
Virus' Hit to Sales Tax Revenues is Coming Into Focus and It's Not Good.

New data shows a 10%, or $42 billion, drop in state and local sales tax receipts in the second quarter. Factors like whether groceries are taxed appear to be affecting collections in some states.

State and local government sales tax collections nationwide were down by nearly 10% during the second quarter of this year, compared to the same three-month period last year, according to federal estimates released this week.

The figure gives a sense of how badly the economic crash caused by the coronavirus is eating into an important revenue source for many states and localities. The U.S. Bureau of Economic Analysis estimates show that, across April, May and June, state and local sales tax revenues totaled $389.5 billion, down 9.8% from $431.8 billion during the second quarter of last year.

A roughly $42 billion decline in revenues is not good when it comes to states and localities avoiding cuts to services and layoffs in the coming months and into next year.

Lucy Dadayan is a researcher with the Urban-Brookings Tax Policy Center who actually assembles a significant portion of the data that the Bureau of Economic Analysis uses to come up with a set of state and local tax receipt estimates it released this week.

"We know that it's double digit declines, at least in the months where the economy was mostly shut down," she said, referring to the recent percentage decreases in sales tax revenues.

In an analysis published earlier this month, Dadayan said that May sales tax receipts for just states shrank by nearly $6 billion, or 21%, compared to May 2019.

States where the virus hasn't been as bad tend to have seen their sales tax collections fall less, Dadayan said. The same goes for states that have imposed less-strict mandates when it comes to business closures and stay-at-home orders.

But, on the flip-side, some states that adopted more relaxed policies to protect against the spread of the virus have seen it flare up, and that can be bad for commerce.

In Florida, a state that became a hotspot for the virus over the past few weeks, sales tax revenues were down by about 15% in June, Dadayan said. While the state had extended a payment deadline, Dadayan said she believes the drop is mostly attributable to the virus' surge.

During fiscal year 2019, Florida relied on general state sales taxes for between 60% and 65% of its total tax revenues, according to information compiled by the Tax Policy Center. Other states that depend heavily on the tax include Texas, Washington, South Dakota, Nevada and Tennessee.

State and local officials around the country have been looking for ways to rework their budgets to account for thinner tax and fee collections, while they also must pay for added expenses that the virus outbreak has brought on. An infusion of about $200 billion of federal aid to states, localities and schools included in an emergency law that President Trump signed in late March has helped.

But many state and local leaders say more federal aid is necessary. Even so, Republicans in Congress haven't shown much enthusiasm so far for another state and local relief package.

There is a wide variety of state and local revenues that could ultimately be affected by the economic fallout from the virus—which has contributed to historic job losses, business closures, bankruptcies, and collapses in business travel and tourism.

The BEA data show that state and local income tax collections were down about 7% in the second quarter, compared to the second quarter of last year. But this drop is likely tied to most states extending income tax filing deadlines to July, which is in the third quarter.

If states do take a major hit to income taxes due to their residents losing work, or other slowdowns in commerce, this is apt to show up in next year's tax collections, given that this year's payments are for earnings in 2019, prior to the pandemic.

Declines in property tax revenues—a crucial source of funding for local governments and school districts—are also more likely to lag, coinciding with any eventual slides in property value that won't immediately show up in tax receipts. Commercial real estate, in particular, could be a cause for concern here if office and retail spaces that are empty stay so for many months.

Other revenues, like highway tolls, transit fares and parking fees, are all in line to fall as well.

But in terms of general government tax collections, sales taxes are one of the main revenue streams where the fiscal damage from the virus is readily apparent in data that's now available.

That said, understanding what is happening in each state with sales tax collections, and how sales tax revenues changed month-to-month through June, is complicated by factors like differences in what is subject to sales tax in each state and delayed payment deadlines.

"It's a mixed picture, it's very messy for a number of reasons," Dadayan said.

She pointed out that in June there was an uptick in sales tax collections, with the national average growing by about 5%. But she added: "That doesn't tell the story at all."

The June increase to some extent resulted from states like California and Connecticut delaying the deadline for when businesses had to turn in their sales taxes. In other words, at least some of the June bump had to do with businesses paying taxes that would have otherwise been due earlier, rather than being a sign of surging economic activity.

There are also indications that states that tax grocery sales are faring somewhat better than those that do not, Dadayan said.

Beyond taxes collected on usual grocery sales, people have been eating-in more, and therefore buying more groceries, due to restrictions on restaurant service and concerns about the virus spreading in public places. There was also some panicked grocery buying earlier in the outbreak, when people stocked up on items like canned goods and cleaning supplies.

The added revenues from taxes on groceries may help to steady state coffers. But taxes on food and similar necessities are also regressive, placing an outsized burden on poorer households who spend a greater share of their income on those goods than wealthier people.

Dadayan said another factor buffering states from worse sales tax losses is that most of them enacted new laws to tax online retail transactions following a landmark U.S. Supreme Court ruling in 2018 that cleared the way for them to do so more easily.

Route Fifty

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