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Death and taxes are inevitable, even online

Since the beginning of e-commerce, consumers have largely avoided paying sales tax. But now that online purchases are on the rise, a Supreme Court decision allows states to collect sales tax only from those retailers with a physical presence in their state, but it also ruled that Congress could require online retailers to pay sales taxes for all states.

Congress has declined to act, but that may change. Companion bills in the House and Senate would require online retailers to pay state sales tax to those states that simplify their tax rates according to a formula included in the bills. North Carolina has done the necessary simplification. At a time when cutbacks by state and local governments are one of the biggest drags on the economy, this matters. The National Conference of State Legislatures estimates that state governments will lose $23.1 billion in sales tax revenues this year as a result of remote retailing (which includes catalog as well as online sales). The conference’s figure for North Carolina is $436 million. That would hire a lot of teachers and leave enough to repair a bridge or two.

A secondary reason to commend the proposed legislation is tax neutrality. A key economic principle is that taxes designed to generate revenue shouldn’t encourage certain activities at the expense of others. To be sure, the incentive effect of sales taxes is small, but minimizing such effects is the appropriate goal for tax policy.

Therefore, it makes little sense for our system of sales taxes to give an advantage to online shopping, even a slight one, especially when doing so deprives states of tax revenues they would otherwise collect. The success of e-commerce should be based on its pricing and convenience, not its ability to evade sales tax.

The proposed legislation is not without opposition. Some conservatives object to it because they see it as a tax increase rather than a mechanism to collect existing taxes. Others go beyond anti-tax principles and claim that the increase in taxes paid will discourage consumer spending, which is hardly what the economy needs. However, the small incentive effect of sales taxes makes it highly unlikely that consumers will spend noticeably less. For example, the Tax Foundation has found that sales-tax holidays, which serve as a kind of natural experiment by temporarily eliminating sales tax, change the timing of consumer spending but not the amount.

Moreover, while online purchases have increased steadily as a share of all retail sales, e-commerce still accounts for only about 5 percent of retail purchases. Even if sales taxes had a strong incentive effect, the overall effect of collecting sales tax for online purchases would be diluted by a factor of 20.

Finally, some opponents argue that remote retailers shouldn’t pay sales tax because they don’t impose costs on their customers’ states. But roads are driven on when merchandise is delivered, regardless of who sold it. Most sales taxes are structured so the delivery location determines the applicable tax rate. In North Carolina, for example, a Greensboro company that makes a delivery to a Charlotte customer must collect the Mecklenburg tax rate.

The proposed legislation allows small online retailers to continue evading state sales tax, which makes little sense. Are small online retailers more deserving of this exemption than small brick-and-mortar stores? A better solution would be to include small online retailers, but do so gradually.

Online retailers have gotten a break for many years. It’s time for them to pay their taxes like everyone else.

Andrew Brod is a senior research fellow in UNC-G’s Center for Business and Economic Research and a member of The Business Journal’s Editorial Board of Contributors. Reach him at (336) 707-6439 or AndrewBrod@uncg.edu. An archive of his columns is available at http://chebuncg.edu.

Opinion

BUSINESS PULSE SURVEY

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