
Another Stellar Quarter of State Revenue Growth, But the Pace Is Slowing Down.

State Tax and Economic Review, 2018 Quarter 2

Abstract

Total state tax revenue from all sources showed strong growth in the last three quarters of 2018. States collected slightly over $1 trillion in tax revenues in fiscal year 2018, a gain of 7.8 percent over 2017. But the revenue growth was uneven among the states and across revenue sources. Much of the growth came from individual income taxes that have grown by double-digits for three consecutive quarters. The growth in income tax was mostly in response to income shifting due to the Tax Cuts and Jobs Act, and other one-time factors. In addition, a handful of states facing falling revenues at the end of fiscal year 2017, enacted significant tax changes, projected to bring in $8.8 billion additional revenue in fiscal year 2018.

Economic factors driving state revenue were all positive in the second quarter of 2018. Although the near-term economic outlook is positive and despite the strong state revenue growth in the most recent quarters, states face large fiscal challenges, particularly because of the uncertainties related to the longer-term impact of the TCJA on state economies and budgets. Therefore, state officials would be wise to view recent revenue increases as a one-time windfall and anticipate slower revenue growth in the medium term.

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