

## Sales Tax Considerations During the Pandemic

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**Categories :** [Administration](#), [Budgeting](#), [Sales Tax](#), [Tax Policy](#), [Uncategorized](#)

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I have been having a great deal of conversations with folks across the state about what is going on with their sales taxes (and occupancy and food and beverage taxes). What has happened versus what was expected for FY21 and what they are thinking about for FY22 now that local governments are starting to begin their budget processes. I thought it might be useful to share some of the questions I have been getting and my answers to them and some of my broader thoughts about sales taxes and the pandemic, though it is no crystal ball. I am going to structure it like a q&a. I am not covering everything here and please reach out if there is more than I can help with.



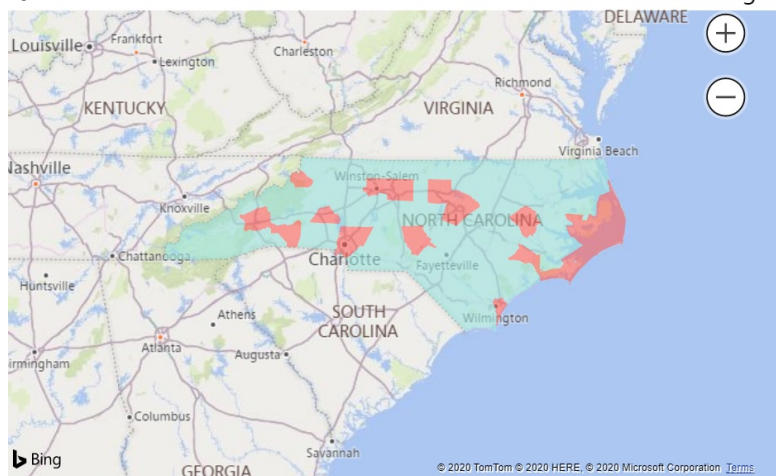
- Q: Our sales taxes are recovering quickly, what are you seeing other places in the state?
- A: We are seeing that sales taxes have recovered more quickly than most people anticipated. That is great news, but I think a dose of caution should accompany it. First, we see a bump starting in in the June collections (so sales for the month of May) where it went from down 13.3% year-over-year to down 4% year-over-year and then by July (so June sales) it was up year-over-year by 10.75%. So that is all really promising, but we have to

keep a few things in mind. 1) That is right when the state moved into Phase 2 and there may have been pent up demand. 2) That is when we have more generous unemployment benefits and federal stimulus, so people had more disposable income than they might otherwise have had. 3) Some people were deferring payments on rent and/or utilities, so they had less income than it looked like from their spending in that period. Also, that trend is not universal. Some areas are doing much better and others are having a slower recovery.

County Location

All

#### Q4 Local Government Sales Tax Distributions Year-Over-Year % Change



#### Sales Tax Distributions (FY19-20 YTD)

FY,FQ	Total Distributed	Total % Change Y-O-Y	Difference from Last Year
<b>FY19-20-FQ1</b>	<b>\$956,356,370.75</b>	<b>11.99%</b>	<b>\$102,410,506</b>
August 2019	\$322,204,788.65	17.35%	\$47,646,719
September 2019	\$323,913,920.75	11.45%	\$33,265,808
October 2019	\$310,237,661.35	7.45%	\$21,497,979
<b>FY19-20-FQ2</b>	<b>\$982,752,634.29</b>	<b>5.45%</b>	<b>\$50,807,057</b>
November 2019	\$323,880,599.46	12.98%	\$37,198,265
December 2019	\$319,853,786.46	1.96%	\$6,150,461
January 2020	\$339,018,248.37	2.25%	\$7,458,331
<b>FY19-20-FQ3</b>	<b>\$873,814,502.05</b>	<b>2.29%</b>	<b>\$19,552,163</b>
February 2020	\$276,676,551.84	8.54%	\$21,773,260
March 2020	\$281,591,199.58	7.84%	\$20,465,716
April 2020	\$315,546,750.63	-6.71%	(\$22,686,813)
<b>FY19-20-FQ4</b>	<b>\$962,838,432.80</b>	<b>-1.92%</b>	<b>(\$18,845,646)</b>
May 2020	\$274,448,768.87	-13.30%	(\$42,090,548)
June 2020	\$313,359,256.34	-4.03%	(\$13,155,175)
July 2020	\$375,030,407.59	10.75%	\$36,400,078
<b>FY20-21-FQ1</b>	<b>\$684,244,483.30</b>	<b>5.90%</b>	<b>\$38,125,774</b>
August 2020	\$355,539,986.89	10.35%	\$33,335,198
September 2020	\$328,704,496.41	1.48%	\$4,790,576
<b>Total</b>	<b>\$4,460,006,423.19</b>	<b>4.50%</b>	<b>\$192,049,854</b>

Data on this table corresponds with the month sales tax was collected by the Department of Revenue. Collections correspond with sales from the previous month, and are distributed to local governments two months later. Ex: March sales are collected in April and distributed in June.

Taken from the [NCLM](#).

- Q: We are starting to forecast our revenues for FY22, and mostly we are looking at our Great Recession numbers and the statewide forecasts. What else should we be looking at?
- A: This is an incredibly hard year, possibly the hardest other than the current FY, to forecast for. There is so much unknown. When will the vaccine become widely available? Will people take it? Will we have another shutdown in the meantime? Will there be another stimulus check? So, I know that in previous recessions this would have absolutely been the strategy and a good one. However, I want to encourage you to do a bit more. First, these statewide numbers are just not nearly as helpful as they may have been in the past. My favorite example of this is to think about tourism. In some of our urban centers and our areas where tourists primarily stay in hotels and motels, tourism has plummeted and by even more than we would expect to see in a recession. However, for some of our communities where most visitors stay in an Airbnb or a cottage or a VRBO or *not a hotel*, then their tourism is up in many cases—especially their off-season tourism. People, especially the slightly more affluent, are working remotely. Their kids are working



remotely. They are working from beaches and cabins and not always from home. So, these communities are not seeing the drop-off in tourism (and the sales tax, occupancy tax, and food and beverage tax) that they would normally see during a recession. Therefore, the Great Recession and those statewide numbers are just not as helpful. While tourism is a really useful example, it is far from the only one. Other important populations have been impacted by more than just unemployment and underemployment (which is what we see as the unfortunate impact of most recessions). For example, commuting is way down. When those commuters were coming in they were paying sales taxes (and food and beverage taxes) that is no longer as true and something that was much less impacted in previous recessions. Another example is college students. Many communities that have large residential (especially) colleges or universities are experiencing greater sales tax shortfalls than they would have in the previous recession and more than their peer communities are around the state. The students going home and/or changing their lifestyles is incredibly impactful for places like Chapel Hill. This is likely part of why we see urban areas being more impacted in many states than their less urban counterparts. So, at the end of the day look at your community, examine how its economy has been impacted (like what's going on in manufacturing, health care, etc) and make more nuanced forecasts. That is not to say that looking back at the Great Recession and the statewide numbers will not be helpful. I would encourage you to look at periods with comparable unemployment numbers and look at how that impacted sales taxes (and others, such as property tax collection rates). However, this recession is so different that we should not expect it to behave and impact our citizens and revenues the same way.



- Q: We are worried it is about to get worse. What do you think?
- A: I know at this point anyone reading this is probably tired of my less than definitive

answers, sorry. But it definitely could get worse and probably will for some communities. We see numbers spiking, before the holidays, which means that it is reasonable to assume those numbers will be going up as some travel. More K-12 schools are coming back for in-person learning which may mean some increases, colleges are opening back up for the Spring semester, etc. Not only will that impact your community, it is likely to impact the state response and we may move back into Phase 1 or 2. We also may see changes coming from the federal level as the administration changes. In addition to all of that, rents will be due and utility payments will be due. This means, depending on any local support, that some of our most vulnerable households are about to see their disposable income decrease without any other changes to the economy (like increased unemployment).



- Q: Any good news or hope?
- A: Well, I have mentioned a lot already. We have seen faster recovery than expected in most communities. That is great news. It looks like we will have a vaccine in the current FY, that is great news. One thing, that we are very lucky for in North Carolina is that sales taxes apply (for most of our articles) to food. While there are some concerns about the equity of this from a taxpayer perspective—it means that our sales taxes are much less volatile and will not be as negatively impacted by this or any recession. People keep buying food and they do so at about the same rate as normal. I mentioned that it is taxed by most articles, but not by all, so you may want to forecast slightly differently (if you are



seeing continued losses) for those [articles](#) that tax food and those that do not.

