

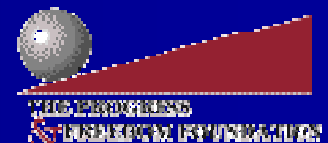
# **Taxation of Online Sales**

Competing With the  
Streamlined Sales Tax Project

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# Purpose of Study

- Analyze economic effects of SSTP, assuming participation is voluntary.
- “Tax-free zone:”
  - Zero-sales-tax states.
  - Small businesses (<\$5 million in sales).
  - Other states that do not adopt SSUTA.
- Analyze choice facing individual states.
  - Case studies of Virginia, Colorado.

# General Conclusions

- Small portion of \$1.15 trillion in remote sales affected by implementation of SSUTA.
- Assuming participation voluntary, large sales shifts to tax-free zone, because consumers sensitive to tax differentials.
- Benefits of opting out – in terms of economic activity, job growth, incomes and tax revenue – potentially substantial.

# Shares of Remote Purchases Potentially Affected by SSUTA (\$million)

Sector	Total Remote Purchases	Potentially Affected Purchases
Business-to-Business (B2B)	995,400	36,041
<i>Manufacturing</i>	725,149	0
<i>Wholesale</i>	270,251	36,041
Business-to-Consumer (B2C)	71,643	21,432
Offline Remote Purchases	83,558	65,108
Total Purchases	1,150,601	122,581
Percent of All Remote Purchases Potentially Affected by SSUTA 10.7%		

# SSUTA With Universal Participation

- Interstate purchases become more expensive relative to in-state purchases.
- Consumers shift some purchases to offline and online sources in home state.
- Extent of shift depends on how consumers value other attributes – convenience, shipping costs etc.

# SSUTA With Voluntary Participation

- Things changed dramatically by existence of tax-free zone:
  - Five zero-sales-tax states.
  - Small businesses.
  - Other states that may opt out.
- Rather than purchases shifting in-state, they shift to tax-free zone.

# Internet Shoppers Sensitive to Taxes

- Studies by University of Chicago economist Austan Goolsbee; Jupiter Research.
- Experienced Internet users especially tax sensitive.
- Also, spillover effects.
- Our study uses estimate of 24.3% shift in remote sales (from Goolsbee).

# **SSUTA If All Sales-Tax States Participate**

- \$29 billion shift in remote purchases to tax-free states.
- Virginia – \$520 million in remote purchases to tax-free states.
- \$4.8 billion revenue gain to SSUTA members.
- \$97 million revenue gain for Virginia.
- High-tax states, net importers have more to gain.



# Multiplier Effects

- Multiplier – each additional dollar of final demand has multiplicative effect on output, earnings and employment.
- Estimates (previous slide) incorporate direct effect of sales shifts, but not multiplier effects – so, for example, actual revenue gain lower than \$4.8 billion.
- Multipliers from Regional Impact Modeling System (RIMS II) from Bureau of Economic Analysis, Department of Commerce.

# Aggregate Economic Impact of SSUTA-Shifted Purchases

(\$ million, except jobs)

	B2B	B2C	Offline	Total
<b>Direct Shift to non-SSUTA States</b>				
Output	8,530	5,073	15,410	29,013
Earnings	2,492	1,717	5,216	9,425
# of Jobs	30,275	44,389	134,848	209,512
<b>Multiplier Effect from Initial Shift</b>				
Output	14,631	9,092	27,620	51,342
Earnings	4,186	2,791	8,477	15,454
# of Jobs	63,115	65,445	198,844	327,413
<b>Aggregate Economic Impact</b>				
Output	23,161	14,164	43,030	80,355
Earnings	6,667	4,508	13,694	24,879
# of Jobs	93,390	109,843	333,692	536,925

Source: BEA RIMS II multipliers (average for zero-sales-tax states), author's calculations

# Decision to Participate

- Potential sales-tax revenue from residents' remote purchases.
- Economic activity "in play" – i.e., subject to moving to non-participating states.
- Assessment of ability of state to attract some of this activity.
- Effects of shifts on economic activity, employment, incomes and taxes.

# Benefits and Costs of Virginia Opting out of SSUTA

(\$ million, except jobs)

	Economic Impact:			Increased Receipts from:		
	Output	Personal Income	# of Jobs	Sales/ Excise Taxes	Personal Income Taxes	Sales + Income Taxes
<b><i>Benefit: Avoid Adverse Impact of Losing Remote Sales by Virginia Businesses</i></b>						
	2,369	1,931	14,888	40	63	102
<b><i>Benefit: Depends on % of Total Shifted Purchases Captured by Virginia</i></b>						
1%	857	698	5,383	14	23	37
2%	1,713	1,396	10,766	29	45	74
3%	2,570	2,094	16,150	43	68	111
<b><i>Cost: Foregone Sales Tax Remissions from SSUTA States</i></b>						
				-97	0	-97

Net Benefit from Opting Out: **Positive even if Virginia businesses do not capture any shifted purchases**

# Conclusions

- Large amount of business shifted from SSUTA states to tax-free zone over long run.
- State needs only to capture very small portion of this business to be ahead of the game.
- State may be ahead if it simply avoids losing business to tax-free zone.
- States have a strong incentive to opt out.

# Voluntary or Mandatory

- Benefits of SSUTA to members decline as more states opt out. Member states have an interest in avoiding defections.
- Proposal to require all sellers to collect taxes for SSUTA members – Istook bill.
- Multiple tax collections – burdensome.
- Tantamount to requirement to adopt SSUTA. Non-participants
  - bear costs of membership
  - deprived of benefits of opting out.
- Might induce zero-tax states to adopt sales tax.
- Erodes benefits of tax competition.