

South Carolina E-Commerce Sales and Use Tax Revenue Estimates

After *South Dakota v. Wayfair*

Report Updated on October 10, 2018

- On June 21, 2018, the U.S. Supreme Court overturned longstanding physical presence rulings, thus allowing states to impose a sales tax obligation on remote sellers that have an economic nexus with the state. We estimate that South Carolina may potentially collect an additional \$74.4 million in sales tax revenue annually from this ruling. The South Carolina Department of Revenue provides guidance for remote sellers in Revenue Ruling 18-4.
- E-Commerce retail trade accounted for 8 percent of all United States retail sales in 2016. From 1988 to 2016, U.S. E-Commerce retail sales grew at an average annual rate of 20.1 percent and by 13.1 percent annually over the last ten years.
- U.S. E-Commerce wholesale trade has grown 7.2 percent per year since 2002.
- Our analysis finds that taxable E-Commerce retail and wholesale sales in South Carolina for FY 2018-19 will total \$6.5 billion, resulting in \$478.5 million in potential sales tax revenue at the combined average state and local rate of 7.4 percent.
- Of the \$478.5 million total, we estimate that retailers, businesses, and individuals prior to the *Wayfair* decision would have remitted \$374.6 million, or 78.2 percent of total retail and wholesale E-Commerce sales tax revenue.
- The remaining \$103.9 million in previously uncollected sales and use taxes is theoretically collectable after the *Wayfair* decision. However, in accordance with the Supreme Court decision, South Carolina has adopted a small seller exemption for remote sellers with annual sales of less than \$100,000. Adopting this small seller exemption in South Carolina will reduce the expected additional amount of revenue collections.
- With the small seller exemption, we estimate that the increased revenue collections from remote sellers will total \$74.4 million annually or \$29.5 million less than the \$103.9 million theoretical upper limit. The \$29.5 million amount represents 6.2 percent of total South Carolina E-Commerce sales tax. Census retail trade data report that E-Commerce sales by establishments nationwide with sales of less than \$5 million annually represent 6.2 percent of total E-Commerce sales. We estimate that this level of sales, \$100,000 for each of the 50 states, would potentially exempt these retailers from remitting sales tax in South Carolina.
- Of the \$74.4 million in estimated additional sales tax revenue, \$40.2 million would be allocated to the General Fund from the 4 percent sales tax. The Education Improvement Act Fund and the Homestead Exemption Fund allocations would increase by \$10.1 million each for the 1 percent tax allocated to each of these funds. Allocations to local sales and use taxes would increase by an estimated \$14.0 million statewide. Local

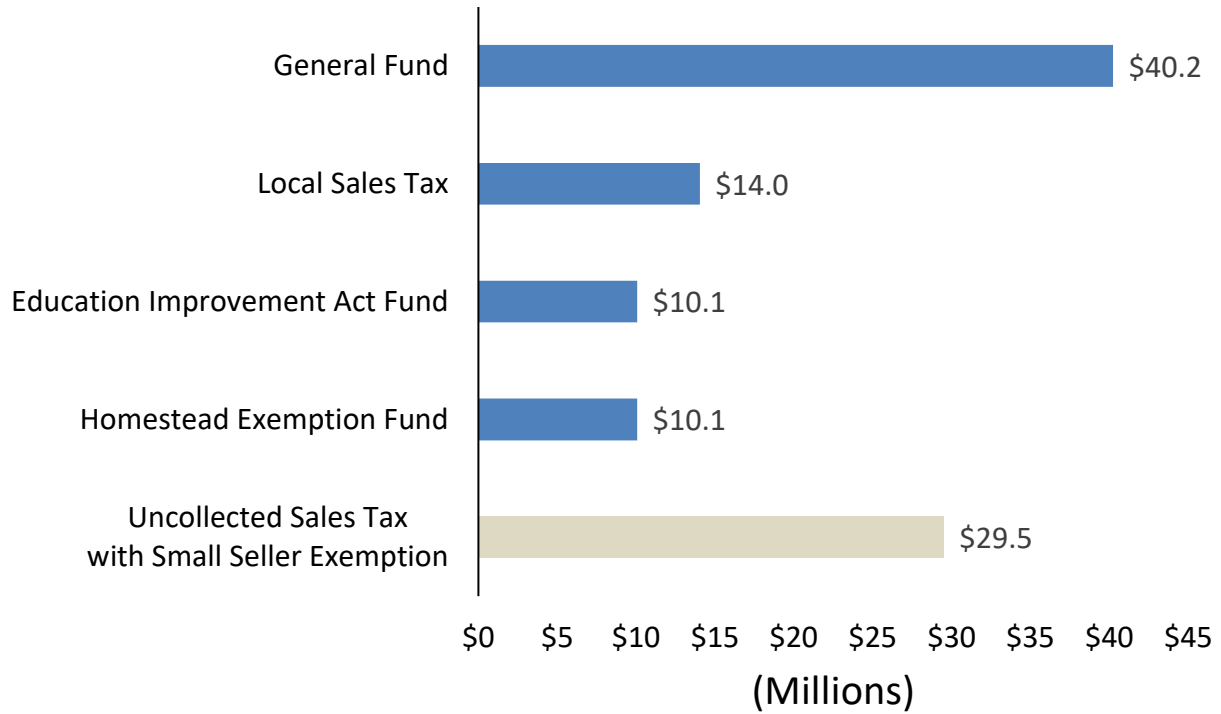


shares of this revenue will depend on the local option sales taxes in effect for the various counties.

- We anticipate that FY 2018-19 revenue collections will fall well short of these full fiscal year estimates due to the following reasons:
 - Retailers are uncertain how they will implement a multistate sales tax reporting system because of the June 2018 Supreme Court ruling.
 - The implementation dates specified in the South Carolina Revenue Ruling will occur midway through FY 2018-19.
 - DOR guidance requires remote retailers with economic nexus established in 2017 or 2018 to begin reporting sales and use tax for all taxable sales beginning on November 1, 2018. Generally, these remote retailers will not remit sales and use taxes collected in November until December. This results in, at best, six months of revenue collections in FY 2018-19.
 - New remote sellers who establish economic nexus after October 1, 2018, will remit sales tax collections in February at the earliest if they meet the \$100,000 threshold in November. Many small retailers will require months to meet the threshold.
 - Ongoing litigation with an online marketplace may delay tax revenue collections. DOR issued a news release in February 2018 advising persons whose products are sold on Amazon or similar online marketplace to voluntarily remit the South Carolina sales tax until the current litigation is resolved. It is unclear if these persons are remitting the sales tax.
 - Delays in compliance occur normally with changes in tax policy.



ESTIMATED ANNUAL INCREASE IN E-COMMERCE SALES AND USE TAX - \$74.4 MILLION



Source: S.C. Revenue and Fiscal Affairs Office. Detailed estimates are summarized on page 8 of this document.



**FY 2018-19 E-Commerce Retail and Wholesale Trade
Sales Tax Estimates for South Carolina
(Dollar Amounts in Millions)**

Line				
	E-Commerce Retail Trade Estimate			
1	U.S. retail E-Commerce trade estimate for FY 2018-19 (millions)		\$497,985.0	
2	Estimated South Carolina share of U.S. total E-Commerce retail trade (millions)	1.377%	\$6,855.7	
3	S.C. total E-Commerce retail trade estimate after exclusion of motor vehicles, food, prescription drugs, musical instruments, optical goods, hearing aids, and nonstore retailers [Line 2 less 30.85%]	30.85%	\$4,740.7	
	Household Purchases			
4	Taxable South Carolina household purchases estimate [Line 3 times 86.8%]	86.80%	\$4,115.0	
5	Total Tax Due (All Statewide and Local Sales Taxes) This estimate includes the expected \$2.0 million in use tax remitted on untaxed purchases on 2018 S.C. individual income tax returns.	7.4%	\$304.5	
6	General Fund	4.0%		\$164.6
7	EIA	1.0%		\$41.1
8	HEF	1.0%		\$41.1
9	Local	1.4%		\$57.6
10	Estimated Total Tax Paid (72.9%)	7.4%	\$227.3	
11	General Fund	4.0%		\$122.9
12	EIA	1.0%		\$30.7
13	HEF	1.0%		\$30.7
14	Local	1.4%		\$43.0
15	Estimated Uncollected Taxes (27.1%)	7.4%	\$77.2	
16	General Fund	4.0%		\$41.7
17	EIA	1.0%		\$10.4
18	HEF	1.0%		\$10.4
19	Local	1.4%		\$14.6



Business Purchases			
20	Taxable South Carolina business purchases estimate [Line 3 times 5.2%]	5.20%	\$246.52
21	Total Tax Due (All Statewide and Local Sales Taxes)	7.4%	\$18.2
22	General Fund	4.0%	\$9.9
23	EIA	1.0%	\$2.5
24	HEF	1.0%	\$2.5
25	Local	1.4%	\$3.5
26	Estimated Total Tax Paid (85%)	7.4%	\$15.5
27	General Fund	4.0%	\$8.4
28	EIA	1.0%	\$2.1
29	HEF	1.0%	\$2.1
30	Local	1.4%	\$2.9
31	Estimated Uncollected Taxes (15%)	7.4%	\$2.7
32	General Fund	4.0%	\$1.5
33	EIA	1.0%	\$0.4
34	HEF	1.0%	\$0.4
35	Local	1.4%	\$0.5



E-Commerce Wholesale Trade Estimate			
36	U.S. wholesale E-Commerce trade estimate for FY 2018-19 (millions)		\$2,601,013.0
37	Estimated South Carolina share of U.S. total E-Commerce retail trade (millions)	0.756%	\$19,666.5
38	Estimated S.C. total E-Commerce wholesale trade after exclusion of motor vehicles, food, and prescription drugs [Line 37 less 45.4%]	45.4%	\$10,737.9
Household Purchases			
39	Taxable South Carolina household purchases [Line 38 times 0.6%]	0.60%	\$64.4
40	Total Tax Due (All Statewide and Local Sales Taxes)	7.4%	\$4.8
41	General Fund	4.0%	\$2.6
42	EIA	1.0%	\$0.6
43	HEF	1.0%	\$0.6
44	Local	1.4%	\$0.9
45	Estimated Total Tax Paid (72.9%)	7.4%	\$3.5
46	General Fund	4.0%	\$1.7
47	EIA	1.0%	\$0.4
48	HEF	1.0%	\$0.4
49	Local	1.4%	\$0.6
50	Estimated Uncollected Taxes (27.1%)	7.4%	\$1.3
51	General Fund	4.0%	\$0.9
52	EIA	1.0%	\$0.2
53	HEF	1.0%	\$0.2
54	Local	1.4%	\$0.3



Business Purchases			
55	Taxable South Carolina business purchases [Line 38 times 19.0%]	19.00%	\$2,040.20
56	Total Tax Due (All Statewide and Local Sales Taxes)	7.4%	\$151.0
57	General Fund	4.0%	\$81.6
58	EIA	1.0%	\$20.4
59	HEF	1.0%	\$20.4
60	Local	1.4%	\$28.6
61	Estimated Total Tax Paid (85%)	7.4%	\$128.3
62	General Fund	4.0%	\$69.4
63	EIA	1.0%	\$17.3
64	HEF	1.0%	\$17.3
65	Local	1.4%	\$24.3
66	Estimated Uncollected Taxes (15%)	7.4%	\$22.6
67	General Fund	4.0%	\$12.2
68	EIA	1.0%	\$3.1
69	HEF	1.0%	\$3.1
70	Local	1.4%	\$4.3



Summary			
	Estimated Total S.C. E-Commerce Retail and Wholesale Trade Sales Tax Due (Household and Business). <i>This estimate includes the expected \$2.0 million in use tax remitted on untaxed purchases on 2018 S.C. individual income tax returns.</i>		
71	[Total of lines 5, 21, 40 and 56]	7.4%	\$478.5
72	General Fund	4.0%	\$258.6
73	EIA	1.0%	\$64.7
74	HEF	1.0%	\$64.7
75	Local	1.4%	\$90.5
	Estimated Total S.C. Taxes Paid on E-Commerce Retail and Wholesale Sales (Household and Business)		
76	[Total of lines 10, 26, 45, and 61]	7.4%	\$374.6
77	General Fund	4.0%	\$202.3
78	EIA	1.0%	\$50.6
79	HEF	1.0%	\$50.6
80	Local	1.4%	\$70.8
	Estimated Total S.C. Uncollected Taxes on E-Commerce Retail and Wholesale Sales (Household and Business)		
81	[Total of lines 15, 31, 50, and 66]	7.4%	\$103.9
82	General Fund	4.0%	\$56.4
83	EIA	1.0%	\$14.1
84	HEF	1.0%	\$14.1
85	Local	1.4%	\$19.7
	Estimated Total S.C. Uncollected Taxes on E-Commerce Retail and Wholesale Sales with a \$100,000 small seller exemption (Household and Business)		
86	[line 81 less line 71 times 6.159%]	7.4%	\$74.4
87	General Fund	4.0%	\$40.2
88	EIA	1.0%	\$10.1
89	HEF	1.0%	\$10.1
90	Local	1.4%	\$14.0



Line Notes

1	Source: U.S. Census Bureau, Annual Retail and Wholesale Trade Surveys. E-Commerce retail trade growth averaged 20.1% per year from 1998 to 2016. We used the most recent ten-year growth rate of 13.1% to inflate 2016 data to FY 2018-19.
2	South Carolina's estimated 1.377% share of U.S. retail trade is based on data from the U.S. Bureau of the Census, 2012 Economic Census.
3	Source: U.S. Census Bureau, 2012 Economic Census, Retail Trade Product Line Statistics for Electronic Shopping and Mail-Order Houses (NAICS 4541) by Kind of Business for the United States. We expect that the motor vehicle licensing requirements and property tax collections result in little or no loss of tax collections on these vehicle sales. All other items listed are exempt from sales and use tax in South Carolina or are subject to the \$300 maximum cap. We exclude nonstore retailers (NAICS 454) as these retailers make direct sales at the customers' locations in South Carolina. We expect that sales tax nexus is already established, and S.C. sales tax is currently collected on these sales.
4	Source: U.S. Census Bureau, 2012 Economic Census, Retail Trade: Subject Series - Misc Subjects: Sales by Class of Customer for the United States: 2012. These data allow us to determine the amount of retail sales attributable to individuals or businesses. The amount of E-Commerce retail sales subject to S.C. tax depends greatly upon which type of consumer purchases the products. Based on the Census data, we estimate that households account for 86.8% of all E-Commerce retail sales.
5	Total sales tax rate is based on a statewide average calculated by the Sales Tax Clearinghouse, see http://thestc.com/strates.stm . This average tax rate includes state and local taxes and is based on the amount of sales taxes collected by ZIP codes weighted by population.
6 to 9	These lines provide estimates for the various allocations of S.C. sales tax collections. Allocations include: 4% allocated to the General Fund, 1% allocated to the Education Improvement Act Fund, 1% allocated to the Homestead Exemption Fund, and local taxes that we estimate average 1.4% statewide. Local Option, Capital Project, Transportation, School Bond, and Tourism taxes are examples of the potential local taxes.



10	<p>The 72.9% retail internet vendor compliance rate is estimated in from multiple sources. The first source, which we use for retailers below the top 100 retailers is from "State and Local Government Sales Tax Revenue Losses from Electronic Commerce" by Donald Bruce, William F. Fox, and LeAnn Luna, University of Tennessee, April 13, 2009. The authors estimated a 64.5% compliance rate for South Carolina by examining the top 50 internet retail firms and a random sample of 50 more firms from Internet Retailer's "Top 500 Guide, 2007 Edition." Each firm's website was examined to determine the states for which the firm collects and remits sales tax. We estimate the compliance rate for the top 100 retailers from a report by the SC Department of Revenue that indicates that they receive sales tax revenue from 77 of the top 100 e-retailers. Another analysis we utilized is "Internet Retail Data: Just how big are the Top 500 Internet Retailers?"</p> <p>http://rejoiner.com/resources/top500-internet-retailers/ .</p>
20	<p>Source: U.S. Census Bureau, 2012 Economic Census, Retail Trade: Subject Series - Misc Subjects: Sales by Class of Customer for the United States: 2012. These data allow us to determine the amount of retail sales attributable to individuals or businesses. The amount of E-Commerce retail sales subject to S.C. tax depends greatly upon which type of consumer purchases the products. Based on the Census data, we estimate that businesses account for 13.2 % of retail sales, of which 5.2% is subject to S.C. sales tax and 8.0% are nontaxable sales for resale.</p>
26	<p>Research suggests that the use tax compliance rate for businesses in most states is between 85% and 100%. See, Peter A. Johnson, "Setting the Record Straight: The Modest Effect of E-Commerce on State and Local Sales Tax Collections," Direct Marketing Association, January 2008. We rely on the 85% estimate for this analysis given the revenue collected in recent years from enforced collection activities of the South Carolina Department of Revenue.</p>
36	<p>Source: U.S. Census Bureau, Annual Retail and Wholesale Trade Surveys. E-commerce wholesale trade growth averaged 7.2% per year from 2002 to 2016. We used the ten-year annual average growth rate of 5.8% to inflate 2016 data to FY 2018-19.</p>
37	<p>South Carolina's estimated 0.765% share of U.S. wholesale trade is based on data from the U.S. Bureau of the Census, 2012 Economic Census.</p>
38	<p>Source: U.S. Census Bureau, 2014 Annual Wholesale Trade Survey and 2012 Economic Census, Wholesale Trade Product Line Statistics by Kind of Business for the United States.</p>



39	<p>Source: U.S. Census Bureau, 2012 Economic Census, Wholesale Trade: Subject Series - Misc Subjects: Sales by Class of Customer for the United States: 2012. These data allow us to determine the amount of wholesale sales attributable to individuals or businesses. The amount of E-Commerce wholesale sales subject to S.C. tax depends greatly upon which type of consumer purchases the products. Based on the Census data, we estimate that households account for a very small amount of wholesale purchases, 0.6% of all E-Commerce wholesale sales.</p>
45	<p>See Line Note 10.</p>
55	<p>Source: U.S. Census Bureau, 2012 Economic Census, Wholesale Trade: Subject Series - Misc Subjects: Sales by Class of Customer for the United States: 2012. These data allow us to determine the amount of wholesale sales attributable to individuals or businesses. The amount of E-Commerce wholesale sales subject to S.C. tax depends greatly upon which type of consumer purchases the products. Based on the Census data, we estimate that businesses account for 99.4% of all E-Commerce wholesale sales, of which 19.0% is subject to S.C. sales tax and 80.4% are nontaxable sales for resale.</p>
61	<p>See Line Note 26.</p>
86	<p>The expected revenue collections with a small seller exemption of \$100,000 is estimated using 2012 Economic Census data for the Retail Trade: Subject Series - Establishments and Firm Size: Summary Statistics by Sales Size of Establishments for the U.S. These data report that 6.159% of total E-Commerce sales are by electronic shopping and mail-order establishments nationwide with sales of less than \$5,000,000 annually. We estimate that this level of sales, \$100,000 for each of the 50 states, would potentially exempt these sellers from remitting sales tax in South Carolina.</p>

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