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Fitch: Supreme Court Reversal May Be Good News for Some U.S. Governments.

Fitch Ratings-San Francisco-16 April 2018: A reversal of a decades-old verdict by the country's highest court could pave the way for improved revenues for numerous U.S. state and local governments, according to Fitch Ratings in a new report.

The U.S. Supreme Court will soon review a South Dakota internet sales tax law that challenges a 1992 court precedent limiting the ability of states to collect taxes on out-of-state purchases. With a final verdict likely by the end of June, the court's willingness to revisit the very precedent it established sheds light on how much money in revenues state and local governments have lost from internet sales. 'State revenue growth has paled in comparison to overall economic growth over the past few years in part because states have been unable to fully tax internet sales,' said Director Stephen Walsh.

Though still too early to gauge how much money in new revenues could come in, estimates have ranged from \$8 billion to \$34 billion of state and local sales tax revenues. 'States with a high reliance on sales tax have the most at stake if the Supreme Court's ruling is overturned,' said Director Stephen Walsh. Sales taxes account for approximately one-third of tax collections in 20 states. Along with the aforementioned South Dakota, a ruling reversal could lead to sizeable revenue increases for Texas, Washington, Florida, and Nevada where sales taxes provide over 50% of total tax revenues.

Though generally not as reliant as state governments, some local governments that lean heavily on sales taxes could also see a similar ripple effect from a favorable court ruling. 'States such as Louisiana, Arkansas, Oklahoma, Alabama and New Mexico could see outsized benefits for their local governments from an expansion of internet sales taxes,' said Walsh. That said, some states may need to draft new legislation in order to share sales tax gains with their respective local governments.

Improved revenue growth could also mitigate cost pressures faced by many state and local governments, which would improve Fitch's assessments of their expenditure frameworks. The changes in question, however, would likely take several years to become evident so Fitch does not envision any near-term rating actions from the court's decision.

'Internet Sales Tax Case Could Benefit State and Local Governments' is available at www.fitchratings.com or by clicking on the link.

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