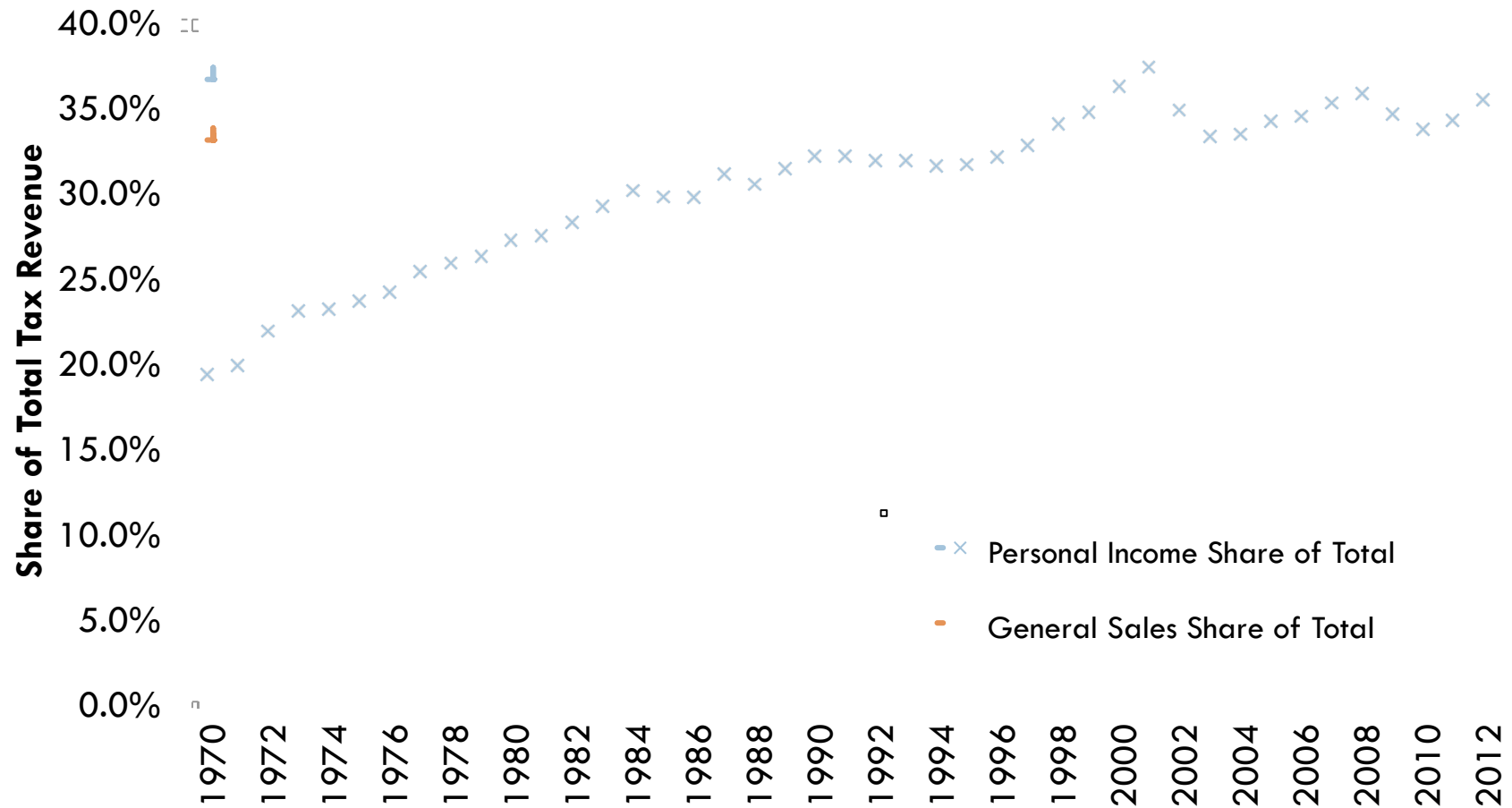


Sales Taxation and E-Commerce

**Presented to FTA Tax
Estimating Conference
William F. Fox
University of Tennessee**

October 7, 2013

Personal Income and General Sales Tax Revenues as Shares of Total Tax Revenues



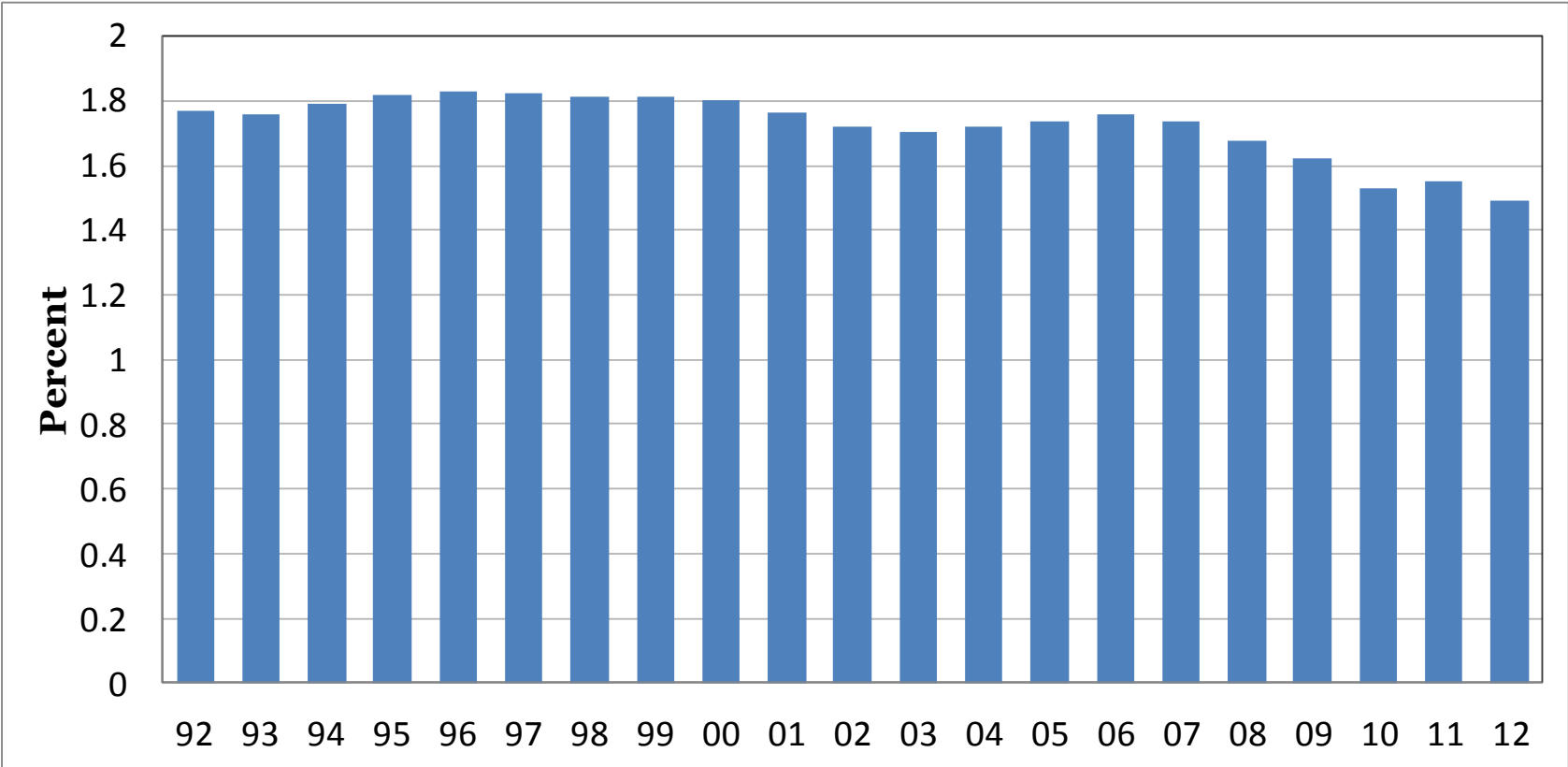
Outline

3

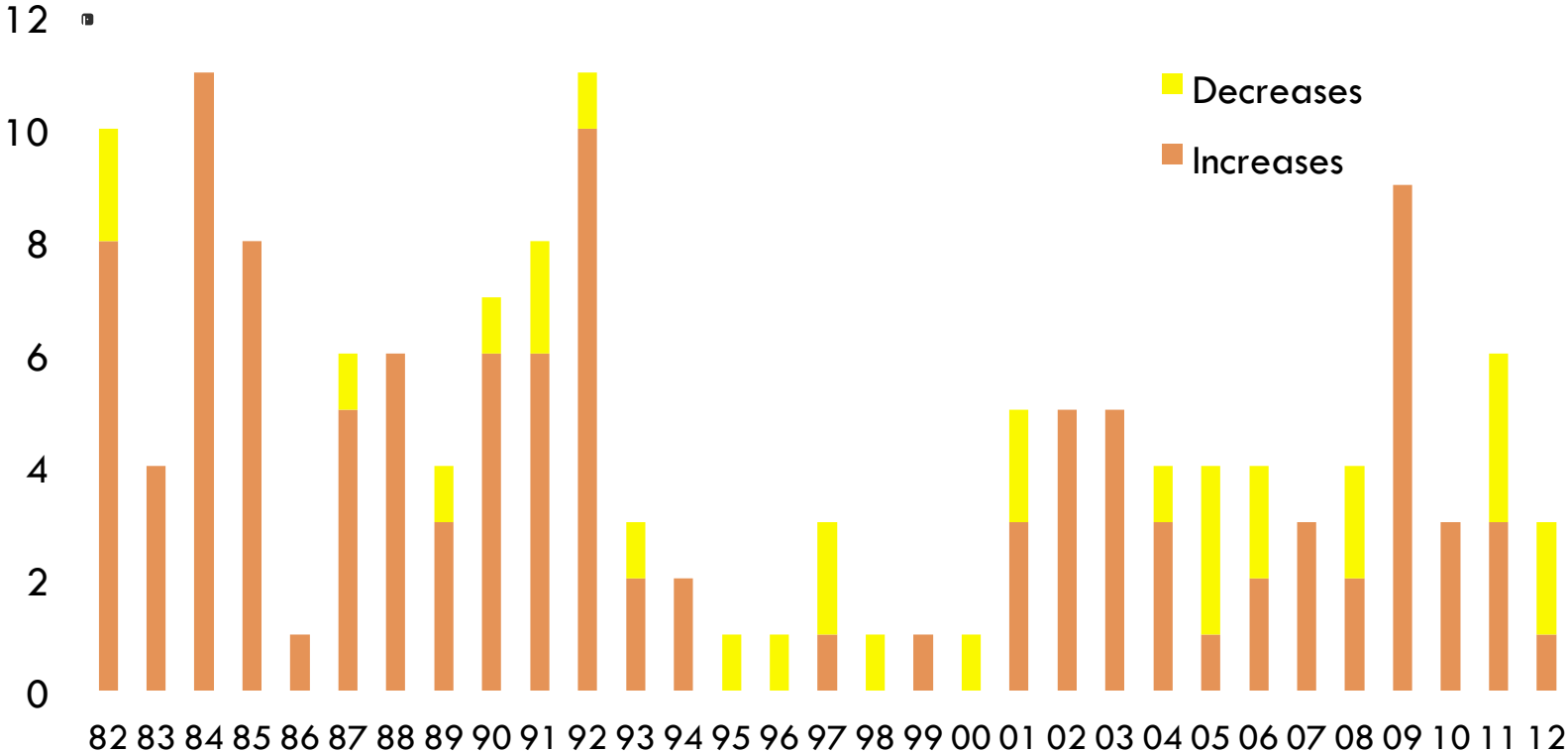
- Sales tax erosion
- Nexus and e-commerce firms
- Effects of Marketplace Fairness Act

June 17, 2013

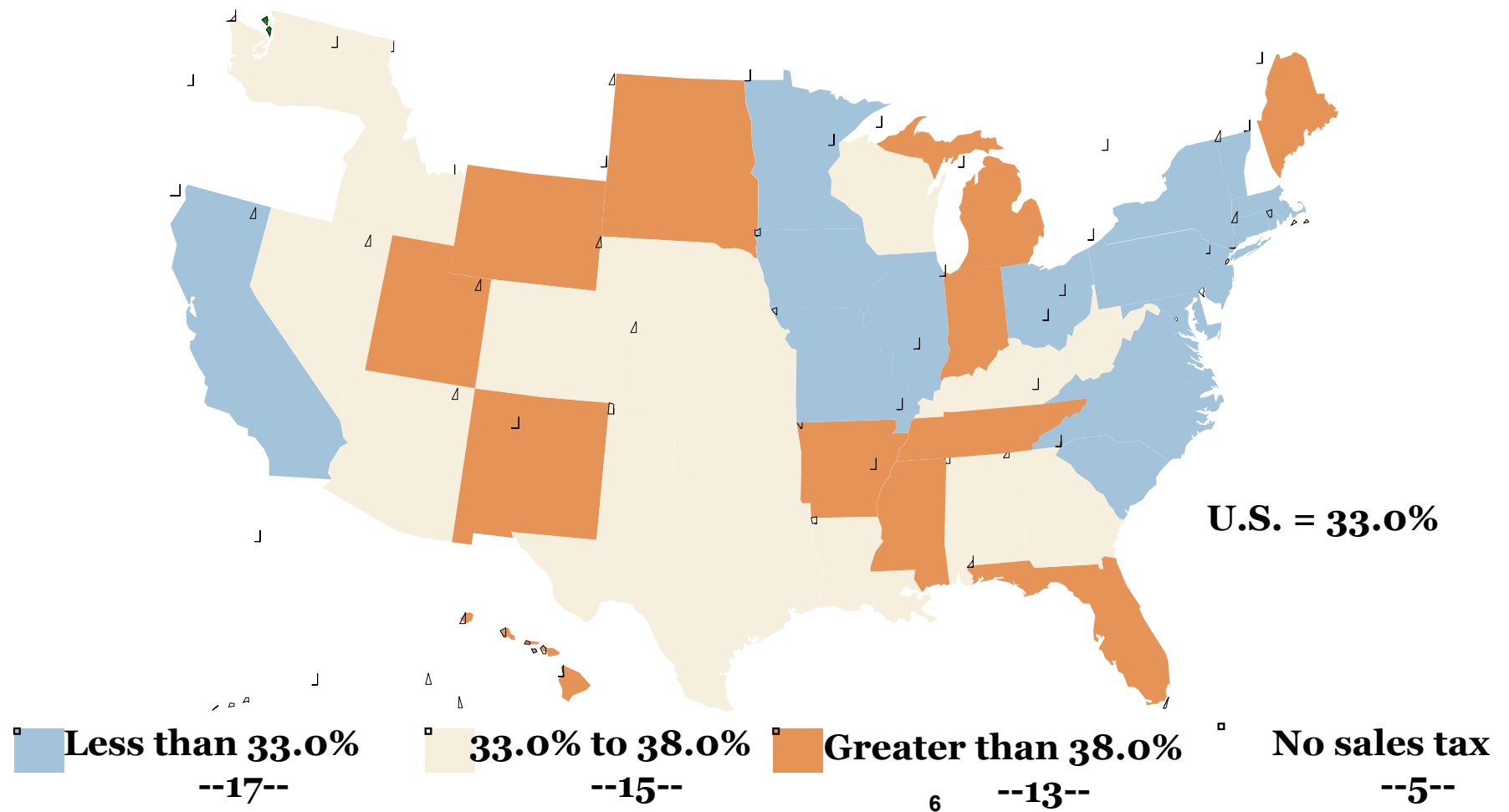
STATE GENERAL SALES TAX COLLECTIONS AS A PERCENT OF GDP



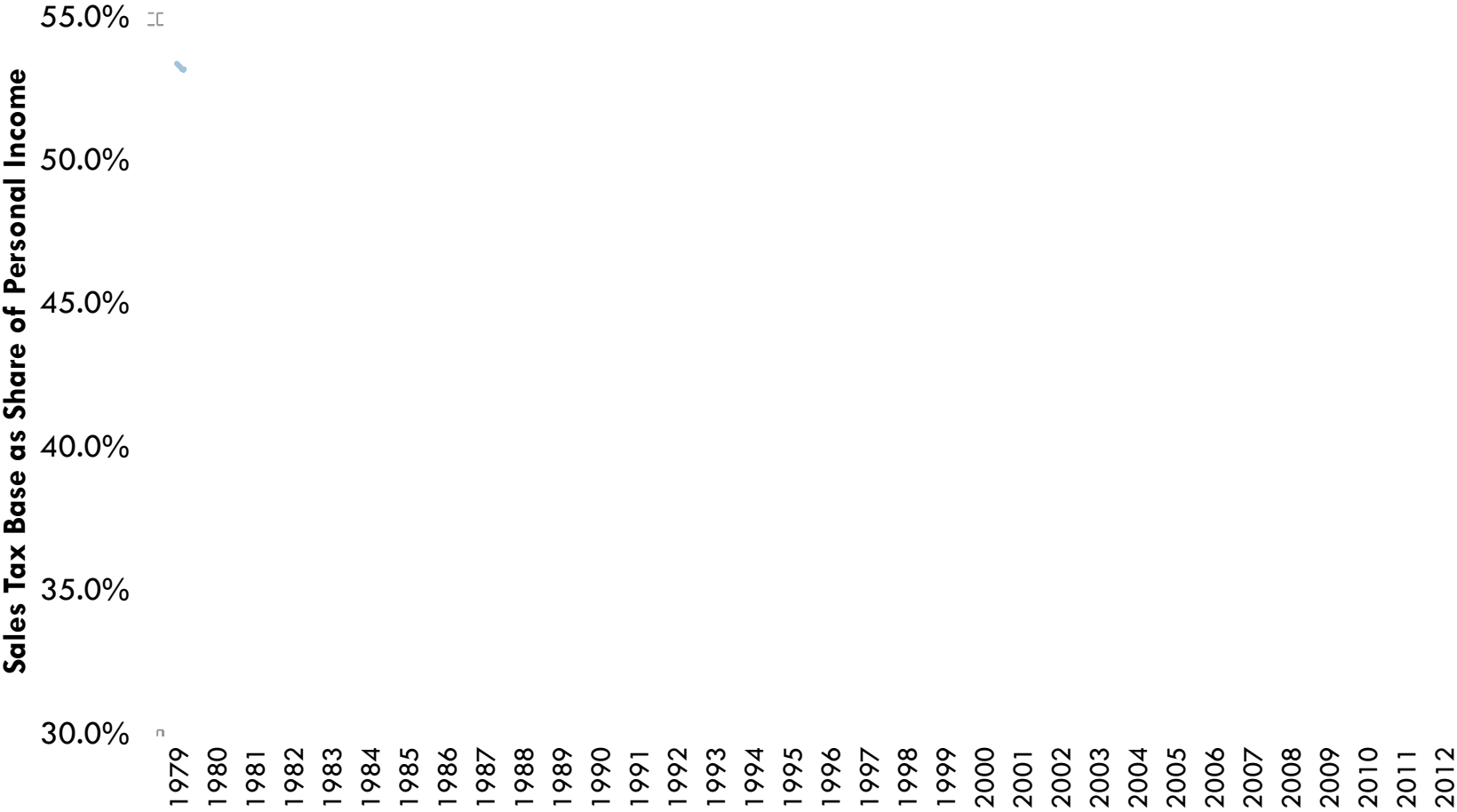
NUMBER OF SALES TAX RATE CHANGES



STATE SALES TAX BASE AS A PERCENT OF PERSONAL INCOME, 2010



Sales Tax Base as Percentage of Personal Income, 1979-2012



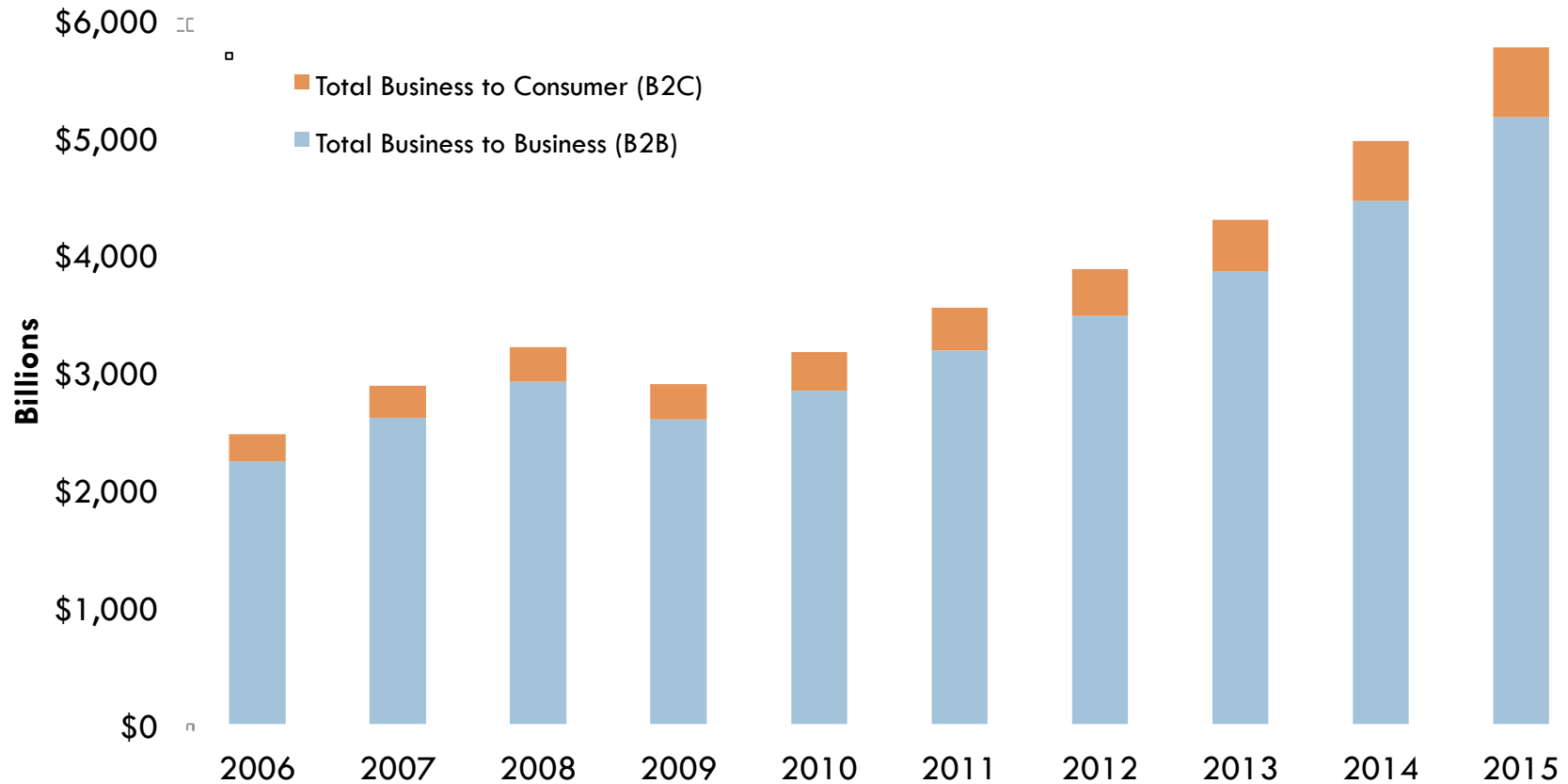
CAUSES OF CHANGE IN THE SALES TAX BASE



- Legislated Exemptions
 - ▣ Fairness - Food, Clothing
 - ▣ Economic Development - Holidays, Location
- Changes in Consumption Patterns
- Cross Border Shopping
 - ▣ Mail Order
 - ▣ Driving Next Door
 - ▣ E-Commerce

ESTIMATED TOTAL E-COMMERCE SALES

9



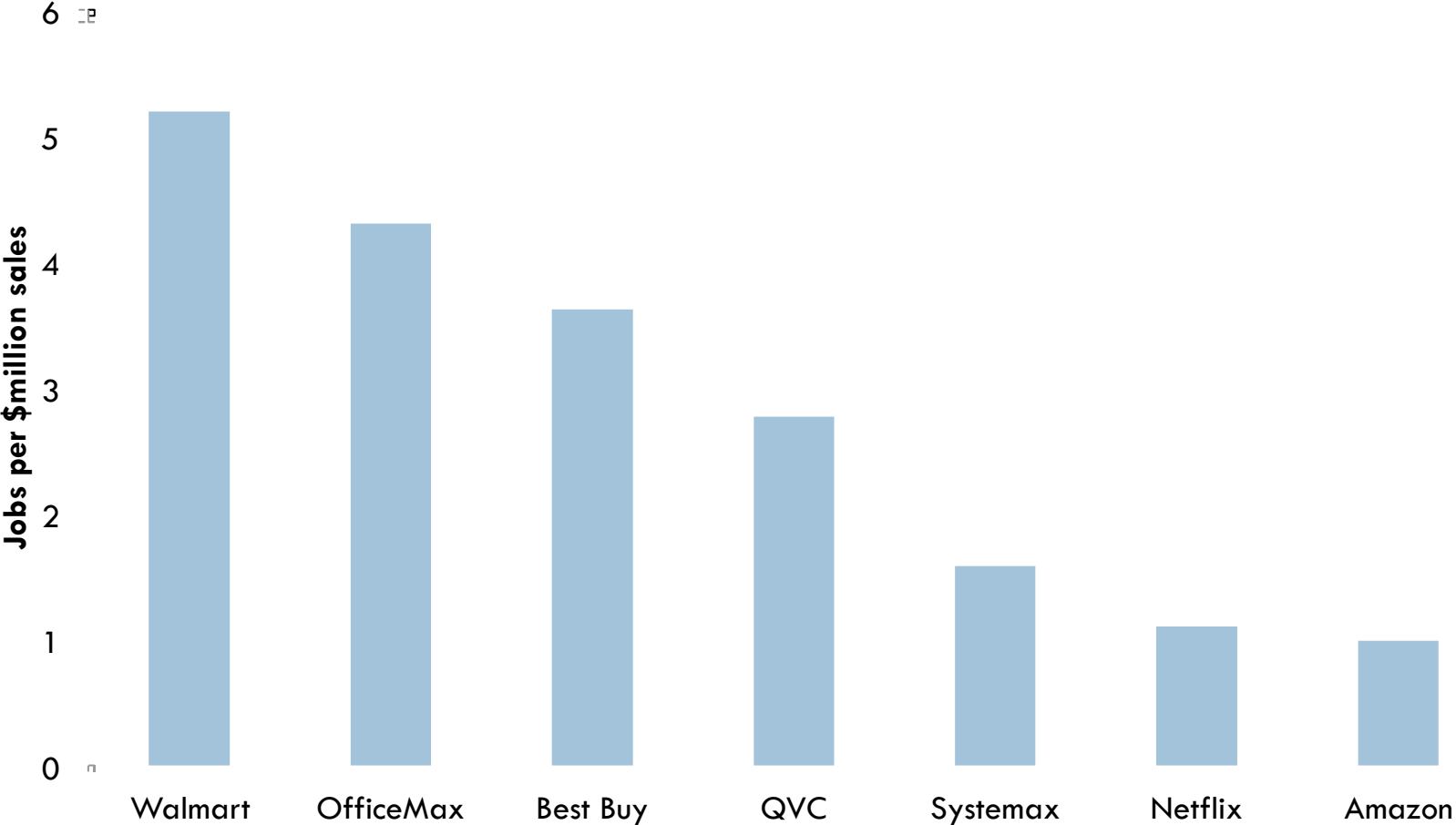
***Sales-taxing states only.**

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

June 23, 2013

Employment/Sales, 2009

Selected Firms



Taxation of remote sales

11

- Quill v. North Dakota
- Weak use tax compliance
- Consumers very responsive to the no tax option

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Baseline E-Commerce Growth Scenario						
Total Business-to-Business E-commerce	2,846,701	3,182,517	3,466,547	3,835,835	4,427,560	5,126,858
Total Business-to-Consumer E-commerce	<u>244,000</u>	<u>280,892</u>	<u>314,378</u>	<u>356,684</u>	<u>421,287</u>	<u>498,221</u>
Total E-Commerce	3,090,701	3,463,409	3,780,925	4,192,520	4,848,848	5,625,078
Estimated Taxes Due	37,823	42,384	46,270	51,307	59,339	68,838
Estimated Taxes Collected	28,512	31,891	34,752	38,470	44,421	51,455
Estimated Total State and Local Revenue Loss	<u><u>9,311</u></u>	<u><u>10,494</u></u>	<u><u>11,518</u></u>	<u><u>12,837</u></u>	<u><u>14,918</u></u>	<u><u>17,383</u></u>

Sales Tax Nexus among Online Retailers

13

Top 1,000 Ranking Group	Number of Retailers in the Nexus Data	Average Number of Nexus States	Average Share of National State/Local Sales Taxes among Nexus States
1-99	65	29.4	69.6%
100-199	36	19.1	48.0%
200-299	39	18.9	52.7%
300-399	37	16.2	46.2%
400-499	41	6.0	18.2%
500+	13	2.8	10.9%

Distribution of Nexus States among Online Retailers

14

Number of States for which Sales Taxes Are Collected	Number of Online Retailers
---	-----------------------------------

0

8

1

57

2

22

3

12

4-10

25

11-24

17

25-44

52

45

38

Determinants of States Where Firms Have Nexus

15

- Large states – Home state effect
- Policy Effect:
 - ▣ Higher tax rates discourage nexus in larger states
 - ▣ Broader sales tax bases discourage nexus in larger states
 - ▣ But, policy variables will have less effect than size of state
- Spatial effect: firms consider whether they have nexus in nearby states

June 17, 2013

State efforts to collect on remote sales

16

- Working together- SSUTA
- Expand nexus definition
 - Ownership affiliate nexus
 - Attributional nexus
 - Amazon laws
- Enhance use tax collection – line on income tax return
- Reporting requirements
- Support federal legislation

June 17, 2013

Federal legislation

17

- Marketplace Fairness Act of 2013
- Passed the Senate
- \$1.0 million small seller exception
- Simplifications:
 - ▣ providing firms with advance notification of sales tax rate changes
 - ▣ using a single tax collection agency for both state and local sales taxes
 - ▣ creating a uniform sales tax base for the entire state
 - ▣ using destination sourcing
 - ▣ providing free sales tax compliance software
 - ▣ relieving remote sellers of any liability associated with incorrect compliance because of errors made by a certified software provider.

June 17, 2013

Percent of Total Estimated American Online Retail among the Top Retailers

18

	Firm Sales Range	Total Sales Volume	Percent of National Total
Top 10	> \$2.7 billion	\$58.4 billion	24.1%
Top 25	> \$1.2 billion	\$84.4 billion	34.9%
Top 50	> \$440 million	\$100.6 billion	41.6%
Top 100	> \$189 million	\$115.0 billion	47.5%
Top 250	> \$49.9 million	\$129.1 billion	53.3%
Top 500	> \$13.3 million	\$135.8 billion	56.1%
Top 750	> \$5.0 million	\$138.0 billion	57.0%
Top 974	> \$1.0 million	\$138.7 billion	57.3%

Estimates of the Number of Retailers with Sales above Various SSE Thresholds

19

∴

Sellers Above the Threshold

**Sales
Threshold**

**Malowane and Siwek
(2012)**

Number

Fraction

Number

Fraction

\$150,000

12,114

0.24%

50,000

1%

\$250,000

7,269

0.15%

30,000

0.6%

\$500,000

3,634

0.07%

15,000

0.3%

\$750,000

2,423

0.05%

10,000

0.2%

\$1,000,000

1,817

0.04%

7,500

0.15%

Top 1,000 Online Retailer Primary Sales Categories by Size Category

20

	<\$5m	\$5-20m	\$20-100 m	\$100-500 m	≥\$500m
Apparel/Accessories	16.6	22.2	28.4	35.4	16.7
Computers/Electronics	6.9	7.5	9.9	5.3	21.4
Housewares/Home Furn.	17.0	11.1	12.1	3.5	2.4
Mass Merchant	0.8	3.0	4.2	7.1	28.6
Sporting Goods	8.9	11.4	7.2	2.7	2.4

Top 1,000 Online Retailer Characteristics by Size Category

21

	<\$5m	\$5-20m	\$20-100m	\$100-500 m	≥\$500m
Age of Retailer (years)	8.4	10.5	12.3	13.2	14.4
Average Online Sales (\$million)	\$2.8	\$10.8	\$46.3	\$221.9	\$2,313.4
2010-11 Online Sales Growth	32.8	21.3	19.8	20.0	20.5
Retail Chain	15.4	17.7	33.7	34.5	52.4
Web Only	63.6	59.3	37.5	31.9	16.7

