
Projections of Mississippi Use Tax Revenue Lost from Remote Sales

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Executive Summary

This brief provides an estimate of the potential tax revenue the state of Mississippi could have obtained in 2016 from e-commerce and other remote sales if such sales were taxed in the same manner as sales that physically occurred within the state. Primarily because of a paucity of data, the estimate relies on several assumptions in order to calculate the value of this tax revenue. It includes both “high” and “low” estimates of use tax revenue Mississippi potentially could have obtained in 2016 as an alternative to relying on a single number. The total revenue for 2016 from the high estimate equals approximately \$122.7 million while the low estimate revenue totals approximately \$105.6 million.



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As individual states deal with constrained budgets, they continue to examine numerous potential sources of revenue. In this light, taxation of electronic commerce (e-commerce) has received renewed focus. For example, in 2015 the state of Alabama passed legislation known as the “Simplified Seller Use Tax Remittance Act,” which provides a means for retailers not physically located in the state and that sell to Alabama residents to collect a flat sellers’ use tax on their sales (Alabama Department of Revenue, 2015). A number of other states have passed similar “Amazon laws” (a reference to the e-commerce giant) in recent years in an effort to recover a larger portion of these tax revenues. This brief provides an estimate of the potential tax revenue the state of Mississippi could have obtained in 2016 from e-commerce and other remote sales if such sales were taxed in the same manner as sales that physically occurred within the state. Primarily because of a paucity of data, the estimate relies on several assumptions in order to calculate the value of this tax revenue.

E-commerce sales in the U.S. continue to grow. According to the Quarterly and Annual Retail Trade Surveys of the U.S. Census Bureau (2016b, 2016c), total retail e-commerce sales in the U.S. were \$27.6 billion in 2000; the total in 2015 was \$341.5 billion. The e-commerce share of total U.S. retail sales over this period increased from 0.9 percent to 7.3 percent. Moreover, a preliminary estimate of U.S. retail e-commerce sales for 2016 (see below) indicates an increase of 57 percent since 2012. Figure 1 below depicts annual U.S. retail commerce sales since 2012 and its share of total retail sales. These retail e-commerce sales figures include only business-to-consumer sales; business-to-business sales are believed to be several times larger. However, from 2012 to 2016 growth in business-to-consumer sales has outpaced growth in business-to-business sales. Business-to-consumer sales represented about 8 percent of all e-commerce transactions in 2012; by 2016 this share equaled about 10 percent. At a state level, however, retail e-commerce and other e-commerce sales in Mississippi are likely below the same proportion as the U.S. and likely have grown at a slower pace, for a variety of reasons.



† Projected. Source: U.S. Census Bureau, Annual and Quarterly Retail Trade Surveys and authors' own calculations.

One of these reasons is internet connectivity and use. According to the 2015 American Community Survey of the U.S. Census, 80.8 percent of the total U.S. population living in households lived in a household with a broadband internet subscription (U.S. Census Bureau, 2016a). In Mississippi, the comparable share was 65.6 percent. Similarly, the same survey found 9.6 percent of this population in the U.S. lived in a household with no internet subscription; 18.0 percent of this population in Mississippi lived in a household with no internet subscription. Moreover, the rate of adoption of broadband internet by households appears to be slowing. In fact, the authors of a 2015 Pew Research Center report conclude, "...home broadband adoption seems to have plateaued" (Horrigan and Duggan, 2015). They base this conclusion on surveys by Pew Research that found the share of U.S. adults with broadband internet at home fell from 70 percent in 2013 to 67 percent in 2015. The same surveys also determined the rate for rural residents fell 5 percentage point over the same period (60 to 55 percent) and the rate of household broadband adoption by African-Americans declined 8 percentage point from 2013 to 2015 (62 to 54 percent). Correspondingly, the survey found an increase across all groups in the share of individuals who own a smartphone but have no broadband internet access at home. Nevertheless, the smartphone does not appear to play a major role in e-commerce transactions, at least

at present. A separate Pew Research Center survey in 2015 determined that while 64 percent of U.S. adults owned a smartphone, only 7 percent of U.S. adults owned a smartphone but had no broadband internet at their residence or no “easily available” alternative to accessing the internet other than their smartphone (Smith et al., 2015).

More pointedly, a 2015 study by the National Telecommunications and Information Administration (NTIA) found that while 68.6 percent of U.S. internet users fifteen years old and older shop online, only 58.5 percent of Mississippi internet users fifteen years old and older shop online (U.S. Department of Commerce, 2016). The percentage of Mississippi consumers shopping online was second-lowest among all states. Only Oklahoma (56.2 percent) had fewer internet users shopping online than Mississippi, while West Virginia ranked 48th with 59.9 percent of users.

Finally, in general, a credit card is required to complete most e-commerce sales transactions, and in this area Mississippi also lags the rest of the nation. According to a report published by the Federal Reserve Bank of New York, only 51.6 percent of Mississippi residents nineteen years old and older possess a credit card or a home equity line of credit, the lowest rate among all states. The national average is 69.7 percent (Hamdani and Kramer, 2016).

In order to determine the value of potential sales and use tax collections, the value of remote sales made to residents of the state of Mississippi is needed. Unfortunately, this data does not exist. While national e-commerce data are available, it is not divided among the states. Moreover, data regarding non-electronic remote sales do not exist. Non-electronic remote purchases consist of sales through more conventional means such as telephone and mail order. As a result of this lack of data, the very foundation of the estimation in this brief is based inherently on many assumptions and estimates.

We began with the U.S. Census Bureau estimate of national e-commerce sales in order to determine the level of e-commerce purchases in Mississippi. Based on the data in the Monthly Retail Trade Survey, a preliminary estimate of the value of national e-commerce sales for 2016 is \$361.0 billion

(U.S. Census Bureau, 2016b). A number of studies estimate Mississippi's portion of national retail sales at about 1.04 percent. However, we believe this estimate is overstated, in part for the reasons outlined above. Therefore, the state's share of national retail sales was set at 0.85 percent. In an effort to provide more accurate estimates, the buyers in remote sales transactions were divided into two categories: businesses and individuals. Both the Mississippi Department of Revenue (DOR) and the University Research Center (URC) concluded that purchasing patterns and the level of compliance with the sales and use tax on remote sales are different for businesses and individuals. Based on discussions with representatives from the Mississippi DOR, the total value of Mississippi's e-commerce sales is estimated to consist of 90 percent to businesses and the remaining 10 percent to individuals. Remote sales other than e-commerce were estimated to include business non-electronic remote purchases that were approximately 15 percent lower than e-commerce purchases. Individual non-electronic remote purchases were estimated to be about 8 percent more than e-commerce purchases.

Tables 1 and 2 below present the "high" and "low" estimates, respectively, of use tax revenue Mississippi potentially could have obtained in 2016. While the range between these estimates is relatively narrow, they are provided as an alternative to relying on a single number. Additional assumptions were made regarding the taxability of remote purchases made by businesses and individuals on e-commerce and non-electronic sales for both the high and low estimates. As seen in the third column of Table 1, again based on discussions with DOR, we assume 90 percent of e-commerce sales to individuals are taxable and that 80 percent of business e-commerce sales are taxable. For other remote sales, 100 percent of individual sales are assumed taxable while 60 percent of business sales are assumed taxable. In the third column of Table 2, the percentages are the same with the exception of business e-commerce sales, which are assumed to be 75 percent taxable. Mississippi's 7.0 percent tax rate is applied to all sales as seen in the fifth column of both tables. The seventh column of both tables lists the estimated current compliance rates with Mississippi's use tax according to information from

individuals with DOR, which are required to calculate the value of potential tax revenues from remote sales. The compliance rate for individuals is minimal but positive, and is estimated at 2 percent in both tables. The estimated business compliance rate with use taxes is considerably higher and set at 75 percent in Table 1 and 80 percent in Table 2. The final column of both tables lists the estimated use tax revenue not currently collected by the state of Mississippi based on calculations using each of the rates previously discussed. The total revenue for 2016 from the high estimate equals approximately \$122.7 million while the low estimate revenue totals approximately \$105.6 million.

In conclusion, the value of e-commerce remote sales to Mississippi already exceeds the value of traditional, non-electronic remote sales. Therefore, these sales represent, potentially, a meaningful source of tax revenue for the state. Based on national trends, e-commerce sales to Mississippi should only be expected to continue to grow. However, for a number of reasons discussed above, growth of e-commerce sales to Mississippi likely will lag that of most other states.

Table 1. Revenue Loss Projection, 2016: High Estimate.

E-Commerce	Total Sales	Percent Taxable	Taxable Purchases	Tax Rate	Tax Due	Current Compliance	Estimated Revenue Loss
Individual	\$361,023,315	90%	\$324,920,984	7%	\$22,744,469	2%	\$22,289,579
Business	\$3,249,209,835	80%	\$2,599,367,868	7%	\$181,955,751	75%	\$45,488,938
TOTAL	\$3,610,233,150		\$2,924,288,852		\$204,700,220		\$67,778,517
Non-Electronic							
Individual	\$382,684,714	100%	\$382,684,714	7%	\$26,787,930	2%	\$26,252,171
Business	\$2,729,336,261	60%	\$1,637,601,757	7%	\$114,632,123	75%	\$28,658,031
TOTAL	\$3,112,020,975		\$2,020,286,471		\$141,420,053		\$54,910,202
GRAND TOTAL	\$6,722,254,125		\$4,944,575,322		\$346,120,273		\$122,688,719

Table 2. Revenue Loss Projection, 2016: Low Estimate.

E-Commerce	Total Sales	Percent Taxable	Taxable Purchases	Tax Rate	Tax Due	Current Compliance	Estimated Revenue Loss
Individual	\$361,023,315	90%	\$324,920,984	7%	\$22,744,469	2%	\$22,289,579
Business	\$3,249,209,835	75%	\$2,436,907,376	7%	\$170,583,516	80%	\$34,116,703
TOTAL	\$3,610,233,150		\$2,761,828,360		\$193,327,985		\$56,406,283
Non-Electronic							
Individual	\$382,684,714	100%	\$382,684,714	7%	\$26,787,930	2%	\$26,252,171
Business	\$2,729,336,261	60%	\$1,637,601,757	7%	\$114,632,123	80%	\$22,926,425
TOTAL	\$3,112,020,975		\$2,020,286,471		\$141,420,053		\$49,178,596
GRAND TOTAL	\$6,722,254,125		\$4,782,114,830		\$334,748,038		\$105,584,879

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