New Census Data Reduce Estimates of Sales Tax Loss from Remote Sales

2002 Retail Census Enterprise Size Data Now Available

“Remote” retail sales (e-commerce plus traditional mail-order sales) are an important subject for sales and use tax administration. Many out-of-state retailers are not required to register with the Board of Equalization and do not collect taxes on remote sales to California customers.

As part of its five-year economic census, the U.S. Census Bureau surveyed remote selling retailers in 2002. The Census Bureau finished releasing complete results in late 2005. The data show remote retail sales by number of company employees.

U.S. Remote Sales Highly Concentrated in Larger Companies

Most remote selling companies have fewer than 500 employees. Among 10,800 remote selling firms in 2002, only 280 companies had at least 500 employees. (See the chart below for more details.)

The Census data indicate that remote sales are concentrated in these larger companies, with an average of $312.8 million per firm. For example, Walmart.com had remote sales of over a billion dollars in 2005—the third largest of any online retailer.1


Number of U.S. Remote Seller Firms by Number of Employees in 2002
At the other end of the employee-size spectrum, remote sales average only $0.5 million dollars per firm for companies with fewer than five employees (see the chart below).

**Concentration of Remote Sales by Largest Firms Increases Since 1997**

The chart on the next page shows the distribution of 2002 remote sales by number of employees. The vast majority of remote sales, 76 percent, were made by firms with at least 500 employees. This is an 8 percent increase from 1997 (the last census year).

**Revenue Loss Estimate Decreases Using 2002 Census Data**

The high and increasing share of remote sales made by the largest firms since 1997 have important ramifications for sales and use tax payments made to the Board of Equalization. Firms with at least 500 employees are much more likely to have a California presence and be registered with the Board.

Our research indicates that 78 percent of the remote sales by the larger companies and 64 percent of all remote sales were made by firms registered with the Board. This latter percentage is up from a figure of 60 percent based on the 1997 economic census data.

Since firms are either registered or not, these percentages imply that 36 percent of remote sales were made by unregistered firms in 2002, down from 40 percent in 1997.

Since our remote sales revenue loss estimates are based on the percentage of unregistered firms, we would expect that revenue losses also declined from 1997 to 2002.

Prior to the release of the 2002 data, we estimated that total 2004 state and local revenue losses from business-to-consumer remote sales were $409 million. Based on the new 2002 census data, we calculate that loss estimate should be reduced by about $41 million. This analysis assumes no other changes in the 2004 data.
However, increased revenue from remote sales growth in 2005 probably offset most of this decrease. The Census Bureau is scheduled to release more complete electronic commerce data in May 2006. We plan to update our remote sales revenue loss analysis after we analyze that data.

❖ U.S. Economic Developments

Stronger Than Average GDP Growth Continues

Based on preliminary data, real gross domestic product (GDP) rose 3.5 percent in 2005, just above the ten-year average of 3.4 percent. Many economists expect similar growth this year. A survey of 51 professional forecasters polled by the Federal Reserve Bank of Philadelphia in November calls for real GDP to increase 3.4 percent in 2006.

E-Commerce Growth Increases 25 percent

Retail e-commerce sales increased rapidly in recent years, and growth showed no signs of slowing during the recent holiday shopping season. Retail e-commerce sales rose 25 percent in 2004, and preliminary data indicate similar growth for 2005. Growth is much lower for all remote retail sales, defined as e-commerce sales combined with traditional mail-order sales. Remote retail sales increased 13 percent in 2004 and preliminary data indicate growth of about 10 percent in 2005.

Continued Steady Employment Growth

U.S. nonagricultural employment rose 1.6 percent in 2005, up from 1.1 percent in 2004. The forecasters surveyed by the Philadelphia Federal Reserve Bank predict that nonagricultural employment will increase 1.5 percent in 2006, close to last year’s rate.

❖ California Economic Developments

California Employment Growth Similar to U.S.

One of the most comprehensive and timely indicators of economic well-being available for states is nonagricultural payroll employment. Preliminary data indicate that California nonagricultural employment increased 1.6 percent in 2005, matching the U.S. growth rate. Many forecasters expect growth in California this year to be close to that of 2005. The Western Blue Chip Economic Forecast (a consensus of nine California forecasters) calls for California nonagricultural employment to rise 1.5 percent in 2006, the same rate predicted by others for the nation as a whole.
Homebuilding Activity Expected to Decline

Construction activity has contributed strongly to growth in California employment, income, and taxable sales in recent years. Preliminary data for 2005 indicate that construction activity, as measured by numbers of residential building permits, declined slightly from 2004. The 2005 data indicate that permits for about 207,000 units were issued in 2005, down from 213,000 units in 2004.

The Construction Industry Research Board is forecasting the number of permits to decline by about 6 percent in 2006, to about 195,000 units. Even if home construction were to decline as projected this year, 2006 home permits would still remain well above the state’s long-term average: California residential home permits averaged about 155,000 units per year for the 10-year period ending in 2005.

Online Resources

For more information about topics covered in this issue, please visit any of the websites listed below. Some sites charge a fee to use their services.

Bank One Economic Outlook Center, Arizona State University, Western Blue Chip Economic Forecast.
http://wpcarey.asu.edu/seid/eoc/pubs/WBC.cfm

California State Board of Equalization, News Releases, Taxable Sales.
www.boe.ca.gov/info/hparchives.htm

California Department of Finance, www.dof.ca.gov

California Employment Development Department (EDD), Labor Market Conditions in California
www.labormarketinfo.edd.ca.gov

Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters
www.phil.frb.org/econ/spf/index.html

National Association for Business Economists, www.nabe.com

U.S. Bureau of Economic Analysis, Survey of Current Business,
www.bea.doc.gov/bea/pubs.htm

U.S. Bureau of Labor Statistics,
www.bls.gov

www.census.gov/csd/susb/usall02.xls


Contact Us

Please contact us if you would like to be added to our mailing list, need additional copies, or have any questions or comments.

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