

Some Guidelines for Using the Joint Costs of Collections Study Estimates for Determining Retailer Compensation

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There are two reasons why the retailers cost of collections estimate in the Joint Costs of Collections (JCC) report should not be considered as the definitive cost of collections, but rather as one parameter in the discussion regarding retailer compensation.

1. Some of the component costs have less statistical confidence than others
2. SSUTA should significantly reduce many of the component costs

I. Statistical Confidence

The original plan for the JCC study was to do control-group analysis for some of the component costs. These are costs where the portion related to sales tax is intermingled with other business uses. In the 1998 *Washington Retailers' Costs of Collections* study I used econometric analysis and a control group (Oregon retailers) to parse out the portion caused by sales taxes in the Washington study.

For a number of reasons, primarily because of the small sample size for the control group due to low survey response, the JCC study did not do the control group analysis. The estimates, instead, are based directly on the survey responses. Since it is difficult for respondents to delineate sales tax related costs from other business costs, these component costs have a wider margin of error. I think that they are more likely to be overstated, but it is possible that some could be understated.

Below is a breakdown of the component costs into groups relating to the degree of statistical confidence.

All Costs are from the JCC study. They reflect the weighted average of all size classes. The costs are in terms of percentage of total sales tax collections. Data is from 2003.

The sum of all cost components is 2.91%. Note that the category *Other Compliance Costs (0.11%)* is not included in these lists because of its ambiguity.

Costs with more statistical confidence. These are costs which have a direct connection to sales tax collections.

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| • Documenting tax-exempt sales | 0.31% |
| • Returns remittances refund credits, sales tax research | 0.38% |
| • Dealing with sales tax audits and appeals | 0.18% |
| • Debit/Credit card fees on sales tax | 0.66% |

Total of costs with more confidence	1.53%
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Costs with less statistical confidence. These are costs where the portion related to sales tax is intermingled with other business uses

- Training of personnel on sales tax 0.41%
- Customer service relating to sales tax issues 0.10%
- Programming and servicing of registers 0.16%

Total of costs with less confidence 0.67%

In-between confidence--some of this may have a direct connection, and some may not:

- Sales tax-related software and license fees 0.17%

Measurable, but questionable as to what portion should be included as a cost:

- Unrecovered sales tax paid due to bad debt 0.43%

There was considerable discussion in the JCC Advisory committee as to whether unrecovered sales tax paid should be included as a cost. Almost all states allow this as a deduction. However, retailers said that in many states it is difficult to claim this deduction. **This seems like a good simplification opportunity for the SSTP.**

II. Costs that should be reduced by SSUTA

The following costs should be decreased to some extent by the advent of SSUTA.

- Training of personnel on sales tax 0.41%
- Documenting tax-exempt sales 0.31%
- Customer service relating to sales tax issues 0.10%
- Sales tax-related software and license fees 0.17%
- Programming and servicing of registers 0.16%
- Returns remittances refund credits, sales tax research 0.38%
- Dealing with sales tax audits and appeals 0.18%
- Unrecovered sales tax paid due to bad debt* 0.43%

Total 2.14%

**See discussion of unrecovered bad debt in the above section.*

The following cost would not be affected by SSUTA

- Debit/Credit card fees on sales tax 0.66%

Note that net float (estimated in the JCC report to be 0.10%) is not subtracted out of the costs. Net float is the value to the retailer of retaining the sales tax until it is remitted. Net float varies from state to state based on remittance timing. The benefit would be uniform under the uniform remittance requirements under SSUTA and should be netted from the total costs of collections.