

## **Joint Subcommittee to Study the Impact of Collecting Remote Sales Taxes on the Economy of the Commonwealth (HJR 176 - 2004)**

October 4, 2004

The Joint Subcommittee to Study the Impact of Collecting Remote Sales Taxes on the Economy of the Commonwealth (HJR 176 - 2004) held its third meeting on October 4, 2004.

The meeting started with the Division of Legislative Services ("DLS") responding to several follow-up questions from the last meeting. Many of the questions from the last meeting involved requests for information in regard to Virginia's sales and use tax. DLS staff reported that the vendor discount paid to merchants for collecting Virginia sales and use tax was \$38.4 million in 1995 and \$56.9 million in 2004. Total retail sales subject to Virginia's sales and use tax grew from \$47 billion in 1993 to \$71 billion in 2002, which equaled an average annual growth of 4.7 percent. Actual state and local sales and use tax collections grew from \$2.3 billion in 1994 to \$3.3 billion in 2003, which equaled an average annual growth of 4.0 percent. Finally, the number of retail jobs in Virginia grew from 362,715 in 1994 to 403,875 in 2003, which equaled an average annual growth of 1.2 percent.

DLS staff also provided the members of the joint subcommittee with information on the annual costs of economic development incentive grants and tax preferences (See hand-outs from October 4 meeting).

Next, representatives of the Direct Marketers Association ("DMA") addressed the joint subcommittee. DMA stated that in 2003 there were 452,000 direct marketing jobs in Virginia, and the number of direct marketing jobs in the Commonwealth is estimated to be 527,000 by 2007. DMA stated that it believes it would be bad public policy for the Commonwealth to join the Streamlined Sales and Use Tax Agreement ("the Agreement"). DMA believes that the Agreement will not lead to uniformity in sales and use tax laws and will result in a non-elected governing body having sovereignty over Virginia's sales and use tax laws. DMA reported that if small businesses were required to collect use tax for states in which they have no nexus, such businesses would incur administrative compliance costs equal to 87 percent of the actual amount of the tax collected; compliance costs incurred by medium-sized companies under a mandatory use tax collection system would equal 48 percent of the actual amount of the tax collected; and compliance costs incurred by large companies under a mandatory use tax collection system would equal 14 percent of the actual amount of the tax collected.

The next presentation was made by Dr. Thomas Lenard of The Progress & Freedom Foundation. Dr. Lenard presented three general conclusions: (i) only a

small portion of the \$1.15 trillion in remote sales would be subject to use tax for states joining the Agreement; (ii) under a voluntary agreement for the collection of use tax on remote sales, large sales would shift to states that currently do not impose a sales and use tax because consumers are sensitive to tax differentials; and (iii) the benefits (in terms of economic activity, job growth, and tax revenues) of not joining a mandatory use tax collection system or opting out of such mandatory system are potentially substantial.

The final presentation was made by the Virginia Department of Taxation ("Tax"). Tax reported that sales and use tax assessments from audits resulted in \$75.6 million in assessments for Fiscal Year 2004. The great majority of these assessments related to assessments imposed upon businesses for use tax. Tax stated that Virginia would realize significant additional use tax revenue only under a mandatory tax collection system that would require remote vendors with no nexus to collect and remit use tax to Virginia. The Agreement, in contrast, is a voluntary Agreement under which a remote vendor can participate and voluntarily agree to collect and remit use tax to states, including Virginia, in which the vendor has no nexus. Tax also stated that if Virginia were to conform its sales and use tax laws to the terms of the Agreement, this would allow Virginia to have a "seat at the table" for purposes of future changes or modifications to the Agreement.

### **Next Meeting**

The next meeting of the joint subcommittee will be held on October 19 at 10:00 a.m. in House Room D of the General Assembly Building.