RETAIL ASSOCIATION OF MAINE
Voice of Maine Retail

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March 18, 2013

Senator Anne Haskell
Representative Adam Goode
Members of the Taxation Committee

RE: Testimony in SUPPORT of LD 346, An Act to Require the Collection of Sales Tax by any Business Making Sales to Persons in Maine and LD 319, An Act to Provide Tax Fairness to Small Businesses in the State

Dear Senator Haskell, Representative Goode and members of the Taxation Committee:

My name is Curtis Picard. I am the Executive Director of the Retail Association of Maine and a resident of Topsham, Maine. The Retail Association of Maine was founded in 1933. We represent over 400 retailers throughout Maine and our industry employs approximately 90,000 Mainers.

First, I want to publicly thank Representative Berry, Representative Knight, Senator Katz and Senate President Alfond for their interest in support of this issue. This is a very important issue for our membership and we were happy to see so many legislators willing to support this issue this session.

LD 346 and LD 319 are essentially the same bill. The only difference is that LD 319 includes both an emergency preamble and a resolve directing the Department of Administrative and Financial Services, Bureau of Revenue Services to identify changes in the sales and use tax laws necessary to conform them to the national effort known as the "Streamlined Sales and Use Tax Agreement" and to submit its report and proposed legislation to the Joint Standing Committee on Taxation by January 15, 2014.

However, let me address the meat of LD 346 and LD 319 and why this legislation, known as e-fairness, is important. These bills are about creating a level playing field between brick and mortar retailers and online only retailers. What this bill does is require large, online only retailers to collect and remit sales tax the same way that our Maine retailers already do. In the testimony of the Honorable Richard Rosen, I think he provides the best example of the core of the issue. He writes:

Consider this: We have created a tax system where an the 81 year old Maine resident who buys 100% of her purchases from local in-state bricks & mortar retailers -- pays all of the sales taxes required by Law. While on the other hand her 32 year old neighbor who purchases 100% percent of his purchases from on-

line retailers may or may not remit his use tax to the state. They both use public services and current law says they both owe state sales tax -- yet they are subject to two different tax collection models.

One collected by the retailer at the point of sale and the other paid by the consumer – if they remember to do it.

Think about that – did we really intend to make Mainer's sales tax agents? Because the way the law is written now – we have done just that. And to make matters worse, I would bet that most Maine folks have no idea that they are liable for the sales tax for purchases made online.

When you shop online, many Mainers don't realize that they are legally obligated to remit the sales tax to Maine Revenue Services. In fact, only 10% (approximately 58,000 filers) of Maine taxpayers actually remit. Maine is currently only collecting between $3 and $5 million annually.

Retailers are not afraid of competition. Competition for customers and aggressive pricing is nothing new. But the competition needs to be fair. The online only retailers are currently enjoying a competitive advantage by selling their goods under the impression that they are tax free. For many consumers, the lure of that 5% tax savings is enough for them to make the purchase online instead of in the retail store.

Our members tell us they have customers come in, try on the product, ask all the questions about the product and various features, and then whip out their iPad or smart phone and purchase the item online to save the sales tax and some of the online sellers exploit the fact that a customer can purchase an item "tax-free" (See www.roomsandthings.com). Many retailers will tell you that they can often match the online price, but they can't decide to not collect the sales tax.

One other difference between online and brick and mortar retailers: Maine's retailers are the first to make contributions to the local school or sports team. They pay Maine income taxes, property taxes, payroll taxes and they collect and remit sales taxes. At the very least, the online companies should be collecting and remitting the sales taxes as well.

Here is where retail in changing. Brick and mortar retailers have the advantage, in many cases, of the instant gratification that customers get from being able to walk home with their purchase. However, that advantage is changing. Not only are online retailers like Amazon moving to same day delivery models, but they are partnering with retailers like Staples and setting up kiosks where you can order the item online, but pick them item up at Staples - yet still avoid collecting the sales tax.

Last year, RAM and the Maine State Chamber commissioned a study to get a better estimate of how much revenue Maine is losing from the lack of this better collection mechanism. Our study estimates tap hat Maine could see between $17-28 million annually. (Executive Summary attached. Full report available at: http://www.retailmaine.org/media/ecommerce_retail_sales_tax_report_march_2012-1.pdf)

This effort is also a two pronged approach. Efforts are underway in Washington DC as well as a number of states like Maine. The reason a number of states are taking action is because the federal government often moves slower than states. We are very pleased that both Senator Collins and Senator King have signed on as cosponsors of the federal bill, but that should not prevent Maine from taking action on LD 346. In fact, 23 states have taken action on e-fairness. (See attachment)

There are a number of large, online sellers, like Dell, currently do collect and remit taxes. They do this because they know that it is not an issue of if e-fairness will be required across the country but when and they would rather do what is right than be liable for back taxes down the road.

E-fairness is smart public policy. It helps create a level playing field for our existing retailers. It creates a better collection mechanism and it removes the burden from Mainers to voluntarily remit the taxes. We should not be making Mainers criminals by enforcing a system that is difficult if not impossible to enforce.

We urge the committee to support e-fairness and pass this legislation as soon as possible.

Sincerely,

Curtis Picard, CAE
Executive Director

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Review of Other States:

Currently a majority of states have taken action on internet sales tax collection. New York State was the first to require collection and, according to the New York State Revenue Office, has thus far collected over $100 million in additional sales taxes. It should be noted that the New York law was challenged in the courts; the law was subsequently upheld in a lower court. At this time, the online sellers have yet to appeal and it is unclear whether an appeal is forthcoming.

RECENT AGREEMENTS REACHED:

• Amazon.com has agreed to begin collecting sales taxes in **ten states** (in order of public announcement):

- **South Carolina**: Amazon will begin collecting sale taxes on **Jan 1, 2016**
- **California**: Amazon began collecting sales taxes on **Sept 15, 2012.**
- **Indiana**: Amazon will begin collecting sales taxes on **Jan 1, 2014**.
- **Tennessee**: Amazon will begin collecting sales taxes on **Jan 1, 2014**.
- **Virginia:** Amazon will begin collecting sales taxes on **Sept 1, 2013**.
- **Nevada**: Amazon will begin collecting sales taxes by **Jan 1, 2014**.
- **Texas:** Amazon began collecting sales taxes on **July 1, 2012**
- **New Jersey:** Amazon has agreed to collect beginning **July 1, 2013**
- **Pennsylvania:** Amazon began collecting sales taxes on **Sep 1, 2012**
- **Arizona:** Amazon has agreed to collect beginning **Feb 1, 2013**

- **STATES WHERE AMAZON CURRENTLY COLLECTS SALES TAXES:**
- Amazon currently acknowledges having (or building) facilities in **nine states** and collects and remits sales taxes in those states: California, Kansas, Kentucky, New York, North Dakota, Pennsylvania, Texas and Washington.

- **ADMINISTRATIVE ACTIONS:**

  - **Pennsylvania**: In 2012, Pennsylvania's Department of Revenue announced that if out-of-state sellers who had not previously collected Pennsylvania sales tax registered to remit sales tax by September 1, 2012, the Pennsylvania DOR would not pursue them for previous sales taxes that should have collected under the state's interpretation of existing law.

- **Texas**: Results of negotiation between Amazon and the Comptroller – over $269 Million resulting in a July 1, 2012 collection date.
  - In the fall of 2010, the Texas comptroller sent a $269 million assessment for sales taxes Amazon failed to collect and remit between 2005 and 2009. Amazon at that time had a warehouse in Irving, Texas, which was owned by a subsidiary. Amazon closed the warehouse in late 2011. To date Amazon has not remitted any back sales taxes and, because it no longer has a presence in Texas, will not be required to collect the taxes going forward under Texas' new law. The Texas comptroller still has a pending lawsuit against Amazon for taxes owed.

- **Arizona**: Results of negotiation between Amazon and Arizona's DOR over the $53 Million resulted in a February 2013 collection date
  - Arizona's Department of Revenue sent Amazon a bill for $53 million in sales taxes owed in November 2011. Amazon has fulfillment centers in Arizona. According to Amazon's SEC filing the company, in September 2012, entered into a settlement with the State of Arizona that included an agreement that Amazon and its wholly owned retailers collect and remit Arizona sales taxes beginning February 1, 2013, for sales of any physical goods, and July 1, 2013, for sales of digital products or services

- **PROPOSED LEGISLATION IN 2012:**

  - During the 2012 legislative cycle, legislative leaders in **18 states** have introduced legislation: Alabama (signed), Arizona (deal), Florida, Georgia (Signed), Hawaii, Idaho, Iowa, Kansas, Louisiana, Massachusetts, Michigan, Minnesota, Missouri, New Jersey (signed), Mississippi, Oklahoma, Virginia (signed) and Utah (signed).

- **ATTEMPTED IN 2011:**

  - At least **14 states** considered consumer use or sales tax fairness bills during their 2011 sessions, but the bills did not receive final approval: Alabama, Arizona, Florida, Hawaii, Indiana, Louisiana, Maine, Massachusetts, Minnesota, Mississippi, Missouri, New Mexico, Nevada and Tennessee.

<u>23 States have acted on eFairness</u>

- **20 states** have enacted e-fairness and/or consumer use laws since 2008:

- 2008: New York
- 2009: Rhode Island and North Carolina
- 2010: Oklahoma, Colorado*
    - ** Federal court recently overturned controversial CO law as it required online sellers to provide purchaser information to the state in order to enable the state to enforce use tax.*
- 2011: Illinois, South Dakota, Arkansas, Connecticut, South Carolina, Vermont**, California and Texas.
- 2012: Arizona (deal), Alabama, Utah, Virginia, Georgia, Texas (deal), Pennsylvania (Administrative Rule) and New Jersey

• **Nine of the 20** laws establish a **click-through** presence: New York, Rhode Island, North Carolina, Illinois, Arkansas, Connecticut, Vermont, Georgia and California. These laws require out-of-state retailers to collect sales taxes if consumers can buy the remote retailers' products via a link on an in-state website, whose owner in turn receives a commission or other compensation for the sale.

• **Six of the 20** require non-collecting remote retailers to give **notice to customers** that a use tax is owed: Colorado, Oklahoma, South Dakota, Vermont, South Carolina and Tennessee

• **Ten of the 20** redefined **physical** presence in the state to include subsidiary-owned warehouses, distribution or fulfillment centers, among others: Arkansas, California, South Dakota, Texas, Georgia, South Carolina, Tennessee, Oklahoma, Pennsylvania and Virginia.

*** 15 other states must have similar laws for this law to take effect.*

IMPACTS OF AN E-COMMERCE RETAIL SALES TAX ON
STATE REVENUES AND ECONOMIC ACTIVITY IN MAINE

March 2012

Todd Gabe, Ph.D.*

For:

Maine Merchants Association
and
Maine State Chamber of Commerce

Summary of Study Results

- Maine had an estimated $561.1 million in on-line retail sales in 2011.
- E-commerce retail sales had the potential to generate between $17.8 million and $28.1 million in Maine state taxes.
- Requiring on-line retailers to collect sales taxes would have reduced e-commerce—and increased retail sales in Maine—by an estimated $62.2 million to $98.2 million in 2011.
- The total annual statewide economic impact—including multiplier effects—of a sales tax on retail e-commerce would have been an estimated $74.0 million to $116.8 million in sales revenue, 511 to 807 full- and part-time jobs, and $14.7 million to $23.2 million in labor income.

* Todd Gabe is Professor of Economics at the University of Maine. This study was conducted under a private consulting contract with the Maine Merchants Association and the Maine State Chamber of Commerce.

IMPACTS OF E-COMMERCE RETAIL SALES TAXES IN MAINE

IMPACTS OF AN E-COMMERCE RETAIL SALES TAX ON
STATE REVENUES AND ECONOMIC ACTIVITY IN MAINE

1. INTRODUCTION

The Internet has fundamentally changed how people access information, communicate, and buy and sell retail goods and services. According to the U.S. Census Bureau, the value of e-commerce in the United States (i.e., manufacturing shipments, merchant wholesale trade sales, retail trade sales, and revenues from selected services) totaled $2.89 trillion in 2009, up 75 percent from $1.65 trillion in 2004.[1] E-Stats from the U.S. Census Bureau also show that e-commerce accounted for 4.0 percent of overall U.S. retail sales in 2009, which represents a substantial increase above its 0.9 percent share of retail sales in 2000.

This impressive growth of on-line sales has generated substantial interest among researchers, policymakers and business/industry groups about the impacts of e-commerce on state tax revenues and sales at "brick and mortar" stores.[2] Businesses that sell retail goods on-line are not required by law to collect sales taxes unless they have a nexus (i.e., physical presence) in the state. Although individuals who purchase retail goods on-line are required to pay "use taxes," these taxes are self-reported to the government.[3] On the

1 E-commerce figures are from the *U.S. Census Bureau E-Stats* (www.census.gov/estats), May 26, 2011. The value of merchant wholesale trade does not include manufacturers' sales branches and offices.

2 Published academic studies on sales taxes and e-commerce include articles written by Goolsbee (2000a, 2000b), Bruce and Fox (2000), Ballard and Lee (2007), and Ellison and Ellison (2009). Organizations with an interest in the topic include, among many others, numerous Chambers of Commerce, the e-Fairness Coalition, and the U.S. Retail Industry Leaders Association.

3 Information provided at the Maine Revenue Services website explains that "Use taxes are imposed primarily to minimize unfair competition between sales made in-state and those made out-of-

subject of self-reported use taxes, Goolsbee (2000a, p.561) remarks that "Noncompliance is widespread so the [on-line] transactions are, effectively, tax-free." For example, a recent study by Mantell et al. (2011) found that New Jersey collected less than one percent of the estimated use taxes associated with on-line purchases.[4]

The purpose of this study is to examine the sales tax revenue potential from e-commerce in Maine, as well as the statewide economic impact associated with increased Maine retail sales due to a reduction in e-commerce (from collecting the taxes). The empirical analysis involves estimating the total amount of e-commerce retail sales in Maine, and the decrease in on-line transactions if sellers were required to collect a 5.0 percent sales tax on e-commerce. Results of the study are based on data from the U.S. Census Bureau, U.S. Bureau of Labor Statistics and Maine Revenue Services; and findings from published academic studies and research reports. The study shows that Maine had an estimated $561.1 million in e-commerce retail sales in 2011, which had the potential to generate between $17.8 million and $28.1 million in state taxes. Requiring on-line retailers to collect sales taxes would have reduced e-commerce retail activity in Maine by an estimated $62.2 million to $98.2 million, which—when captured by retailers located in the state—would have a total annual economic impact (including multiplier effects) of an estimated $74.0 million to $116.8 million in sales revenue, 511 to 807 full- and part-time jobs, and $14.7 million to $23.2 million in labor income.[5]

state." Guidelines provided by Maine Revenue Services instruct individuals to report use taxes on their Maine 1040 income tax form, or to file a use tax return when purchases are made.

4 Use tax compliance issues pre-date the growth of e-commerce. In 1992, use taxes accounted for only about 10 percent of the combined revenue generated by sales and use taxes (Due and Mikesell 1994). A report by the U.S. Congressional Budget Office (2003) notes that "most" of the use taxes collected were from business-to-business transactions, which are easier to monitor.

5 Wide ranges of this sort are typically reported in studies examining the impacts of e-commerce on state sales taxes (Bruce, Fox and Luna 2009; Mantell et al., 2011; Ketzenberger, Hicks and Faulk 2011).

2. E-COMMERCE IN MAINE

The first part of the study involves estimating the amount of on-line retail sales in Maine. Because e-commerce retail trade figures are not available for individual states, we need to calculate them by applying the percentage of total U.S. retail sales made up by e-commerce to total retail sales in Maine. Table 1 shows total U.S. retail sales and e-commerce figures from the U.S. Census Bureau for the years 2000 to 2009. As indicated in the introduction, on-line sales as a percentage of total U.S. retail activity has increased substantially in recent years—from 0.9 percent to 4.0 percent of total sales between 2000 and 2009.[6]

Two approaches were used to estimate, based on historical data, the percentage of total U.S. retail sales made up by e-commerce in later years (2010 and 2011). The first involves using the average year-to-year change (0.3 percentage points) in the share of e-commerce sales, which ranged from 0.2 to 0.5 percentage points. If the share of total retail sales made up by e-commerce increased by 0.3 percentage points—its average growth between 2001 and 2009—from 2009 to 2010, on-line sales would have accounted for 4.3 percent of total retail activity in 2010.

The second approach involves using the average year-to-year growth rate in the share of retail sales from e-commerce. This growth rate ranged from 4.4 to 27.9 percent, with an average of 17.8 percent. If the share of retail sales from e-commerce increased by 17.8 percent—the average growth rate between 2001 and 2009—it would have accounted

6 The robust growth of on-line sales appears to have continued over the past year. According to an *IBM Coremetrics Benchmark* report (http://www.coremetrics.com/downloads/benchmark-2011-cyber-monday.pdf), on-line "Cyber Monday" (Monday following Thanksgiving Day) sales increased by 33.0 percent between 2010 and 2011.

for 4.7 percent of total retail sales in 2010. To estimate the 2010 value of on-line retail sales in Maine (see Table 2), we use an e-commerce share of 4.5 percent (i.e., the average value from the two approaches). This means that the share of total retail sales from e-commerce grew by 0.5 percentage points between 2009 and 2010. Over the nine-year period from 2001 to 2009, the share of U.S. retail sales from on-line purchases grew by 0.5 percentage points twice, and by 0.4 percentage points on three other occasions.

The 2011 estimate of on-line retail sales in Maine (see Table 3) is based on an e-commerce share of 5.0 percent, which is 0.5 percentage points above the estimate used for 2010. This figure is similar to the value used in a study of e-commerce in Alabama, which states that "Online retail is now approaching 5 percent of all sales" (Robicheaux 2012). The 2010 and 2011 on-line retail share estimates for Maine, based on data from the U.S. Census Bureau, are considerably lower (i.e., more conservative) than a recent figure reported by Forrester Research, which estimates that "Online sales currently account for about 9 percent of total retail sales" (Lifsher 2011; www.forrester.com).

Although the actual share of retail activity made up by e-commerce varies by state, the estimated U.S. average values of 4.5 and 5.0 percent are likely to be reasonably accurate for Maine—not withstanding the different estimates provided by the U.S. Census Bureau and Forrester Research. A key factor influencing on-line purchases is Internet access, and Maine rates slightly above the United States as a whole on this indicator. According to the 2011 "Digital Nation" report by the Economics and Statistics Administration, and National Telecommunications and Information Administration in the

U.S. Department of Commerce, 73 percent of Maine households had Internet access in 2010, compared to 71 percent of all U.S. households.[7]

The state had total taxable consumer retail sales of $14.5 billion in 2010; $4.2 billion of this amount is categorized under the "store types" of restaurant sales ($2.0 billion), food stores ($1.5 billion) and lodging ($651.5 million).[8] Since these sub-sectors of the retail economy do not typically have on-line sales (or it is very small percentage of total sales), they are not included in the calculations of e-commerce in Maine. Based on an e-commerce share of 4.5 percent of total retail sales in Maine, the figure of $10.8 billion shown in Table 2 is an estimate of total retail sales—including e-commerce and taxable sales as measured by Maine Revenue Services. Of this amount, an estimated $488.8 million—or, 4.5 percent—is retail e-commerce.

In 2011, Maine had $15.0 billion in taxable consumer retail sales, up three percent from the previous year. As shown in Table 3, the total amount of taxable retail sales—not including restaurant, food store and lodging sales—was $10.7 billion in 2011. Based on an e-commerce share of 5.0 percent of total (i.e., e-commerce and taxable sales) retail sales, the figure of $561.1 million is the estimated amount of on-line retail sales in Maine.

Using these figures of $488.8 million and $561.1 million in retail e-commerce activity, we can estimate a sales tax revenue potential of $24.4 million and $28.1 million in 2010 and 2011, respectively. The potential tax revenue figures are equivalent to 5.0 percent—the state's retail sales tax rate—of estimated e-commerce in Maine. The

7 The "Digital Nation" report shows that the share of Maine households with broadband Internet (67 percent) was slightly lower than the U.S. average (68 percent), but Maine (6 percent) had a higher percentage of households than the United States as a whole (3 percent) with dial-up Internet access.

8 Information on taxable retail sales, which is publicly available at the Maine State Planning Office website, is collected by Maine Revenue Services. The taxable retail sales amount for "food stores" does not include food intended for home consumption, which is not taxed in Maine.

estimate for 2010 is virtually identical to the $24.3 million in Maine sales and use tax revenue losses (baseline scenario) from e-commerce estimated by Bruce, Fox and Luna (2009)—using an entirely different methodology.[9] They projected a $28.5 million 2011 sales and use tax revenue loss (baseline scenario) from e-commerce in Maine, which is slightly higher than our estimate of $28.1 million.

3. TAX REVENUE LOSSES FROM E-COMMERCE IN MAINE

The previous section of the report examined the potential sales tax revenues associated with e-commerce in Maine, estimated at $28.1 million in 2011. Although on-line retailers that have a nexus in Maine collect sales taxes and residents are required to pay use taxes on goods that are purchased outside the state and used in Maine, the amount of potential e-commerce taxes currently collected is unknown. As noted earlier in the report, a recent study found that New Jersey collected—through use taxes—less than one percent of the estimated taxes associated with e-commerce (Mantell et al. 2011). Thus, it appears that this portion of the potential e-commerce taxes currently collected would be very small. The state, however, collects sales taxes (on e-commerce) from retailers with a nexus in Maine.

As a first step in determining the amount of tax losses from e-commerce in Maine, we estimate the amount of taxes associated with purchases from Amazon.com. These estimates are available for other states that are examining the "Amazon Tax"

[9] The 2010 potential sales tax revenue from e-commerce in Maine of $24.4 million is also similar, in relative terms, to an estimate of potential e-commerce sales taxes in New Jersey. The share of estimated potential tax revenue from on-line sales in Maine relative to the state's total retail payroll (based on 2009 figures from County Business Patterns of the U.S. Census Bureau) is about 1.3 percent. This same percentage applied to New Jersey's total retail payroll gives an estimate of $156.2 million in potential sales tax revenue from e-commerce, which is within the range of $52 million to $171 million reported by Mantell et al. (2011).

issue.[10] We can adjust these Amazon.com tax figures from other states to estimates for Maine, based on the relative levels of retail activity in the two states. For example, we would expect Maine to have, say, 50 percent as much tax revenue potential from Amazon.com sales, compared to another state, if Maine had 50 percent as much total retail activity—of course, adjusting for differences in sales tax rates.

Table 4 shows information on estimated tax revenues associated with Amazon.com sales taxes in Maine, based on figures reported for Indiana, New York and Virginia. The $25 million estimate for Indiana is from the state's Office of Management and Budget (Ketzenberger, Hicks and Faulk 2011). It is an amount that—after accounting for differences in sales tax rates and the relative amounts of retail activity, using 2009 payroll figures from County Business Patterns of the U.S. Census Bureau—translates into $4.9 million in tax revenue associated with Amazon.com sales in Maine. The $100 million estimate of Amazon.com sales taxes for New York is from the New York State Department of Taxation and Finance, and the $23 million figure for Virginia is an estimate reported by Senator Frank Wagner (Stoddard and Lombardo 2012). Based on information from these three states, the estimated tax revenue from Amazon.com purchases in Maine would be $4.9 million, with a range of $4.5 million to $5.3 million.

The final step in determining the amount of e-commerce tax losses in Maine involves using the value of Amazon.com taxes ($4.9 million) and a ratio of total uncollected taxes associated with e-commerce to the estimated amount from Amazon.com. An analysis conducted by the Indiana Fiscal Policy Institute (Ketzenberger, Hicks and Faulk 2011), using figures from the state's Office of

[10] See, for example, Lifsher (2011), Ramsey (2011), Sher (2012) and Stoddard and Lombardo (2012).

Management and Budget, found that Indiana had $3.64 in uncollected e-commerce related taxes for every $1.00 of taxes associated with purchases from Amazon.com. Applying this ratio to Maine, we estimate that the state has $17.8 million (i.e., 3.64 x $4,881,497) in tax revenue losses from on-line sales.

How to Interpret these Findings

The results presented above, along with findings from other studies, provide a range of estimates of the amount of uncollected e-commerce retail sales taxes in Maine. First, using data from Maine Revenue Services and the U.S. Census Bureau, we estimated that Maine had $561.1 million in retail e-commerce in 2011, an amount that would have generated $28.1 million in sales taxes. A study by Bruce, Fox and Luna (2009) reports a similar value for Maine, but it is interpreted as a "tax revenue loss" and not as "tax revenue potential" as it is described in our analysis. The estimated amount of e-commerce in Maine could be much higher, however, if it were based on an estimate of 9 percent of total retail sales (from Forrester Research) instead of 4 percent of retail sales (from the U.S. Census Bureau), adjusted to 4.5 and 5.0 percent. With a higher e-commerce estimate, the figure of $28.1 million (in 2011) obtained in our analysis could be a plausible amount of tax revenue loss in Maine, as a similar amount is reported by Bruce, Fox and Luna (2009).

Another estimate of tax revenue loss in our analysis comes from determining the amount of taxes associated with purchases from Amazon.com in Maine—based on information from the Indiana Office of Management and Budget, and the New York State Department of Taxation and Finance—and then using this figure to estimate the total

amount of uncollected tax revenue from on-line retail sales in Maine. This method resulted in an estimated tax revenue loss of $17.8 million, an amount that could be generated by $355.4 million in untaxed e-commerce retail sales.

4. INCREASE IN RETAIL SALES DUE TO REDUCTION IN E-COMMERCE

Along with having the potential to capture uncollected potential tax revenue, a sales tax on e-commerce would affect overall economic activity in Maine. A state sales tax—or, in this case, collecting sales taxes on e-commerce—can affect retail sales in three ways: (1) the <u>amount</u> of goods that are purchased; (2) the <u>types</u> of goods that are purchased; and (3) <u>where</u> purchases are made (Torralba 2004). Sales taxes, which increase a product's after-tax price, have the potential to reduce total sales by imposing a "negative wealth effect" on households. A 5.0 percent sales tax on e-commerce would likely have a negligible impact on the <u>amount</u> of goods purchased by Maine households. Such a tax on on-line purchases (based on 2010 figures) would increase after-tax retail expenditures (in the selected categories) by 0.22 percent (5.0 percent tax applied to 4.5 percent of retail spending = 0.00225). Given that the retail sectors impacted by e-commerce make up only 11.0 percent of the typical U.S. household's annual budget, a tax on e-commerce would increase overall expenditures by 0.02 percent (or, 0.0002475).[11] This would be a miniscule impact.

A 5.0 percent sales tax on e-commerce would also likely have very little impact on the <u>types</u> of retail goods purchased by Maine households. Since the sales tax in Maine

[11] Household budget figures are from the "Consumer Expenditures in 2009" report (number 1029, published in 2011) by the U.S. Bureau of Labor Statistics. The expenditure categories considered, which sum to 11.0 percent of the average household's budget, are "housekeeping supplies," "household furnishings and equipment," "apparel and services," "personal care products and services," "reading," and "miscellaneous."

applies to almost all retail products, with food intended for consumption at home as one of the major exempted categories, it would be unlikely to distort the relative amounts of retail goods purchased (Due and Mikesell 1994).

A sales tax on e-commerce, however, would likely have a substantial impact on where retail purchases are made. As described by Goolsbee (2000a), the ability to purchase retail goods on-line can be thought of, from a conceptual standpoint, as similar to an individual's ability to cross a state border to avoid paying sales taxes (or pay a lower rate).[12] Goolsbee's (2000a) study on the topic suggests that e-commerce provides a "world without borders" because everyone with access to the Internet, regardless of whether they live near a geographic border, has the option of purchasing a good on-line or at a local "brick and mortar" store—just like people who live near state borders face a choice of where to make retail purchases. His analysis of the on-line purchases of a large sample of U.S. households suggests that, as expected given the relative ease of using the Internet to conduct retail activity, on-line purchases are highly responsive to sales tax rates where people live.

Table 5 shows information on the potential reduction in Maine e-commerce related to a tax on retail goods purchased on-line. The on-line buying tax elasticity of 3.5, from Goolsbee's (2000a) study, implies that a one-percentage point increase in the sales tax rate applied to e-commerce would decrease on-line retail purchases by 3.5 percent.[13] Using this elasticity figure, we can estimate that imposing a 5.0 percent tax rate on retail e-commerce would lower on-line purchases by 17.5 percent—or about $62.2 million (low

12 Due and Mikesell (1994) describe the "interstate problem" as one of the primary limitations of state sales taxes.

13 Other studies on the topic report similar elasticities, or results that imply an even larger response to sales taxes on e-commerce (Goolsbee 2000b; Ballard and Lee 2007; Ellison and Ellison 2009).

estimate) to $98.2 million (high estimate) in 2011. This range, based on two different methodologies outlined earlier in the report, represents the potential increase in Maine retail sales due to a change in where retail purchases are made.

Table 6 presents information on the statewide economic impact associated with the potential $62.2 million (low estimate) increase in retail sales due to a reduction in e-commerce. The direct employment of 403 full- and part-time jobs is the amount of retail workers required to generate $62.2 million in retail sales, and the direct labor income impact of $10.5 million includes the annual wages and salaries earned by these retail workers.[14] The direct employment and labor income figures, as well as the multiplier effects shown in the table are estimated using an economic impact (IMPLAN) model of the Maine economy.

The Maine IMPLAN (input-output) model traces the circular flows of expenditures and income through the economy with a complex system of accounts that are uniquely tailored to the state. Underlying these accounts is detailed information regarding transactions occurring between businesses located in Maine, the purchasing patterns of households, and transactions occurring between the state and the rest of the world. Some of the data sources used to calibrate the IMPLAN model include County Business Patterns of the U.S. Census Bureau, Regional Economic Information System (REIS) data and the input-output accounts from the U.S. Bureau of Economic Analysis, and the ES-202 statistics from the U.S. Bureau of Labor Statistics.

14 The economic impact model (IMPLAN) used in the analysis is based on a "head count" of employment, which does not distinguish between full- and part-time jobs. The full- versus part-time nature of industry employment, however, is reflected in the model (e.g., employment multipliers tend to be higher in sectors with a greater share or full-time workers).

The total economic impact, including multiplier effects, of the potential increase in Maine retail sales due to a reduction in e-commerce would have been an estimated $74.0 million in sales revenue, 511 full- and part-time jobs, and $14.7 million in labor income. The direct employment of 403 workers would be full- and part-time jobs in Maine retail businesses, while the 108 jobs counted in the multiplier effects would cut across all sectors of the state's economy. The $17.8 million in potential sales taxes from e-commerce could support additional jobs in Maine state government, but these jobs are not counted in the employment impacts because the tax revenue could be put to other uses (e.g., reducing other taxes).

In Table 7, we show information on the estimated statewide economic contribution associated with the potential $98.2 million (high estimate) increase in retail sales due to a reduction in e-commerce. The total economic impact, including multiplier effects, would have been an estimated $116.8 million in sales revenue, 807 full- and part-time jobs, and $23.2 million in labor income. The direct employment of 637 workers would be jobs in Maine's retail sector, while the 170 full- and part-time jobs counted in the multiplier effects would be in all sectors of the economy.

5. SUMMARY AND CONCLUSIONS

The purpose of this study was to examine the impacts of an e-commerce sales tax on the amount of state government revenue collected, and overall economic activity in Maine. Using information from the U.S. Census Bureau and Maine Revenue Services, we estimate that Maine residents purchased $561.1 million in retail goods on-line in 2011, which would have the potential to generate $28.1 million in tax revenue. Another

analysis conducted in the study, based on data from other states, found that Maine had an estimated $17.8 million in tax revenue losses from on-line retail sales. A state sales tax on e-commerce could reduce on-line retail sales by an estimated $62.2 million to $98.2 million—revenue that would be captured by Maine retailers. The total statewide annual economic impact (including multiplier effects) of an e-commerce retail sales tax in Maine would have been an estimated $74.0 million to $116.8 million in sales revenue, 511 to 807 full- and part-time jobs, and $14.7 million to $23.2 million in labor income.

The estimated reduction in e-commerce, with a corresponding increase in state retail sales, represents one of the three ways in which sales taxes can affect retail purchases (Torralba 2004); that is, sales taxes can affect where purchases are made. Published academic studies show that state sales taxes have a statistically significant—and considerably large—impact on on-line retail activity (Goolsbee 2000a, 2000b; Ballard and Lee 2007; Ellison and Ellison 2009). For example, Goolsbee (2000a, p.568) suggests that "applying existing sales taxes to the Internet would reduce the number of on-line buyers by as much as 24 percent." The 17.5 percent reduction in e-commerce used in this study is lower than Goolsbee's (2000a) estimate because his analysis was based on the average sales tax rate of all U.S. states, which is greater than the 5.0 percent sales tax rate in Maine. Along with using an "on-line buying tax elasticity" that is consistent with published academic studies, the potential sales tax impact of $28.1 million in 2011 is very similar to the $28.5 million in Maine sales and use tax revenue losses from e-commerce estimated by Bruce, Fox and Luna (2009)—using an entirely different methodology.

Of course, the study does not imply that collecting sales taxes on e-commerce would entirely eliminate on-line retail purchases in Maine. The results are quite to the contrary. Findings of the analysis indicate that Maine residents spent about $561 million on retail e-commerce in 2011 and this amount would have remained at between $460 million and $500 million even if e-commerce were taxed. The sales tax "advantage," which would be eliminated if they were collected, is only one reason why people purchase goods on-line.

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Table 1. E-Commerce as a Percentage of Total U.S. Retail Sales

Year	Total U.S. Retail Sales ($millions)	E-Commerce ($millions)	Percent of Total	Change in Percent	Percent of Total Growth Rate
2000	2,988,756	27,763	0.9%	NA	NA
2001	3,067,725	34,593	1.1%	0.2%	21.4%
2002	3,134,322	45,212	1.4%	0.3%	27.9%
2003	3,268,154	58,157	1.8%	0.3%	23.4%
2004	3,480,430	74,175	2.1%	0.4%	19.8%
2005	3,696,691	92,804	2.5%	0.4%	17.8%
2006	3,880,136	114,912	3.0%	0.5%	18.0%
2007	4,005,798	138,145	3.4%	0.5%	16.4%
2008	3,952,933	142,281	3.6%	0.2%	4.4%
2009	3,638,471	145,214	4.0%	0.4%	10.9%
			average	0.3%	17.8%
2010, estimated			4.5%		
2011, estimated			5.0%		

Note: Total retail sales and e-commerce figures for 2000-2009 are from *U.S. Census Bureau E-Stats* (www.census.gov/estats), May 26, 2011.

Table 2. Estimated E-Commerce in Maine, 2010

Taxable Consumer Retail Sales, Maine	$14,541,851,800
Taxable Restaurant Sales, Maine	$2,006,868,400
Taxable Food Stores Sales, Maine	$1,546,977,800
Taxable Lodging Sales, Maine	$651,456,700
Taxable Non-Restaurant, -Food Stores and -Lodging Sales, Maine	$10,336,548,900
Estimated Total (Taxable and E-Commerce) Non-Restaurant, -Food Stores and –Lodging Sales, Maine	$10,825,396,172
Estimated E-Commerce, Maine (based on 4.5 percent of total non-restaurant, -food stores and -lodging sales)	$488,847,272
Estimated Maine Sales Tax Revenue Potential from E-Commerce	$24,442,364

Note: Taxable retail sales figures are from Maine Revenue Services.

Table 3. Estimated E-Commerce in Maine, 2011

Taxable Consumer Retail Sales, Maine	$14,982,877,000
Taxable Restaurant Sales, Maine	$2,070,833,400
Taxable Food Stores Sales, Maine	$1,573,349,500
Taxable Lodging Sales, Maine	$677,451,500
Taxable Non-Restaurant, -Food Stores and -Lodging Sales, Maine	$10,661,242,600
Estimated Total (Taxable and E-Commerce) Non-Restaurant, -Food Stores and --Lodging Sales, Maine	$11,222,360,632
Estimated E-Commerce, Maine (based on 5.0 percent of total non-restaurant, -food stores and -lodging sales)	$561,118,032
Estimated Maine Sales Tax Revenue Potential from E-Commerce	$28,055,902

Note: Taxable retail sales figures are from Maine Revenue Services.

Table 4. Estimated Tax Revenue Associated with Purchases from Amazon.com

State	Amount	Estimated Amazon.com Tax Revenue for Maine
Indiana	$25 million	$4,900,110
New York	$100 million	$5,279,581
Virginia	$23 million	$4,464,801
	average	$4,881,497

Notes: Figures for Indiana, New York and Virginia are from the Indiana Office of Management and Budget (Ketzenberger, Hicks and Faulk 2011), the New York State Department of Taxation and Finance, and Senator Frank Wagner (Stoddard and Lombardo 2012).

Table 5. Potential Reduction in Maine E-Commerce from Imposing a Sales Tax on Retail Goods Purchased On-Line.

Estimated E-Commerce, 2010	$488,847,272
On-Line Buying Tax Elasticity	3.5
Percent Reduction in E-Commerce	17.5%
Reduction in E-Commerce, 2010	$85,548,273
Estimated E-Commerce, 2011	$561,118,032
On-Line Buying Tax Elasticity	3.5
Percent Reduction in E-Commerce	17.5%
Reduction in E-Commerce, 2011	$98,195,656
Estimated Untaxed E-Commerce Sales	$355,373,019
On-Line Buying Tax Elasticity	3.5
Percent Reduction in E-Commerce	17.5%
Reduction in E-Commerce, 2011	$62,190,278

Note: On-line buying tax elasticity is from Goolsbee (2000a).

IMPACTS OF E-COMMERCE RETAIL SALES TAXES IN MAINE

Table 6. Potential Statewide Economic Impact Associated with Increased Maine Retail Sales due to a Reduction in E-Commerce, Low Estimate

	Direct Impact	Multiplier Effects	Total Impact
Sales	$62,190,278	$11,770,730	$73,961,008
Employment	403	108	511
Labor Income	$10,543,856	$4,173,626	$14,717,482

Notes: Direct employment and income, and multiplier effects are estimated using an economic impact (IMPLAN) model of the Maine economy.

Table 7. Potential Statewide Economic Impact Associated with Increased Maine Retail Sales due to a Reduction in E-Commerce, High Estimate

	Direct Impact	Multiplier Effects	Total Impact
Sales	$98,195,656	$18,585,456	$116,781,112
Employment	637	170	807
Labor Income	$16,648,275	$6,589,968	$23,238,243

Notes: Direct employment and income, and multiplier effects are estimated using an economic impact (IMPLAN) model of the Maine economy.