TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

SURVEYING STATE LEADERS ON THE STATE OF STATE TAXES

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ABSTRACT

State taxes were upended in the aftermath of the COVID-19 pandemic as governments shut down large parts of the economy. While overall state tax revenues have fared better than expected since then, state leaders have been closely examining existing tax policies and considering changes in the wake of the pandemic to adjust to the new fiscal and business environment.

We surveyed state budget officials to understand the fiscal situation in each state and fiscal policies under consideration. The survey findings confirm that the impact of the downturn varied significantly across states depending on their economy, tax structures, and government actions. Revenue drops were mitigated due to strong income taxes, as well as sales taxes that were bolstered by states' expanded authority to collect taxes on on-line sales. The survey results indicate that because of how sales taxes are remitted, many states cannot differentiate between different types of sales to monitor for changes in spending patterns for retailers that have a physical presence within a state. In addition, state officials remain concerned about the longer-term fiscal picture because of the uncertainty related to federal policy actions and post-pandemic consumer and business behavior.

ABOUT THE TAX POLICY CENTER

The Urban-Brookings Tax Policy Center aims to provide independent analyses of current and longer-term tax issues and to communicate its analyses to the public and to policymakers in a timely and accessible manner. The Center combines top national experts in tax, expenditure, budget policy, and microsimulation modeling to concentrate on areas of tax policy that are critical to future debate.

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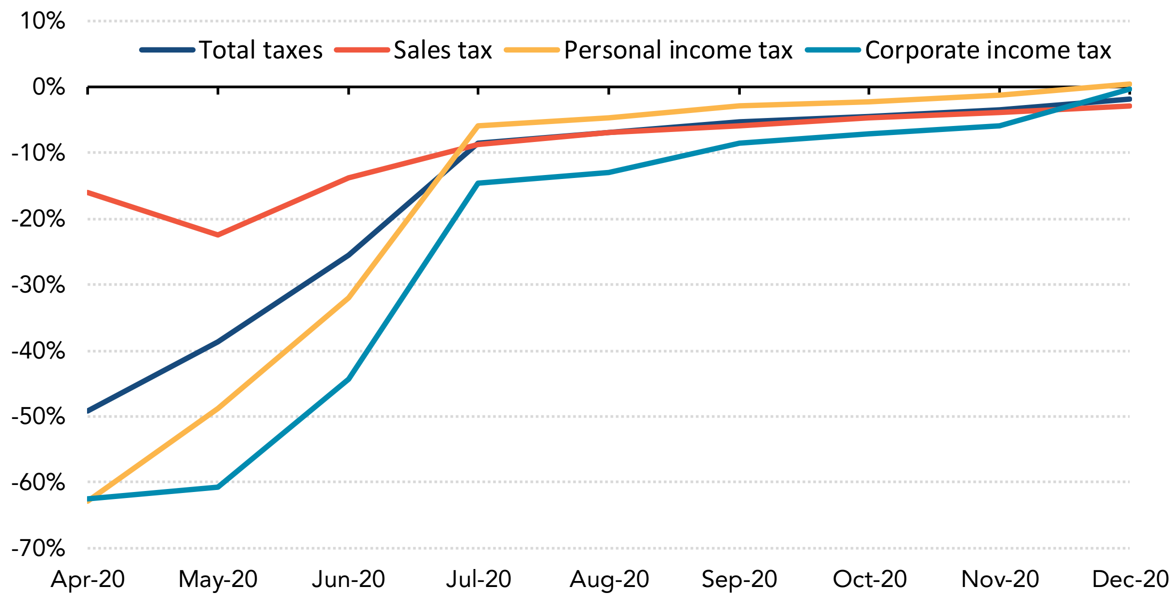
INTRODUCTION

The COVID-19 pandemic hit state finances hard in the spring of 2020. The public health emergency and government-ordered restrictions shut down large parts of the economy, causing steep declines in state and local government tax revenues. Over the rest of the year, however, economic activity and tax revenue rebounded or fully recovered in most states. On net, state revenues declined by nearly $14 billion or 1.8 percent between April and December 2020 compared with the same period a year earlier (Figure 1). But there were dramatic changes in the sources and timing of revenues, and the national picture masks large variations across states.

FIGURE 1

State Tax Revenue Trends during the Pandemic

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



Source: State and Local Finance Initiative, Urban Institute.

In April 2020, state tax receipts shrank nearly $61 billion, or 49 percent, compared with April 2019.[1] But part of this decline was related to delays in tax deadlines: the federal government postponed its income tax deadline from April 15 to July 15; most states also postponed that deadline as well as various other deadlines.

Indeed, state revenues have generally rebounded: year over year, total state tax revenues declined by $77 billion or 26 percent for the April–June 2020 period but increased by $49 billion or 23 percent for the July–September 2020 period, in part reflecting these deadline delays.

How did state tax revenue recover if unemployment remained relatively high compared with levels before the pandemic in many states? First, higher unemployment rates during the pandemic were largely concentrated among low-income workers, especially those in the service sector; high-income workers were largely unaffected. As a result, states did not see large declines in income tax revenue (especially states with progressive taxes). Second, the federal assistance passed in spring 2020 mitigated the impact on individuals, businesses, and state and local governments. And third, although sales tax revenues saw immediate declines, these also recovered as they were buoyed by most states receiving sales tax revenues from online sales.

However, it is also important to recognize the severity of the economic downturn and its affect on state tax revenue varied significantly across states. During the April–December 2020 period, state revenues declined 10 percent or more in seven states (Alaska, Hawaii, Florida, Nevada, North Dakota, Oregon, and Texas), and they increased in 22 states (and by more than 5 percent in four of them—Idaho, Colorado, South Dakota, and Utah). As such, analyzing the economic downturn by state requires understanding each state's fiscal situation and economic conditions as well as how state policies mitigated the impact of the pandemic on state budgets.

Thus, with funding from Avalara, we conducted a survey of state government officials involved in fiscal policy decisions and revenue forecasting.

Our survey and this report focus on the following areas:

- The impact of the pandemic on state overall finances and sales tax revenues
- Revenue forecasts for fiscal year (FY) 2021 and beyond
- Possible tax policy changes
- Changes to the consumption of goods and services
- Practices and challenges for collecting sales taxes from online sales transactions
- The taxation of digital goods and services

We sent surveys to representatives in the executive and legislative branches in every state. In some cases, we received collaborative responses; in others we received information from only one branch that felt better able to respond. In total, we have information from 44 states, including 4 states where we received information from both branches (Alaska, California, North Dakota, and Pennsylvania). The responses below reflect information from 33 officials on the executive side and 11 from the legislative side. (See Appendix A for more details on methodology and Appendix B for our survey instrument.) Our survey results correspond with what we saw in the revenue data: The overall revenue picture is not great but not as grim as initially feared. In most places, after initial belt-tightening, officials are now stepping back and thinking about their fiscal future.

Here are the key findings from our survey:

- State fiscal leaders are generally optimistic about the fiscal future for the next year or two but face uncertainty around evolving consumer activity and the the timing of economic activity resuming.

- States with progressive income tax structures were better able to weather the pandemic-induced recession, and the states that rely heavily on leisure and hospitality industry suffered the most.
- Many states saw online sales tax revenue as important to their fiscal health, but did not necessarily have complete information on how sales were made. Because of how sales taxes are remitted, many states cannot differentiate between in-person or online sales for retailers that have a physical presences within their state.

Because of the timing of our survey, many state officials responded to it before the passage of the American Rescue Plan Act (ARPA), and many indicated that uncertainty related to additional federal assistance to state and local governments was hindering their policy decisions. The ARPA provides $350 billion to state, local, and tribal governments to mitigate the fiscal effects of the pandemic. It allows states and localities to spend on activities related to fighting COVID-19, restore public services that were cut because of revenue losses during the pandemic, rehire or increase compensation for some types of public service workers, invest in selected infrastructure, and restore economic sectors that were hurt by the pandemic. Most notably, the law prohibits states from using federal funds to make additional payments to public pension funds or to pay for tax cuts. The limitations on paying for tax cuts have since been further clarified: generally, states must have revenues higher than those reported in FY 2019 to do so.

Officials in some states delayed responding to our survey because they wanted to wrap up their current legislative sessions and be better positioned to respond to the questions. Officials in one responded, "The final actions taken by our Legislature are directly associated with many of your questions. It would be premature today to respond to your survey being so close to factual results." In general, respondents indicated they only felt comfortable sharing information about policy decisions that were final. For example, officials in one state said, "We are currently in legislative session and things may evolve by the end of April 2021."

With this in mind, we evaluate some of the results based on whether we received the survey responses before or after passage of ARPA. A follow-up survey with similar and additional questions, preferably outside of the legislative session, would be very helpful.

HIGHLY UNCERTAIN REVENUE PICTURE DURING THE PANDEMIC

Key takeaway: Most states were unable to fully assess the impact of the pandemic on their budgets.

As found in our state revenue analysis work and documented in our State Tax and Economic Review reports, the pandemic had a very uneven effect on state budgets.2 States that have more diverse tax structures and states that have progressive income tax structures fared much better than states that rely heavily on taxes related to tourism, hospitality, and leisure industries (e.g., Hawaii and Nevada).

We asked respondents if their state was able to gauge the impact of the pandemic on overall tax revenues and what those revenue impacts were. Survey responses indicate that 15 states were able to assess the impact of the pandemic on state revenues, 28 states were only partially able to assess the effects, and one state was unable to assess the effects (Table 1).

One reason policymakers could have difficulty assessing how the pandemic affected tax collections is because most state governments delayed tax collections and thus moved tax revenue from one fiscal year to another. When the pandemic spread across the United States, the federal government delayed the income tax filing due date from April 15 to July 15, which led all states with broad-based income taxes to delay their state income tax due dates as well. Moreover, about half of the states also extended filing and remittance deadlines for sales tax payments by retailers or waived interest and penalties for late payments.

These policy measures, although important for helping taxpayers and businesses navigate the pandemic, created budgetary challenges for many states and especially increased uncertainty about how the dramatic change in economic activity would translate into lower revenues. Most notably, the delayed income and sales tax due dates shifted revenues in many states from FY 2020 into FY 2021.

Officials in 33 states indicated that the federal and state policy changes, including shifts in dates for income tax returns or shifts in general sales tax remittance deadlines, had affected their state's FY 2020 revenues; officials in 11 states indicated no impact (Table 1). It appears the states that indicated no impact are either those that have different fiscal year start dates or those that accrued revenues received in July 2020 back to FY 2020.

TABLE 1

States' Ability to Gauge the Impact of the Pandemic and FY 2020 Revenue Picture

Was your state able to gauge the impact of the pandemic on overall tax revenues?	**Yes**	**No**	**Partially**
	15	1	28
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?	**Yes**	**No**	**Not sure**
	33	11	0

State officials were asked to indicate how total and general sales tax revenues in FY 2020 compared with FY 2019 and whether it grew or shrank. Even if the impact of the pandemic was not as devastating as initially feared, officials in 27 states indicated that their tax revenues declined in nominal terms in FY 2020 compared with FY 2019, while officials in 17 states indicated growth in overall state tax revenues. Further, officials in 14 states indicated that their general or excise sales tax revenues had declined in FY 2020 compared with FY 2019, while officials in 29 states reported growth (Figure 2).

Note that prior to the pandemic, most states experienced strong year-over-year growth in overall tax revenues as well as in general and excise sales tax revenues for FY 2019 and were expecting even stronger growth in FY 2020. The strength in revenues for the first part of the fiscal year helped states, because the pandemic affected only the last three months of the FY 2020 budgets in the 46 states where fiscal year runs from July 1 to June 30.

For states with different FY start dates, the pandemic had varying effects on their finances. In New York, the fiscal year runs from April 1 to March 31, so the pandemic had very little impact on its FY 2020 budget. The fiscal year runs from October 1 to September 31 in Alabama and Michigan and from September 1 to August 31 in Texas, meaning the pandemic affected them slightly differently. They saw fewer early months of growth, but FY 2020 revenues included delayed income tax remittances.

FIGURE 2

Growth in Total and General Sales Tax Revenues in FY 2020 Compared with FY 2019

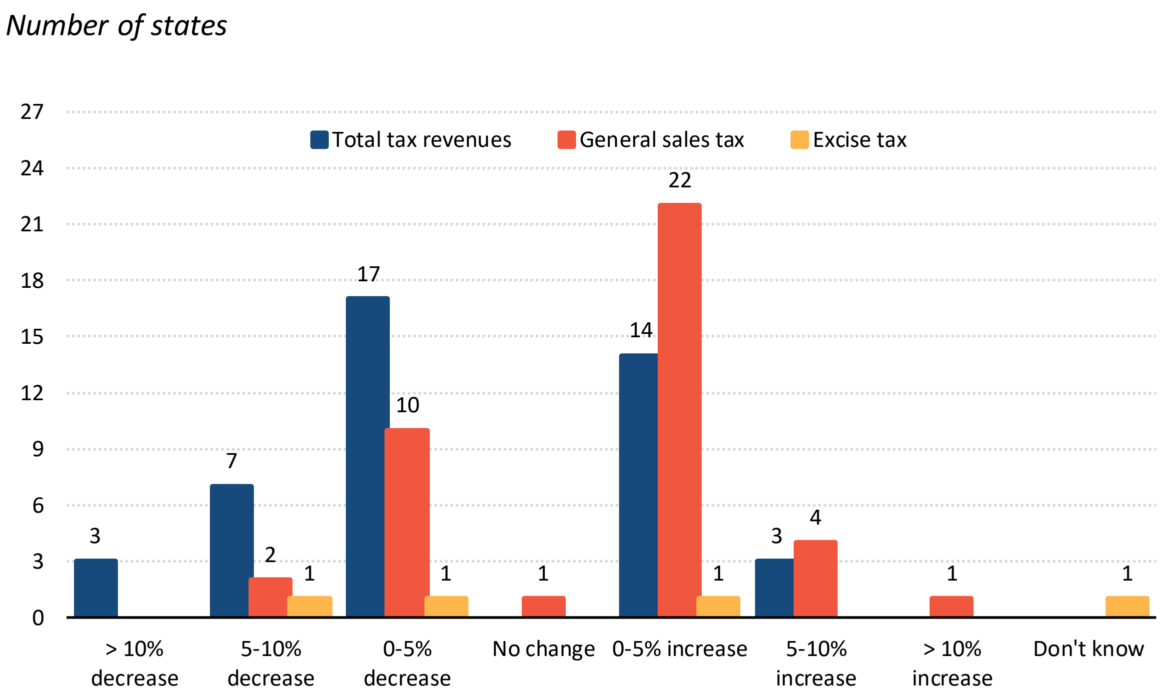
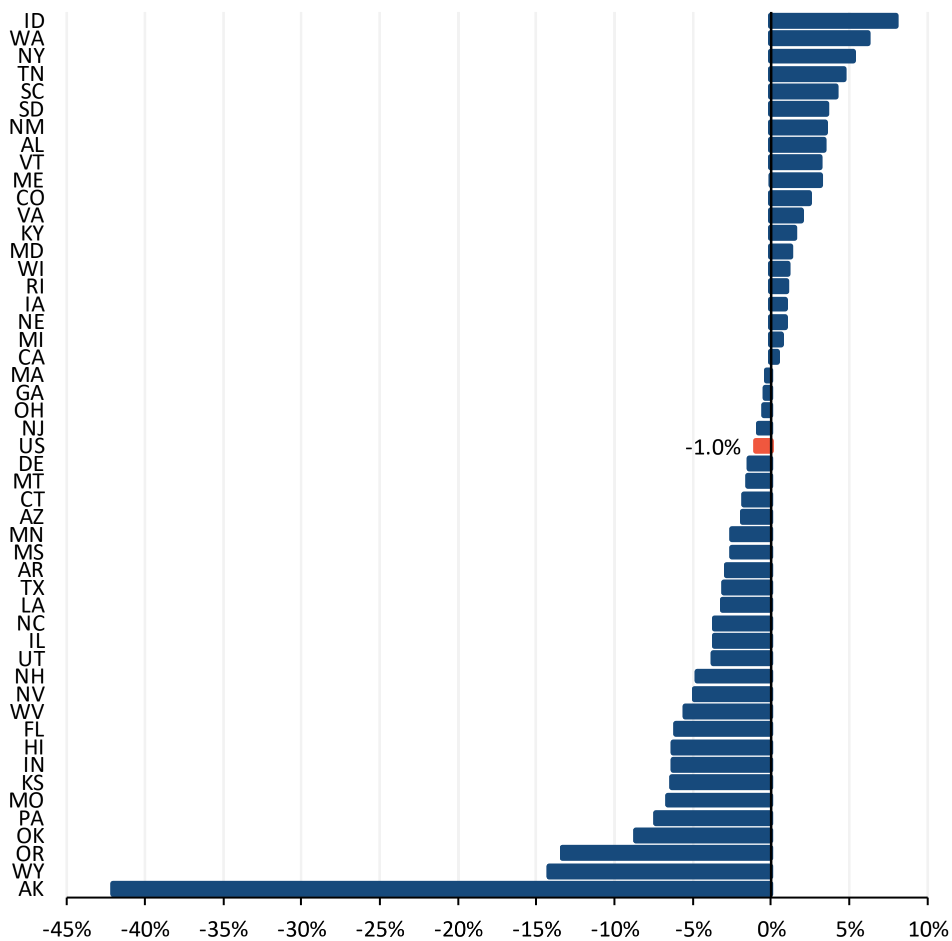


Figure 3 shows the percent change in state total tax revenues in FY 2020, and Figure 4 shows the percent change in state general sales tax revenues in FY 2020, based on data collected by the Urban Institute.[3] Our revenue information largely confirms our survey results. Overall, 29 states reported declines in total state tax revenues and 13 reported declines in sales tax revenues in FY 2020 compared with FY 2019. States generally dependent on oil (e.g., Alaska and Wyoming) had the largest declines in overall state tax revenue collections because of their dependance on severance taxes. Further, states with high dependance on sales taxes (e.g., Florida and Texas) and high dependance on tourism, leisure, and hospitality industries (e.g., Hawaii and Nevada) also saw steep declines in overall and sales tax revenue collections.

FIGURE 3

State Total Tax Revenues in FY 2020 Compared with FY 2019

Year-over-year percent change in total tax revenues

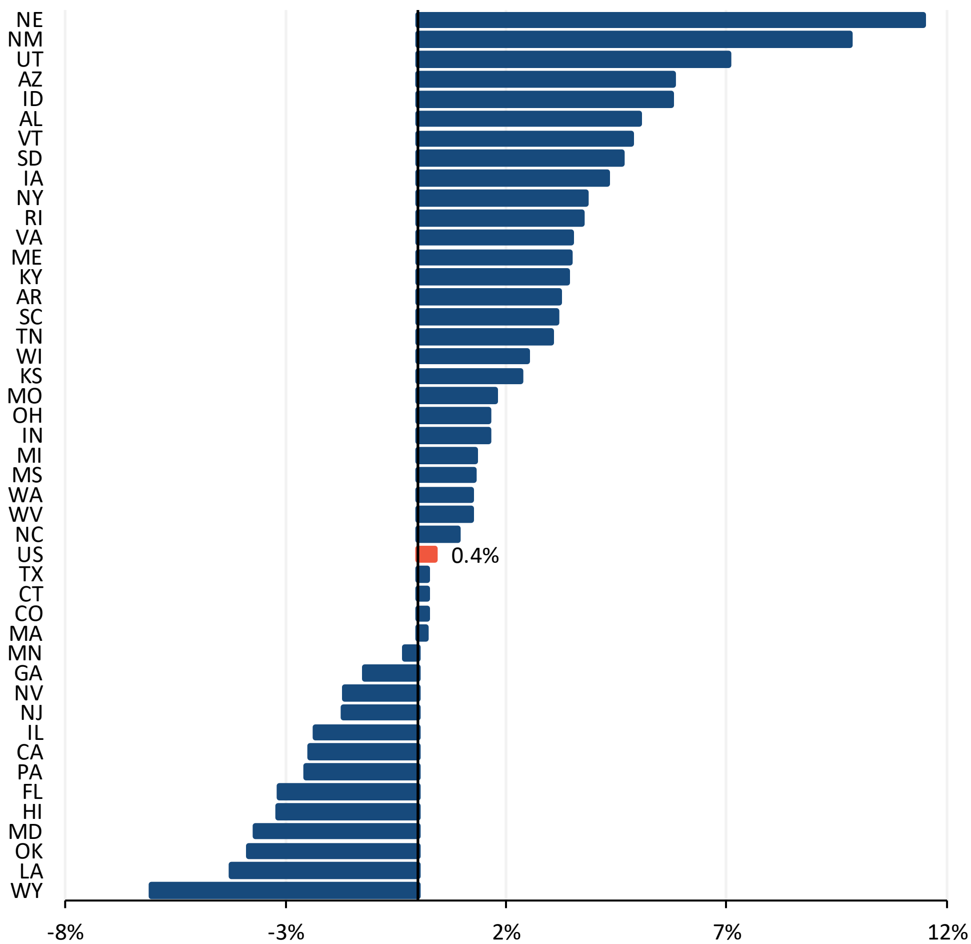


Source: State and Local Finance Initiative, Urban Institute.

FIGURE 4

State Sales Tax Revenues in FY 2020 Compared with FY 2019

Year-over-year percent change in sales tax revenues



Source: State and Local Finance Initiative, Urban Institute.

STATE REVENUE FORECASTS

Key takeaway: Most states are optimistic about the current fiscal environment, but some states face difficult budgetary challenges.

It was extremely hard for states to forecast revenues given the unprecedented nature of the public health crisis, the widespread stay-at-home mandates, the steep increases in unemployment claims, and the steep declines in state revenues. Most states immediately revised forecasts downward and thought revenue declines would be dramatic and relatively long-lasting, a stark difference from the solid revenue growth predicted at the beginning of the year.

These bleak forecasts were universal: Not only did states overestimate revenue shortfalls, but so did independent organizations.

In June 2020, the Tax Policy Center extrapolated from revised state revenue forecasts and projected state government revenue losses reaching $125 billion in FY 2021.[4] In July 2020, the Tax Foundation estimated state government revenue losses would reach $118 billion in FY 2021.[5] In September 2020, Moody's released revised forecasts and projected that state governments would see revenue shortfalls of almost $100 billion for FY 2021.[6] Other organizations, such as the Center for Budget and Policy Priorities and the National Council on State Legislatures, also projected steep revenue losses for state governments for FY 2021.

The overestimation of revenue losses by state governments as well as by independent organizations highlights the unusual nature of the COVID-19 recession and the uncertainties the pandemic presented for state budgets. But state revenue losses would had been far steeper absent federal government policies and stimulus support. More than a year into the pandemic, we know that its impact on state revenues was not as strong as initially feared for many states. This turned out to be related to stronger income tax revenues, which were bolstered in part by the federal assistance under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) signed into law in March 2020. That package provided $2 trillion in aid, of which around $200 billion went to state and local governments.[7]

We asked state officials how they would describe the current total tax and general or excise sales tax for their respective states. Officials in 25 states were either optimistic or very optimistic, while officials in 9 states were neutral. Officials in six states described the overall revenue picture as pessimistic, and officials in four states indicated pessimism about general sales tax revenues specifically (Figure 5). This a reminder that although the pandemic did not have a devastating impact on most states, states that rely heavily on the tourism, leisure and hospitality industries are still in a precarious situation.

Despite widespread optimism about the current revenue picture, some states are anticipating revenue shortfalls for FY 2021. Among the states with general sales tax revenues, officials in 14 states expect declines in overall tax revenues for FY 2021, while 27 states expect growth. Further, 11 states are anticipating declines in general sales tax revenues and 2 states are expecting declines in excise tax revenues for FY 2021 (Figure 6). The states expecting declines in general sales or excise tax revenues for FY2021 do not necessarily expect declines in overall tax revenues as well.

FIGURE 5

States' Current Total and Sales Tax Revenue Picture

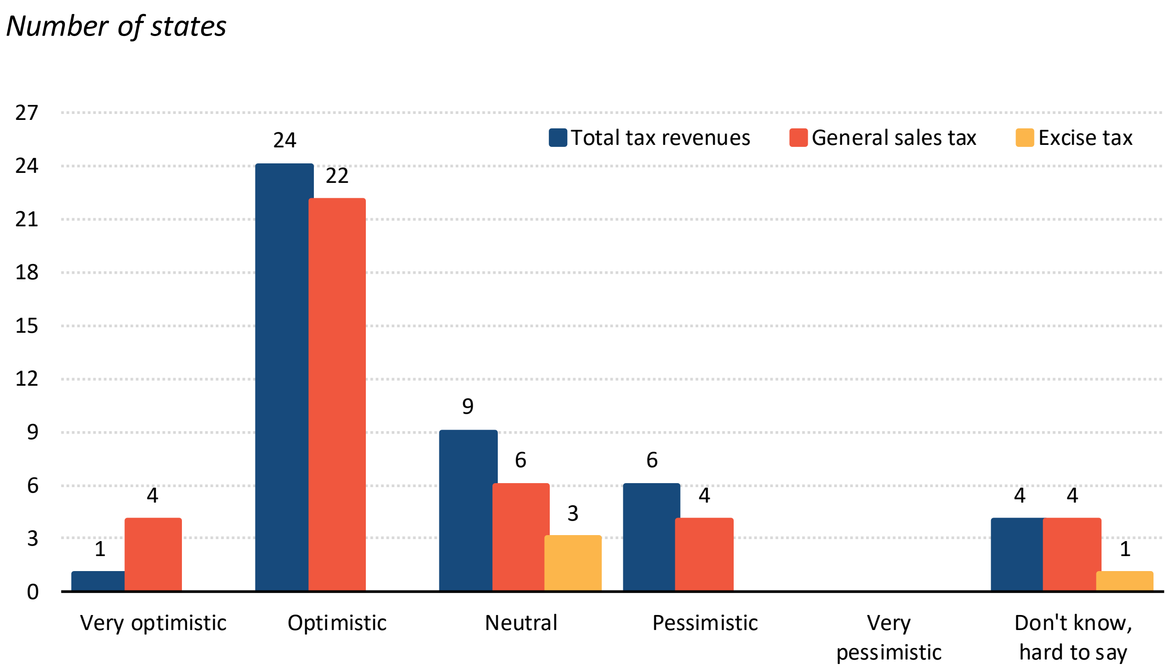


FIGURE 6

State Revenue Forecasts for FY 2021 Compared with FY 2020

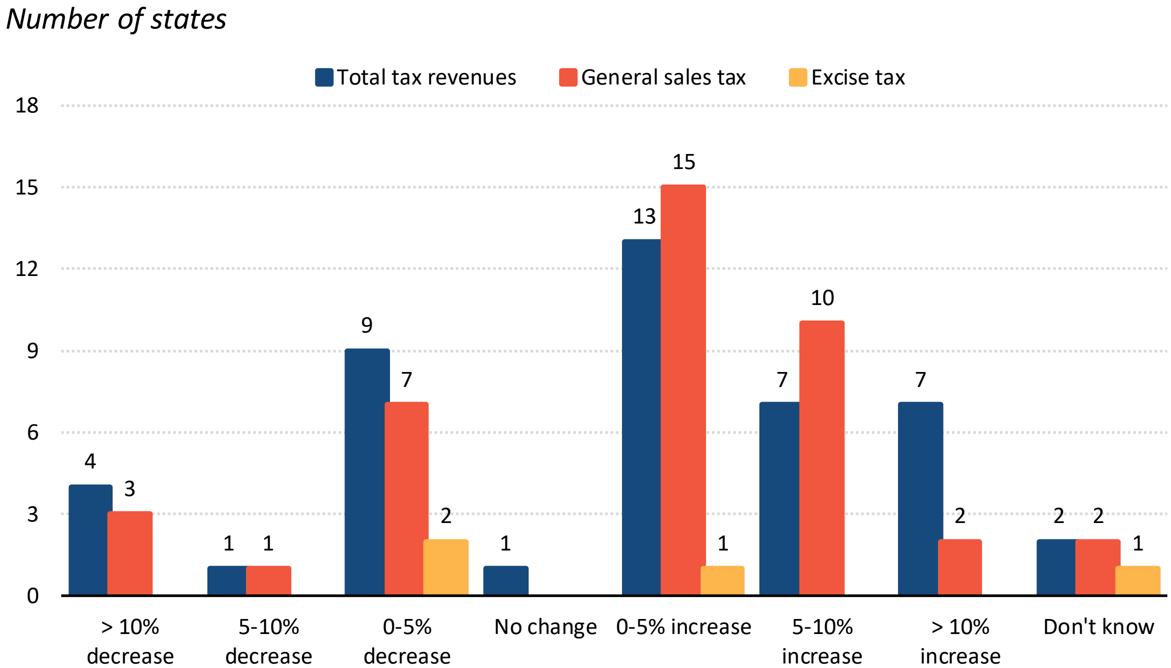
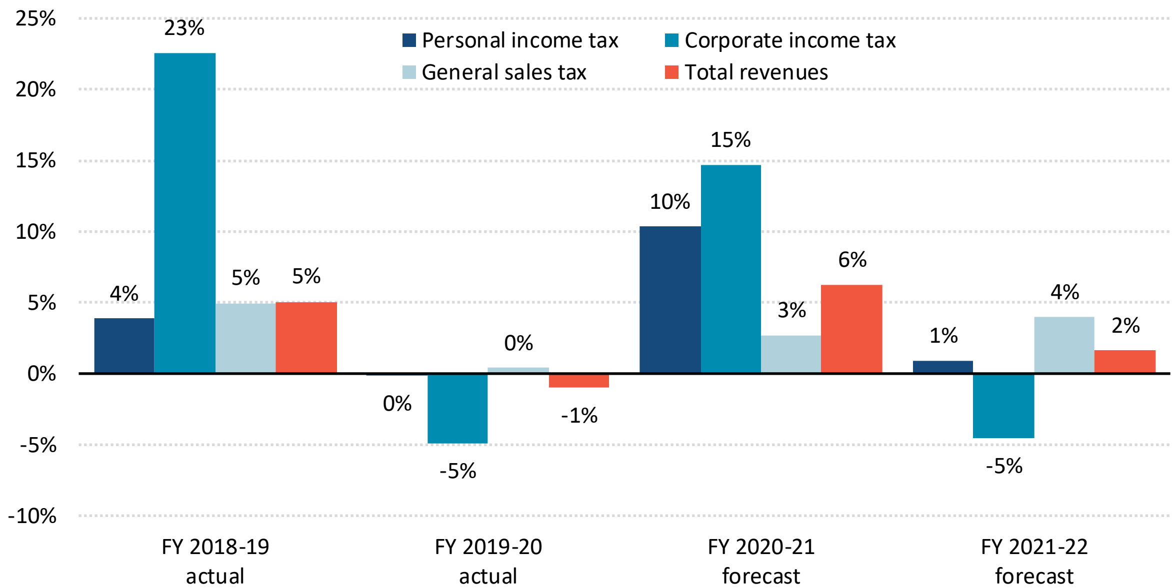


Figure 7 shows actual revenue growth for FY 2019 and FY 2020 as well as revenue forecasts for FY 2021 and FY 2022 for state total revenues and revenues from major sources, based on data collected by the Urban Institute. States have seen solid growth in all major sources of tax revenues as well as in overall tax revenues in FY 2019. The complex trajectory of the pandemic and federal and state responses to it had an impact on state revenue collections in FY 2020. Most states reported declines in personal income and corporate income tax revenues largely because of the postponed income tax due date, which shifted income tax revenues from one fiscal year to another. Overall, most states are anticipating growth in overall state tax revenues in both FY 2021 and FY 2022 (Figure 7), though part of the growth in FY 2021 can be attributed to the shifting of 2019 income tax payments into FY 2021.

FIGURE 7

State Actual Revenue Growth for FYs 2019 and 2020 and Revenue Forecasts for FYs 2021 and 2022

Year-over-year percent change



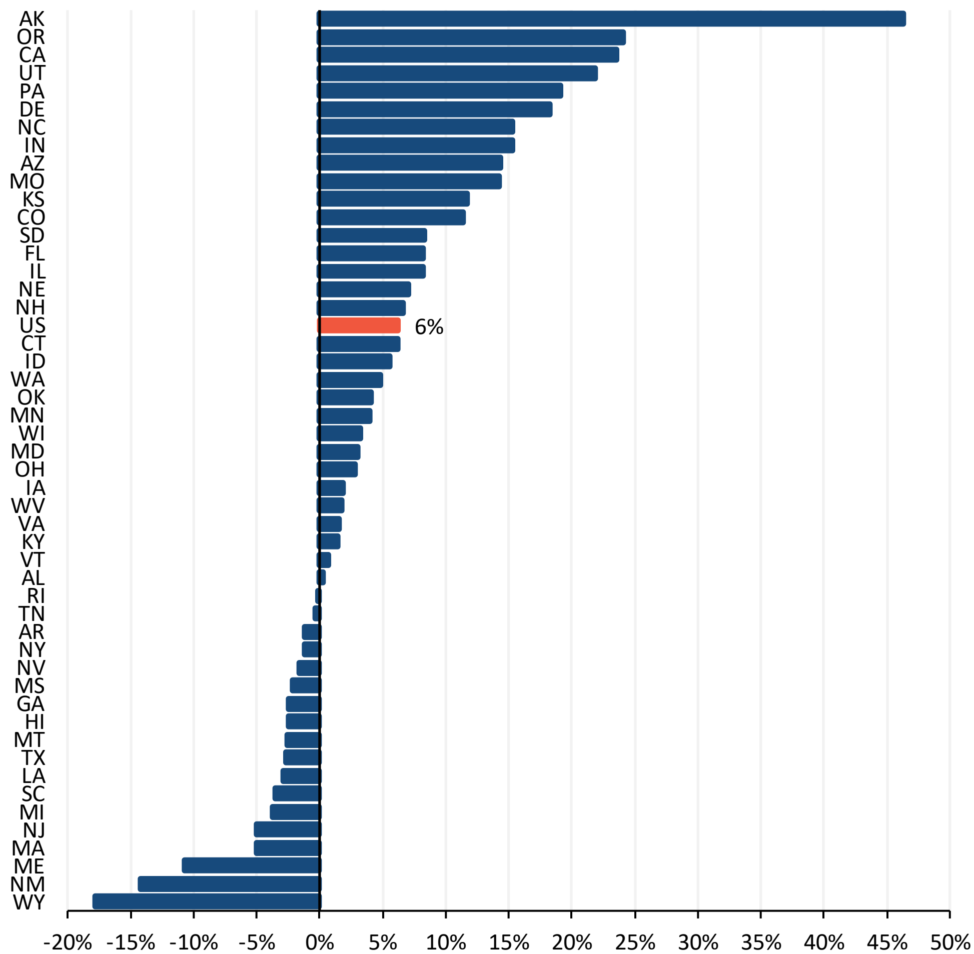
Source: State and Local Finance Initiative, Urban Institute.

State revenue forecasts indicate that 18 states are anticipating declines in FY 2021, while 31 states are anticipating growth (Figure 8). Alaska is anticipating the largest growth in overall tax revenues, largely because of extreme declines in revenues in FY 2020. (Alaska's state tax revenues had declined 42 percent in FY 2020.) Wyoming and New Mexico are forecasting the steepest revenue declines for FY 2021; like Alaska, they both have high reliance on severance taxes.

FIGURE 8

State Total Revenue Forecasts for FY 2021 Compared with FY 2020

Year-over-year percent change in total tax revenue forecasts



Source: State and Local Finance Initiative, Urban Institute.

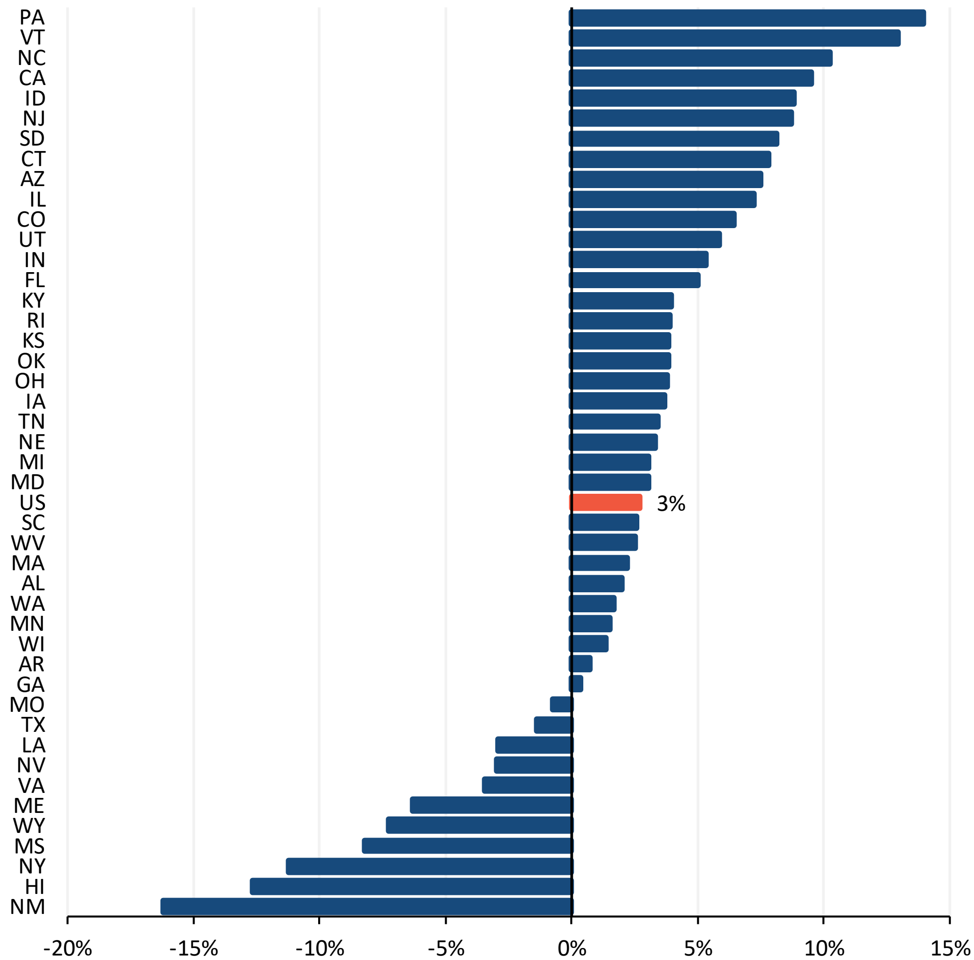
Figure 9 shows state sales tax revenue forecasts for FY 2021. Eleven states are anticipating declines in sales tax revenues in FY 2021, while 33 states are anticipating growth.

We have compared states' most recent revenue forecasts for FY 2021 with the forecast estimates provided by survey respondents. There are some noticeable variations, likely caused by the timing of official revenue forecasts versus the timing of survey responses.

FIGURE 9

State Sales Tax Revenue Forecasts for FY 2021 Compared with FY 2020

Year-over-year percent change in sales tax revenue forecasts



Source: State and Local Finance Initiative, Urban Institute.

STATE SALES TAX REFORM PLANS FOR FY 2022

Key takeaways:

- *Most states are not planning to expand general or excise sales tax bases to include more goods or services, in part because of the current more positive fiscal environment.*
- *A few states are considering cutting general sales tax rates, but others are interested in expanding specific excise taxes, most notably legalizing and taxing the recreational use of marijuana.*

We asked the respondents to indicate what policy options they were considering for fiscal year 2022. Because many states were in the middle of their legislative sessions when policymakers responded to our survey, many were unable to respond with actual fiscal policy changes in their FY 2022 budgets. In fact, officials in 13 states did not answer this question.

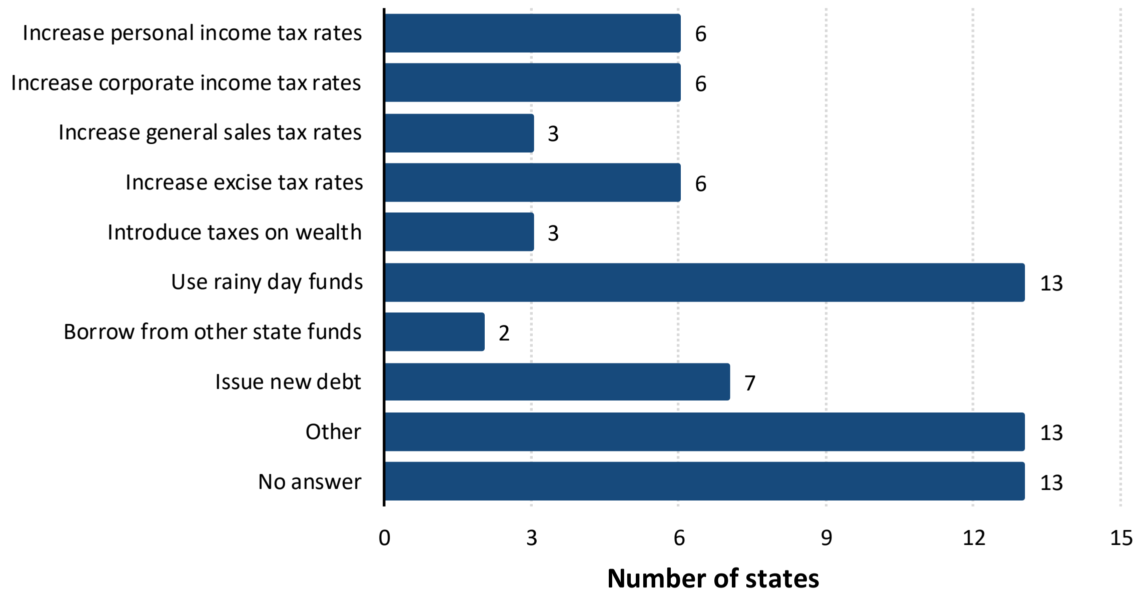
Among the remaining states, officials in 17 states indicated a single policy change, and officials in 14 states indicated several expected policy measure changes. Results in actual budgets will likely differ given the subsequent passage of ARPA and increased federal assistance.

Figure 10 summarizes fiscal policy changes that states were considering. Very few states indicated discussions to increase rates or modify structures for income and sales taxes. We find that in general, the states that indicated legislative deliberations to change income and sales tax rates and structures were also the states that had been more severely affected by the pandemic. Further, these states had all responded to the survey questionnaire before the ARPA was passed. Respondents in 13 states indicated using rainy-day funds, while respondents in 7 mentioned issuing new debt.

FIGURE 10

Most States Are Reluctant to Raise Tax Rates

States' budget considerations for FY 2022



Respondents in 13 states indicated some other measures as part of budget consideration for fiscal year 2022. Those measures include:

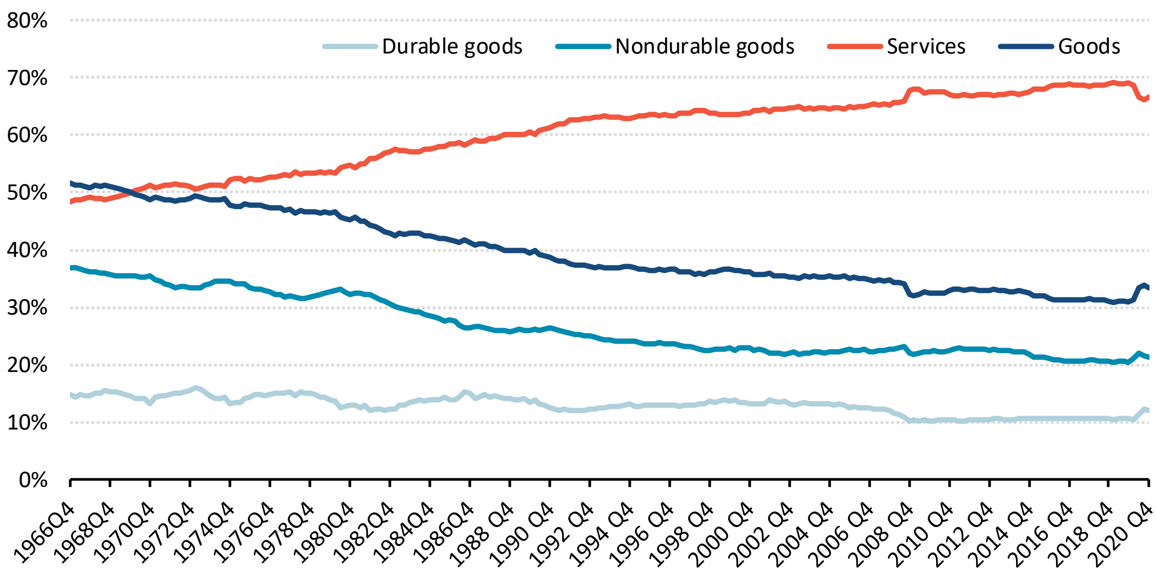
- expanding gaming,
- taxing e-cigarettes,
- increasing the gas tax,
- repealing tax expenditures,
- passing a one-time tax reduction,
- cutting tax rates,
- reducing spending,
- using federal funds rather than general funds where appropriate,
- introducing a tax on capital gains (discussed in a state with no income tax, this would be similar to the taxes on investment income in New Hampshire and (until recently) in Tennessee, and
- modifying personal and corporate income tax structure to limit credits and deductions for higher-income individuals.

Before the pandemic, one of the challenges for states was the growing share of spending on services and the decline in the share of spending on goods (Figure 11). Spending on services rather than on goods translates into less sales tax revenues for states as many services remain untaxed and are hard to tax for political, administrative, or legal reasons. In 41 of the 45 states with a general sales tax, services are not in the tax base by default, and each state chooses which services to include. In contrast, Hawaii, South Dakota, New Mexico, and West Virginia include all services in their base by default but exempt specific services.[8]

FIGURE 11

Sales Tax Base: Spending on Services versus Goods

Goods and services as share of personal consumption expenditures



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

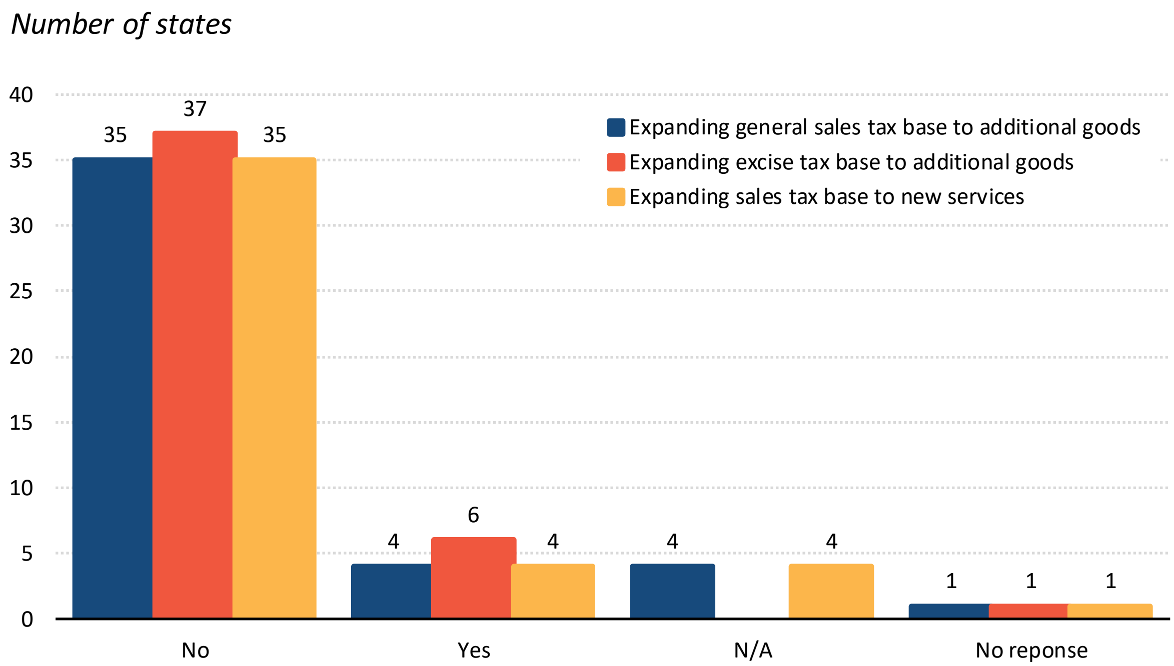
Further, changing economic activity also led to more goods being bought online from remote sellers or through electronic means, which further eroded sales tax bases. This has led some states to consider reforms to include more services in their base[9] or to modernize their sales tax in other ways. After the *South Dakota v. Wayfair, Inc.* decision,[10] which gave states broad authority to require out-of-state sellers to collect sales tax, all states have passed legislation to regulate online sales taxation, which has increased sales tax revenues (especially during the pandemic). Florida and Missouri passed legislation only this year, but for the other states with a general sales tax, the taxation of online purchases helped sustain sales tax revenues as consumers shifted spending patterns to avoid in-person contact.

Consumption patterns also changed, with individuals this year spending a larger share of their budgets on goods rather than services than in prior years. This is in part because many services related to entertainment and travel have been curtailed by government mandates. This is likely a one-time shift rather than a change in trend, and many states will continue facing the erosion of their sales tax base.

Many states have observed shifts in consumer spending during the pandemic. We asked state officials to indicate whether they were considering any policy changes related to the taxation of goods versus services because of changes in consumer behavior. Most states either did not respond or indicated no deliberations were underway. A few states indicated that some policy discussions were in progress, but changes were not adopted by the legislature. Officials in four states indicated policy debates on taxing digital goods and digital subscriptions or streaming services because of how widespread such goods and services have become (Figure 12).

FIGURE 12

Most States Not Planning to Expand Sales Tax Base to New Goods and Services



We asked state officials if they were considering expanding the general or excise sales tax bases to include additional goods, repealing existing exemptions of sales taxes, taxing new services. Not surprisingly, given more positive fiscal conditions, most states indicated no plans to expand their sales tax bases to new goods or services (Figure 12). Only four states indicated plans to expand general sales tax bases, and those states indicated plans to repeal existing exemptions, including exemptions on clothing and candy. Six states indicated plans to expand their excise sales tax bases. Those states indicated expansion to items such as wine, electronic cigarettes, and recreational marijuana. Moreover, four states indicated plans to expand the sales tax base to new services, mostly sales taxes on digital streaming and subscription services.

Although the COVID-19 pandemic posed a financial threat to all states, those where leisure and hospitality are critical industries and that rely heavily on sales tax revenues (and less on income taxes), were particularly vulnerable. For example, sales taxes represent 60 percent or more of revenues in Florida and Texas. The top six states with the highest reliance on sales tax revenues (Florida, Nevada, South Dakota, Tennessee, Texas, and Washington) do not have broad-based income taxes.

Further, although the state sales tax base is important, states' sales tax rates also matter in terms of how much revenues states collect. Sales tax rates vary by state as well as by locality within a state. Colorado currently has the lowest state sales tax rate at 2.9 percent (though its' local rate varies between 0 and 8.3 percent and has a combined rate that averages 7.65 percent), while California has the highest state sales tax rate of 7.25 percent (and an average combined rate of 8.66 percent).

We asked respondents if they were planning to enact general sales tax rate changes for FY 2022. Respondents in 34 of the 40 states that answered our survey and have a general sales tax indicated no plans to increase or decrease their general sales tax rate; respondents in 4 states indicated they were not sure. Idaho was the only state to indicate plans to decrease its general sales tax rate for FY 2022 (Figure 13). Notably, Idaho also saw substantial growth in tax revenues during the pandemic, mostly because of a boom in construction driven by recent population growth.

We also asked states if they were planning to enact excise tax rate changes for FY 2022. Once again, it appears states are not planning this: officials in 30 states did not indicate any plans to do so. The one exception is that legalizing and taxing recreational marijuana is gaining popularity among more states.

State officials in four states, including New York and Wisconsin, indicated plans to implement taxes on recreational marijuana. Since we conducted the survey, New York has already moved forward and legalized recreational marijuana. Recreational marijuana is currently legal in 16 states and the District of Columbia, and more states will likely legalize and tax recreational marijuana in the coming years.

Apart from recreational marijuana, officials in Rhode Island and Washington indicated plans to raise the tax rate on gasoline, officials in Wisconsin indicated plans to enact tax rate changes for e-cigarettes and cigars, and officials in Washington indicated plans to enact tax rate changes for sugar-sweetened beverages.

Other excise tax measures mentioned by state officials include decreasing meal and room tax rates and creating new carbon taxes (Figure 14). In most of these instances, it seems like other nonfiscal considerations are driving the discussion of new taxes or changing tax rates.

FIGURE 13

Most States Not Planning to Enact General Sales Tax Rate Changes for FY 2022

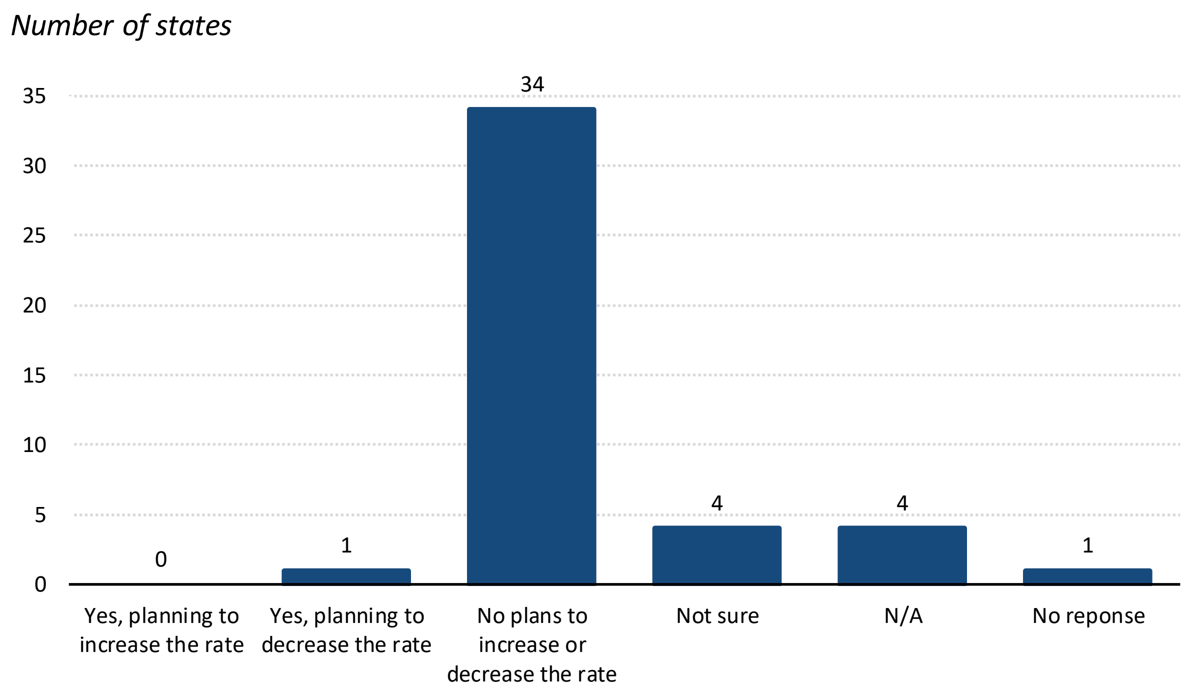
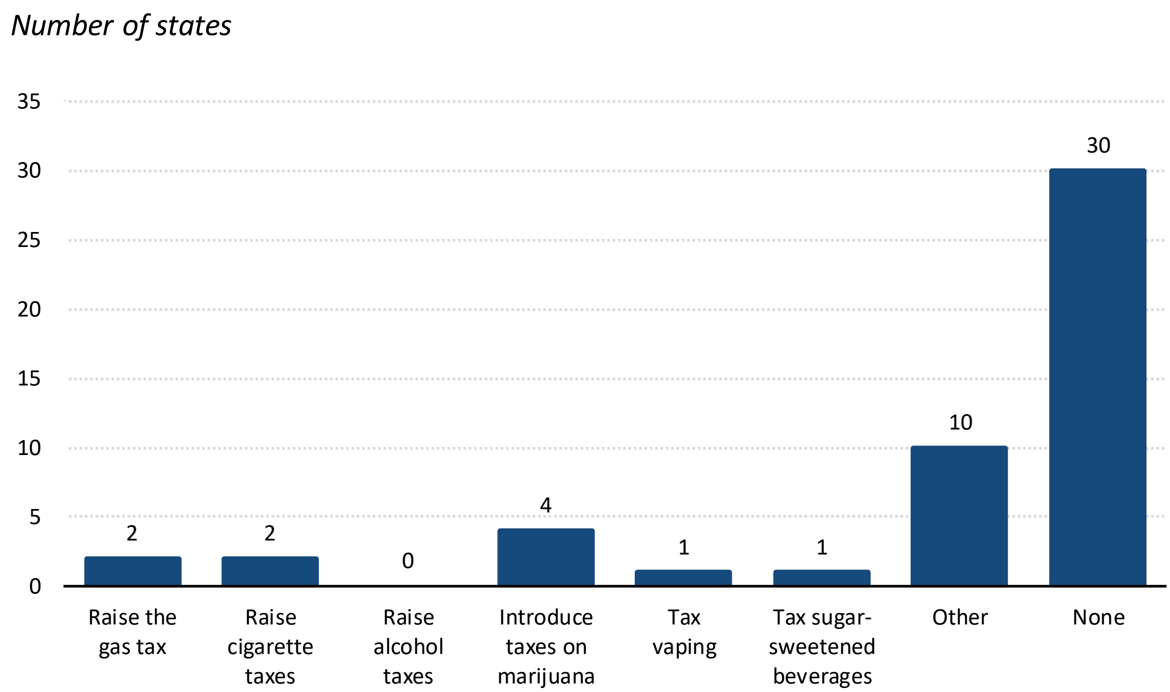


FIGURE 14

Few States Planning to Enact Excise Tax Rate Changes for FY 2022

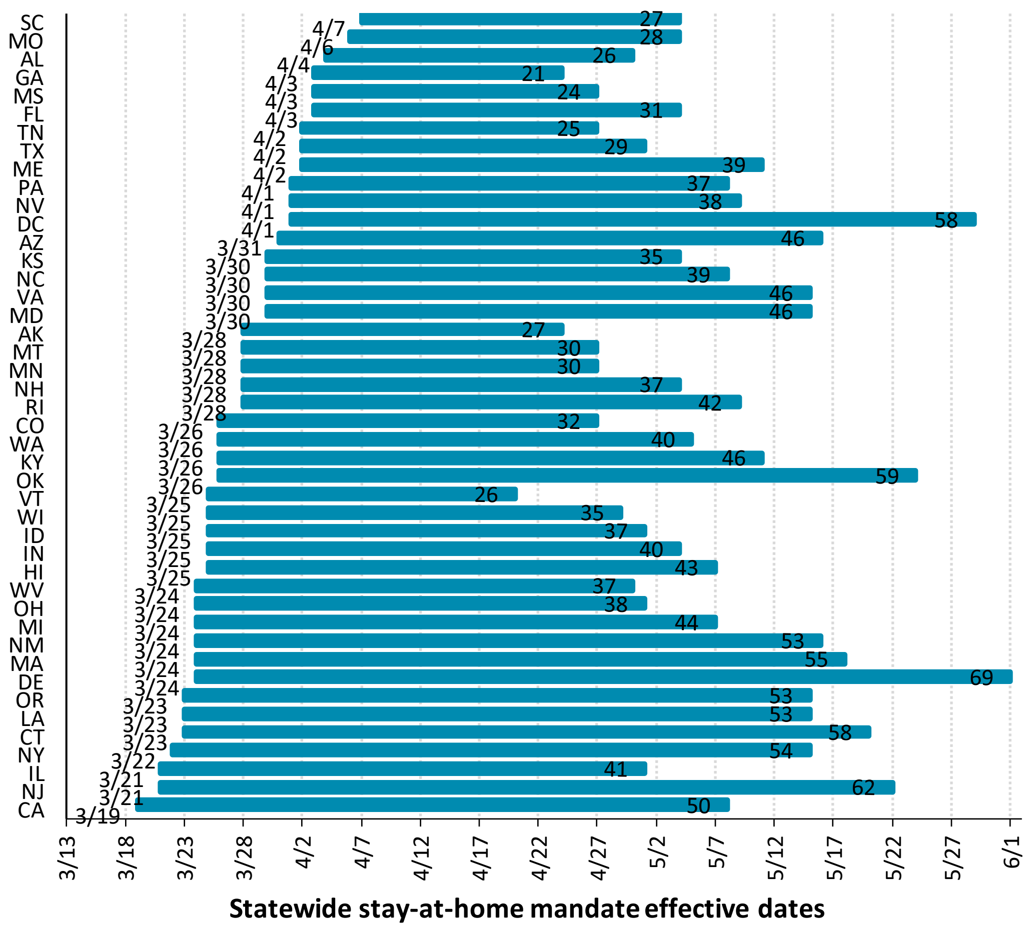


Key takeaway: Most states saw growth in consumption of goods and declines in consumption of services.

Early in the pandemic, many states had stay-at-home orders to combat the pandemic. Together with actions taken by businesses and individuals to minimize their exposure to the virus, these orders had a significant impact on the decline of sales tax revenues in spring 2020. California Governor Gavin Newsom was the first to announce a stay-at-home order on March 19th, 2020, and 43 states followed the same policy. But governors in Arkansas, Iowa, Nebraska, North Dakota, South Dakota, Utah, and Wyoming did not issue such orders. Georgia's Governor Brian Kemp was the first to reopen parts of his state's economy, after 21 days of lockdowns. By the end of April, 33 states still had stay-at-home orders in place (Figure 15).

FIGURE 15

State Stay-at-Home Order Effective Dates and Duration during Spring 2020



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

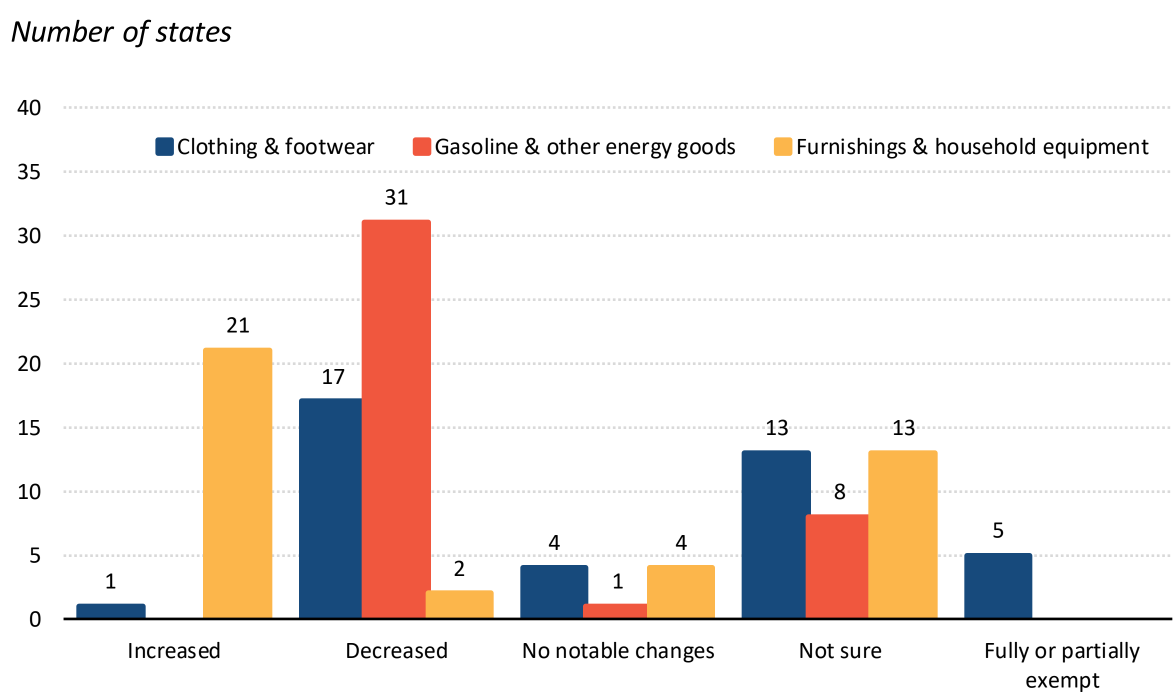
Some states went through subsequent lockdowns, and many consumers voluntarily restricted their regular activities, such as dining out or shopping at malls, to reduce the risk of contracting or spreading the virus.

The virus-induced recession brought significant changes to consumer spending behavior, including changes to what is purchased and where and how it is bought. In the beginning of the pandemic, many consumers were panic-purchasing grocery food and personal care products, and retailers were forced to limit the number of purchases for high-demand items. However, the panic subsided quickly as consumers realized there would be no shortage of products. Still, spending for some categories shifted considerably.

We asked states to indicate if they have seen any shifts in consumption of goods and services and, therefore, in sales tax revenue collections during the pandemic for various spending categories. Some respondents to our survey questionnaire were not able to answer the questions. Respondents in 31 states indicated declines in spending on gasoline and other energy goods, which was expected as a large share of the workforce switched to remote work and spent less on gasoline due to limited travel. (Spending on gasoline and other energy goods also declined due to steep drops in gas prices). Similarly, many consumers also spent less on clothing and footwear during the pandemic. On the other hand, survey respondents in 21 states indicated that spending on furnishings and household equipment increased during the pandemic (Figure 16).

FIGURE 16

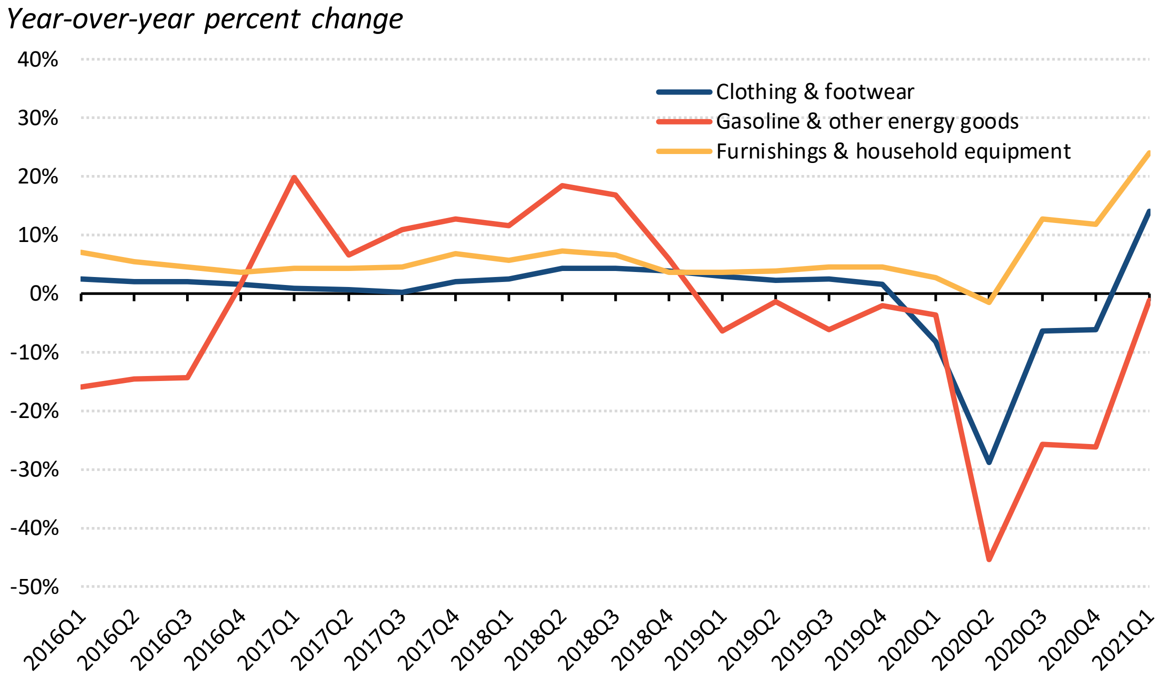
Remote Work and State Lockdowns Changed Consumer Spending Patterns



The survey responses are consistent with the actual spending patterns observed for the nation. Analysis of data from the US Bureau of Economic Analysis indicates spending both on apparel and energy goods declined steeply during the pandemic, while spending on furnishings increased substantially (Figure 17).

FIGURE 17

Consumption Spending before and during the Pandemic



Source: US Bureau of Economic Analysis, National Income and Product Accounts Table 2.3.5.

We also asked states to indicate if they saw any shifts in spending on food, accommodation, auto sales, and building materials. Many states indicated an increase in spending on goods such as auto and building materials and a decrease in spending on services such as accommodation (Figure 18). Respondents in 35 states indicated declines in spending on accommodation. Spending on accommodation was hit hard because the pandemic caused a reduction in travel and general tourist activity, which led to lower sales tax collections from accommodation (typically hotel rooms).

The pandemic hit the leisure and hospitality industries especially hard because of restrictions on travel, cancellations of events, and shutdowns of restaurants and bars. Employment in the leisure and hospitality industries declined nearly 40 percent between April 2020 and June 2020 compared with a year earlier. Even as vaccinations have become more available, employment in the leisure and hospitality industries remains depressed across all states, and a full recovery in these sectors will likely take time. This is particularly troublesome for state's whose economies rely heavily on leisure and hospitality as well as tourism, such as Hawaii and Nevada.

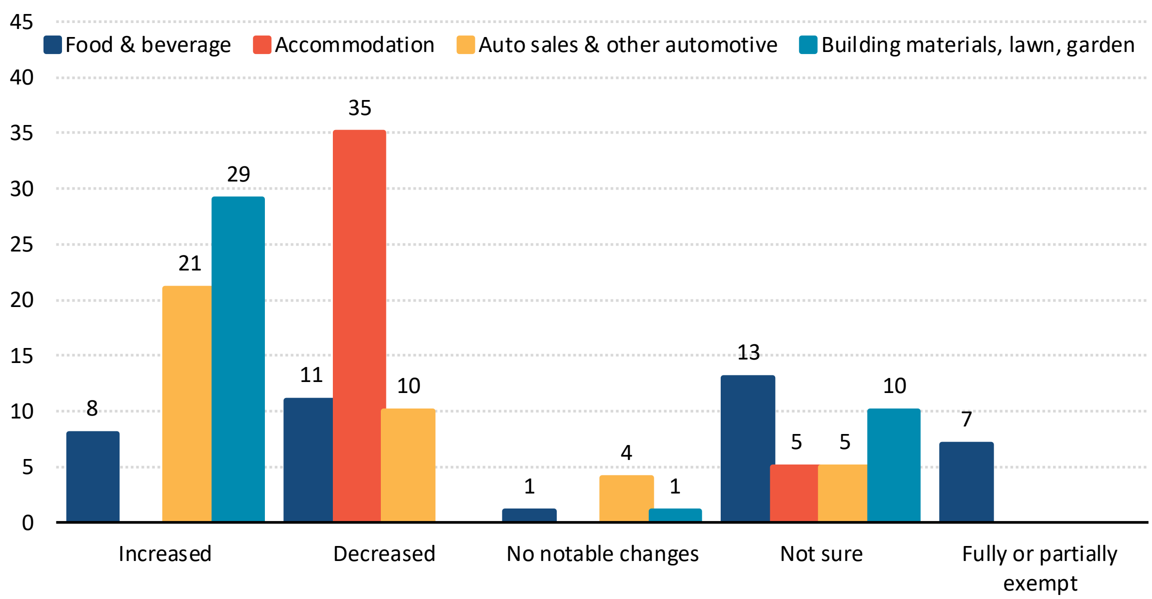
Respondents in 29 states indicated growth in spending on building materials and lawn and garden supplies. Over the past year the US housing market has boomed even as the pandemic-induced recession left millions of

Americans out of work. Record-low mortgage rates and more time spent at home sparked the demand for new or bigger housing, in part leading to a push for new construction (after initial suspension of work) and to bidding wars. Home prices have soared, and the strong growth in home sales contributed to growth in spending on building materials and lawn- and garden-related items.

FIGURE 18

Consumers Spent More on Goods and Less on Services during the Pandemic

Number of state official responses



Twenty-one of 44 states that responded to our survey indicated that spending on auto sales and other automotive items has increased. Initially, sales of new vehicles collapsed as auto plants were shuttered during the first phase of the pandemic, resulting in a shortage of new vehicles. Even though far fewer people were commuting to work, retail auto sales to consumers rebounded faster than expected. Forecasts for auto sales were also initially bleak, and the rebound is a clear indication that forecasting consumer behavioral change is not easy. Demand for automobiles could be related in part to an increased reluctance to use mass transit for fear of exposure to the virus.

We also asked states to indicate the trends in spending on food and beverages (both grocery stores and restaurants) during the past year. Even though people stockpiled groceries in the beginning of the pandemic, that panic shopping subsided very quickly. Respondents in 11 states indicated declines in spending on food and beverages, while respondents in eight states indicated growth. The divergence in responses is largely because of different state lockdown policies and regulations related to restaurant and bar operations during the pandemic.

STATES' ONLINE SALES TRANSACTIONS AND TAXATION

Key takeaways:

- *Most states collect sales tax revenues on interstate online sales transactions but have incomplete details on online spending patterns.*
- *About half of respondents reported tracking online sales tax revenue collections separately. However, although states are able to separately track transactions from out-of-state vendors with no physical in-state presence, many are unable to separate online sales from in-person sales for businesses with physical nexus in their state.*
- *It appears only a few states plan to make revisions related to online sales taxation, such as rules, regulations, procedures, sales tax collections reporting, or auditing.*
- *Only a few states indicate having invested in technology solutions to support online sales taxation in the past three years, and even fewer states plan to invest in the next three years.*

The *Wayfair* ruling and states' subsequent enactment of laws to tax online sales transactions helped states considerably during the COVID-19 pandemic and recession.

Before June 21, 2018, states were banned from imposing sales tax on internet sales unless the given retailer had a physical presence in the taxing state. That all changed when the US Supreme Court overruled the physical presence rule and paved the way for states to tax remote sales and have sellers collect and remit the revenue.[11]

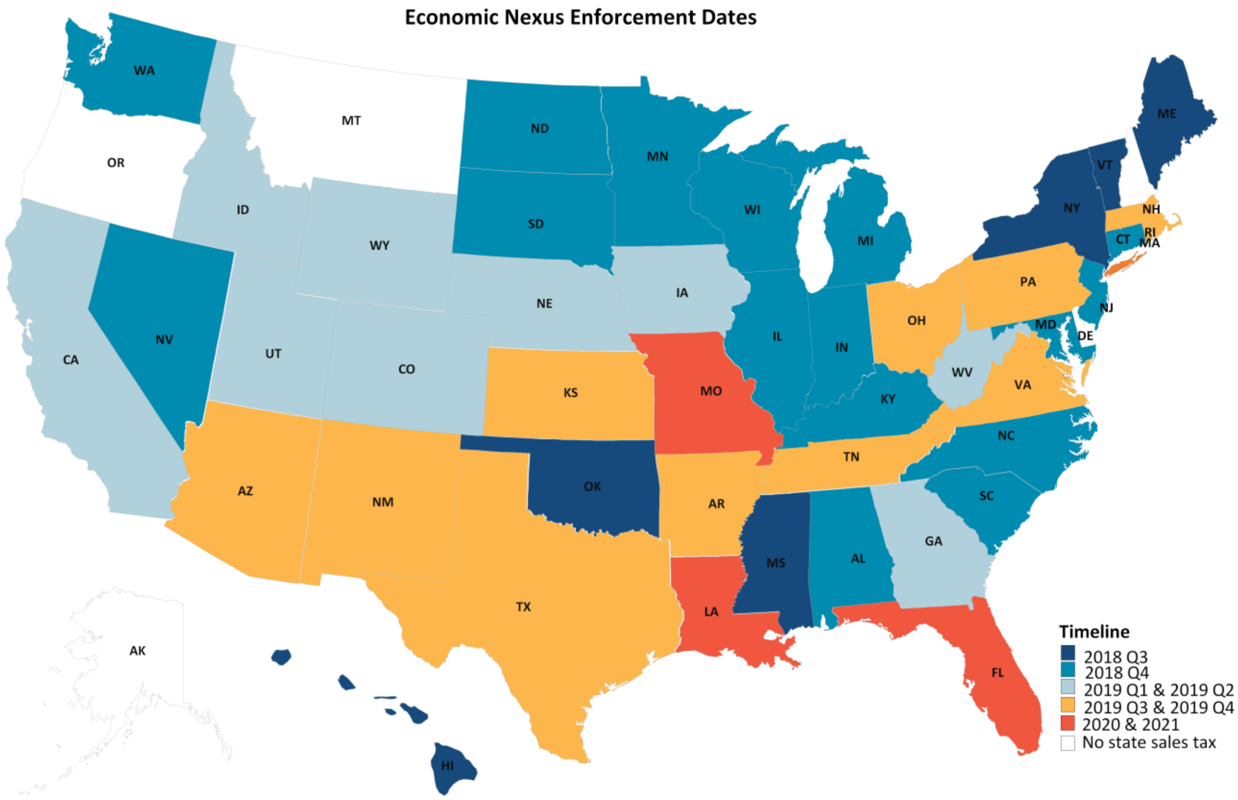
Many states rushed to enact legislation to tax online sales shortly after the Supreme Court's ruling. Figure 19 shows the timeline of online sales taxation legislations across the states. By the end of 2019, all states with broad-based sales taxes except Florida, Louisiana, and Missouri had enacted legislation to tax remote sellers. These laws typically required a minimal level of transactions or sales within a state to establish nexus or make the retailer liable for the tax.

States implemented two sets of laws over the next few years: remote seller laws, which render retailers responsible for collecting and remitting sales tax, and marketplace facilitator laws, which deem that all sales in a marketplace count toward the minimum requirement for payment. Before the pandemic, many critics thought that states had rushed to enact legislation without careful assessment of enforcement mechanisms, thresholds, and retroactivity requirements. Indeed, many states faced unintended challenges after introduction of various dollar-value and transaction-value thresholds, and some states ended up revising their thresholds.

But quick enactment of legislation in most states turned out to be extremely fortuitous because many consumers accelerated online purchases with the onset of the pandemic. States have been benefiting from even imperfect laws that require retailers to remit sales taxes on online transactions. Questions remain about how sales taxes are calculated and if they are based on where the sale originates or where the goods are delivered. Further, there can be differences in what goods are taxable at the local level.

FIGURE 19

Most States Were Fast to Adopt Online Sales Taxation Legislation



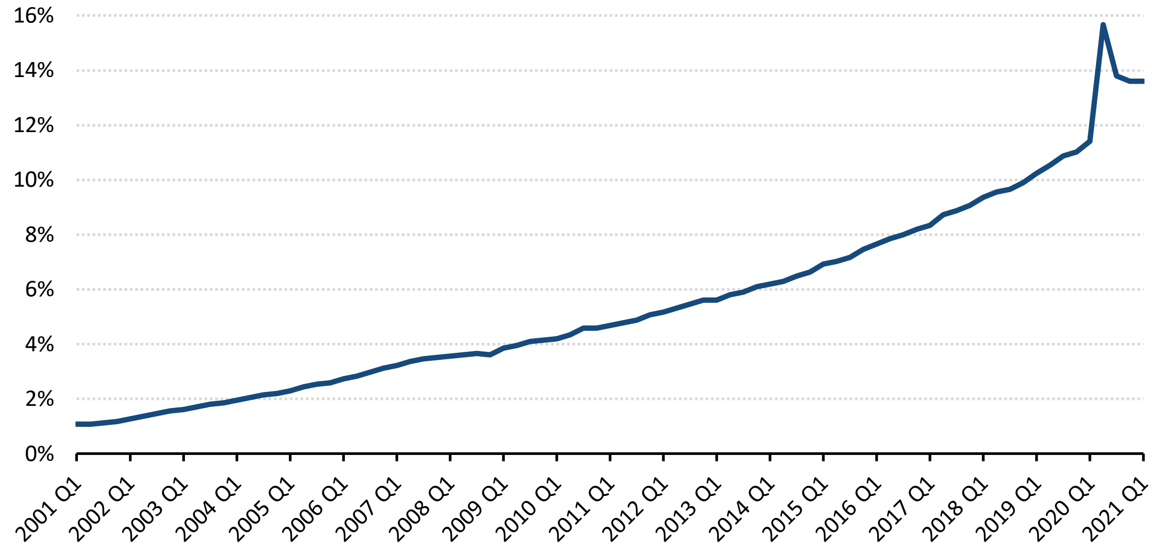
While state and local governments continue sorting out the rules and regulations for online sales taxation, the pandemic accelerated online sales purchases. E-commerce accounted for 15.7 percent of total retail sales in the second quarter of 2020, a 4.2 percentage-point increase compared with the first quarter of 2020. E-commerce as a share of total retail sales has ticked downward in the second half of 2020 but remained noticeably higher than its pre-pandemic share (Figure 20). Just a decade ago, e-commerce sales accounted for only 5 percent of total retail sales. That share has now nearly tripled and is likely to remain high or grow over time (even if it declines in the near term) as more consumers become accustomed to online shopping.

In the second quarter of 2020, which was the height of the pandemic's first wave, consumers spent $204 billion online, or 43.8 percent more than during the same quarter in 2019. This contrasts with a 3.6 percent year-over-year decline in total retail sales in the second quarter of 2020. Year-over-year growth in online spending was also at or above 32 percent during the second half of 2020 and in the first quarter of 2021. By comparison, year-over-year growth in total retail sales was 7 percent both in the second and third quarters of 2020 and 16.8 percent in the first quarter of 2021 (Figure 21).

FIGURE 20

The Pandemic Turbocharged e-Commerce Sales

E-commerce sales as share of total retail sales

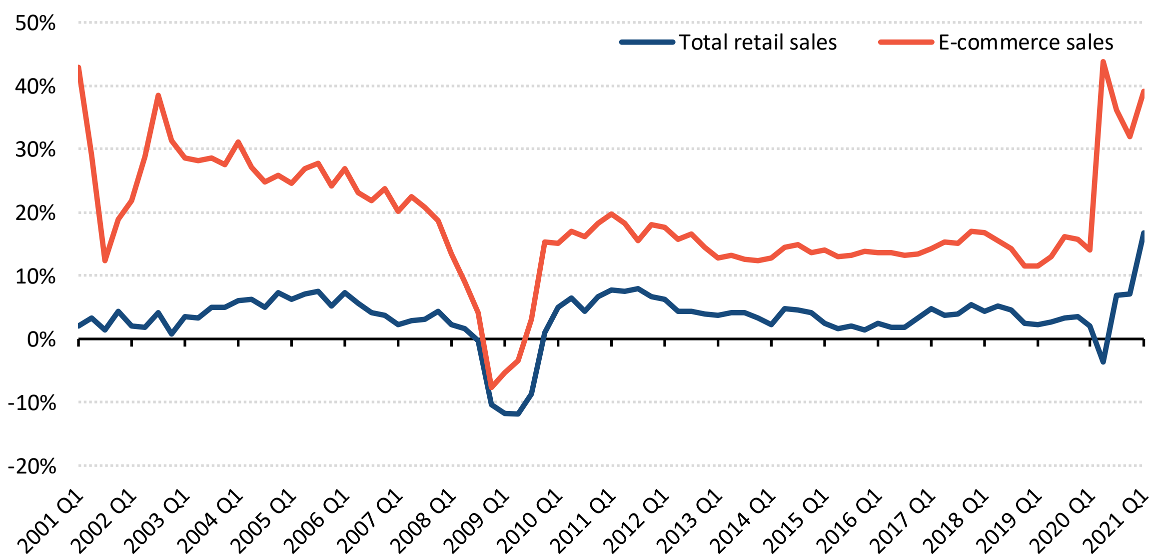


Source: US Census Bureau, quarterly e-commerce report.

FIGURE 21

Nominal growth in E-Commerce Sales versus Retail Sales during the Pandemic

Year-over-year percent change



Source: US Census Bureau, quarterly e-commerce report.

We asked several questions about these trends to evaluate the impact of the pandemic on online sales, the current state of online sales taxation mechanisms across states, the challenges of online sales taxation, states' plans related to online sales taxation administration, and states' past and planned investments in technology solutions to support online sales taxation. Answering these questions turned out to be more complicated than originally anticipated. Because some online sales had already been subject to sales tax collection even before the *Wayfair* decision (because those retailers had a physical presence in the taxing state), states cannot always distinguish between online and in-person sales based on tax remittances and information filed by retailers. Below we summarize our survey findings.

We asked states that have a general sales tax to indicate the challenges for tracking online versus in-person transactions separately. Officials in 11 states did not provide any response, while officials in 27 states provided answers that are common in most cases. Among the respondents, only one state indicated no challenges in collecting information on taxes from online versus in-person transactions separately. Open-ended responses from the rest of the 26 respondents indicated three common challenges:

1. States are generally able to track sales taxes from remote sales but not necessarily from all online sales. In other words, online sales from businesses that also include physical nexus in the given state are not always tracked separately, whereas remote sales from out-of-state vendors without a physical presence but with economic nexus in the given state are tracked separately.
2. Sales tax forms in some states do not differentiate between in-person versus online businesses, so businesses with both components are only required to fill out one sales tax return and report the total aggregate amount of taxable sales.
3. Some states are able to track online sales from newly registered companies following the *Wayfair* decision and Marketplace Facilitator collection provisions but cannot track sales from companies that had been registered before the decision.

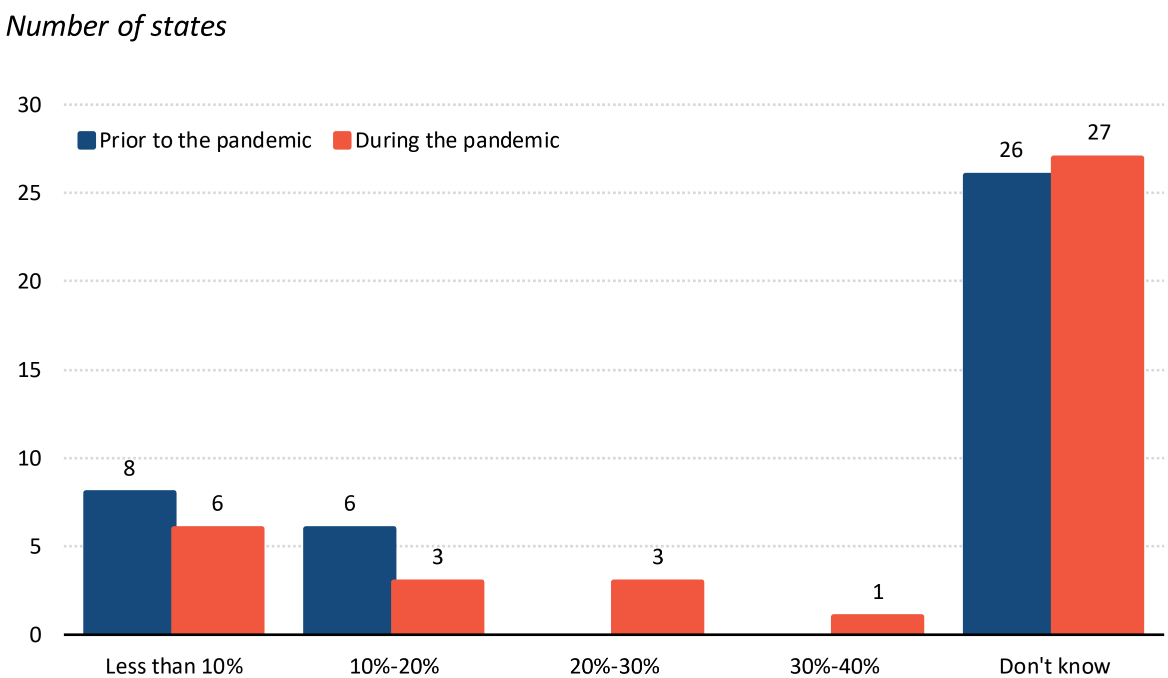
For example, officials in Maryland indicated some online sales tax revenue in the state is tracked separately because it is dedicated to education funding per rules that were part of the legislation expanding online sales tax collection. But it is not possible to track all online sales tax receipts because companies with brick-and-mortar stores within the state commingle their in-store and online remittances. Officials in Wisconsin indicated that the state's Department of Revenue established a system to estimate sales tax collections resulting from the *Wayfair* decision and from online marketplaces. However, these are estimates based on new filers before and after the passage of the state's *Wayfair*-related and marketplace facilitator taxation laws.

We asked states to indicate the share of taxable sales transactions conducted online before and during the pandemic. A large majority of survey respondents did not answer this question, with many indicating they were unable to answer because of a lack of information.

Among the states that were able to respond, eight states indicated no change in the share of taxable sales transactions conducted online before versus during the pandemic; five states indicated an increase. California is one of the five states that indicated boosts (Figure 22).

FIGURE 22

Share of Taxable Transactions Conducted Online during the Pandemic



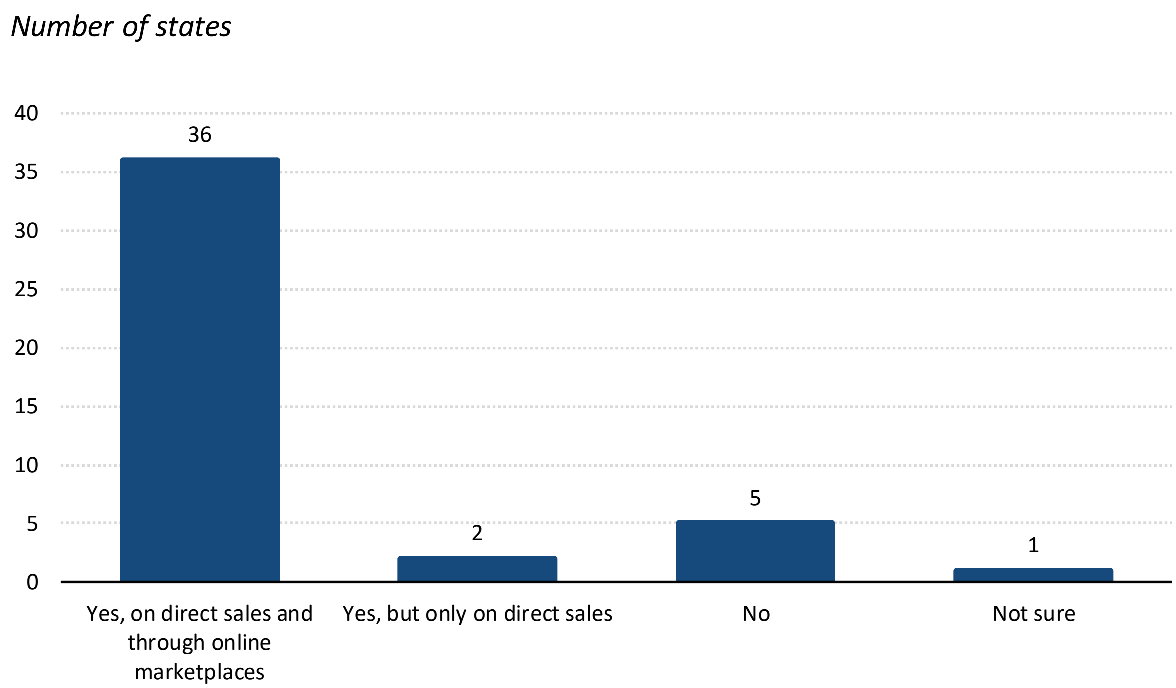
We wanted to evaluate whether states are collecting taxes on interstate online purchases, and if they do so, whether those taxes are from direct sales only or both direct sales and through online marketplaces. Respondents in 36 states indicated that they collect taxes both for direct sales and through marketplaces, while respondents in 2 states indicated that they collect taxes from direct sales only. Five states indicated that they do not collect taxes from interstate online purchases, and a respondent in one state was unsure. These are mostly the states that have no statewide sales tax (Figure 23).

Before the pandemic, all states with a general sales tax except Florida, Louisiana, and Missouri had implemented laws and regulations to collect sales tax revenues from online purchases. As noted, states' ability to tax online sales transactions helped support state revenues. The pandemic and the renewed importance of e-commerce led all three states without legislation in place to pass such laws. Louisiana's law requiring remote seller and marketplace facilitators to remit sales tax went into effect on July 1, 2020.[12] Florida's governor signed an economic nexus and marketplace facilitator bill on April 19, 2021, with an enforcement date of July 1, 2021.[13] After long deliberations, lawmakers in Missouri voted for a "*Wayfair* tax" bill on May 14, 2021, that requires out-of-state online vendors to collect sales taxes. The governor of Missouri, who emphasized the importance of the

Wayfair tax in his 2021 State of the State address,[14] signed the bill into law on June 30, 2021. Missouri is the final state among the 45 states with broad-based sales taxes to pass legislation for online sales taxation.

FIGURE 23

Number of States Collecting Taxes on Interstate Online Purchases



Since e-commerce is increasingly playing an important role in states' economies, it could be crucial for states to monitor and assess sales tax collections from online purchases to ensure that businesses are compliant with rules and regulations. This might not be necessary if rules and sales subject to tax or exemptions are the same, but often sale minimums can vary. Respondents in 18 states indicated that they track e-commerce separately while another 18 states indicated they do not. Respondents in an additional 4 states indicated that they were unsure (Figure 24). From the open-ended questions in our survey, it appears that even in those states that indicated tracking sales tax collections from online purchases separately, they are only talking about remote sales, and are not necessarily able to track within state on-line purchases separately from in-person sales.

We asked states if it would be useful to collect information on sales taxes separately for online versus in-person transactions. Officials in 14 states said that they are already tracking taxes by type of sale and find it useful, officials in 10 believe it would be useful to collect this information, officials in 15 states indicated either that they were not sure it would be useful or that they thought it was not possible to do so, and one official indicated it would not be useful to collect this information separately (Figure 25).

FIGURE 24

States' Ability to Track Sales Tax Collections from Online Purchases Separately from In-Person Purchases

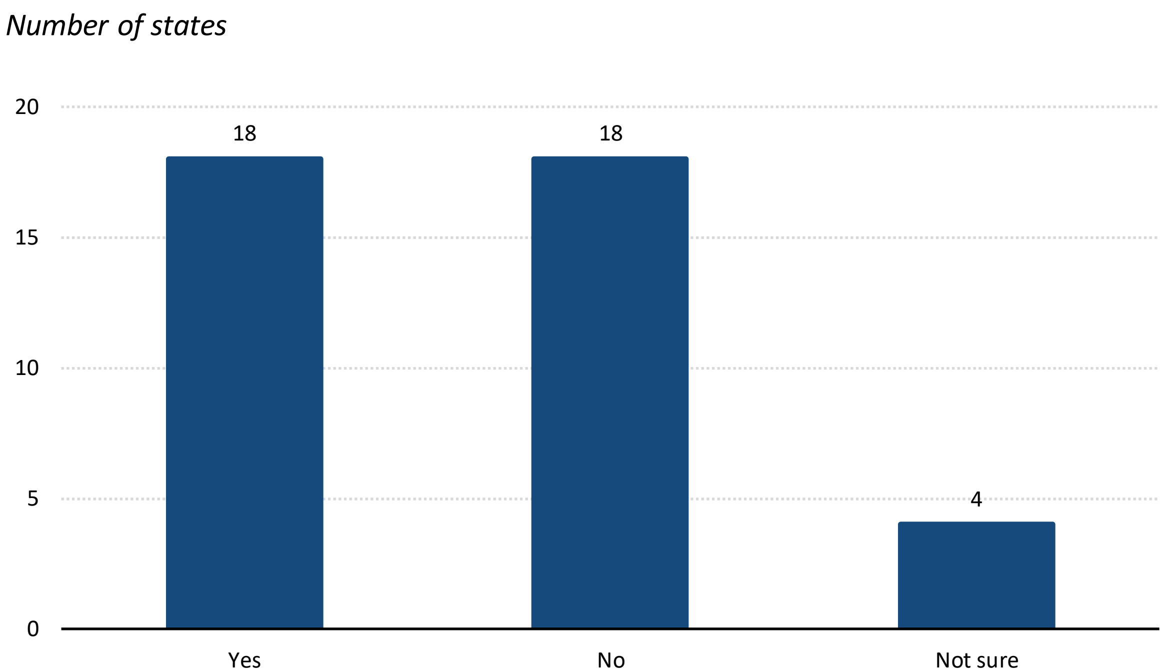
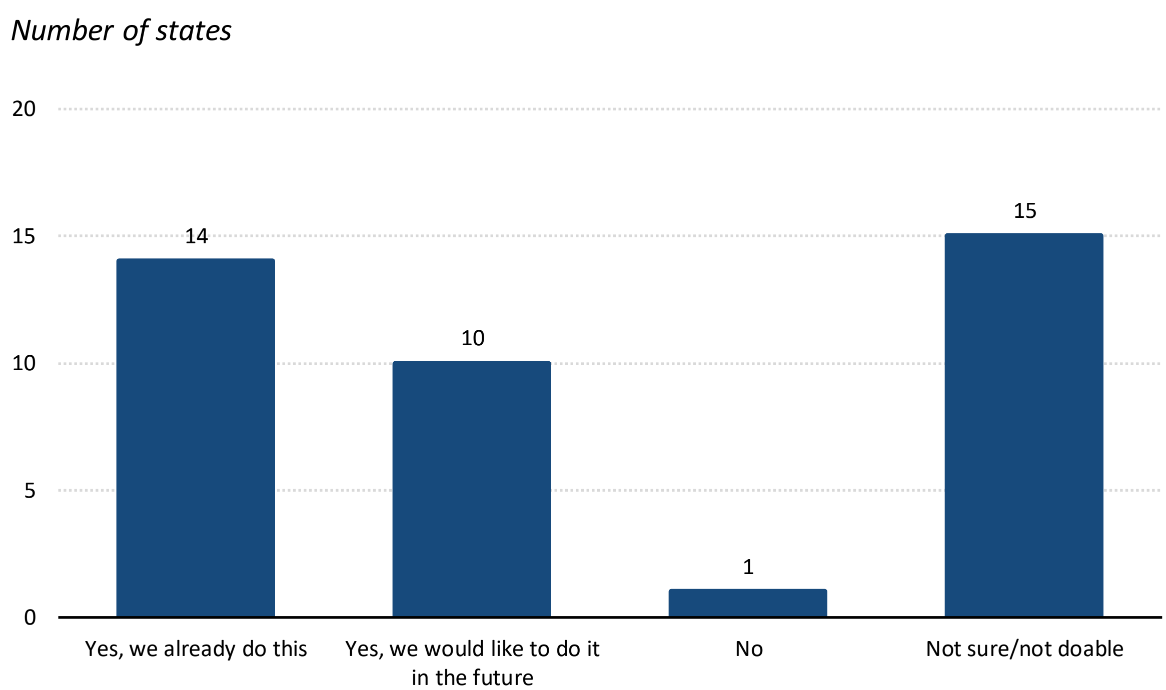


FIGURE 25

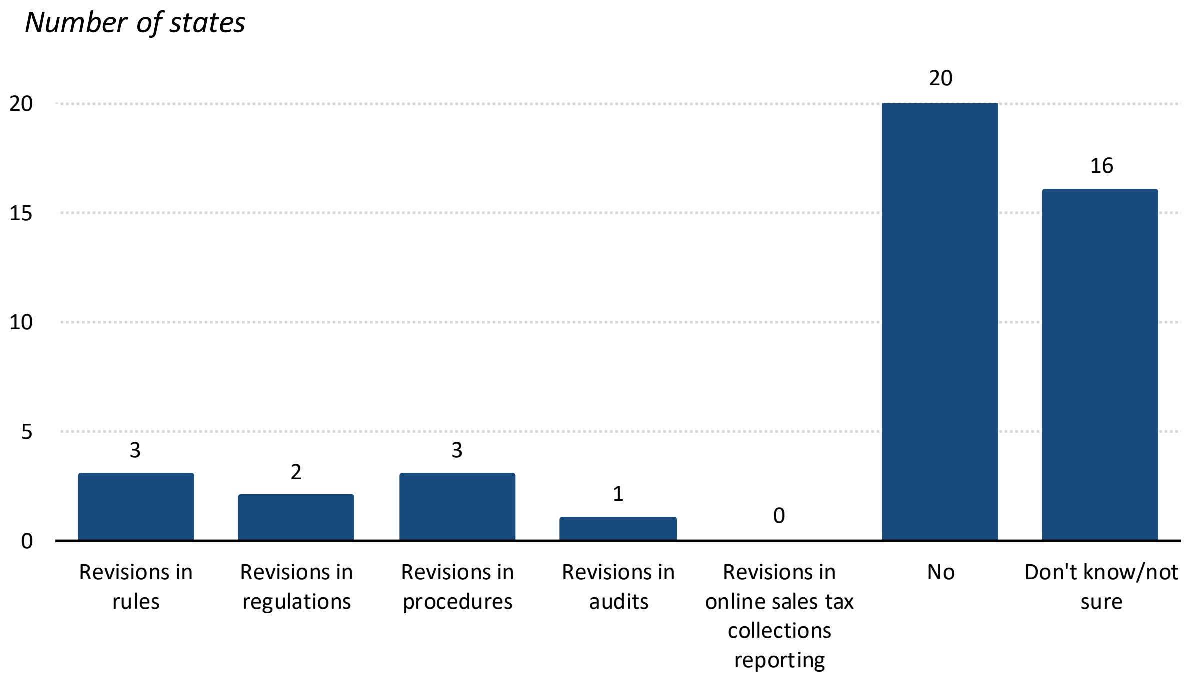
State Support for Having Separate Information for Online Sales Taxes



States were asked to indicate whether they were considering any revisions related to online sales taxation, namely related to rules, regulation, procedures, audits, and reporting. Very few states indicated plans to make any changes. Respondents in 20 states indicated no such plans, while respondents in another 16 states either did not respond to the question or explicitly indicated that they were not sure about such plans (Figure 26).

FIGURE 26

State Plans to Revise Online Sales Taxation

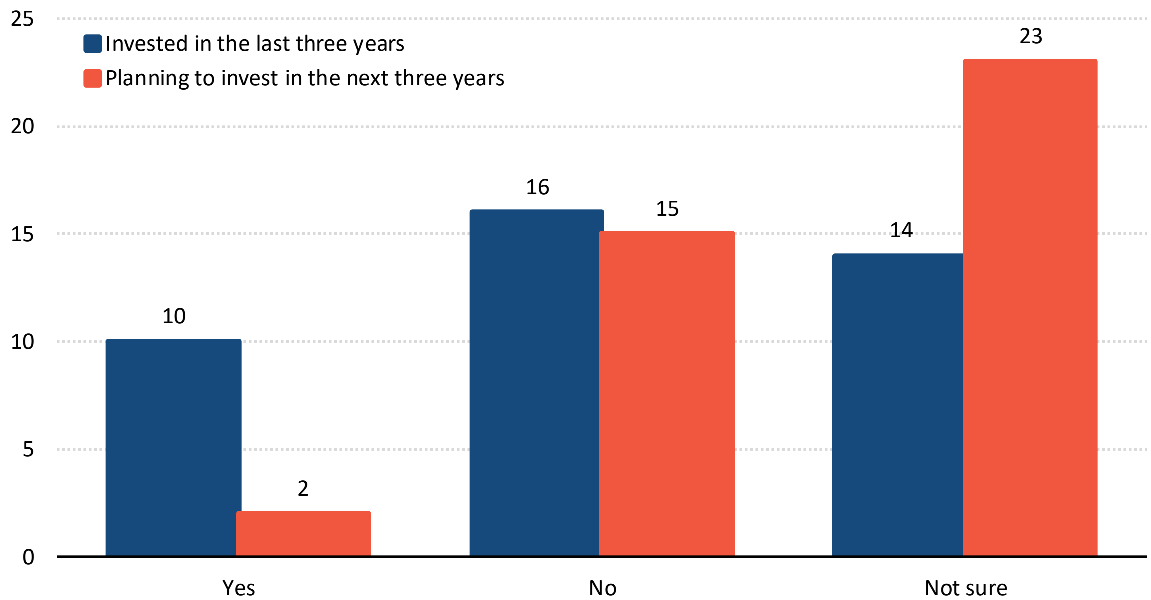


The technology needed to collect or monitor online sales could be very different than what is needed for brick-and-mortar stores. We asked respondents about whether their state had invested in technological solutions for handling online sales in the past three years or whether they were planning to invest in the next three years. Only 10 states indicated investing in technology solutions in the past three years. Among these 10 states, respondents in only 2 mentioned plans to invest in more technology solutions in the next three years, respondents in another 2 mentioned no such plans, and respondents in the remaining 6 were not sure if their states would make further investments. Respondents in 16 states indicated that they had not made any investments in technology solutions in the past three years. Respondents in 13 of these 16 states also indicated no plans to invest in technology solutions in the next three years, while respondents in the other 3 were not sure of any forthcoming plans to invest in technology solutions (Figure 27).

FIGURE 27

States' Investments in Technology to Support Online Sales Taxation

Number of states



When we asked our participants about what kind of technological investments they have made or are planning to make, most did not respond. Officials in Colorado pointed out the state's newly developed Sale and Use Tax System and indicated that it "serves as a 'one-stop portal' for businesses to collect and remit retail sales tax." The primary goal of Colorado's Sale and Use Tax System is to simplify tax compliance for businesses, especially with regard to local sales taxes. In part, Colorado invested in technology because of a myriad of rules concerning whether products are subject to local taxation or not. Thus, the technology was primarily adopted to help businesses navigate complicated local rules. According to Colorado's Department of Revenue website, the system has the following capabilities:[15]

- Accurately look up sales and use tax rates by address
- Single point of remittance and a uniform remittance form
- Taxability and exemption matrix
- Ability to calculate tax rates on items with differing tax rates in the same jurisdiction
- A record of the history of any changes

Respondents in one other state indicated that before the pandemic, their state had plans to develop a list of Certified Service Providers (CSPs) and develop a plan to implement the use of such CSPs for collecting, reporting, and remitting sales and use taxes. However, they also said "the status of this initiative is unclear since the pandemic." Pennsylvania became the first state to develop a CSPs program to help both individuals and businesses comply with sales tax collections.[16] Other states were also looking into developing CSPs for remote sales tax compliance before the pandemic.[17] Although the pandemic put a lot of programs on hold, more states could likely modernize their systems, including by developing a CSPs program in light of the growing role of online sales taxation and the ability to use ARPA funds for such investments.

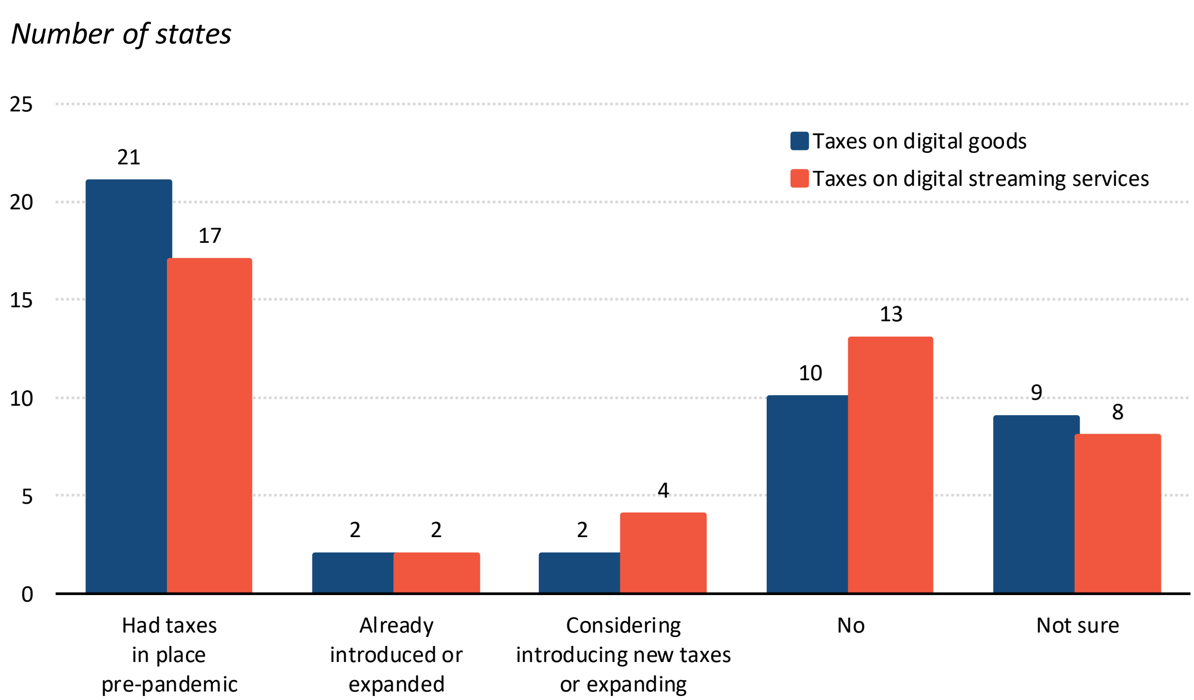
Key takeaway: Taxation of digital goods and digital streaming services is still not widespread across the states, and very few states are planning to expand state sales taxes to digital goods and services.

The pandemic has accelerated the digitalization of the economy, which has important consequences for state economies. For example, as movie theaters and other entertainment venues have closed, a growing number of households are streaming more content online. The growth of the digital economy has led to state policy debates on taxing this activity. But taxing the digital economy can be challenging and can have unintended consequences. States need to define what falls under different categories and figure out how to measure and tax this activity.

We asked states if they already tax or are planning to institute taxes on digital goods or streaming services. States sometimes use these terms in different ways.[18] To avoid differences in definitions, we included examples of types of digital goods in our question, such as e-books or software purchased online that then lives on a person's device. Digital streaming services, on the other hand, include subscriptions or memberships to services such as Netflix or Hulu. Respondents in 21 states indicated that their states had taxes on digital goods in place before the pandemic, 2 said their state had introduced or expanded such taxes, and another 2 indicated their state was considering introducing or expanding such taxes. Ten indicated their states do not tax digital goods, and nine indicated that they were not sure if their state had such taxes (Figure 28).

FIGURE 28

States' Taxation of Digital Goods and Streaming Services



We also asked states to indicate if they impose taxes on digital streaming services. According to survey results, 17 states had taxes on digital streaming services in place before the pandemic, 2 states had introduced or expanded such taxes, and 4 states are considering introducing or expanding such taxes. Further, respondents in 13 states indicated that they do not tax digital streaming services, while respondents in 8 states were not sure whether their states levied such taxes (Figure 28).

The states that impose taxes on digital streaming services are also the ones that impose taxes on digital goods; those states seemed to have begun taxing both types of digital activities when they modernized their tax codes.

STATE CURRENT AND FUTURE FISCAL CHALLENGES

Key takeaway: States have different concerns and different budgetary challenges.

To better understand what issues each state is facing, we asked states to describe budgetary challenges in their respective states. Ten of the 44 states did not respond to this open-ended question. Respondents cited many challenges that are largely attributable to an increasing amount of uncertainty they will face in the next few years:

- Uncertainty about federal policy actions, including fiscal assistance and the effect of any additional COVID-19 pandemic funding and rules about how it could be used.
- Uncertainty about how state revenues will perform after the pandemic and after all federal stimulus payments are made.
- Uncertainty related to changes in consumer behavior caused by the pandemic and whether those changes are permanent.
- Uncertainty related to when sales taxes related to tourism and service industries (such as hotels, car rentals, restaurants, bars, and entertainment) would return and recover.
- Uncertainty whether industry composition within their state would change permanently and especially whether significant losses in entertainment, accommodation, and the restaurant industries would persist.
- Structural deficits (i.e., the gap between revenue growth and spending growth).
- Tax revenue volatility in general and volatility of commodity-based revenue sources in particular.
- Revenue erosion during the pandemic and its uneven impact and uneven recovery
- Providing relief to families and businesses adversely affected by the pandemic.
- Understanding how much of current consumer spending will shift back to nontaxable goods and services next year.
- 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.

Note that nine states submitted their responses to our survey questionnaire after the passage of the ARPA. Some of these nine states prepared their responses before the law was passed but took a long time to submit them. However, others deliberately waited to provide more informed responses.

Officials in Maine, for example, indicated concerns about guidance around the use of new federal stimulus funds. Officials in Missouri also submitted responses following the passage of the ARPA and expressed concerns about controlling Medicaid costs and providing funding for the newly passed voter-approved constitutional amendment to expand Medicaid eligibility.

Analysis of the responses from state officials indicates that despite the availability of large federal funding assistance, state officials (at least those in the revenue office) are still aware that they could still be facing serious longer-term fiscal challenges, such as structural deficits and pension obligations. They are also aware of little appetite among state policymakers to craft policies that would provide longer-term fiscal solutions. Officials in one state said, "*There is currently a lack of alignment among policy makers regarding long-term fiscal solutions.*"

We also asked states to indicate the projected challenges for general or excise tax revenues following the pandemic.

Analysis of these responses indicates three main points:

1. States know that the pandemic brought substantial changes to consumer behavior, some of which may be permanent. Determining what is temporary and what is permanent and how it might impact tax revenues is challenging but important.
2. States need to review sales tax structures to address the new reality caused by the pandemic and to change tax rules in response to new trends in consumer behavior. This includes better understanding e-commerce and the growing role of the digital economy as well as addressing prior erosion in the sales tax base.
3. It will also be important to understand the role federal policy and relief will have in these changes and to understand any changes in federal legislation and rules.

The following are some quoted responses from states regarding their challenges:

- "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. Local control laws make it difficult to change or reduce the complexity of state and local government sales tax system."
- "Determining how much of the consumer behavior changes are permanent and how fast behaviors may return to a pre-pandemic baseline. Determining how fast the labor market will heal and whether industry composition will change permanently given the significant losses seen in amusement, accommodation, and the restaurant industries."

- "Modifying sales tax law for an increasingly digitized world."
- "Some challenges include the shift from spending on goods (mostly taxable by sales tax) to services (mostly non-taxable by sales tax), evolving and uncertain impact of federal policy actions and pandemic economic behavior, potential spike in income tax refunds."
- "Modernizing sales tax bases to better reflect post-pandemic spending habits, particularly to services."
- "Taxes imposed on accommodation, car rentals, amusement, restaurants and bars have been adversely affected by the pandemic. It's not clear when or to what extent these industries will recover."
- "A consumption shift away from goods back to services could have a negative effect on sales tax revenues."
- "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."
- "How much of the increase in the sales of goods has been pulled from future periods. Also, as the economy transitions back to service sector sales, how does that impact our narrow tax base."

We also asked states to indicate potential opportunities for general or excise tax revenues following the COVID-19 pandemic. Very few states responded to this question. Officials in a few states indicated the need to revisit and expand the sales tax base. For example, officials in California noted the following: "*Expansion of the sales tax base to more services would result in a broader base that is more representative of the current economy.*"

Responses to the survey questionnaire indicate that the pandemic had an uneven impact on the states. The pandemic's economic impact on states was largely dependent on states' tax structures, industry reliance, and state policies. For example, officials in New York indicated that "*because of our unique fiscal year ending only weeks after the March 2020 shut down, the hit to revenues occurred in NY's FY 2021, while for many other states on a July-June fiscal year, it impacted the final quarter of FY 2020.*"

Officials in North Dakota also indicated that the pandemic's impact on state revenues was more visible in fiscal year 2021 but for a very different reason. They remarked, "*The state's economy never completely shutdown during the pandemic and many more businesses remained open compared to other states. The state did not have a significant increase in COVID-19 cases until later in the pandemic compared to other states. Strong revenues in the last half of calendar year 2019 helped offset declines in the first half of calendar year 2020 resulting in a smaller increase in revenues during fiscal year 2020 compared to what was anticipated. The* *timing of tax collections and the delayed impact of the pandemic in the state may have shifted the impact more to fiscal year 2021 than fiscal year 2020. The sharp decline in oil prices also had a significant impact on the state's economy and state revenue collection."*

CONCLUSION

Many states face considerable uncertainty about the pandemic's potential effects on their revenues and spending. State revenue forecasters were projecting steep revenue declines and substantial budget shortfalls, but a year into the pandemic, state tax revenues in many places have performed much better than initially feared, and federal assistance has provided additional revenue to respond to uncertain circumstances ahead.

We surveyed state officials to understand the impact of the pandemic on state revenues in general and sales taxes in particular and to better understand likely changes in state policy and what actions are expected as states adjust to a new economic and fiscal reality.

A central finding of our survey is wide variation across states in both their experiences and expectations of what comes next. Most states faced enormous uncertainties because of the pandemic and because of unclear federal policy actions in response to the pandemic. Further, changing consumer behavior and adjustment of businesses also played a crucial role in shaping states' economies during the pandemic. We find that following strong intitial actions, state revenues were shored up by stronger-than-expected income tax and general sales tax revenue. General sales tax revenues were strengthened by new laws requiring collection of sales taxes from online sales. Consumption patterns and state budget issues were also helped tremendously because of the federal government's relief packages, which increased revenues to individuals, businesses, and state and local governments.

A surprising finding from our survey is that states are largely unable to determine what share of sales taxes is coming from online sales, especially if sales transactions are from companies with an in-state physical presence. Although technology could help better differentiate these sales, part of the uncertainty is because of the way revenues are remitted to the state. And improving or changing technology doesn't seem to be a priority among most states.

A year into the pandemic, most states are optimistic about the current and future fiscal environment, but others are still facing some budgetary challenges. Because of the overall positive fiscal environment, officials in many states are reluctant to expand general or excise sales tax bases to include more goods or services. But states are more open to expanding specific excise taxes such as legalization and taxation of recreational marijuana or taxation of e-cigarettes and are aware some long-term challenges remain ahead.

All states will continue facing large uncertainties, including those related to changes in consumer behavior and whether these changes are temporary or permanent. Most pressing are uncertainties about when and if the tourism and entertainment sectors will return to prior levels and whether shifts in spending trends from services to goods will continue. Federal policy actions also contribute to state uncertainty. Moreover, state officials expressed concerns over their fiscal situation once federal aid expires.

In brief, these are unprecedented times, and the pandemic will have some lasting impact on economies, businesses, and consumer behavior. This survey helps capture what revenue officials and states were planning at a specific point in time, but it will be critical to continue to monitor and understand how evolving economic conditions will affect state fiscal conditions and what steps state and federal officials will take in response.

APPENDIX A. SURVEY ADMINISTRATION

The State and Local Finance Initiative at Urban Institute, with funding from Avalara, conducted a survey of state government officials involved in fiscal policymaking decisions and/or revenue forecasting. Our goal was to reach out to budget officers, economists, policymakers, and legislators, in both the executive and legislative branches to assess the impact of the COVID-19 pandemic on state budgets and the actions taken or considered for raising additional revenues, with a special emphasis on sales tax policies.

We created two survey questionnaires: one for the 45 states that have broad-based sales taxes and another for the remaining 5 states (Alaska, Delaware, Montana, New Hampshire, and Oregon). The survey developed for the states with no general sales taxes was shorter but recognizes that these states still often have excise taxes or sales taxes on specific goods or activities (e.g., tobacco or alcohol purchases or hotel stays). For these states, we excluded questions referencing general sales tax changes or revenues from the survey questionnaire. Where relevant, we asked these states to provide information about their excise taxes instead.

Because government agencies often have firewalls that prevent them from opening certain websites, we chose to create the survey as a PDF file rather than using popular online survey tools such as Qualtrex or SurveyGizmo. State government officials' contact information was mostly acquired through Urban Institute's networks. We sent the survey instrument to at least two experts in each state with the goal of receiving at least one response from each state for at least 40 states. Survey respondents were state budget directors, controllers, chief economists, senior analysts, and other officials.

The survey for collecting data and information was launched in mid-February 2021 via email invitations sent to both executive and legislative contacts in each of 50 states governments. Over the course of six weeks, Urban Institute staff sent reminder emails to potential respondents and followed up with nonresponders. For nonresponders, we sent the survey instrument to another key official within the same state government.

Table 2 provides survey response dates as well as the responding branch and agency. We received responses from 44 states. Among the respondent states, 35 responses were received from the executive branch and 13 responses were received from the legislative branch. Four states (Alaska, California, North Dakota, and Pennsylvania) sent information from both the executive and legislative branches. Overall, the responses from the executive and legislative branches in these four states were similar. For the purpose of having only a single response for each state, we primarily relied on responses from the agency that is formally involved in revenue forecasts, but also integrated responses from the other responding agency and included information from open-ended questions in our synthesis of these responses. Executive and legislative branch officials in Wisconsin worked collaboratively to provide a single response for the state. Unfortunately, our survey was launched during the busiest time of the year for legislative sessions and budget executions (February and March) as well as at a time when state officials still did not have clear idea about the final policy decisions to be included in the upcoming budget. The survey questionnaire was designed before the ARPA was written and passed, and most states responded prior to the law's passage. Thus, answers and the fiscal conditions of the states could be very different following this federal legislation.

TABLE 2

State Response Dates and Responding Branch and Agency

State	Survey response date	Branch	Department/agency
Alabama	March 5, 2021	Executive	Executive Budget Office/Finance
Alaska	March 8, 2021	Executive	Department of Revenue
Alaska	*March 19, 2021*	*Legislative*	*Legislative Finance Division*
Arizona	March 1, 2021	Legislative	Joint Legislative Budget Committee
Arkansas	March 8, 2021	Executive	Arkansas Bureau of Legislative Research
California	March 7, 2021	Executive	Department of Finance
California	*February 24, 2021*	*Legislative*	*Legislative Analyst's Office*
Colorado	February 24, 2021	Legislative	Legislative Council Staff
Connecticut	March 3, 2021	Legislative	General Assembly, Office of Fiscal Analysis
Delaware	March 2, 2021	Executive	Office of the Controller General
Georgia	March 5, 2021	Legislative	House Budget and Research Office
Hawaii	February 22, 2021	Executive	Department of Taxation
Idaho	March 5, 2021	Executive	Division of Financial Management
Indiana	March 26, 2021	Executive	Tax & Revenue - State Budget Agency
Iowa	March 9, 2021	Legislative	Legislative Services Agency
Kansas	March 4, 2021	Executive	Kansas Division of the Budget
Kentucky	March 8, 2021	Executive	Office of State Budget Director
Maine	March 24, 2021	Executive	Administrative and Financial Services - MRS - Tax Policy
Maryland	March 8, 2021	Legislative	Department of Legislative Services
Massachusetts	May 5, 2022	Executive	Department of Revenue
Minnesota	March 12, 2021	Executive	Minnesota Department of Revenue
Missouri	March 30, 2021	Executive	Office of Administration - Budget and Planning
Montana	March 1, 2021	Legislative	Legislative Fiscal Division
Nebraska	March 4, 2021	Executive	Department of Revenue
Nevada	March 8, 2021	Legislative	Fiscal Analysis Division, Legislative Counsel Bureau
New Hampshire	March 10, 2021	Executive	Department of Revenue Administration
New Jersey	March 12, 2021	Executive	Treasury Department
New Mexico	February 25, 2021	Executive	Finance and Administration
New York	March 16, 2021	Executive	Division of the Budget
North Carolina	March 1, 2021	Executive	NC Office of State Budget & Management
North Dakota	March 10, 2021	Legislative	Legislative Council
North Dakota	*March 8, 2021*	*Executive*	*Office of Management and Budget*
Ohio	March 3, 2021	Legislative	Legislative Budget Office
Oklahoma	March 29, 2021	Executive	Budget Division/Office of Management & Enterprise Services
Pennsylvania	February 24, 2021	Executive	Department of Revenue
Pennsylvania	*March 5, 2021*	*Legislative*	*Independent Fiscal Office*
Rhode Island	February 22, 2021	Executive	Department of Revenue
South Carolina	February 22, 2021	Executive	S.C. Revenue and Fiscal Affairs
South Dakota	March 12, 2021	Executive	Department of Revenue
Tennessee	March 8, 2021	Executive	Department of Finance & Administration
Texas	March 26, 2021	Executive	Texas Comptroller of Public Accounts
Utah	March 15, 2021	Executive	Governor's Office of Management and Budget
Vermont	March 10, 2021	Executive	Legislative Joint Fiscal Office
Virginia	February 22, 2021	Executive	Virginia Department of Taxation
Washington	March 5, 2021	Executive	Department of Revenue
West Virginia	February 22, 2021	Executive	West Virginia Department of Revenue
Wisconsin	March 5, 2021	Legislative	Legislative Fiscal Bureau
Wyoming	April 22, 2021	Executive	Wyoming State Budget Department

Notes: The following six states did not respond to our survey: Florida, Illinois, Lousiana, Michigan, Mississippi, and Oregon.

APPENDIX B. SURVEY INSTRUMENT

The survey instrument for states that have general sales tax can be found in here: https://www.taxpolicycenter.org/sites/default/files/urbaninstitutequestionnaire.pdf.

The shortened survey instrument for states that do not have general sales tax can be found in here: https://www.taxpolicycenter.org/sites/default/files/urbaninstitutequestionnaire_short.pdf.

NOTES

[1] See Lucy Dadayan, "The COVID-19 Effect: State Sales Tax Receipts Shrank $6 billion in May," *TaxVox*, July 14, 2020, https://www.taxpolicycenter.org/taxvox/covid-19-effect-state-sales-tax-receipts-shrank-6-billion-may.

[2] For more information see "State Tax and Economic Review," Urban Institute, accessed June 21, 2021, https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/projects/state-tax-and-economic-review.

[3] Data are not available for North Dakota.

[4] See Lucy Dadayan, "COVID-19 Pandemic Could Slash 2020-21 State Revenues By $200 Billion," *TaxVox*, July 1, 2020, https://www.taxpolicycenter.org/taxvox/covid-19-pandemic-could-slash-2020-21-state-revenues-200-billion.

[5] Jared Walczak, "State Forecasts Indicate $121 Billion 2-Year Tax Revenue Losses Compared to FY 2019," Tax Foundation, July 15, 2020, https://taxfoundation.org/state-revenue-forecasts-state-tax-revenue-loss-2020.

[6] Dan White, "U.S. State and Local Government Shortfall Update," Moody's, September 21, 2020, https://www.ncsl.org/Portals/1/Documents/fiscal/Moody%27s_09.21.20_Shortfall-Update.pdf.

[7] Tracy Gordon and Richard Auxier, "Congress Must Do More To Help States And Localities Respond To COVID-19," *TaxVox*, March 30, 2020, https://www.taxpolicycenter.org/taxvox/congress-must-do-more-help-states-and-localities-respond-covid-19.

[8] See "A State-by-State Analysis of Charging Sales Tax on Services," Avalara, accessed June 21, 2021, https://www.avalara.com/us/en/learn/whitepapers/service-taxability-by-state.html.

[9] For a summary of services taxed in each state, see the latest at "Services Taxation Survey," Federation of Tax Administrators, accessed June 21, 2021, https://www.taxadmin.org/sales-taxation-of-services.

[10] For more information, see *South Dakota v. Wayfair, Inc.*, 585 U.S. ____ (2018), https://www.supremecourt.gov/opinions/17pdf/17-494_j4el.pdf

[11] Richard Auxier and Kim Rueben, "The Evolution of Online Sales Taxes and What's Next For States," Urban Institute, June 26, 2018, https://www.urban.org/research/publication/evolution-online-sales-taxes-and-whats-next-states.

[12] See Gail Cole, "New Louisiana Sales Tax Collection Requirements for Remote Sellers and Marketplace Facilitators," Avalara blog, June 15, 2020, https://www.avalara.com/us/en/blog/2020/06/new-louisiana-sales-tax-collection-requirements-for-remote-sellers-and-marketplace-facilitators.html.

[13] See Gail Cole, "Florida Adopts Economic Nexus and Marketplace Facilitator Law," Avalara blog, April 20, 2021, https://www.avalara.com/blog/en/north-america/2021/04/florida-adopts-economic-nexus-and-marketplace-facilitator-law.html.

[14] See "2021 State of the State Address," Office of Governor Michael L. Parson, January 27, 2021, https://governor.mo.gov/priorities/state-state-address-2021.

[15] For more information, see "Sales and Use Tax System (SUTS) Information," Colorado Department of State, accessed May 24, 2021, https://tax.colorado.gov/SUTS-info.

[16] See Pennsylvania Department of Revenue, "Certified Service Providers," accessed on May 24, 2021, https://www.revenue.pa.gov/TaxTypes/SUT/OnlineRetailers/Pages/Certified-Service-Providers.aspx.

[17] See Gail Cole, "More States Develop Certified Service Providers Programs for Remote Sales Tax Compliance," Avalara blog, July 22, 2019, https://www.avalara.com/us/en/blog/2019/07/more-states-develop-csp-programs-remote-seller-sales-tax.html

[18] See, for example, Gail Cole, "State-by-State Guide to the Taxability of Digital Products," Avalara blog, December 3, 2020, https://www.avalara.com/blog/en/north-america/2019/02/state-by-state-guide-to-digital-products-and-sales-tax1.html; or "Sales Tax for Digital Goods in the U.S.," Quaderno blog, August 13, 2020, https://www.quaderno.io/blog/sales-tax-digital-products-us.

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In addition to her position at the Urban Institute, Rueben is an adjunct fellow at the Public Policy Institute of California (PPIC), serves on the board of the National Tax Association, the Washington, DC, Revenue Estimation Advisory Group, and as an advisor to Let's Get Set, a purpose-driven fintech start-up. She works closely with state officials and has served on state tax advisory boards including in California and Washington, DC, and has testified before congressional and state legislative committees. She was a member of the National Academy of Sciences Panel that examined The Economic and Fiscal Consequences of Immigration and was on the executive board of the American Education Finance Association.

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