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BILL EXPLANATION

SENATE BILL NO. 314
Senate Committee on Taxation
Hearing Date: April 1, 2003

The bill would require the Department of Taxation to collect data regarding electronic commerce that is conducted in Nevada. The department would be required to collect primary data, including estimates of the retailers engaged in electronic commerce in this state, the total value of electronic transactions in this state and the revenues from the sales and use taxes not collected because electronic commercial transactions are conducted outside the state. The department would also be required to collect supplementary data, including information concerning electronic commerce that is available from federal or state agencies. The bill would require the department to prepare an annual report compiling the data collected for the year and an analysis of the financial impact more stringent requirements for the collection of the sales and use taxes on electronic commerce would have on retailers. The report must be submitted to the Legislature in odd-numbered years and to the Legislative Commission in even-numbered years.

Effective date: July 1, 2003.

Testimony of Senate Majority Leader William Raggio

**New Economy and Electronic Commerce Data
Collection Act**

April 1st, 2003

SB 314

We hear many state officials talk today of a growth in the loss of sales and use tax revenue due to remote sales over the Internet. Indeed, Nevada has joined a movement that, if successful, would allow our state to force out of state vendors to collect Nevada sales and use tax on purchases made over the Internet by residents of our state. Something we have not paused to consider, however, is the reliability of the private research data used by Nevada when we are deciding whether to join this movement to tax the Internet. A closer examination at the private data used by Internet tax proponents yields some interesting observations and some questionable assumptions. Given the importance of this debate for Nevada and its taxpayers, we should make sure that the data we are using is collected by our state officials and analyzed in the proper light.

We have all heard the grim estimates that states will be losing billions over the next ten years if we do not have the ability to tax

remote sales. A private, academic study published in October, 2001, reported that states would lose a total of \$13 billion in lost revenues due to untaxed Internet transactions.¹ The same study estimated losses of \$45.2 billion in 2006 and \$54.8 billion in 2011. Nevada was estimated to lose \$151 million in 2001, \$444 million in 2006, and \$687 million in 2011. This study, and others like it, are used by the proponents of Internet taxation to claim that the states will have to cut vital services if they do not receive Congressional approval to collect sales and use tax on remote sales.

There are two reasons we should reject the data in this report, and others like it, in favor of having our own revenue department prepare a more reliable estimate of the impact of e-commerce on our sales and use tax collections. First, the predictions on the growth of e-commerce have been vastly overestimated by the proponents of e-commerce taxation. The study mentioned above,

¹ See Donald Bruce and William Fox, *State and Local Sales Tax Revenue Losses from E-Commerce*:

for example, estimated that total business to consumer e-commerce sales would total \$55.8 billion in 2001, \$87.5 billion in 2002, and \$127.4 billion in 2003. According to the Department of Commerce, which keeps track of business to consumer e-commerce sales on a quarterly basis, total sales were \$32 billion in 2001 and \$45.6 billion in 2002. This is much less than the rate of growth in the studies relied on by Internet tax proponents. In the case of 2002, the study overestimated business to consumer e-commerce sales by nearly 100%, even though these estimates were made near the end of the “dot com” market burst when we knew that e-commerce was not as viable in the future as it once was.

Second, the data in the reports used by Internet tax proponents includes business to business transactions in the estimate of e-commerce subject to taxation. Many states—including Nevada²--exempt all or nearly all business to business transactions from sales or use tax. The estimate of “lost” e-commerce revenue, therefore,

Updated Estimates, Center for Business and Economic Research (September 2001).

should include only taxable business to consumer sales and those business to business sales that Nevada has chosen to tax. The Nevada revenue department—not some professor sitting at a desk halfway across the country—is better able to measure these losses.

Nevada can do better. Anytime we take actions to add to the tax burdens of our citizens—even in a case such as Internet taxation—we should be sure that the data we are using to back up our decisions is sound and relevant to the discussion. It is never bad public policy to pause and make sure that we have all the data we need to make our decisions. To date, Internet taxation proponents have been relying on data produced out of state and using questionable assumptions. Before we rush down this road of Internet taxation, we should ensure the Nevada taxpayer that we have personally looked into this issue and collected the relevant data. Thank you.

² See N.R.S. § 372.050(1).