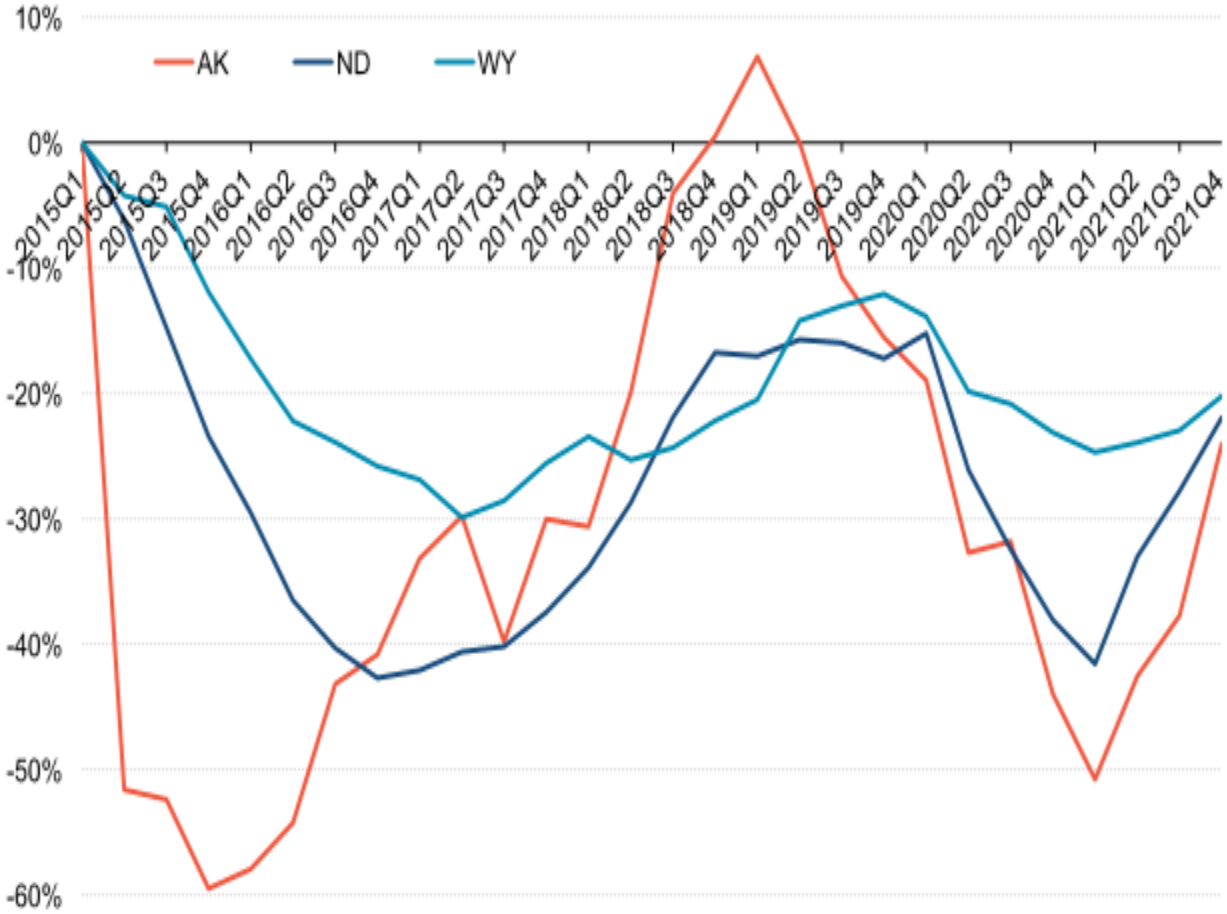
Nominal, four-quarter moving averages



Alaska, North Dakota & Wyoming took the biggest hits



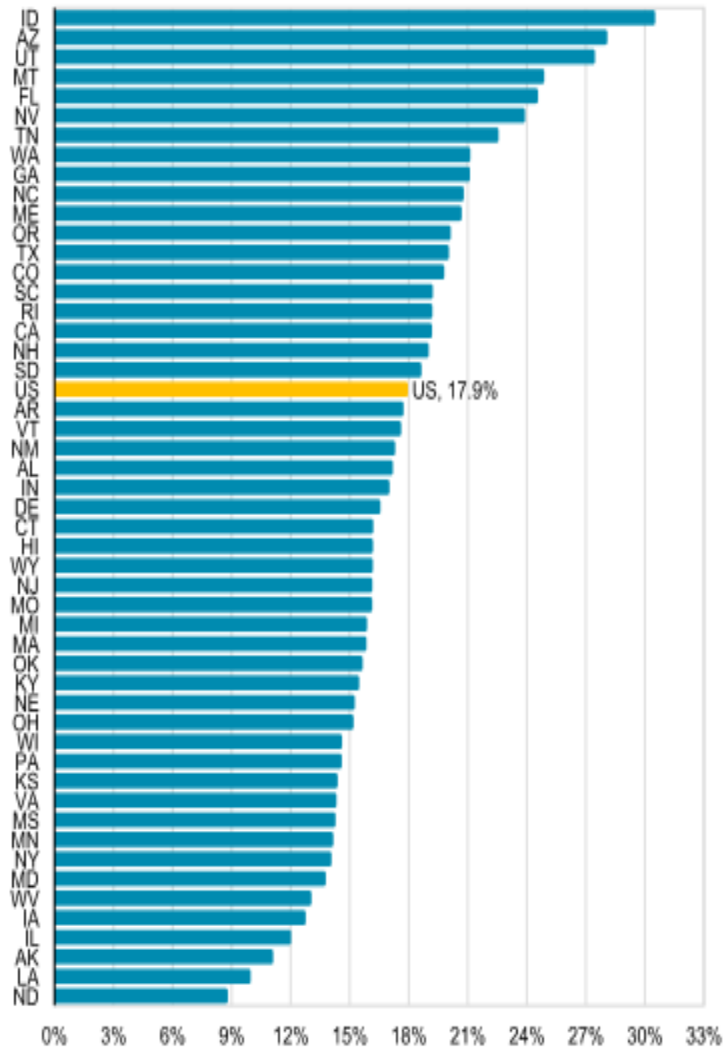
Cumulative percent change in state total tax revenues
Nominal, four-quarter moving averages



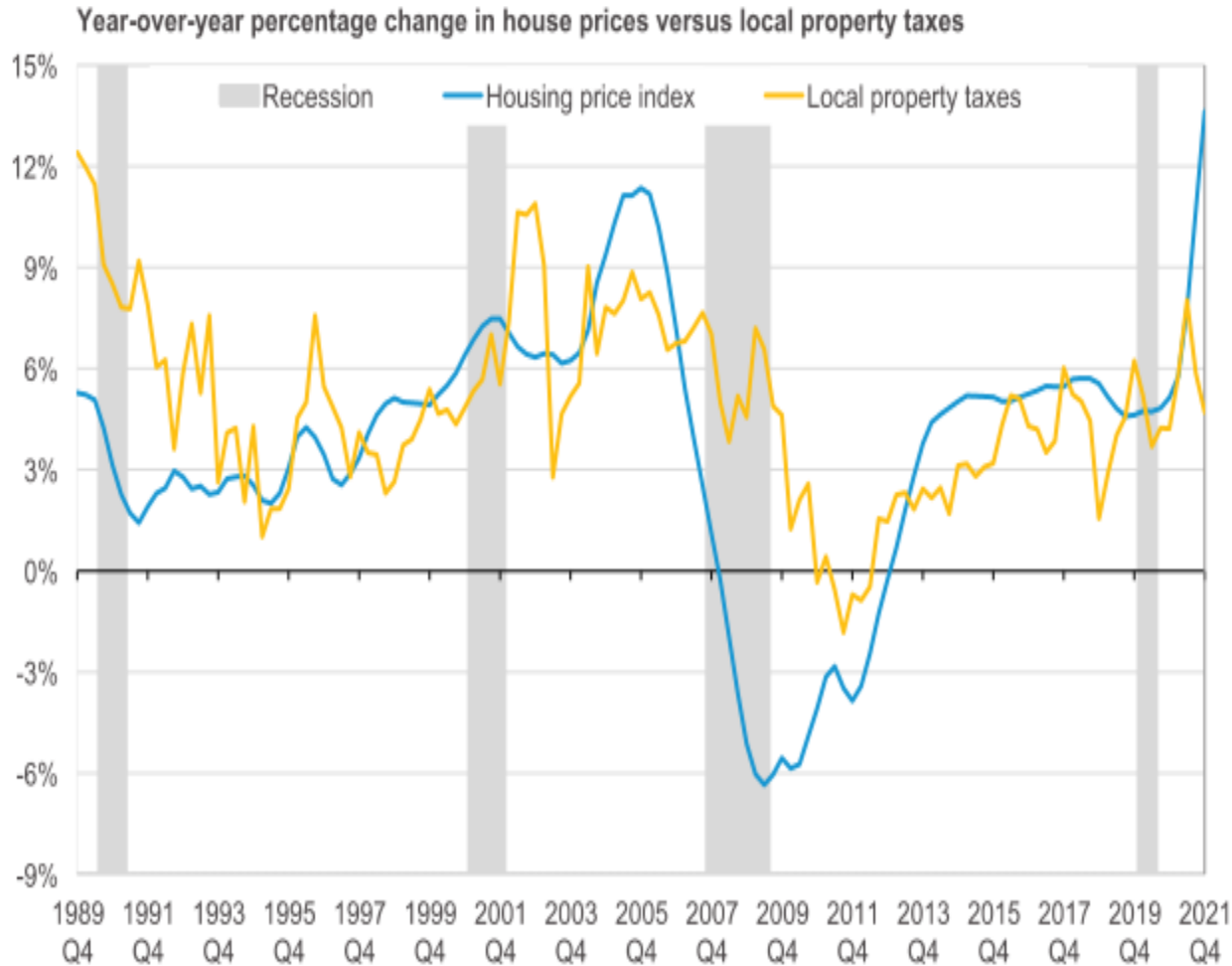
Housing Prices vs Local Property Tax Revenues

Housing prices soared in all states during the pandemic

Percent change in house prices, 2021 Q4 versus 2020 Q4



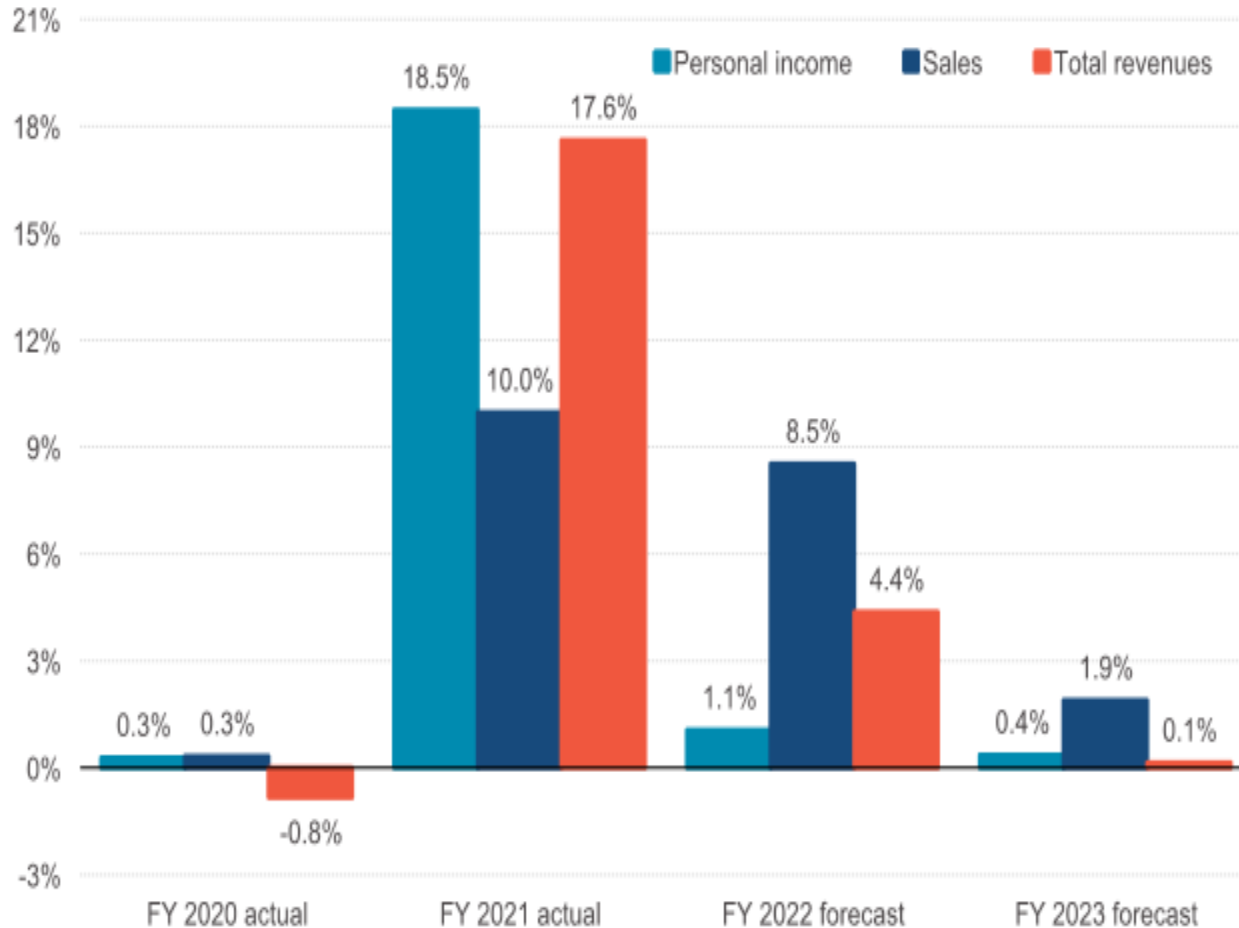
Strong growth in housing prices; Growth in local property taxes ticked downward



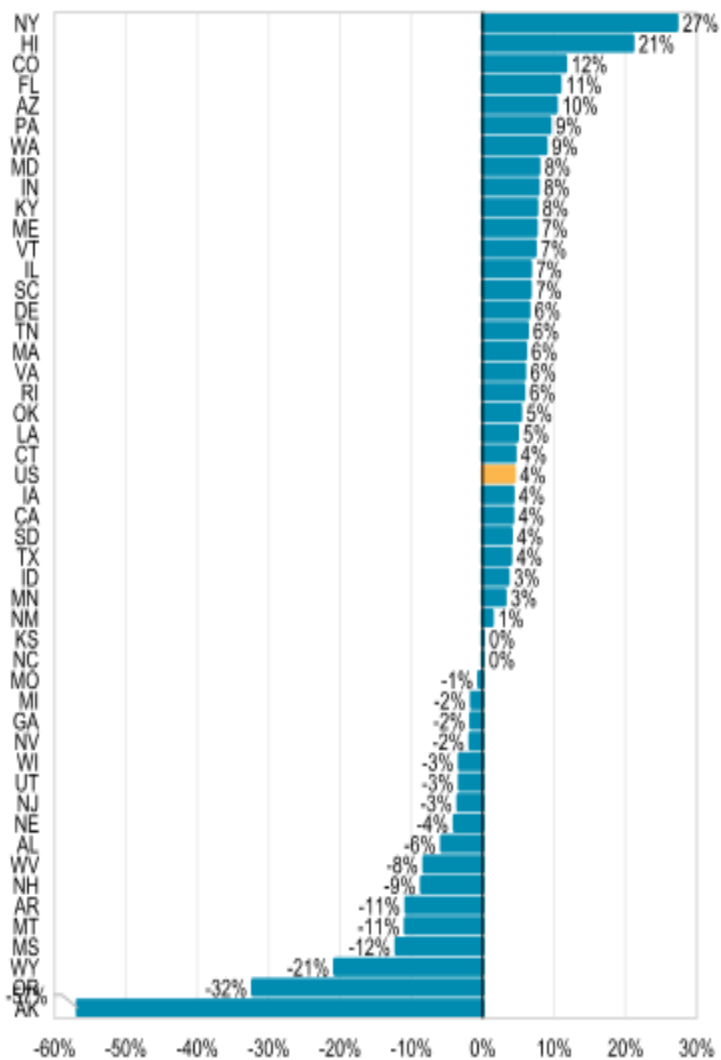
Current Revenue Forecasts

State actual and estimated revenue growth

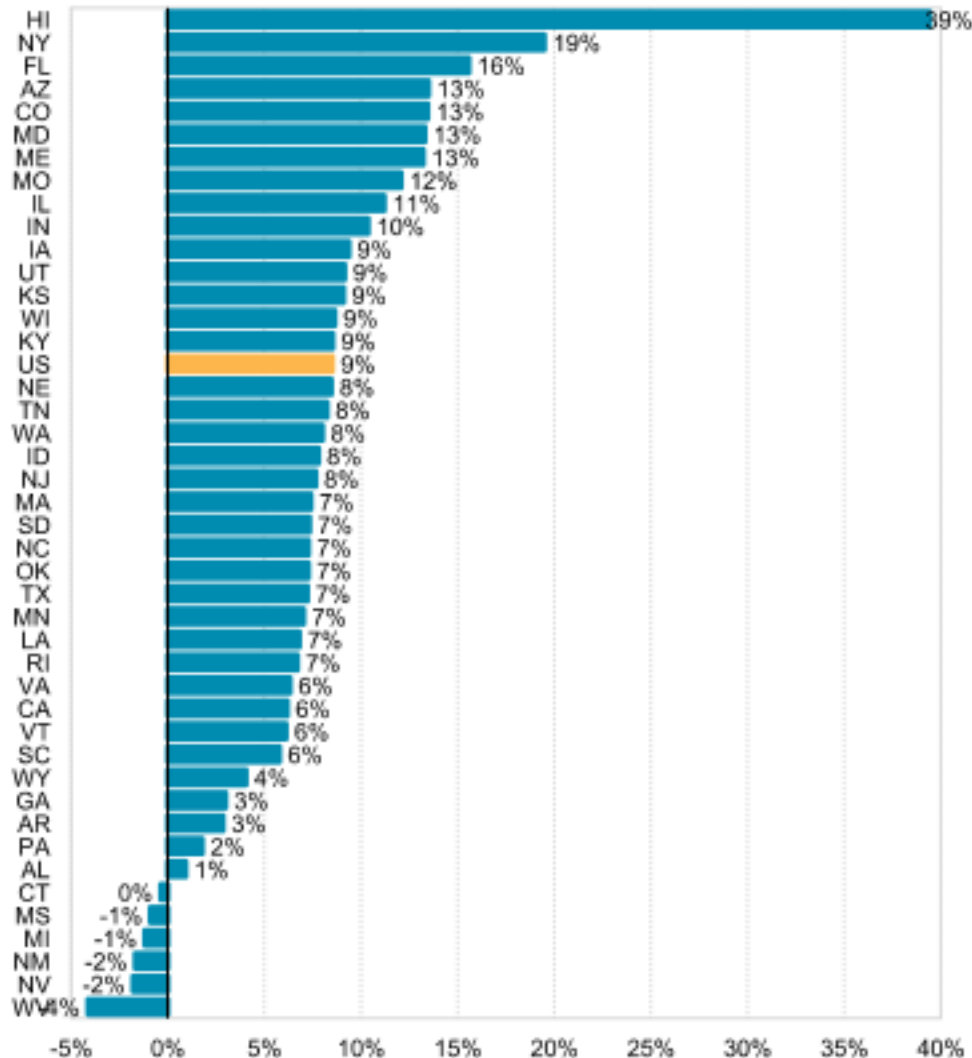
State revenue growth in FYs 2020 and 2021 and forecasts for FYs 2022 and 2023



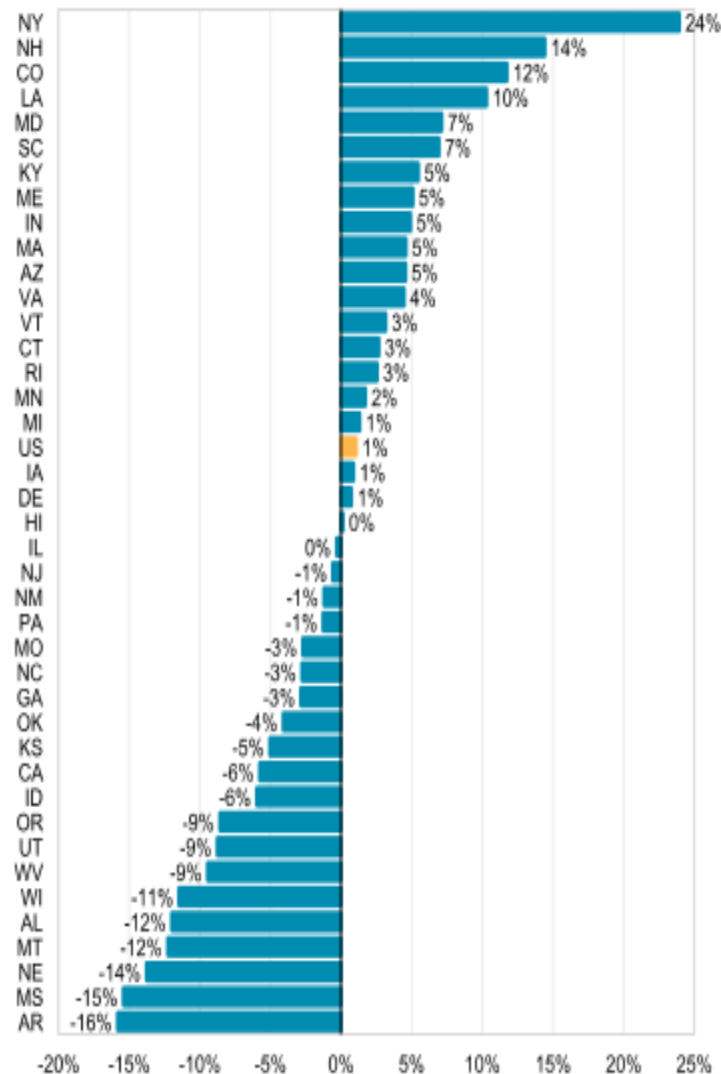
State total tax revenue forecasts for FY 2022 vs FY 2021



State sales tax revenue forecasts for FY 2021



State personal income tax revenue forecasts for FY 2022 vs FY 2021



Fiscal Challenges and Uncertainties Ahead

Are states in fiscal bubble? Five reasons for caution



1. Inflation, inflation, inflation

§ Supply chain bottlenecks and unprecedented labor shortages drove annual inflation to 4.7% in 2021, a 30-year high. Current inflation rates are above 8%.

2. The pandemic increased spending on taxable goods

3. Robust stock market

§ In 2021, the S&P 500 stock index rose by 33%, the fastest annual rate in more than 6 decades.

4. IPO bonanza

§ The IPOs boomed in 2021, with companies raising billions through listings.

5. Anticipation of federal tax rate hikes

§ The Biden administration stated plans to hike the tax rate on corporations (from 21% to 28%) & on capital gains (from 20% to 39.6% for taxpayers making more than \$1 million a year).

Fiscal uncertainties ahead

- § What happens when federal relief runs out?
- § Will changes in consumer behavior caused by the pandemic persist?
- § When (if ever) will tourism and service industries return to pre-pandemic levels?
- § The future of the remote work
- § The global geopolitical crises
- § Longstanding issues
 - § Structural deficits (i.e., the gap between revenue growth and spending growth)
 - § Volatility of commodity-based revenue sources
 - § Aging population and growing obligations to pensions and the postemployment benefits
 - § A lack of alignment among policymakers regarding long-term fiscal solutions

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 - § [Monthly State Government Tax Revenue Data](#)
 - § [Monthly State Government Personal Income Tax Data](#)
 - § [Quarterly State Government Tax Revenue Data](#)
 - § [Annual State Government Tax Revenue Collections versus Official Forecasts](#)
 - § [Monthly State Government Marijuana Tax Revenue Data](#)

Thank you!

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