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## Consumer Morsel

# Are state tax changes bolstering the consumer?

**25 August 2022**

## Key talking points

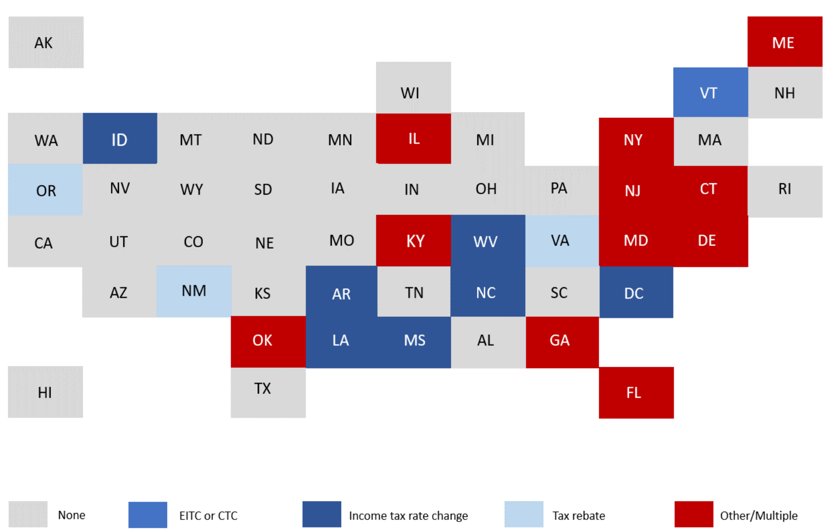
- This year, many states have taken the opportunity presented by budget surpluses associated with the pandemic recovery to make both permanent and temporary tax cuts.
- We have used aggregated and anonymized Bank of America credit and debit card data to make an initial assessment on the impact of these cuts in supporting consumer spending.
- We find that those states which made early cuts in gas taxes have seen a positive impact on consumer spending for the period following the passage of relief legislation. Not only did the overall share of gas to total card spend per household decline after the implementation of the gas tax cut, but also growth in non-gasoline total card spending per household has moved higher than in states that did not enact such measures.
- We find less evidence that other tax measures have had a measurable impact so far. Though the Bank of America card data suggest there is a slight, more immediate, positive change to consumer spending with one-time payments such as tax rebates or stimulus payments compared to measures such as income tax rate cuts.

## State surpluses allow for some help to consumers

Though federal fiscal policy plays a role in consumer behavior, state governments also make significant tax changes for their residents. These can often have a more immediate impact on the consumer wallet as legislation is catered to that state's specific policy challenges.

Many states experienced budget surpluses due to pandemic relief funds and subsequent economic recovery. Some have capitalized on this by making both permanent and temporary tax cuts. These tax cuts have come in a variety of forms. Some states have cut income tax, while others have implemented rebates and tax credits. With rising inflation and particularly rising gasoline prices in focus, some states have opted for targeted cuts to gas taxes.

**Exhibit 1: US State Tax Map as of July 2022**
Map of states that have enacted tax cuts/changes listed below as of July 2022




**Source:** Bank of America Institute, Tax Policy Center, Tax Foundation

Exhibit 1 illustrates the range of tax measures implemented by states in 2022 so far. We have split states that have enacted individual tax cuts into four categories: income tax rate cuts, Earned Income Tax Credits (EITCs) or Child Tax Credits (CTCs), tax rebates, and other. The 'other/multiple' category reflects states that have enacted tax relief in response to recent economic pressures, such as the impact of inflation on major spending categories like gas and grocery, as well as the several states which implemented multiple kinds of tax cuts. Only those states that had legislation in place as of the end of July are included.

## It's the consumers' money, and they want it now

It is too early to provide a definitive assessment of which form of tax cuts has proved most effective at supporting consumer spending. Indeed, different policies may work over different time horizons. For example, the benefits of income tax rate cuts are experienced over time, whereas one-time tax rebates and stimulus payments are lump-sum amounts.

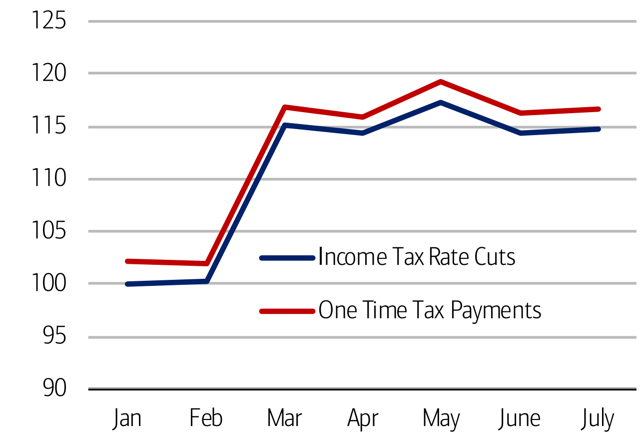
As an example, Exhibit 2 shows that according to the Bank of America internal data, the average credit and debit card spending per household is lower in the states that have cut the income tax rate than in those that have made lump-sum payments.

It does also appear that states implementing lump-sum payments have seen faster growth in card spending per household than those that implemented tax rate changes. At one level, such a result is not surprising, as single payments might drive more impulsive spending, particularly around tax filing season. Looking at Exhibit 3, the widening in the difference between the YoY% changes was highest in April at 3%, an important month for tax filers and therefore also for those benefitting from tax rebates from FY 2021.

At another level one would expect consumers to take a view on both current and future income when making their consumption decisions. Accordingly, a tax rate cut could, at least in principle, lead consumers to revise their assessment of future income and decide to spend more today. It is conceivable, though, that consumers could be somewhat more myopic and react more aggressively to upfront lump-sums. It could also be the case that people are not fully confident in the persistence of tax rate changes, and may believe reductions could be reversed.

**Exhibit 2: Average Bank of America total card spending per household (Indexed to January 2022 value of average spending in states with income tax rate cuts, monthly, SA)**

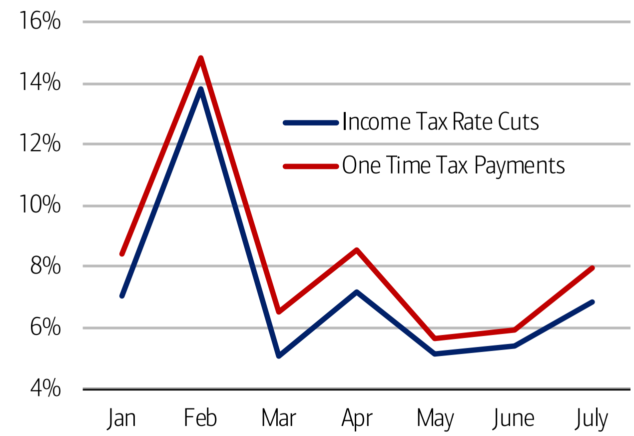
Consumers in states with income tax rate cuts compared to lump sum tax rebates and stimulus payments have been spending less in 2022




**Source:** Bank of America internal data

**Exhibit 3: Average Bank of America total card spending per household (% growth YoY, monthly)**

Card spending has been rising faster in states where lump sum tax rebates and stimulus payments have been made




**Source:** Bank of America internal data

## Fast-acting relief

A popular and high-profile form of tax cuts made this year by a number of states were tax holidays and specific relief measures on certain taxed goods heavily impacted by inflationary pressures. Most notable was the recurrence of gas tax exemptions and cuts for consumers in response to the high prices at the pump. A handful of states passed legislation specifically designed to lower gasoline costs for consumers. Connecticut, Georgia and Maryland state governments initiated measures in mid-March and early April meant to benefit their residents and these were implemented relatively early.

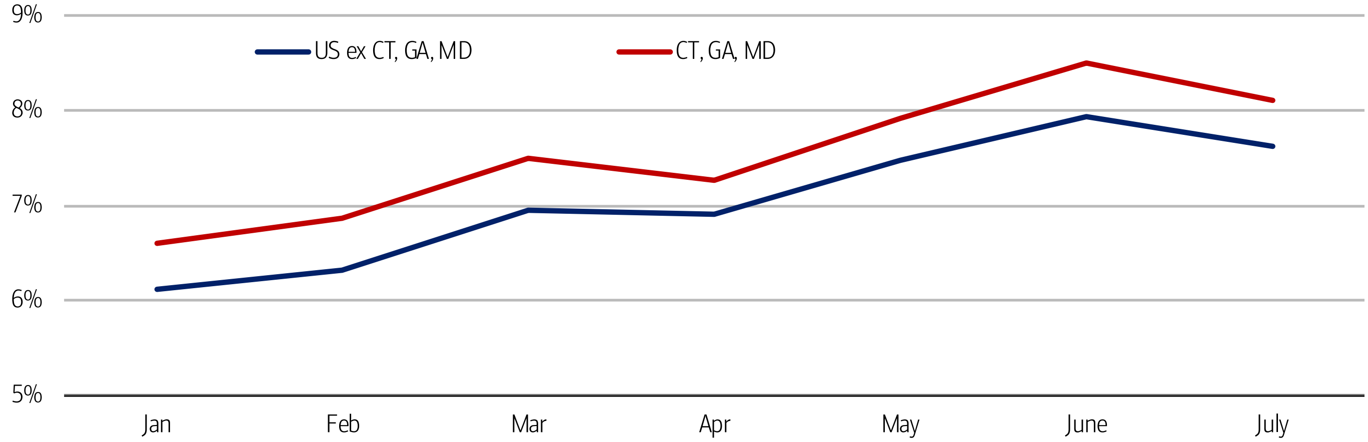
Another set of states, Illinois, New York and Florida, also recently implemented tax policy targeted towards decreasing the amount spent on gas. Illinois deferred a planned tax increase, while New York and Florida have announced actual cuts, taking place in July and October, respectively. In order to decrease the likelihood of skewed data, these states have been excluded from the gas tax category in our analysis.

We have looked at aggregated and anonymized Bank of America card data to see if the early-movers in cutting gas taxes are demonstrating benefits for their residents – potentially giving a guide to how other states' consumer spending might react.

Looking at the share of gas spending to average total card spending in Bank of America aggregated card data, it is apparent that the states that cut gas taxes relatively early are also the ones where gas takes up a larger share of consumer wallet on average compared with the other US states – perhaps underlining the incentive for them to move earlier (Exhibit 4).

The initial impact of the cuts can be seen in a drop in the share of gasoline spending around March/April. This narrowed the gap between the share of these states' spend on gasoline compared with the rest of the US. Interestingly, over June and July this gap appears to have widened again. One reason for this could be a 'price effect', meaning decreased costs at the pump could have experienced smaller declines in the demand for gas compared to other states that might face more volatile demand at the pump.

**Exhibit 4: Share of average gas spending per household to average total card spending per household (%, monthly, SA)**
States with gas tax relief account for larger share of gas spend of consumer wallet




**Source:** Bank of America internal data

## Gas tax cuts help drive up total card spending

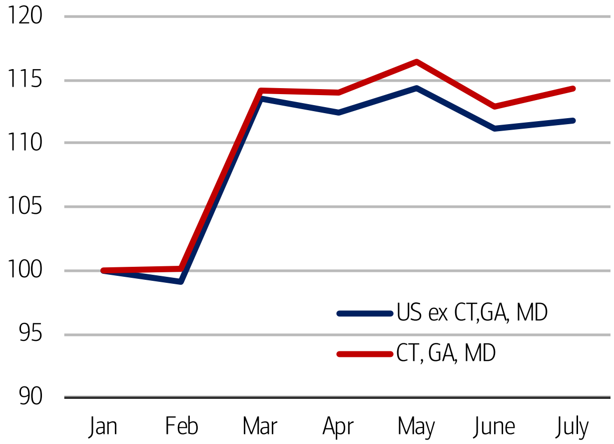
If gas tax cuts ease the pain at the pump, are consumers in states with such relief allocating spending elsewhere? According to Bank of America card data, there appears to be some positive impact on consumer spending when comparing total average US card spending, excluding gas, to card spending ex gas in those states that enacted gas tax relief in 2022.

In those states that experienced gas tax relief, total average card spending increased by more than those states without this relief, the gap opening up particularly since the initial passage of the legislation in March/April (Exhibit 5). In addition, the YoY% change from that period follows a similar trend (Exhibit 6).

None of these impacts is large, but they do provide some early evidence that tax cuts aimed at gasoline have had some benefit for the impacted consumers.

**Exhibit 5: Bank of America total average spending ex gasoline (January 2022=100, monthly, SA)**

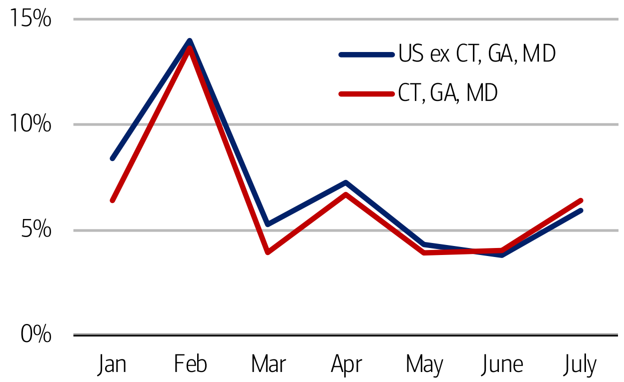
Gasoline tax cuts in Connecticut, Georgia and Maryland may have supported spending on non-gas items




**Source:** Bank of America internal data

**Exhibit 6: Bank of America total average spending ex gasoline (% growth YoY, monthly)**

Weaker growth in spending on other ex gas categories Connecticut, Georgia and Maryland compared with other states appears to have reversed




**Source:** Bank of America internal data

## Bottom line

Many states experienced budget surpluses associated with the pandemic recovery and have capitalized on this by making both permanent and temporary tax cuts. It is early days to draw too many conclusions, but Bank of America aggregated card data suggests that one-time payments and tax relief, such as gas holidays, may have had a more immediate positive impact on consumer spending than gradual changes, like income tax rate cuts. We find that states with gas tax relief experienced stronger growth in consumer spending ex gas than those that did not implement such a policy. As more states roll out targeted tax cuts, the effects of these policies bear watching over time.

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## Sources

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**Methodology**

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on aggregated and anonymized selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Bank of America credit/debit card spending per household includes spending from active US households only. Only card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data is mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Additional information about the methodology used to aggregate the data is available upon request.

# Disclosures

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