

BRIEFINGS



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Center for Competitive Florida

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Florida Must Become a Full Member of the Streamlined Sales Tax Project

An Important Step in Collecting at least \$2 Billion Yearly in Taxes due from Remote Sales

E-commerce, mail-order, and remote sales have significantly accelerated during the past several years. In 2004, the United States Census Bureau reported a combined \$130 billion in e-commerce transactions by retailers and service providers. Rapid growth in on-line retail sales will continue and could reach an estimated \$329 billion in 2010. These estimates do not even include other forms of remotes sales such as mail-order and telephone.

These transactions are taxable by Florida and forty-five additional states, and the District of Columbia, which currently collect sales and use taxes. Approximately 7,400 local sales tax districts exist conjointly in the United States. For vendors conducting business in multiple states, the numerous and frequently inconsistent tax laws create a complicated process. Remote vendors, however, do not have any responsibility to collect sales taxes.

The United States Supreme Court has ruled that those vendors without a physical presence in the sales taxing state, and whose only contact was through a carrier or the United States Postal Service, cannot be required to collect and remit sales tax to the state. Nevertheless, Florida residents are still liable for the payment of sales and use taxes on purchased items or services.

The Department of Revenue's collection of these taxes is not feasible unless the consumer voluntarily remits the taxes. While most residents are unaware of this liability, a 2003 study by Jupiter Research reported only four percent of remote shoppers stating that a collection of sales tax would affect their decision to purchase items or services remotely.

Nationally, state and local governments collected over \$311 billion in sales and use taxes, which accounted for over one-third of state revenues in 2005. Florida currently collects 73% of its total general revenue from sales and use taxes. Dependence upon this revenue stream and projected rapid growth of remote sales will result in a deterioration of Florida's tax base - if this tax remains largely uncollected.

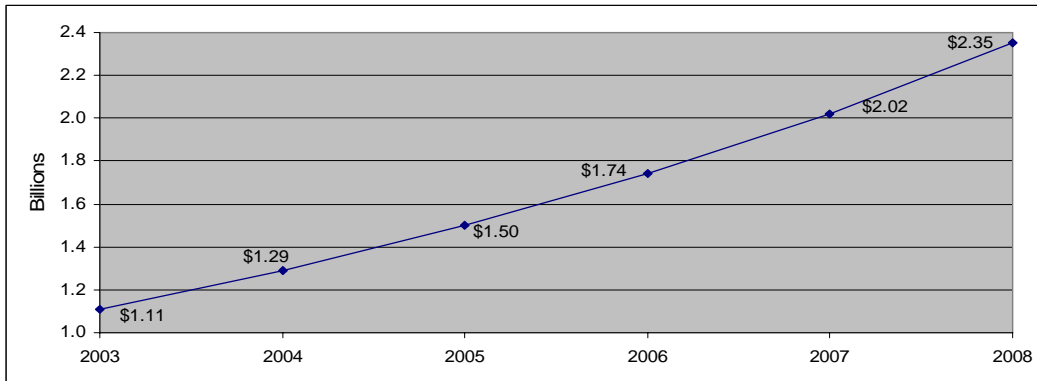
The Cost of Inaction

A University of Tennessee study estimates that forty-six states lost revenue up to \$16.1 billion from e-commerce in 2003, with Florida forfeiting up to \$1.1 billion. According to the study, the estimated revenue loss in 2008 will escalate to as high as \$33.7 billion for those states and over \$2.35 billion for Florida. The total six-year loss (2003-2008) for Florida would total over \$10.05 billion. These estimates do not include other forms of remote sales such as mail order and telephone.

Florida Combined State and Local Revenue Lost By E-Commerce

Annual Losses in Billions

Total Six Year Losses (2003-2008) - \$10.05 billion



Source: Florida TaxWatch using University of Tennessee estimates from July 2004

Note: UT study provided estimates for 2003 and 2008.

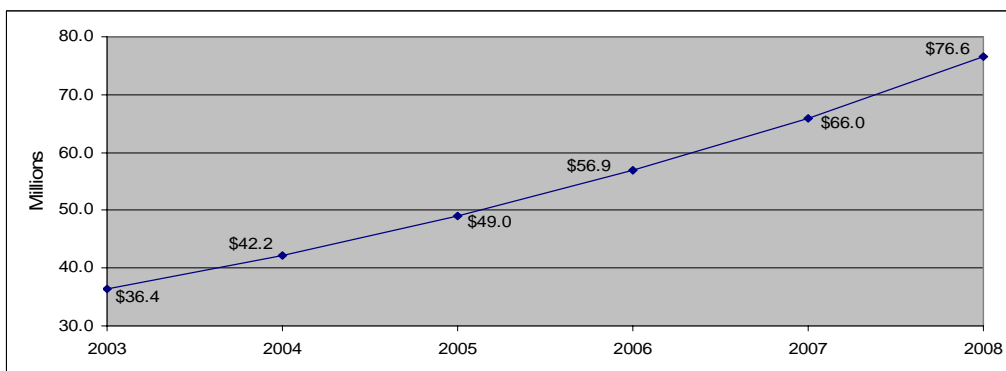
Data points between those years assume average growth rates.

Local government revenues are also reduced through remote sales. The Tennessee study further estimated the division of 2008 projected revenue losses between state and local governments. Of the projected \$2.35 billion loss, Florida's state government could lose \$2.275 billion and Florida's local governments could lose \$76.6 million in uncollected sales and use tax revenue. The total loss for Florida's local governments could exceed \$327 million over the same six years. This loss in local option sales taxes, not to mention losses from state revenue sharing of the state sales tax, is money that could be used to provide needed property tax relief or help meet growing needs.

Florida Local Government Revenue Lost By E-Commerce

Annual Losses in Millions

Total Six Year Losses (2003-2008) - \$327 million



Source: Florida TaxWatch using University of Tennessee estimates from July 2004

Note: UT study provided estimate for 2008.

Data points assume static percentage and average growth rates.

Streamlined Sales Tax is the Best Solution to Remote Sales Administration

In 2002, Florida joined the current coalition of forty-two states and the District of Columbia in the Streamlined Sales Tax Project (SSTP). The SSTP is a multi-state effort to examine the problems of sales and use collection from remote sales. Since then, elected and tax officials from Florida and the forty-two other states have ratified the Streamlined Sales and Use Tax Agreement, a proposal to simplify and modernize tax laws in the member states including the creation of a voluntary calculation, collection and remittance program. The proposal became effective in November 2005, when at least ten states with 20% of the population of all states that impose a sales tax modified their sales tax statutes into compliance with the Agreement.

Key Features of the Streamlined Sales Tax System

- **Uniform definitions among state tax laws** - Legislatures still choose what is taxable or exempt in their state. However, participating states will agree to use the common definitions for key items in the tax base.
- **Rate simplification** - States will be allowed one state rate and a second state rate in limited circumstances (food and drugs). Each local jurisdiction will be allowed one local rate. State and local governments will accept responsibility for notice of rate and boundary. States will provide an on-line rate/jurisdiction database to simplify rate determinations.
- **State-level administration of all state and local sales and use taxes** - Businesses will no longer file tax returns with each local government within which it conducts business in a state.
- **Uniform sourcing rules** - The states will have uniform and simple rules for how they will source transactions to state and local governments.
- **Simplified administration of exemptions** - Purchasers will be responsible for paying the tax, interest, and penalties for claiming incorrect exemptions. States will have a uniform exemption certificate in paper and electronic form.
- **Uniform audit procedures** - Sellers who participate in one of the certified Streamlined Sales Tax System technology models will either not be audited or will have limited scope audits, depending on the technology model used. The states may conduct joint audits of large multi-state businesses.
- **State funding of the system** - To reduce the financial burdens on sellers, states will assume responsibility for funding some of the technology models. The states are also participating in a joint business-government study of the costs of collection on sellers.

Source: The Streamlined Sales Tax Project

As of January 2007, twenty-one states have passed compliance legislation and become members of the SSTP governing board, of which fifteen were certified to be in compliance and full board members and an additional six states will be in full compliance by January 1, 2008 and are currently associate board members. The remaining states, including Florida, are non-voting participating members.

The Agreement went into effect October 2005 with an amnesty program for remote vendors. Full and associate states can choose to provide amnesty for previously uncollected sales taxes if the vendor voluntarily collects and remits taxes on sales made by consumers in the state. Over 1,100 vendors have volunteered to join the program, and member states are receiving previously uncollected sales and use tax revenues.

The Benefits of Action

Florida's sales and use tax base is suffering a major and ongoing erosion from remote sales. Under the current system, Florida is leaving \$2 billion on the table in rightfully owed, but uncollected sales tax on these sales.

Not requiring Internet sellers to collect sales tax not only erodes Florida's tax base, but also creates an unfair advantage over "bricks-and-mortar" retailers and "clicks and bricks" retailers with both online and traditional stores. A 6% to 7.5% price break is hard to overcome for Florida's retailers. These businesses have invested in stores and employees and collect our taxes as well as contribute property and other taxes but compete against vendors who do not. Electronics retailer CompUSA recently announced the closing of 126 of its 229 bricks and mortar stores, citing Internet sales as a factor.

This not only directly impacts the state's retailers but lost sales hurts the overall economy as well. Using a conservative multiplier of 2.00, each \$100 million in lost sales creates an additional \$100 million loss in economic activity. An estimated 1.4 million Floridians derive their livelihood from retail.

In addition, it is simply wrong for the State of Florida to make it difficult, if not impossible, for citizens to pay and meet their tax obligations under current law. Ignoring the problem and doing nothing will result in thousands of law-abiding citizens becoming tax cheats. This is simply unacceptable. There is also a fairness issue for poorer consumers without regular Internet access who are likely to pay more sales tax than those consumers with regular access to online purchases.

There is a perception by some lawmakers that this would constitute a tax increase or even a new tax. It must be remembered that the tax is currently owed under Florida law, but it is not being collected. The current sales and use tax system will work if the necessary steps are taken now to modernize it. For those who worry that sales tax revenue from remote sales will simply "grow government," any added revenue could be used to offer smart reductions in other taxes, such as property tax relief.

The integrity of Florida's sales and use tax system cannot be sustained when the fastest growing component, remote sales, remains largely uncollected. The state will eventually have no legitimate use tax anymore.

Conclusion

This issue is the single most important tax compliance issue that can be addressed by the Florida Legislature. Better compliance will be of utmost importance should the sales tax be increased or expanded in the future. By adopting implementing legislation, the State of Florida would simplify its sales tax code and at the same time put Florida in a leadership role among the other states for the continued development of model legislation.

Any future increase in the sales tax will increase the use of the Internet and other remote sales to purchase items, escalating the erosion of the tax base.

Just as we must address the inequities of the Save Our Homes Amendment on property taxes, the capture of existing taxes on remote sales eliminates inequities that hurt Florida taxpayers, businesses and local governments, as well as distort economic activity.

Florida must pass conforming legislation and take whatever actions are necessary to promote rapid implementation of the Streamlined Sales and Use Tax Agreement. If the 2007 Legislature again fails to act on this, remote sales will be an important issue for the Taxation and Budget Reform Commission.

**This *Briefings* was written by Kurt Wenner, Senior Research Analyst,
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Florida TaxWatch is a statewide, non-profit, non-partisan taxpayer research institute and government watchdog that over its 28 year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies, and programs, and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spending policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion -- approximately \$1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

Supported by voluntary, tax-deductible memberships and grants, Florida TaxWatch is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, large corporations, philanthropic foundations, professionals, associations, labor organizations, retirees -- simply stated, the taxpayers of Florida. The officers, Board of Trustees and members of Florida TaxWatch are respected leaders and citizens from across Florida, committed to improving the health and prosperity of Florida.

With your help, Florida TaxWatch will continue its diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer, who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and government agencies are more responsive and productive in the use of your hard-earned tax dollars.

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