
State Revenue Forecasts Look Bleak as Revenue Boom Subsides.

States saw robust tax revenue growth in fiscal years 2021 and 2022, largely caused by federal and state policy actions. But forecasts now look much weaker, even as many states consider additional tax cuts.

Several states cut tax rates or provided rebates to taxpayers in 2021 and 2022, which are estimated to have reduced state tax revenues by $16 billion in fiscal year 2023. This is the largest estimated reduction on record resulting from legislative changes. Depending on how the tax cuts were structured, some states will face a bumpier fiscal path ahead.

Current revenue picture

Preliminary data for the first seven months of fiscal 2023 (July 2022 through January 2023) illustrate how much revenue growth has stalled. Overall, state tax revenues declined 0.2 percent in nominal terms in that period. Personal income tax revenues saw year-over-year declines of 9.3 percent while sales and corporate taxes fared better.

There is also significant variation across the states. California and New York are reporting large declines in overall revenues, whereas many states are still reporting growth in nominal terms – albeit much weaker compared to the prior two years.

State revenue forecasters are predicting weak revenues for both the current fiscal year and for fiscal year 2024. Besides recently enacted rebate payments and tax rate cuts, a stock market decline and an end to federal stimulus funds are playing a significant role.

Continue reading.

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