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## **Sales Tax “Skimming” Costs State and Local Governments Over \$1 Billion Annually**

Washington, DC, November 18, 2008—State and local governments in many parts of the country are losing a total of more than \$1 billion in revenue each year from the diversion of sales tax receipts into the pockets of retailers, especially large chains such as Wal-Mart. The biggest losses are created by state programs—known by names such as “vendor discount” or “collection allowance”—that pay retailers for collecting sales tax on behalf of governments.

These are the conclusions of *Skimming the Sales Tax*, a comprehensive national study of the issue released today by Good Jobs First, a non-profit research center based in Washington, DC. The report is available on the Good Jobs First website at [www.goodjobsfirst.org](http://www.goodjobsfirst.org).

“At a time when state and local governments are facing a fiscal crunch, policymakers should take a hard look at retailer compensation practices,” said Good Jobs First Executive Director Greg LeRoy. “This legal skimming is depriving governments of desperately needed revenue.”

The report finds that 26 states provide retailer compensation, which is calculated as a percentage of the sales tax collected, while 19 states and the District of Columbia do not. Five states do not have a state sales tax.

“The big problem is that 13 of those 26 states put no ceiling on the amount an individual business can receive,” said Philip Mattera, Good Jobs First Research Director and principal author of the report. “This creates a windfall for giant retailers such as Wal-Mart, which we estimate receives a total of about \$60 million a year from retailer compensation programs.”

The states without a ceiling can end up giving away substantial amounts of sales tax revenue. The report finds that Illinois leads the nation with an annual revenue loss of \$126 million. Texas is second at \$89 million, followed by Pennsylvania at \$72 million and Colorado at \$68 million.

The report notes that states that currently provide no retailer compensation may have to do so in the future if they participate in a new streamlined sales tax system for interstate online and mail-order transactions. Proposed federal legislation to enable states to collect sales tax on remote transactions would also require them to provide “reasonable” compensation to retailers for collecting tax on all their sales, but it would be left to each state to decide what is reasonable.

“Even if you accept the idea that retailers deserve some compensation,” Mattera said, “it is difficult to justify an open-ended amount. The main expenses that retailers incur with regard to sales taxes—especially software programs to track them—are fixed costs that do not rise in tandem with growth in receipts. States should keep that in mind when determining their definition of reasonable.”

*Skimming the Sales Tax* also looks at another way local governments lose sales tax revenue: the giveaway of those revenues as economic development subsidies for large retail projects. There are no national figures on such subsidies—which include sales tax rebates and sales tax increment financing—but the report gathers available information on the extent they have been used by the country’s largest retailer, Wal-Mart Stores. It finds that over the past decade Wal-Mart projects have received a total of \$130 million (or an average of \$13 million a year) from sales tax-based subsidies.

The report concludes with policy options, including suggestions that states without ceilings on retailer compensation consider adopting them, and that localities consider avoiding the use of subsidies for retail projects except in those limited cases in which they are truly necessary to bring basic retail necessities such as groceries and drugstores to communities that are demonstrably underserved.