

GAO Highlights

Highlights of [GAO-18-114](#), a report to congressional requesters

Why GAO Did This Study

Over the past two decades, e-commerce sales have grown rapidly, greatly expanding a category of sales known as remote sales. Under current law, states cannot require all businesses to collect taxes on remote sales. Congress has been considering proposals to change this. Little current, nationwide information exists to inform the debate.

In this report, GAO (1) estimated revenue states and localities could gain by being able to require businesses to collect taxes on all remote sales, and (2) described what is known about the related compliance costs and challenges to businesses, and administrative costs and challenges to states.

GAO estimated 2017 revenue gains to state and local governments based on actual and estimated sales data for remote sellers, excluding certain sales that were exempt from taxation or already collected by remote sellers with a substantial presence in a state. Ranges for GAO's estimates were based on a number of key assumptions that were varied based on available data. To describe related costs and challenges to businesses and states, GAO interviewed officials from state revenue agencies, subject matter specialists, and a wide variety of retailers with remote sales and the organizations that represent them.

GAO provided a draft of this report to subject matter specialists who agreed with the general approach that GAO followed in making its estimates.

What GAO Recommends

GAO is not making recommendations in this report.

View [GAO-18-114](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or McTigueJ@gao.gov.

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SALES TAXES

States Could Gain Revenue from Expanded Authority, but Businesses Are Likely to Experience Compliance Costs

What GAO Found

Forty-five states and the District of Columbia levy taxes on the sale of goods and certain services, including those sold remotely, such as over the Internet. In 1992, the Supreme Court ruled in *Quill v. North Dakota* that a state can only require a business to collect and remit sales tax if the business has substantial presence, referred to as nexus, in that state. However, the decision stated that Congress could pass legislation to overrule this limitation. In general, under present law, if a seller does not have nexus in a state, and therefore does not collect tax, then a purchaser is required to pay a use tax in the same amount to his or her state government.

GAO estimated that state and local governments can, under current law, require remote sellers to collect about 75 to 80 percent of the taxes that would be owed if all sellers were required to collect tax on all remote sales at current rates. GAO found that the extent to which state and local governments can require businesses to collect taxes varies with the type of remote seller and by state.

GAO Low and High Scenario Estimates of State and Local Government 2017 Potential Revenue Gains from Expanded Tax Collection Authority on Remote Sales

Dollars in billions	Low scenario estimate	High scenario estimate
Business-to-consumer (B2C)		
Internet retailers	3.2	4.8
E-marketplace sellers	3.9	6.2
Other remote retailers ^a	1.5	1.8
(less consumer use tax compliance)	(0.2)	(0.2)
B2C total	8.4	12.5
Business-to-business (B2B)		
Merchant wholesale e-commerce ^b	1.0	2.9
(less business use tax compliance)	(0.9)	(2.0)
B2B total	0.1	0.9
Grand total (B2B + B2C)	8.5	13.4

Source: GAO analysis of Forrester Research, Internet Retailer, U.S. Census Bureau, and company financial data. | GAO-18-114

Note: Totals may not sum due to rounding. These estimates are the potential revenue state and local governments could gain in calendar year 2017 if granted the legal authority to require all remote sellers to collect taxes on all remote sales.

^aIncludes catalog, mail-order, call center, and television shopping channel retail companies.

^bMerchant wholesale e-commerce sales includes manufacturers' sales branches and offices, but excludes agents and brokers, and excludes sales made via electronic data interchange networks.

GAO estimated that state and local governments could gain from about \$8 billion to about \$13 billion in 2017 if states were given authority to require sales tax collection from all remote sellers. This is about 2 to 4 percent of total 2016 state and local government general sales and gross receipts tax revenues.

Some businesses would likely see increases in several types of costs if required to collect taxes on all remote sales. These costs would be higher for businesses not currently experienced in multistate tax collection. Officials from state revenue departments told us that they generally do not anticipate major administrative costs or challenges if given the authority to require businesses to collect tax on all remote sales.