



# MANY VOICES, ONE VISION

FARM BUREAU®—CONFRONTING THE ISSUES

## **Sales Tax on Internet Sales** **AFBF Policy Development** **May 2012**

### **Issue:**

Many rural communities find themselves losing their retail base. Local retailers are competing with Internet retailers who do not have to collect sales tax if they do not have a physical presence in that state. This deprives local and state government of tax revenue needed to provide essential services.

### **Questions:**

Do you agree or disagree that remote sellers have an unfair price advantage by not collecting state and local sales taxes? Does this have an impact in your community?

With tight budget pressures nationwide, how important is it to increase tax revenue for state and local governments? Is your county/state considering a tax increase or cuts to services?

Should Farm Bureau policy be changed to support allowing states and local governments to collect sales taxes from out-of-state sellers?

### **Background:**

The development of new technologies and digital processes has had a profound effect on the U.S. economy. According to the most recent U.S. Census, e-commerce sales have grown from \$995 billion in 1999 to \$2,385 billion in 2006. Since Internet retailers do not have to collect sales tax if they do not have a physical presence in that state, many rural communities are finding themselves losing tax revenues and their retail base. Currently, Farm Bureau opposes requiring out-of-state sales tax collection.

The Commerce Clause of the Constitution gives the federal government power to regulate interstate commerce and prohibits certain state actions that interfere with trade among the states. In 1992 the Supreme Court ruled, in *Quill Corps. v. North Dakota (Quill)*, that out-of-state sellers can only be required to collect sales tax if they have a store or other physical presence in the customer's state. However, the court explicitly stated that Congress can overrule the decision through legislation.

As a result of *Quill*, 45 states and the District of Columbia responded by working with local governments and the business community to adopt a comprehensive interstate system to harmonize and simplify their sales tax rules and administrative requirements called the Streamlined Sales and Use Tax Agreement. To date, 24 states have changed their laws to comply with this interstate agreement. The *Quill* decision made it clear Congress would need to authorize and sanction such an agreement.

Sens. Dick Durbin (D-Ill.), Mike Enzi (R-Wyo.) and Lamar Alexander (R-Tenn.), and a bipartisan group of seven other senators, have introduced a bill, S. 1832, the Marketplace Fairness Act. Under the proposed legislation, states would have the option to collect sales and use tax revenues from out-of-state sellers through the new simplified tax system. There is an exemption in the legislation for remote sellers with less than \$500,000 in annual remote nationwide sales. Some companies that do business over the Internet oppose the collection of sales taxes on Internet sales because doing so will erase one of the benefits of remote shopping as well as increase the cost of doing business. These costs will likely be passed on to consumers and will have a disproportionate impact on those who must rely on Internet sales because they live in places with limited shopping options.

Brick and mortar retailers have long supported a level playing field where all retailers operate by the same tax rules regardless of whether they sell merchandise in a traditional store, through the mail or over the Internet. They argue online

retailers who are not required to collect sales tax from the majority of their customers enjoy an unfair price advantage over local merchants who are required to collect sales tax from everyone. When this disadvantage forces a business to close, the loss of “main street” businesses is especially hurtful to already struggling rural towns.

In addition to placing local merchants at a disadvantage, this disparity deprives state and local governments of tax revenue they need to provide essential services. A report from the University of Tennessee indicates the United States’ expected loss of tax revenue from e-commerce sales from 2007 to 2012 equals approximately \$56.4 billion. Since local governments and schools rely heavily on property taxes for funding, when sales tax revenues decline they often turn to increased property taxes to make up for the shortfall. This is often damaging to land-based businesses like farming and ranching.

**Farm Bureau Policy:**

436 - Sales, Fuel and Excise Taxes

Line 30: We oppose requiring out-of-state sales tax collection.