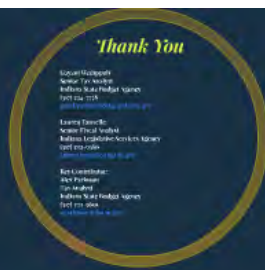


State of Indiana



***Forecasting Sales Tax:
Changing Patterns of
Consumption and Emerging
Channels of Retail***

2019 FTA Revenue Estimation and Tax Research Conference
New Orleans, Tuesday, September 24, 2019

Indiana Sales Tax

- The rate of the Indiana sales tax is 7%
- The base of the sales tax is retail sales of tangible personal property
- Indiana sales tax is not aimed at services, certain services are specifically subject to the tax
- Amazon brokered an agreement with Indiana officials in 2012 to voluntarily begin collecting and remitting sales tax in the state beginning of 2014

Traditional Factors in Forecasting Sales Tax

- Predicting economic cycles
- Changes in consumption from goods to services
- Predicting stock market bubbles and bursts
- Predicting real estate market
- Predicting gasoline prices
- Changing demography (Graying of America)

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Economic Variables

- Current forecast model
 - Personal income
 - Household financial obligations ratio
 - PCE goods / PCE services
 - Home mortgage rates
- Other variables included in recent models
 - Population >65
 - Housing starts
 - Labor force participation rate

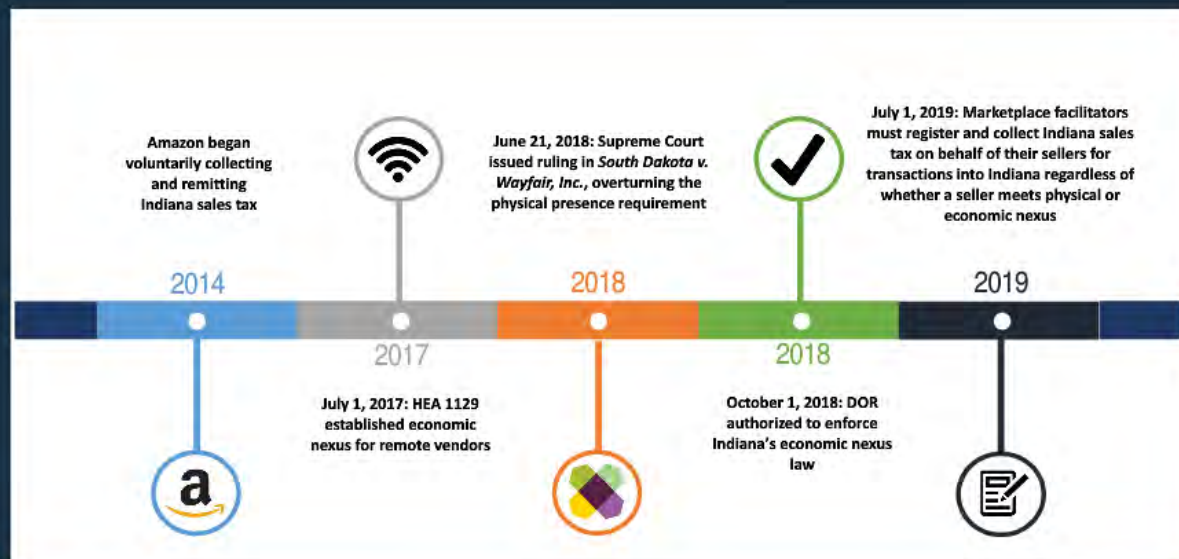
New Consumption Patterns and Challenges

- Taxation of consumption through the sharing economy
- Buying patterns of Millennials
- Forecasting the growing share of e-commerce
- Mapping the levels of sales through channels of e-commerce

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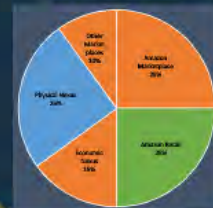
Milestones in E-Commerce Sales and Taxation



Forecast Analysis for Indiana E-Commerce

- Indiana e-commerce potential five different revenue sources:
 - *Amazon marketplace - Third party sales through Amazon.com*
 - *Other marketplaces - Ex: ebay, etsy, wish.com*
 - *Amazon Retail - Amazon product sales by Amazon.com*
 - *Economic Nexus - Ex: Newegg etc..*
 - *Physical Nexus - Walmart, Macy's, Best Buy*
- Before HEA 1129 Indiana was already collecting taxes from **Amazon Retail** and **Physical Nexus**. The remaining Amazon marketplace, Other marketplaces and Economic Nexus is what we call **remote sales** in Indiana

Example of Indiana E-Commerce Sales Tax Revenue Breakdown

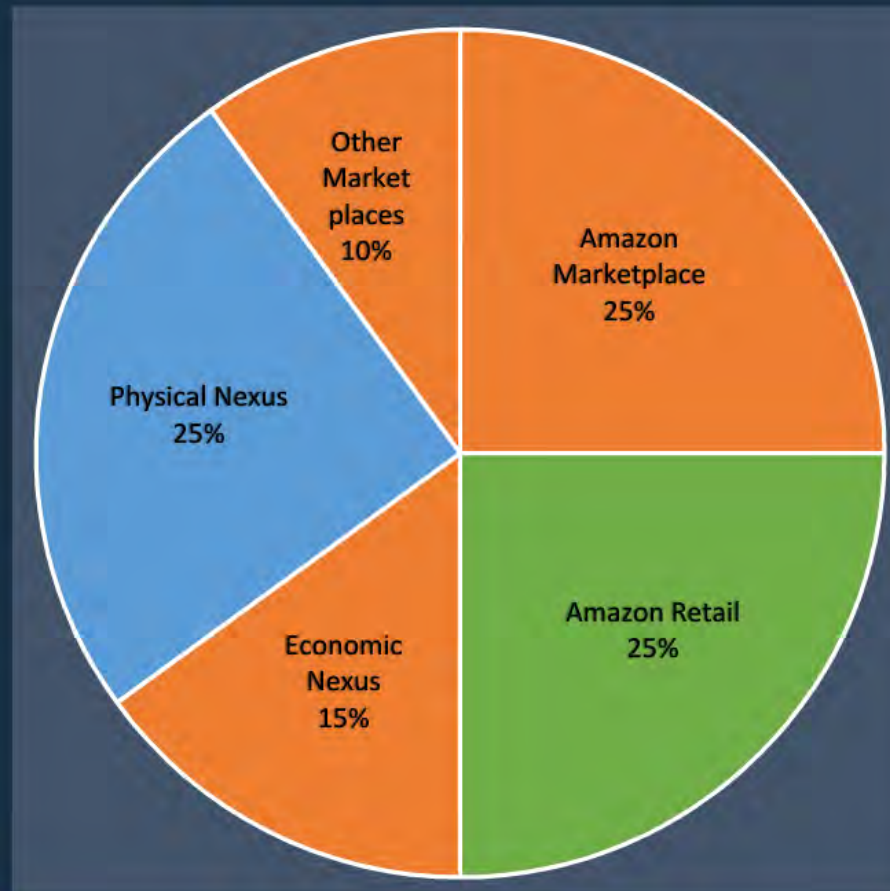


Example Methodology

Indiana E-commerce Breakdown	Percent of Total	Percent State Total	Percent Indiana Tax Revenue
Amazon Marketplace	20%	3	\$ 20,000,000
Amazon Retail	20%	5	\$ 20,000,000
Economic Nexus (Newegg.com)	20%	3	\$ 20,000,000
Physical Nexus (Walmart, Macy's, Best Buy)	20%	3	\$ 20,000,000
Other Marketplaces (eBay, Etsy, Wish.com)	20%	3	\$ 20,000,000
TOTAL	100%	15	\$ 100,000,000

*Percentages based on 2018 data and are for illustrative purposes only.

*Example of Indiana E-Commerce Sales
Tax Revenue Breakdown*



Example Methodology

Indiana E-commerce Breakdown	Percent of Sales	Annual Taxes Paid	Annual Estimated Taxes Due
Amazon Marketplace	25%	\$ -	\$ 250,000,000
Amazon Retail	25%	\$ 250,000,000	\$ -
e-Commerce Sales (Economic Nexus)	15%	\$ -	\$ 150,000,000
e-Commerce Sales (Physical Nexus)	25%	\$ -	\$ 250,000,000
Other Marketplaces	10%	\$ -	\$ 100,000,000
TOTAL	100%	\$ 1,000,000,000	

**Amazon retail taxes paid are for example only*

E-Commerce Analysis for Legislative Fiscal Note



E-Commerce Analysis for Legislative Fiscal Note

E-Commerce Channel	Estimated Indiana E-commerce Sales (\$B)	Share of Total E-commerce Sales (%)	Estimated Indiana Tax Revenue (\$M)
Small Retail (except Electronic Retailing)	\$6.412	7% - 8%	\$1.5 - \$1.8
Electronic Retailing	\$6.674	7% - 8%	\$1.5 - \$1.8
Marketplace Sales (not reported by Census)	\$4.014	1% - 2%	\$0.9 - \$1.1
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*Assumes 2016 Sales from Department of Revenue's 2017 Report

E-Commerce Analysis for Legislative Fiscal Note

• Forecast 2016 estimates in FY 2020 and FY 2021, assuming 3% average annual growth

• Assumed compliance rates

- 60% in FY 2020
- 70% in FY 2021

• Estimated potential revenue gain from marketplace facilitator legislation

- \$75.8 M - \$71.6 M in FY 2020
- \$67.0 M - \$86.0 M in FY 2021

E-Commerce Analysis for Legislative Fiscal Note

E-Commerce Channel	Estimated Indiana E-Commerce Retail Sales	Share of Taxable Sales Pre-Wayfair*	Potential Revenue Gain (2016)
Retail Trade (except Nonstore Retailers)	\$945.6 M	78% - 86%	\$9.3 M - \$14.6 M
Nonstore Retailers (Electronic Shopping and Mail-Order Houses)	\$5,498.1 M	74% - 82%	\$68.8 M - \$98.2 M
Marketplace Sales (not reported by Census Bureau)	\$1,610.9 M	14% - 33%	\$75.6 M - \$97.0 M

*Based on estimates from Government Accountability Office November 2017 report.

E-Commerce Analysis for Legislative Fiscal Note

- Forecast 2016 estimates to FY 2020 and FY 2021, assuming 3% average annual growth
- Assumed compliance rates
 - 60% in FY 2020
 - 70% in FY 2021
- Estimated potential revenue gain from marketplace facilitator legislation
 - \$55.8 M - \$71.6 M in FY 2020
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Resources

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Thank You

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