February 13, 2017

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 61 (LC 43 0543S)

Dear Chairman Powell:

The bill expands the definition of a dealer for the purposes of collecting and remitting state sales and use tax. A dealer would include any person who, within the previous or current year, conducts 200 or more separate retail sales or sells at retail more than $250,000 of tangible personal property, for physical or electronic delivery into the state for use, consumption, distribution, or storage. Like other dealers, these dealers would be responsible for collecting and remitting sales tax on sales made in Georgia. The bill also defines delivery retailers as retailers that meet the above sales thresholds. Delivery retailers that do not collect sales taxes would be required to notify Georgia purchasers of their obligations to pay use taxes, and to mail annual sales and use tax statements to the purchasers and the Department of Revenue.

The bill also allows the Department of Revenue to take actions against any person failing to comply with the law and requires that all appeals of Superior Court decisions be made directly to the Supreme Court. The bill would be effective on January 1, 2018.

The bill would likely be subject to legal challenge because the bill expands the concept of nexus for purposes of the state sales and use tax from a physical presence standard to one of substantial economic presence or “economic nexus.”

Impact on State Revenue
Georgia State University’s Fiscal Research Center (FRC) provided an estimate of the potential revenue increase that could result of the bill (Table 1), but it indicated that there are significant challenges to achieving the full amount. If the proposed law is upheld, FRC estimated that state revenue could increase by up to $274 million in FY 2019 (assuming impact beginning with 2018 sales activity). The revenue could be reduced by the difficulty in enforcing reporting compliance by out-of-state sellers and the collection of use taxes from Georgia residents. FRC also noted that there is “significant uncertainty about the amount of currently untaxed online sales into Georgia
or the amounts of currently untaxed sales by firms that would reach the proposed thresholds.” If the expanded definition were successfully challenged, no additional revenue would be collected. Details of FRC’s analysis are provided in the attached appendix.

Table 1. Revenue Effects of LC 43 0408ER

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<th>FY 2018</th>
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Impact on Agency Costs
The bill could also impact the workload of the Department of Revenue and the state’s courts, but we are unable to estimate the number of DOR actions that could be taken or the number of Superior Court decisions that may be appealed to the Supreme Court.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt
Analysis by the Fiscal Research Center

The potential revenue gains from HB 61 would arise from imposing either collect and remit, or reporting requirements on out-of-state sellers who, due to current nexus rules, are not required to collect Georgia sales taxes, thus potentially enabling the state to capture sales or use taxes on currently untaxed online and mail-order sales. National estimates of online sales are available and these can be shared down to Georgia, but it is not possible to know what portion of these sales are currently taxed or not taxed in the state. Many online retailers also operate from physical stores and are thus likely to already have nexus in the state. Others that do not operate physical stores may have nexus in the state arising from distribution centers in the state, affiliates with a physical presence, or other nexus triggers. The following summarizes the data and assumptions used in arriving at the upper bound estimates of the bill’s revenue impact.

- The US Census Bureau’s Annual Retail Trade Survey estimates US e-commerce retail sales for 2014 at approximately $299 billion. Of that amount, approximately $255 billion or 85.3 percent is estimated to be attributable to “nonstore retailers”, specifically electronic shopping and mail order houses.

- More recent estimates are not broken out by type of retailer, but the Census estimate of aggregate e-commerce retail sales for the four quarters corresponding to state fiscal year 2016 is approximately $367.4 billion. Assuming the same 85.3 percent share attributable to nonstore retailers, sales for this subset are estimated to have been about $313.4 billion.

- This amount is shared down to Georgia based on Georgia’s share of US households with internet access, about 3.15% as of 2012 according to Census data, resulting in an estimated $9.9 billion of nonstore retailers’ sales in Georgia.

- The Georgia Department of Revenue (DOR) reports that, for FY 2016, the state collected approximately $190.6 million in state sales tax from NAICS code 4541, electronic shopping and mail order retailers. This revenue represents a 13 percent increase over FY 2015, which itself was 20 percent higher than collections in FY 2014.

- FY 2016 collections correspond to approximately $4.8 billion of taxable sales, leaving $5.1 billion of estimated untaxed sales by nonstore retailers into Georgia. If fully taxed, these sales would have produced $204 million of additional state revenues and $153 million for local governments (assuming an average local tax rate of 3 percent).

- These estimates for FY 2016 represent the upper bound on the potential revenue gains from collecting use tax on currently untaxed online sales, but the actual gains are likely significantly smaller due to several mitigating factors.
  - Many out-of-state online sellers will likely not reach the in-state sales thresholds of the proposed bill and thus will remain untaxed.
  - Some portion of online retail sales are of goods delivered electronically—e.g. digital downloads of music, books, videos, etc., and thus not currently subject to
tax regardless of nexus or reporting requirements—or are sales that are exempt from sales tax under other provisions of the code.

Unfortunately, no information is available from which the estimate these mitigating factors.

- The $204 million estimate above for FY 2016 represent about an 18 percent increase over the comparable estimate for FY 2015. However, Census estimates of nonstore e-commerce sales show growth of about 15 percent per year over the two years ending June 2016. Finally, Forrester Research (cited by trade news website internetretailer.com, Jan. 29, 2016) forecasts online sales growth through 2020 to average 9.3 percent annually. Thus the projections assume a growth rate of 12 percent for FY 2017, roughly midway between recent Census-reported growth and Forrester’s forecast, 10 percent for FY 2018, and 9 percent thereafter.