

market analysis
& planning

site location services

Economic Impact Analysis:

The economic benefits achieved in Texas
as a result of collecting sales taxes from online-only retailers

March 2011

INTRODUCTION

- AngelouEconomics was hired by the Texas Retailers Association to analyze the effects of untaxed online retail sales on the Texas economy.
- Specifically, the study examines the potential increase in retail sales that would be captured by retail businesses in the State of Texas if sales and use taxes were applied to online-only retailers.
- The analysis examines the effect on jobs, employee compensation, proprietor income, local and state tax revenues, as well as overall economic output in the State of Texas.

ABOUT ANGELOUECONOMICS

- Significant experience in economic impact analysis and custom research projects
- Enable successful outcomes through in-depth collaboration with stakeholders
- Creator of innovative economic development and marketing strategies with implementable action items
- Completed recent economic impacts for clients including SXSW, ACL, City of Austin, City of Irving, and many private sector clients
- Sited over \$14 billion worth of capital investment projects in multiple sectors

PUBLIC SECTOR CLIENTS

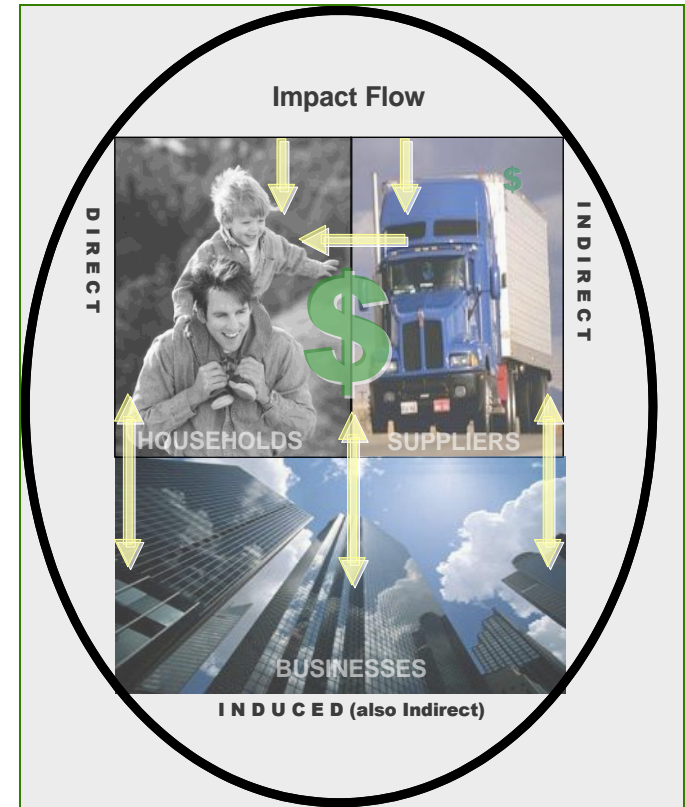


PRIVATE SECTOR CLIENTS



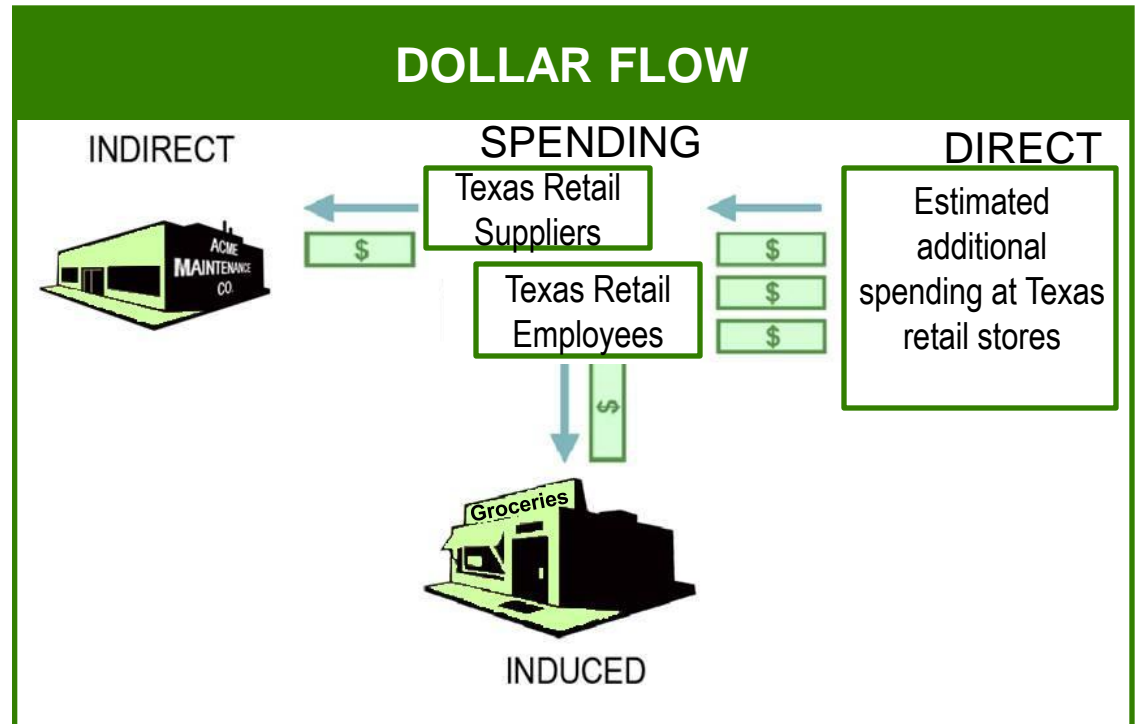
ECONOMIC IMPACT DETAIL

- An economic impact analysis measures the effects of increased retail sales on job creation, tax revenues, employee compensation and overall economic activity.
- The jobs created and retained by collecting a sales taxes from online-only retailers will lead to spending by employees and suppliers that will ripple throughout the Texas economy, boosting spending patterns by many firms and households and creating additional jobs in multiple sectors.
- For the purposes of this report, these effects are measured as direct and indirect/induced effects:
 - Direct - attributable directly to the additional purchases at Texas retail stores induced as a result of taxing online-only retailers
 - Indirect/Induced – attributable to the additional demand for local goods and services by suppliers and employees of Texas retailers
- Total impact includes all direct, indirect, and induced impacts.



FLOW OF DOLLARS THROUGH ECONOMY

- Direct economic impacts are limited to the estimated additional spending at Texas retail stores induced as a result of taxing online-only retailers.
- Indirect effects include increases in sales, income or jobs in business sectors that supply and support Texas retailers.
- Induced effects are the household spending of Texas retail employees resulting from the additional spending at Texas retail stores.
- For every dollar spent at Texas retail stores, a portion of it remains in Texas as wages and payment for supplies and local services.
- As the money gets spent within Texas, it increases its overall benefit; this compounding effect is called the multiplier effect.



METHODOLOGY FOR IDENTIFYING DIRECT IMPACTS

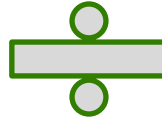
- Texas e-commerce sales tax data was obtained from the study “State and Local Government Sales Tax Revenue Losses from Electronic Commerce”; the study estimates that Texas will lose \$774.4 million in e-commerce sales taxes in 2011 as a result of the state’s limitations in collecting sales taxes on e-commerce.
- This \$774.4 million total was divided by the maximum possible combined state and local tax rate of 8.25% in order to obtain an estimate of the Texas e-commerce sales that will go untaxed in 2011 (\$9.38 billion).
- The \$9.38 billion was then multiplied by 24.3% (a ratio developed by economist Austan Goolsbee in a study analyzing the internet purchase price sensitivity of consumers) to obtain an estimate of the additional spending at Texas retail stores (\$2.28 billion) that would result from collecting sales taxes from online-only retailers. The following page illustrates these steps.
- Using a slightly different methodology for jobs, the direct impact on Texas jobs was calculated by first identifying the ratio of retail and wholesale jobs in Texas per the annual dollar amount of retail sales in Texas. As of 2009 (the latest full-year data available), this ratio was 4.22 retail/wholesale trade jobs per \$1 million in retail sales. Applying this ratio to our estimated increase in retail sales leads to the direct impact on retail jobs.

Sources

- Texas Comptroller of Public Accounts
- Texas Workforce Commission
- U.S. Census Bureau
- IMPLAN
- Flawed System: Online Sales Tax Collection *Economic Impact Upon California Businesses and Employees* by Richard Parker (Rea & Parker Research)
- State and Local Government Sales Tax Revenue Losses from Electronic Commerce by Donald Bruce, William F. Fox, and LeAnn Luna (University of Tennessee)
- Goolsbee, Austan, “In a World Without Borders: the Impact of Taxes on Internet Commerce,” *Quarterly Journal of Economics*, vol. 115, no. 2, May 2000, pp. 561-576
- AngelouEconomics

METHODOLOGY FOR IDENTIFYING DIRECT IMPACTS

Step 1: Texas online sales taxes lost 2011 (**\$774.3 million**)



Step 2: Maximum possible combined state and local tax rate (**8.25%**)



Step 3: Total Texas online sales untaxed 2011 (**\$9.38 billion**)



Step 4: Goolsbee price sensitivity factor (**24.3%**)



Sales lost by Texas retail stores as
a result of untaxed online sales
(\$2.28 billion)

METHODOLOGY FOR IDENTIFYING INDIRECT & INDUCED IMPACTS

- Indirect and induced effects were calculated using economic multipliers provided by the IMPLAN input-output model. IMPLAN (IMpact Analysis for PLANning) was developed by the University of Minnesota Agricultural Economics department as a database for determining the total economic impact of an activity. Now known as the Minnesota IMPLAN Group (MIG), this data is maintained to provide total economic impact for every county in the United States.
- The IMPLAN model for this analysis uses economic multipliers that are specific to retail sectors in the State of Texas. These economic multipliers are used to determine the direct, indirect, and induced impacts of estimated increased retail sales at Texas brick and mortar retail establishments. All potential spending in Texas brick and mortar retail establishments would have an economic impact.

BREAKDOWN OF RETAIL SECTORS

The following chart identifies the breakdown of nationwide e-commerce sales as provided by the U.S. Census Bureau. The dollar amounts applied to each retail sector are a breakdown of the estimated \$2.28 billion in additional retail sales in Texas generated directly by collecting the sales tax from online-only retailers. These dollar amounts were used as inputs for the IMPLAN model.

DISTRIBUTION OF E-COMMERCE SALES

Retail Sectors	% of Retail Sales	\$ amount of additional retail sales in Texas (Inputs for IMPLAN model)
Motor Vehicles & Parts	14.1%	\$321,573,829
Electronics & Appliances	0.8%	\$18,245,,323
Building Materials and Garden Supplies	0.4%	\$9,122,661
Food & Beverages	0.6%	\$13,683,992
Clothing & clothing accessories	1.8%	\$41,051,978
Sporting goods, books, & music	1.4%	\$31,929,316
General merchandise	0.1%	\$2,280,665
Miscellaneous goods	1.5%	\$34,209,981
Non-store retailers	78.2%	\$1,808,567,705
Total	100%	\$2,280,665,455

Source: AngelouEconomics, US Census Bureau

WHAT IS IMPACTED?

- The increase in retail sales at Texas brick and mortar businesses generated as a result of the sales tax from online-only retailers will generate an economic impact that benefits the State of Texas through:
 - Jobs
 - Retail Spending
 - Employee Compensation
 - Proprietor Income
 - Local & State Tax Revenues
 - Overall Economic Output
- Impacts are calculated in terms of the benefits that accrue to Texas annually in 2011 dollars

ECONOMIC IMPACT

Annual Economic Impact of Taxing Online-Only Retailers in Texas

Category	Direct Impact	Indirect Impact	Induced Impact	Total Impact
FTE Jobs	9,613	3,749		13,362
Employee Compensation	\$464,788,216	\$179,384,776	\$213,254,411	\$857,427,403
Proprietor Income	\$172,569,376	\$53,281,628	\$42,198,530	\$268,049,534
Additional Local and State Tax Revenues	\$305,645,784	\$36,182,178	\$49,463,036	\$391,290,990
Economic Output	\$2,280,665,439	\$725,442,006	\$828,491,753	\$3,834,599,198

Source: AngelouEconomics, IMPLAN, Texas Comptroller of Public Accounts, Texas Workforce Commission

- Collecting the sales tax from online-only retailers would result in an annual impact of \$3.8 billion on the Texas economy.
- More than 13,000 jobs would be created annually in Texas as a result of collecting the sales tax from online-only retailers; over 9,600 of these jobs would be created in the retail sector.
- In addition to the \$774.4 million in sales taxes that would be collected as a result of collecting the sales tax from online-only retailers, nearly \$400 million more in local and state tax revenues would be generated annually throughout Texas.

TERMINOLOGY & METHODS

Jobs – The jobs created statewide as a result of direct, indirect, and induced impacts resulting from the collection of the sales tax from online-only retailers.

Employee Compensation – Includes the total payroll cost of the employee paid by the employer including wage and salary, benefits, and employer paid payroll taxes.

Proprietor Income – Includes payments received by self-employed individuals and unincorporated business owners.

Tax Impacts – All direct, indirect, and induced state and local tax impacts are included in the analysis.

Economic Activity – Total economic activity is made up of direct, indirect, and induced economic output in Texas.

Wages – Includes both employee compensation (wages and benefits) and proprietor income.

ABOUT ANGELOUECONOMICS

AngelouEconomics is an economic development and site selection consulting firm focusing on the needs of growing companies and the communities seeking to recruit them.

AngelouEconomics
8121 Bee Cave Rd, Suite 200
Austin, Texas 78746
tel 512.225.9322
fax 512.225.9283
www.AngelouEconomics.com

Angelos Angelou
Principal
angelos@angelouEconomics.com

Carrie Yeats
Vice President, Economic Development
cyeats@angelouEconomics.com

Abel Balwierz
Associate Project Manager
abalwierz@angelouEconomics.com

Thank you.

AngelouEconomics

8121 Bee Cave Rd.

Suite 200

Austin, Texas 78746

PH: 512-225-9322

FAX: 512-225-9283

www.angelouconomics.com