The Puzzling Decline in State Sales Tax Collections

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Presentation Overview

• What is going on with state tax collections in general?
• Specifically, what is going on with state sales and use tax collections?
• Different ways of looking at changes in state sales and use tax collections
• Case studies
State Tax Collections vs GDP
Overall Changes in State Tax Collections

- Annual percent changes show the high degree of volatility in state tax collections
- During the depths of last recession (2009) GDP dropped by 2.0%, while state tax collections plummeted by 11.2%
- During 2016 GDP increased by 3.0%, but state tax collections rose by only 0.4%
- There appears to be a downward trend in both peaks and troughs
Alternative Ways of Looking at Sales Tax Collections

- Nominal Change
- Inflation Adjusted Change
- Tax Rate Adjusted Nominal Change
- Tax Rate and Inflation Adjusted Change
- Tax Rate and Personal Income Adjusted Change
Actual and Inflation Adjusted Percent Change in Sales Tax Collections, 2015-2016
Observations on Actual and Inflation Adjusted Sales Tax Collections

• The average nominal percent change from 2015 to 2016 equaled 1.95%
• Adjusted for inflation the change equaled 0.68%
• Energy states (OK, ND, NM, TX, WV, WY) and Midwest farm states (IA, IL, KS, NE) pulled down the growth rates, but so did other states that did not fall into these two groups (CT, ME, NJ, SC, VT)
• Louisiana had the highest growth rate, but this was due to a tax rate increase
• Three technology states (NC, UT, WA) had some of the strongest growth
Actual and Tax Rate Adjusted Percent Change in Sales Tax Collections, 2000 - 2016
Observations on Rate Change Impacts

• 24 of the 45 states with sales or gross receipts taxes enacted rate changes since 2000
• Over the period from 2000 through 2016 the average growth in sales tax collections equaled 65.3%
• Adjusted for rate changes the average growth equaled 51.6%
• North Dakota experienced the highest growth, 245.5%
• Other high rate adjusted growth states were Nevada (168.8%), Texas (123.6%), and South Dakota (115.6%)
• The lowest rate change adjusted growth states were Virginia (3.3%), South Carolina (5.0%) and Connecticut (11.2%)
Tax Rate and Inflation Adjusted Percent Change in Sales Tax Collections, 2000 - 2016

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Observations on Rate and Inflation Adjusted Sales Tax Collections, 2000 - 2016

- North Dakota experienced real growth of 147.9% (5.83%/Yr). Due to oil industry growth after 2008.
- Virginia experienced a real decline of 25.9% (-1.85%/Yr). The state compensated by raising tax rates in 2003 (3.5% to 4.5%), in 2008 (to 5.0%) and in 2014 (to 5.3%).
- Adjusting for rate changes and inflation, 12 states experienced declines in sales tax collections (KS, MA, NM, MN, MO, UT, CA, GA, MI, CT, SC, VA).
Rate Change Adjusted Sales Tax Collections versus Personal Income, 2000 - 2016
Percent Change in Rate Adjusted Sales Tax Collections per $1 M Personal Income
Observations on Sales Tax Collections Adjusted for Rate Changes and Personal Income Growth

- The correlation between rate adjusted sales tax collections and personal income growth is 0.56.
- Adjusting by personal income growth effectively adjusts for population growth, inflation, and general economic growth.
- Only four states (ND, NV, SD, OH) have positive growth of sales tax collections when adjusted by personal income growth.
- States with the largest declines by this measure are VA, UT and SC. All three have increased tax rates since 2000.
Some Factors that Have Depressed Sales Tax Collections

- The continued shift of consumer purchases from tangible goods to services
- The stagnation of real per capita disposable income
- The increased concentration of income
- The aging of the nation’s population
- The slowdown in the rate of household formation
- The growth of Internet enabled consumer purchases
But What About State Tax Policies?

• To what extent are sales tax revenue problems self-inflicted by state legislatures?
• What has been the impact of enacted tax exemptions?
• What has been the impact of the failure to modernize and expand state tax bases to cover services and e-commerce sales?
Iowa Case Study

• Nominal sales tax revenue growth since 2000: $1.410B (80.7%)
• Inflation adj. sales tax revenue growth: $722.6M (29.7%)
• Inflation and rate adj. sales tax revenue growth: $235.7M (8.1%)
• Iowa enacted 28 sales tax exemptions since 2000
• Total impact of the exemptions at least -$292M
• Iowa has also provided a number of sales tax refunds tied to economic development efforts: $17M in FY2016
• Adjusting for the rate change and personal income growth, sales tax collections in 2016 are 31.4% below the 2000 level.
Iowa Sales Tax Trends
Illinois Case Study

- Nominal sales tax revenue growth since 2000: $3.035B (37.7%)
- Inflation adj. sales tax revenue growth: -$137M (-1.2%)
- Illinois has had no state level rate changes enacted since 2000
- Illinois has enacted few exemptions or refunds
- Illinois has a relatively narrow tax base and applies sales tax to only 24 services, which ranks 47th in the nation (2010 FTA survey)
- Illinois estimates it lost $270M to remote sales in FY 2016
- Illinois applies sales tax to the price of motor fuel, which has taken a dive since 2014
- Adjusted for personal income growth, tax collections in 2016 are 28.1% below the 2000 level
Illinois Sales Tax Trends

Illinois General Sales and Use Tax

Fiscal Years

Cumulative Percent Change

-40% -30% -20% -10% 0% 10% 20% 30% 40% 50%


Nominal
Price Adj
Nominal - PsnlInc Adj

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Other Midwest States

• Although we did not have the time to do detailed investigations of law changes for other states we have constructed graphic examples of sales tax revenue trends for four other Midwest states (MN, ND, SD and NE)

• The four states show considerable variation:
  – ND shows the clear impact of its oil boom and recent downturn (not bust)
  – SD trends seem to reflect its broad tax base and dependence on sales and use taxes since it does not have income taxes
  – MN has likely experienced some erosion of its tax base (maybe data issue around 2013)
  – NE similar to Iowa in terms of economies heavily concentrated in agriculture and finance
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