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For Immediate Release

Vertex 2022 Sales Tax Rates and Rules Report:
Decline in Rate Changes Belies Increases Across Most Jurisdictions

KING OF PRUSSIA, PA. – January, 24, 2023 - Vertex, Inc. (NASDAQ:VERX) ("Vertex" or the "Company), a global provider of tax technology solutions, released its annual End-of-Year Sales Tax Rates and Rules report, which found that while the total number of transaction tax changes across the U.S. declined, most jurisdiction categories actually continued to see rate increases.

The overall number of sales tax rates and rules changes appears to have reached the lowest level in eight years with 542 changes at the state, county, city and district levels. But that total is skewed by a decline in only one category: new district taxes. After a five-year stretch during which an average of 180 new district-level taxes were created each year, that number declined to 115 this year.

Even though fewer districts were created in 2022, the increases to existing district tax rates outnumbered decreases by a ratio of three to one. Additionally, rate changes at other levels of government including city, state and local remained at record highs similar to the last few years. The county level posted a three-year high in 2022. And city rate changes remained at near all-time highs, matching their most recent five-year average.

"Sales tax rates will continue to increase. Governments need to fill budget gaps as Federal COVID-related funding will begin to run dry, as borrowing becomes more expensive and overall inflationary pressures on labor, services and consumables continue," said Vertex Vice President of Tax Content and Chief Tax Officer Michael Bernard. "On top of these economic factors, sales tax is generally more efficient to impose and administer relative to property and income taxes, making it a more resilient revenue source for governments, particularly in times of economic distress."

Beyond the broad numbers, the 2022 report showed several other interesting trends, including:

- **Tax policy, economic conditions and fiscal conditions remain intertwined**
Although inflation tends to be headed downward, it remains high and unlikely to return to pre-2022 levels any time soon. Many economists also assign a high probability to a U.S. recession, even a moderate one, occurring this year. As high debt-servicing costs sustain or increase, state and sub-state jurisdictions will need to pull other levers to satisfy revenue needs amid higher prices and labor costs.

- **Income tax and property tax revenue declines also drive sales tax changes**
State legislature activity and 2022 ballot initiatives showed a growing desire to limit income tax rate increases, in some cases, lowering income tax rates and reducing property taxes. Home values in many markets have levelled off or declined since mid-2022. Commercial office space values are also declining due to permanent, hybrid work models. This will result in lower property tax receipts in 2023 and beyond. Property taxes, income taxes, and sale and use taxes represent the top three funding sources for state and local governments, therefore more sales tax rate changes loom.

- **If a recession arrives, tax leaders should be aware of the lag between economic conditions and city fiscal conditions.**
This delay can last 18 months to several years, according to the National League of Cities (NLC), and according to their research it takes 18-24 months for the effects of changing economic conditions to become evident in city budgets.

- **The shrinking sales tax base may spark new legislative approaches.**
The sales tax base has shrunk significantly in the past two decades. State sales tax bases "are narrowing," according to the Tax Foundation, "forcing states to either raise rates or shift to other sources of tax revenue in response to this continuous erosion." These sources already include a growing number of digital taxes, and could soon extend to professional services, such as accounting and other business-to-business offerings.

- **Post-Wayfair sales taxes are attracting federal attention.**
Two months ago, the General Accounting Office (GAO) encouraged Congress to work with states "to establish nationwide parameters for state taxation of remote sales" for several reasons, including the headaches remote sellers experience while trying to comply with "a complex patchwork of requirements … governing the taxation of remote sales." In June of last year, the U.S. Senate Finance committee hosted a committee hearing to examine the impact of the South Dakota v. Wayfair decision on small business and remote sellers.

For the Vertex End-of-Year Sales Tax Rates and Rules Report for 2022, click here.

About Vertex

Vertex, Inc. is a leading global provider of indirect tax software and solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply and grow with confidence. Vertex provides solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value added and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,300 professionals and serves companies across the globe.

For more information, visit www.vertexinc.com or follow on Twitter and LinkedIn.

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