EXECUTIVE SUMMARY

Flawed System; Online Sales Tax Collection

Economic Impact On California Businesses & Employees

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Summary of Findings

This report reviews the impact caused by California's current law, which creates an un-level playing field by allowing out-of-state, online-only retailers to forego the collection of state sales tax while neighborhood brick-and-mortar stores are required to collect the tax. The report reviews and analyzes a compilation of data focusing not only on the loss of sales tax revenue but also on the impact the current law has on the economic activity, commercial real estate values, jobs and payroll in California.

Lost Economic Activity

- California retail businesses physically based in the state are losing $4.1 billion in sales in 2010 to online-only retailers.

- The amount of growth in the $4.1 billion of California lost sales in 2010 will reach $7.7 billion in 2015 and $14.3 billion in 2020.

- Indirect and induced impacts brought by sale losses will cause a total of $7.2 billion in lost economic activity in California in 2010. The loss of economic activity in the state can be expected to reach $13.4 billion by 2015 and $24.9 billion by 2020.

- Goldman Sachs estimates that online shopping will increase from 4.4% of all retail sales to 17.1% of all retail sales and that since 2000, Web sales have more than tripled.

- A report by the University of Tennessee estimates California's specific losses will reach $9 billion in foregone taxes over six years – an average of $1.5 billion each year.

- The Congressional Budget Office (CBO) published a CBO Paper in 2003 entitled, "Economic Issues in Taxing Internet and Mail-Order Sales." The CBO summarized these economic inefficiencies as follows:

  "Consumers may be willing to purchase a good remotely even if the total cost of production and delivery exceeds the comparable instate cost because the money they save in taxes compensates them for the money they pay in shipping costs. Similarly, producers may be willing to construct facilities in locations where production and shipping costs are high to avoid nexus and the need to charge their customers sales taxes. ***The more unevenly a tax is applied, the more producers and consumers waste resources in efforts to avoid it – thereby reducing economic efficiency.*** *And if a greater fraction of sales escapes taxation over time, states may seek to maintain the same level of receipts by raising tax rates, which would increase the tax system's excess burden."*

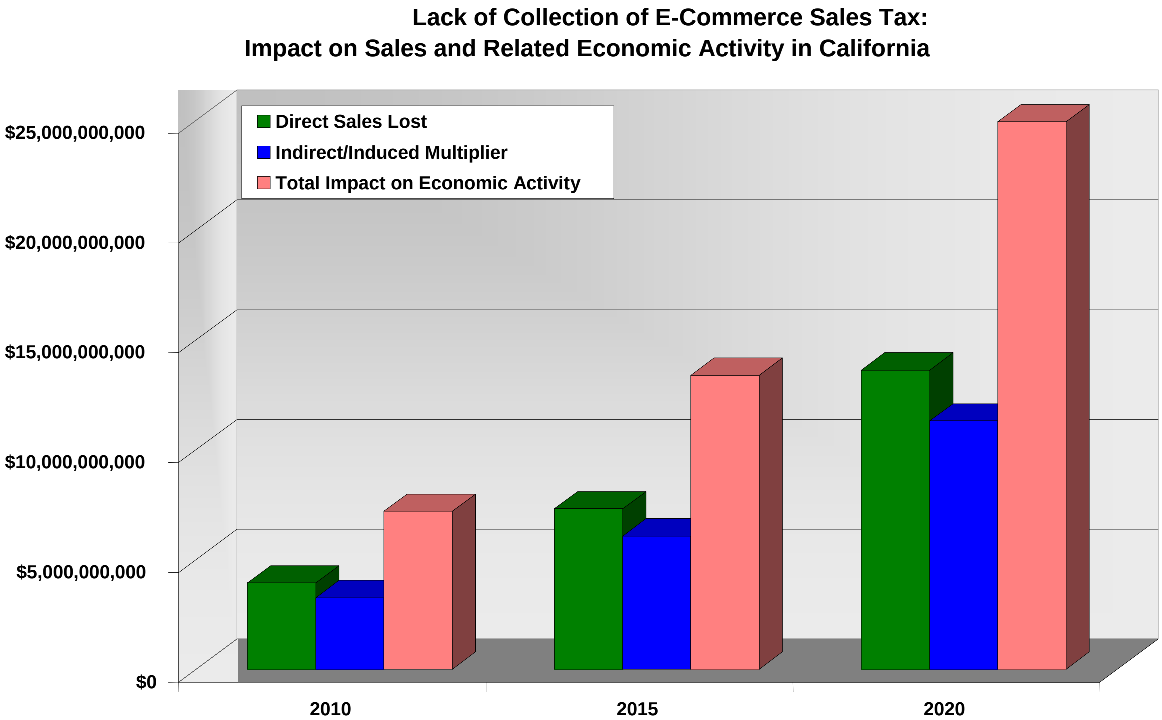
Job Loss

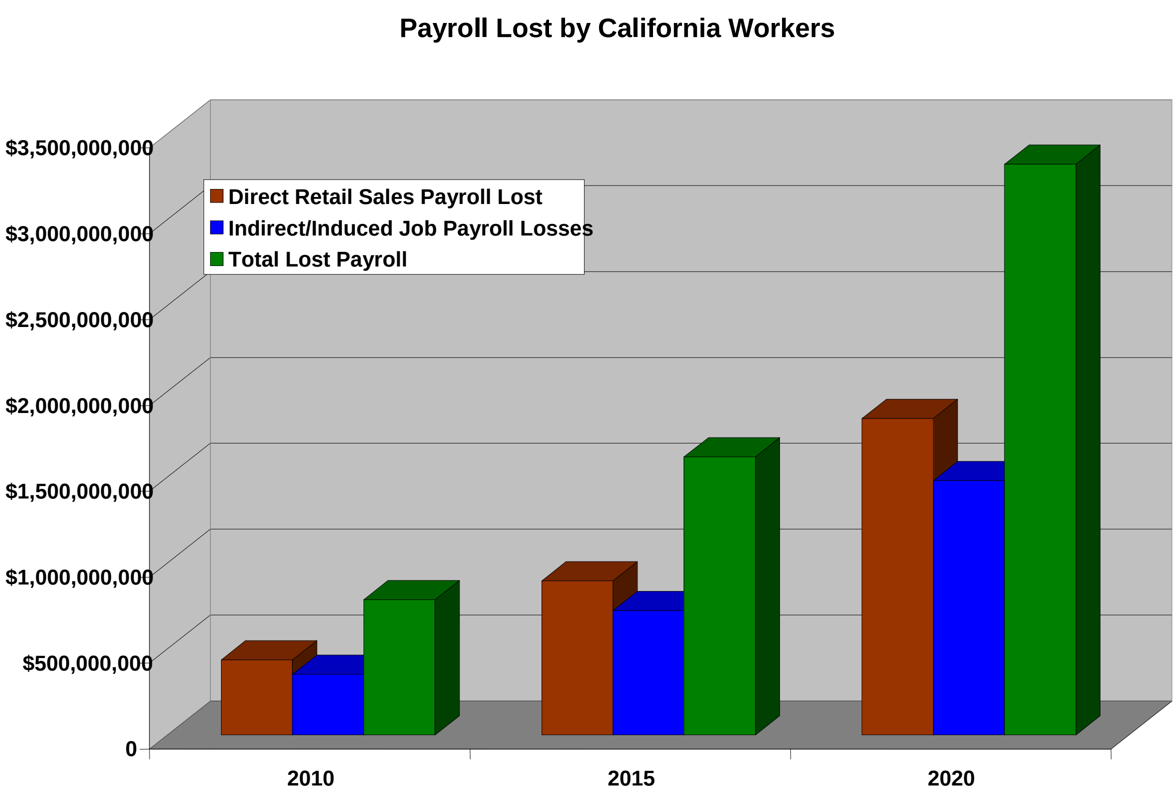
- Total full-time equivalent jobs that are lost to out-of-state, online sales are 18,300 presently and will grow to 34,100 in 2015 and 63,400 in 2020.

- Payroll lost in California equates to $789.3 million presently, growing to $1.6 billion in 2015 and more than $3.3 billion in 2020.

Commercial Real Estate Loss

- The report estimates that commercial real estate value decreases presently equate to another $1 billion loss for California. By 2020, that amount will increase to losses in commercial real estate value of $3.4 billion in California.





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