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STATE SENATOR • 17<sup>TH</sup> SENATE DISTRICT

## Capitol Update

By Senator Howard Marklein

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### **Inflation, Economic Activity or Both?**

State sales tax collections are up, but so is inflation

The State of Wisconsin charges and collects 5% sales tax on most items purchased in the state. Everything from clothes to computers to Green Bay Packers tickets are taxed. Many counties charge an additional 0.5% sales tax, bringing the sales tax rate for most Wisconsinites to 5.5%.

Last week, the Department of Revenue (DOR) released [tax collections](#) for March 2022. Every month, I anticipate the release of this information so I can keep an eye on the financial position of the state.

This month, one particular category caught my eye – sales tax collections. For the first nine months of fiscal year (FY) 2022, sales tax collections are up 12.2% compared to the same time period in FY 21. Sales tax collections were up 3.0% when comparing the same time period in FY 21 to FY 20.

Normally, I would think this is great news. Increased sales tax collections show that people are out purchasing more goods and experiences and helping the economy. However, this year there is another factor impacting sales tax collections. Inflation.

According to the Bureau of Labor Statistics, inflation came in at 8.5% for the 12 months ended March 2022. This is the highest inflation rate since December 1981. Inflation leads to rising prices as more money is chasing fewer goods. Inflation directly impacts sales tax collections because sales tax is a percentage of the sale price of an item. As prices go up, so do sales tax collections.

For example, an item that cost \$100 last year incurred 5.5% in sales tax. The actual cost of the item was \$105.50 with the state collecting \$5.00 in sales tax. Today, that same item may cost \$110. It still incurs the same 5.5% sales tax. The actual cost of the item is \$116.05 with the state collecting \$5.50 in sales tax. The consumer purchased the exact same good, the only change was inflation.

While sales tax collections have increased, a percentage of that increase can be attributed to inflation. According to DOR, the actual growth rate in sales tax is probably about 4%. I am pleased that this is still running ahead of collections from last year, but the large increase is not all good news.

Sales tax collections are not the only state-related item I am keeping an eye on with inflation. As I begin to plan for the next state budget, I am also looking at other areas that will feel the impacts of inflation. For example, road construction projects, schools, and healthcare will all feel the impact.

While the state continues to be in a strong financial position thanks to more than a decade of positive reforms and careful budgeting, I am keeping an eye on inflation and the impact it will have on the financial position of the state.

As always, please do not hesitate to connect with me to provide input, ideas or to seek assistance. Send an email to [sen.marklein@legis.wisconsin.gov](mailto:sen.marklein@legis.wisconsin.gov) or call 608-266-0703.