

# Do States Know Where Their Revenue Comes From? The Effect of Real-Time Data on State Taxation

FTA Revenue Estimation Conference, 2021

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# Agenda

## > The state of state taxes

- > Policy decisions in response to COVID-19
- > State government tax revenue collections before and during the pandemic
- > The impact of the pandemic on consumption spending & sales tax revenues

## > Unpacking the results: The future of tax trends

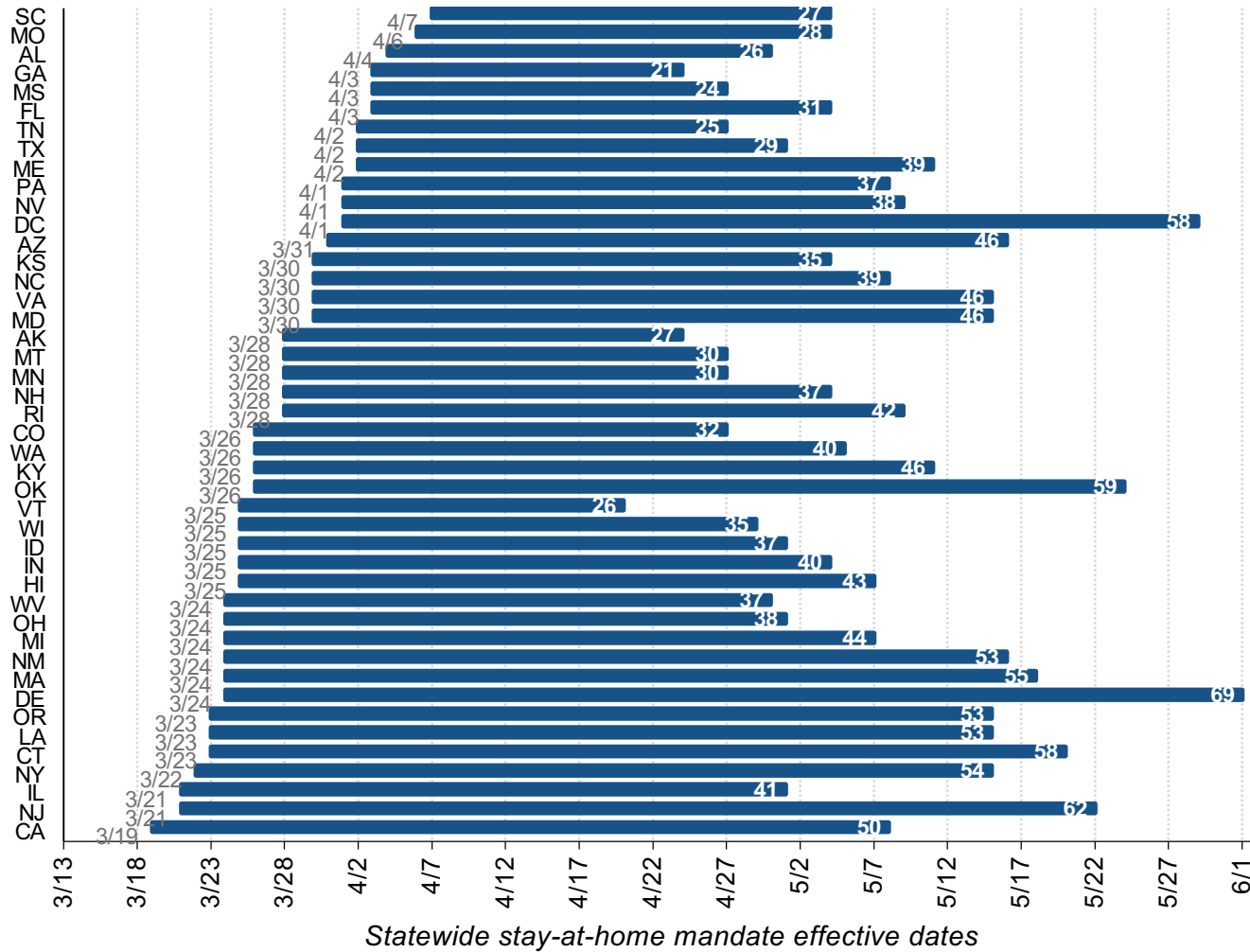
- > How uncertainties led to revenue underestimation
- > How the Wayfair decision bolstered budgets
- > Online sales and online taxation
- > Taxation of goods and services
- > State current and future fiscal challenges

# Policy Decisions in Response to COVID-19

# Both Federal and State Governments Responded

- The CARES Act provided around \$137 billion to state and local governments
- The ARPA provides around \$350 billion to state, local and tribal governments
  - \$195 billion to state governments
  - \$155 billion to local & tribal governments
- The Fed and all states with income tax extended income tax filing deadlines
  - Tax year 2019: from April 15, 2020 to July 15, 2020
  - Tax year 2020: from April 15, 2021 to May 17, 2021
- Many states also extended filing and payment deadlines for sales taxes, others waived interests and penalties
- 43 states mandated stay-at-home orders

# State Stay-at-Home Order Effective Dates & Duration



**Note:** Labels indicate stay-at-home order effective dates and number of days in effect.

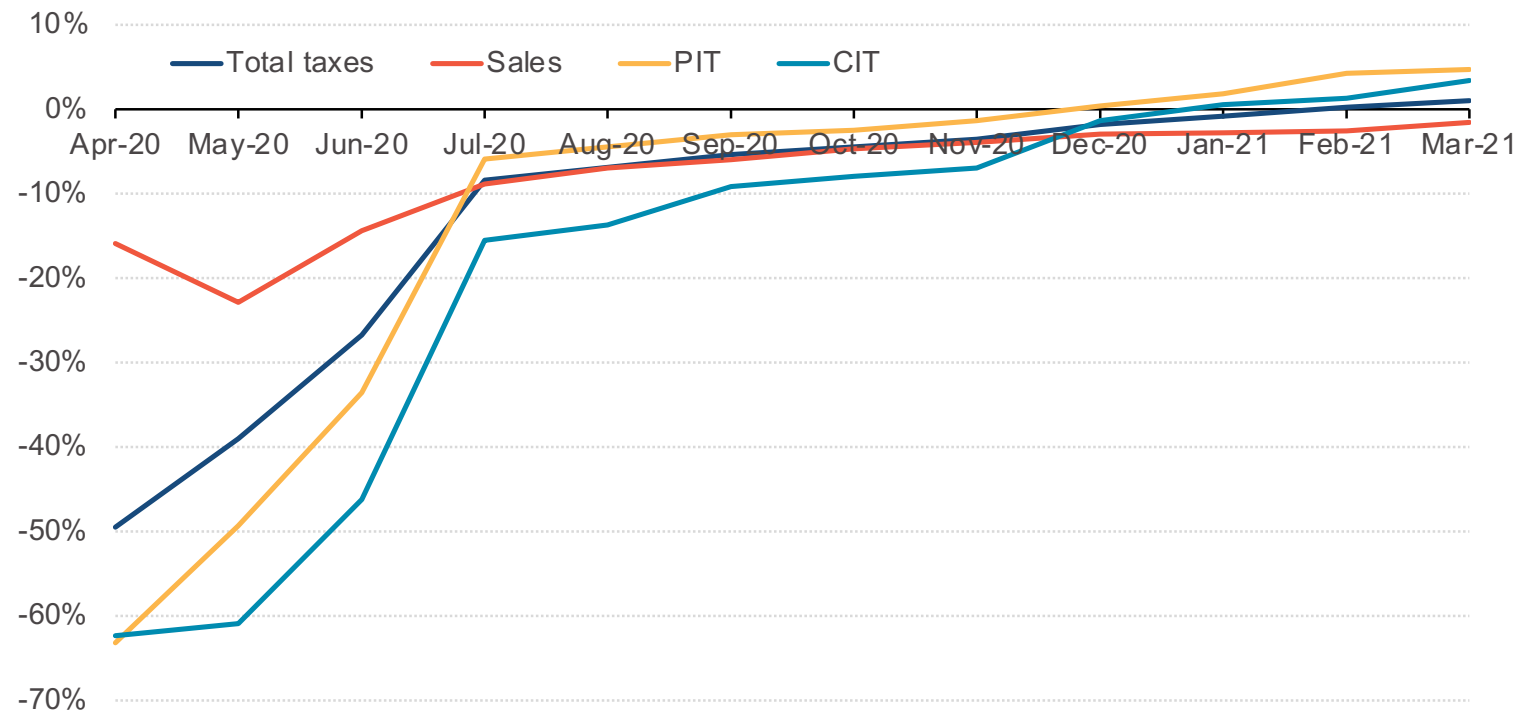
# The COVID-19 Effect: State Government Tax Revenue Collections

# Steep Declines in State Revenues on the Onset of the Pandemic, But Much of This Was Timing Effect



## Percent change in state tax revenues

Year-over-year percent change in cumulative state tax revenues



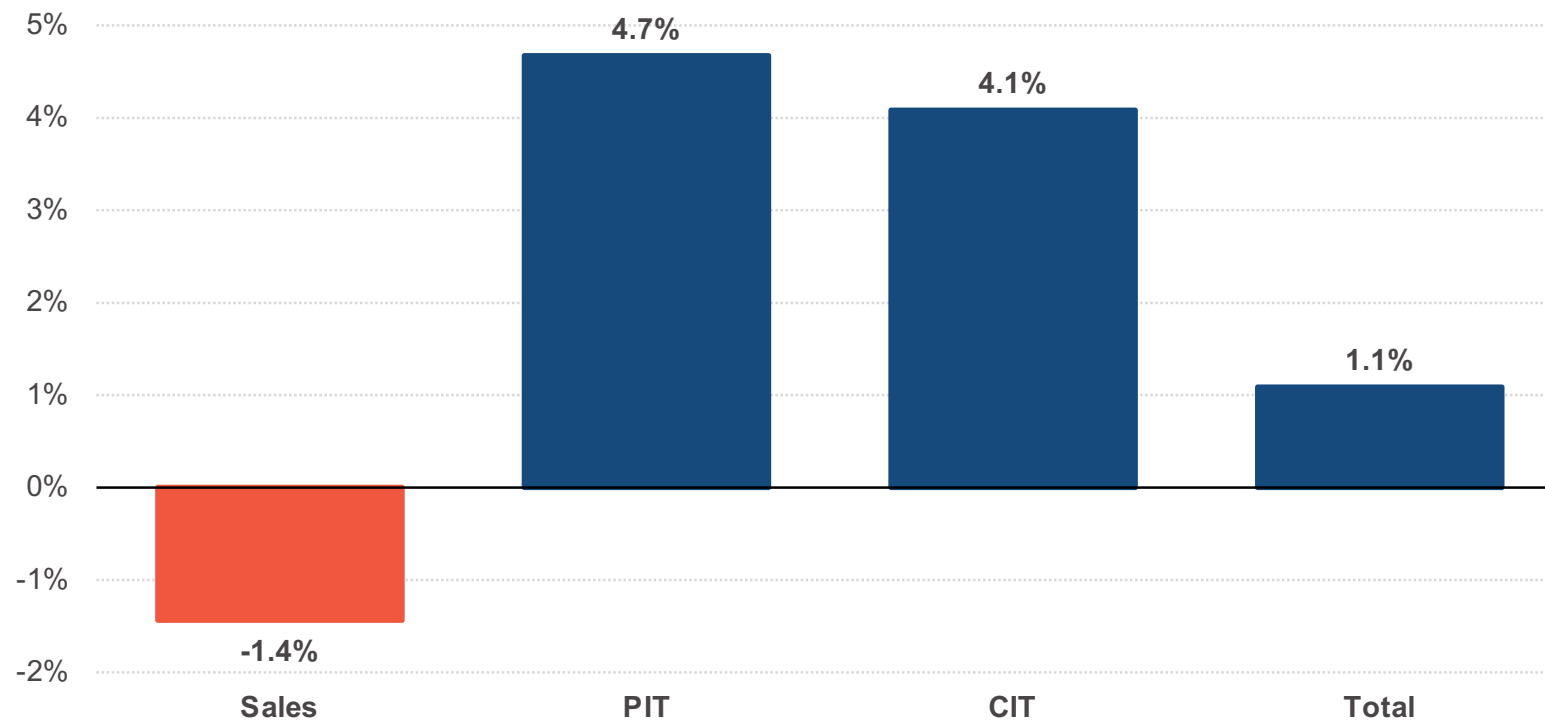
Source: State and Local Finance Initiative, Urban Institute.

# State Tax Revenues in the First 12 Months of the Pandemic



## State revenues during the first year of the pandemic

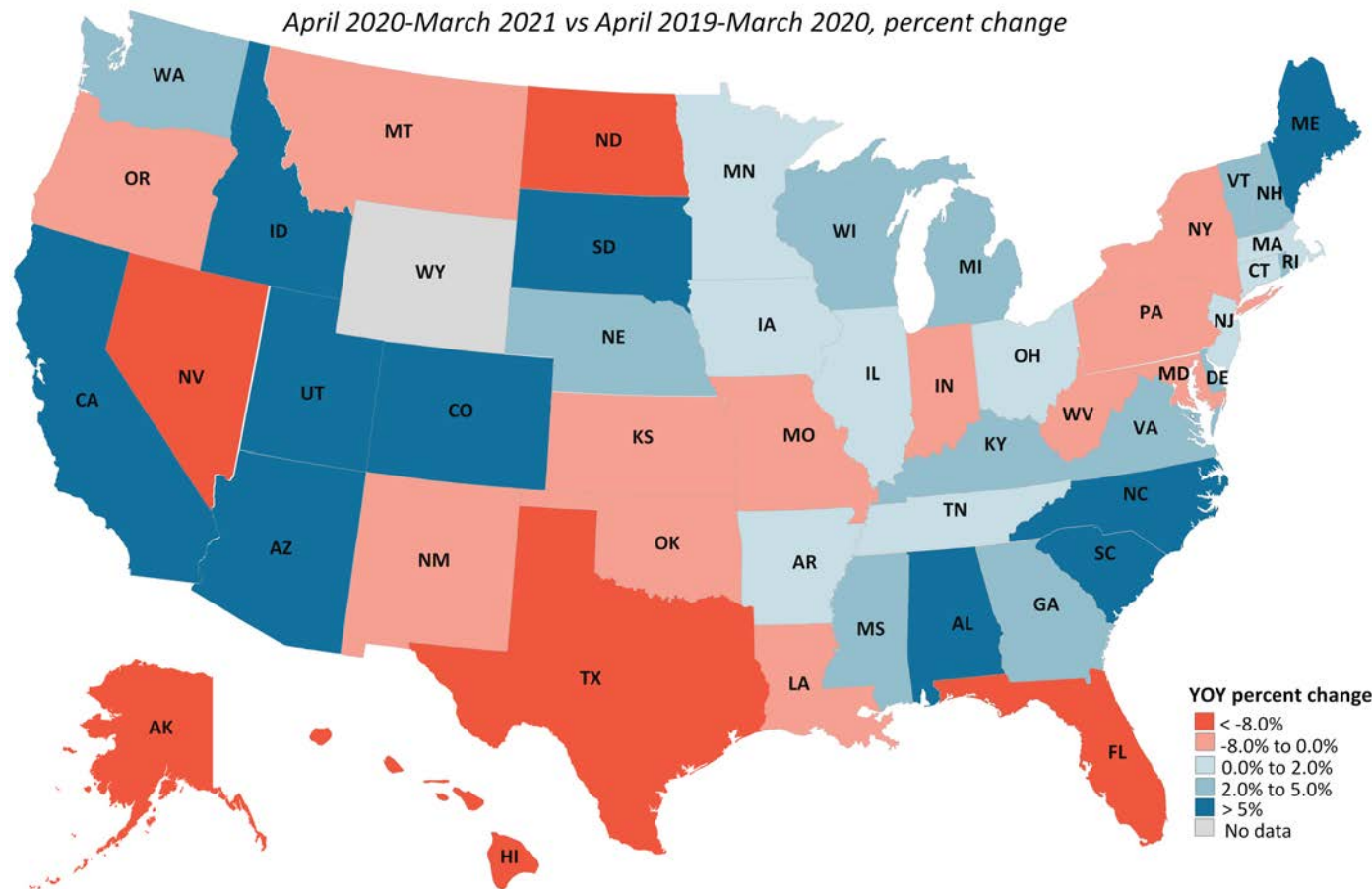
Year-over-year percent change, Apr 2019-March 2020 vs Apr 2020-March 2021



Source: State and Local Finance Initiative.



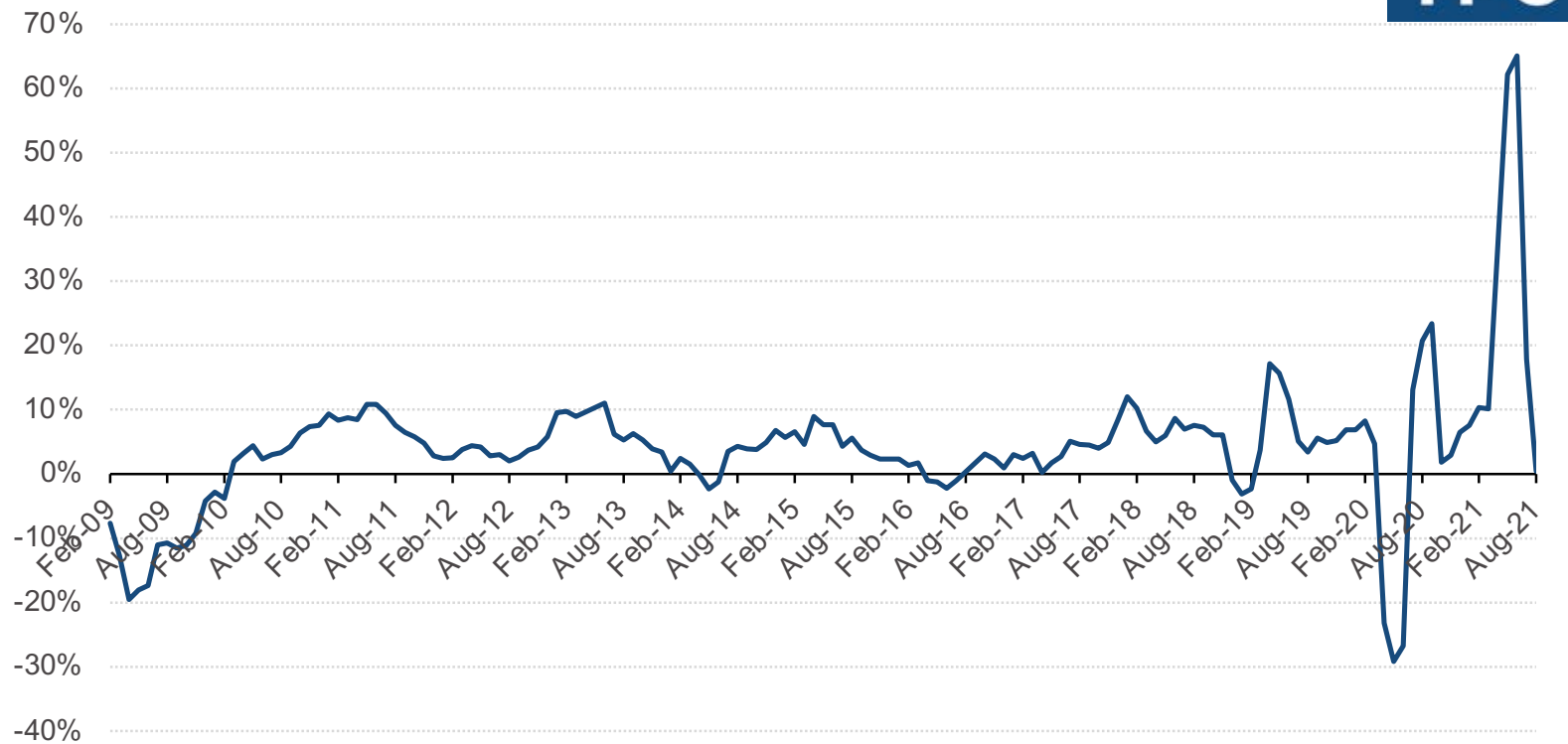
# State Total Tax Revenues During the First Year of the Pandemic



# Trends in State **Total** Tax Revenues

## Trends in state total tax revenues

*Nominal year-over-year percent change in state tax revenues*

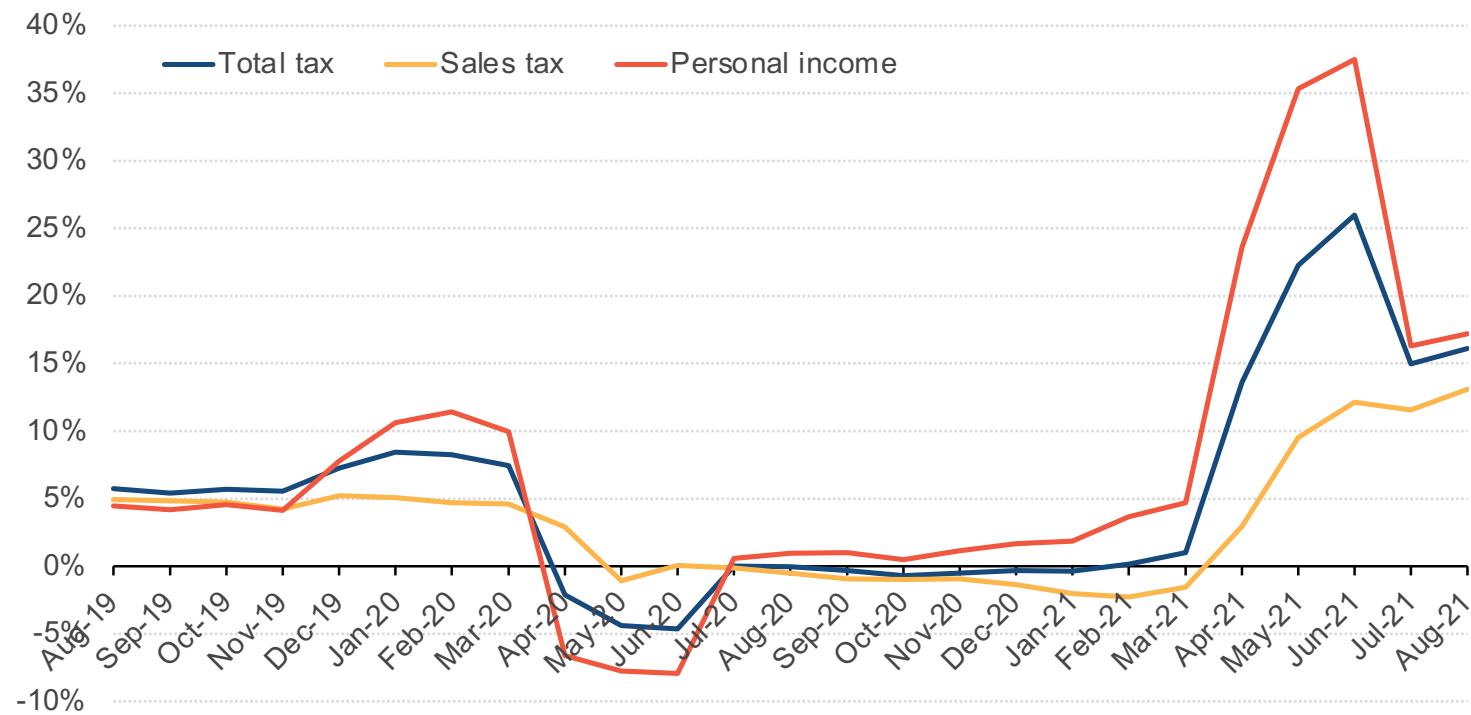


**Note:** Percentage change is for 3-month moving averages.

# State Revenue Growth Seems Strong, But For How Long?

## Percent change in state tax revenues

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

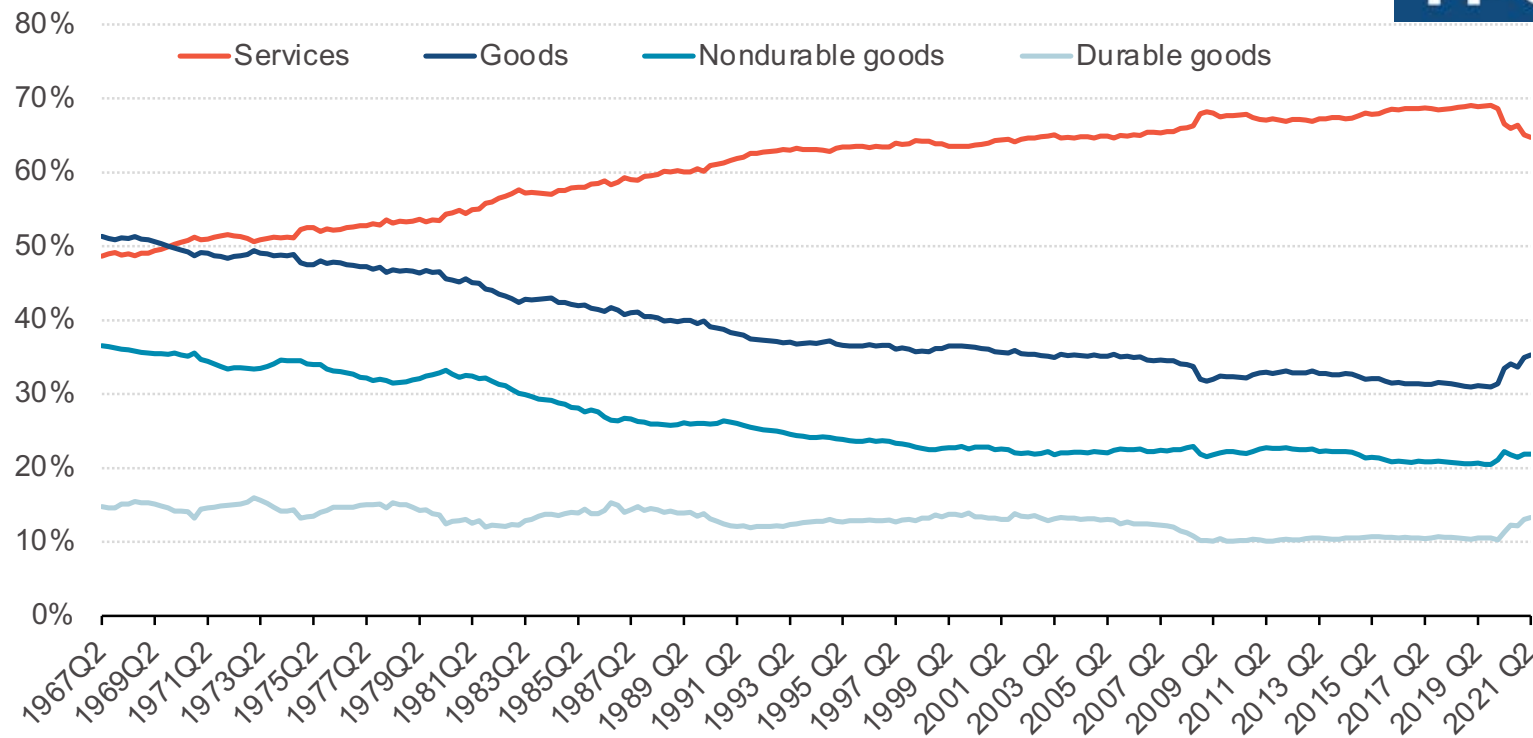


Source: State and Local Finance Initiative, Urban Institute.

# The COVID-19 Effect: Consumption Spending & State Sales Tax Revenues

# Spending Patterns Shifted During the Pandemic

Goods and services as share of personal consumption expenditures

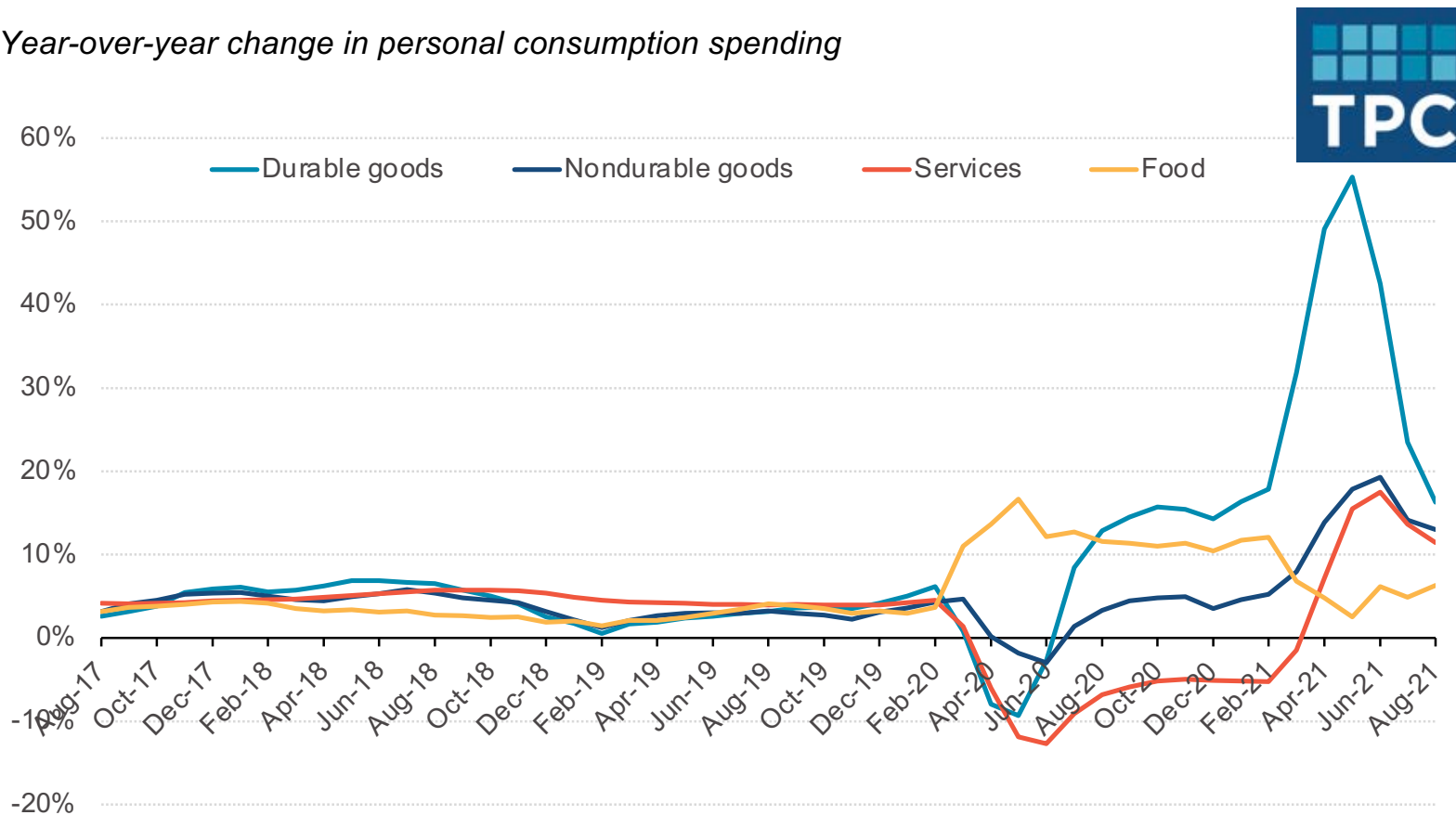


Source: U.S. Bureau of Economic Analysis, NIPA Table 2.3.5.

# Spending on Durable Goods Temporarily Skyrocketed



Year-over-year change in personal consumption spending



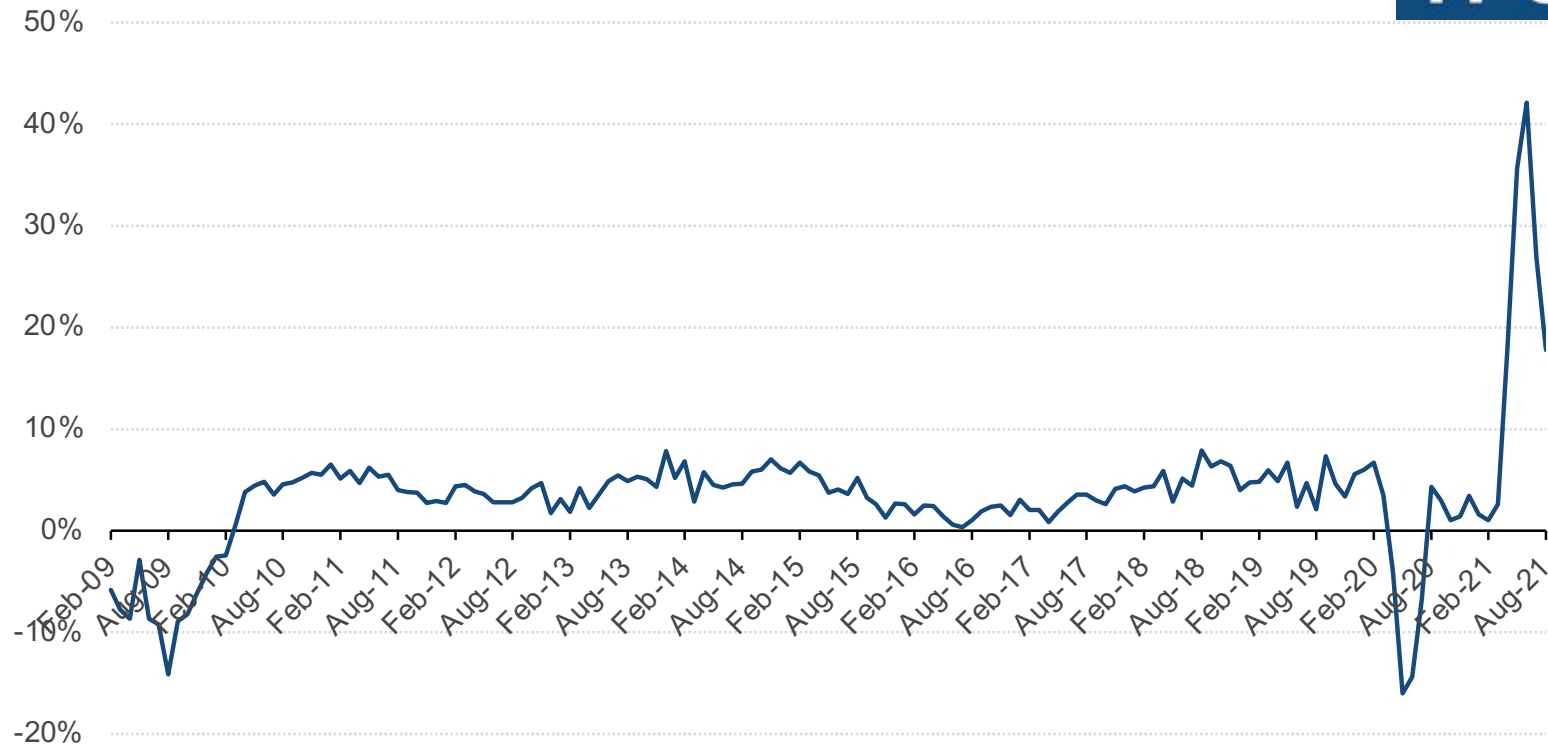
Source: Urban Institute and Bureau of Economic Analysis.

Note: Nominal, 3-month moving averages.

# Trends in State **General Sales** Tax Revenues

## Trends in state sales tax revenues

Nominal year-over-year percent change in state tax revenues



**Note:** Percentage change is for 3-month moving averages.

# Surveying State Leaders on the State of State Taxes



# Survey Overview

- We surveyed state government officials including:
  - State budget officers, economists, revenue forecasters, policy and fiscal analysts
  - Representatives of both executive and legislative branches
- Survey instrument:
  - Long survey form targeted for 45 states that levy general sales tax
  - Shorter survey form targeted for 5 states that do not levy general sales tax
- Survey timeline:
  - Launched mid-February and most responses were received prior to ARPA
- Survey response results:
  - 44 states responded
  - 6 states - Florida, Illinois, Louisiana, Michigan, Mississippi, & Oregon - did not respond

# Key Takeaways From Survey Responses

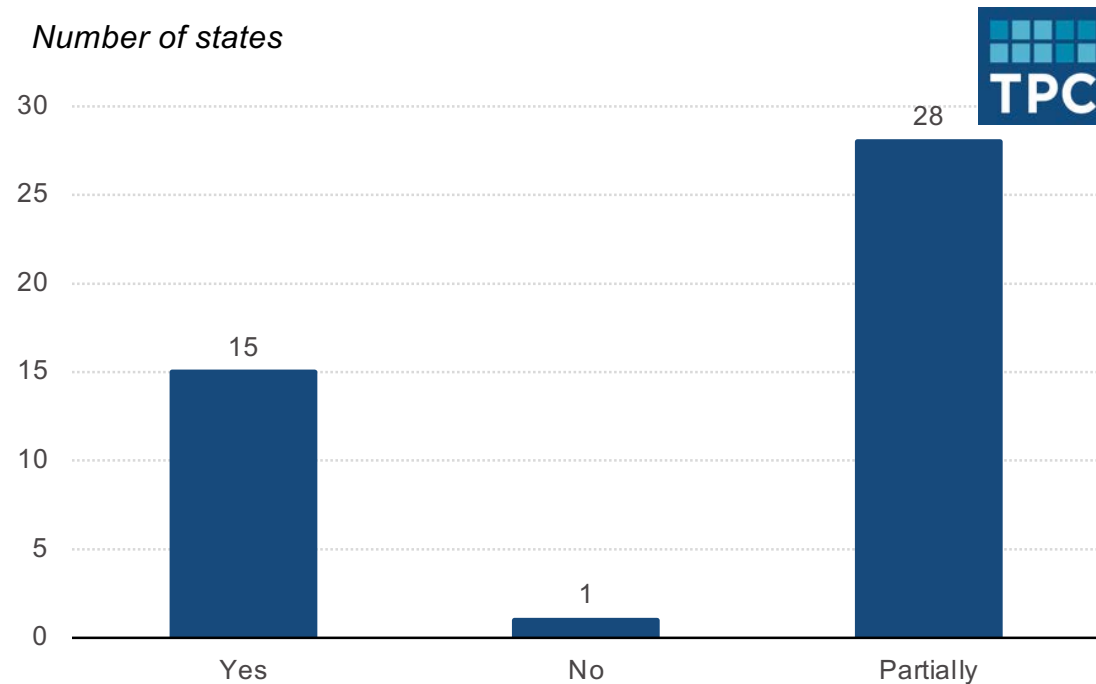
- Many states were unable to fully assess the impact of the pandemic on their budgets
- Most are optimistic about the current fiscal environment
  - But some face budget challenges
- Few plan to expand general sales tax bases
  - Some have passed or considering expanding or introducing excise taxes (most notably on recreational marijuana)
  - Others considering general sales tax rate cuts
- Growth in consumption of goods but declines in services
  - Taxation of online sales bolstered sales tax revenues
- Taxation of digital goods and digital streaming services is still not widespread
- However, timing of survey ended up limiting information – done as ARPA passed

# Uncertainties Led to Revenue Underestimation

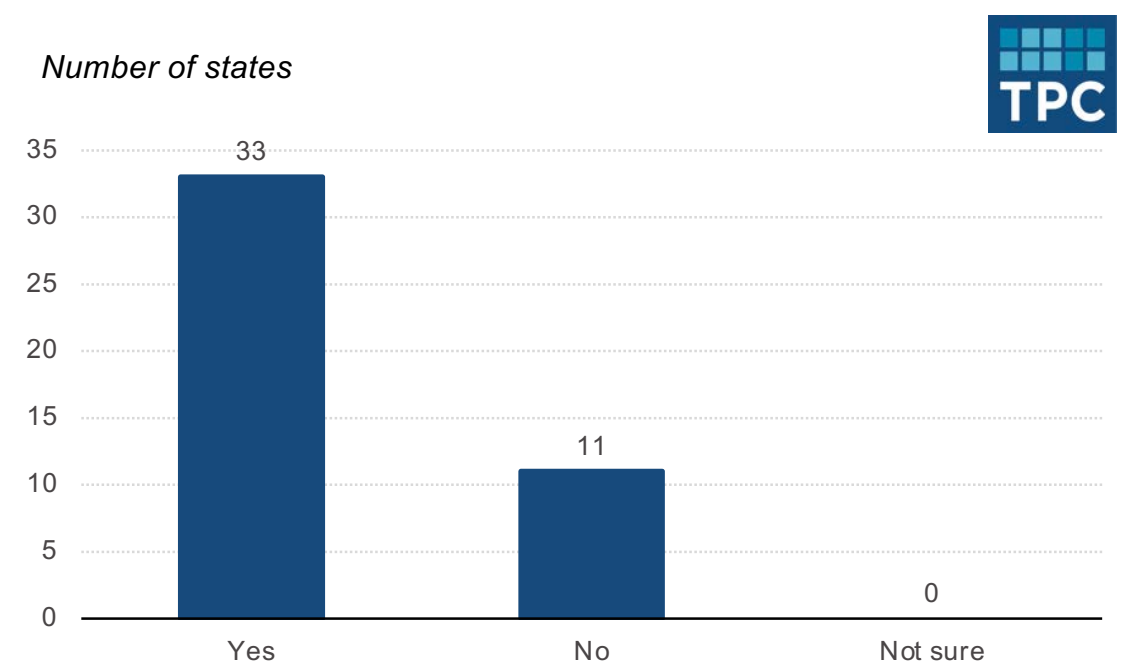
# Many States Were Unable To Fully Assess the Impact of the Pandemic on Their Budgets



Was the state able to gauge the impact of the pandemic on overall tax revenues?



Were your state's FY 2020 revenues affected in important ways due to federal and state policy changes, including shifts in due dates for income tax returns or shifts in general sales tax remittance deadlines?

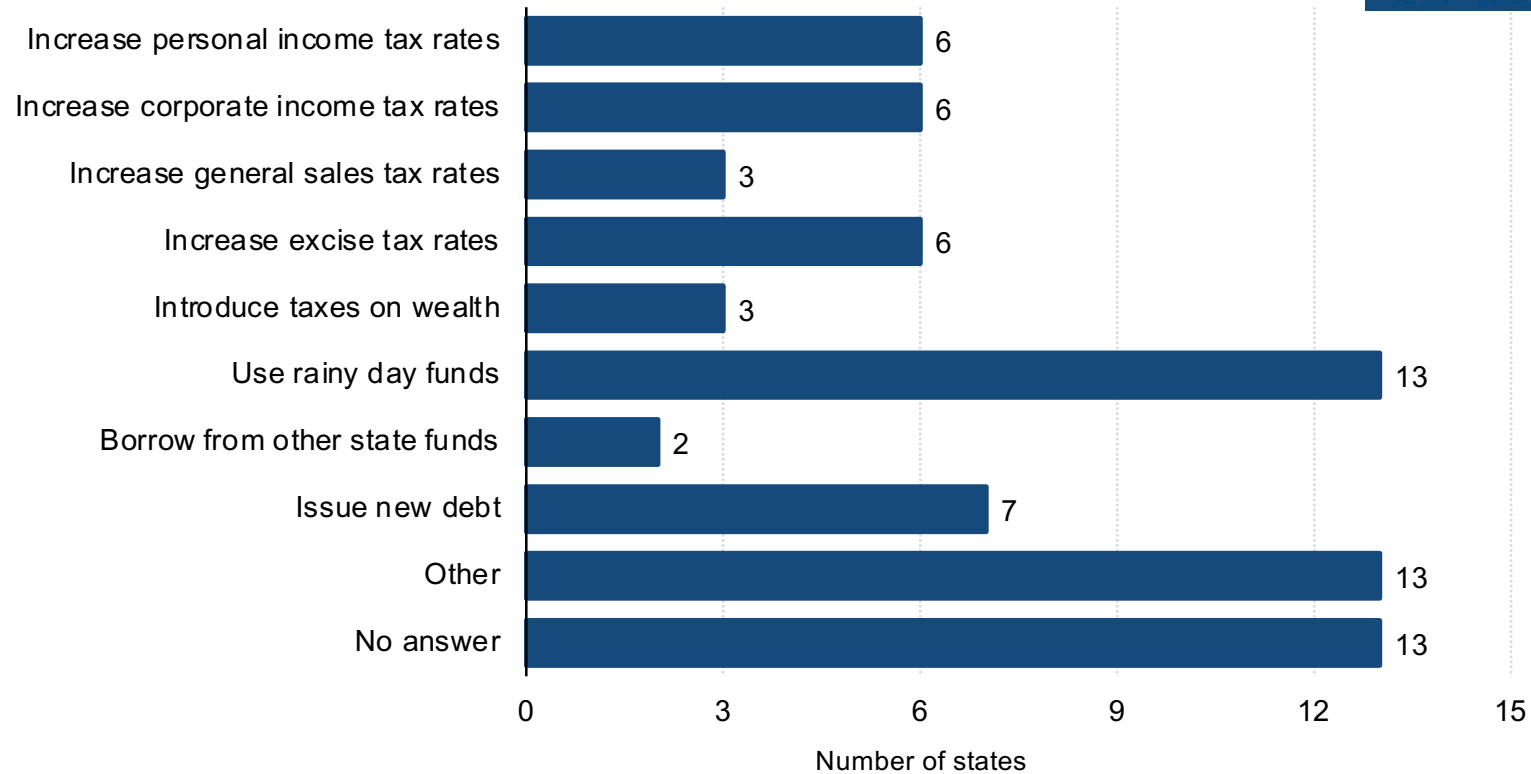


# The Positive Revenue Picture Put Some Policy Changes on Hold

# Currently Most States Are Reluctant to Raise Tax Rates



States' budget considerations for FY 2022



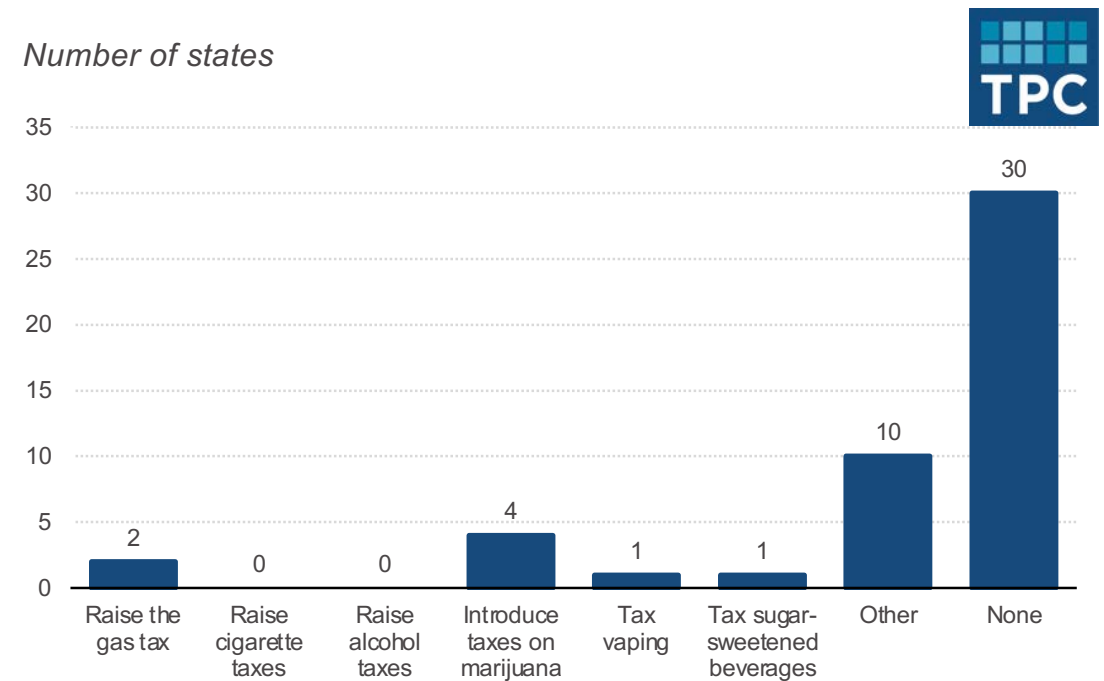
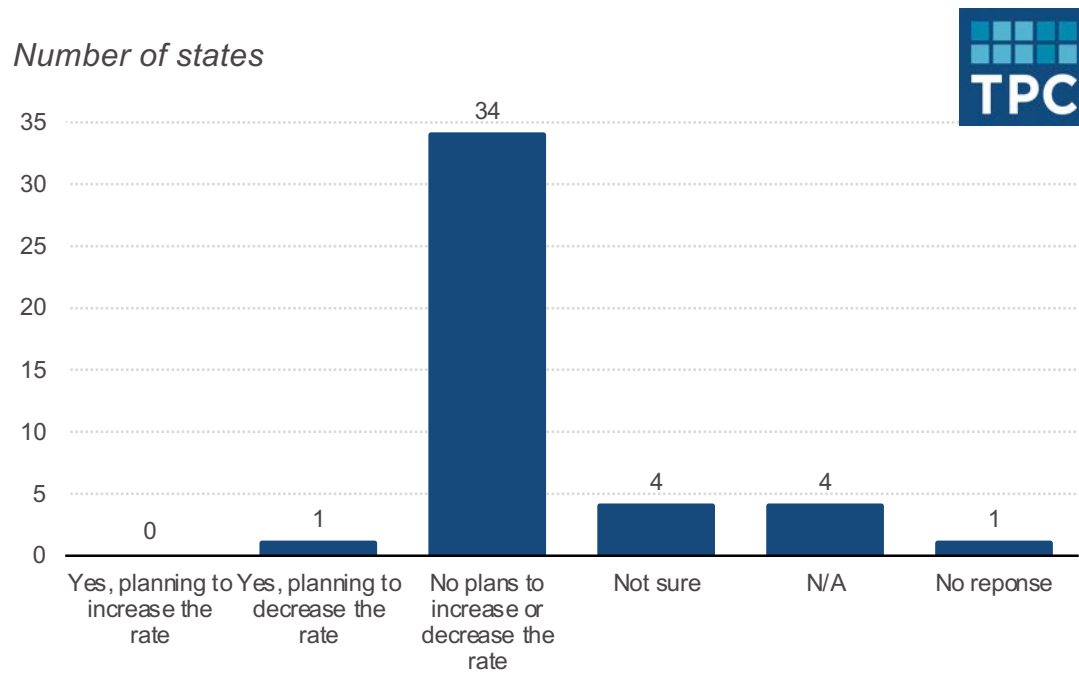
# A Deeper Dive Into State Sales Taxes

# Sales Tax Rate Changes for FY 2022



Is your state planning to enact general sales tax rate changes for FY 2022?

Is your state planning to enact any of the following excise tax related changes for FY 2022?





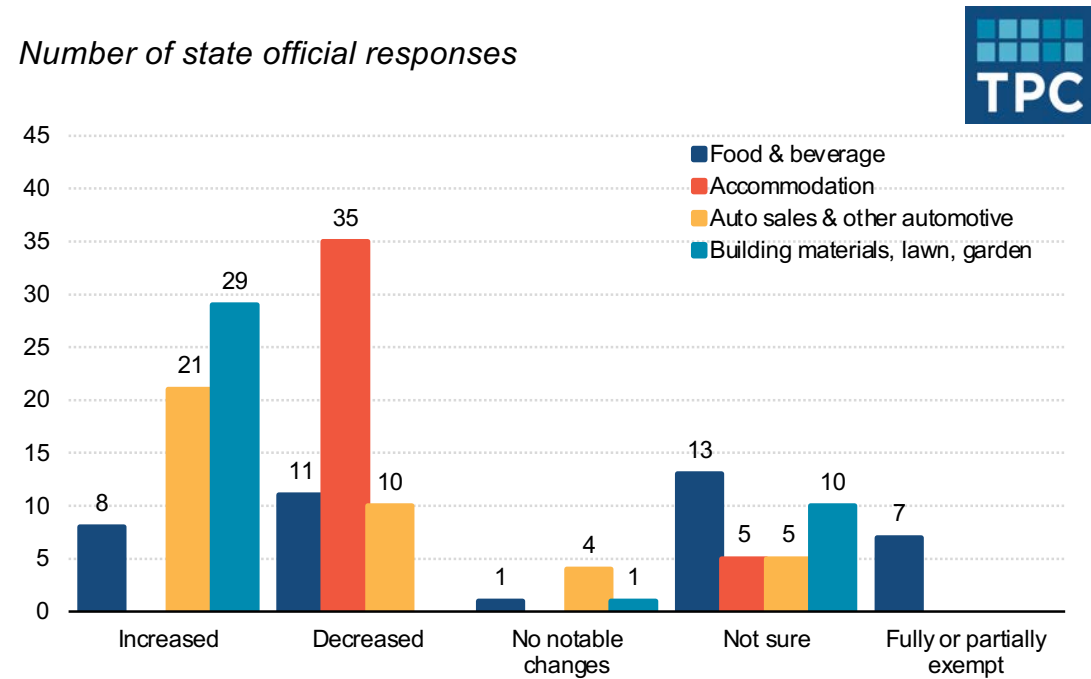
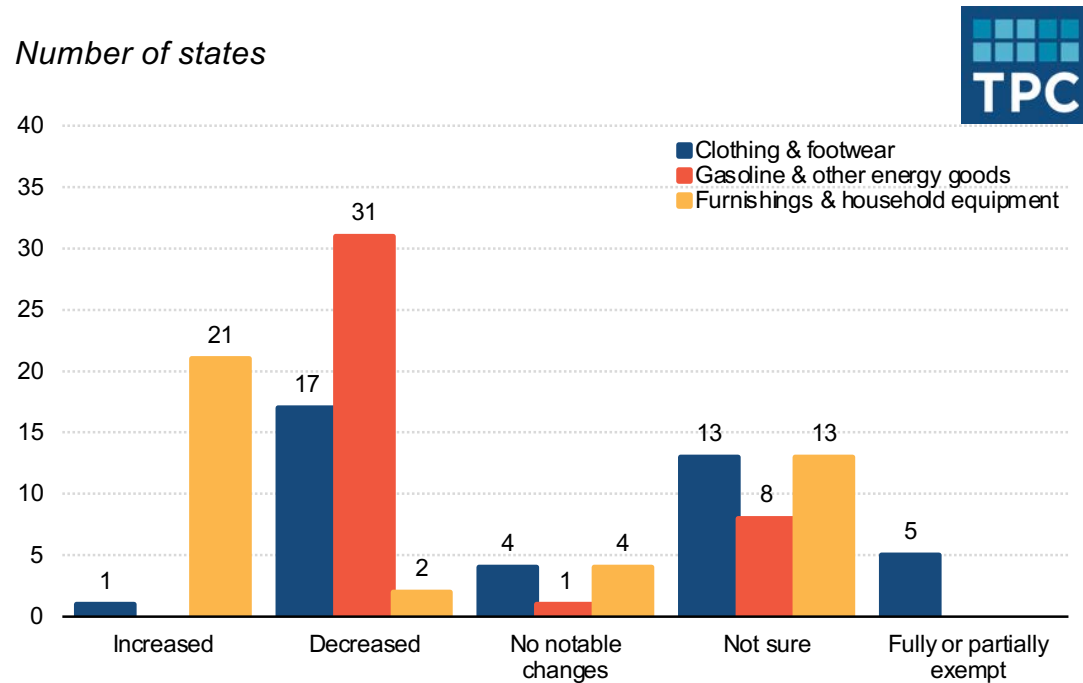
# Sales Tax Revenues Bolstered Because of *Wayfair* Decision and Relatively Fast Responses



# Remote Work and State Lockdowns Changed Consumer Spending Patterns



Did your state see any shifts in consumption of goods and services and therefore, in sales or excise tax collections during the pandemic for the following consumption categories.

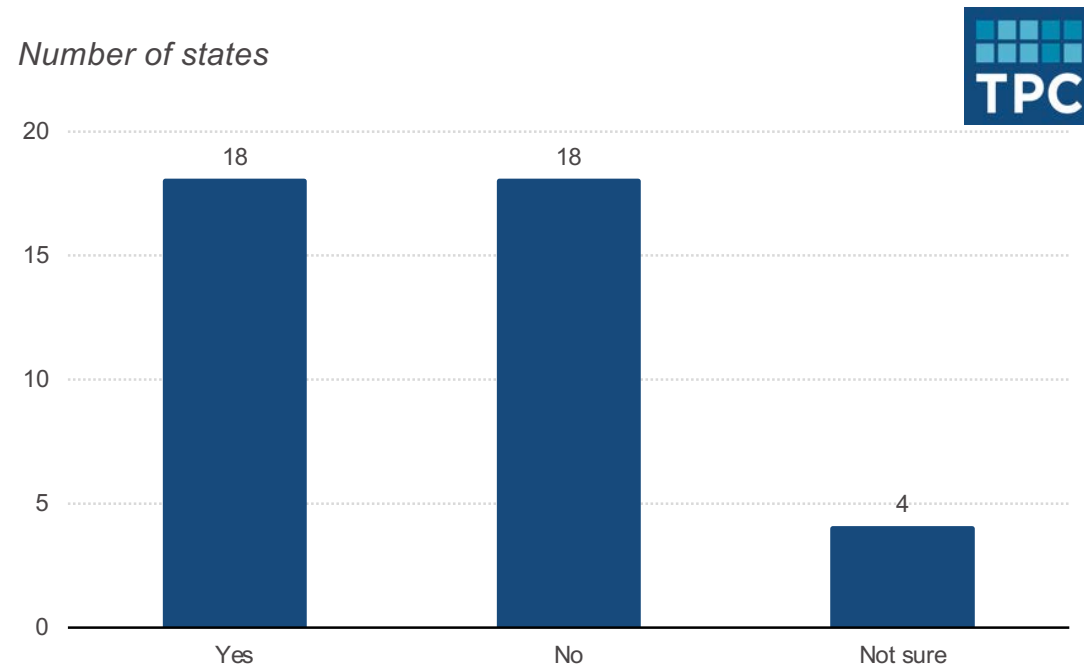


# States' Online Sales Transactions and Taxation

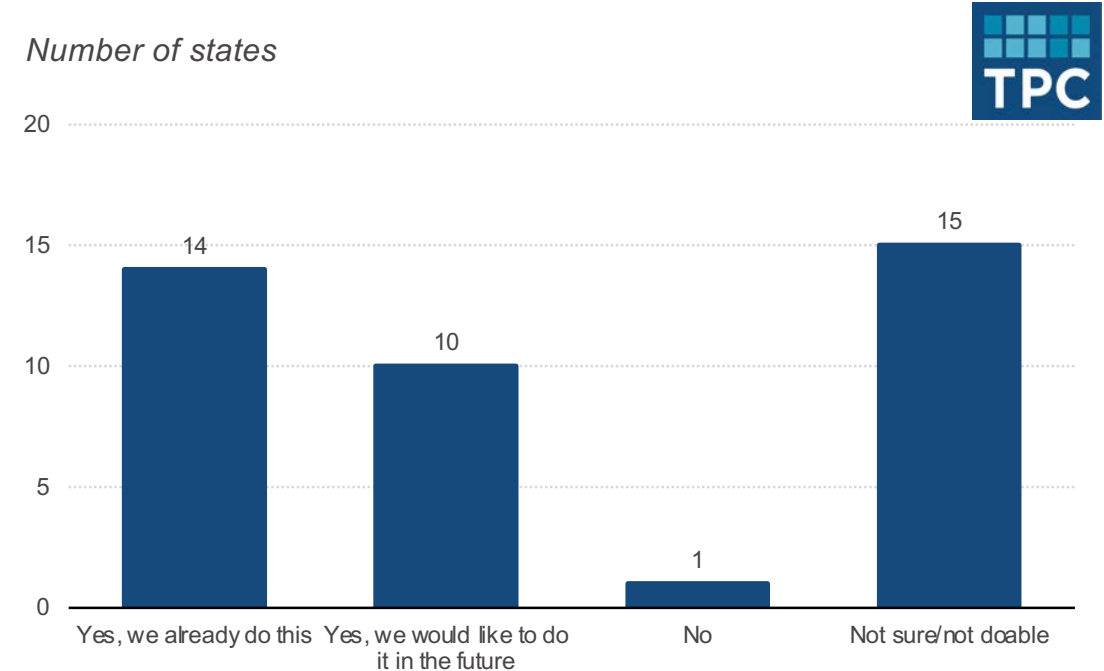
# Tax Collections from Online vs In-Person Purchases Separately



Is your state tracking sales tax revenue collections from online purchases separately?



Since COVID-19 increased e-commerce, do you think it is useful to collect information on sales taxes separately for online vs in-person transactions?



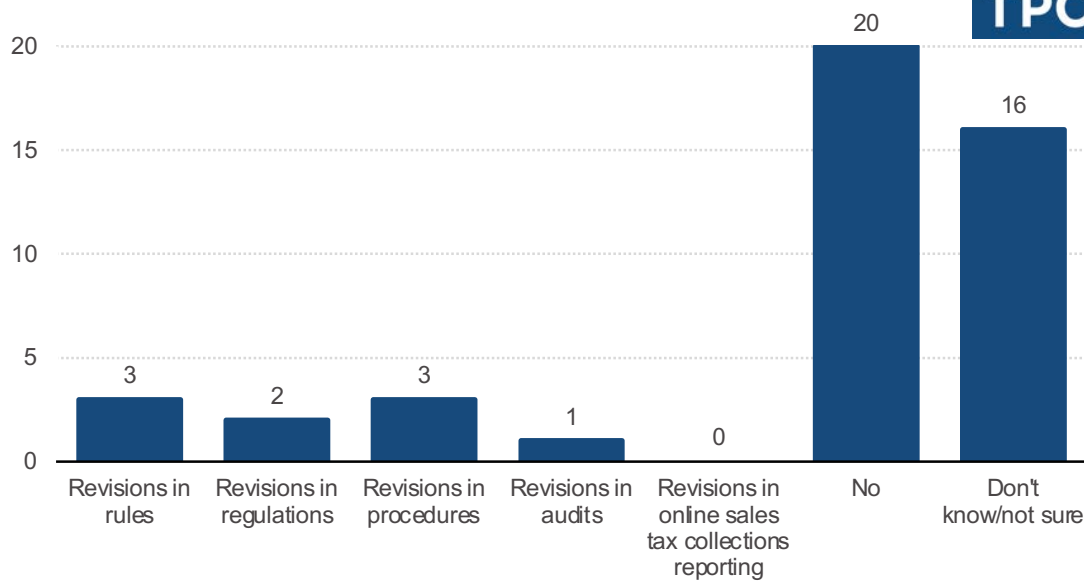
# Very Few States Are Planning to Revise Online Sales Taxation or to Invest in Technology Solutions



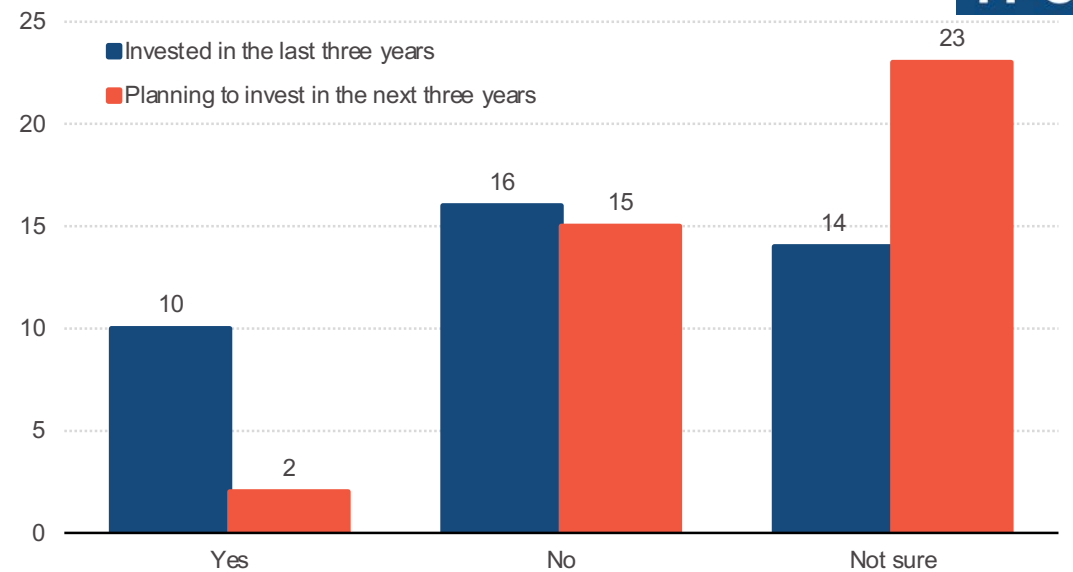
Is your state thinking of any revisions related to online sales taxation?

Has your state invested in technology solutions in the last three years OR is your state planning to invest in technology solutions in the next three years to support online sales taxation?

Number of states



Number of states

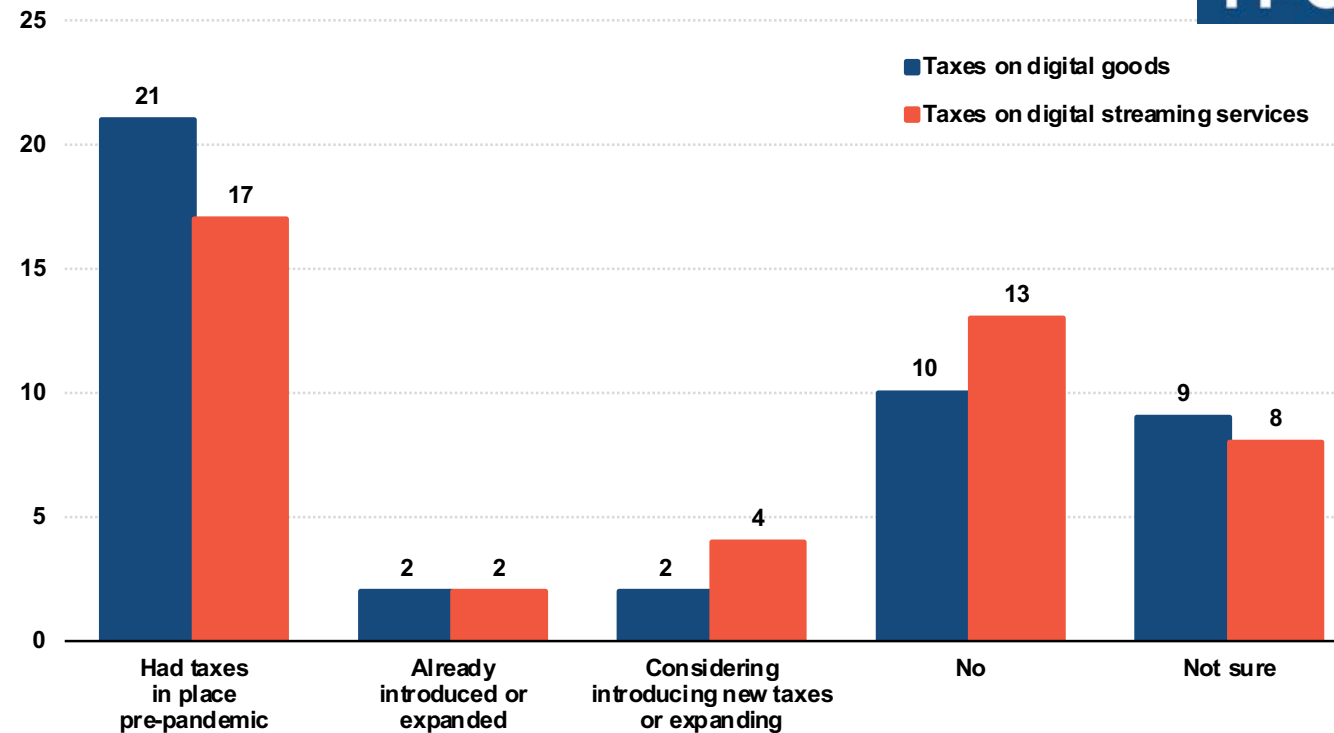


# Taxation of Digital Goods and Services

# Taxation of Digital Goods and Services

Does your state already tax or is it planning on introducing taxes on digital goods (such as e-books, software, etc.) OR on digital streaming services?

Number of states





# State Current and Future Fiscal Challenges

# State Officials Still Nervous About Uncertainties In The Coming Years



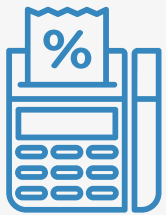
- What happens when federal relief runs out?
- Will changes in consumer behavior caused by the pandemic persist?
  - Will consumer spending shift back to nontaxable goods and services next year?
- When (if ever) will tourism and service industries return to pre-pandemic levels?
- Longstanding issues
  - Structural deficits (i.e., the gap between revenue growth and spending growth)
  - Volatility of commodity-based revenue sources
  - Restoring prior-year reductions to education and human service agencies
  - Aging population and growing obligations to pensions and the postemployment benefits
  - A lack of alignment among policymakers regarding long-term fiscal solutions

# Fiscal Challenges in Their Own Words: Quotes From the States



- “The sales tax base continues to grow at a slower pace than the economy as a whole with the long-run shift in consumption toward services.”
- “Determining how much of the consumer behavior changes are permanent and how fast behaviors may return to a pre-pandemic baseline”
- “Modifying sales tax law for an increasingly digitized world.”
- “One challenge is that we expect growth of sales tax revenues to slow as consumers shift purchases back toward non-taxable services as the pandemic eases.”
- “Understanding changing consumer behavior and determining new patterns post pandemic.”

## > Avalara Tax Calculation Insights

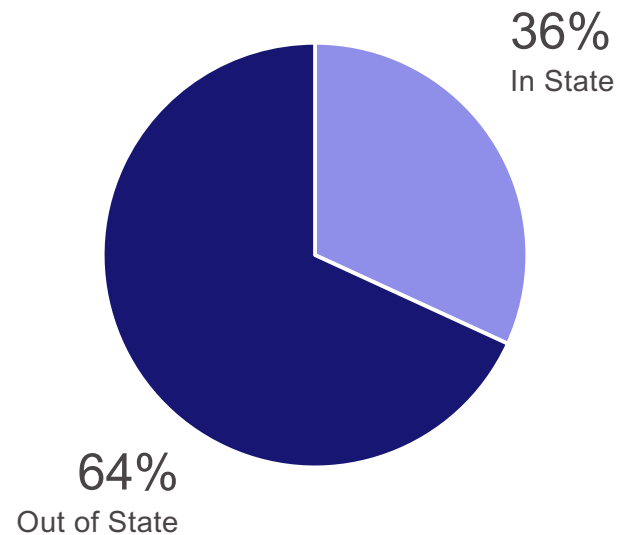


## Tax Calculated: In State vs. Out of State

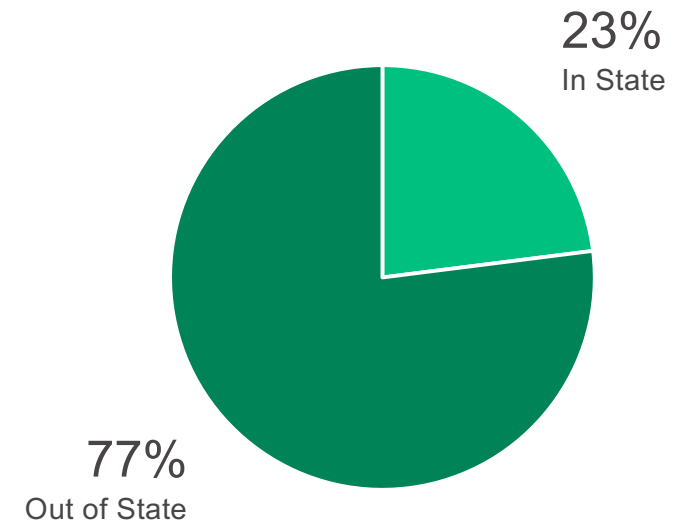
% of tax calculated for city jurisdictions by whether transaction origin addresses are in state or out of state

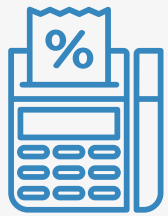


**Kansas City**



**Seattle**



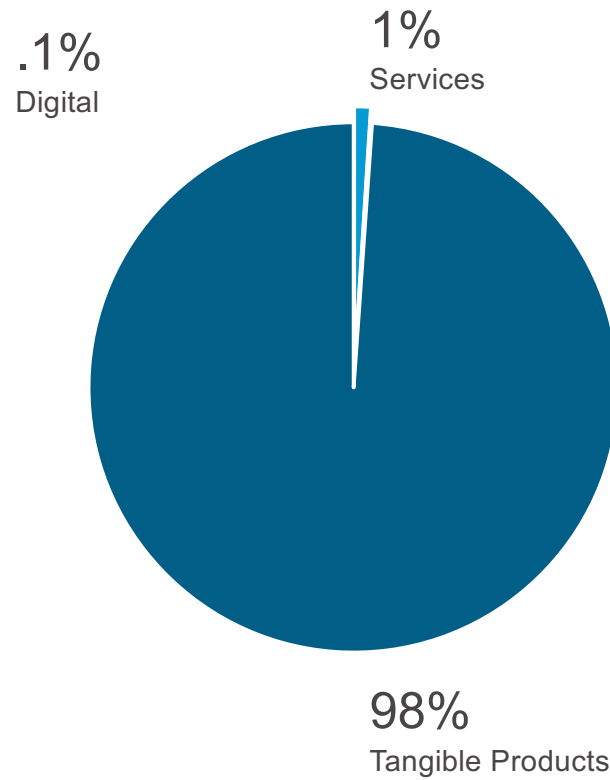


## Tax Code Distribution

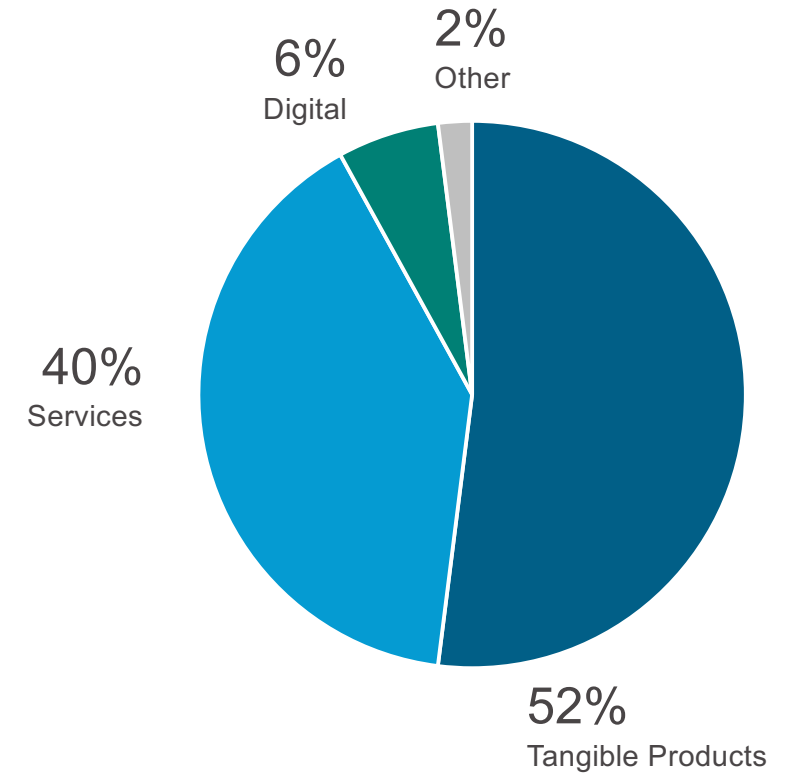
Taxes calculated in city jurisdictions by tax code category



### Kansas City



### Seattle





# Digital Tax Codes

Software, downloads and other non-tangible digital line items

## % of Total by Jurisdiction



	Sales	Taxable Sales	Tax Calculated	Avg Rate
<b>Kanas City</b>	6%	1.5%	.1%	13.5%
<b>Seattle</b>	5%	73.4%	6.1%	10.4%

**Sales:** Total sales line amount

**Taxable Sales:** Total sales line amount eligible for tax calculation

**Tax Calculated:** Total tax amount calculated from taxable sales

**Avg Rate:** Tax calculated divided by taxable sales



# Service Tax Codes

Information, Financial, Educational and other nontangible service tax items



## % of Total by Jurisdiction

	Sales	Taxable Sales	Tax Calculated	Avg Rate
<b>Kanas City</b>	6%	1.5%	.1%	13.5%
<b>Seattle</b>	5%	73.4%	6.1%	10.4%

**Sales:** Total sales line amount

**Taxable Sales:** Total sales line amount eligible for tax calculation

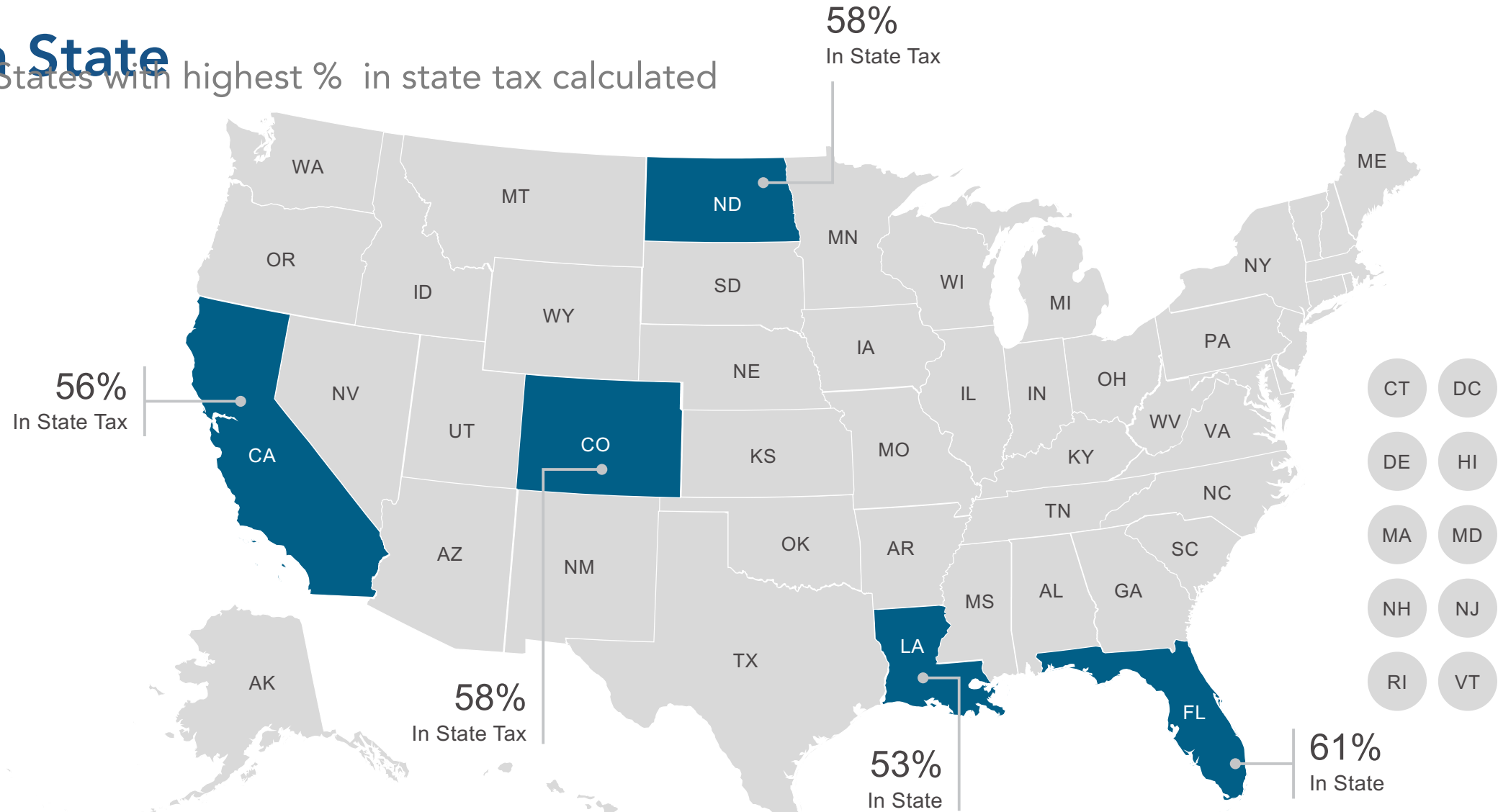
**Tax Calculated:** Total tax amount calculated from taxable sales

**Avg Rate:** Tax calculated divided by taxable sales



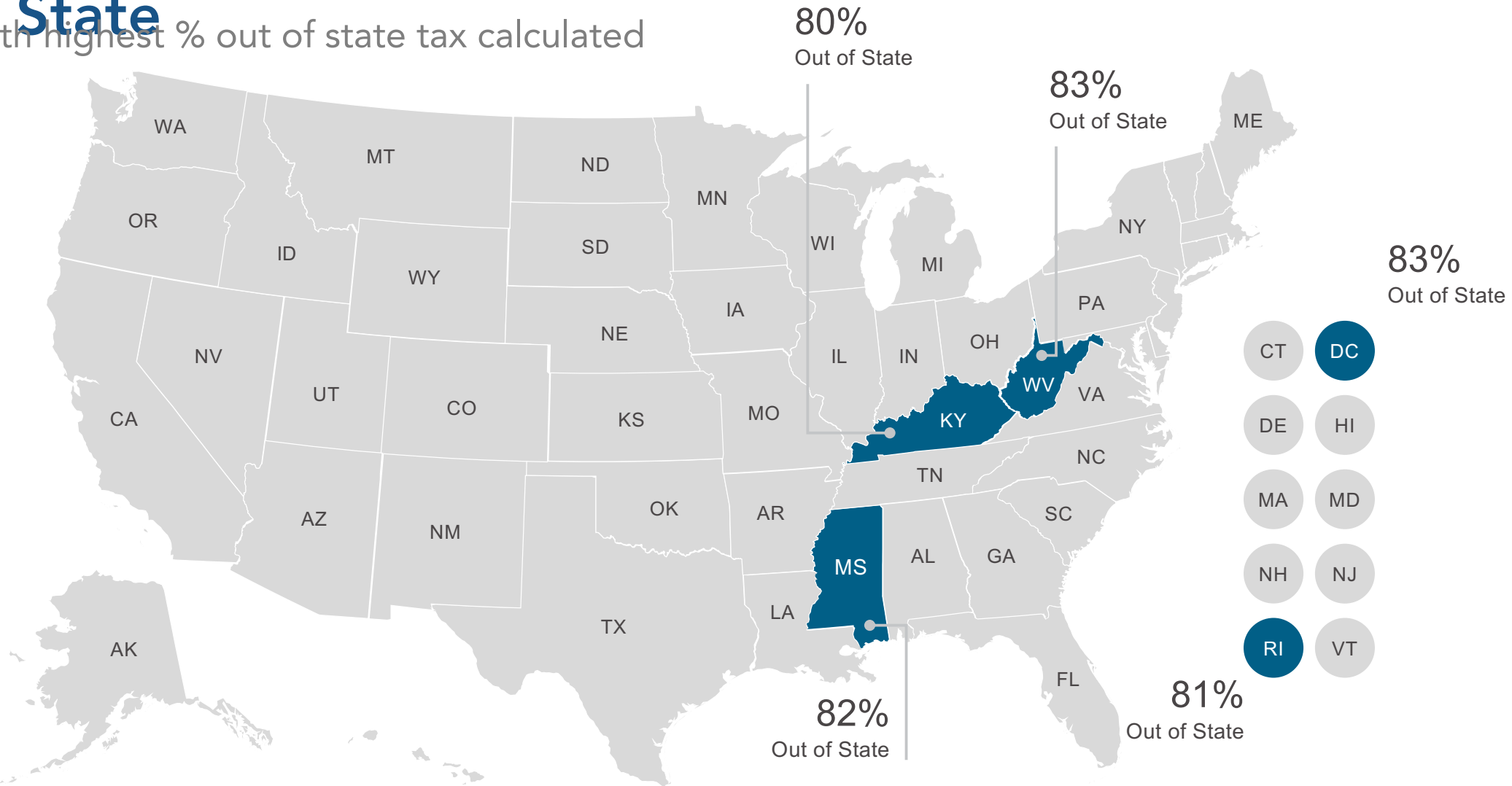
# In State

States with highest % in state tax calculated



# Out of State

States with highest % out of state tax calculated



# Thank you!

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