

# Taxpayers

# & Internet Taxes



A National Opinion Survey

## **National Association of Counties**

Founded in 1935, the National Association of Counties (NACo) is the only national organization in the country that represents the more than 3,000 county governments. With headquarters on Capitol Hill in Washington, D.C., NACo's primary mission is to ensure that the county government message is heard and understood in the White House and in the halls of Congress. NACo's purpose and objectives are to: Serve as a liaison with other levels of government; Improve public understanding of counties; Act as a national advocate for counties; and Help counties find innovative methods for meeting the challenges they face.

## **U.S. Conference of Mayors**

The United States Conference of Mayors is the official nonpartisan organization of cities with populations of 30,000 or more. Founded in 1932, the principal roles of the Conference of Mayors are to aid the development of effective national urban policy, strengthen federal-city relationships, ensure that federal policy meets urban needs, and provide mayors with leadership and management tools of value in their cities. There are about 1,100 such cities in the country today. Each city is represented in the Conference by its chief elected official, the mayor.

## Foreword

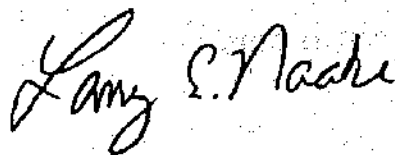
In late 1998, the U.S. Congress created the Advisory Commission on Electronic Commerce. The Commission, part of the Internet Tax Freedom Act, was created to conduct a study of federal, state and local taxation of Internet sales and Internet transactions. The 19-member Commission is composed of representatives of state and local governments as well as the business community. One of the primary issues before this Commission is that of fairness and equity in taxation. This includes fairness to the local Main Street merchants as well as to vendors on the Internet. Another issue involved in this debate is the potential loss of revenue to state and local governments from Internet transactions. The National Association of Counties and the U.S. Conference of Mayors recently conducted a survey in order to determine the opinions of average taxpayers across the nation about these issues. As representatives of city and county officials across the nation, we are pleased to present the results of this survey.



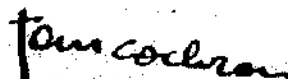
C. Vernon Gray, President  
National Association of Counties  
Council Chair Howard County, MD



Wellington Webb, President  
U. S. Conference of Mayors  
Mayor, Denver, CO



Larry E. Naake, Executive Director  
National Association of Counties



Tom Cochran, Executive Director  
U. S. Conference of Mayors

# Taxpayers and Internet Taxes

## Executive Summary

### Methodology

In November 1999, the National Association of Counties and U. S Conference of Mayors commissioned National Research, Inc., to conduct a random survey of 1,000 American taxpayers on their opinions about sales taxes and the collection of these taxes on goods sold by vendors on the Internet. These questions were asked only of residents of the 43 states that collect sales taxes. All respondents were at least 18 years of age. The individual responses for each state correlated to the total population of the state and its percentage of the total U.S. population.

### State Breakdown of Responding Taxpayers:

<i>Arizona</i>	<i>1%</i>
<i>Arkansas</i>	<i>.9%</i>
<i>California</i>	<i>11%</i>
<i>Colorado</i>	<i>1%</i>
<i>Connecticut</i>	<i>2%</i>
<i>DC</i>	<i>.6%</i>
<i>Florida</i>	<i>5%</i>
<i>Georgia</i>	<i>4%</i>
<i>Hawaii</i>	<i>.2%</i>
<i>Idaho</i>	<i>.6%</i>
<i>Illinois</i>	<i>3%</i>
<i>Indiana</i>	<i>3%</i>

<i>Iowa</i>	<i>1%</i>
<i>Kansas</i>	<i>2%</i>
<i>Kentucky</i>	<i>1%</i>
<i>Louisiana</i>	<i>2%</i>
<i>Maine</i>	<i>1%</i>
<i>Maryland</i>	<i>1%</i>
<i>Massachusetts</i>	<i>2%</i>
<i>Michigan</i>	<i>4%</i>
<i>Minnesota</i>	<i>2%</i>
<i>Mississippi</i>	<i>.6%</i>
<i>Missouri</i>	<i>4%</i>
<i>Nebraska</i>	<i>.6%</i>

<i>Nevada</i>	<i>.4%</i>
<i>New Jersey</i>	<i>2%</i>
<i>New Mexico</i>	<i>1%</i>
<i>New York</i>	<i>6%</i>
<i>North Carolina</i>	<i>3%</i>
<i>North Dakota</i>	<i>.4%</i>
<i>Ohio</i>	<i>5%</i>
<i>Oklahoma</i>	<i>1%</i>
<i>Oregon</i>	<i>.1%</i>
<i>Pennsylvania</i>	<i>6%</i>
<i>Rhode Island</i>	<i>.3%</i>
<i>South Carolina</i>	<i>1%</i>

<i>South Dakota</i>	<i>.5%</i>
<i>Tennessee</i>	<i>2%</i>
<i>Texas</i>	<i>6%</i>
<i>Utah</i>	<i>1%</i>
<i>Vermont</i>	<i>.8%</i>
<i>Virginia</i>	<i>3%</i>
<i>Washington</i>	<i>3%</i>
<i>West Virginia</i>	<i>2%</i>
<i>Wisconsin</i>	<i>3%</i>
<i>Wyoming</i>	<i>.8%</i>

### Geographic Distribution of Responding Taxpayers

Northeast	193 (19%)
Midwest	278 (28%)
South	328 (33%)
West	201 (20%)
Total Respondents	1,000

## Tax Preferences

Respondents were asked to rank five types of taxes based on their preference. The taxes were property taxes; personal property taxes; income taxes; sales taxes and hotel/motel/tourism/occupancy taxes. Overall, 97 percent of respondents ranked their tax preferences. Not unexpected was the response that the number one most preferred tax (37%) was the hotel/motel/tourism/occupancy taxes group of taxes because these are paid by nonresidents of the city or county. The second most preferred tax, with a response of 23 percent, is sales tax. These preferences were followed by income taxes (13%), property taxes (16%) and personal property taxes (9%). The overall ranking for taxes listed from most preferable to least preferable was:

- Hotel/motel/tourism/occupancy taxes
- Sales taxes
- Income taxes
- Personal property taxes
- Property taxes

More than 700 respondents, or 70 percent, ranked sales taxes in the top three most preferred form of tax, while only 648 respondents (64%) ranked hotel/motel taxes in the top three most preferred.

## Geographic Tax Preferences

In three of the four regions, sales taxes were ranked the most preferable or second most preferable form of tax by an average of 52 percent of the respondents. In the Northeast region, 44 percent of respondents ranked sales taxes as the most preferable or second most preferable tax. In all but the Northeast region, the highest percentage of respondents ranked sales taxes as the number one or number two most preferred form of tax.

Question One: Overall Ranking of taxes according to preferability 1=least preferable, 5=most preferable (percentages are based on entire survey group)						
	1	2	3	4	5	Did not rank
Property Taxes	<b>236 (24%)</b>	191 (20%)	196 (20%)	196 (20%)	155 (16%)	26 (3%)
Personal Property Taxes	200 (20%)	<b>297 (30%)</b>	217 (22%)	172 (17%)	86 (9%)	28 (3%)
Income Taxes	233 (23%)	198 (20%)	<b>259 (26%)</b>	150 (15%)	134 (13%)	26 (3%)
Sales Taxes	98 (10%)	170 (17%)	193 (19%)	<b>281 (28%)</b>	231 (23%)	27 (3%)
Hotel/Motel/Tourism/Occupancy Taxes	209 (21%)	117 (12%)	107 (11%)	173 (17%)	<b>368 (37%)</b>	26 (3%)
Ranking of sales taxes by region (percentages were calculated based on each region)						
	1	2	3	4	5	Did not rank
Northeast	24 (12%)	31 (16%)	<b>52 (27%)</b>	49 (25%)	36 (19%)	1 (.5%)
Midwest	25 (9%)	48 (17%)	43 (16%)	<b>76 (27%)</b>	<b>76 (27%)</b>	10 (4%)
South	33 (10%)	51 (16%)	60 (18%)	<b>99 (30%)</b>	75 (23%)	10 (3%)
West	16 (8%)	40 (20%)	38 (19%)	<b>57 (28%)</b>	44 (22%)	6 (3%)

## Sales Tax Collection

Eighty percent of respondents believe that all retailers who do business in their communities should collect sales taxes. Responses varied geographically from a high of 83 percent in the Midwest to a low of 69 percent in the Northeast. This is consistent with the earlier data that shows the lower level of preference for sales taxes by Northeast region residents. Only 182 respondents (18%) believe that all businesses should *not* collect these taxes.

Of the 1,000 respondents, 716 (72%) think that it is unfair for local retailers to have to collect sales taxes on goods when Internet retailers don't have the same requirement. Regionally, these responses varied from a high of 75 percent in both the Northeast and Midwest to a low of 63 percent in the West, where only 32 percent of respondents did not regard the disparity as unfair. Only four percent of the respondents selected the "don't know" answer.

## **Competition**

Nearly two thirds of all respondents (65%) agreed that local retailers are placed at a disadvantage when competing for sales of goods against online computer merchants who collect no sales taxes. Geographic responses ranged from a high of 67 percent in the Midwest to a low of 60 percent in the West, where 37 percent of respondents did not feel that local sellers were disadvantaged. Only three percent of respondents selected the "don't know" answer.

## **Internet Sales Tax Collection**

Nearly 60 percent of respondents support the collection of sales taxes on goods acquired through Internet retailers. The geographic differences were not surprising in light of the responses to earlier questions. In the Midwest 62 percent support the collection of sales taxes while in the West only 53 percent (still a majority, however) support this tax collection. This question also elicited a "don't know" response from 64 people or 6 percent.

## **Making up for the Lost Revenue**

The huge majority of respondents (85%) do not support a local tax increase to make up for the projected lost local funds due to Internet sales. Of the 846 respondents who do not support a tax increase, the highest percentage (85%) against any increase were in the Northeast and the West. The lowest percentage was in the South (75%) where 14 percent supported an increase to make up for the shortfall. The average rate of support for a tax increase to make up for the shortfall was 12 percent with the lowest level of support in the West. Only three percent of respondents selected the "don't know" option.

## **Cutting Services**

More than 80 percent of the respondents feel that no services should be cut because of the shortfall of sales taxes due to Internet sales. Of the services offered for cutting, none received more than a 9 percent response (law enforcement). Geographic responses varied from 74 percent supporting no cuts in services in the Northeast, where 13 percent believed that law enforcement could be cut to a high of 84 percent supporting no cuts in the South where only 7 percent supported cuts in law enforcement.

## **Simplifying Sales Tax Collections**

Nearly two thirds of respondents (64%) believe that the U.S. Congress should step in and simplify sales tax collections. Regionally, these answers varied from a high of 69 percent support in the Northeast to a low of 58 percent in the West. The "don't know" option was selected by 8 percent of respondents, the highest selection of that option in the survey.

# Internet Tax Phone Survey

## November 1999

1,000 people were surveyed. Respondents represent 45 states and the District of Columbia. The regional breakdown of respondents:

<i>Northeast</i>	<i>193 (19%)</i>
<i>Midwest</i>	<i>278 (28%)</i>
<i>South</i>	<i>328 (33%)</i>
<i>West</i>	<i>201 (20%)</i>

*State Breakdown:*

<i>Arizona</i>	<i>1%</i>	<i>Iowa</i>	<i>1%</i>	<i>Nevada</i>	<i>.4%</i>	<i>South Dakota</i>	<i>.5%</i>
<i>Arkansas</i>	<i>.9%</i>	<i>Kansas</i>	<i>2%</i>	<i>New Jersey</i>	<i>2%</i>	<i>Tennessee</i>	<i>2%</i>
<i>California</i>	<i>11%</i>	<i>Kentucky</i>	<i>1%</i>	<i>New Mexico</i>	<i>1%</i>	<i>Texas</i>	<i>6%</i>
<i>Colorado</i>	<i>1%</i>	<i>Louisiana</i>	<i>2%</i>	<i>New York</i>	<i>6%</i>	<i>Utah</i>	<i>1%</i>
<i>Connecticut</i>	<i>2%</i>	<i>Maine</i>	<i>1%</i>	<i>North Carolina</i>	<i>3%</i>	<i>Vermont</i>	<i>.8%</i>
<i>DC</i>	<i>.6%</i>	<i>Maryland</i>	<i>1%</i>	<i>North Dakota</i>	<i>.4%</i>	<i>Virginia</i>	<i>3%</i>
<i>Florida</i>	<i>5%</i>	<i>Massachusetts</i>	<i>2%</i>	<i>Ohio</i>	<i>5%</i>	<i>Washington</i>	<i>3%</i>
<i>Georgia</i>	<i>4%</i>	<i>Michigan</i>	<i>4%</i>	<i>Oklahoma</i>	<i>1%</i>	<i>West Virginia</i>	<i>2%</i>
<i>Hawaii</i>	<i>.2%</i>	<i>Minnesota</i>	<i>2%</i>	<i>Oregon</i>	<i>.1%</i>	<i>Wisconsin</i>	<i>3%</i>
<i>Idaho</i>	<i>.6%</i>	<i>Mississippi</i>	<i>.6%</i>	<i>Pennsylvania</i>	<i>6%</i>	<i>Wyoming</i>	<i>.8%</i>
<i>Illinois</i>	<i>3%</i>	<i>Missouri</i>	<i>4%</i>	<i>Rhode Island</i>	<i>.3%</i>		
<i>Indiana</i>	<i>3%</i>	<i>Nebraska</i>	<i>.6%</i>	<i>South Carolina</i>	<i>1%</i>		

1. County governments must raise revenue to provide services such as water and sewer, trash pickup, traffic control and roads and bridges, law enforcement, fire protection and education to their residents. Please rank each of the following taxes in the order that you prefer. With one being the least preferable and five being the most preferable.

- |  |   |
|--|---|
| <p>a. <i>Property Taxes</i></p> <p>b. <i>Personal Property Taxes</i></p> <p>c. <i>Income Taxes</i></p> | <p>d. <i>Sales Taxes</i></p> <p>e. <i>Hotel/Motel/Tourism/Occupancy Taxes</i></p> |
|--|---|

The survey group's **overall ranking** from least preferable to most preferable was:

1. *property*
2. *personal property*
3. *income*
4. *sales*
5. *hotel/motel/tourism/occupancy taxes.*

**Regional rankings, from least preferable to most preferable:**

*Northeast: property; personal property; income; sales tax; and hotel/motel/tourism/occupancy taxes*

*Midwest: income; personal property; property; sales; and hotel/motel/tourism/occupancy taxes*

*South: property; personal property; income; sales; and hotel/motel/tourism/occupancy taxes*

*West: income; personal property; property; sales; and hotel/motel/tourism/occupancy taxes*

2. In many communities sales taxes are used to fund education, law enforcement and fire departments. Do you believe that all retailers that do business in your community should collect sales tax?

Yes 801 (80%)(1)  
 No 182 (18%)(2)  
 Don't Know 17 (2%) (3)

3. Do you think that it is fair to your local retailers that they must collect sales taxes on goods sold in your community while Internet retailers do not?

Yes 242 (24%)(4)  
No 716 (72%)(5)  
Don't Know 42 (4%) (6)

4. Do you think that local retailers are at a disadvantage by having to compete with online computer merchants who do not collect sales taxes?

Yes 653 (65%)(7)  
No 321 (32%)(8)  
Don't Know 26 (3%) (9)

5. Do you support the collection of sales taxes in your community on goods acquired through internet retailers?

Yes 584 (58%)(10)  
No 352 (35%)(11)  
Don't Know 64 (6%) (12)

6. Current projections over the next five years indicate a loss of up to 10 percent of sales tax revenue because of a substantial increase in Internet sales (on which sales tax will not be collected) in your community. Would you support a local tax increase to make up for this shortfall?

Yes 129 (13%)(13)  
No 846 (85%)(14)  
Don't Know 25 (3%) (15)

7. If there is a reduction in sales tax revenue because of vendors who do not collect sales taxes on Internet sales, which public services do you think should be cut?

Education 68 (7%) (16)  
Law Enforcement 87 (8%) (17)  
Fire Protection 66 (7%) (18)  
None 818 (82%) (19)

8. Do you believe that the U.S. Congress should simplify the collection of all sales taxes on goods sold in your community?

Yes 640 (64%)(20)  
No 283 (28%)(21)  
Don't Know 77(8%) (22)

9. Finally, in which state do you live?

