

## COMMENT ON AN INTERPRETATION OF THE JOINT COST OF COLLECTION STUDY RESULTS

by

**Brian Erard, B. Erard & Associates**  
**Peter Merrill, PricewaterhouseCoopers LLP**  
**Joel Slemrod, University of Michigan**

**November 12, 2008**

Dr. Lorrie Jo Brown has suggested guidelines for interpreting the results of the Joint Cost of Collection Study (JCCS).<sup>1</sup> Dr. Brown served as a state advisor to the JCCS study in her previous capacity as an employee of the Washington State Department of Revenue.

While we accept Dr. Brown's view that some elements of sales tax compliance costs are likely to be more difficult for retailers to estimate than others, Dr. Brown's terminology may be confusing. In particular, she uses the term "statistical confidence" in an unconventional way. Statistical confidence normally is assessed based on standard errors of point estimates. Instead, Dr. Brown refers to four categories of "statistical confidence" (i.e., "more", "less", "in-between", and "measurable, but questionable...") that are based on her judgment as to how hard it would be for retailers to distinguish compliance costs from other ordinary business costs.

By referring to these as "statistical confidence" categories, Dr. Brown may give the impression that her classification is based on rigorous principles of statistics, rather than her own subjective judgment, which may be well-informed, but is her opinion nonetheless. It is unclear whether her judgments are based on single state or multi state retailers, which may confront different issues in distinguishing compliance costs from other business costs.

Dr. Brown's suggestion that the JCCS report does not include a control group analysis also may be misleading. The Phase II report describes a control group analysis that was undertaken to explore the extent to which the type of cash registers, number of registers, and number of employees varied with the percentage of stores in non-sales tax states. We found some evidence that the number of registers varied with this percentage, but not their type nor the number of employees. Perhaps these insignificant results were due to an insufficiently large sample size, but this is not necessarily the case. For example, multi state retailers may use the same point-of-sale system in all of their stores and select the type of system based on the state with the most complex retail sales tax.

---

<sup>1</sup> Dr. Lorrie Jo Brown, "Some Guidelines for Using the Joint Costs of Collections Study Estimates for Determining Retailer Compensation."