



State Board of Equalization

News Release

Chairman Jerome E. Horton

4th District – Los Angeles

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For Immediate Release
May 9, 2011

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Jerome E. Horton Releases Ecommerce Analysis

Jerome E. Horton, Chairman of the California State Board of Equalization (BOE), today released a staff analysis of ecommerce buyers and sellers. The May edition of the *Economic Perspective*, produced by BOE research staff, summarizes that, "Internet sales are highly concentrated in large sellers. These online sales and their associated use tax payments vary greatly according to household income group."

Use tax is the equivalent of sales tax and applies to purchases from retailers who are not required to report and pay sales or use tax in California. Out-of-state Internet sellers (or other out-of-state retailers) that do not have any physical presence in California are not required to collect California tax. Therefore, individuals or businesses that purchase items from out-of-state retailers that do not collect California tax are required to pay the use tax directly to the state.

"This report points to data that proves how important it is that California move forward with requiring online retailers to collect the taxes owed when Californians make purchases," Horton said. "We also need to increase our efforts to encourage Californians to comply with the use tax laws that have been on the books since 1935.

"I am sensitive to human error and conflicting interpretations of the law," Horton continued. "However, many out-of-state retailers have embraced not collecting California taxes as a business model."

The BOE report released today points to many factors related to Internet sales:

- The top 10 ecommerce firms of the top 500 largest retail websites, ranked by annual sales, account for 48 percent of all ecommerce sales made
- Sales made by ecommerce retailers average about \$660 per U.S. household with an Internet connection
- The average sale is \$210 per transaction
- Households with incomes between \$60,000 and \$100,000 account for about one third of all Top 500 ecommerce retailers' sales
- Households with greater than \$100,000 incomes account for 27 percent of purchases
- Low income households spend proportionately similar percentages of their incomes online as middle and upper middle class households (about 1.5 percent)
- The highest income group spends proportionately much less of their income online (0.6 percent)

- Taxpayers are paying an average of about 1.4 percent of the total use tax liabilities they owe
- High income taxpayers paid an average of four percent of their liabilities
- Compliance is less than one percent of liabilities for all household income groups other than the highest earning group

BOE's most recent estimate is that about \$1.1 billion in use tax due goes uncollected each year.

The *Economic Perspective* newsletter is a quarterly publication produced by the BOE that looks at economic factors of interest or that influence California economic activity.

Elected in 2010, Chairman Jerome E. Horton is the Fourth District Member of the California State Board of Equalization, representing more than 8.5 million residents in Los Angeles County. He is also the BOE Legislative Committee chairman. He is the first African American to serve on the BOE since its inception in 1879 and the third African American constitutional officer in California's history. Horton previously served as an Assembly Member of the California State Assembly from 2000-2006.

The five-member California State Board of Equalization is a publicly elected tax board. The BOE collects more than \$48 billion annually in taxes and fees supporting state and local government services. It hears business tax appeals, acts as the appellate body for franchise and personal income tax appeals, and serves a significant role in the assessment and administration of property taxes. For more information on other taxes and fees in California, visit www.taxes.ca.gov.

Related materials:

May 2011 Economic Perspective: <http://www.boe.ca.gov/news/2011/pub329.pdf>

California Use Tax Information: <http://www.boe.ca.gov/taxprograms/usetax/index.html>

Ecommerce revenue loss estimate: <http://www.boe.ca.gov/legdiv/pdf/e-commerce-11-10.pdf>

Top 500 report: <http://www.internetretailer.com/top500/list/>

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