

COVID-19: How will states respond to declining sales tax revenue?

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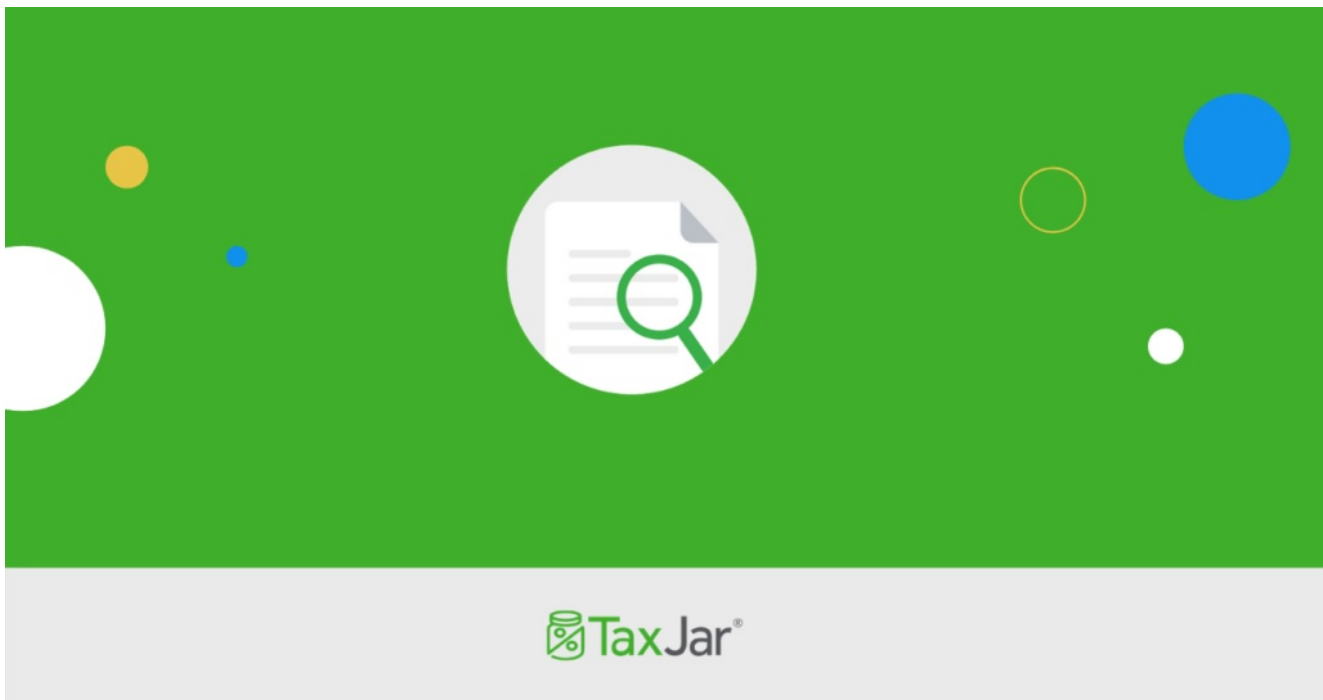
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With the US facing a pandemic and a recession, states are also reporting declining sales tax and other tax revenues.

USA Today summed it up well: "Georgia is showing a decline of more than \$100 million in sales tax, fuel tax and other tax revenue compared with the same period a year ago. Tennessee's tax revenue is down more than \$120 million. Pennsylvania's is off by more \$760 million, and Texas, which also has been hammered by the downturn in oil prices, has seen tax collections plummet by nearly \$1 billion."

States rely on sales tax and other taxes to fuel public spending on schools, roads, public safety and other state budget items. We've seen it in the past: when states begin to feel the pinch, they have to get creative.

Since the *Wayfair v. South Dakota* ruling nearly two years ago, much of this creativity has focused on eCommerce businesses. [Economic nexus laws](#) mean that many companies have sales tax obligations to new states, whether they realize it or not.

To determine how declining revenues might affect eCommerce this time, we gathered up a group of sales tax experts and asked them their opinions. Here's what they predicted:

Increased Scrutiny on Online Retailers

Melissa Myers of [Tax Matrix](#) predicted that eCommerce businesses will garner special attention from states. "I imagine the states will now aggressively seek out eCommerce retailers, especially with more [sales] being done online at this time, and audit them for their sales."

Paul Johnson of [Peisner Johnson](#) agreed and offered an example, "We have seen several states pursue eCommerce sellers more heavily as a result of the change in economic nexus legislation. We have several clients who make sales via a marketplace facilitator, and they have been notified that the marketplace facilitator has provided their specific name, address, and other key information to the state. As a result, the clients elected to proceed with getting registered, and get compliant. As we can see, there are many states that are now provided with immediate ammunition to pursue specific companies."

More Sales Tax Audits

One of the ways that states will likely interact with eCommerce businesses is through their trusty standby: the audit.

Lauren Stinson of [Cherry Bekaert](#) mentioned that economic nexus compliance hasn't been as quick as many states anticipated, despite states providing grace periods for businesses to get registered to collect.

"I also think audits are going to be very challenging for taxpayers, as there will be a lot of pressure on DOR auditors to produce results," said Stinson. "In the last few years, we have seen a lot of turnover in audit staff, resulting in 'green' auditors that don't have the years of experience to quickly and efficiently conduct audits. Coupled with the likelihood of remote audits, the challenges will certainly increase. However, in the short-term, there may be incentive to wrap up open audits quickly to get cash in the door."

Diane Yetter, of [YETTER](#), agreed, "I think the states have started using data analytics to identify non registrants and that this will increase. It also might mean states that hadn't pursued companies for not registering as of the [economic] nexus date to assess those taxpayers. A few states have already been doing that."

Push to Expand the Tax Base

Currently, electronic “products” like [digital goods](#) and [software as a service](#) are not taxed in every state. But both Stinson and Yetter mentioned that states have already been trending toward declaring more modern technology taxable.

However, taxing new services requires a state’s legislature, which can be hard to come by, especially now when [most states’ legislative sessions are drawing to a close](#) for the year. This is a trend to watch in the future.

Additional Fees

Legislative sessions may be winding down, but, in many states, authorities do have the leeway to stack up additional fees. Yetter mentioned, “I see more localities looking for ways to impose fees that are within their authority. These may be more of a nuisance than revenue generating but [states] will need to look for creative solutions. Raising the sales tax rate in most cases isn’t an option as the rates are already so high.”

Sales Tax Amnesty on the Horizon?

Yetter also hypothesized that some states may offer another sales tax amnesty in order to continue to encourage eCommerce businesses to comply with economic nexus laws. As of yet no states have announced plans for an amnesty, but [subscribe to the TaxJar blog](#) for that and other relevant sales tax news.

How can eCommerce businesses avoid sales tax headaches?

If states are on the prowl for additional revenue due to declining sales tax revenues, you can protect your business. Here’s what you can do:

Check your economic nexus

The quickest way to find out if you have economic nexus in a state is to use [TaxJar’s Sales and Transactions Checker](#). Connect your sales data and we’ll show you where your sales have exceeded economic nexus thresholds and where you should consider getting sales tax compliant.

You can learn more about [economic nexus and how it affects eCommerce businesses here](#).

Clean up pending sales tax issues

If you are currently under audit, states may be willing to work with you to quickly clear that up if it means a cash infusion for them.

According to Yetter, “ I also think that if a company has an audit open, this could be an opportunity to try to resolve any open issues. I think states may be willing to negotiate at the audit level to get some of the audits closed and paid without having to go through an appeal process.”

Automate sales tax compliance

Take the hard work and human error out of sales tax by automating collection, reporting and filing with TaxJar. To learn more about TaxJar and get started, visit [TaxJar.com/how-it-works](https://taxjar.com/how-it-works).

Do you have questions or something to say about states' reactions to declining sales tax collection? Have you been approached by a state? Start the conversation in the comments!

Please note: This blog is for informational purposes only. Be advised that sales tax rules and laws are subject to change at any time. For specific sales tax advice regarding your business, contact a [sales tax expert](#).