

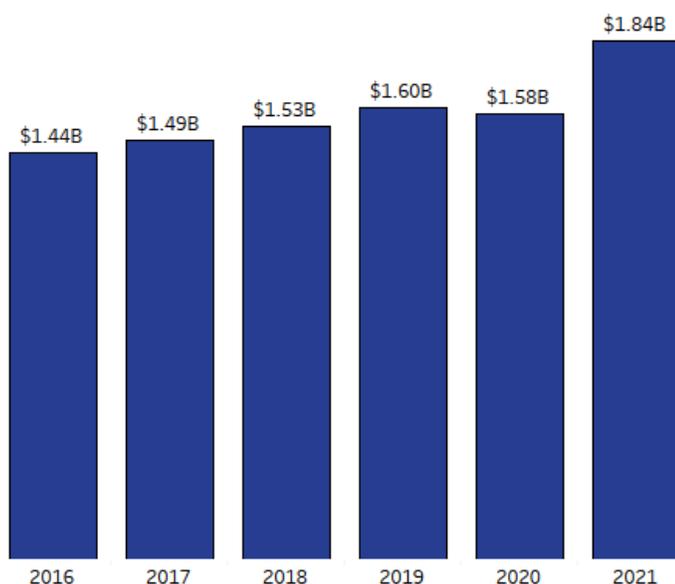
SALES TAX REVENUES SURGE AS RETAIL, OTHER SECTORS SEE SHIFTS

Sales and use tax revenues in Wisconsin increased markedly in the first four months of 2021 when compared to the same period in 2019, in another sign that economic activity is rebounding from the COVID-19 crisis. This was true both for state sales tax revenues and for the bulk of counties that collect sales taxes. Yet this revenue growth also shows notable shifts in key sectors that could have potential impacts for state and local finances.

Wisconsin state and local governments have seen an improving revenue picture in 2021 amid the economic recovery, which has been bolstered by federal aid and rising COVID-19 vaccination rates.

A key component of the state's robust revenue growth is enhanced collections from its 5% sales tax. The nonpartisan Legislative Fiscal Bureau, in [its most recent estimate of state revenues](#) for the 2021 fiscal year ending June 30, projected sales tax collections will be up 8.4% over the previous fiscal year – the most since 1984 – and [actual collections so far](#) bear out those strong numbers.

Figure 1: Sales Tax Collections Show Strong Recovery
Total reported state sales tax revenues, January-April



Source: Wisconsin Department of Revenue

This analysis examines sales tax revenue trends in greater detail. We rely on [data from the Wisconsin Department of Revenue](#) (DOR) on state and local sales and use tax revenues as reported by businesses on their returns to the state. The data include sales tax revenues reported on tax returns, but not those collected via other means such as audits, interest, occasional sales, or penalties. The data generally are for taxable sales in a given month but some businesses file their returns quarterly; in those cases, the sales from a period such as January through March would all be reported in March.

We find state sales and use tax revenues were up \$240.1 million, or 15%, from January through April of 2021 (the most recent months for which these data are available) relative to the same stretch of 2019 (see Figure 1). That growth is particularly striking given that the global pandemic caused sales tax revenues in Wisconsin to decline during that period last year. Reported sales tax revenues dropped by 1.4% for the January-April 2020 period when compared to the same four months of 2019, which means they rebounded by 16.6% during this period from 2020 to 2021.

For this analysis, due to the historically anomalous nature of the economy in 2020, we primarily look instead to the most recent comparable pre-pandemic period in 2019, a year that generally was marked by strong economic and tax revenue growth in Wisconsin and nationally.

Most Wisconsin counties also collect an additional sales tax of 0.5%. For the 66 counties that have collected this tax since at least 2019, these data show revenues

increased through the first four months of 2021 April by 16.4% relative to the same period in 2019.

RETAIL REVENUES UP, BUT SHIFTS APPARENT

Sales tax revenues during the period studied for this analysis increased across most economic sectors and subsectors. A key factor in the overall revenue increase was the retail sector, the largest of all sectors in sales tax revenue, which provides slightly more than half of all sales tax revenues collected in Wisconsin. Revenues in this sector increased by more than \$236 million, or 32%, in this period of 2021 relative to 2019.

Some retailers did see decreases amid the rapidly changing shopping patterns brought on by the pandemic. Readers should note, however, that this comparison looks only at revenues from taxable sales. Some retailers like clothing stores collect taxes on a larger share of their products than some other retailers such as grocery stores – in Wisconsin clothing is taxed but with some exceptions food in a grocery store is not.

The non-store retail subsector, consisting primarily – though not exclusively – of online retail, saw a jaw-dropping 143% increase in sales tax revenue in January-April of 2021 relative to those months in 2019. Food and beverage retailers also saw a 107% increase in revenues from taxable sales during this period. Four additional retail subsectors also saw increases of 35% or more, as shown in Figure 2.

Yet not all sectors enjoyed this good fortune. General Merchandise Stores, which primarily include department stores, saw a revenue decline of 12%. Meanwhile, sales tax revenues fell 39% for Miscellaneous Store Retailers, which include florists, office supply and gift stores, and used merchandise stores.

Some of the increases may reflect in part the effect of inflation. Used car prices, for example, [have risen dramatically](#) in recent months. Other shifts such as the rise in online retail may amount to a super-charging of trends that predated the pandemic.

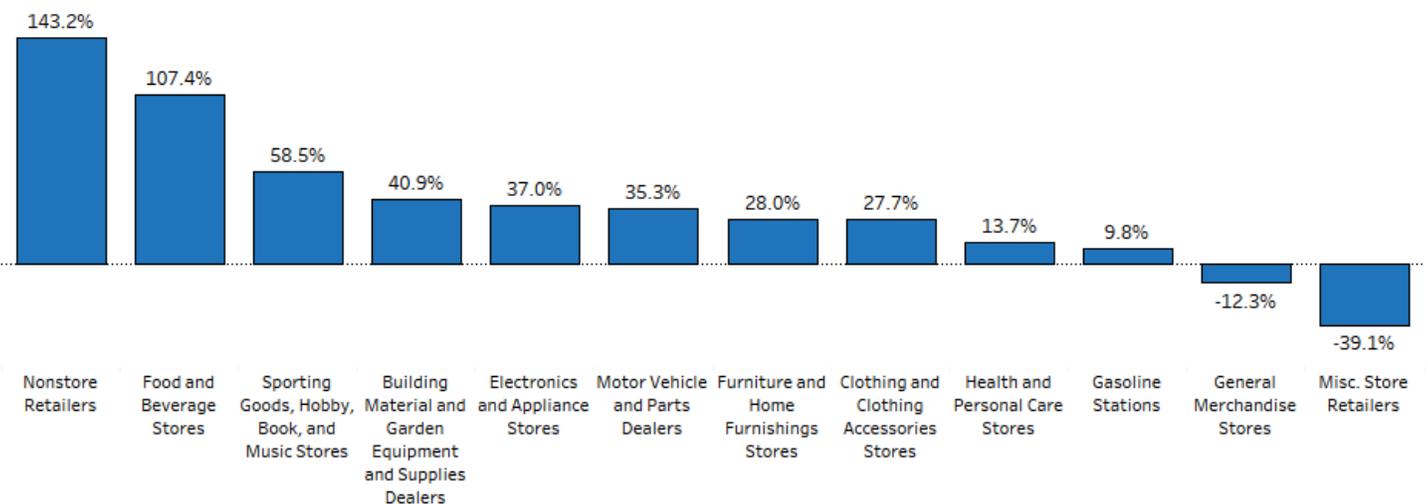
SOME SERVICE INDUSTRIES STILL BELOW 2019 LEVELS

Among the hardest-hit economic sectors in 2020 were those that provided face-to-face services to large groups of people such as arts, entertainment, and recreation, as well as accommodation and food services. Through April of this year, sales tax revenues from these sectors remained below where they were in early 2019.

Revenue from the arts, entertainment, and recreation sector was down 13.5% during the first four months of 2021 from the same period in 2019. The accommodation and food services sector, which primarily includes restaurants and lodging establishments, was down 13.6%. Taxable sales within the telecommunications subsector also were hard-hit and have been very slow to rebound, with reported revenues down 43.1% during this period.

Figure 2: Most Retail Sectors Thrive in 2021 Sales Tax Revenues

% change in sales tax revenues, January-April 2021 vs. January-April 2019, all retail subsectors



Source: Wisconsin Department of Revenue



A potential bright spot for these sectors: the 2021 to 2019 comparison generally looks less dire if we compare only April, the most recent month for which data are available. In 2021, April marked a period in which virus cases were declining, vaccination numbers were rapidly increasing, and public health restrictions were starting to be eased or lifted. Sales tax revenues for the arts, entertainment, and recreation sector were actually up 2.5% in April 2021 from April 2019, while they were down 8.7% in this period for accommodation and food services.

COUNTIES ALSO SEE IMPROVING REVENUES

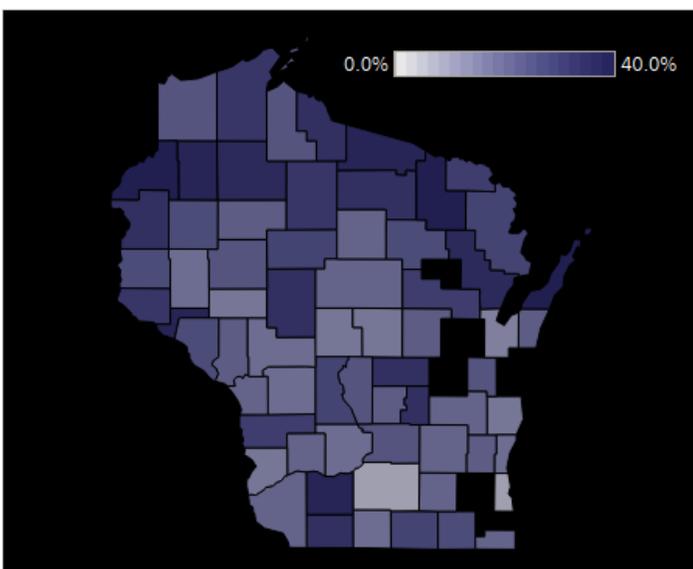
While local property taxes and state aid comprise the bulk of funding for counties, 68 of Wisconsin's 72 counties also rely on a half-cent local sales tax for funding. Two of these 68, Menominee and Outagamie, did not begin collecting the tax until 2020.

As the Forum noted in an [April 2020 report](#), sales taxes made up about 8.1% of general revenue for Wisconsin counties in 2018. This ranged from 15.1% of revenues in Ozaukee County to 2.8% in Florence County.

Our analysis finds that of the 66 counties that have collected the tax since January 2019 or earlier, all saw increasing local sales tax revenues in the first four months of 2021 from the same period in 2019. As reported, these revenues rose by \$20.5 million collectively, or 16.4%, during this period.

Figure 3: Sales Tax Growth Strong in 2021

% increase in sales tax revenues, Jan-Apr 2021 vs. Jan-Apr 2019



Source: Wisconsin Department of Revenue. Menominee and Outagamie counties started collecting sales taxes in 2020; Waukesha, Racine, Winnebago, and Manitowoc counties do not collect a sales tax.

But strikingly, the state's two most populous urban counties, Milwaukee and Dane, saw much smaller increases in sales tax revenues during this period: 6.7% and 7.5%, respectively. (See Figure 3)

[Forward Analytics has pointed out](#) the less favorable trend in some urban counties may reflect, in part, a greater reliance on the part of these large urban counties on sales tax revenues from commuting, visits to destination retailers, and travel and events. All of these were still seeing sharply reduced activity during this period as a result of the pandemic. The extent to which these activities resume will bear watching moving forward.

CONCLUSION

These sales tax collections trends suggest that state and county finances are enjoying enhanced fiscal strength. They reflect an economy that has been growing rapidly as the COVID-19 pandemic has waned, and as repeated rounds of federal aid have strengthened household balance sheets, leaving them with money to spend.

Notably, the shifts among retail subsectors, especially the growth in online sales tax revenue, may have major implications for future state and local finances. As we noted in [our June Focus report, "The Online Effect,"](#) while most states' coffers will benefit from sales taxes collected on these transactions, Wisconsin has an unusual law that requires certain online sales tax revenues to be offset with income tax cuts.

Meanwhile, our analysis of the most recent sales tax data suggests that urban counties may not be experiencing the same degree of improved collections as their rural counterparts because of new shopping and commuting patterns. Whether that trend continues will depend on whether such patterns persist after the pandemic.

Overall, policymakers and the public have good reason for optimism given the sharp rebound in sales tax revenues. Still, more time and attention will be needed to get a full sense of how different industries and regions of the state will fare as the economy reopens and Wisconsin returns to a new equilibrium.

