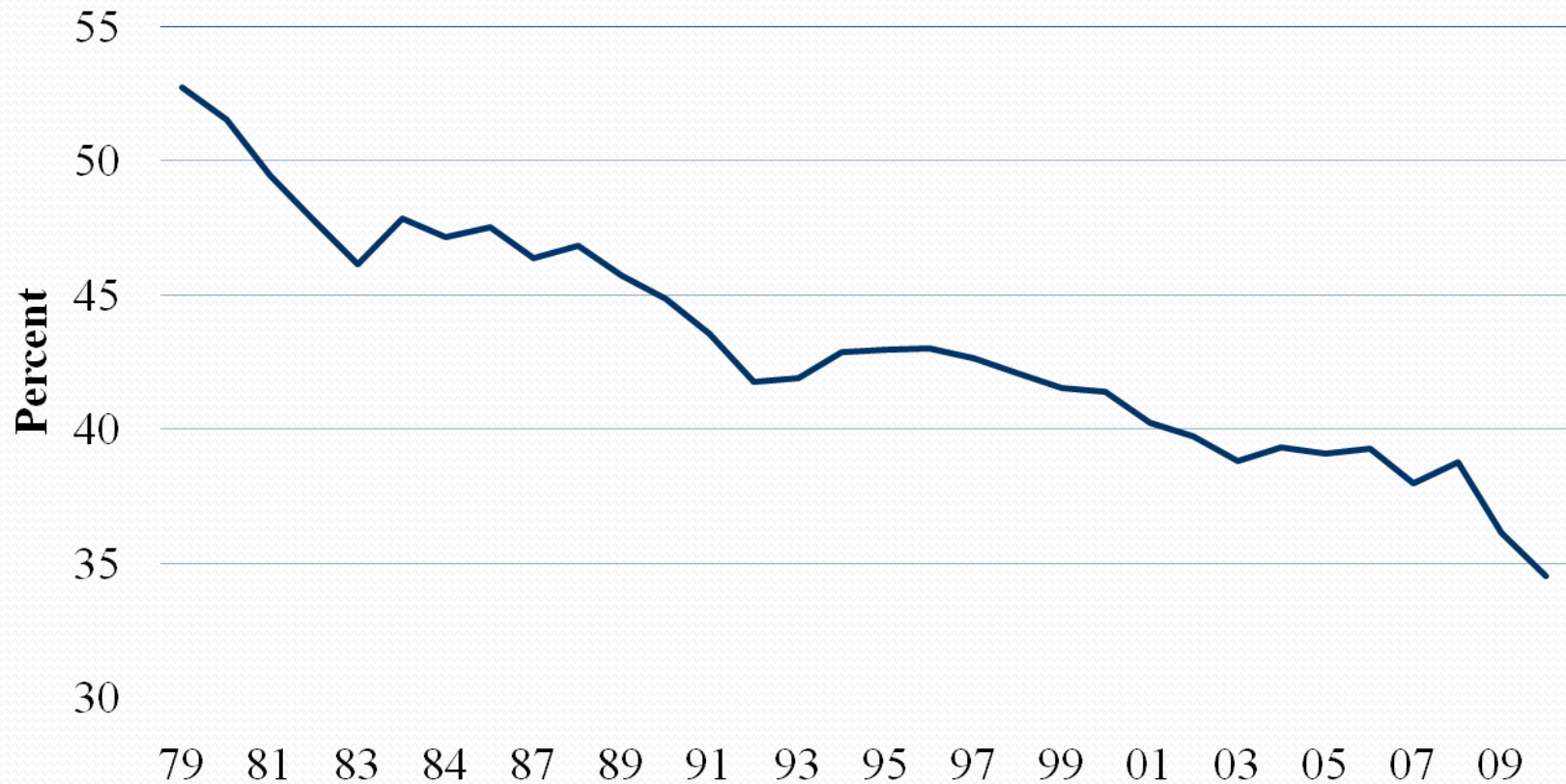


Eroding Sales Tax Base: The Effects of E-Commerce

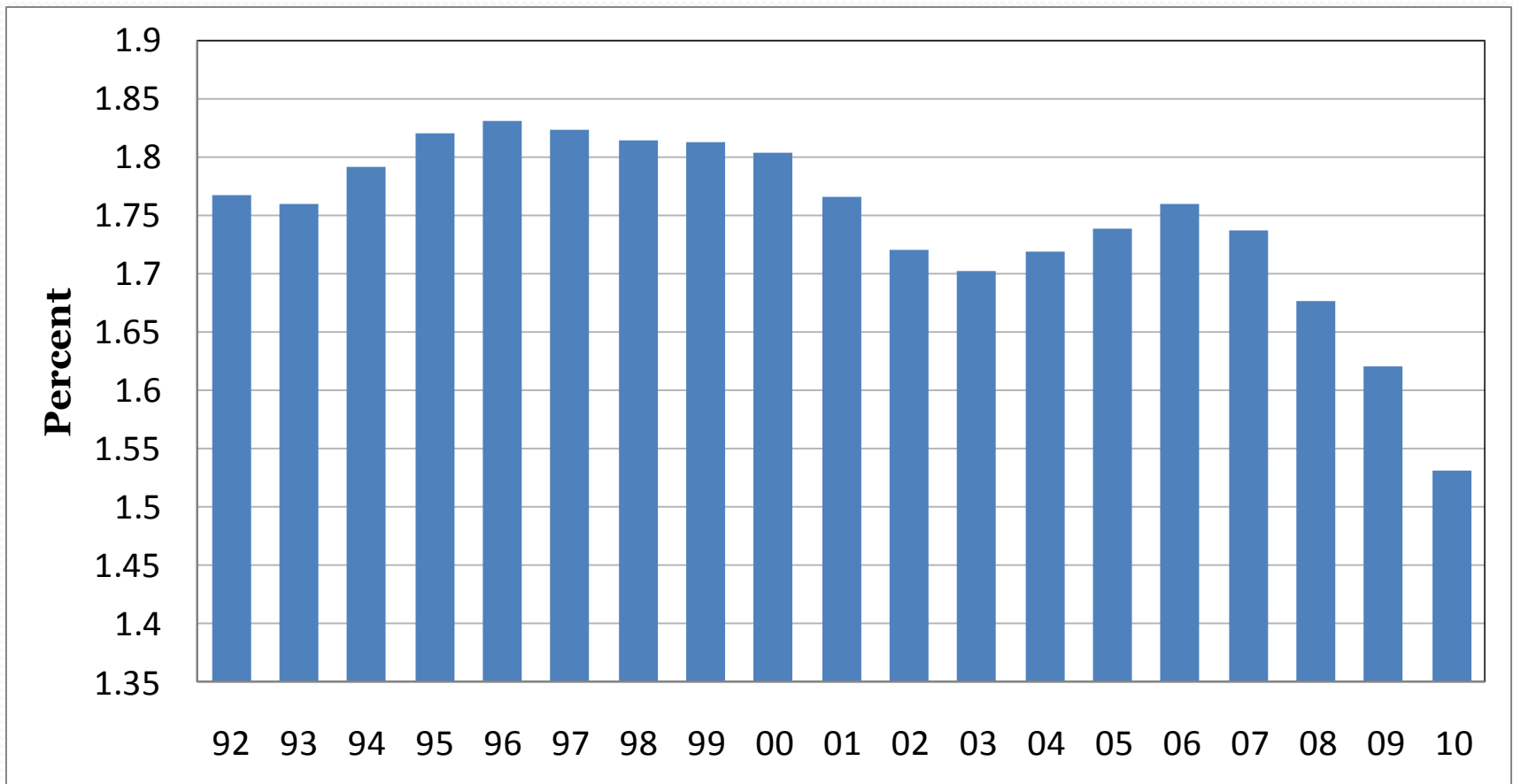
Presented to
Southern Legislative Conference

William F. Fox
The University of Tennessee
July 18, 2011

U.S. SALES TAX BASE AS A PERCENT OF PERSONAL INCOME, 1979-2010

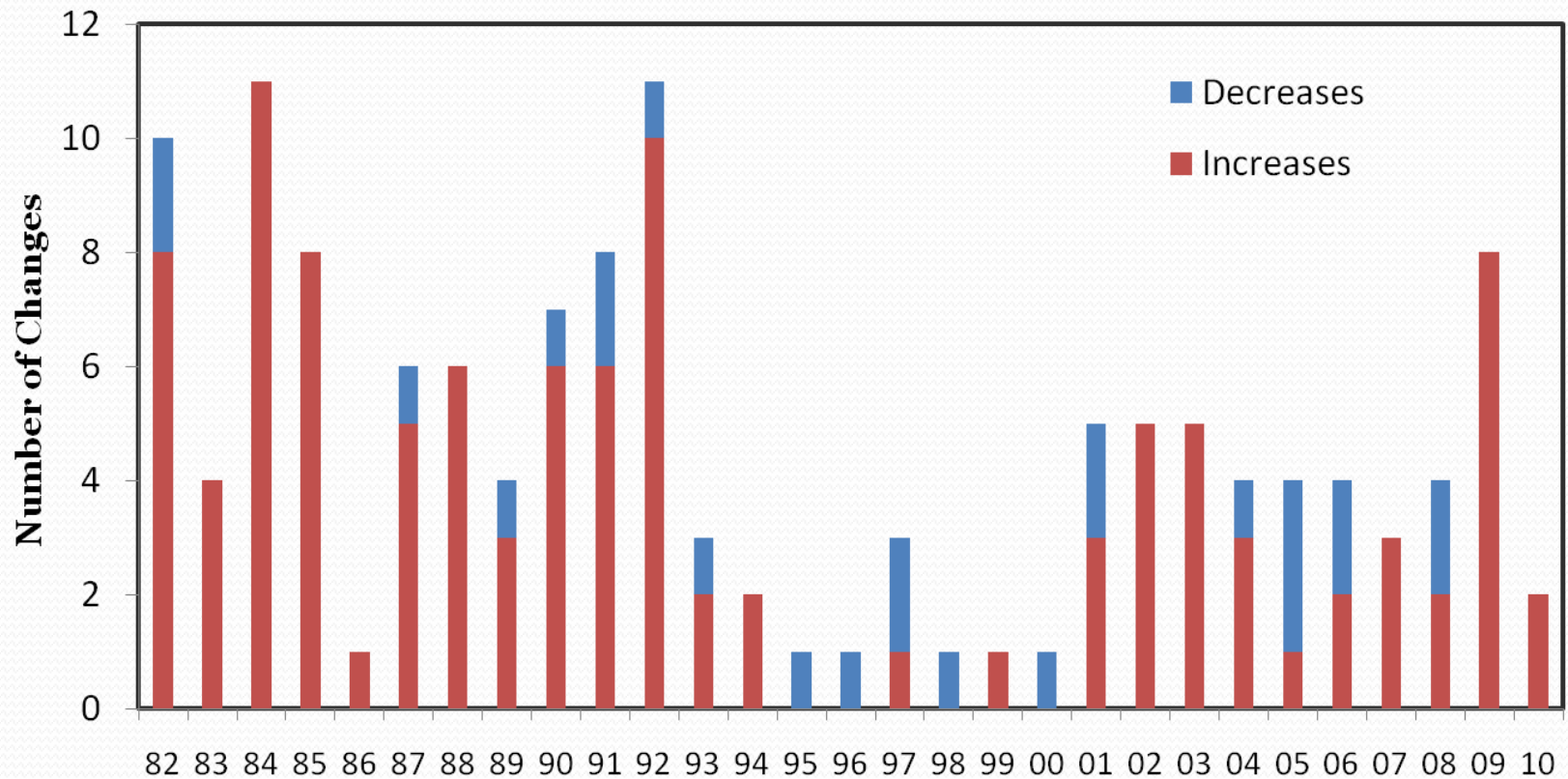


STATE GENERAL SALES TAX COLLECTIONS AS A PERCENT OF GDP



William F. Fox, Center for Business and
Economic Research,
<http://cber.bus.utk.edu>

Number of Sales Tax Rate Changes



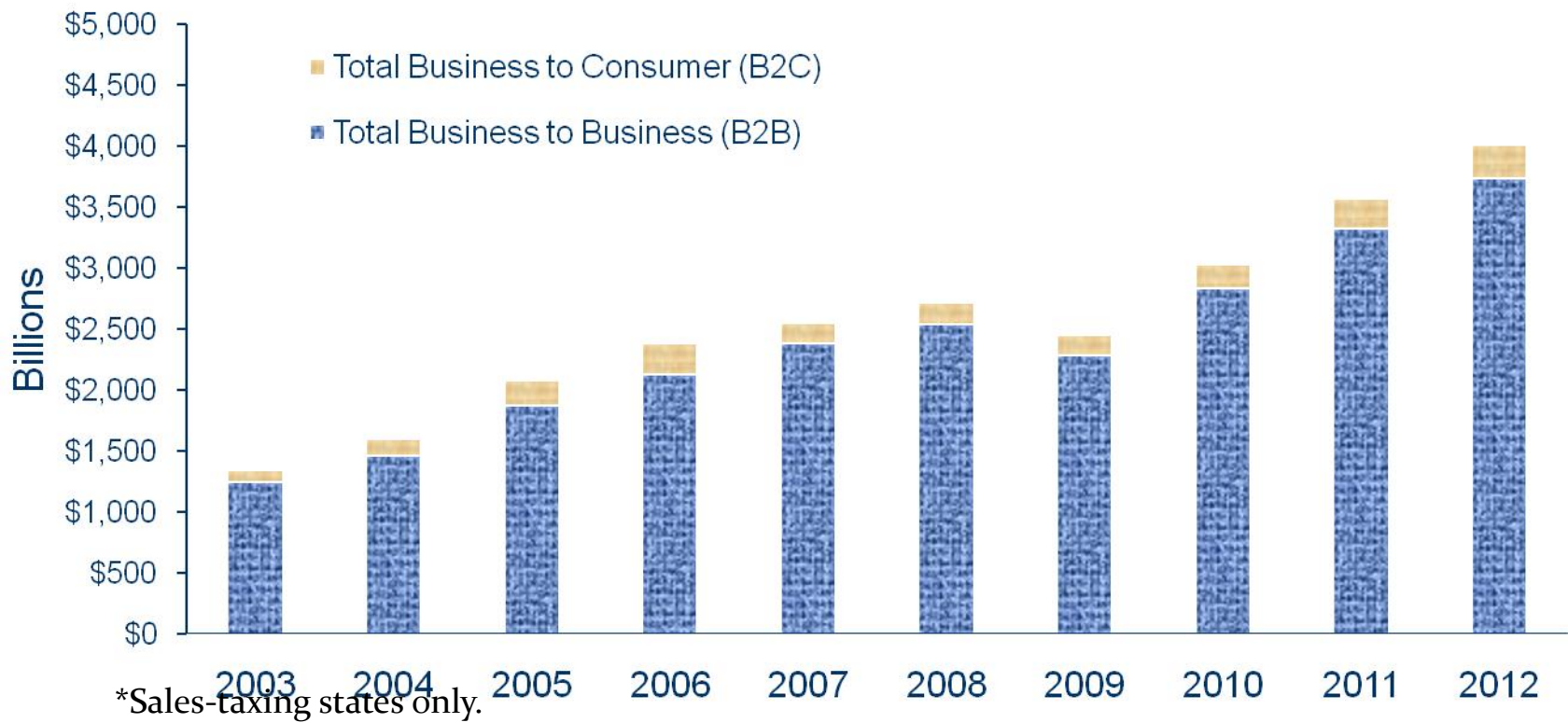
Reasons for Sales Tax Base Erosion

- State policy decisions
 - Economic Development
 - Fairness
- Changes in consumption behavior
- Remote commerce
 - E-commerce
 - Mail order
 - Driving next door

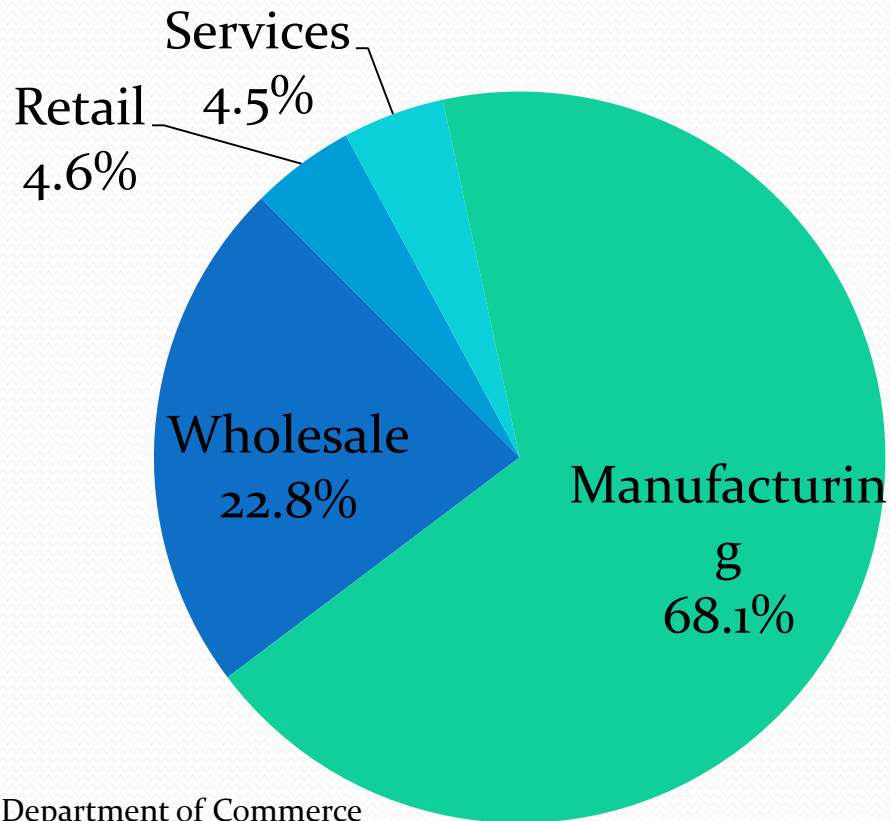
Personal Consumption Expenditures 1979 and 2009

	<u>1979</u> <u>Percent</u>	<u>2009</u> <u>Percent</u>
Total Expenditure	100.0	100.0
Durable Goods	13.4	10.3
Autos	5.9	3.2
Furn & Household	5.2	2.5
Other Durables	2.4	1.4
Nondurable Goods	39.1	22.0
Food and Beverage	20.3	7.8
Other Nondurables	18.8	8.0
Services	47.4	67.7

Estimated Total E-Commerce Sales

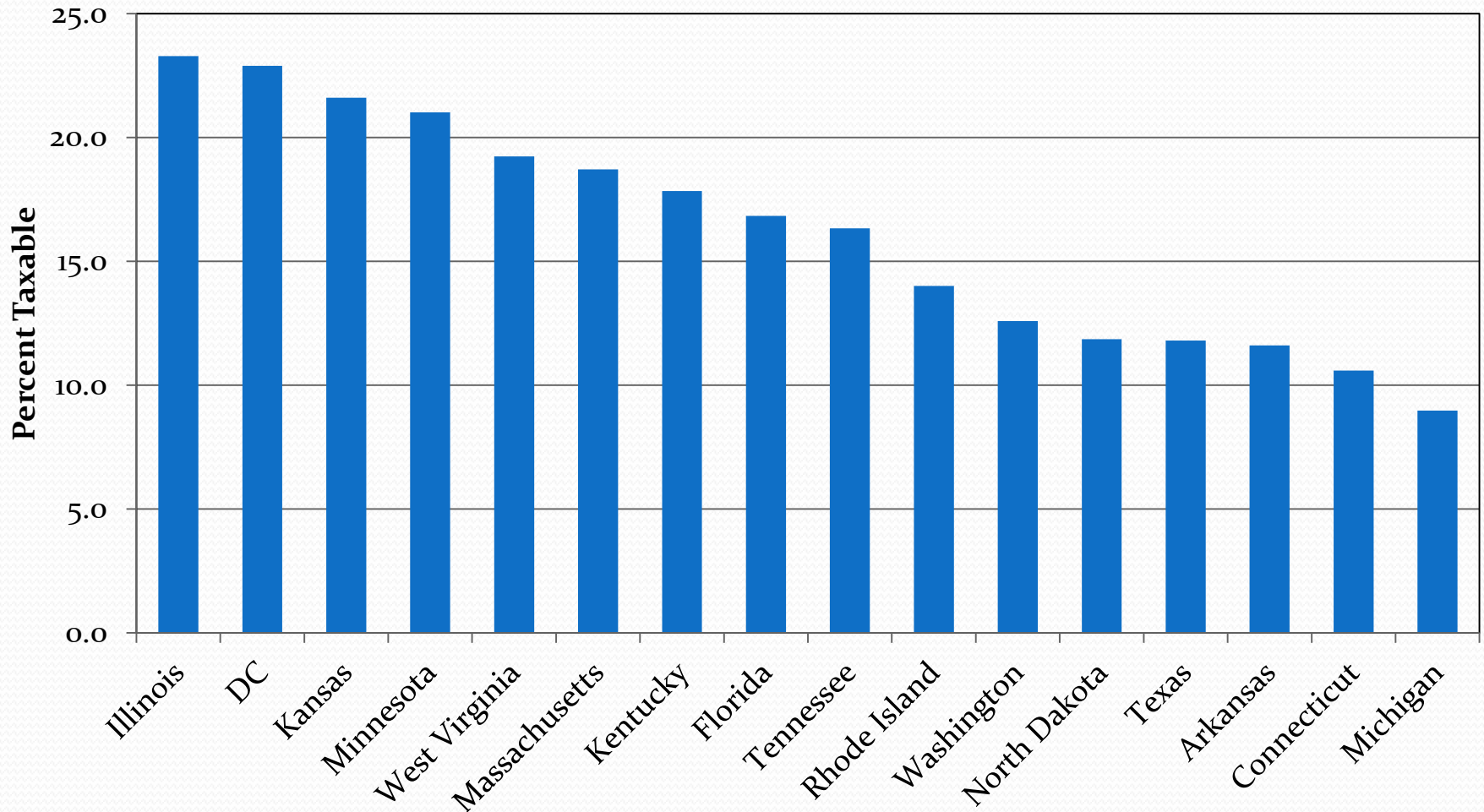


Vendors for E-Commerce Transactions, 2008



Source: U.S. Department of Commerce

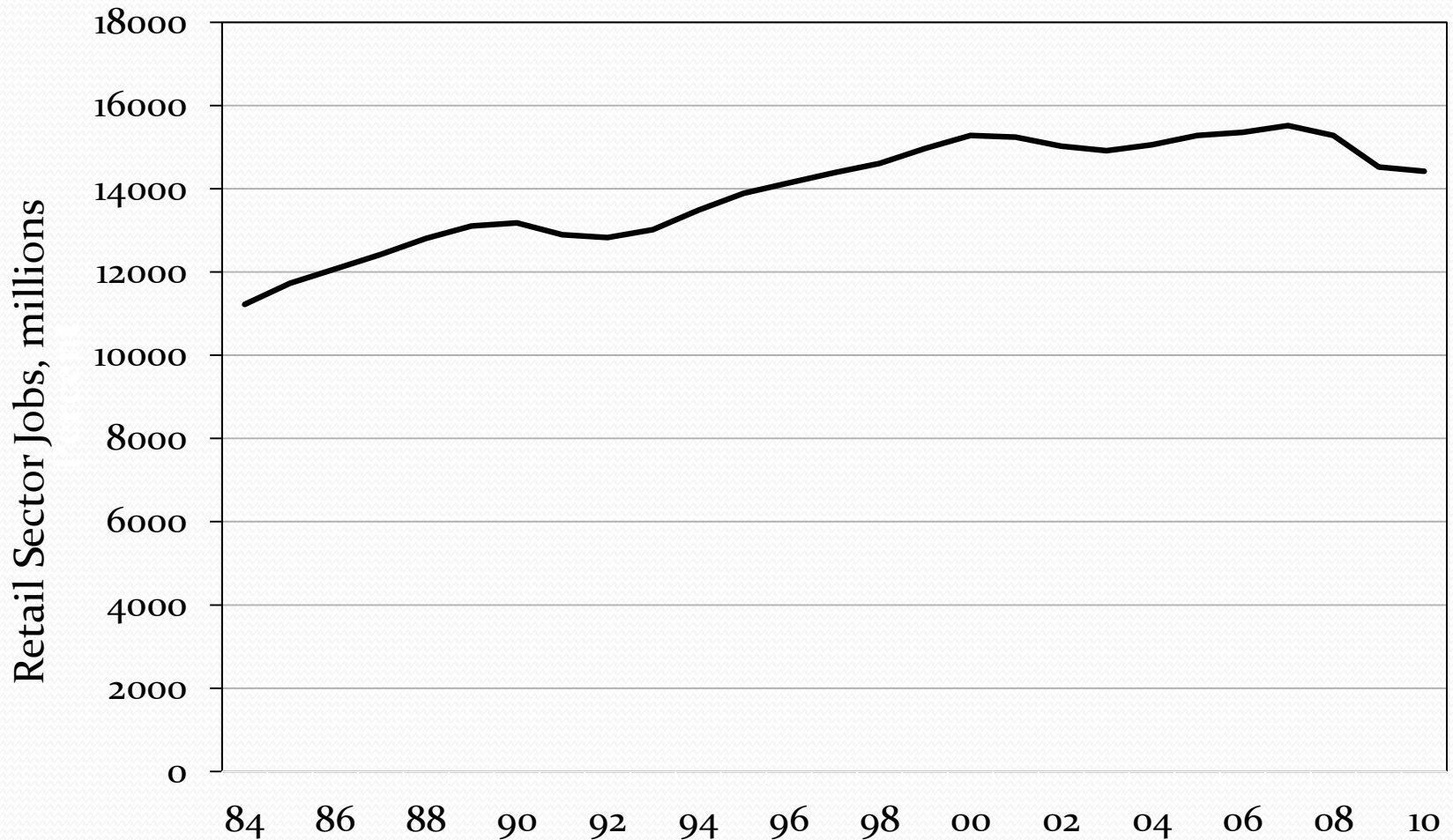
Overall Taxability of Electronic Commerce



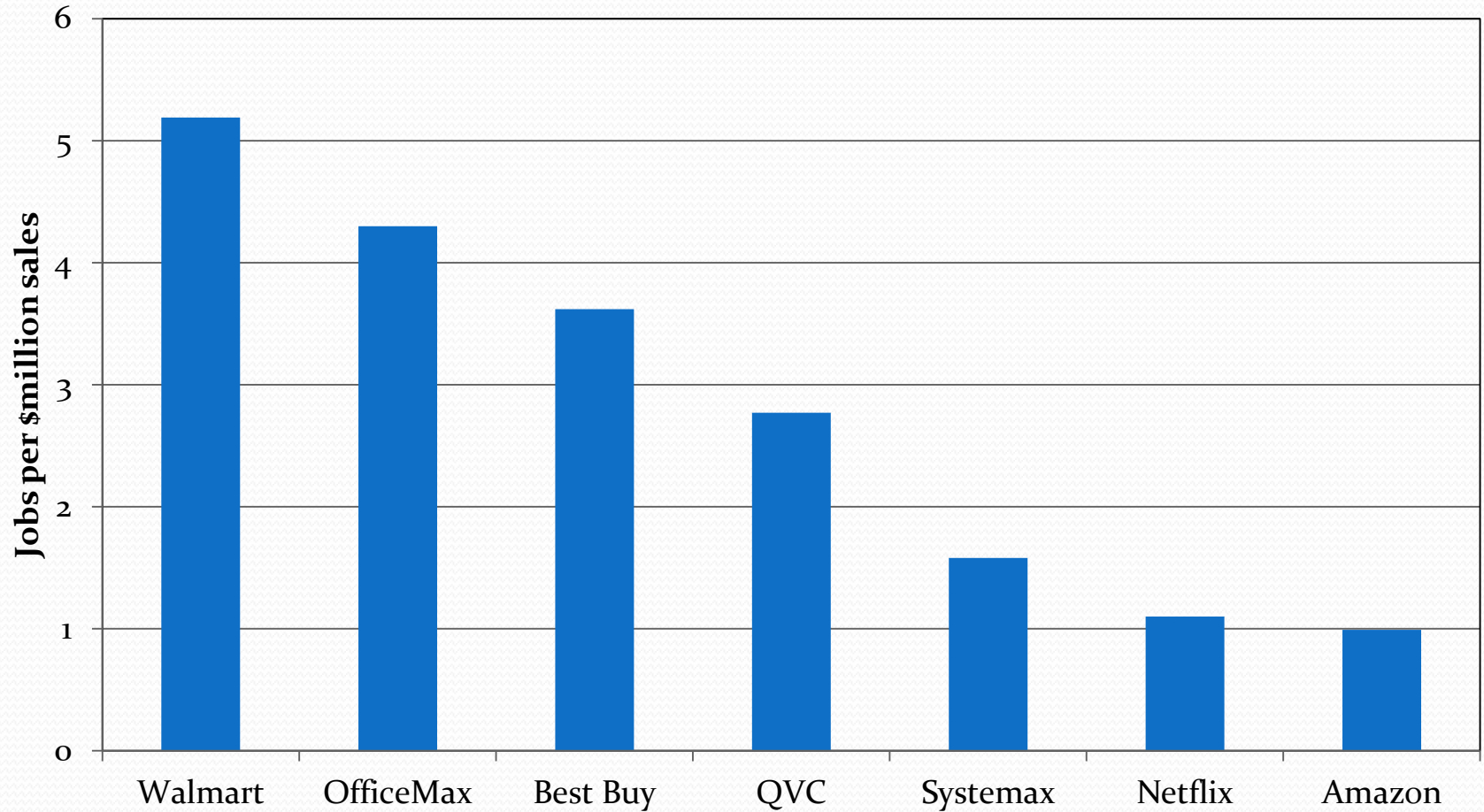
National Total State and Local E-Commerce and Revenue Losses (\$billions)

	2010	2011	2012
B2B	2,767.0	3,253.4	3,656.9
B2C	200.0	235.1	264.3
Total E-commerce	2,967.0	3,488.5	3,921.1
Estimated Taxes Due	34.7	40.8	45.9
Estimated Taxes Collected	26.1	30.7	34.5
S & L Revenue Loss	8.6	10.1	11.4

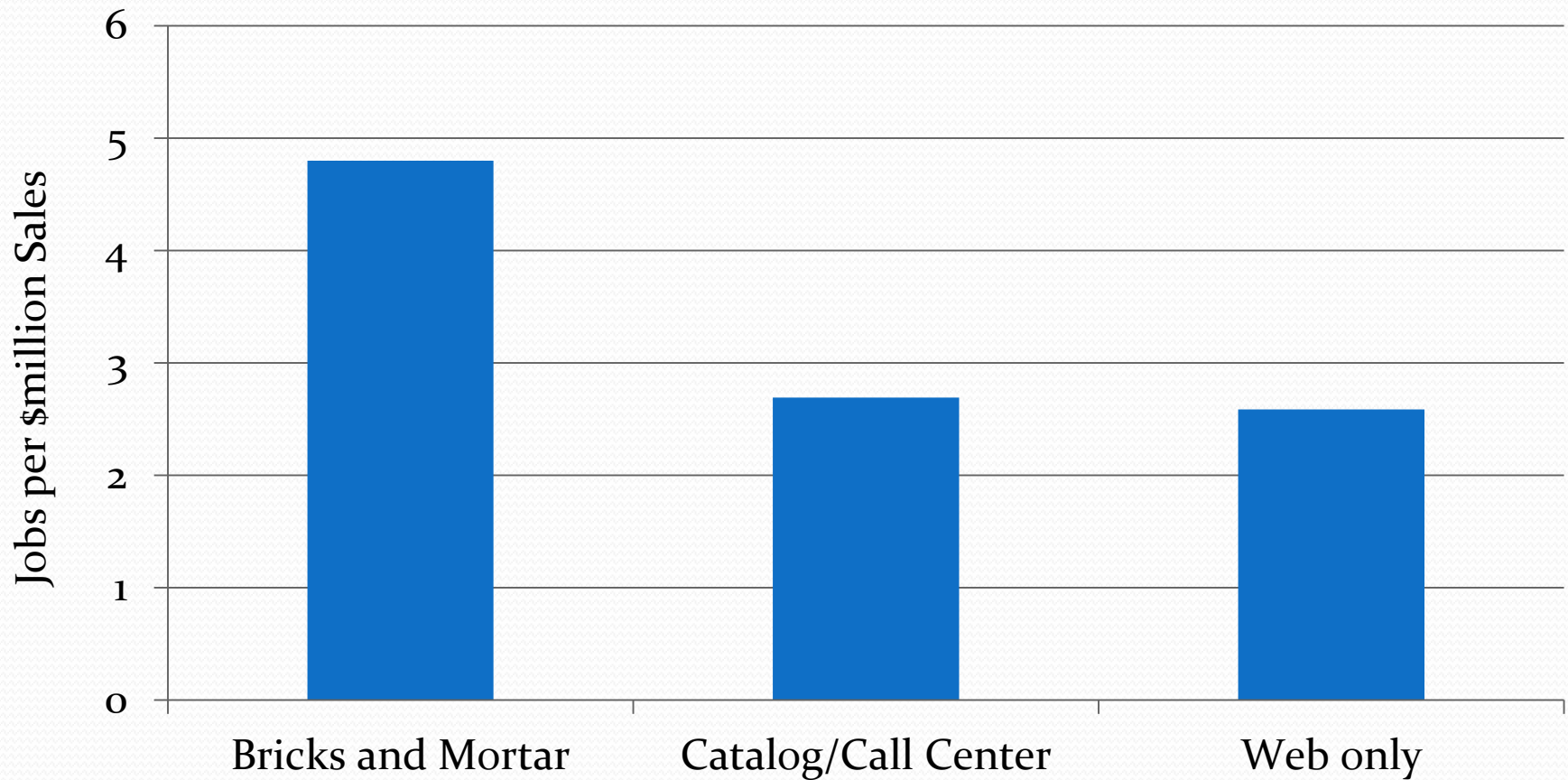
No retail job creation in the past 10 years. 1.9 percent annual growth from 1984 to 2000



Employment/Sales, 2009 Selected Firms



Employment/Sales, 2009



A Picture

- \$96.8 billion in e-tailer sales growth between 2002 and 2008.
- We estimate this created 85,000 jobs.
- Would have created 264,200 more jobs in bricks and mortar stores.
- 258,200 retail jobs actually created between 2002 and 2008 (no retail job between 2000 and 2010)

State Responses

- SST Governing Board
- Affiliate nexus
 - Affiliate nexus through ownership
 - Agency nexus through contractors
 - Click through nexus (Amazon Laws) – NY, AR, NC, RI, IL, CA
- Reporting requirements
 - Colorado
 - Oklahoma
 - South Dakota
 - Vermont

Sales Taxes and Commodity Flows Study

- We examine trade flows between states, and allow for the possibility of tax evasion
- Stream of literature that examines cross-border shopping and how taxes affect specific commodities (e.g., cigarettes).
- Other literature examines the inability to collect sales taxes ordered via mail order and the Internet.
- Use Census Commodity Flow Survey data
- Hypothesis : the probability of tax evasion increases with distance to the destination market because the probability of audit and detection decreases.

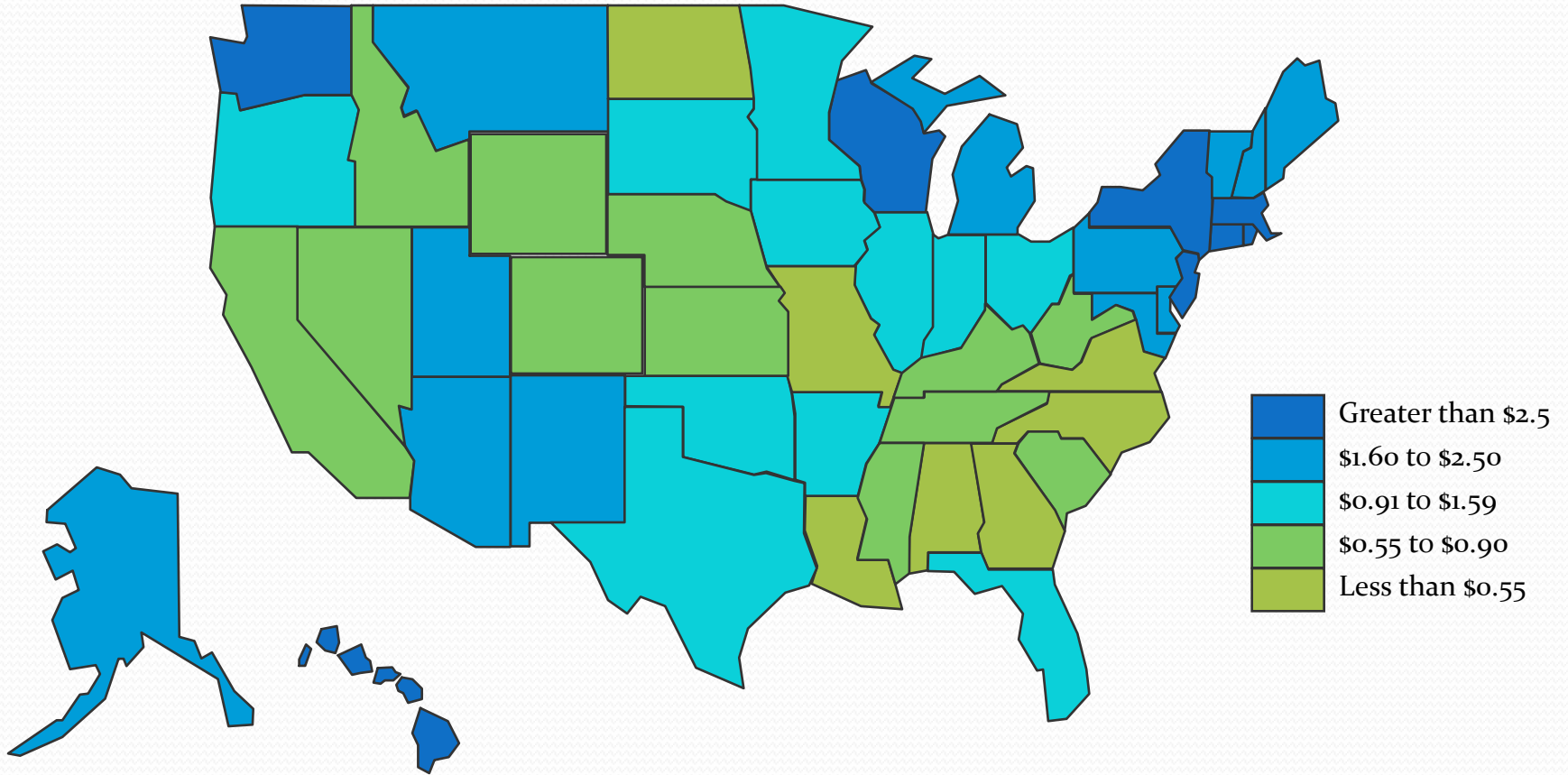
Why evasion may be linked to distance

- Identifying taxpayers is easier for in-state sellers and compliance is better when payment responsibilities are not shifted to the buyer.
 - States may be more aware of businesses that are based nearby.
 - States may be more likely to share audit and tax information
 - All but the most simple audits require in-person audits, and the costs increase with distance.
- Buyers have an incentive to purchase from sellers that do not collect sales tax for their state if they want to evade taxes.
- Sellers can ensure payment responsibility is with the buyer by not creating physical presence.

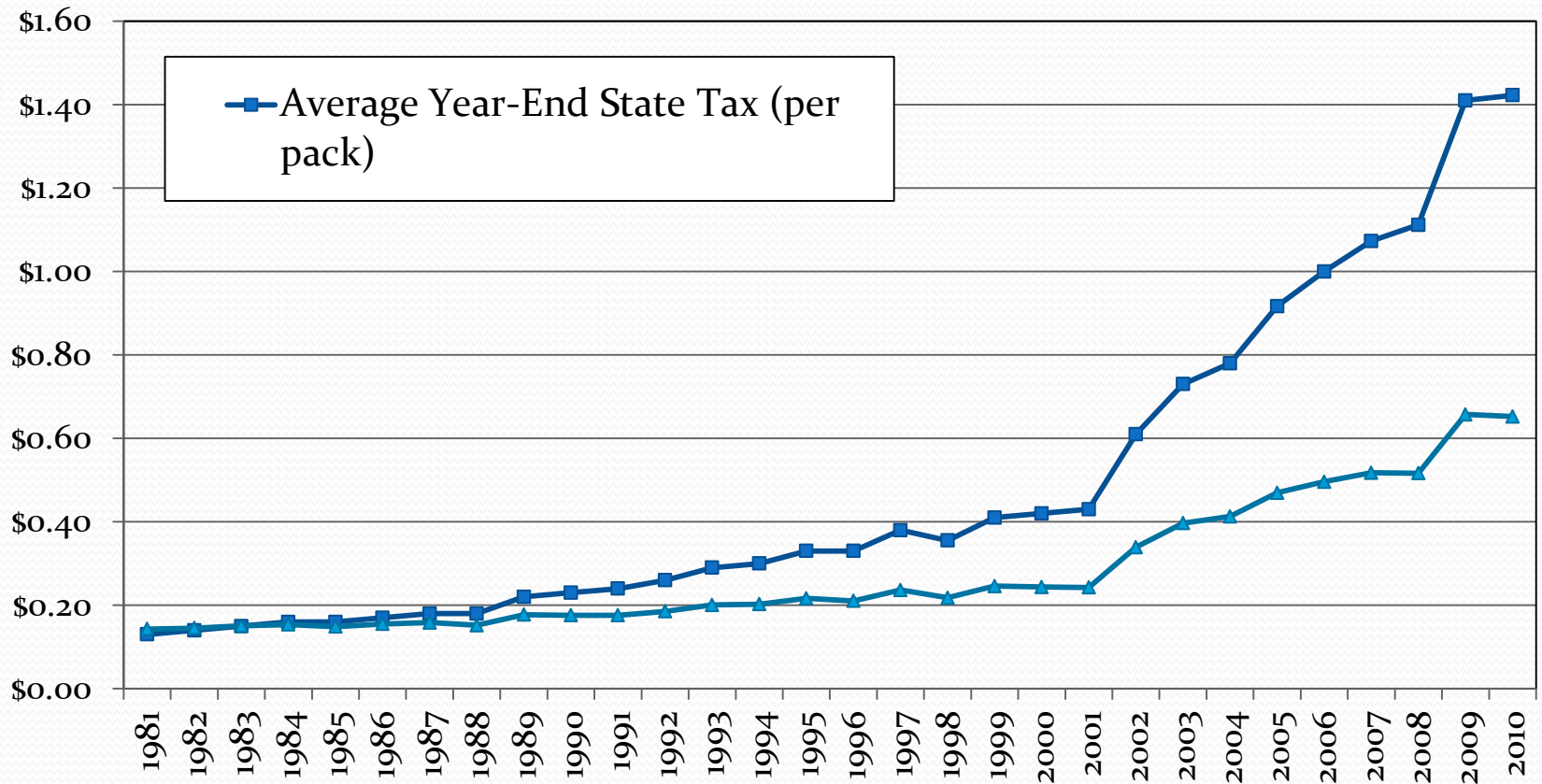
Findings and Implications

- Findings
 - Transportation costs (proxied by distance) and taxes represent trade barriers. Both have a negative direct impact on commodity flows.
 - Long distances mitigate the impact of a sales tax, consistent with a probability of tax evasion that increases in the distance.
- Implications
 - Evidences the difficulty of enforcing destination taxation in open economies

State Cigarette Excise Tax Rates per 20 Pack (in \$), as of July 2010



Tobacco Tax Rates, 1981-2010



Revenue potential from rate increases

- Lovenheim (2008) – 13-25 percent of consumers purchase in lower tax states or Native American reservations, so
 - Revenues relatively unresponsive to rate increases
 - Consumption may actually rise with rate increases
- Anti-smuggling policies may be necessary