URBAN INSTITUTE

MONTHLY STATE REVENUE HIGHLIGHTS

State Tax Revenues Grew Double-Digits in November

By Lucy Dadayan

State Tax Revenues in November 2021

Year-over-year growth in **total state tax collections** was strong in November 2021, according to preliminary data collected by the Urban Institute. States saw another month of solid revenue performance from **personal income taxes** (18.8 percent increase), **corporate income taxes** (2.2 percent increase), and **sales taxes** (18.0 percent increase) in November 2021 compared to November 2020. Personal income tax revenue gains are primarily attributable to strong growth in payroll withholdings due to continued employment gains. (Employment increased by 4.4 percent in November 2021 compared to November 2020). Strong growth in sales tax collections is partially due to the recovery of service-based sectors, such as restaurants, bars, hotels, and entertainment.

National Trends (dollars are in millions)

Tax source	November 2021	November 2020	YOY % change	YOY median % change	April-Nov. 2021	April-Nov. 2020	YOY % change	YOY median % change
Total state taxes	$ 79,683	$ 67,481	18.1%	15.0%	$ 752,183	$ 604,599	24.4%	20.2%
Personal income	**31,475**	**26,495**	**18.8**	**12.6**	**329,833**	**272,396**	**21.1**	**15.3**
Corporate income	**1,257**	**1,231**	**2.2**	**30.0**	**60,658**	**37,749**	**60.7**	**61.7**
Sales	**32,338**	**27,398**	**18.0**	**15.3**	**250,233**	**201,835**	**24.0**	**21.1**

Note: YOY = year-over-year; YTD = year-to-date.

Monthly numbers can be noisy due to one-time events (e.g., delays in income tax filing deadlines) or timing issues (e.g., different numbers of processing days in a given month compared to the same month in the prior year). Year-to-year comparisons of monthly revenues have been especially volatile over the last two years given federal and state actions in response to the COVID-19 pandemic. These issues should be taken into consideration when looking at revenue comparisons over time and we suggest relying on longer-term analysis to discern trends.

State Tax Revenues During April 2021 – November 2021 Period

Between April 2021 and November 2021, total state tax revenues increased 24.4 percent in nominal terms compared to the same period one year earlier. Growth was strong among all major sources of tax revenue: personal income taxes increased 21.1 percent, corporate income taxes increased 60.7 percent, and sales tax revenues increased 24.0 percent, but part of this was due to weak revenues at the beginning of the pandemic. Comparing April to November as opposed to state fiscal years has the advantage of netting out changes in revenues related to differing tax remittance deadlines.

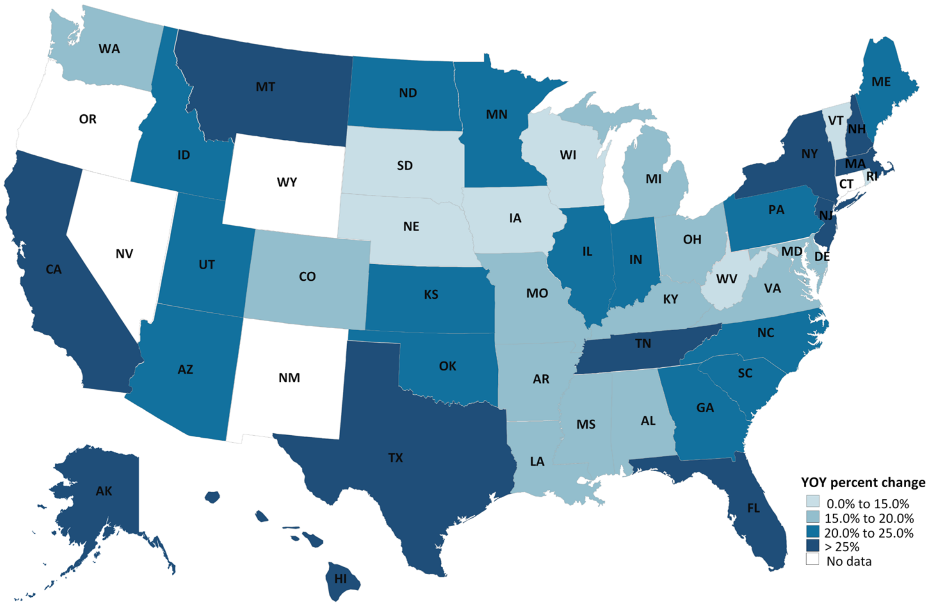
Preliminary data from 45 states for the April 2021 – November 2021 period indicate:

- All 45 states reported growth in **total tax** revenues, with 25 states reporting growth of over 20 percent.
- 37 states reported growth in **personal income tax** revenues, with 9 states reporting growth of over 20 percent.
- 42 states reported growth in **corporate income tax** revenues, with 40 states reporting growth of over 20 percent.
- 41 states reported growth in **general sales tax** revenues, with 25 states reporting growth of over 20 percent.

There are still large variations across states (see figure below), primarily due to differences in state tax structures, industry reliance, and state policy choices. In addition, states that had seen steep declines in revenues last year because of the pandemic (i.e. Alaska, Hawaii, Florida), saw robust revenue collections in 2021 due to the recovery of the tourism industry, renewed consumer spending, and increases in oil and gas prices.

Percent Change in State Tax Revenues

April 2021-November 2021 vs April 2020-November 2020, percent change

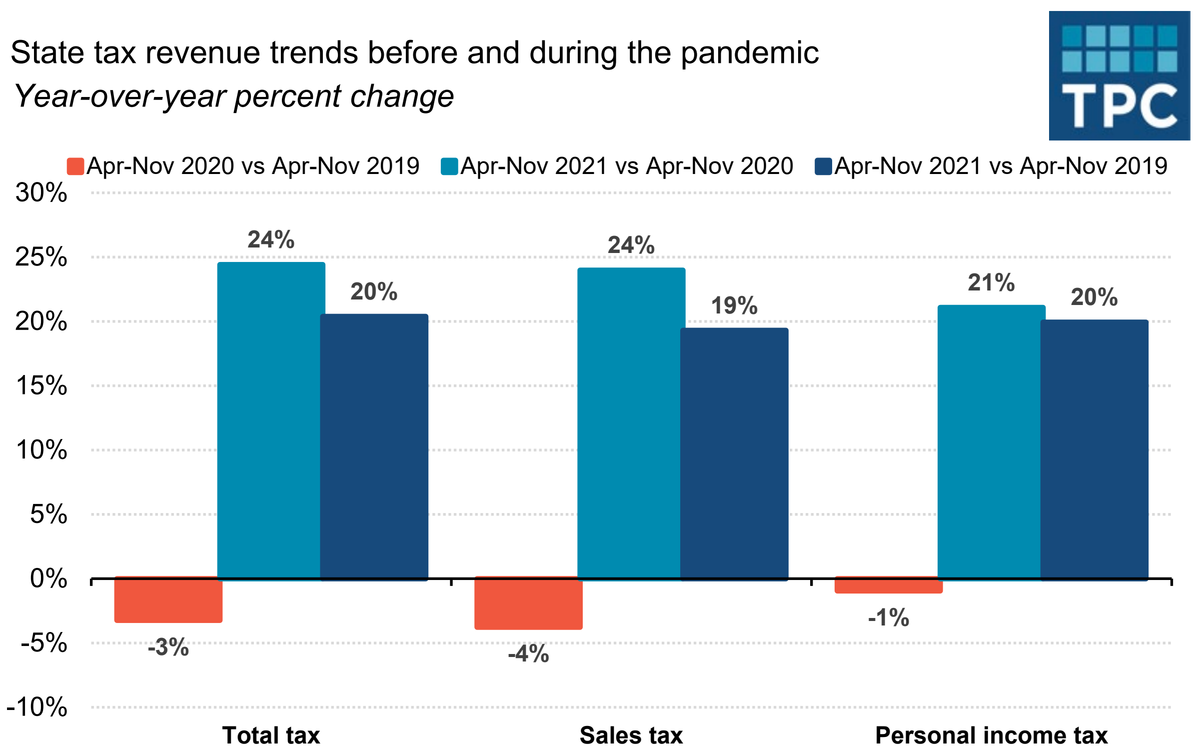


Notes: Complete data is still not available for Connecticuit, Nevada, New Mexico, Oregon, and Wyoming.
https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/projects/state-tax-and-economic-review

The figure below shows growth in state tax revenues for the April 2021 - November 2021 period compared to the same periods in 2019 and 2020. Total state tax revenues—as well as personal income and sales tax revenues—saw double-digit growth, reflecting positive consumer confidence, an improving economy, and massive federal assistance.

State tax revenue trends before and during the pandemic

Year-over-year percent change

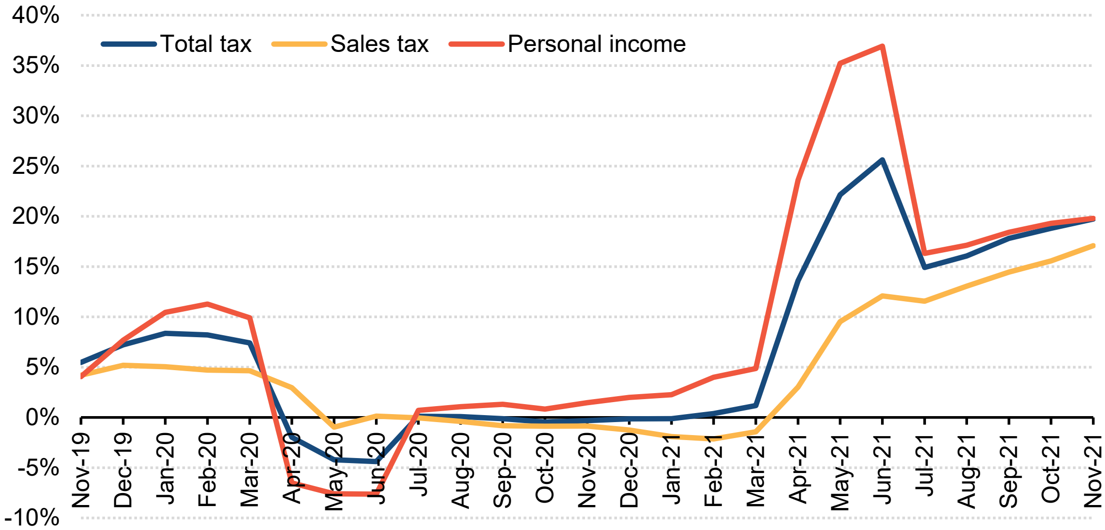


Longer-Term Trends in State Tax Revenues

Analyzing 12-month moving averages (see figure below), nominal state revenues declined steeply at the beginning of the pandemic (primarily in the second quarter of 2020). These declines were large enough to depress 12-month moving averages throughout the rest of 2020. Spikes in revenue growth in May and June of 2021 and the subsequent decline in July 2021 compared to a year earlier are largely attributable to changes in income tax filing deadlines both in 2020 and 2021. Growth in November 2021 was solid by this 12-month moving average measure.

Percent change in state tax revenues

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



Source: State and Local Finance Inititative, Urban Instiutute.

Robust growth in state tax revenues is in large part due to federal aid that injected trillions of dollars into the economy and increased personal consumption and sales tax revenues. As a result, growth in state tax revenues is much stronger than growth in the economy. Income tax revenues were boosted largely because of the strong stock market as well as because high-income taxpayers were largely spared the pandemic's economic impacts. It is also likely that high-income taxpayers might have accelerated some income into tax year 2021 in anticipation of the federal government raising the tax rate on capital gains in 2022. In addition, income tax revenue increases in states with progressive income structures and where income tax brackets are not adjusted to inflation also can reflect some bracket creep due to higher inflation rates this year.

Most states are forecasting continued growth in state tax revenues for the rest of FY 2022 as well as for FY 2023. In light of strong revenue performance, a handful of states had cut income tax rates last year and more states are proposing tax cuts for FY 2023. These tax cuts could create fiscal burdens for the states in the long run as federal relief ends and state economies normalize. In addition, remote work, shifts in consumer behavior, potential declines in commercial property taxes, and other short-term disruptions caused by the pandemic might have longer-term ripple effects on state economies and budgets. Finally, the newest variant of COVID-19, Omicron, as well as rising inflation, cast a new shadow on state budgets. In brief, the longer-term impact of the pandemic on state budgets is still uncertain, despite current fiscal strength.

The **State and Local Finance Initiative** at the Urban Institute monitors state tax collections and associated economic indicators. For a more comprehensive analysis of state tax revenues and underlying economic data, please read the quarterly ***State Tax and Economic Review***. To learn more about gaining access to the full datasets, please read about our subscription service here.