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Remote Sales and Use Tax

The Economic Census

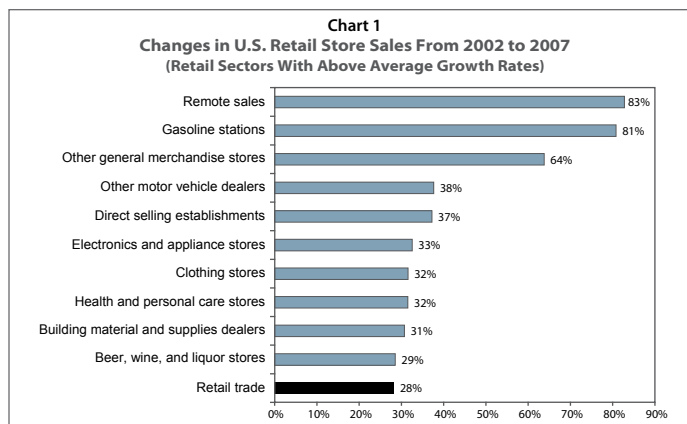
A very important data gathering program administered by the U.S. Census Bureau is the Economic Census. The Census Bureau surveys retailers every five years, in years ending in “2” and “7.” These censuses provide some of the most detailed industry data available, and also provide states with data found nowhere else. It takes several years for all the data to be released, and some detailed industry data from the 2007 survey are not yet available.

Rapid Growth in Remote Sales

Major components of the Retail Trade Survey of the Economic Census were released in 2010. The data show that U.S. sales made by electronic shopping and traditional mail or phone order sales (defined as remote sales for the purposes of this discussion) have grown faster than any other retail industry from 2002 to 2007. Remote sales increased 83 percent from 2002 to 2007, well above the 28 percent growth for all retail trade. (See Chart 1, which shows those retail sectors with faster than average growth rates over this period.) The only retail sector with growth even close to that of remote sales was for gasoline stations, and much of their growth was from price increases in gasoline from 2002 to 2007. (Average U.S. retail gasoline prices doubled from 2002 to 2007.)

California Remote Sales Grew Faster Than the National Average

The geographic component of Economic Census data shows that California remote sellers have performed better than their national counterparts. While national remote sales have increased 83 percent from 2002 to 2007, California remote sales rose 93 percent. California remote sellers account for 13 percent of U.S. remote sales, above the 12.1 state share of total U.S. retail sales.



Electronic and Traditional Mail Order Sales

In addition to the five-year economic surveys, the Census Bureau also collects more frequent data for remote sales, but with less detail than the five-year reports. The Census Bureau also provides data for a component of remote sales, those sales made online, or electronically.¹ The Bureau provides quarterly data for retail electronic commerce sales and monthly data for all remote sales, including traditional mail order sales.

Remote Sales and the Recession

What kind of impact did the “Great Recession” of 2008 and 2009 have on remote sales? As shown in the lower line of Chart 2, remote sales growth rates, while remaining positive, fell sharply during the recession years of 2008 and 2009. During these two years remote sales rose at rates of less than four percent, compared to double-digit growth rates typical for several years prior to the recession.

¹ The Census Bureau has some definitional differences between retail electronic commerce sales and sales made by electronic shopping and mail order houses. Retail electronic commerce sales include car sales, which accounted for about 14 percent of total retail electronic commerce sales in 2008, the most recent year for which data are available.

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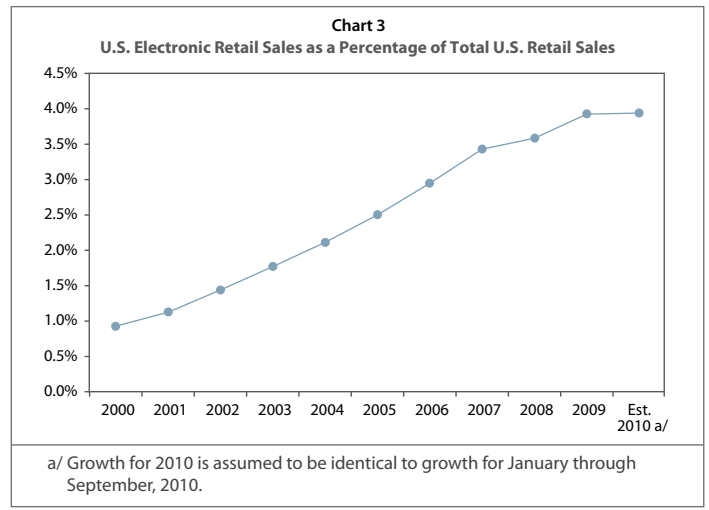
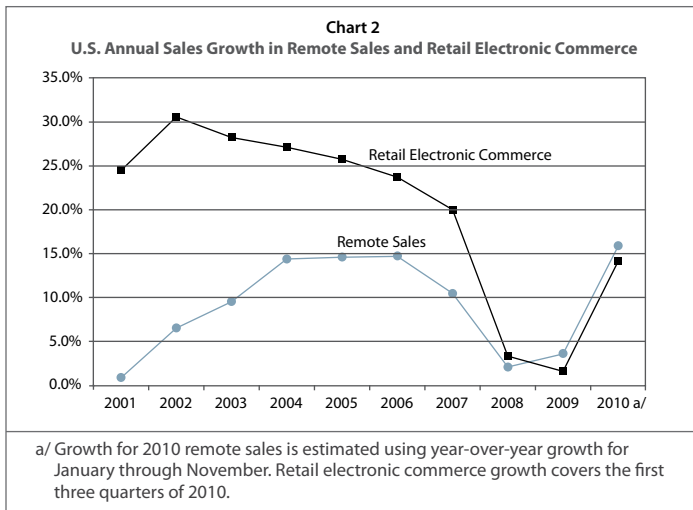
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Strong Recovery in 2010

While growth slowed sharply during the recession, remote sales have bounced back to their pre-recession increases. Over the first eleven months of 2010, remote sales rose about 16 percent compared to the same period of 2009. More recent anecdotal data indicate that remote sales are continuing to increase at close to the same growth rate.

Electronic Commerce Growth Now Close to Matching Traditional Mail Order

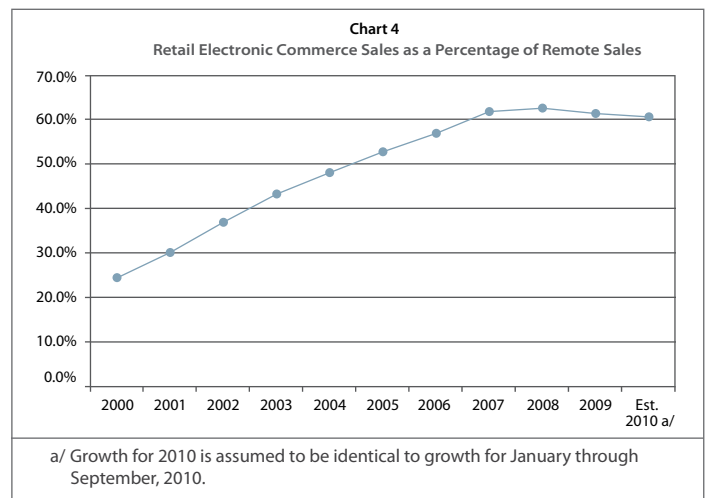
Growth in electronic commerce has closely matched growth in total remote sales over the past three years. This is quite a change from the pre-recession pattern, when electronic commerce sales rose much faster than remote sales. (See Chart 2.) For much of the past decade electronic commerce has grown more than 20 percent per year, as consumers switched some of their purchases from both traditional mail order and “brick and mortar” stores to online stores.

Electronic Sales Shares of all Retail Leveling Off

The percentage of all online retail sales rose from about one percent in 2000 to about four percent by 2010. (See Chart 3.) After steadily rising over the past decade, this percentage appears to be leveling off in recent years.

Electronic Sales Shares of Remote Sales Stabilizing

Another measure of electronic commerce trends is the percentage of all remote sales that are electronic. (Remote sales are defined for our purposes as either electronic shopping or traditional mail or phone order sales.) As shown in Chart 4, electronic commerce sales account for just over 60 percent of remote sales. This percentage appears to have stabilized in recent years, indicating that much of the switchover from traditional mail order channels to online channels has been largely completed by consumers. While traditional mail order sales have received little attention in press reports, these data indicate that traditional mail order sales are likely to be increasing at about the same rate as online sales.



Remote Sales and Tax Administration

Remote sales are very important to tax administrators and policy makers. If remote sales are made to California residents from vendors located outside of California, with no physical presence in this state, federal law prevents California from requiring the vendor to collect use tax from the consumer. The responsibility to remit taxes due falls upon individual California consumers rather than out-of-state vendors. To the extent that such remote mail order and electronic commerce sales are increasing rapidly, there are potential sales and use tax revenue losses to California.²

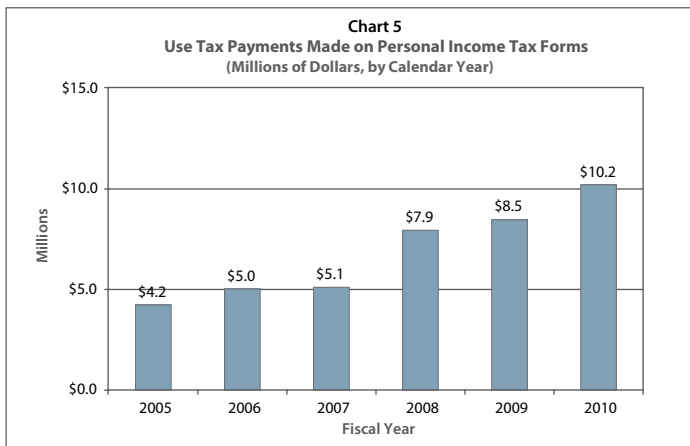
² For Board of Equalization estimates of use tax revenue losses from remote sales, see www.boe.ca.gov/legdiv/pdf/e-commerce-11-10.pdf

California Use Tax Payments

While California consumers have always owed use tax on their purchases from remote sellers located outside the state, it is likely that less than one percent of consumers pay the use tax they owe. To encourage California consumers to declare use tax liabilities, legislation was enacted in 2003 that put a line on personal income tax forms to report these liabilities. Thanks largely to this legislation and efforts by the Board of Equalization to educate consumers and tax preparation professionals, more consumers are now paying their use tax liabilities than in previous years.

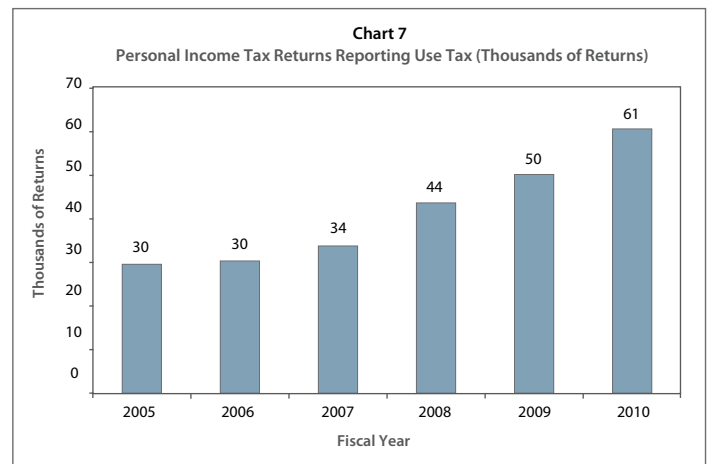
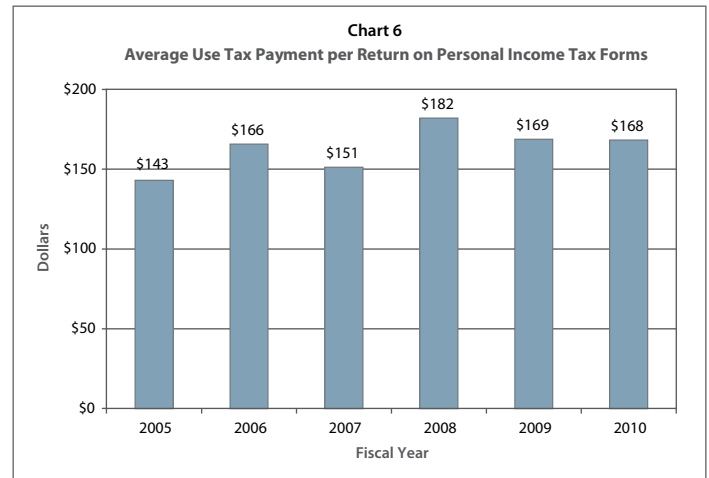
Rapid Growth in Reported Use Tax

Use tax payments have grown sharply as more households have become aware of their tax liabilities. As shown in Chart 5, use taxes reported on personal income tax returns rose from \$4.2 million in calendar year 2005 to \$10.2 million in calendar year 2010.



Number of Use Tax Returns Rising Rapidly

Most of the growth in use tax payments has come from more returns reporting use taxes rather than from more use taxes per return. As shown in Chart 6, average use tax per return was \$168 in year 2010, little change from 2009. The number of returns reporting use taxes has more than doubled, from about 30,000 returns in 2005 to 61,000 in 2010, as shown in Chart 7. However, even in 2010, personal income tax returns reporting use tax represent only about 0.36 percent of all personal income tax returns.



Compliance by Households Remains Low

This percentage seems low in view of likely numbers of Californians who have made remote purchases from vendors without a California presence. While we do not have precise numbers of households making such remote purchases, national surveys indicate that substantial numbers of remote purchases are typically made by most households. According to the Media Audit, about 65 percent of U.S. consumers have made at least one electronic commerce transaction within the past year, and 24 percent have made at least one remote purchase per month.³

High Income Households Pay Most Use Tax

The data also indicate that a large share of use tax payments on personal income tax returns are concentrated among relatively small numbers of returns from relatively high-income taxpayers. The data show that about 1,200 taxpayers accounted for about \$3.3 million dollars in use tax payments out of total use tax payments of \$10.2 million in 2010. This implies that about two percent of taxpayers who reported use tax accounted for about 33 percent of all use tax payments made on personal income tax forms.

³ *Online Minute: E-Commerce Rises 12% in Three Years, The Media Audit fyi*, May, 2010, The Media Audit.

Summary

Trends in remote sales and use tax payments have changed rapidly in recent years. Because these data are very important for tax administration policies, we will continue to closely monitor them.

Contact Us

Please contact us if you would like to be added to our mailing list, need additional copies, or have questions or comments.

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www.boe.ca.gov/members/board.htm

Online Resources

For more information about topics covered in this issue, please visit any of the websites listed below.

California Department of Finance
www.dof.ca.gov

California Employment Development Department (EDD), Labor Market Conditions in California
www.labormarketinfo.edd.ca.gov

Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters
www.phil.frb.org/econ/spf/index.html

National Association for Business Economists
www.nabe.com

U.S. Bureau of Economic Analysis
www.bea.gov

U.S. Bureau of Labor Statistics
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