



TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

From Boom to Bust: Current Economic Climate & State Revenue Trends

FTA Revenue Estimation Conference
Salt Lake City, Utah

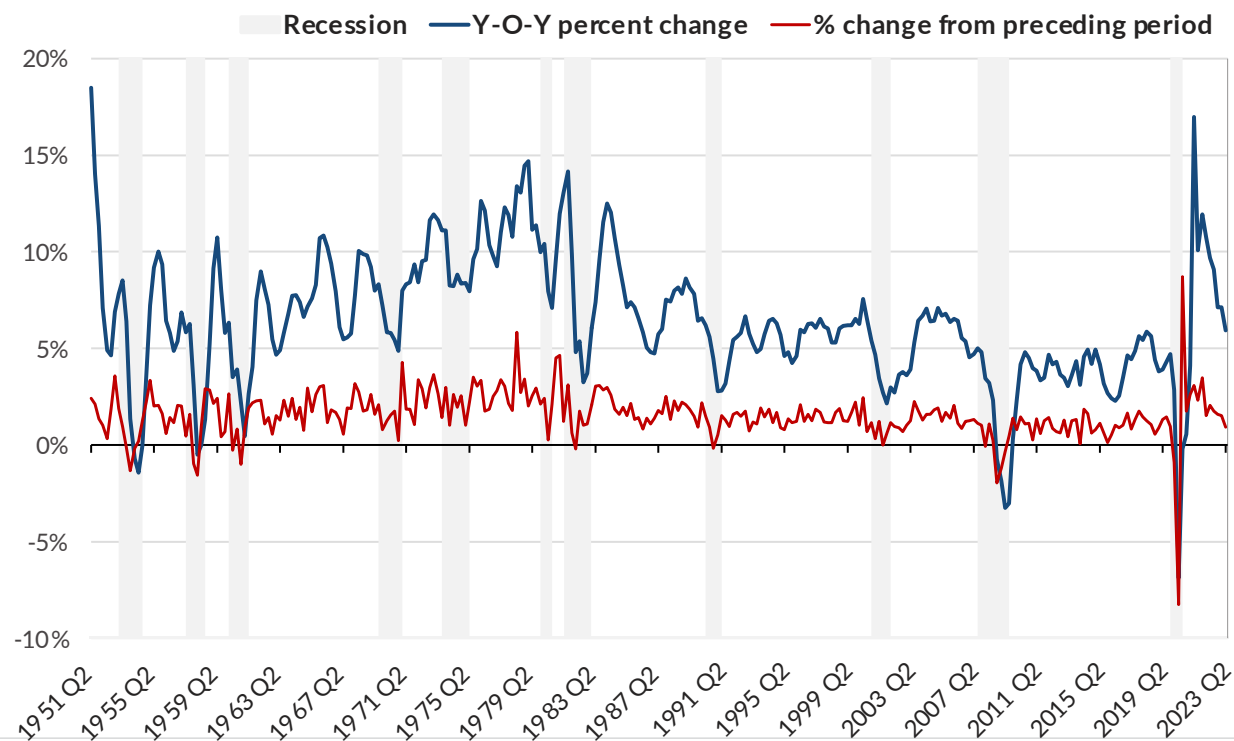
Lucy Dadayan
October 4, 2023

Overview

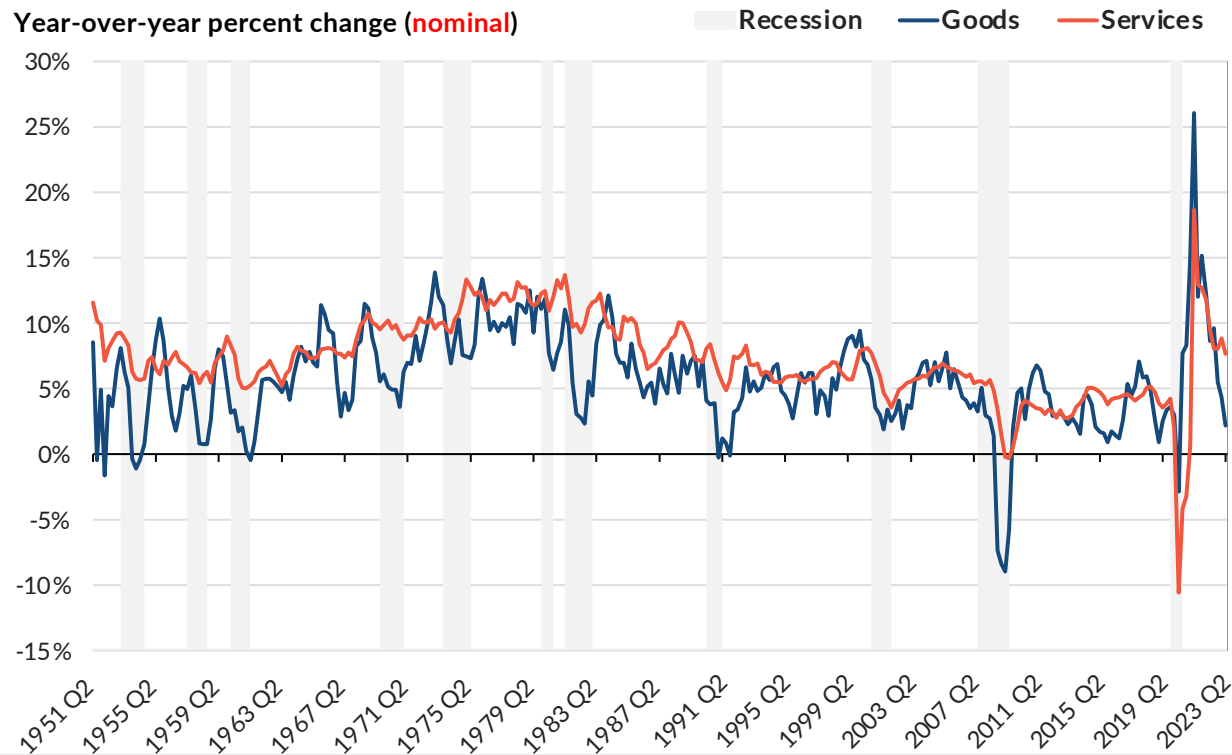
- [Economic indicators before, during, and after the pandemic](#)
- [Overall trends in state tax revenue collections](#)
- [State consumption spending patterns & sales tax revenues](#)
- [Employment & state personal income tax revenues](#)
- [Current revenue forecasts](#)
- [Fiscal uncertainties ahead](#)

Economic Indicators Before, During, and After the Pandemic

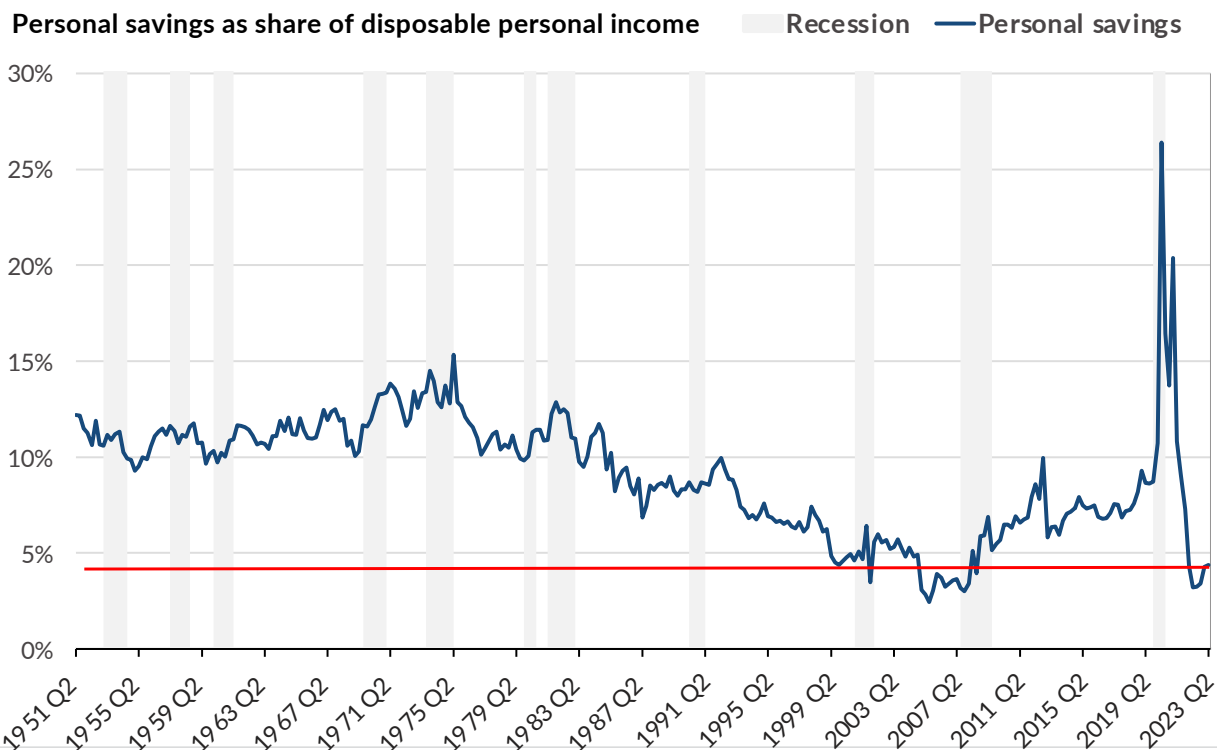
Steepest decline in GDP during the pandemic



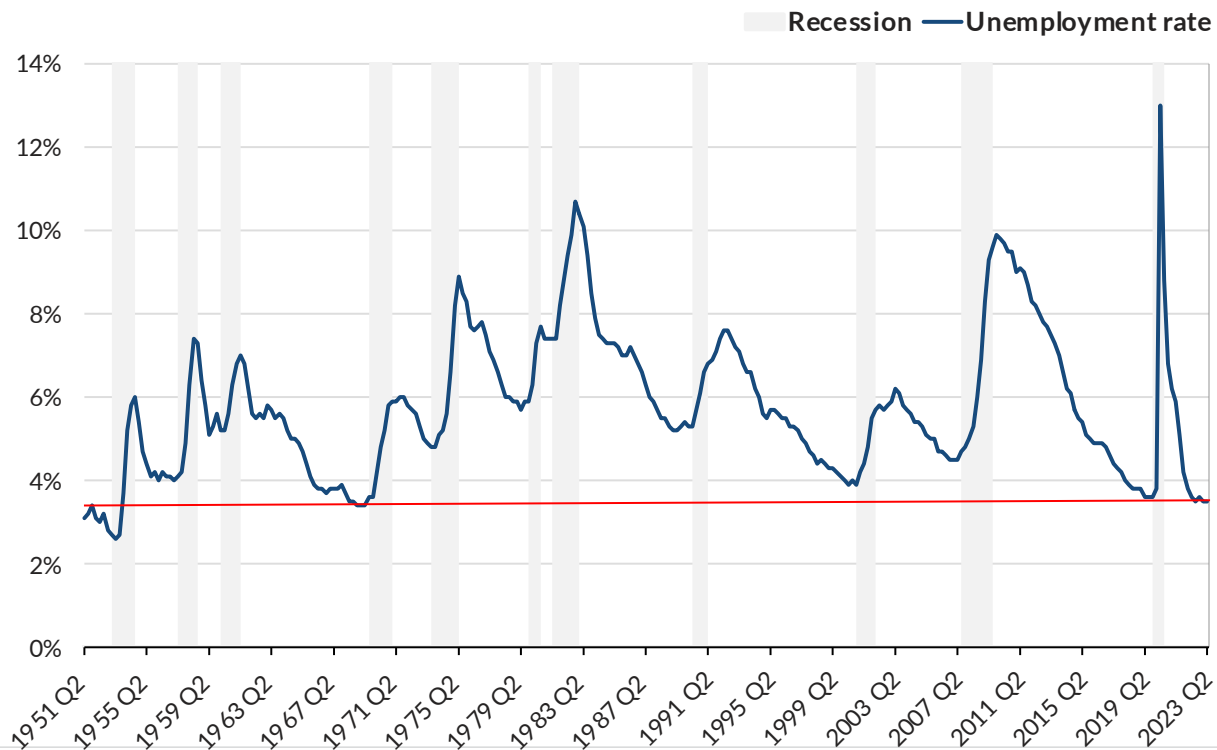
Steepest decline in spending on services



Personal savings peaked during the pandemic, but have fallen since



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



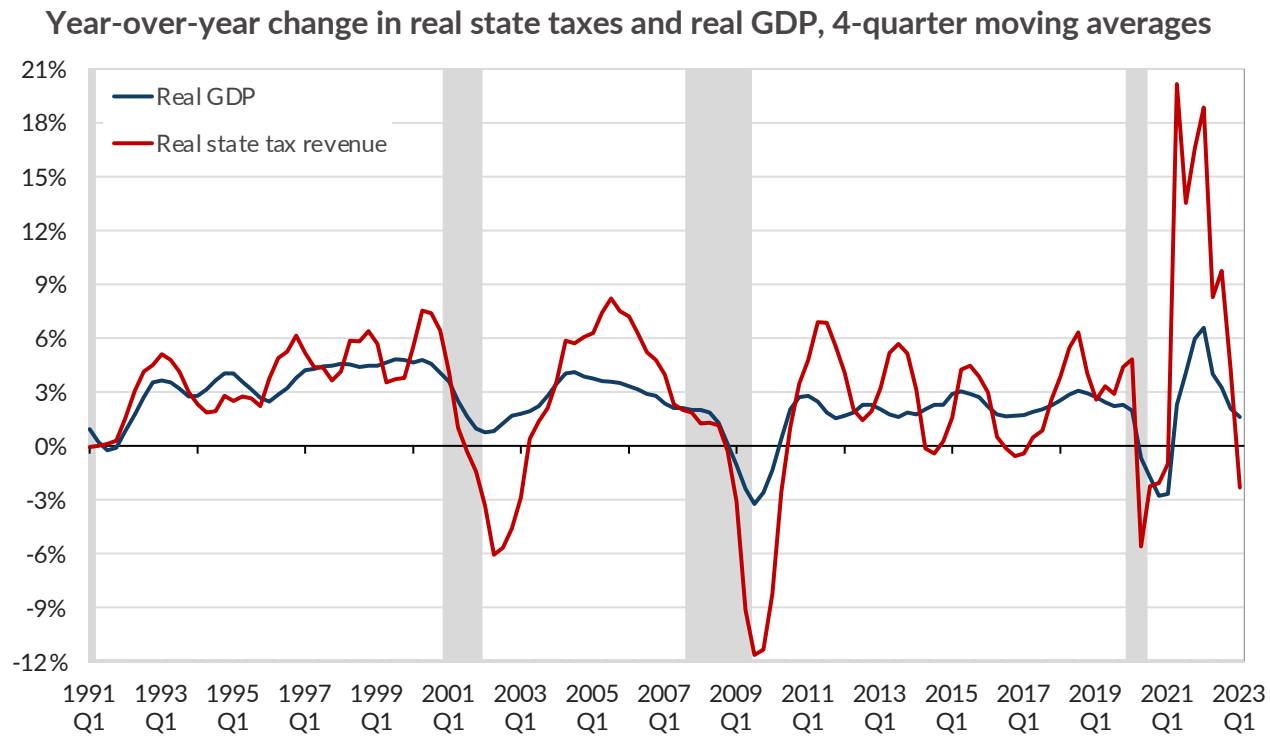
Trends in Overall State Tax Revenue Collections

Temporary factors for revenue surge in FYs 2021 & 2022



- Inflation, inflation, inflation
- The pandemic increased spending on taxable goods
- Robust stock market
 - In 2021, the S&P 500 stock index rose by **32.8%**, the fastest annual rate since 1983.
 - In 2022, the S&P 500 stock index declined by **4.1%**, the first decline since the Great Recession
 - In the first 9 months of 2023, the S&P 500 stock index is up by **1%**
- IPO bonanza
 - The IPOs boomed in 2021, with companies raising billions through listings.
- 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)

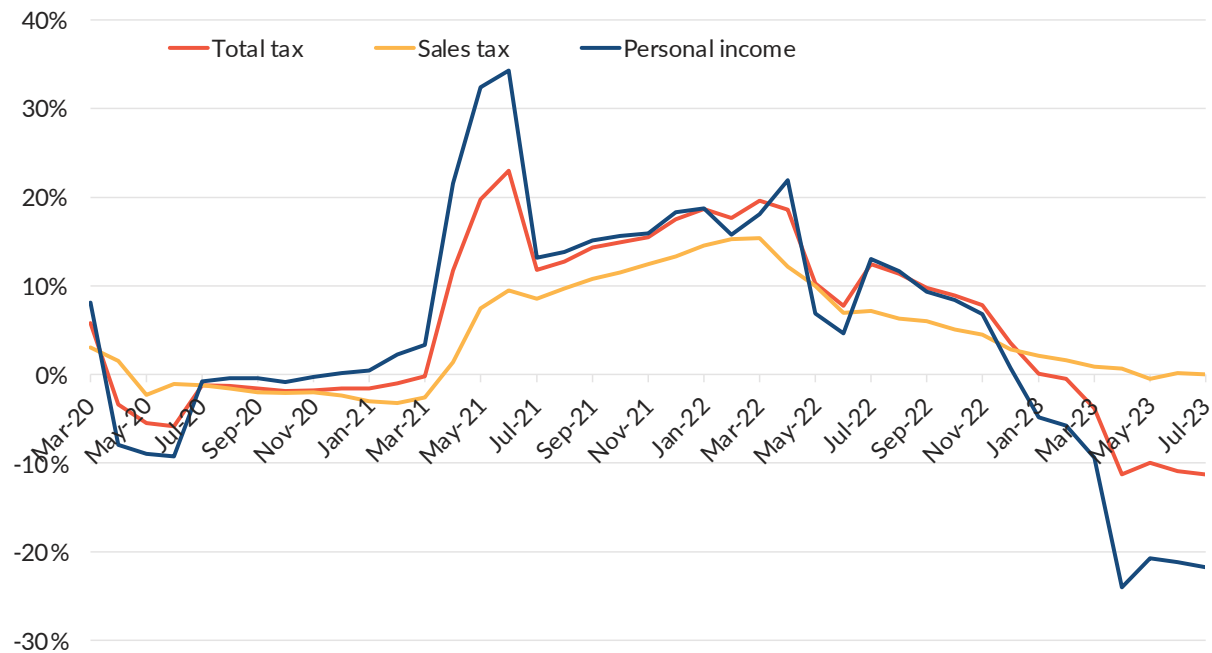
State tax revenues are more volatile than the economy



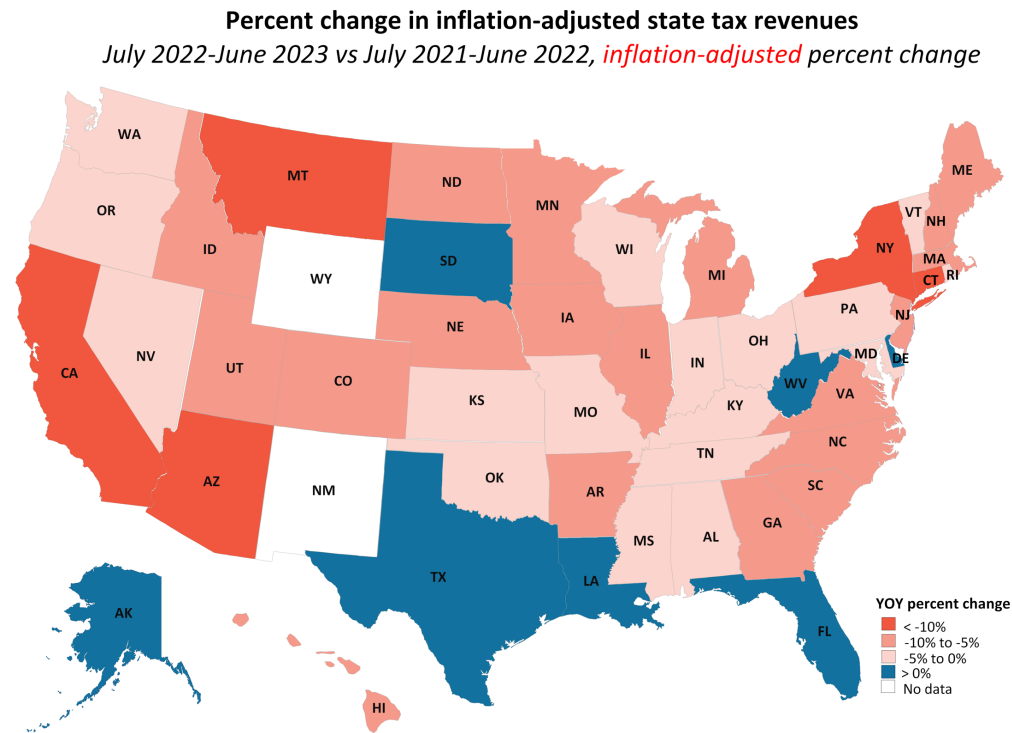
Trends in state tax revenues since the pandemic

Percent change in **inflation-adjusted** state tax revenues

Year-over-year percent change, 12-month moving averages



Widespread declines in real state tax revenues in FY 2023

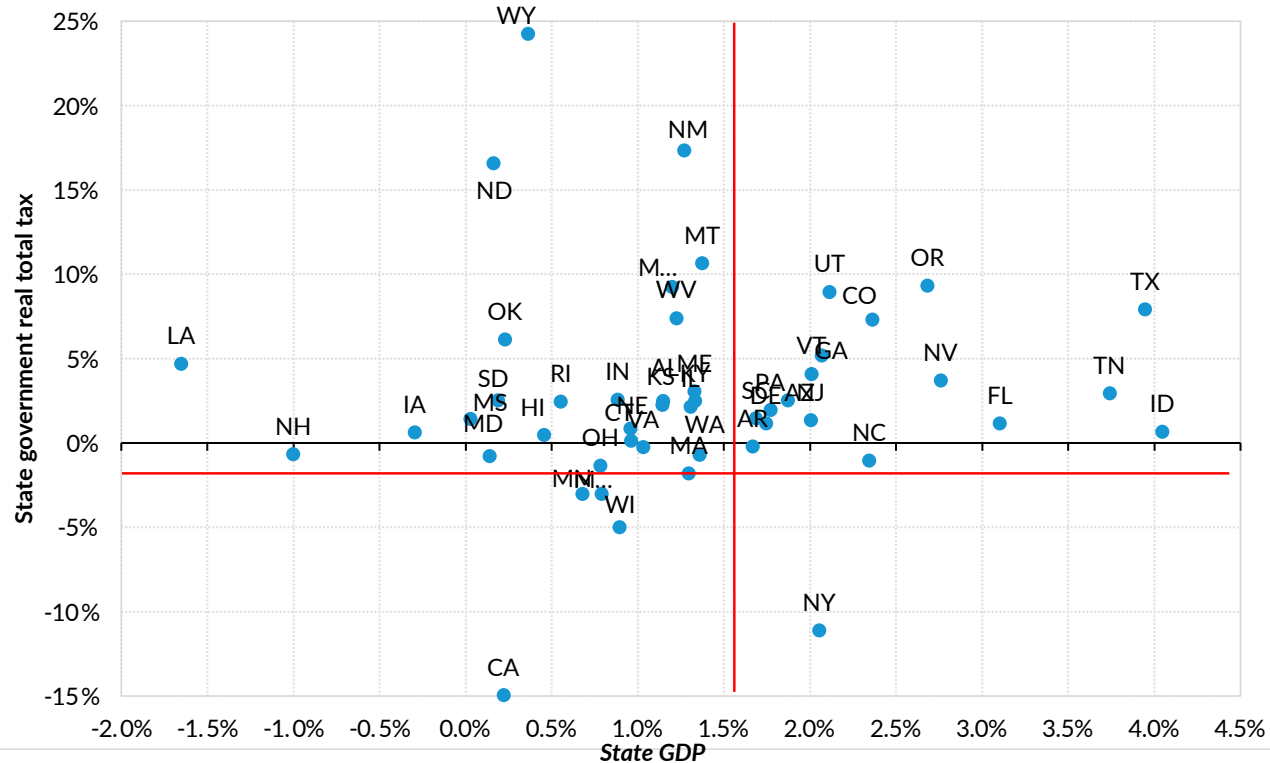


Notes: Complete data is still not available for New Mexico and Wyoming.
<https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/projects/state-tax-and-economic-review>

Growth disparity: State tax revenues vs. state GDP



Year-over-year change in **real** state taxes and real GDP, 2023 Q1 versus 2022 Q1

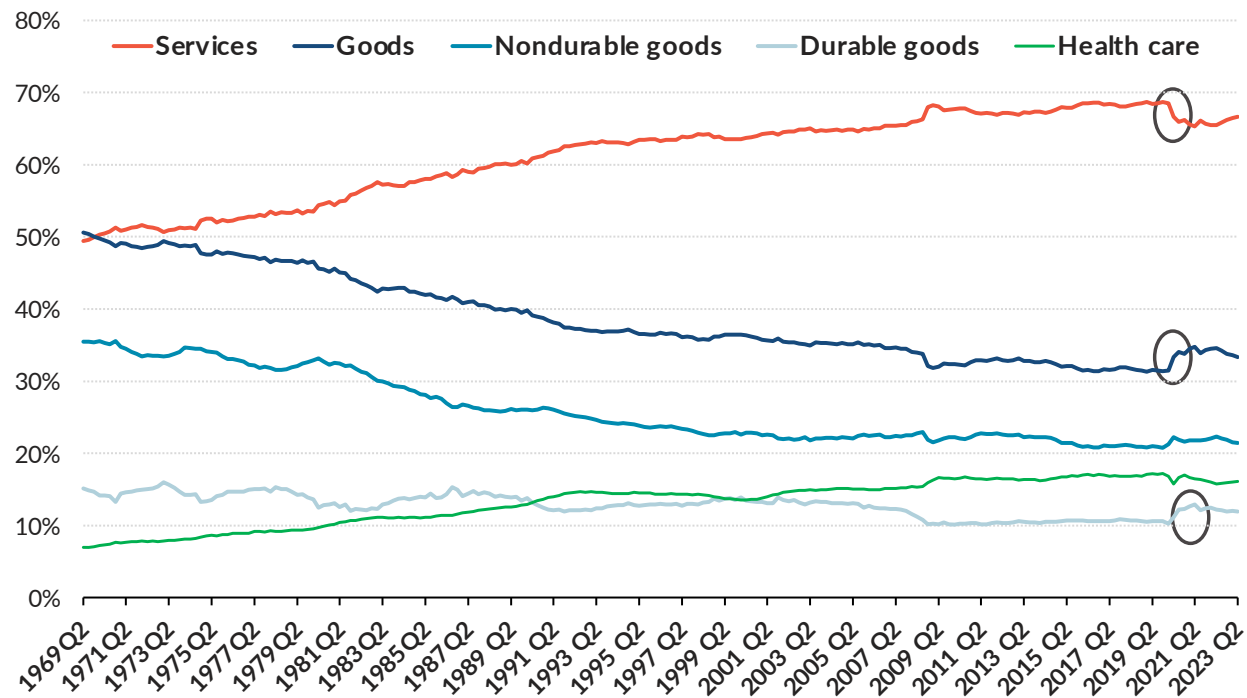


State Consumption Spending Patterns & Sales Tax Revenues

Spending patterns temporarily shifted during the pandemic



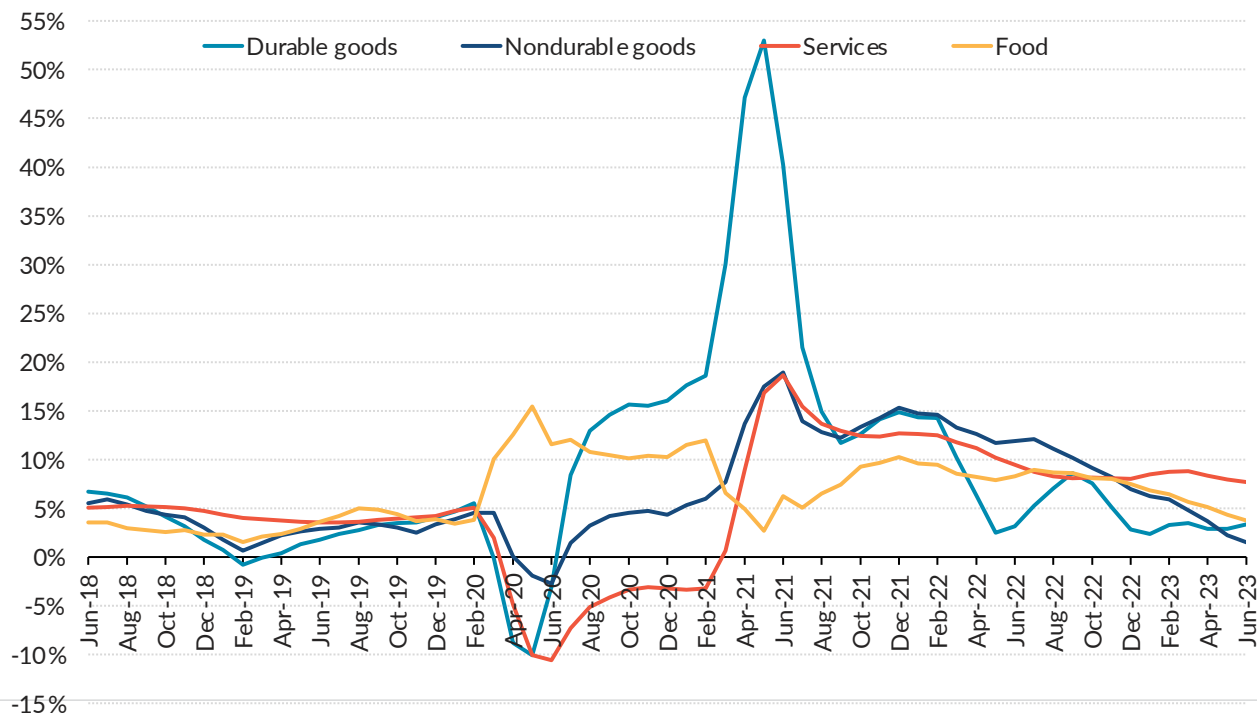
Goods and services as share of personal consumption expenditures



Spending on durable goods skyrocketed during the pandemic, but has declined substantially since then

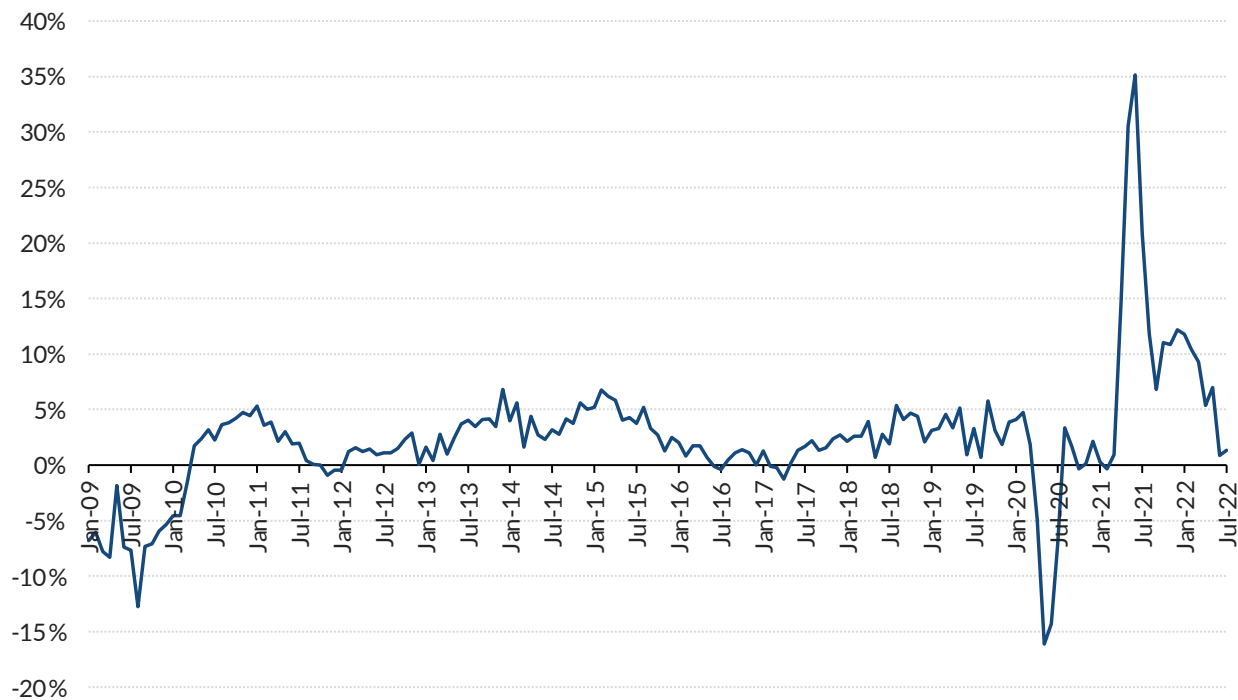


Year-over-year change in personal consumption spending (nominal, 3-month moving averages)



Trends in state **sales** tax revenues

Year-over-year **real** percent change in sales tax revenues, 3-month moving averages



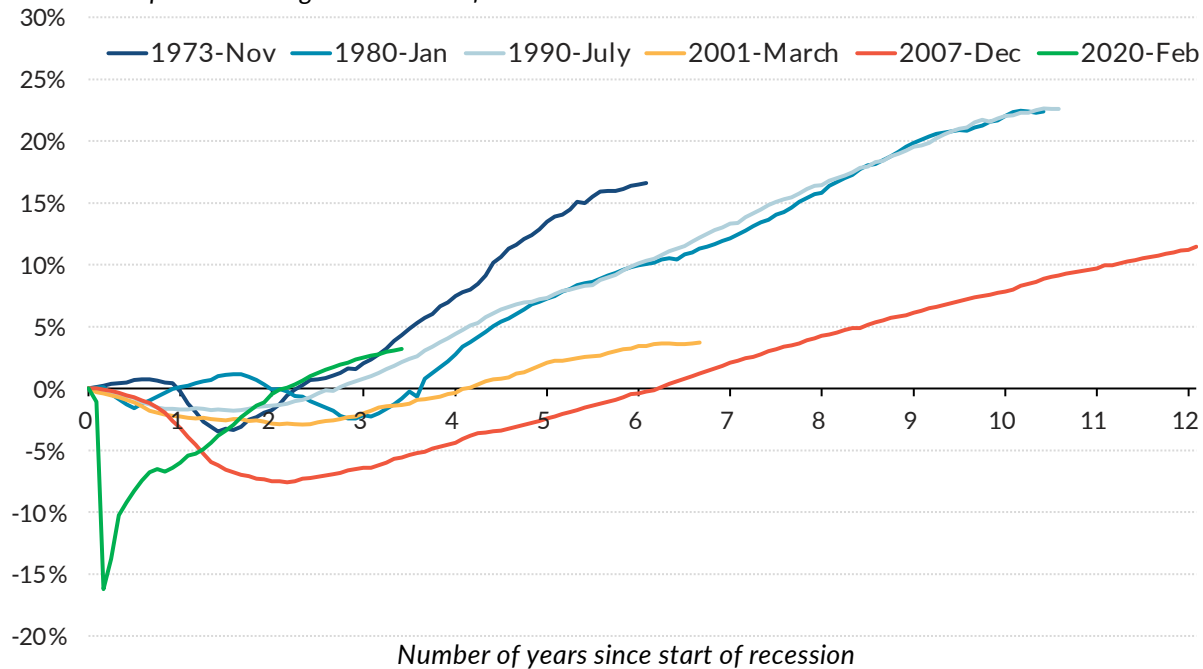
Employment & State Personal Income Tax Revenues

COVID-19 led to free fall in private sector employment



Private sector employment in selected recessions

Cumulative percent change since start of recession

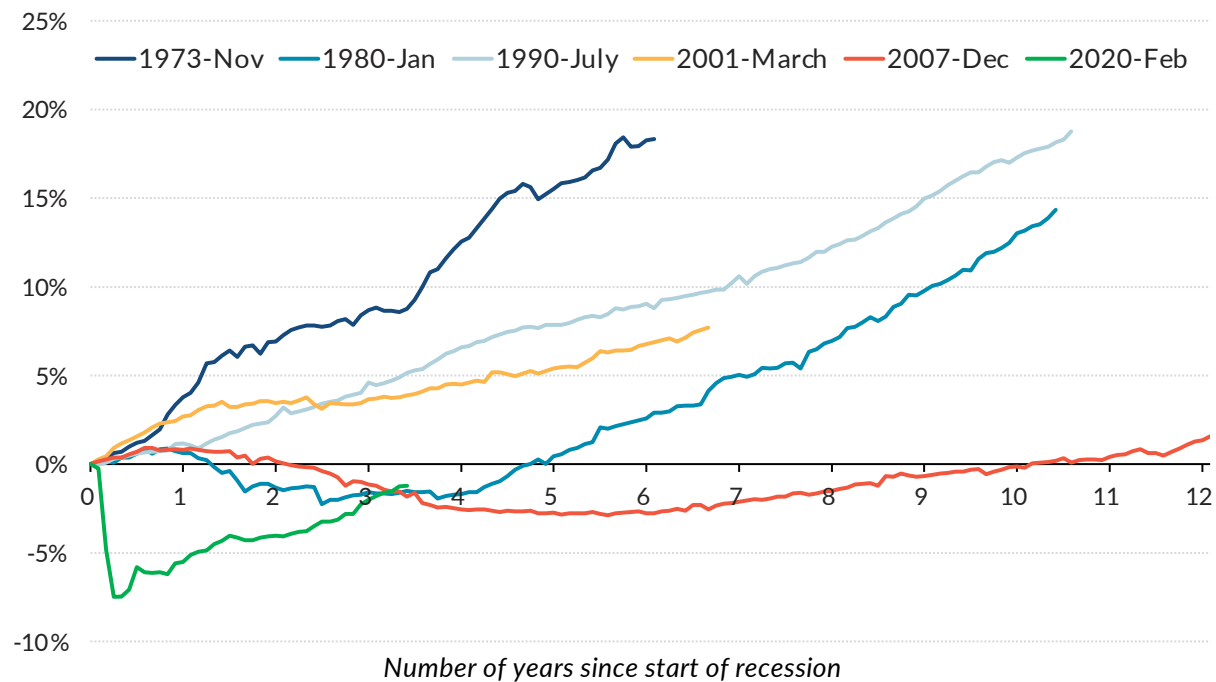


Steepest cuts in state-local government employment

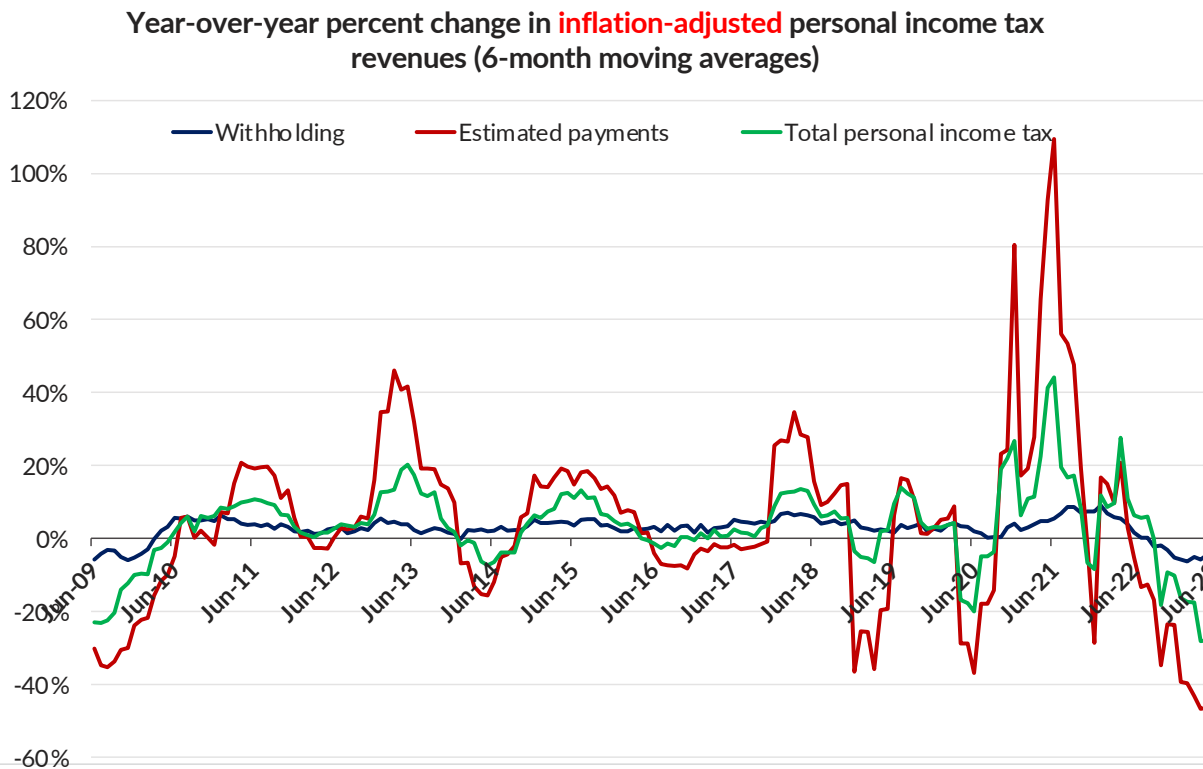


State and local government employment in selected recessions

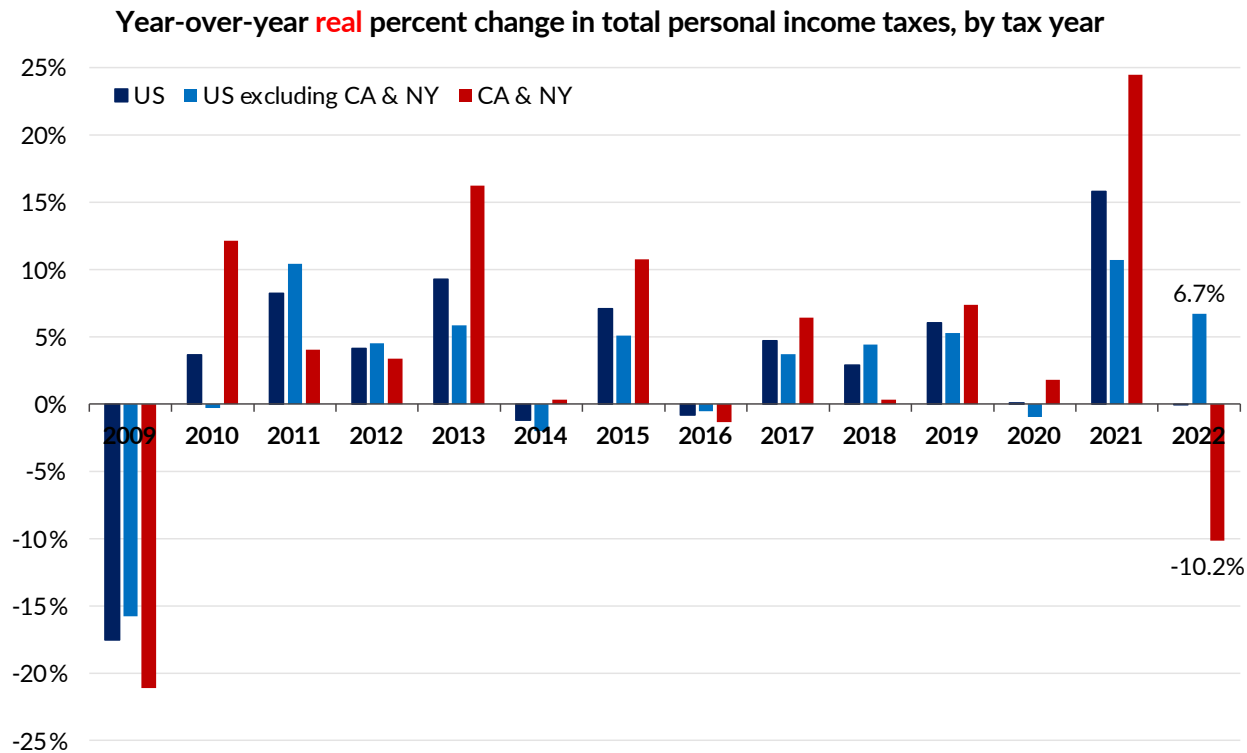
Cumulative percent change since start of recession



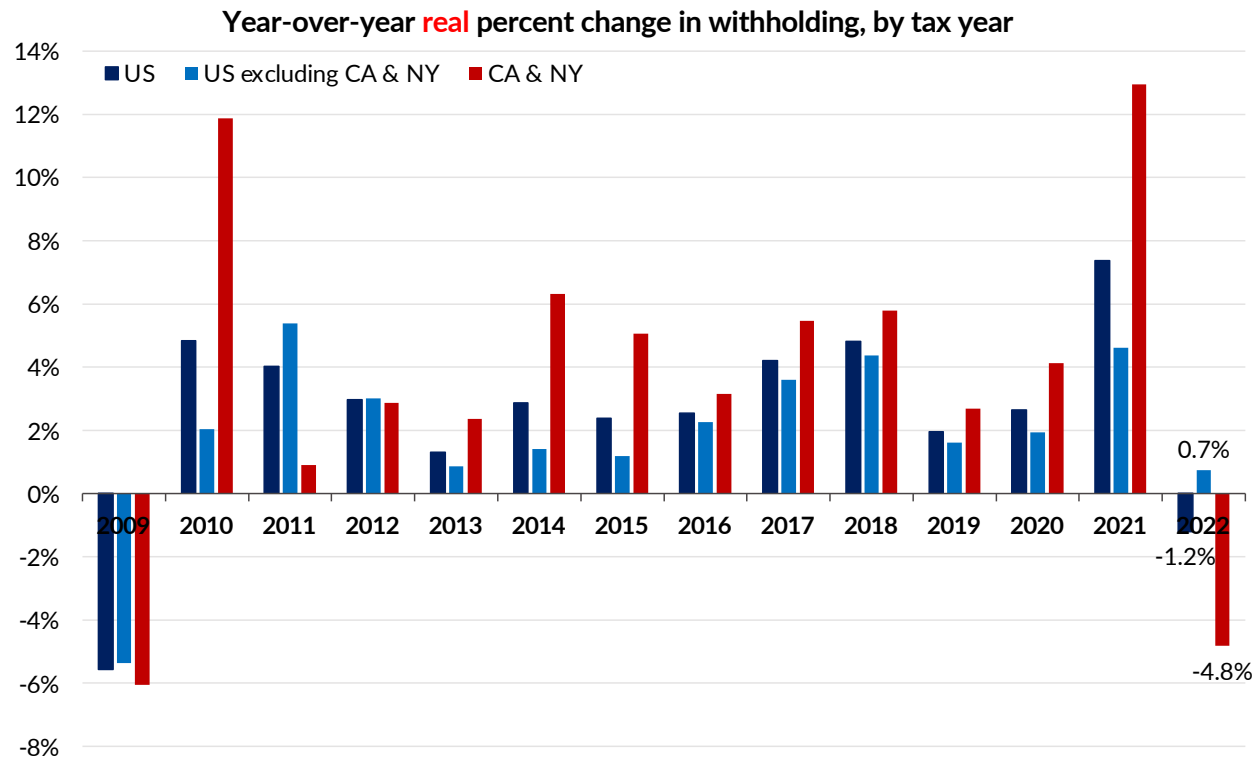
Large fluctuations in personal income tax revenues



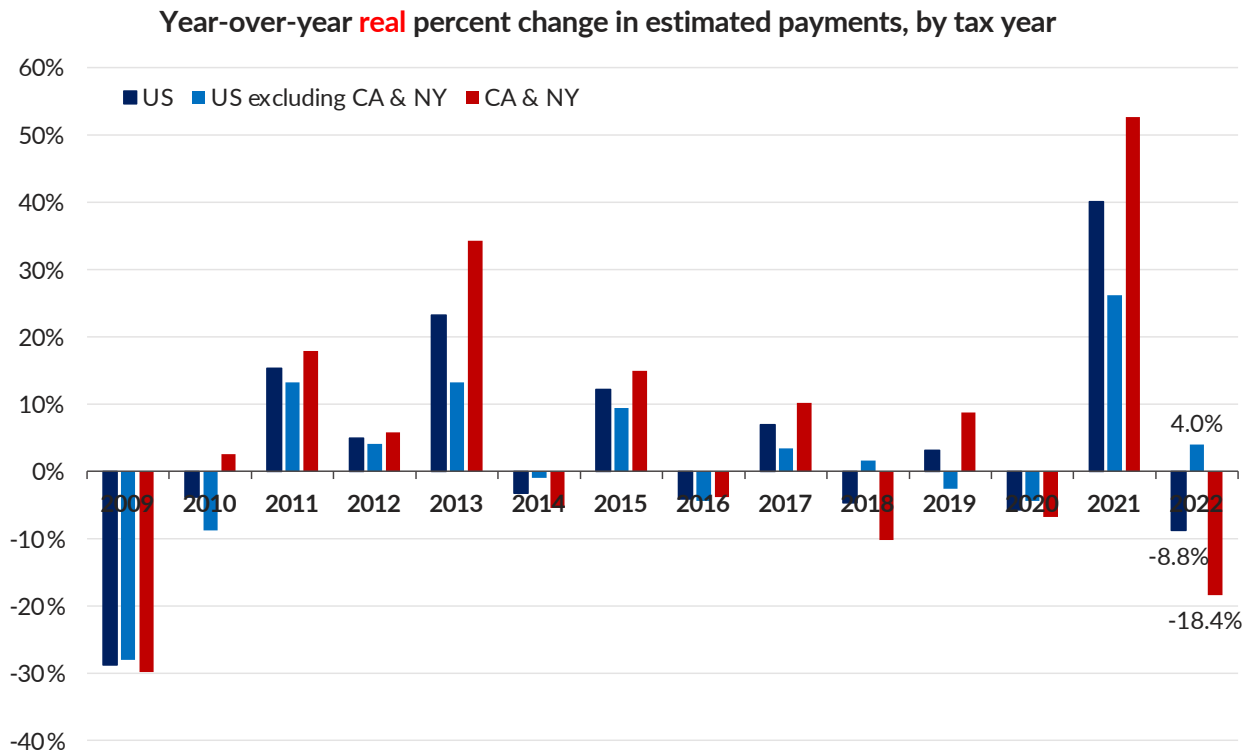
Trends in personal income taxes



Trends in withholding taxes



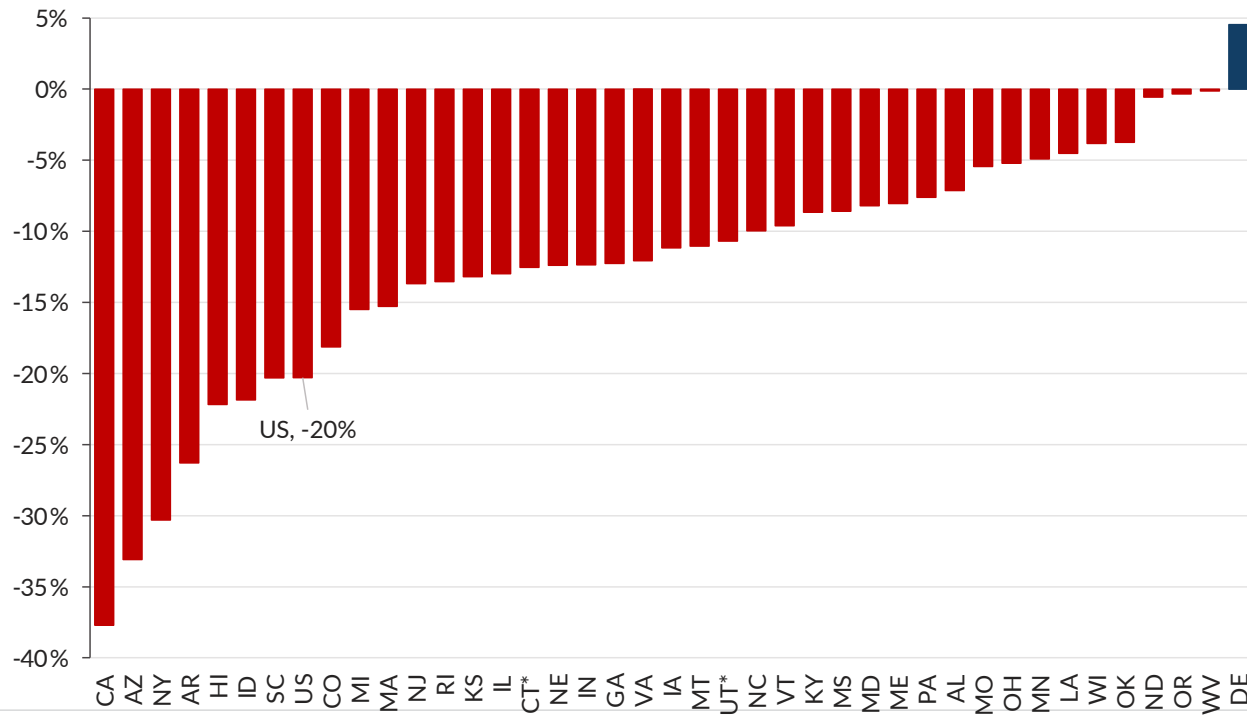
Trends in estimated taxes



Widespread declines in personal income tax revenues

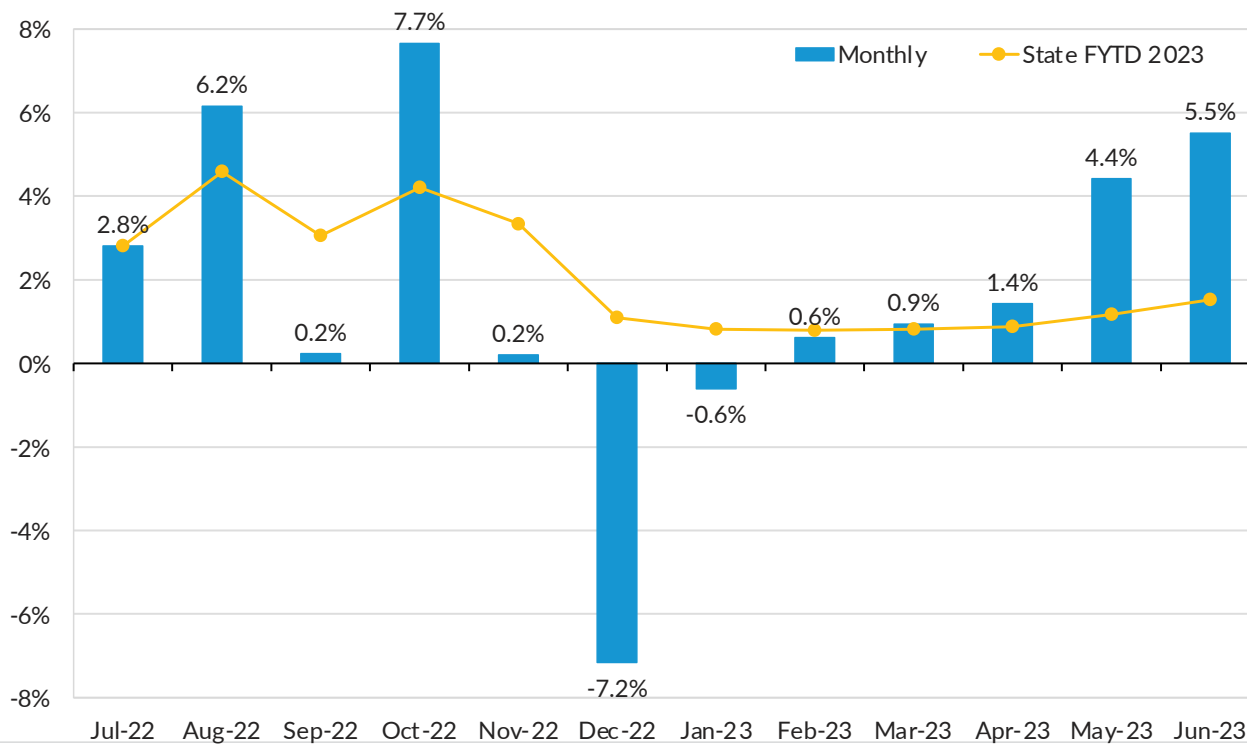


Year-over-year **real** percent change in personal income taxes,
FY 2023 vs FY 2022

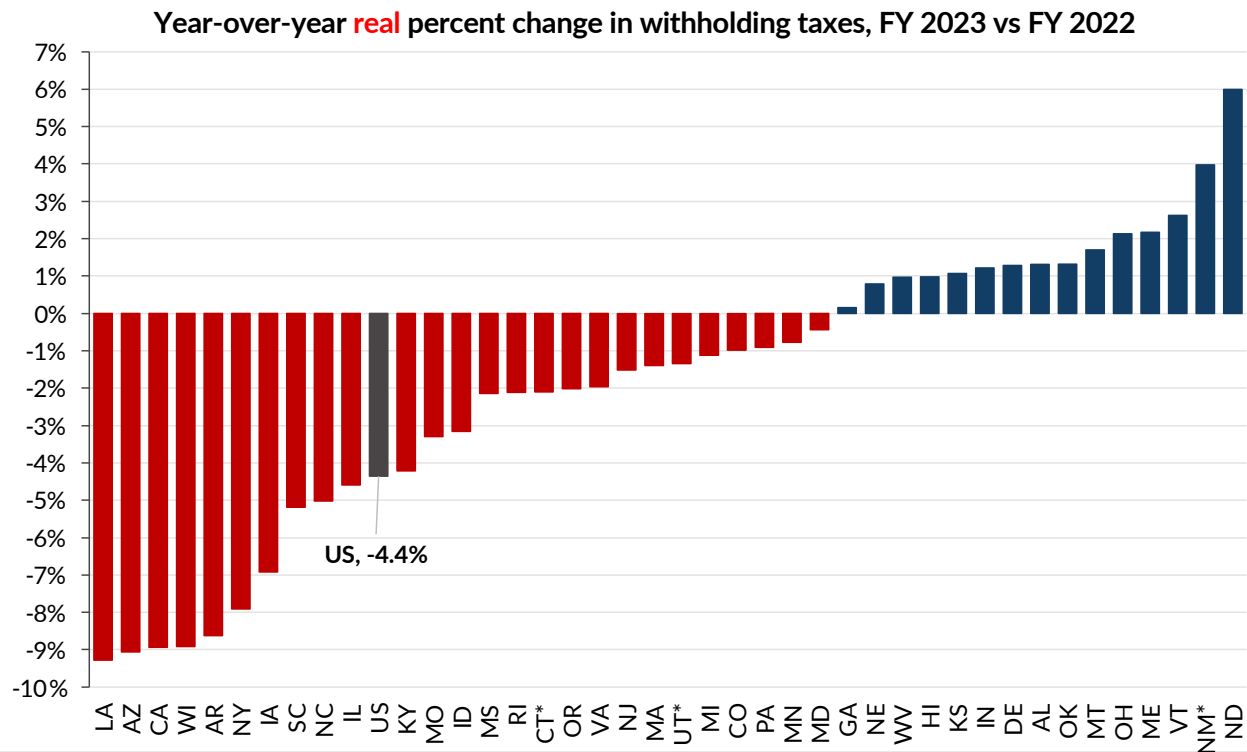


Withholding was volatile throughout FY 2023

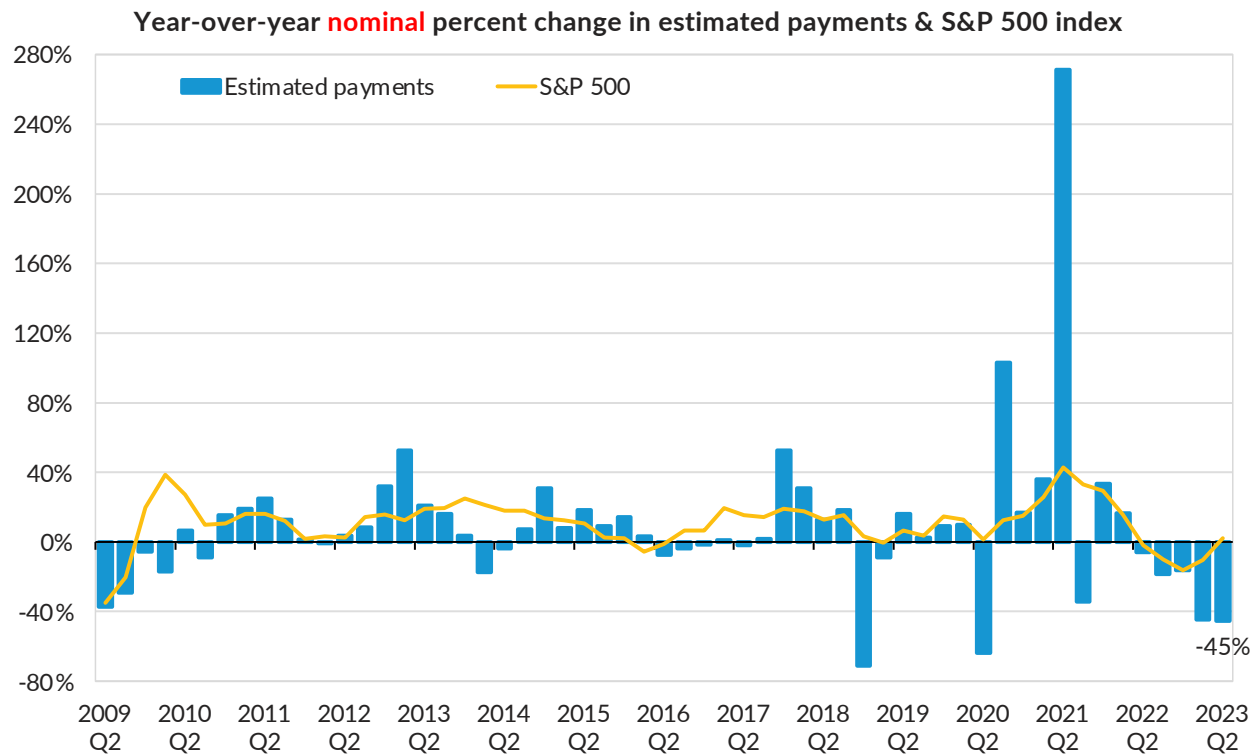
Year-over-year **nominal** percent change in withholding, monthly and state FYTD 2023



Substantial weakness in withholding



Large volatility in estimated payments



Personal income tax structures in 2005 vs in 2020

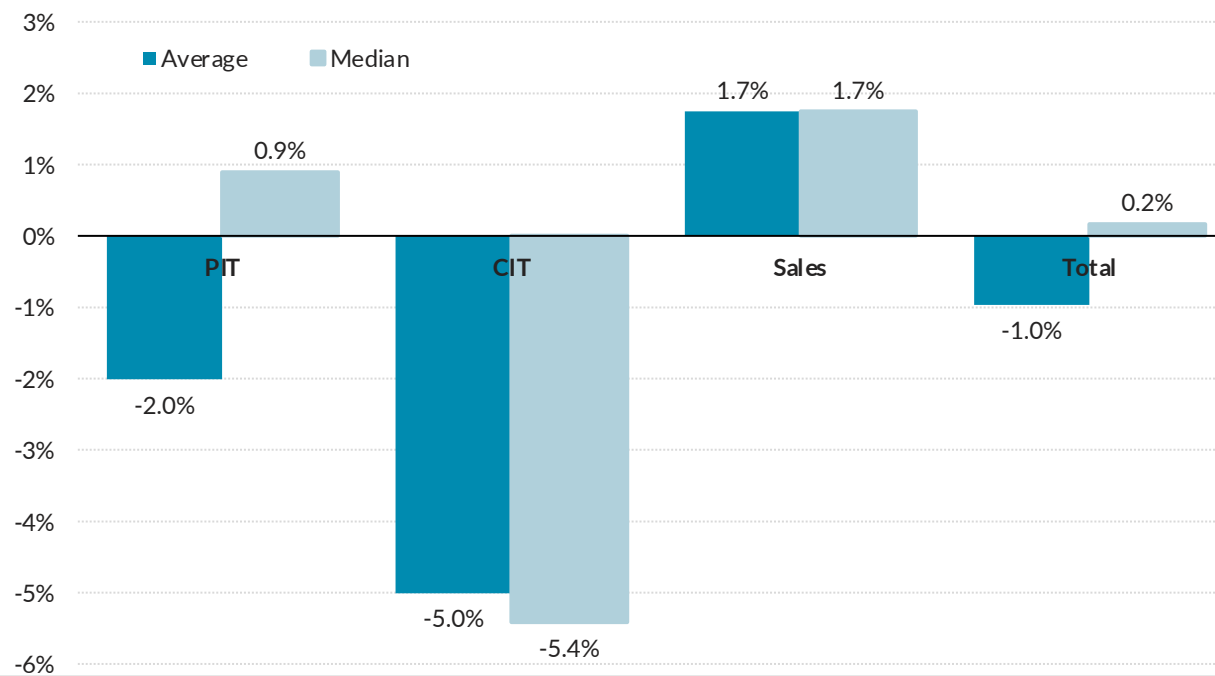
Personal income top tax brackets in 2005					
Flat rate	<\$10K	\$10K - \$35K	\$35k- \$100K	\$100K- \$250K	>\$250K
CO	AL	AR	CA	AZ	NJ
IL	CT	ID	DE	NC	NY
IN	GA	KS	HI	OH	ND
MA	KY	ME	IA	WI	RI
MI	MD	NE	LA		VT
PA	MS	NM	MN		
	MO	OK	MT		
	OR	SC	WV		
	UT	VA			

Personal income top tax brackets in 2020					
Flat rate	<\$10K	\$10K - \$35K	\$35k- \$100K	\$100K- \$250K	>\$250K
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IL	GA	KS	DE	HI	CT
IN	MS	MT	IA	MN	MD
KY	MO	NE	LA	OH	NJ
MA		NM	ME	OR	NY
MI		OK	WV	RI	ND
NC		SC		VT	WI
PA		VA			
UT					

Current Revenue Forecasts

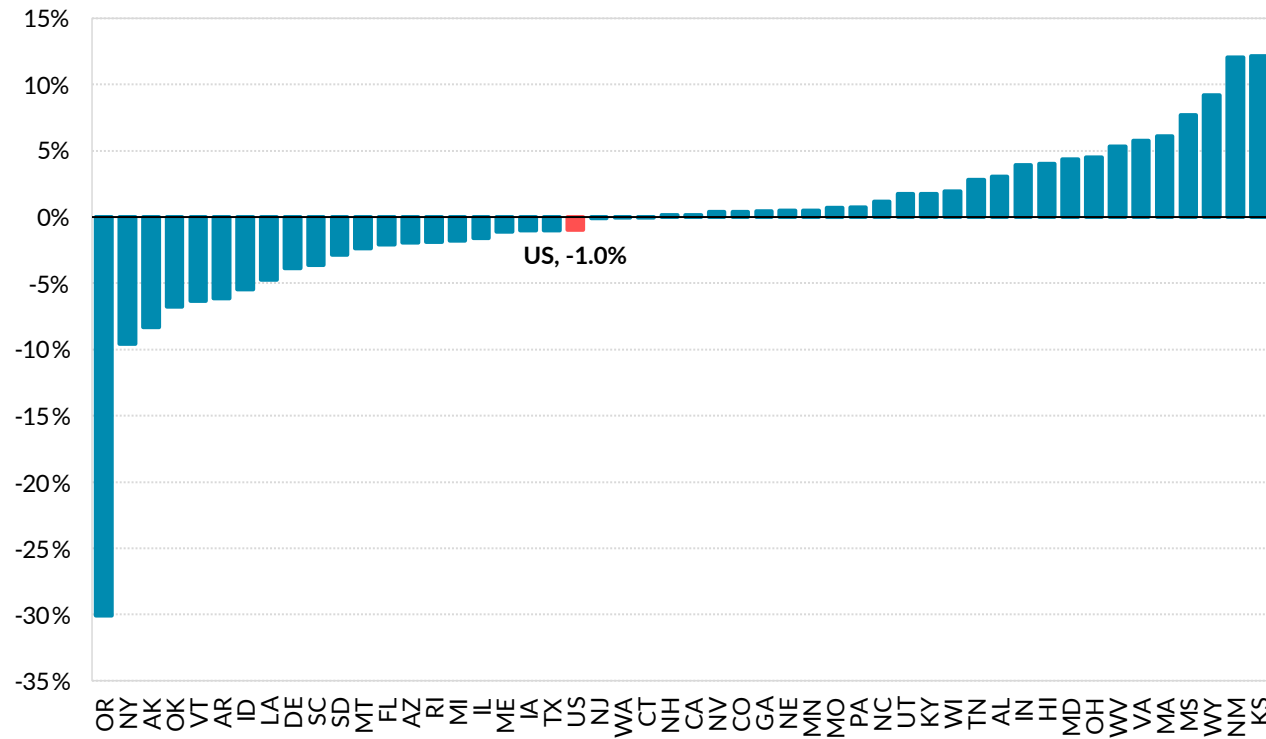
States' most recent revenue forecasts for FY 2024

State revenue forecast for FY 2024 (year-over-year **nominal** percent change)

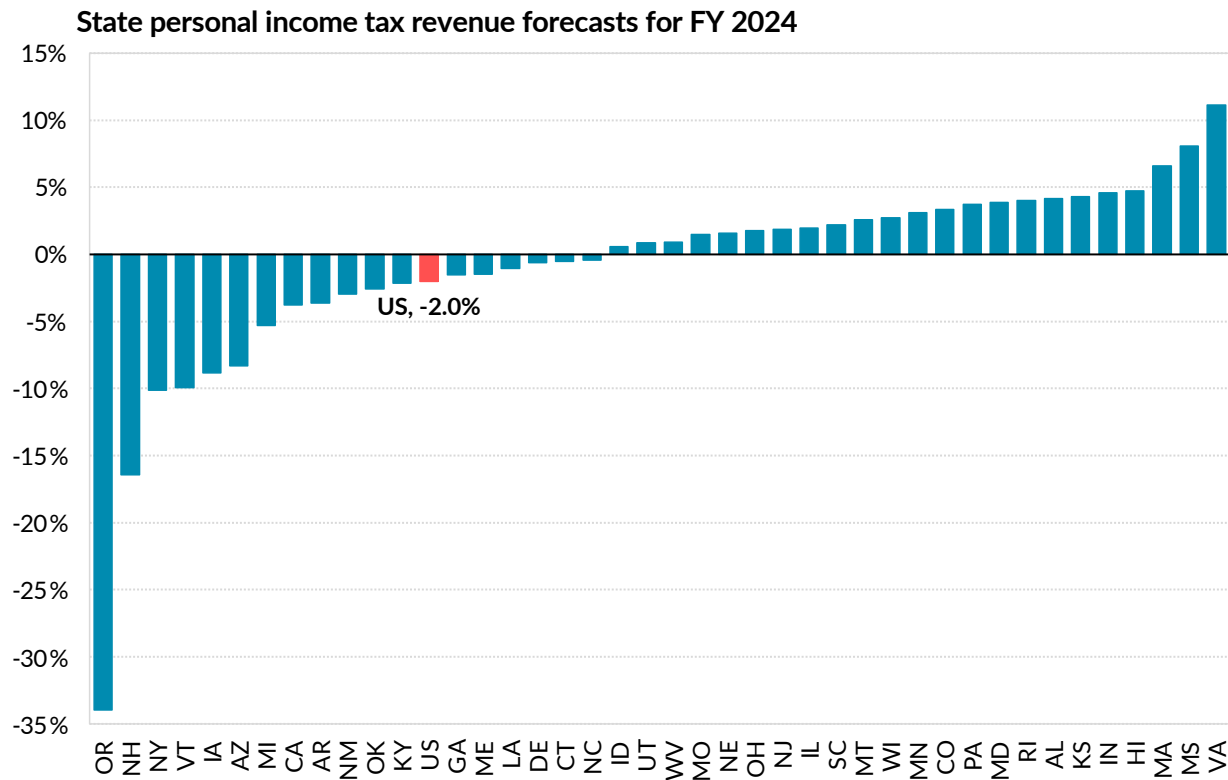


State **total tax** revenue forecasts for FY 2024

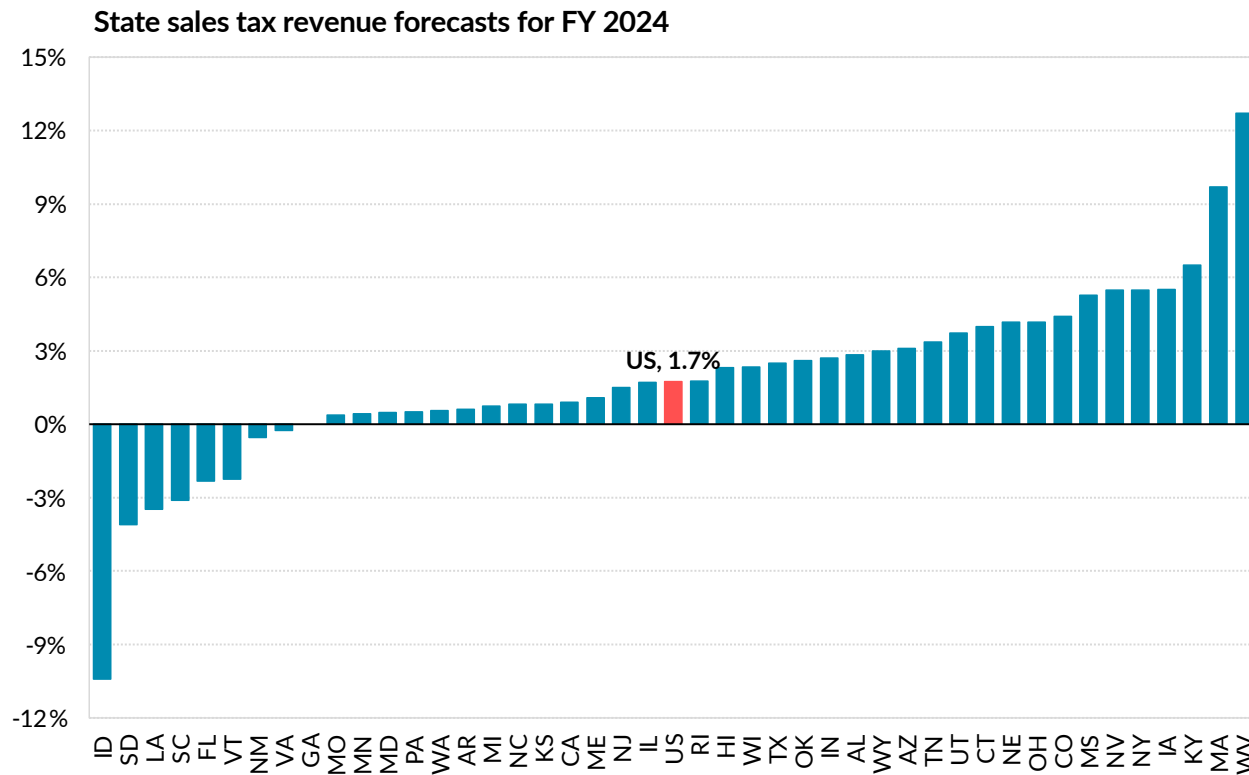
State total revenue forecasts for FY 2024



State **personal income tax** revenue forecasts for FY 2024



State sales tax revenue forecasts for FY 2024



Fiscal Uncertainties Ahead

Fiscal uncertainties ahead

- Post-federal relief economic landscape
- Changes in consumer spending behavior
- The future of the remote work
- The impact of massive tax cuts
- The impact of AI on economy, employment, and state budgets
- 2024 presidential elections and potential federal policy changes
- 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

Need more information and detailed 50-state tax data?



- Visit Urban Institute's State and Local Finance Initiative [webpage](#)
- Read our ***State Tax and Economic Review*** Quarterly Reports, which cover the current status of state tax revenue performance
- Contact me to receive our ***Monthly State Revenue Highlights*** by email
- Get access to our timely state tax [databases](#), including
 - [Annual State and Local Government Gambling Revenue Data](#)
 - [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!

Lucy Dadayan

 LDadayan@urban.org

 [@LucyDadayan](https://twitter.com/LucyDadayan)

 202-261-5425



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