

SALES TAX REVENUES BEGIN TO SLOW

As the nation emerged from the pandemic, a surge in purchasing and economic activity fueled strong growth in Wisconsin’s sales tax revenues. Preliminary 2024 figures indicate this growth has slowed, with lower revenues in three of the first five months of 2024 than in the same months a year prior. Revenues have also been lower in 2024 than in 2023 for nearly half of the state’s counties that levy a sales tax.

Countering widespread fears of a prolonged recession, the national and state economies experienced a robust recovery in the years immediately following the onset of COVID-19. This recovery produced substantial growth in several key state revenue streams, but as the impacts of the pandemic continue to fade, state sales tax revenues have slowed.

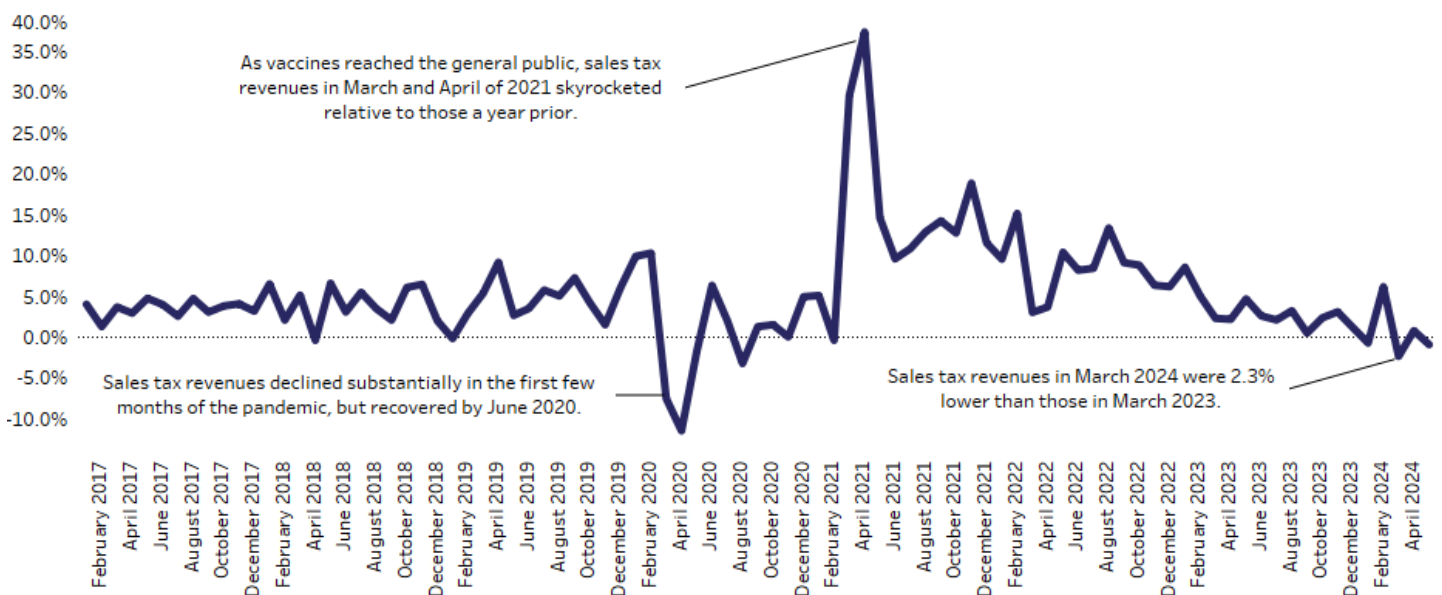
Wisconsin businesses reported \$2.73 billion in state sales taxes over the first five months of 2024, a 0.4% increase over the \$2.72 billion reported in the same five months last year. With the exception of 2020, this was the lowest year-over-year increase for these months going back to at least 2016. Preliminary data show that in January, March, and May of this year, the state reported less revenue from its 5% sales tax than in the same months in 2023 – the first months without a year-over-year increase since February 2021 (see Figure 1).

Rapid sales tax revenue growth in 2021 and 2022 cannot solely be attributed to a strong economy. Inflation was high in those years, meaning that the same level of purchasing would still lead to a marked increase in sales tax revenues. Still, inflation in 2024 remains above where it was in the years preceding the pandemic, making the slowdown in sales tax revenues even more notable.

When lawmakers passed the state budget last summer, sales tax revenues in the 2023-24 fiscal year (which ended on June 30) were projected to total \$7.64 billion, a 2.5% increase from the \$7.46 billion collected the year prior. That would have been the smallest annual increase since the Great Recession, when sales tax revenues actually declined in both 2009 and 2010. Since the state budget was adopted, sales tax estimates have been lowered; as of May 2024, reported

Figure 1: State Sales Tax Growth Slows

Change in state sales tax revenues relative to same month one year prior, January 2017 to May 2024



Source: Wisconsin Department of Revenue



revenues to date in the fiscal year that ended on June 30, 2024 were only 1.9% higher than through the same month in 2023.

In this brief, we analyze this slowdown in state sales tax revenues, while also briefly discussing county sales taxes and the new 2% city sales tax in Milwaukee. We use data compiled by the Wisconsin Department of Revenue (DOR) from businesses, which report to the state each month. These amounts do not include revenues from occasional sales, audits, interest, or penalties, and Wisconsin exempts certain items from the sales tax entirely, such as most food sold in grocery stores and fuel for residential use.

REVENUES SLOWING, LED BY RETAIL

Businesses that submit sales tax information to the DOR group themselves into 21 sectors. In the first five months of 2024, reported sales tax revenues were lower for 10 of those 21 sectors than in the same period in 2023 (see Figure 2).

The retail sector contributes the largest amount in sales tax revenues by far. In calendar year 2023, Wisconsin reported a total of \$7.22 billion in sales tax revenues; \$3.47 billion of that – or 48.0% – came from retail. Consequently, even though growth in the retail sector was limited (0.6%), that growth accounts for almost the entirety of sales tax revenue growth in Wisconsin during the first five months of 2024.

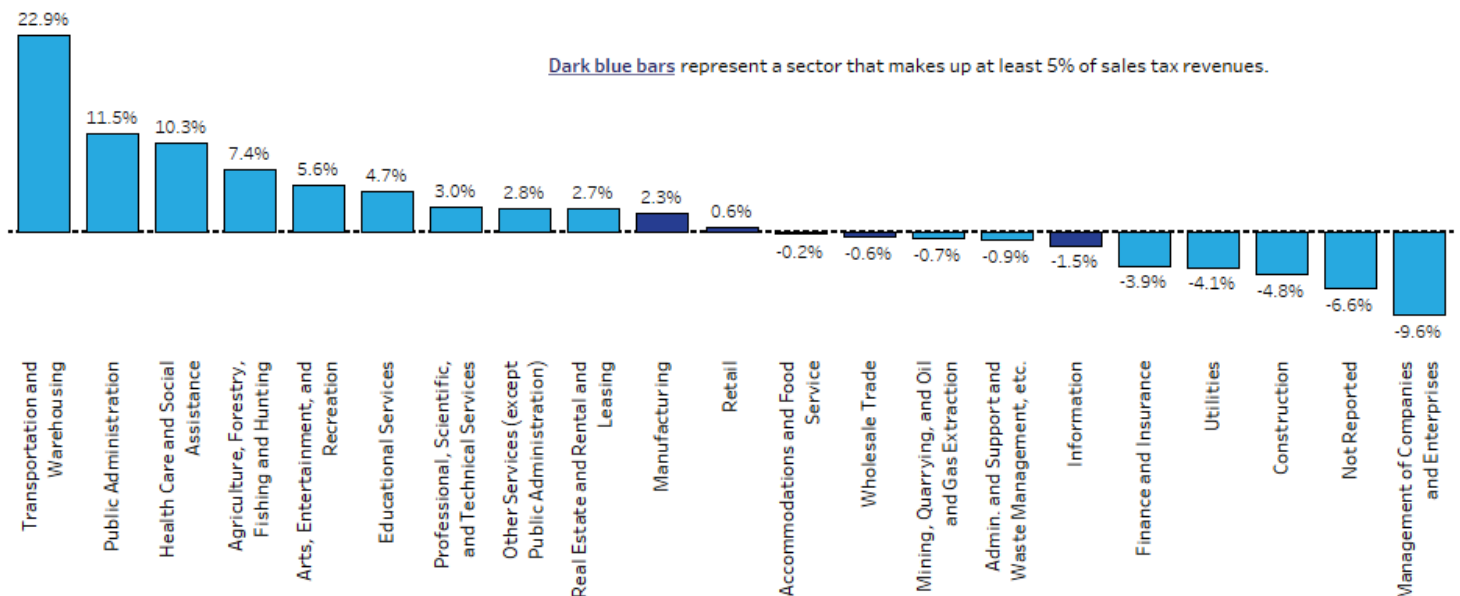
In April 2020 – the first full month of the pandemic – the state reported less in sales tax revenues from 15 of the 21 sectors than in April 2019. That included retail, though retail revenues were only 3.2% lower that month than they were one year earlier. By May, retail sales had already more than recovered: \$255.6 million in sales taxes were reported in May 2020 by retail businesses, a 14.5% increase from May 2019. For the remainder of 2020, sales tax revenues from those businesses were at least 10% higher every month relative to the equivalent month in 2019.

Over the last year, that growth has tapered off. In only three months since the beginning of 2023 have reported retail sales tax revenues been more than 3% higher than the same month in the previous year. Since March of this year, those revenues were below 2023 levels. Many consumers may be feeling the pinch of persistent inflation and high interest rates and responding by reducing their spending on non-essential goods. Also, many may have exhausted savings built during the height of the pandemic when consumers were spending less on travel and entertainment.

Retail subsectors tell an even clearer story. While on the whole, reported retail sales tax revenues grew by 0.6% from the first five months of 2023 to the first five months of 2024, only one of the 12 retail subsectors saw growth of more than 1.5% in the same period: non-store retailers, which include online businesses like

Figure 2: Many Sectors See Sales Tax Revenues Fall in 2024

Change in sales tax revenues from January-May 2023 to January-May 2024, by sector



Source: Wisconsin Department of Revenue



Amazon. Non-store retailers reported bringing in an additional \$12.7 million in January to May 2024 compared to the same months in 2023, while all other retail sectors brought in \$4.4 million less over the same time period.

This also may help to explain the reported 22.9% growth in sales tax revenues from the transportation and warehousing sector over the aforementioned time period, as businesses in that sector work closely with non-store retailers to deliver goods. That sector has also likely been boosted over time by the rise in food delivery services like Uber Eats and Doordash.

Only one other sector accounted for more than 10% of the state’s total sales tax revenues in 2023: accommodations and food service. Along with the arts, entertainment, and recreation sector, it was perhaps the hardest hit by the pandemic: sales tax revenues were 56.5% lower in April 2020 than in April 2019. Although the accommodations and food service sector has since recovered, revenue growth has slowed: in three of the first five months of 2024, reported sales tax revenues were lower in this sector than in those same months in 2023.

SOME COUNTIES SEE DECLINES; MILWAUKEE RATE INCREASES TAKE EFFECT

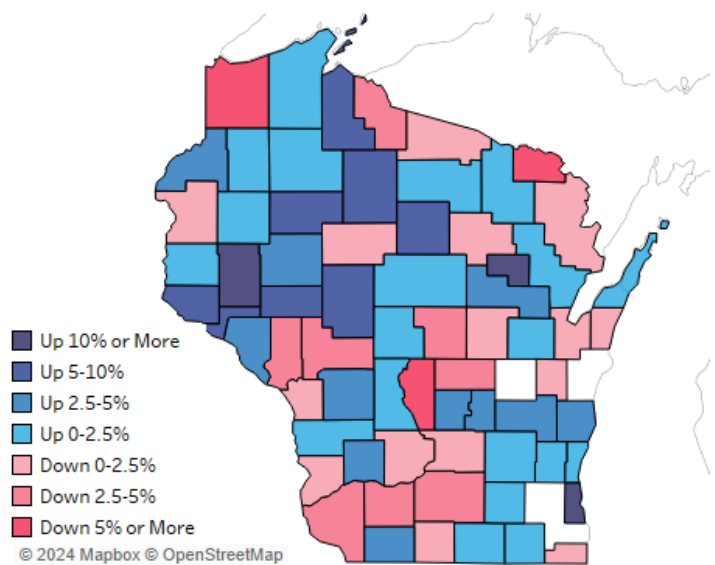
In addition to the state’s 5% sales tax, counties can opt to levy an additional 0.5% sales tax. As of the end of June 2024, 68 of 72 counties in Wisconsin have done so, with Manitowoc, Racine, Waukesha, and Winnebago the only exceptions. The county sales tax applies to the same set of goods and services as the state sales tax. Data for county sales taxes runs through June of this year.

As was the case statewide, nearly every county – 66 of 68 – saw growth in sales tax revenues from 2022 to 2023. For many counties, however, that growth has not continued so far this year. Comparing the first six months of 2024 to the first six months of 2023, the combined businesses in 26 counties reported seeing their sales tax revenues decline, including very populous counties like Dane (-2.7%), Brown (-1.4%) and Kenosha (-2.3%) (see Figure 3). On the other hand, many counties in northwest Wisconsin saw strong growth.

Large urban counties may be disproportionately affected by the rise in working from home and online

Fig 3: NW WI Sales Tax Revenues Grow; Declines Elsewhere

Change in sales tax revenues from January-June 2023 to January-June 2024 by county*



Source: Wisconsin Department of Revenue. *Milwaukee County sales tax increased from 0.5% to 0.9% in 2024, inflating growth there.

retail, which over time would decrease the sales taxes generated when rural or exurban residents travel to larger cities to work, shop, and dine out. This same trend would also explain more sales tax growth in areas such as the Wisconsin counties near the Twin Cities.

Prior to passage of the current state budget, Gov. Tony Evers signed into law 2023 Wisconsin Act 12 (which we discussed in greater depth [here](#) and [here](#)). This legislation allowed Milwaukee County to increase its sales tax rate from 0.5% to 0.9%, making it the only county currently allowed to do so.

That rate increase did not materialize in Milwaukee County sales tax data until March of this year. From March to June 2024, businesses in Milwaukee County reported revenues of \$53.9 million in county sales taxes, a 67.0% increase from the \$32.3 million reported in the same months in 2023.

Given that the county’s sales tax rate increased by 80%, however, it appears that taxable sales in the county might be falling somewhat. Had the 0.9% rate been in place last year, March to June 2023 revenues would have been \$58.1 million; that would have led to a decrease of 7.2% for the county in 2024, the third-largest drop after Florence (-10.6%) and Iron (-14.5%) Counties. That said, reported revenues in Dane County were down a similar 6.3% in March to June 2023 relative to the same months in 2024.



As part of the same legislation, the city of Milwaukee was allowed to levy a 2% sales tax, the first of its kind for municipalities in the state (with the exception of a small number of municipalities that are deemed “premier resort areas” by the state and can therefore enact sales taxes of varying amounts).

Preliminary data show businesses reported \$63.9 million in city sales tax revenues between January and June 2024. As with the county, revenues subject to Act 12 were not fully realized until March. The city will recognize January and February 2025 revenues as part of fiscal year 2024 in order to have 12 full monthly distributions.

The city budgeted \$184 million in sales tax revenues for fiscal year 2024, which means it would need to garner about \$15 million each month through February 2025 to reach that amount. That seems likely given that it brought in \$19.7 million in May and \$17.8 million in June, particularly given the Republican National Convention in July and other summer tourism as well as the holiday shopping season.

CONCLUSION

Even after factoring in inflation, sales tax revenues in Wisconsin grew sharply in the immediate aftermath of the pandemic relative to pre-pandemic years. However, early signs show that the surge in those revenues began to slow in 2023 and may be slowing further in 2024. This might be partially due to [falling inflation](#) on durable goods, which make up a vast majority of the sales tax base.

For all governments in Wisconsin that collect a sales tax, these trends are important. Around 30% of state tax revenues each year comes from the sales tax, and in recent years, sales tax revenue increases have outpaced those of other major sources, such as individual and corporate income taxes. Sales taxes are also an important revenue source for most [counties](#), while the city of Milwaukee looked to its new sales tax to plug key holes in its [budget](#) in 2024 and will continue to do so going forward.

Revenues in the coming months will be critical to determining estimates in future budgets, which in turn will impact decisions on both spending and other forms of taxation in 2025. It is still too early for great concern, but sales tax revenue numbers over the course of this summer will be closely watched. They may make a

difference in the degree of difficulty faced by county elected officials (and those in the city of Milwaukee) when they deliberate their 2025 budgets in the fall and state lawmakers when they consider the 2025-27 state budget next year.

