State of Indiana

Forecasting Sales Tax: Changing Patterns of Consumption and Emerging Channels of Retail

Economic Variables
- Gross Domestic Product
- Personal Income
- Personal Savings
- Total Retail Sales
- New Home Sales
- Other variables

Resources
- Economic Outlook: Indiana's Economy 2023
- Indiana Department of Revenue: Sales and Use Tax
- E-commerce Trends for Legislator's Fiscal Notes
- Economic Analysis for Indiana: E-commerce

Indiana Sales Tax
- Personal income tax
- Sales and use tax
- Corporate income tax
- Other taxes

Thank You
- For your attention
- For your questions
- For your insights
Forecasting Sales Tax: Changing Patterns of Consumption and Emerging Channels of Retail

2019 FTA Revenue Estimation and Tax Research Conference
New Orleans, Tuesday, September 24, 2019
Indiana Sales Tax

- The rate of the Indiana sales tax is 7%
- The base of the sales tax is retail sales of tangible personal property
- Indiana sales tax is not aimed at services, certain services are specifically subject to the tax
- Amazon brokered an agreement with Indiana officials in 2012 to voluntarily begin collecting and remitting sales tax in the state beginning of 2014
Traditional Factors in Forecasting Sales Tax

- Predicting economic cycles
- Changes in consumption from goods to services
- Predicting stock market bubbles and bursts
- Predicting real estate market
- Predicting gasoline prices
- Changing demography (Graying of America)
Economic Variables

- Current forecast model
  - Personal income
  - Household financial obligations ratio
  - PCE goods / PCE services
  - Home mortgage rates

- Other variables included in recent models
  - Population >65
  - Housing starts
  - Labor force participation rate

New Consumption Patterns and Challenges

- Traction of consumption through the sharing economy
- Buying patterns of Millennials
- Forecasting the growing share of e-commerce
- Mapping the levels of sales through channels of e-commerce
New Consumption Patterns and Challenges

- Taxation of consumption through the sharing economy
- Buying patterns of Millennials
- Forecasting the growing share of e-commerce
- Mapping the levels of sales through channels of e-commerce
Milestones in E-Commerce Sales and Taxation

2014
Amazon began voluntarily collecting and remitting Indiana sales tax

2017
July 1, 2017: HEA 1129 established economic nexus for remote vendors

2018
June 21, 2018: Supreme Court issued ruling in South Dakota v. Wayfair, Inc., overturning the physical presence requirement

2019
July 1, 2019: Marketplace facilitators must register and collect Indiana sales tax on behalf of their sellers for transactions into Indiana regardless of whether a seller meets physical or economic nexus

October 1, 2018: DOR authorized to enforce Indiana’s economic nexus law
Forecast Analysis for Indiana E-Commerce

- Indiana e-commerce potential five different revenue sources:
  - Amazon marketplace - Third party sales through Amazon.com
  - Other marketplaces - Ex: ebay, etsy, wish.com
  - Amazon Retail - Amazon product sales by Amazon.com
  - Economic Nexus - Ex: Newegg etc..
  - Physical Nexus - Walmart, Macy's, Best Buy

- Before HEA 1129 Indiana was already collecting taxes from Amazon Retail and Physical Nexus. The remaining Amazon marketplace, Other marketplaces and Economic Nexus is what we call remote sales in Indiana.
Example of Indiana E-Commerce Sales Tax Revenue Breakdown

- Amazon Marketplace: 25%
- Amazon Retail: 25%
- Economic Nexus: 25%
- Physical Nexus: 25%
- Other Marketplaces: 10%
**Example Methodology**

<table>
<thead>
<tr>
<th>Indiana E-commerce Breakdown</th>
<th>Percent of Sales</th>
<th>Annual Taxes Paid</th>
<th>Annual Estimated Taxes Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon Marketplace</td>
<td>25%</td>
<td>$</td>
<td>$ 250,000,000</td>
</tr>
<tr>
<td>Amazon Retail</td>
<td>25%</td>
<td>$ 250,000,000</td>
<td>$</td>
</tr>
<tr>
<td>e-Commerce Sales (Economic Nexus)</td>
<td>15%</td>
<td>$</td>
<td>$ 150,000,000</td>
</tr>
<tr>
<td>e-Commerce Sales (Physical Nexus)</td>
<td>25%</td>
<td>$</td>
<td>$ 250,000,000</td>
</tr>
<tr>
<td>Other Marketplaces</td>
<td>10%</td>
<td>$</td>
<td>$ 100,000,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
<td><strong>$ 1,000,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Amazon retail taxes paid are for example only*
# E-Commerce Analysis for Legislative Fiscal Note

<table>
<thead>
<tr>
<th>E-Commerce Channel</th>
<th>Estimated Indiana E-Commerce Retail Sales</th>
<th>Share of Taxable Sales Pre-Wayfair*</th>
<th>Potential Revenue Gain (2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Trade (except Nonstore Retailers)</td>
<td>$945.6 M</td>
<td>78% - 86%</td>
<td>$9.3 M - $14.6 M</td>
</tr>
<tr>
<td>Nonstore Retailers (Electronic Shopping and Mail-Order Houses)</td>
<td>$5,498.1 M</td>
<td>74% - 82%</td>
<td>$68.8 M - $98.2 M</td>
</tr>
<tr>
<td>Marketplace Sales (not reported by Census Bureau)</td>
<td>$1,610.9 M</td>
<td>14% - 33%</td>
<td>$75.6 M - $97.0 M</td>
</tr>
</tbody>
</table>

*Based on estimates from Government Accountability Office November 2017 report.
E-Commerce Analysis for Legislative Fiscal Note

- Forecast 2016 estimates to FY 2020 and FY 2021, assuming 3% average annual growth

- Assumed compliance rates
  - 60% in FY 2020
  - 70% in FY 2021

- Estimated potential revenue gain from marketplace facilitator legislation
  - $55.8 M – $71.6 M in FY 2020
  - $67.0 M – $86.0 M in FY 2021
Resources


Thank You

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