

**RETAIL SALES TAX COMPLIANCE COSTS:
A NATIONAL ESTIMATE**

Volume One: Main Report

Prepared for

Joint Cost of Collection Study

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RETAIL SALES TAX COMPLIANCE COSTS: A NATIONAL ESTIMATE

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RETAIL SALES TAX COMPLIANCE COSTS: A NATIONAL ESTIMATE

Preface

In June 2004, the Joint Cost of Collection Study ("JCCS")—a public-private partnership—retained PricewaterhouseCoopers LLP ("PwC") to conduct a two-part study of state and local retail sales tax compliance costs in the United States.¹ The objective of the first part of the project is to develop a baseline national estimate of the compliance costs incurred by retailers in collecting and remitting state and local sales taxes in 2003. The survey data collected in Part One of the project will be used to develop an econometric model of sales tax compliance costs in Part Two. The intended use of this model is to estimate how changes in state and local sales tax systems potentially would affect retailers' compliance costs.

This report, which contains two volumes, presents the results of the Part One study. Volume One discusses the project scope and objectives, reviews prior studies, describes the definition and measurement of sales tax compliance cost, and presents survey results. Volume Two is a detailed technical report on the survey analysis prepared by the National Opinion Research Center ("NORC") at the University of Chicago under contract to PricewaterhouseCoopers LLP. The technical report covers sample design and implementation, questionnaire development, field survey operations, consistency checks, imputation, codebook counts, and margin of error analysis.

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The development of the survey instrument, study methodology, and sampling design was reviewed by the Academic Advisory Council (AAC). We gratefully acknowledge advice and comments received from the Council, whose members are:

¹ The JCCS sponsoring organizations are: Council on State Taxation, Federated Department Stores, Federation of Tax Administrators, J.C. Penney Corporation, Inc., Multistate Tax Commission, National Conference of State Legislatures, National Retail Federation, Radioshack, Inc., Streamlined Sales Tax Project, and Wal-Mart Stores, Inc.

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RETAIL SALES TAX COMPLIANCE COSTS: A NATIONAL ESTIMATE

EXECUTIVE SUMMARY

State or local retail sales taxes are imposed by 46 states, the District of Columbia, and approximately 7,400 local jurisdictions in the United States. Approximately \$220 billion of general sales taxes were paid in fiscal 2003, contributing almost one quarter of state and local government tax revenues. Primarily collected and remitted by retailers, the compliance burden of the sales tax is concentrated on a relatively small segment of the business community.

Previous research has measured retail sales tax compliance costs for a handful of states. This report is the first national estimate of the cost to retailers of complying with state and local sales taxes. It is based on a large scale national survey of retailers that was fielded in several waves from August 2004 through March 2005. The survey includes retailers that have sales tax collection responsibilities solely within a single state as well as multistate retailers. In addition, the survey includes retailers that sell exclusively through retail outlets as well as retailers with remote sales (e.g., mail order and Internet sales). The compliance cost of remitting use tax on taxable purchases made by retailers was not included in the study.

In addition to compliance costs such as documentation and filing tax returns that divert real resources (e.g., labor and capital) from other activities, the study also measures "net implicit transfers" associated with sales tax collection. These implicit transfers are vendor discounts and net float. Vendor discounts are specified portions of sales tax collections that some jurisdictions allow retailers to keep in exchange for timely remittance of tax.² Net float is the value of investing sales tax collections from the time that the funds are received from the customer to the time that the funds are remitted to tax authorities. Net float can be negative if sales taxes are collected by the retailer after remittance to tax authorities.

The population for the study consists of retail firms, other than eating and drinking establishments, with annual sales in excess of \$150,000, listed in Dun & Bradstreet's ("D&B's") business file. The sample was stratified by size of annual retail sales and by nine state groupings, each of which includes states that have sales tax systems with similar characteristics. More than 13,000 surveys were sent to retailers, including all of the companies on D&B's file with annual sales of at least \$100 million. The overall response rate was about eight percent of the surveys sent to valid addresses. Survey responses were statistically weighted to match industry totals reported by the U.S. Census and the Bureau of Labor Statistics.

For reporting purposes, the study divides retailers into three size categories based on annual retail sales: small (more than \$150,000 and up to \$1 million); medium (more than \$1 million and up to \$10 million); and large (more than \$10 million).

The study finds that the national average annual state and local retail sales tax compliance cost in 2003 was 3.09 percent of sales tax collected for all retailers, 13.47 percent for small retailers, 5.20 percent for medium retailers, and 2.17 percent for large retailers (see Table E.1).

² As of January 1, 2004, 26 states and the District of Columbia allowed vendor discounts (see Appendix B).

Table E.1. -- Gross Retail Sales Tax Compliance Costs, 2003

Compliance costs as a percentage of:	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Sales tax collected	13.47%	5.20%	2.17%	3.09%
Taxable sales	0.82%	0.32%	0.13%	0.19%

Note: All results are statistically significant at the 5% level.

As a percent of total taxable sales, gross compliance cost for all retailers averaged 0.19 percent in 2003: 0.82 percent for small retailers, 0.32 percent for medium retailers, and 0.13 percent for large retailers.

On a national basis, the study finds that average sales tax compliance cost—either as a percent of sales tax collections or as a percent of taxable sales—is more than six times greater for small retailers than for large retailers. The survey results are consistent with earlier studies (such as the 1998 Washington State Department of Revenue Sales Tax Compliance Cost Study) that also found substantial economies of scale in the cost of sales tax compliance.

Gross costs of collecting and remitting sales tax are offset in part by vendor discounts and net float. On a national basis, vendor discounts amounted to 0.50 percent of sales tax collections in 2003: 0.96 percent for small retailers, 0.68 percent for medium retailers, and 0.45 percent for large retailers (see Table E.2). The limited vendor discounts for large retailers is not surprising as many states cap discounts (see Appendix B for details).

On a national basis, net float as a percent of sales tax collections averaged 0.10 percent for all retailers in 2003: 0.15 percent for small retailers, 0.14 percent for medium retailers, and 0.09 percent for large retailers.³ The lower value of net float for large retailers reflects the fact that many jurisdictions require more frequent remittance by high-volume retailers.

Table E.2.--Net Implicit Transfers Related to Collection of Sales Tax, 2003
[As a percentage of total state and local sales tax collections]

Net Implicit Transfers	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Vendor discount*	0.96%	0.68%	0.45%	0.50%
Net float	<u>0.15%</u>	<u>0.14%</u>	<u>0.09%</u>	<u>0.10%</u>
Total	1.11%	0.82%	0.54%	0.60%

* The vendor discount rates presented in the table represent the national average across all states. Actual vendor discounts allowed in each state, which can differ markedly from the national average, can be found in Appendix B. Note: All results are statistically significant at the 5% level.

³ The interest rate used is the average APR for bank prime loans in 2003, which was 4.12 percent. The estimated dollar-weighted average number of net float days was 13 for small retailers, 12 for medium retailers, and 8 for large retailers.

Overall, net implicit transfers offset only 19 percent of gross compliance costs. The offset was 8 percent for small retailers, 16 percent for medium retailers, and 25 percent for large retailers. Thus, between 75 and 92 percent of retailers' costs of collecting state and local sales tax is *not* compensated through vendor discounts or net float.

The survey requested that retailers apportion compliance costs among eight cost categories:⁴

1. Training of personnel on sales tax
2. Documenting tax-exempt sales
3. Customer service relating to sales tax issues
4. Sales tax-related software and license fees
5. Programming and servicing cash registers
6. Returns preparation and related costs (remittances, refund credits, and sales tax research)
7. Dealing with sales tax audits and appeals
8. Other compliance costs

In addition, two related compliance costs were estimated: (1) unrecovered sales tax paid due to bad debt;⁵ and (2) debit/credit card fees on sales tax collections.⁶

The top three sales tax compliance cost categories for small retailers are: (1) return preparation and related costs; (2) documentation of tax-exempt sales; and (3) training of personnel on sales tax (see Table E.3). Return preparation and documentation of tax-exempt sales were also the top two compliance cost categories for medium retailers, and debit/credit card fees attributable to sales tax collections ranked third.

For large retailers, the most important compliance cost categories are: (1) debit/credit card fees on sales tax collections; (2) unrecovered sales tax paid due to bad debts; and (3) training of personnel on sales tax.

The survey also finds variations in sales tax compliance costs for retailers within different retail segments and by percentage of direct market sales, number of nexus states, number of taxable products, and percentage of taxable sales.

⁴ The survey requested that retailers report the annualized equipment cost associated with sales tax compliance, however, some retailers may not have included related cash register costs.

⁵ According to CCH Incorporated, in all states with a state-level sales tax, the retailer is allowed to claim a bad debt credit or refund or to exclude the bad debt from the sales tax base, when a customer defaults on payment for purchases made on credit or by check. When the retailer does not or cannot take advantage of this tax relief, the unrecovered tax on bad debt becomes a sales tax compliance cost to the retailer. In some cases, the cost of recovering a sales tax credit or refund for bad debt is larger than the tax at stake.

⁶ Debit and credit card companies charge merchants a fee for their customers' use of these payment products. Typically some or all of the card fee is calculated as a percentage of the amount charged. Because the amount charged on sales transactions includes sales tax, merchants pay higher debit/credit card fees as a result of sales tax.

Table E.3. --Gross Compliance Costs by Type and Size of Annual Retail Sales, 2003
 [As a percentage of total state and local sales tax collections]

Compliance Costs	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted average
For retailers that provided cost breakdown	16.84%	4.21%	1.03%	1.81%
<i>Training of personnel on sales tax</i>	1.87%	0.55%	0.35%	0.41%
<i>Documenting tax-exempt sales</i>	3.80%	0.87%	0.13%	0.31%
<i>Customer service relating to sales tax issues</i>	0.74%	0.21%	0.06%	0.10%
<i>Sales tax-related software and license fees</i>	1.86%	0.36%	0.10%	0.17%
<i>Programming and servicing cash registers</i>	1.17%	0.35%	0.10%	0.16%
<i>Returns, remittances, refund credits, sales tax research</i>	5.35%	1.19%	0.12%	0.38%
<i>Dealing with sales tax audits and appeals</i>	1.03%	0.46%	0.12%	0.18%
<i>Other compliance costs</i>	1.03%	0.23%	0.05%	0.11%
For retailers that did not provide cost breakdown	9.08%	3.41%	1.54%*	2.56%*
Related compliance costs for all retailers	1.85%	1.29%	1.02%	1.09%
<i>Debit/credit card fees on sales tax</i>	0.76%	0.76%	0.64%	0.66%
<i>Unrecovered sales tax paid due to bad debt</i>	1.09%	0.53%	0.38%	0.43%
Total gross compliance costs for all retailers	13.47%	5.20%	2.17%	3.09%
<i>External costs of compliance</i>	3.79%	0.87%	0.14%	0.42%
<i>Internal costs of compliance</i>	9.68%	4.33%	2.03%	2.67%

* Not statistically significant at the 5% level.

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I. INTRODUCTION

State or local retail sales taxes are imposed by 46 states, the District of Columbia, and approximately 7,400 local jurisdictions in the United States. Approximately \$220 billion of general sales taxes were paid in fiscal 2003, contributing almost one quarter of state and local government tax revenues. Primarily collected and remitted by retailers, the compliance burden of the sales tax is concentrated on a relatively small segment of the business community.

In June of 2004, the Joint Cost of Collection Study (“JCCS”)—a public-private partnership—retained PricewaterhouseCoopers LLP (“PwC”) to conduct a large-scale survey to develop the first national measure of sales tax compliance costs.¹ A sample of 13,000 retailers, large and small, from every state and the District of Columbia was statistically selected and the survey was fielded from August 2004 through March 2005.

The results of the survey are presented in two volumes. Volume One discusses the project scope and objectives, reviews prior studies, describes the definition and measurement of sales tax compliance cost, and presents the summary results of the survey.

Volume Two is a detailed technical report on the survey analysis prepared by the National Opinion Research Center (“NORC”) at the University of Chicago under contract to PwC. The technical report covers sample design and implementation, questionnaire development, field survey operations, consistency checks, imputation, codebook counts, and margin of error analysis.

¹ The JCCS sponsoring organizations are: Council on State Taxation, Federated Department Stores, Federation of Tax Administrators, J.C. Penney Corporation, Inc., Multistate Tax Commission, National Conference of State Legislatures, National Retail Federation, Radioshack, Inc., Streamlined Sales Tax Project, and Wal-Mart Stores, Inc.

II. PROJECT SCOPE AND OBJECTIVES

The cost of collection project has two parts.

The objective of the first part of the project is to develop a baseline national estimate of the compliance costs incurred by retailers in collecting and remitting state and local sales taxes in 2003.

The objective of the second part of the project is to develop an estimate of how compliance costs and net implicit transfers are related to specific characteristics of sales and use tax systems and of retailers. The survey data collected in the first part of the project will be used to develop an econometric model of sales tax compliance costs. Among other things, the econometric analysis will compare cash register costs and employment of retailers in states with and without sales taxes. The intended use of this model is to estimate how changes in state and local sales tax systems potentially would affect retailers' compliance costs.

III. LITERATURE REVIEW

In the past half century there have been more than a score of studies of varying qualities of the compliance cost of state sales taxes. May (1984) summarizes 24 studies of the cost of collection carried out between 1956 and 1983. The methodologies of these studies are not detailed, but it is clear that they differed greatly in their comprehensiveness, based on the fact that the sample size varied from as low as 7 to as high as more than 2,000. As a percent of sales tax collected, the median cost of collection estimated in these 24 studies was 4.4 percent. One noteworthy study was done by Peat Marwick, Mitchell and Company (1982), with a total sample size of 2,622 covering seven states in 1982. The study estimated the cost to retailers ranging from 2.0 percent of tax due in Missouri to 3.75 percent in Arizona. It found that the main element in compliance costs was the cost of distinguishing between taxable and nontaxable items. A *Tax Administrators News* survey in 1993 combined the results of several studies after 1990 and found an average cost for all retailers in all states of 3.18 percent of total sales tax collected. The lowest cost state was Florida (2.69 percent), and the highest cost state was Colorado (4.52 percent).

Two recent studies are worthy of more detailed attention. Price Waterhouse (1990) interviewed 45 retailers about their procedures, personnel, equipment, and other sales tax-related expenses, in order to identify key factors influencing the retailers' cost to collect and remit sales tax. It then sent two-page surveys to 4,871 retailers nationwide and received 867 responses, an 18 percent response rate. The mail surveys did *not* ask questions about cost, asking instead about the cost drivers identified in the on-site interviews. The study concluded that the national average cost was 3.48 percent of total sales tax liability. Up to 60 percent of the total sales tax compliance costs were a function of point-of-sale equipment and tax collection labor and operating expenses, costs related to tax compliance and audit, and costs related to the fees charged by credit card companies on the sales tax portion of credit sales.

The most recent major study was done in 1998 by the Washington Department of Revenue ("WDOR"). WDOR sent surveys to 3,000 retailers in Washington (51 percent responded) and a control group of 400 retailers in Oregon (36 percent responded), and used the responses to estimate dollar costs of various aspects of sales tax compliance. The dollar-weighted average compliance cost was 1.42 percent of revenue collected. The estimated burden was quite regressive: 6.47 percent of revenue collected for small retailers (gross retail sales between \$150,000 and \$400,000); 3.35 percent for medium retailers (gross retail sales between \$400,000 and \$1,500,000); and 0.97 percent for large retailers (gross retail sales over \$1,500,000). These figures do not reflect a separately-calculated subtraction of the benefits of float.

One crucial aspect of the WDOR study's conclusions is that 78 percent of the estimated cost of compliance for large retailers, and approximately 67 percent of the overall cost, is attributed to credit and debit card fees. This is because the WDOR data show credit card fees as a roughly constant fraction of about 0.8 percent of tax due for all types of firms. Taking these costs out, the overall average compliance cost was just 0.47 percent of sales tax collections overall and 0.21 percent for large retailers. Including these costs as part of compliance cost is justified as follows: "retailers pay credit card companies a fee for each credit card sale. Since the fee is a percentage of the total amount charged on the credit card, the retailer must pay a fee on the

amount of sales tax collected.” (p. 14). This procedure depends on an incidence assumption: that the consumer price rises precisely by the amount of the statutory tax rate. Measuring these costs critically depends on the fee schedule for credit card use and the fraction of sales that are made via credit card.

WDOR’s focus groups confirmed the conventional wisdom that the most burdensome and time-consuming aspect of sales tax compliance is in distinguishing taxable sales from exempt sales, citing “large time commitment to obtain, store, update, and retrieve paperwork to document exempt sales.” WDOR estimated the cost of this commitment by comparing staffing levels of stores with a high percentage of exempt sales to stores with a low percentage of exempt sales. It found there was no statistical relationship between exempt sales and staffing levels, and concluded that, on average, distinguishing exempt from taxable sales imposed no extra costs.

WDOR argues that retailers may have shifted much of the compliance burden from labor to capital by using programmed cash registers and other equipment to keep track of the sales tax. It estimates the average equipment cost on a small retailer (\$150,000 - \$400,000 annual sales) at 1.59 percent of tax due, but assume no cost for a medium or large retailers (\$400,000 - \$1.5 million) on the grounds that larger firms will have sophisticated equipment whether subject to a sales tax or not. (WDOR used the Oregon retailers as a control group because Oregon has no sales tax.) It showed programming costs in response to a tax law change as a significant cost for medium retailers (0.72 percent of sales tax collections), but not for large retailers.

By its nature, the Washington State study was restricted to a single state and did not address the complexities of compliance costs for retailers with a multi-state presence. More specifically, the Washington State study did not attempt to allocate costs associated with multi-state retail operations, or to capture the degree to which compliance costs vary depending on the complexity of the sales and use tax systems in individual jurisdictions.

IV. DEFINITION AND MEASUREMENT OF SALES TAX COMPLIANCE COSTS

A. Definition of Sales Tax Compliance Costs

The standard definition of compliance costs is offered by Sandford (1995): "...costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. They are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax; costs that would disappear if the tax was abolished."

This definition makes clear that ideally one wants to measure the incremental costs imposed by the tax system. The resource cost is the value, or opportunity, of the time and other resources expended in compliance.

Certain aspects of sales and use tax institutions alter "the actual payment of tax." An example of this is "float"—allowing the retailer to hold on to the tax "collected" for a while before having to remit it to the state. The interest gained by the retailer is exactly offset (assuming the same interest rate applies) by the foregone interest receipts of the state; thus, this is a pure transfer between the government and the retailer, rather than a social cost. It is a reduction in the "actual payment of tax," as if the retail sales tax rate was dropped from the statutory rate of, for example, 6 percent to $6-x$ percent, where x is the accrual-equivalent value of the float. Another example of this argument is the case of vendor discounts offered by 26 states and the District of Columbia, under which the retailer is allowed to retain a proportion of sales and use tax "collected," generally offered only upon prompt remittance of tax liability. These payments do not represent a (negative) compliance cost, because they are a transfer of funds from the state to the business; no real resources, either people or capital services, are used up. They do reduce the net revenue collected. Exactly the same logic applies to the deductibility of compliance cost from, and the inclusion of, vendor discounts in state taxable income. This affects the amount of total tax paid by the business and collected by the state via the income tax, but does not impose a resource cost.

We refer to the net amount of these costs (including, but not limited to vendor discounts, net float, and state income tax deductibility) as the *net implicit transfer* to distinguish them from compliance costs. The word "implicit" in the phrase connotes the fact that this amount is measured relative to the official statutory tax rate. To help with the determination of an appropriate vendor discount, we can also calculate the net implicit transfer ignoring the existing vendor discount.

The fact that business compliance costs and, perhaps, vendor discounts affect the calculation of federal taxable income may also affect a business. However, unlike the case of state income tax liability, this deduction is for the most part not offset by a decrease in state tax collections; in this case, the revenue reduction is shared, via a federal revenue reduction, with citizens of all states. This study will not address this issue.

All of these concepts must be distinguished from the notion of who ultimately bears the burden of a state sales tax system. The economic theory of tax incidence stresses that the burden must be traced to individuals, rather than businesses, and depends on the supply and demand

characteristics of the taxed and untaxed markets. Whether the burden of a sales tax is ultimately borne in proportion to individuals' purchases of taxed goods, or is partly or fully shifted so that it is borne in proportion to individuals' wages or business income, is a question beyond the scope of this study. Furthermore, the incidence of sales tax compliance costs may be quite different than the incidence of the tax (net of implicit transfers) itself because compliance costs are not uniform across vendors.

The main instrument for measuring sales tax compliance costs is an eight-page survey that was sent to 13,000 retailers nationwide (see Appendix A for a copy of the survey questionnaire). The intent was to solicit information about the retailer that might affect sales compliance costs and to directly ask about the costs. The questions are limited to those costs included in the definition of compliance costs given in this section, and they divide costs into eight basic categories. No attempt is made to break out costs on a store-by-store basis, although the survey does ask about the number of separate retail establishments.

The data collected from these surveys will serve as the basis for an econometric analysis of the determinants of sales tax compliance costs in Part Two of the study.

B. Categorization of States by Sales Tax Complexity Level

With the assistance of the JCCS Steering Committee and state tax officials, we have classified the 50 states and the District of Columbia into nine state groups. The categorization is based on the following six criteria: (1) whether a state has a local government tax option; (2) whether the sales tax base is uniform among all local jurisdictions; (3) whether the state and local sales tax bases are uniform; (4) whether there exists uniform sales tax rate among local jurisdictions;² (5) whether a state's sales tax system is origin-based; and (6) whether a state's sales tax requires local administration.

The nine state groups are as follows:

Group 1: No local sales tax (Connecticut, the District of Columbia, Hawaii, Indiana, Kentucky, Maine, Massachusetts, Michigan, Mississippi, New Jersey, Rhode Island, and West Virginia);

Group 2: Sales taxes that are origin-based and with local option, uniform base among locals, state/local base conformity, uniform or near-uniform rate among locals, and state administration (Pennsylvania, Virginia, and Vermont);

Group 3: Sales taxes that are destination-based and with local option, uniform base among locals, state/local base conformity, uniform or near-uniform rate among locals, and state administration (Iowa,³ Minnesota, North Carolina, and Wisconsin);

² A uniform rate is defined to mean one rate per jurisdiction (but that the rate may vary across jurisdictions).

³ In Iowa, firms that ship using common carriers before July 1, 2004 used origin-based sourcing.

Group 4: Sales taxes that are origin-based and with local option, uniform base among locals, state/local base conformity, variable rates among locals, and state administration (Arkansas, Illinois, Missouri, New Mexico, Ohio,⁴ Tennessee, Texas, Utah, and Washington);

Group 5: Sales taxes that are destination-based and with local option, uniform base among locals, state/local base conformity, variable rates among locals, and state administration (Florida, Kansas,⁵ Nebraska, Nevada, Oklahoma, and Wyoming);

Group 6: Sales taxes that are destination-based and with local option, uniform base among locals, variable state/local bases, variable rates among locals, and state administration (California, Georgia, and South Dakota);

Group 7: Sales taxes that are destination-based and with local option, variable bases among locals, variable state/local bases, variable rates among locals, and state administration (North Dakota, New York, and South Carolina);

Group 8: Sales taxes with local option or local sales tax only, variable state/local bases, variable rates among locals, and local administration (Alabama, Alaska, Arizona, Colorado, Idaho, and Louisiana); and

Group 9: No sales taxes at state or local level (Delaware, Montana, New Hampshire, and Oregon).

⁴ In Ohio, most services use destination-based sourcing.

⁵ Kansas switched from origin-based to destination-based sourcing on July 1, 2003.

V. SUMMARY RESULTS OF THE SALES TAX COMPLIANCE COST SURVEY

A. Aggregate Results

A sample of some 13,000 retailers, large and small, from every state and the District of Columbia were statistically selected and the survey was fielded in several waves from August 2004 through March 2005.⁶ The survey includes retailers that have sales tax collection responsibilities solely within a single state as well as multistate retailers. In addition, the survey includes retailers that sell exclusively through retail outlets as well as retailers with remote sales (e.g., mail order and Internet sales). The sample was stratified by size of annual retail sales and by nine state groupings, each of which includes states that have sales tax systems with similar characteristics. The overall response rate was about 8 percent of the surveys sent to valid addresses. Survey responses were statistically weighted to match industry totals reported by the U.S. Census and the Bureau of Labor Statistics. A full report prepared by NORC documenting the survey is contained in Volume Two of this report.

For reporting purposes, the study divides retailers into three size categories based on annual retail sales: small (over \$150,000 and up to \$1 million); medium (over \$1 million and up to \$10 million); and large (over \$10 million). In the Dunn & Bradstreet ("D&B") sampling frame, there were some 512,000 small retailers, 117,000 medium retailers, and 19,000 large retailers.

Nationally, annual gross compliance costs (before net implicit transfers) averaged \$2,386 for small retailers, \$5,279 for medium retailers and \$118,233 for large retailers.

The national average annual state and local sales tax collections were \$17,712 for small retailers, \$101,604 for medium retailers and \$5,459,922 for large retailers.

The national average annual taxable sales were \$290,782 for small retailers, \$1,655,639 for medium retailers and \$89,544,443 for large retailers.

Nationally, as a percent of total state and local sales tax collections, gross compliance costs averaged 13.47 percent for small retailers, 5.20 percent for medium retailers, and 2.17 percent for large retailers. For all retailers, weighted average gross compliance costs were 3.09 percent of total state and local sales tax collections.

As a percent of total taxable sales, gross compliance costs were 0.82 percent for small retailers, 0.32 percent for medium retailers, and 0.13 percent for large retailers. For all retailers, weighted average gross compliance costs were 0.19 percent of total taxable sales (see Table V.A.1).

On a national basis, we find that average sales tax compliance costs measured relative to sales tax collections or relative to taxable sales are more than six times greater for small retailers than for large retailers. The survey results lend support to earlier studies that also found economies of scale in retail sales tax compliance activities.

⁶ The survey sample was drawn from the D&B universe of more than 640,000 retailers with at least \$150,000 in annual retail sales in Standard Industrial Classification codes ("SICs") 52-57 and SIC 59.

Table V.A.1.--Gross Retail Sales Tax Compliance Costs, 2003

Compliance costs as a percentage of:	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Sales tax collected	13.47%	5.20%	2.17%	3.09%
Taxable sales	0.82%	0.32%	0.13%	0.19%

Gross compliance costs may be offset by so-called "net implicit transfers", which include vendor discounts and net float. Vendor discounts are specified portions of sales tax collections that some jurisdictions allow retailers to keep in exchange for timely remittance of tax. As of January 1, 2004, 26 states and the District of Columbia allowed vendor discounts (see Appendix B). Net float is the value of investing sales tax collections from the time that the funds are received from the customer to the time that the funds are remitted to tax authorities.⁷ Net float can be negative if sales taxes are collected by the retailer after remittance to tax authorities.

Table V.A.2 shows net implicit transfers as a percent of total state and local sales tax collections. On a national basis, the vendor discount as a percent of total state or local sales tax collections declines as the retailer increases in size, although the actual vendor discount rate varies by state (see Appendix B). As a percentage of total state and local sales tax collections, the vendor discount was 0.96 percent for small retailers, 0.68 percent for medium retailers, and 0.45 percent for large retailers. The limited vendor discounts for larger retailers is not surprising as many states cap discounts (see Appendix B). For all retailers the weighted average vendor discount was 0.50 percent of total state and local sales tax collections.

Table V.A.2.--Net Implicit Transfers Related to Collection of Sales Tax, 2003

[As a percentage of total state and local sales tax collections]

Net Implicit Transfers	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Vendor discount*	0.96%	0.68%	0.45%	0.50%
Net float	0.15%	0.14%	0.09%	0.10%
Total	1.11%	0.82%	0.54%	0.60%

* The vendor discount rates presented in the table represent the national average across all states. Actual vendor discounts allowed in each state, which can differ markedly from the national average, can be found in Appendix B.

Nationally, net float also declines as a percentage of total state and local sales tax collections as retailer increases in size—from 0.15 percent of sales tax collections for small retailers to 0.09 percent for large retailers.⁸ The lower value of net float for large retailers reflects the fact that many jurisdictions require more frequent remittance by high-volume retailers.

⁷ Net float is calculated based on answers to Questions 29, 32, 32a, 33, and 33a of the survey questionnaire. The interest rate used is the average APR for bank prime loans in 2003, which was 4.12 percent. The net float would be higher or lower if a higher or lower interest rate were used.

⁸ The estimated dollar-weighted average number of net float days was 13 for small retailers, 12 for medium retailers, and 8 for large retailers.

Overall, net implicit transfers offset only 19 percent of gross compliance costs for all retailers. The offset was 8 percent for small retailers, 16 percent for medium retailers, and 25 percent for large retailers. Thus, between 75 and 92 percent of retailers' costs of collecting state and local sales tax is *not* compensated through vendor discounts or net float.

B. Detailed Results

This section presents tabulations of gross compliance costs by retail sales size class and by each of the following variables: (1) type of compliance cost; (2) Standard Industrial Classification (SIC) code; (3) percentage of direct market sales; (4) number of nexus states; (5) number of SKUs; and (6) percentage of taxable sales.

1. Gross Compliance Costs by Type and Size of Annual Retail Sales

The survey distinguished eight basic categories of compliance costs associated with the retail sales tax: (1) training personnel on sales tax; (2) documenting tax-exempt sales; (3) customer service relating to sales tax issues other than documenting exempt sales; (4) sales tax-related software acquisition and license fees; (5) programming and servicing cash registers and other Point-of-Sale (POS) systems to address sales-tax requirements; (6) return preparation, making remittances, refund and credit claims, and research relating to sales tax (tax remittances excluded); (7) dealing with sales tax audits and appeals; and (8) other costs (such as costs related to data storage, sales tax registration, etc.). Respondents who were unable to break down the costs into the eight categories were asked to provide an estimate of the total incremental annual costs incurred because of the retail sales tax.⁹

Based on other information collected on the survey, we have calculated debit/credit card fees on the sales tax portion of debit/credit card sales. Debit and credit card companies charge merchants a fee for their customers' use of these payment products. Typically some or all of the card fee is calculated as a percentage of the amount charged. Because the amount charged on sales transactions includes sales tax, merchants pay higher debit/credit card fees as a result of sales tax.

The final compliance cost category is sales tax paid by the retailer without compensating collections from the customer because the customer defaulted. According to CCH Incorporated, in all states with state-level sales tax, the retailer is allowed to claim a bad debt credit or refund or exclude the bad debt from the sales tax base when a customer defaults on payment for purchases made on credit or by check. When the retailer does not or cannot take advantage of this tax relief, the unrecovered tax on bad debt becomes a sales tax compliance cost to the retailer. In some cases, the cost of recovering a sales tax credit or refund for bad debt is larger than the tax at stake.

As shown in Table V.B.1a, for small retailers, the top three compliance cost items in 2003 were: (1) return preparation and related costs; (2) documentation of tax-exempt sales; and (3) training

⁹ The survey requested that retailers report the annualized equipment cost associated with sales tax compliance, however, some retailers may not have included related cash register costs.

of personnel on sales tax (see Table V.B.1a). Return preparation and documentation of tax-exempt sales also were the top two compliance cost categories for medium retailers, and debit/credit card fees attributable to sales tax collections ranked third. For large retailers, the most important compliance cost item was debit/credit card fees on sales tax, followed by unrecovered sales tax paid due to bad debts and training of personnel on sales tax.

Customer service relating to the sales tax issue was consistently cited as the least significant compliance cost item for retailers of all sizes.

The survey also reveals that external costs of sales tax compliance, such as lawyers, accountants, and other tax service providers, constitute the minority of compliance costs for retailers of all sizes, but especially so for large retailers.

The above observations also hold true when the gross compliance costs are expressed as a percentage of taxable sales rather than as a percent of sales tax collections (see Table V.B.1b).

Table V.B.1a.--Gross Compliance Costs by Type and Size of Annual Retail Sales, 2003
 [As a percentage of total state and local sales tax collections]

Compliance Costs	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
For retailers that provided cost breakdown	16.84%	4.21%	1.03%	1.81%
<i>Training of personnel on sales tax</i>	1.87%	0.55%	0.35%	0.41%
<i>Documenting tax-exempt sales</i>	3.80%	0.87%	0.13%	0.31%
<i>Customer service relating to sales tax issues</i>	0.74%	0.21%	0.06%	0.10%
<i>Sales tax-related software and license fees</i>	1.86%	0.36%	0.10%	0.17%
<i>Programming and servicing cash registers</i>	1.17%	0.35%	0.10%	0.16%
<i>Returns, remittances, refund credits, sales tax research</i>	5.35%	1.19%	0.12%	0.38%
<i>Dealing with sales tax audits and appeals</i>	1.03%	0.46%	0.12%	0.18%
<i>Other compliance costs</i>	1.03%	0.23%	0.05%	0.11%
For retailers that did not provide cost breakdown	9.08%	3.41%	1.54%	2.56%
Related compliance costs for all retailers	1.85%	1.29%	1.02%	1.09%
<i>Debit/credit card fees on sales tax</i>	0.76%	0.76%	0.64%	0.66%
<i>Unrecovered sales tax paid due to bad debt</i>	1.09%	0.53%	0.38%	0.43%
Total gross compliance costs for all retailers	13.47%	5.20%	2.17%	3.09%
<i>External costs of compliance</i>	3.79%	0.87%	0.14%	0.42%
<i>Internal costs of compliance</i>	9.68%	4.33%	2.03%	2.67%

Table V.B.1b.--Gross Compliance Costs by Type and Size of Annual Retail Sales, 2003
 [As a percentage of total taxable sales]

Compliance Costs	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
For retailers that provided cost breakdown	0.83%	0.27%	0.06%	0.11%
<i>Training of personnel on sales tax</i>	0.09%	0.03%	0.02%	0.03%
<i>Documenting tax-exempt sales</i>	0.18%	0.05%	0.01%	0.02%
<i>Customer service relating to sales tax issues</i>	0.03%	0.01%	0.00%	0.01%
<i>Sales tax-related software and license fees</i>	0.09%	0.02%	0.01%	0.01%
<i>Programming and servicing cash registers</i>	0.06%	0.02%	0.01%	0.01%
<i>Returns, remittances, refund credits, sales tax research</i>	0.25%	0.08%	0.01%	0.02%
<i>Dealing with sales tax audits and appeals</i>	0.06%	0.03%	0.01%	0.01%
<i>Other compliance costs</i>	0.06%	0.01%	0.00%	0.01%
For retailers that did not provide cost breakdown	0.55%	0.20%	0.09%	0.15%
Related compliance costs for all retailers	0.11%	0.08%	0.06%	0.07%
<i>Debit/credit card fees on sales tax</i>	0.05%	0.05%	0.04%	0.04%
<i>Unrecovered sales tax paid due to bad debt</i>	0.07%	0.03%	0.02%	0.03%
Total gross compliance costs for all retailers	0.82%	0.32%	0.13%	0.19%
<i>External costs of compliance</i>	0.23%	0.05%	0.01%	0.03%
<i>Internal costs of compliance</i>	0.59%	0.27%	0.12%	0.16%

2. Gross Compliance Costs by SIC Code and Size of Annual Retail Sales

Gross compliance costs (both as a percentage of tax collections and taxable sales) were tabulated by Standard Industrial Classification (SIC) code and size of annual retail sales (see Tables V.B.2a and V.B.2b).

The survey included all eight of the two-digit SIC industries that define the retail sector other than SIC code 58 ("Eating and Drinking Places"), which were excluded by decision of the JCCS Steering Committee. The survey also included the part of SIC 59 that covers catalog, mail-order, and Internet retailers (SIC 5961). Due to limited response, however, these results are not reported to prevent disclosure. Other results with less than five observations also are blanked.

For small retailers, whether as a percentage of state and local sales tax collections or taxable sales, gross compliance costs were greatest for retailers in furniture and home furnishings (SIC 57). For medium retailers, food store retailers (SIC 54) had the highest compliance cost. For large retailers, automotive dealers and gasoline service stations (SIC 55) had the highest compliance costs.

Table V.B.2a.--Gross Compliance Costs by SIC Code and Size of Annual Retail Sales, 2003
 [As a percentage of total state and local sales tax collections]

SIC Code	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
52: Building and Garden Supplies	11.30%	5.14%	1.76%	2.68%
53: General Merchandise	(D)	(D)	2.28%	2.35%
54: Food Stores	12.02%	18.28%	2.73%	4.56%
55: Auto/Service Stations	10.60%	4.28%	3.27%	3.78%
56: Apparel and Accessories	8.80%	(D)	1.60%	1.82%
57: Furniture and Home Furnishings	19.40%	4.70%	1.52%	2.82%
59 (excluding 5961): Miscellaneous Retail	14.09%	4.09%	2.11%	4.51%
5961: Catalog, Mail-order, Internet Retailers	(D)	(D)	(D)	(D)
Weighted Average	13.47%	5.20%	2.17%	3.09%

(D) = Withheld due to limited number of observations.

Table V.B.2b.--Gross Compliance Costs by SIC Code and Size of Annual Retail Sales, 2003
 [As a percentage of total taxable sales]

SIC Code	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
52: Building and Garden Supplies	0.51%	0.34%	0.14%	0.21%
53: General Merchandise	(D)	(D)	0.14%	0.15%
54: Food Stores	0.86%	0.78%	0.12%	0.21%
55: Auto/Service Stations	0.70%	0.27%	0.15%	0.18%
56: Apparel and Accessories	0.29%	(D)	0.11%	0.13%
57: Furniture and Home Furnishings	1.18%	0.28%	0.11%	0.20%
59 (excluding 5961): Miscellaneous Retail	0.98%	0.25%	0.12%	0.27%
5961: Catalog, Mail-order, Internet Retailers	(D)	(D)	(D)	(D)
Weighted Average	0.82%	0.32%	0.13%	0.19%

(D) = Withheld due to limited number of observations.

Table V.B.2c.-- Number of Non-Zero Observations for Tables V.B.2a and V.B.2b

SIC Code	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Total
52: Building and Garden Supplies	15	47	29	91
53: General Merchandise	3	1	10	14
54: Food Stores	18	19	39	76
55: Auto/Service Stations	28	73	192	293
56: Apparel and Accessories	7	4	13	24
57: Furniture and Home Furnishings	20	34	22	76
59 (excluding 5961): Miscellaneous Retail	45	68	33	146
5961: Catalog, Mail-order, Internet Retailers	1	1	2	4
Total	137	247	340	724

3. Gross Compliance Costs by Percentage of Direct Market Sales and Size of Annual Retail Sales

Gross compliance costs (both as a percentage of sales tax collections and taxable sales) were tabulated by percentage of direct market sales (i.e., via catalogue, mail-order or Internet) and size of annual retail sales. Retailers were divided into three categories: (1) no direct market sales; (2) direct market sales that account for no more than 90 percent of total sales; and (3) direct market sales that account for more than 90 percent of total sales (see Tables V.B.3a and V.B.3b).

Within each direct market sales percent category, gross compliance cost as a percentage of tax collections or taxable sales declines as the retailer increases in size. Within each retail sales size class, retailers with more than 90 percent of total sales in direct market sales always had higher gross compliance costs. While small retailers with no more than 90 percent of total sales in direct market sales had higher gross compliance costs than their counterparts with no direct market sales, it was not the case for medium and large retailers. Across retailers of all sizes, the weighted average sales tax compliance cost as a percent of tax collections or as a percent of taxable sales for retailers with more than 90 percent of total sales in direct market sales share was almost twice as much as that for retailers with no direct market sales.

It should be noted that certain cells in the tables only have limited survey responses (especially for retailers with more than 90 percent of total sales in direct market sales), so the results should be interpreted with caution (see Table V.B.3c). Note that results with less than five observations are blanked to avoid disclosure.

**Table V.B.3a.--Gross Compliance Costs by
Percentage of Direct Market Sales and Size of Annual Retail Sales**
[As a percentage of total state and local sales tax collections]

Percent of Direct Market Sales	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Exactly 0%	13.02%	5.13%	2.22%	3.95%
Between 0% and 90%	14.83%	4.71%	2.10%	2.39%
Above 90%	(D)	10.68%	4.85%	7.60%
Weighted Average	13.47%	5.20%	2.17%	3.09%

(D) = Withheld due to limited number of observations.

**Table V.B.3b.-- Gross Compliance Costs by
Percentage of Direct Market Sales and Size of Annual Retail Sales**
[As a percentage of total taxable sales]

Percent of Direct Market Sales	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Exactly 0%	0.80%	0.31%	0.13%	0.24%
Between 0% and 90%	0.89%	0.31%	0.13%	0.15%
Above 90%	(D)	0.52%	0.30%	0.43%
Weighted Average	0.82%	0.32%	0.13%	0.19%

(D) = Withheld due to limited number of observations.

Table V.B.3c.-- Number of Non-Zero Observations for Tables V.B.3a and V.B.3b

Percent of Direct Market Sales	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Total
Exactly 0%	105	202	251	558
Between 0% and 90%	29	40	80	149
Above 90%	3	5	9	17
Total	137	247	340	724

4. Gross Compliance Costs by Number of Nexus States and Size of Annual Retail Sales

Gross compliance costs (both as a percentage of sales tax collections and taxable sales) were tabulated by the number of nexus states and size of annual retail sales (see Tables V.B.4a and V.B.4b)

Average gross compliance costs decline as retailers increase in size; however, having more nexus states did not necessarily result in higher sales tax compliance costs. This surprising result may be due to the correlation of number of nexus states and annual retail sales within the broad sales size classes used in this study (i.e., annual retail sales of \$1-\$10 million and \$10 million or more). The econometric analysis in Part Two of the cost of collection project will be able to separate more precisely the effects of size and number of nexus states.

It should be noted that certain cells in the tables only have limited survey responses, so the results should be interpreted with caution (see Table V.B.4c). Note that results with less than five observations are blanked to avoid disclosure.

**Table V.B.4a.--Gross Compliance Costs by
Number of Nexus States and Size of Annual Retail Sales, 2003**
[As a percentage of total state and local sales tax collections]

Number of nexus states	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
One	13.50%	5.02%	3.65%	6.17%
Two to Four	(D)	3.47%	1.42%	1.59%
Five to Nine		(D)	1.33%	1.80%
Ten or More			1.94%	1.94%
Weighted Average	13.47%	5.07%	2.15%	3.06%

(D) = Withheld due to limited number of observations.

**Table V.B.4b.--Gross Compliance Costs by
Number of Nexus States and Size of Annual Retail Sales, 2003**
[As a percentage of total taxable sales]

Number of nexus states	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
One	0.82%	0.31%	0.18%	0.34%
Two to Four	(D)	0.20%	0.08%	0.09%
Five to Nine		(D)	0.09%	0.12%
Ten or More			0.13%	0.13%
Weighted Average	0.82%	0.31%	0.13%	0.19%

(D) = Withheld due to limited number of observations.

Table V.B.4c.-- Number of Non-Zero Observations for Tables V.B.4a and V.B.4b

Number of nexus states	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Total
One	117	201	236	554
Two to Four	1	10	41	52
Five to Nine		2	9	11
Ten or More			36	36
Total	118	213	322	653

5. Gross Compliance Costs by Number of SKUs and Size of Annual Retail Sales

Gross compliance costs (both as a percentage of sales tax collections and taxable sales) were tabulated by size of annual retail sales and by the number of products offered for sale measured by Stock Keeping Units ("SKUs") (see Tables V.B.5a and V.B.5b).

Average sales tax compliance costs decline as retailers increase in size; however, having more SKUs did not necessarily result in higher sales tax compliance costs. This would not be surprising if states imposed completely uniform tax rates on all products; however, this is not typically the case, although for the product lines carried by many retailers, tax rates may in fact be uniform. The econometric analysis in Part Two of the cost of collection project may be able to isolate more precisely the contribution of number of SKUs to sales tax compliance cost.

It should be noted that certain cells in the tables only have limited survey responses, so the results should be interpreted with caution (see Table V.B.5c). Note that results with less than five observations are blanked to avoid disclosure.

**Table V.B.5a.--Gross Compliance Costs by
Number of SKUs and Size of Annual Retail Sales, 2003**
[As a percentage of total state and local sales tax collections]

Number of SKUs	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Less than 1,000	11.00%	5.08%	3.11%	5.91%
1,000 to 5,000	13.64%	4.25%	3.79%	5.76%
5,000 to 10,000	34.94%	10.14%	2.26%	3.12%
10,000 to 25,000	16.75%	6.26%	1.32%	2.25%
25,000 to 50,000	(D)	3.24%	2.37%	2.75%
50,000 to 100,000	(D)	3.79%	1.65%	1.79%
100,000 or More	(D)	(D)	2.25%	2.26%
Weighted Average	13.47%	5.20%	2.17%	3.09%

(D) = Withheld due to limited number of observations.

**Table V.B.5b.--Gross Compliance Costs by
Number of SKUs and Size of Annual Retail Sales, 2003**
[As a percentage of total taxable sales]

Number of SKUs	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Less than 1,000	0.69%	0.31%	0.11%	0.28%
1,000 to 5,000	0.95%	0.26%	0.23%	0.36%
5,000 to 10,000	1.00%	0.63%	0.17%	0.23%
10,000 to 25,000	0.97%	0.39%	0.08%	0.13%
25,000 to 50,000	(D)	0.21%	0.14%	0.17%
50,000 to 100,000	(D)	0.23%	0.11%	0.12%
100,000 or More	(D)	(D)	0.14%	0.14%
Weighted Average	0.82%	0.32%	0.13%	0.19%

(D) = Withheld due to limited number of observations.

Table V.B.5c.-- Number of Non-Zero Observations for Tables V.B.5a and V.B.5b

Number of SKUs	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Total
Less than 1,000	76	100	94	270
1,000 to 5,000	33	57	64	154
5,000 to 10,000	11	26	53	90
10,000 to 25,000	9	32	45	86
25,000 to 50,000	3	14	34	51
50,000 to 100,000	3	14	21	38
100,000 or More	2	4	29	35
Total	137	247	340	724

6. Gross Compliance Costs by Percentage of Taxable Sales and Size of Annual Retail Sales

Gross compliance costs (both as a percentage of sales tax collections and taxable sales) were tabulated by percentage of taxable sales and size of annual retail sales (see Tables V.B.6a and V.B.6b).

Within each taxable sales percentage category, gross compliance cost as a percentage of tax collections or taxable sales declines as the retailer increases in size.

For medium and large retailers, average gross compliance costs (as a percentage tax collections or total taxable sales) generally decline as the taxable sales share increases (or alternatively, as the tax-exempt sales share decreases). This was not always true for small retailers.

**Table V.B.6a.--Gross Compliance Costs by
Taxable Sales Percent and Size of Annual Retail Sales, 2003**
[As a percentage of total state and local sales tax collections]

Percent of Taxable Sales	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Less or equal to 25%	46.24%	11.69%	8.07%	12.24%
Between 25% and 100%	11.21%	5.13%	2.13%	2.79%
Exactly 100%	15.50%	4.10%	1.90%	3.70%
Weighted Average	13.47%	5.20%	2.17%	3.09%

**Table V.B.6b.-- Gross Compliance Costs by
Taxable Sales Percent and Size of Annual Retail Sales, 2003**
[As a percentage of total taxable sales]

Percent of Taxable Sales	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Less or equal to 25%	3.64%	1.05%	0.56%	0.91%
Between 25% and 100%	0.74%	0.32%	0.13%	0.17%
Exactly 100%	0.82%	0.23%	0.12%	0.23%
Weighted Average	0.82%	0.32%	0.13%	0.19%

Table V.B.6c.-- Number of Non-Zero Observations for Tables V.B.6a and V.B.6b

Percent of Taxable Sales	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Total
Less or equal to 25%	32	72	86	190
Between 25% and 100%	76	136	230	442
Exactly 100%	29	39	24	92
Total	137	247	340	724

C. Standard Errors for Selected Tables

Standard errors were calculated for four tables selected by the JCCS Steering Committee: Tables V.A.1, V.A.2, V.B.1a, and V.B.3a. Technical details regarding the calculation of standard errors are presented in Section IV of Volume Two.

Based on the standard errors, confidence intervals can be constructed for the corresponding sample statistics. As explained in Volume Two, the upper and lower limits of the 95% confidence interval are 2.366 standard errors above and below the sample mean, respectively. From a statistical perspective, confidence intervals constructed in this manner will include the true population mean 95% of the time.

For example, average gross compliance costs as a percentage of sales tax collected is 13.47% for small retailers and the corresponding standard error of estimate is 1.37% (see Table V.C.1). The upper and lower limits of the 95% confidence interval surrounding the sample mean are 16.71% (13.47% plus 2.366 times 1.37%) and 10.23% (13.47% minus 2.366 times 1.37%), respectively. As the confidence interval does not include zero, the sample mean (13.47%) is said to be statistically significant at the 5% level.

Similarly, the standard errors of estimate may be used to determine whether the difference between two sample means is statistically significant. Assuming independence between sampling categories, which follows from the sample design, the standard error (SE) for the *difference* between two sample means ($X_1 - X_2$) is the square root of the sum of the squared standard errors:

$$SE(X_1 - X_2) = \{ [SE(X_1)]^2 + [SE(X_2)]^2 \}^{1/2}$$

The 95% confidence limits are 2.366 standard errors above and below the difference in sample means, respectively.

For example, average gross compliance costs as a percentage of sales tax collected are 5.20% for medium retailers, 8.27 percentage points less than for small retailers (13.47%). The standard errors for small and medium retailers' average sales tax compliance costs as a percentage of sales tax collected are 1.37% and 0.56%, respectively. The standard error for the difference between small and medium retailers' sales tax compliance costs is 1.48% (note $1.48\%^2 = 1.37\%^2 + 0.56\%^2$). Consequently the upper and lower limits of the 95% confidence interval for the difference between small and medium retailers' sales tax compliance costs are 11.77% (8.27% plus 2.366 times 1.48%) and 4.77% (8.27% minus 2.366 times 1.48%), respectively. As this confidence interval does not include zero, the difference between small and medium retailers' sales tax compliance costs is said to be statistically significant at the 5% level.

Table V.C.1: Gross Retail Sales Tax Compliance Costs, 2003
 [Bracketed numbers are standard errors]

Gross Compliance Costs as a Percentage of:	Annual Retail Sales Class			Weighted Average
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	
Sales tax collected	13.47% <i>(1.37%)</i>	5.20% <i>(0.56%)</i>	2.17% <i>(0.20%)</i>	3.09% <i>(0.21%)</i>
Taxable sales	0.82% <i>(0.11%)</i>	0.32% <i>(0.04%)</i>	0.13% <i>(0.01%)</i>	0.19% <i>(0.01%)</i>

Note: All results are statistically significant at the 5% level.

Table V.C.2: Net Implicit Transfers Related to Collection of Sales Tax, 2003
 (As a percentage of total state and local sales tax collections; bracketed numbers are standard errors)

Net Implicit Transfers	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Vendor discounts	0.96% <i>(0.19%)</i>	0.68% <i>(0.11%)</i>	0.45% <i>(0.04%)</i>	0.50% <i>(0.05%)</i>
Net float	0.15% <i>(0.02%)</i>	0.14% <i>(0.02%)</i>	0.09% <i>(0.03%)</i>	0.10% <i>(0.03%)</i>
Total	1.11% <i>(0.19%)</i>	0.82% <i>(0.12%)</i>	0.54% <i>(0.05%)</i>	0.60% <i>(0.05%)</i>

Note: All results are statistically significant at the 5% level.

Table V.C.3: Gross Compliance Costs by Type and Size of Annual Retail Sales, 2003
(As a percentage of total sales tax collections; bracketed numbers are standard errors)

Compliance Costs	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
For retailers that provided cost breakdown	16.84%	4.21%	1.03%	1.81%
	(1.93%)	(0.68%)	(0.10%)	(0.19%)
Training personnel on sales tax	1.87%	0.55%	0.35%	0.41%
	(0.51%)	(0.14%)	(0.06%)	(0.06%)
Documenting tax-exempt sales	3.80%	0.87%	0.13%	0.31%
	(0.44%)	(0.16%)	(0.02%)	(0.05%)
Customer service relating to sales tax issues	0.74%	0.21%	0.06%	0.10%
	(0.13%)	(0.07%)	(0.01%)	(0.02%)
Sales tax-related software and license fees	1.86%	0.36%	0.10%	0.17%
	(0.48%)	(0.10%)	(0.03%)	(0.03%)
Programming and servicing cash registers	1.17%	0.35%	0.10%	0.16%
	(0.19%)	(0.10%)	(0.02%)	(0.02%)
Returns, remittances, refund credits, sales tax research	5.35%	1.19%	0.12%	0.38%
	(1.02%)	(0.20%)	(0.01%)	(0.06%)
Dealing with sales tax audits and appeals	1.03%	0.46%	0.12%	0.18%
	(0.25%)	(0.14%)	(0.03%)	(0.03%)
Other compliance costs	1.03%	0.23%	0.05%	0.11%
	(0.23%)	(0.08%)	(0.02%)	(0.02%)
For retailers that did not provide cost Breakdown	9.08%	3.41%	1.54%*	2.56%*
	(3.64%)	(0.71%)	(2.61%)	(1.15%)
Related compliance costs	1.85%	1.29%	1.02%	1.09%
	(0.42%)	(0.14%)	(0.10%)	(0.12%)
Debit/credit card fees on sales tax	0.76%	0.76%	0.64%	0.66%
	(0.08%)	(0.06%)	(0.08%)	(0.07%)
Unrecovered sales tax paid due to bad debt	1.09%	0.53%	0.38%	0.43%
	(0.39%)	(0.12%)	(0.10%)	(0.12%)
Total gross compliance costs	13.47%	5.20%	2.17%	3.09%
	(1.37%)	(0.56%)	(0.20%)	(0.21%)
External costs of compliance	3.79%	0.87%	0.14%	0.42%
	(0.72%)	(0.14%)	(0.03%)	(0.05%)
Internal costs of compliance	9.68%	4.33%	2.03%	2.67%
	(1.35%)	(0.44%)	(0.20%)	(0.20%)

* Not statistically significant at the 5% level.

Table V.C.4: Gross Compliance Costs by Direct Market Sales Percent and Size of Annual Retail Sales, 2003				
[As a percentage of total state and local sales tax collections; bracketed numbers are standard errors]				
Percentage of Direct Market Sales	Annual Retail Sales Size Class			
	\$150,000 - \$1,000,000	\$1,000,000 - \$10,000,000	Over \$10,000,000	Weighted Average
Exactly 0%	13.02% <i>(1.52%)</i>	5.13% <i>(0.62%)</i>	2.22%* <i>(1.29%)</i>	3.95% <i>(0.66%)</i>
Between 0% and 90%	14.83% <i>(2.94%)</i>	4.71%* <i>(5.62%)</i>	2.10% <i>(0.21%)</i>	2.39% <i>(0.29%)</i>
Above 90%	(D) <i>(S)</i>	10.68% <i>(S)</i>	4.85% <i>(S)</i>	7.60% <i>(2.51%)</i>
Weighted Average	13.47% <i>(1.37%)</i>	5.20% <i>(0.56%)</i>	2.17% <i>(0.20%)</i>	3.09% <i>(0.21%)</i>

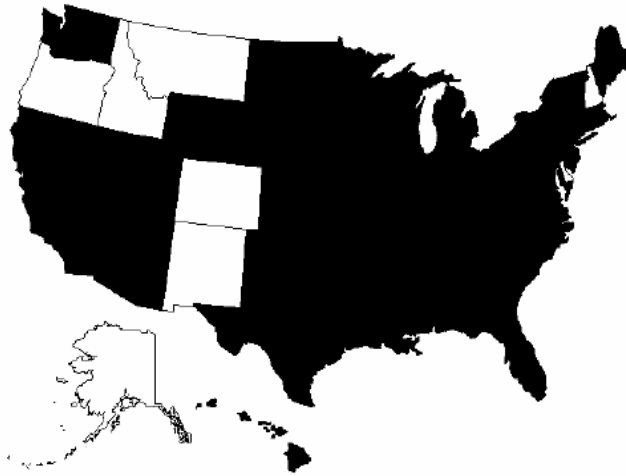
* Not statistically significant at the 5% level.

(D) = Withheld due to limited number of observations.

(S) = Sample size is too small to yield reliable estimates of standard errors.

APPENDIX A
SURVEY QUESTIONNAIRE

Sales Tax Collection Cost Survey



The states shaded dark above, and the following organizations, are sponsoring this survey:

National Retail Federation

Government Finance Officers Association

Council on State Taxation

Multistate Tax Commission

Federation of Tax Administrators

National Conference of State Legislatures

In addition, the following organizations have endorsed this survey:

U.S. Chamber of Commerce

National Federation of Independent Businesses

Retail Industry Leaders Association

Conducted by

National Opinion Research Center
1 N State St Fl 16
Chicago, IL 60602

NORC
AT THE UNIVERSITY OF CHICAGO

A national organization for
research and computing

Sales Tax Collection Cost Survey

This survey is being conducted to determine the magnitude and nature of the costs of collecting retail sales tax. This information is critical for such tax policy issues as how much retailers should be compensated for their costs of collecting sales tax, and for how the burden of sales tax can be reduced. The survey is jointly sponsored by business and government organizations (see www.jccs.info for more information).

All the information you provide will remain strictly confidential and will be reflected only in overall summaries and statistical analyses.

Instructions

1. Please have someone familiar with the company's tax matters fill out this survey.
2. All questions should be answered for the entire U.S. retail group.
3. Please return within seven (7) business days in the enclosed self-addressed stamped envelope.
4. If you have any questions, please call the help desk at 866-250-7488 or e-mail JCCS@norc.org

Q1. What do you consider the greatest cost in collecting and remitting sales tax? (*check one*)

- 1 Training personnel
- 2 Programming cash register/POS systems
- 3 Preparing tax forms including research
- 4 Remitting sales tax
- 5 Handling audits
- 6 Keeping track of local taxes
- 7 Documentation of exempt sales
- 8 Other (*please specify*)

Q2. About how many retail sales transactions (invoices) did you have per day in 2003?

 Average number of daily retail sales transactions (invoices).

Q3. How many different products (e.g., SKUs) did you sell at retail as of year-end 2003?

- 1 Less than 1,000
- 2 1,000 to 5,000
- 3 5,000 to 10,000
- 4 10,000 to 25,000
- 5 25,000 to 50,000
- 6 50,000 to 100,000
- 7 100,000 or more

Q4. What percent of your retail sales dollars in 2003 were through the following channels? (*Total should add to 100%*)

<input style="width: 50px;" type="text"/>	%	Retail store sales
<input style="width: 50px;" type="text"/>	%	Catalogue sales (ordered by mail, phone, fax and shipped to customer)
<input style="width: 50px;" type="text"/>	%	Internet sales (ordered online and shipped to customer)
<input style="width: 50px; text-align: center;" type="text" value="100"/>	%	

Q5. Please provide the following information for your U.S. retail activities in 2003:

\$	<input style="width: 90%;" type="text"/>	Gross sales before returns and allowances
\$	<input style="width: 90%;" type="text"/>	Taxable sales

Q6. How much were your remote sales (catalogue or Internet), if any, in 2003?

\$	<input style="width: 90%;" type="text"/>	Shipments to all U.S. locations (gross sales)
\$	<input style="width: 90%;" type="text"/>	Shipments on which you collect and remit sales tax (gross sales)

Q7. How many states (including the District of Columbia) did you ship to in 2003?

Number of states shipped to

Number of states shipped to for which you collect and remit tax

Q8. Please indicate below the number of retail stores you had in each state (including the District of Columbia -- DC), if any, as of June 30, 2003:

AL:	KY:	ND:
AK:	LA:	OH:
AZ:	ME:	OK:
AR:	MD:	OR:
CA:	MA:	PA:
CO:	MI:	RI:
CT:	MN:	SC:
DE:	MS:	SD:
DC:	MO:	TN:
FL:	MT:	TX:
GA:	NE:	UT:
HI:	NV:	VT:
ID:	NH:	VA:
IL:	NJ:	WA:
IN:	NM:	WV:
IA:	NY:	WI:
KS:	NC:	WY:

Q9. How many employees did you have at the end of 2003?

Employees in tax department (fraction if less than 1)

Employees in accounting department (fraction if less than 1)

Employees in customer service department (fraction if less than 1)

Cashiers (fraction if less than 1)

Other employees

Q10. About what percent of the gross sales of your retail business in 2003 were:

% Returned or exchanged?

% Written off as a bad debt?

Q11. Approximately what percent of your total sales dollars were paid in the following ways in 2003? (Total should add to 100%.)

% Cash

% Checks

% Debit cards

% In-house credit cards

% Other credit cards

% Other (specify)

100 %

Q12. For each of the following types of payment, indicate the average percentage fee you paid to the credit card company or other financial institution in 2003: *(Include only fees that are determined as a percentage of the sales price.)*

% Fee for debit cards
 % Fee for in-house credit cards
 % Fee for other credit cards

Q13. How many cash registers *(including POS terminals and cash box/calculators)* did you use in 2003?

Number of cash registers
(including POS terminals and cash box/calculators)

Q14. About what percent of all the cash registers used by your employees were of the following types in 2003? *(Total should add to 100%.)*

% Manual (including a cash box and a calculator)
 % Semi-manual (without electronic data files)
 % Automatic registers with electronic data files
 %

Q15. What was the approximate cost for a new cash register of each type that you used in your retail business in 2003? *(mark "NA" for any type you do not use):*

\$ Manual (including a cash box and a calculator)
\$ Semi-manual (without electronic files)
\$ Automatic registers with electronic data files

Q16. Would you have purchased less expensive cash registers if there were no sales tax?

Yes → If yes go to Q16a
 No

Q16a. If yes, approximately how much more do you pay for a typical cash register than you would have paid in the absence of any sales taxes?

\$

Sales Tax Compliance Costs

1. Please estimate the **additional** annual costs you incurred in 2003 due to the retail sales tax -- the costs that would have been avoided in 2003 if the retail sales tax did not exist. Do not include your sales tax remittances themselves, just the cost of complying with the sales tax. Exclude compliance costs related to payment of use tax on your own purchases.
2. Take into account all relevant costs of personnel, software, equipment, supplies, and assistance purchased from outside service providers.
3. Calculate the annual cost of equipment and software by dividing the approximate purchase price by the expected number of years of service. For lease arrangements, use the annual lease payment.
4. We recognize that you may not be able to determine exact figures for some of these costs. Please just provide your best estimates.

Q17. Training personnel on sales tax? \$

Q18. Documenting tax-exempt sales? \$

Q19. Customer service relating to sales tax issues other than documenting exempt sales? \$

Q20. Sales tax-related software acquisitions and license fees? \$

Q21. Programming and servicing cash registers and other POS systems to address sales-tax requirements? \$

Q22. Returns preparation, making remittances, refund and credit claims, and research relating to sales tax? *(Exclude tax remittances.)* \$

Q23. Dealing with sales tax audits and appeals? \$

Q24. Other costs not covered above? *(For example, costs related to data storage, sales tax registration, etc.)* \$

Q25. If you are unable to break down your costs into the above categories, what is your best estimate of the total additional annual costs incurred because of the retail sales tax? *(If you have provided answers to Questions 17 through 24, please ignore this question.)*

\$ Total annual sales tax compliance cost in 2003

Q26. Of your sales tax compliance costs reported above in either Questions 17 through 24 or Question 25, about how much in total was for payments to outside service providers (lawyers, accountants, programmers, etc.)?

\$ Portion of total sales tax compliance cost paid to outside service providers

Compliance Cost Related Information

In this section we ask for some further information about your retail business that may be related to the compliance costs you incurred.

Q27. How many state and local sales tax returns did you file in 2003? (*Do not include advance tax payments. A state return that includes local schedules counts as one state return.*)

Number of state sales tax returns

Number of local sales tax returns

Q28. To how many different jurisdictions did you submit sales tax returns in 2003?

Number of state jurisdictions

Number of local jurisdictions

Q29. Approximately how much did you remit in sales tax in 2003? (*Exclude use tax paid on your own purchases.*)

\$ Amount of sales tax remitted

Q30. How much retail sales tax did you pay in 2003 that came out of your pocket because the customer defaulted and the state or local government would not provide a bad debt credit to you?

\$ Unrecovered sales tax you paid (due to bad debt)

Q31. Approximately how much of the sales tax you collected in 2003 were you allowed to retain as a discount for timely payment (vendor discount)?

\$ Vendor discount

Q32. What percent of your sales tax collections are received *prior* to remittance to the respective tax authorities?

% Received *prior* to remittance

Q32a. Of this amount, what is the average number of days between collection and remittance?

Days

Q33. What percent of your sales tax collections are received *after* remittance to the respective tax authorities?

% Received *after* remittance

Q33a. Of this amount, what is the average number of days between remittance and collection?

Days

Q34. Of tax-exempt sales in 2003, what percent was related to each of the following reasons? *(Total should add to 100%.)*

% Nontaxable goods and services

% Resale certificates

% Out-of-state sales to non-nexus states

% Sales to exempt organizations (e.g., government)

% Other exempt sales

%

Q35. Approximately what percent of your sales tax documentation (including documentation for exempt sales) was stored as follows? *(Total should add to 100%)*

% Electronically

% In paper files

% In other ways

%

Q36. How many sales tax audits were either started or ongoing in 2003? *(Exclude use tax audits)*

Number of audits in 2003 (if any)

Q37. How many years do your sales tax audits typically cover?

Number of years

Q38. Do you currently have any ongoing appeals of a sales tax audit finding?

1 Yes → If yes, go to Q38a

2 No

Q38a. If yes, how many appeals?

Number of ongoing appeals

Q39. Describe the nature of your **primary** type of business

Q40. How long have you been in business in the United States *(check one)*?

1 Less than three years

2 Three years or more

The survey is over. Thank you for your assistance!

If you have any comments about this questionnaire or the issues raised here, please write them in the space provided below.

Could we please have a contact person, to call back if there are questions we have?

Name	▶		
Telephone	▶	E-mail	▶
Would you like a copy of the final report on costs of compliance? <i>(If you check "yes" please provide an e-mail address where the report may be sent)</i>		<input type="checkbox"/> Yes	<input type="checkbox"/> No
E-mail address where report should be sent ▶			

APPENDIX B

STATE SALES TAX RATES AND VENDOR DISCOUNTS

STATE SALES TAX RATES AND VENDOR DISCOUNTS

(January 1, 2004)

STATE	STATE SALES TAX RATE	RANK	VENDOR DISCOUNT	MAX/MIN
ALABAMA	4.0%	39	5.0%-2.0% (1)	
ALASKA	-----	N/A	-----	
ARIZONA	5.6%	22	1.0%	\$10,000/year (max)
ARKANSAS	5.125%	25	2.0%	\$1,000/month (max)
CALIFORNIA (3)	6.00%	9	None	
COLORADO	2.9%	46	2.33% (4)	
CONNECTICUT	6.0%	9	None	
DELAWARE	-----	N/A	-----	
FLORIDA	6.0%	9	2.5%	\$30/report (max)
GEORGIA	4.0%	39	3.0%-0.5% (1)	
HAWAII	4.0%	39	None	
IDAHO	6.0%	9	None (5)	
ILLINOIS	6.25%	7	1.75%	\$5/year (min)
INDIANA (2)	6.0%	9	0.83%	
IOWA	5.0%	26	None	
KANSAS	5.3%	24	None	
KENTUCKY	6.0%	9	1.75%-1.0% (1)	
LOUISIANA	4.0%	39	1.1%	
MAINE	5.0%	26	None (5)	
MARYLAND (9)	5.0%	26	0.6%-0.45% (1)	
MASSACHUSETTS	5.0%	26	None	
MICHIGAN	6.0%	9	0.5% (6)	\$6/month (min)
MINNESOTA	6.5%	4	None	
MISSISSIPPI	7.0%	1	2.0%	\$50/month (max)
MISSOURI	4.225%	37	2.0%	
MONTANA	-----	N/A	-----	
NEBRASKA	5.5%	23	2.5%	\$75/month (max)
NEVADA	6.5%	4	0.5%	
NEW HAMPSHIRE	-----	N/A	-----	
NEW JERSEY	6.0%	9	None	
NEW MEXICO	5.0%	26	None	
NEW YORK	4.25%	37	3.5%	\$150/quarter (max)
NORTH CAROLINA	4.5%	35	None	
NORTH DAKOTA	5.0%	26	1.5%	\$255/quarter (max)
OHIO	6.0%	9	0.9%	
OKLAHOMA	4.5%	35	2.25%	\$3,000/month (max)
OREGON	-----	N/A	-----	
PENNSYLVANIA	6.0%	9	1.0%	
RHODE ISLAND	7.0%	1	None	
SOUTH CAROLINA	5.0%	26	3.0%-2.0% (1)	\$3,100/year (max)
SOUTH DAKOTA	4.0%	39	None	
TENNESSEE	7.0%	1	None	
TEXAS	6.25%	7	0.5% (7)	
UTAH	4.75%	34	1.5%	
VERMONT	6.0%	9	None (5)	
VIRGINIA (3)	3.5%	45	4.0%-2.0% (8)	
WASHINGTON	6.5%	4	None	
WEST VIRGINIA	6.0%	9	None	
WISCONSIN	5.0%	26	0.5%	\$10/period (min)
WYOMING	4.0%	39	None	
DIST. OF COLUMBIA	5.75%	21	1.0%	\$5,000/month (max)
U. S. MEDIAN	5.5%		1.9%-1.5% (1)	27 states allow vendor discounts

(1) In some states, the vendors' discount varies by the amount paid. In AL and SC, the larger discounts apply to the first \$100. In GA, the larger discount applies to the first \$3,000. In KY, the larger discounts apply to the first \$1,000, while MD applies the larger discount to annual collections of \$6,000. The lower discounts apply to the remaining collections above these amounts.

(2) Utilities are not permitted to take discount.

(3) Rate does not include a statewide local rate of 1.25% in CA and 1.0% in VA.

(4) Vendor discount applies to the state taxes collected. Discount for local option sales tax varies from 0% to 3.33%.

(5) Vendors are allowed to keep any excess collections prescribed under the bracket system.

(6) Vendor discount only applies to the first 4.0% of the tax.

(7) An additional discount of 1.25% applies for early payment.

(8) Discount varies; 4% of the first \$62,500, 3% of the amount to \$208,000, and 2% of the remainder.

(9) Vendor discount rate will increase to 1.2% and 0.9% on 7/1/04.