RETAIL ASSOCIATION OF NEVADA

E-Commerce Taking its Toll on State Sales and Use Tax Revenues

Nevada ranks high among states most negatively impacted by rise in e-commerce

Shopping online has its benefits, making it no surprise that e-commerce, or the selling of products and services over the Internet, has become increasingly popular over the past decade. A recent report issued by the Congressional Research Service, the research branch of the Library of Congress that prepares policy briefings for members of the U.S. Congress, highlights the unequal impact of the rise in e-commerce among states, as well as the growing concern over the erosion of one of the nation's oldest and most basic forms of state and local taxation. Across the U.S., lost tax revenue sourced to the inability of states to require out-of-state Internet vendors to collect sales tax on their behalf is estimated at $8.6 billion in 2010.

The popularity of e-commerce has grown from encompassing only the most technologically-savvy customers just ten or fifteen years ago to the whole of the mainstream buying public, as consumers can now securely buy almost anything they need or want without leaving the comfort of their homes. In addition, if consumers purchase products from an out-of-state Internet vendor, they are often not required to pay sales tax at the time of purchase, making the transaction cheaper than if the item were purchased in a "bricks and mortar" store. However, there has recently been much debate about whether out-of-state vendors should be charging sales tax.

Under the current law, out-of-state vendors are not required to collect sales taxes from consumers living in a state where the vendor does not already have a physical presence. If consumers do not pay a sales tax to the vendor, they are supposed to pay a


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use tax to the state. However, compliance with this law is rare, and it is difficult to enforce. Opponents of a law requiring the collection of sales taxes for all Internet sales say that it would be too difficult for vendors to collect and remit the taxes because of the complex tax systems in place among the different states. Proponents argue that Congress should create a simplified tax system to make the process easier. In the meantime, states continue to lose millions of dollars as more consumers purchase products from out-of-state vendors that do not collect a sales tax.

The states with the most to lose from an inability to collect sales tax on all Internet transactions are those with a high tax rate and a high reliance on the sales and use tax, because they risk losing a greater percentage of revenue as well as drive a larger wedge between the price of an item with the sales tax and the out-of-state Internet vendor price without the tax. According to the June 2011 report released by the Congressional Research Service, Nevada's 8.1 percent maximum rate (Clark County) ranks 20th highest, or in the top 40 percent in the nation. Meanwhile, the state ranks 11th, or in the top 22 percent in the nation, in terms of sales tax reliance. The largest single source of Nevada's general fund revenues comes from sales and use taxes. From 2011-2013, this portion is expected to be approximately 28.3 percent. The only other source of revenue that comes close to this figure is gaming taxes, which are expected to account for 23.6 percent of state general fund revenues.

With such a high reliance on the sales and use tax and a moderately high tax rate, it is likely Nevada will continue losing an increasing portion of its sales and use tax revenues as long as the state is not permitted to require out-of-state Internet vendors to collect sales taxes on purchases made by its residents. Based on percentage-loss estimates by several U.S. state departments of taxation and revenue, it is estimated that Nevada will lose upwards of $16.0 million in 2011, while other studies applying less conservative methodologies suggest losses could reach upwards of $100 million annually.

Mary Lau, President of the Retail Association of Nevada, noted, "As e-commerce becomes increasingly popular, Nevada faces ever greater sales and use tax revenue losses. Current estimates may only predict losses equivalent to 0.5 percent of total sales and use tax collections, but the impacts are certain to grow larger with time."

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About The Author

Applied Analysis, founded in 1997, is a Nevada-based advisory services firm providing information and analyses for both the public and private sectors.

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