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UPDATED INTERNET SALES TAX ESTIMATES

In a recent study, the Government Accountability Office (GAO) found that state and local governments could potentially collect billions in additional revenue from taxing internet and other remote sales, were it not for a 1992 U.S. Supreme Court decision that restricts state collection requirements. In *Quill v. North Dakota*, the court ruled that while states can tax remote sales, they may only require businesses to collect and remit sales taxes if the business has a “substantial” presence in the state.

Many internet retailers do have a substantial presence in various states, and thus collect and remit sales taxes. That said, GAO estimates that state and local governments are permitted to collect only about 75%-80% of the taxes that would be owed if sellers were required to collect and remit taxes on all remote sales. This is a significant loss to states, which receive about one-third of their total tax collections from general sales taxes (with 45 states and the District of Columbia levying a statewide sales tax).

The table on the next page lists GAO’s estimates of the potential revenue gains to states if Congress were to overrule *Quill* (or if the Supreme Court were to reverse that decision in a new case it will soon consider, *South Dakota v. Wayfair*). The estimates are based on actual and estimated sales data for remote sellers, excluding sales that are exempt from taxation or already taxed. GAO provides a range, which is shown on the table, along with potential gains as a share of state and local general sales tax collections in 2015, using the most recent data from the Census Bureau.

GAO estimates potential revenue gains in 2017 of \$8 billion to \$13 billion if states could require sales tax collection from all remote sellers. As shown on the table, this would represent an

average of 2.3% to 3.6% of 2015 state and local general sales tax collections.

Gains would vary significantly across states based on

- tax rates
- tax bases
- the extent of business taxation

In dollar terms, the largest potential gains are in high-population states, where the volume of e-commerce is highest. Under the high estimate, **California** could potentially raise an additional \$1.7 billion and **Texas** \$1.2 billion. States that collect no statewide sales tax would see no or minimal gains, depending on whether their local governments levy a sales tax, like some jurisdictions in **Alaska**. (GAO did not have sufficient data to provide estimates for Alaska.)

In relation to state and local general sales tax collections, gains under the low estimate range from a high of 4.2% in **Vermont** (increasing to 6.1% under the high estimate) to 1.1% in **Hawaii** (rising to 1.6% under the high estimate).

Legislative proposals for overturning *Quill vs. North Dakota* have been introduced in both the House and Senate in recent years, either by allowing states to require collection based on a purchaser’s location or through other approaches. However, none has passed both chambers of Congress.

As the scope of e-commerce continues to expand, and in light of recent federal tax cuts that may lead to reduced federal spending, states may become more vocal about their lost revenue in the future. That said, a ruling by the Supreme Court to allow the collection of sales taxes on remote sales would render a congressional fix moot, and may send states on their way to broader tax bases and higher tax collections.

Potential State and Local Revenue Gains from Taxing Internet Sales, 2017
(\$ in millions)

State	2015 State-Local General Sales Tax Collections	Low Estimate			High Estimate		
		Amount	Share of 2015 Collections	Rank	Amount	Share of 2015 Collections	Rank
Alabama	\$4,558	\$156	3.4%	7	\$238	5.2%	6
Alaska	231	N/A	N/A	N/A	N/A	N/A	N/A
Arizona	9,279	190	2.0%	38	293	3.2%	37
Arkansas	4,267	123	2.9%	17	169	4.0%	24
California	49,945	1,000	2.0%	41	1,735	3.5%	35
Colorado	6,592	168	2.5%	22	262	4.0%	21
Connecticut	4,083	128	3.1%	12	194	4.8%	13
Delaware	0	N/A	N/A	N/A	N/A	N/A	N/A
District of Columbia	1,316	30	2.3%	25	44	3.3%	26
Florida	23,889	486	2.0%	39	758	3.2%	39
Georgia	9,190	232	2.5%	26	367	4.0%	23
Hawaii	3,216	36	1.1%	46	51	1.6%	46
Idaho	1,465	42	2.9%	15	60	4.1%	19
Illinois	13,058	383	2.9%	5	626	4.8%	2
Indiana	7,280	168	2.3%	31	261	3.6%	30
Iowa	3,358	104	3.1%	9	146	4.3%	12
Kansas	4,021	113	2.8%	19	170	4.2%	20
Kentucky	3,267	93	2.8%	16	140	4.3%	16
Louisiana	7,104	195	2.7%	21	288	4.1%	22
Maine	1,283	28	2.2%	33	41	3.2%	36
Maryland	4,410	165	3.7%	3	252	5.7%	5
Massachusetts	5,804	169	2.9%	14	279	4.8%	9
Michigan	9,212	221	2.4%	28	336	3.6%	27
Minnesota	5,635	132	2.3%	34	206	3.7%	34
Mississippi	3,423	90	2.6%	24	123	3.6%	31
Missouri	5,874	180	3.1%	11	275	4.7%	11
Montana	0	N/A	N/A	N/A	N/A	N/A	N/A
Nebraska	2,160	67	3.1%	13	95	4.4%	15
Nevada	4,709	87	1.8%	40	134	2.8%	42
New Hampshire	0	N/A	N/A	N/A	N/A	N/A	N/A
New Jersey	9,146	216	2.4%	30	351	3.8%	25
New Mexico	3,239	60	1.9%	43	88	2.7%	45
New York	28,833	510	1.8%	45	880	3.1%	41
North Carolina	9,456	223	2.4%	23	358	3.8%	18
North Dakota	1,611	34	2.1%	36	49	3.0%	40
Ohio	14,161	288	2.0%	32	456	3.2%	29
Oklahoma	4,775	157	3.3%	10	228	4.8%	10
Oregon	0	N/A	N/A	N/A	N/A	N/A	N/A
Pennsylvania	10,723	219	2.0%	37	373	3.5%	33
Rhode Island	960	34	3.5%	6	48	5.0%	7
South Carolina	4,037	132	3.3%	8	193	4.8%	8
South Dakota	1,334	33	2.5%	27	47	3.5%	32
Tennessee	8,776	237	2.7%	20	363	4.1%	17
Texas	41,068	763	1.9%	44	1,232	3.0%	43
Utah	2,637	73	2.8%	18	113	4.3%	14
Vermont	379	16	4.2%	1	23	6.1%	1
Virginia	5,104	188	3.7%	4	298	5.8%	3
Washington	15,681	298	1.9%	42	453	2.9%	44
West Virginia	1,309	53	4.0%	2	74	5.7%	4
Wisconsin	5,283	123	2.3%	29	187	3.5%	28
Wyoming	1,050	22	2.1%	35	31	3.0%	38
Total	\$368,189	\$8,465	2.3%		\$13,388	3.6%	

Source: Census, GAO

STATE COINCIDENT INDEX

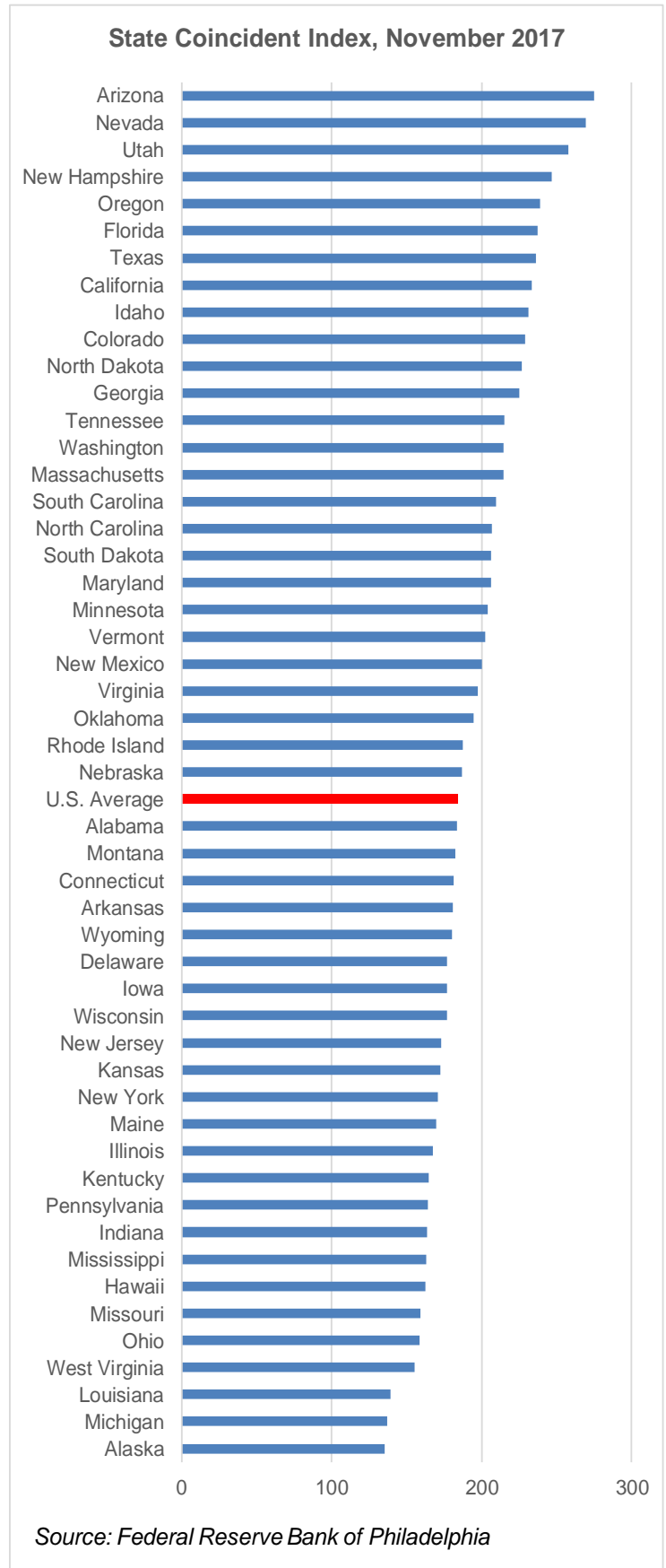
The Federal Reserve Bank of Philadelphia produces a monthly “coincident” index for each state, which combines the following four state-level indicators to summarize current economic conditions in a single statistic:

1. Nonfarm payroll employment
2. Average hours worked in manufacturing by production workers
3. The unemployment rate
4. Wage and salary disbursements deflated by the consumer price index (U.S. city average)

The chart on the right shows the index for November 2017. (It was set at 100 in July 1992.) The model and the input variables are consistent across states, so the state indexes are comparable to one another.

The results generally comport with other measures of state economic condition, including the Index of State Economic Momentum, which *Reports* publishes quarterly. The most recent coincident index shows a host of western states—**Arizona, Nevada, and Utah**—leading the pack, while **Alaska, Michigan, and Louisiana** lag it by the most. As is often true among the 10 most-populous states, the five in the West and South exceed the national average, and those in the Northeast and Midwest fall below it.

Since the data are available for many years, it is possible to examine changes over time. The table on the next page looks at changes over a five-year period, from November 2012 to 2017. While every state has seen its index increase over that period, the changes range from a high of 76.2 in **Nevada**, to a low of 2.27 in **Alaska**. This period coincides with a rebound in the housing industry, which helped Nevada, and a downturn in the natural resources sector, which harmed Alaska. This highlights an important consideration: state results must be viewed in terms of how states are



doing now, but also how they were doing in the base period used for comparison.

Accordingly, some states appear at the top of the list that have not garnered much attention for their strong economic performance, such as **Tennessee, Rhode Island, and New Hampshire**. Among states that lag the national average, **Missouri** stands out in this regard.

Only 13 states have seen their indexes increase less than the national average over the past five years. These include three of the 10 most-populous states: **Ohio, Pennsylvania, and Michigan**. On the other hand, **California** and **Florida** rank among the 10 states with the biggest improvement.

The coincident index is more narrowly focused than other measures of state economic well-being, taking into account only employment-related factors. It does not include personal income or gross domestic product, or changes in population. As such, it provides a more limited perspective, but is a useful tool based on some of the timeliest economic data available.

THE COST OF THE OPIOID CRISIS

The American Enterprise Institute (AEI) recently released a preview of its forthcoming state-by-state economic analysis of the opioid epidemic. The full report is scheduled for release next month, and will detail the nonfatal and total costs of opioid abuse.

It is built on two previous efforts, one from the Centers for Disease Control and Prevention (CDC) and one from the White House Council of Economic Advisers (CEA). The CDC study aggregated nonfatal costs of the abuse and misuse of opioids, including:

- spending on health care and substance abuse treatment
- criminal justice costs
- lost productivity

Five-Year Change in Coincident Index, November 2012-2017

Rank	State	Change
1	Nevada	76.20
2	Arizona	64.12
3	Tennessee	52.21
4	California	52.16
5	Utah	51.85
6	Oregon	51.68
7	Rhode Island	49.25
8	New Hampshire	48.03
9	Florida	47.93
10	Colorado	44.79
11	Georgia	44.31
12	South Carolina	44.27
13	Maryland	43.02
14	Idaho	42.10
15	Massachusetts	42.09
16	Washington	40.34
17	Texas	39.98
18	North Carolina	34.99
19	Minnesota	34.89
20	Alabama	33.65
21	Vermont	33.60
22	Connecticut	33.36
23	Wisconsin	33.22
24	Montana	31.18
25	Delaware	29.89
26	Kansas	29.46
27	Maine	29.32
28	Hawaii	28.97
29	Illinois	28.73
30	South Dakota	28.70
31	Oklahoma	27.37
32	New Mexico	27.33
33	North Dakota	27.33
34	Virginia	27.30
35	Iowa	26.82
36	New York	26.48
37	Kentucky	26.25
	U.S. Average	26.25
38	New Jersey	25.07
39	Nebraska	24.68
40	Indiana	24.23
41	Arkansas	23.51
42	Michigan	23.48
43	Pennsylvania	21.29
44	Ohio	21.10
45	Mississippi	20.78
46	Missouri	20.00
47	Wyoming	16.63
48	West Virginia	13.96
49	Louisiana	9.18
50	Alaska	2.27

Source: Federal Reserve Bank of Philadelphia

Total Cost of Opioid Crisis, Per Capita and as a Share of State GDP, 2015

State	Amount	Rank	Share of GDP	Rank
Alabama	\$917	42	2.21%	37
Alaska	1,950	17	2.77	26
Arizona	1,521	29	3.47	19
Arkansas	1,089	38	2.68	28
California	913	44	1.39	47
Colorado	1,544	28	2.61	31
Connecticut	2,659	5	3.79	14
Delaware	2,540	6	3.56	17
District of Columbia	3,626	2	2.01	40
Florida	1,570	27	3.53	18
Georgia	1,164	35	2.31	36
Hawaii	916	43	1.60	43
Idaho	1,112	37	2.74	27
Illinois	1,773	23	2.96	23
Indiana	1,349	34	2.65	29
Iowa	748	48	1.30	48
Kansas	838	45	1.64	42
Kentucky	2,271	8	5.25	4
Louisiana	1,058	40	2.14	38
Maine	2,125	12	4.92	5
Maryland	3,366	3	5.41	2
Massachusetts	2,042	14	2.82	25
Michigan	2,064	13	4.27	10
Minnesota	1,139	36	1.88	41
Mississippi	746	49	2.10	39
Missouri	1,845	19	3.87	12
Montana	560	50	1.26	50
Nebraska	465	51	0.77	51
Nevada	1,875	18	3.82	13
New Hampshire	1,428	32	2.50	33
New Jersey	1,984	15	3.17	22
New Mexico	2,199	9	4.79	6
New York	1,733	24	2.42	35
North Carolina	1,837	20	3.69	16
North Dakota	1,053	41	1.48	46
Ohio	2,807	4	5.32	3
Oklahoma	1,440	31	2.92	24
Oregon	1,413	33	2.46	34
Pennsylvania	1,799	22	3.21	21
Rhode Island	2,395	7	4.53	7
South Carolina	1,574	26	3.78	15
South Dakota	821	46	1.54	45
Tennessee	2,194	10	4.50	8
Texas	760	47	1.27	49
Utah	2,171	11	4.29	9
Vermont	1,968	16	4.05	11
Virginia	1,518	30	2.65	30
Washington	1,674	25	2.58	32
West Virginia	4,793	1	12.03	1
Wisconsin	1,833	21	3.46	20
Wyoming	1,065	39	1.60	44

Source: American Enterprise Institute

The CEA built on that estimate, adding the societal burden of fatalities from opioid overdoses. It estimated the nonfatal cost of the opioid epidemic in 2015 at \$72.3 billion and the fatal cost at \$431.7 billion, for a total cost of \$504 billion.

To distribute these estimates across the states AEI looked at state-by-state variations in opioid overdose deaths, opioid abuse disorders, health care costs, criminal justice costs, and worker productivity. The results are reported on a per capita basis and as a share of state gross domestic product (GDP), and are shown in the table on the preceding page.

Per capita costs range from \$4,793 in **West Virginia** to \$465 in **Nebraska**. Costs relative to state GDP range from more than 12% in the former to less than 1% in the latter.

Most states rank similarly on the two measures. Those where ranks diverge by more than 10 positions include the **District of Columbia**, **Delaware**, **Massachusetts**, and **New York**, where the per capita cost is relatively high, but the cost as a share of state GDP is lower. In contrast, **South Carolina's** per capita costs are relatively low compared to its economic costs.

One thing the data make clear is that opioids are taking a high toll on many state economies. While federal funds have increased to help states fight the scourge of opioids, additional resources are widely viewed as necessary. Part of the argument for securing additional funding—at all levels of government—will be the high cost of the crisis itself. In that regard, the numbers reported here and the upcoming report should prove invaluable.

TECHNICAL NOTES

Internet sales. The GAO analysis can be found at: www.gao.gov/products/GAO-18-114.

www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident/.

Coincident index. Background and data can be found at the following link:

Opioids. The state estimates are here: www.aei.org/publication/new-state-level-estimates-of-the-economic-burden-of-the-opioid-epidemic/.

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