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Fitch: US States' Credit Resilient Despite Weaker April Income Tax Revenues

Fitch Ratings-New York-11 May 2023: As widely anticipated, state income tax revenues for April have been coming in well below the prior year, and in some cases below state projections. However, most U.S. states are still on track to meet or exceed year-end budget forecasts due to a combination of conservative revenue forecasting and continued growth in other categories of state taxes, Fitch Ratings says. Many states used prior-year revenue surpluses to improve financial resilience by boosting reserves and paying down debt, supporting state ratings stability.

As states set their budgets for fiscal 2024, most are using cautious revenue forecasts that are generally in line with Fitch's expectation for a mild recession later in 2023. Those states implementing significant new spending plans or major tax policy changes could face additional budgetary pressure in the near and medium term, depending on the severity of revenue slowdowns.

April is a key month for states given the traditional mid-April income tax deadline. Last April's robust performance drove very large budget surpluses for many states. This year loomed particularly large given the anticipated drop-off in tax revenues due to slower overall economic growth and weak capital markets performance in calendar year 2022, which is an indicator for capital gains income. Based on data from early reporting states, this is playing out largely as expected.

Continue reading.

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