

Summary of Presentation

Small Seller Task Force
September 3, 2008

Joint Cost of Collection

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Definition and Measurement of Sales Tax Compliance Costs

- Retail sales tax compliance activities:
 1. Training personnel
 2. Programming register systems
 3. Documenting tax-exempt sales
 4. Handling audits and appeals
 5. Other data collection and document retention
 6. Preparing forms, collecting and remitting tax

Definition and Measurement of Sales Tax Compliance Costs

- Drivers of compliance costs: State sales tax systems
 - Statutory exemptions (goods, purchasers, sellers, uses, tax holidays)
 - Variation in bases/rates among jurisdictions
 - Local administration in “home rule” states
 - Treatment of remote sales

Definition and Measurement of Sales Tax Compliance Costs

- Drivers of compliance costs: retailer characteristics
 - Type of retailer
 - Number of stores in each state
 - 2003 gross sales, taxable sales, remittances
 - Full time equivalent employees, cashiers, others
 - Exempt sales
 - Remote sales
 - Filing frequency
 - Audit frequency
 - Other

Survey Results—Gross Compliance Costs

Compliance costs as a percentage of:	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Sales tax collected	13.47%	5.20%	2.17%	3.09%
Taxable sales	0.82%	0.32%	0.13%	0.19%

Note: All results are statistically significant at the 5% level.

- Compliance costs for retailers in smallest size category are six times higher as a share of sales or sales tax collected than for retailers in largest size category.
- 1993 *Tax Administrators News* compilation of prior single-state studies found average compliance cost of 3.13% of sales tax collected

Survey Results—Net Implicit Transfers

Net Implicit Transfers Related to Collection of Sales Tax, 2003 [As a percentage of total state and local sales tax collections]

Net Implicit Transfers	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Vendor discount*	0.96%	0.68%	0.45%	0.50%
Net float	0.15%	0.14%	0.09%	0.10%
Total	1.11%	0.82%	0.54%	0.60%

* The vendor discount rates presented in the table represent the national average across all states. Actual vendor discounts allowed in each state, which can differ markedly from the national average, can be found in Appendix B
Note: All results are statistically significant at the 5% level.

Survey Results—By Type of Compliance Cost

Gross Compliance Costs by Type and Size of Annual Retail Sales, 2003 [As a percentage of total state and local sales tax collections]

Compliance Costs	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted average
For retailers that provided cost breakdown	16.84%	4.21%	1.03%	1.81%
<i>Training of personnel on sales tax</i>	1.87%	0.55%	0.35%	0.41%
<i>Documenting tax-exempt sales</i>	3.80%	0.87%	0.13%	0.31%
<i>Customer service relating to sales tax issues</i>	0.74%	0.21%	0.06%	0.10%
<i>Sales tax-related software and license fees</i>	1.86%	0.36%	0.10%	0.17%
<i>Programming and servicing cash registers</i>	1.17%	0.35%	0.10%	0.16%
<i>Returns, remittances, refund credits, sales tax research</i>	5.35%	1.19%	0.12%	0.38%
<i>Dealing with sales tax audits and appeals</i>	1.03%	0.46%	0.12%	0.18%
<i>Other compliance costs</i>	1.03%	0.23%	0.05%	0.11%
For retailers that did not provide cost breakdown	9.08%	3.41%	1.54%*	2.56%*
Related compliance costs for all retailers	1.85%	3.29%	3.02%	1.09%
<i>Debit/credit card fees on sales tax</i>	0.76%	0.76%	0.63%	0.66%
<i>Unrecovered sales tax paid due to bad debt</i>	1.09%	0.53%	0.38%	0.43%
Total gross compliance costs for all retailers	13.47%	5.20%	2.17%	3.09%
<i>External costs of compliance</i>	3.79%	0.87%	0.14%	0.42%
<i>Internal costs of compliance</i>	9.68%	4.33%	2.03%	2.67%

* Not statistically significant at the 5% level.

Survey Results—By SIC Code

Gross Compliance Costs by SIC Code and Size of Annual Retail Sales, 2003
[As a percentage of total state and local sales tax collections]

SIC Code	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
52: Building and Garden Supplies	11.30%	5.14%	1.76%	2.68%
53: General Merchandise	(D)	(D)	2.28%	2.35%
54: Food Stores	12.02%	18.28%	2.73%	4.56%
55: Auto Service Stations	10.60%	4.28%	3.27%	3.78%
56: Apparel and Accessories	8.80%	(D)	1.60%	1.82%
57: Furniture and Home Furnishings	19.40%	4.70%	1.52%	2.82%
59 (excluding 5961): Miscellaneous Retail	14.09%	4.09%	2.11%	4.51%
5961: Catalog, Mail-order, Internet Retailers	(D)	(D)	(D)	(D)
Weighted Average	13.47%	5.20%	2.17%	3.09%

(D) = Withheld due to limited number of observations.

Survey Results—By Direct Market Sales Percentage

Gross Compliance Costs by
Percentage of Direct Market Sales and Size of Annual Retail Sales
[As a percentage of total state and local sales tax collections]

Percent of Direct Market Sales	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Exactly 0%	13.02%	5.13%	2.22%	3.95%
Between 0% and 90%	14.83%	4.71%	2.10%	2.39%
Above 90%	(D)	10.68%	4.85%	7.60%
Weighted Average	13.47%	5.20%	2.17%	3.09%

(D) = Withheld due to limited number of observations.

Survey Results—By number of nexus states

Gross Compliance Costs by
Number of Nexus States and Size of Annual Retail Sales, 2003
[As a percentage of total state and local sales tax collections]

Number of nexus states	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
One	13.50%	5.02%	3.65%	6.17%
Two to Four	(D)	3.47%	1.42%	1.59%
Five to Nine		(D)	1.33%	1.80%
Ten or More			1.94%	1.94%
Weighted Average	13.47%	5.07%	2.15%	3.06%

(D) = Withheld due to limited number of observations.

Survey Results—By number of SKUs

Gross Compliance Costs by
Number of SKUs and Size of Annual Retail Sales, 2003
[As a percentage of total state and local sales tax collections]

Number of SKUs	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Less than 1,000	11.00%	5.08%	3.11%	5.91%
1,000 to 5,000	13.64%	4.25%	3.79%	5.76%
5,000 to 10,000	34.94%	10.14%	2.26%	3.12%
10,000 to 25,000	16.75%	6.26%	1.32%	2.25%
25,000 to 50,000	(D)	3.24%	2.37%	2.75%
50,000 to 100,000	(D)	3.79%	1.65%	1.79%
100,000 or More	(D)	(D)	2.25%	2.26%
Weighted Average	13.47%	5.20%	2.17%	3.09%

(D) = Withheld due to limited number of observations.

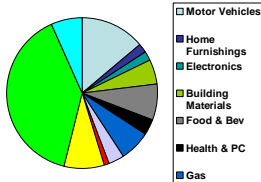
Retail Industry

Rod Sides
Deloitte

Retail Industry

- In 2006 industry sales topped \$4.3 trillion
- Industry consists of over 700,000 firms with the majority having less than 500 employees
- Industry is generally fragmented but dominated by a handful of large firms
- Growth in the industry has moderated over the past several months but has been relatively strong over the past several years, helping to keep the US economy afloat

Distribution of Retail by Segment

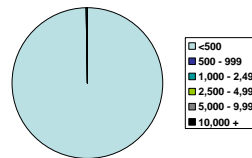


Segment	Sales
Motor Vehicles	898,624
Home Furnishings	117,659
Electronics / Appliances	108,362
Building Materials	344,728
Food and Beverage	533,779
Health and Personal Care	224,752
Gas	416,246
Clothing	214,876
Sporting Goods	84,772
General Merchandise	552,109
Miscellaneous	115,802
Non-Store	275,654
Food Services	420,367

Source: 2006 US Census Bureau

Distribution of Firms by Size

The industry is skewed dramatically to smaller firms

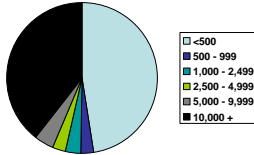


Firm Size	Number
<500	734,940
500 - 999	901
1,000 - 2,499	598
2,500 - 4,999	273
5,000 - 9,999	211
10,000 +	321

Source: 2006 US Census Bureau

Distribution of Sales by Size

Sales are clustered around each end of the spectrum

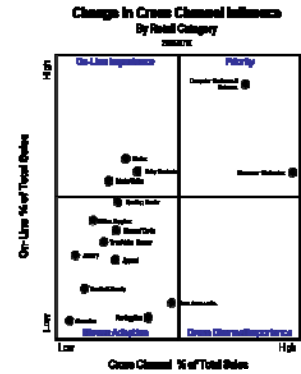


Firm Size	Sales
<500	1,491,760,956
500 - 999	87,192,718
1,000 - 2,499	102,483,824
2,500 - 4,999	88,223,916
5,000 - 9,999	127,695,215
10,000 +	1,237,096,068

Source: 2002 US Census Bureau

Discussion of Selling Channels

- Over the past 10 years new selling channels have begun to emerge
- Bricks and Mortar establishments continue to dominate the landscape but direct channels continue to gain strength
- Internet and Catalog sales continue to grow with increasing importance in cross-channel capabilities



The Long Tail of Remote Selling

Joseph Bailey et al
University of Maryland
Smith School of Business

Methodology

- Used reported data from Census and consumer data from comScore to estimate total industry
- Key determinant is a constant "scaling factor"
 - Each consumer in comScore represents 12,300 consumers in all "regions"
- Three regions
 - Top 500 Internet Retailers
 - \$1 Million to \$10 Million
 - Under \$1 Million

Key Findings

- Traditional reporting understates sales by small sellers and total sales
- They estimate total online volume of \$150 billion in 2004
 - Top 500 = \$56 billion
 - Region 2 = 28,000 firms, \$30 billion
 - Region 3 = 5 million firms, \$60 billion