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## **Strengthening Economy, Federal Aid, and Responsible Fiscal Management Helps Lead to Revenue Gains for Most States in Fiscal 2021.**

Most states saw revenue growth in fiscal 2021 primarily resulting from a strengthening national economy and federal stimulus programs. The revenue gains in fiscal 2021 were in contrast to fiscal 2020, when states saw revenues decline after nine consecutive years of growth. Overall, revenues have outperformed projections from earlier in the pandemic (when most states enacted their fiscal 2021 budgets). Several factors help explain recent improvements in states' revenue outlooks, including: federal stimulus measures have put a lot of additional money into the economy, which helped to lessen state revenue losses; high-income earners have been relatively insulated from the pandemic's economic effects, which has limited impacts on personal income tax collections; the types of consumption most curtailed by the pandemic comprise a relatively small portion of states' sales tax bases; and the enabling of online sales tax collections following the U.S. Supreme Court decision in *Wayfair v. South Dakota*.

Fiscal 2021 revenue collections were also impacted by the shifting of the 2020 tax deadline from April 15 to July 15. According to NASBO's Spring 2021 Fiscal Survey of States, nineteen states reported that they recognized these delayed revenues due to the deadline shift in fiscal 2021 instead of fiscal 2020, depressing fiscal 2020 revenues and leading to greater growth in fiscal 2021.

As a result of the preceding factors, most states saw strong year-over-year growth in overall tax collections for fiscal 2021, with a number of states reporting double digit increases. Many states reported that revenue from all major taxes, including sales, personal income, and corporate income, experienced gains in fiscal 2021 compared to fiscal 2020. In addition, most states saw revenues exceed earlier projections leading to budget surpluses. States have begun identifying possible uses of their fiscal 2021 budget surpluses, including: bolstering rainy day funds; restoring prior spending cuts; increasing education funding; additional roads funding; increasing the Medicaid trust fund; additional contributions to retirement funds; paying down future obligations for employee and retiree health care; providing more money to cover the cost of unemployment benefits; repaying federal loans for jobless benefits; refundable income tax credits; property tax relief; and other tax reforms. NASBO's 2021 Budget Processes in the States report details states' legal requirements and policies for determining how to handle a general fund budget surplus in Table 15.

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