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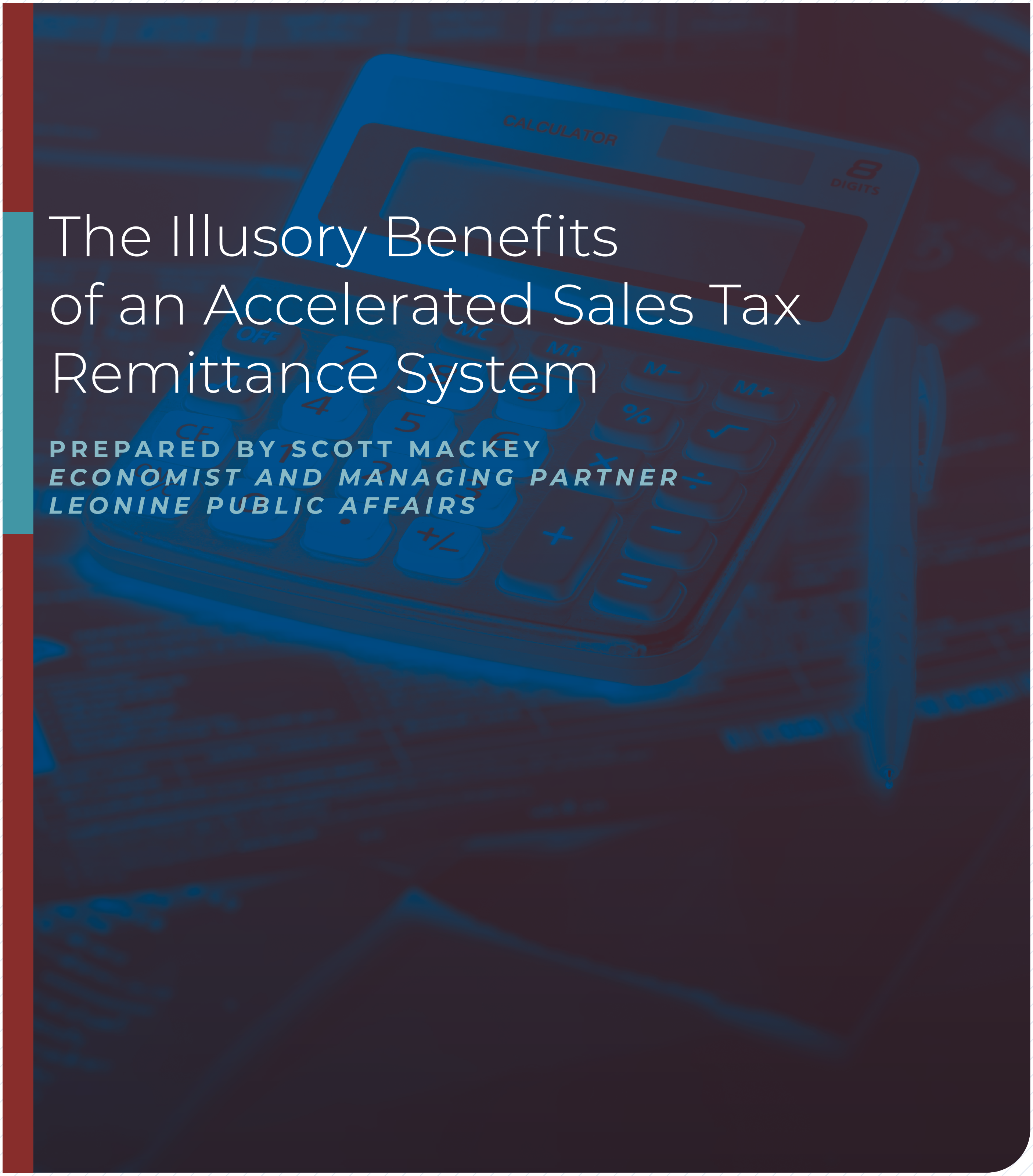

The Illusory Benefits of an Accelerated Sales Tax Remittance System

PREPARED BY SCOTT MACKEY

ECONOMIST AND MANAGING PARTNER

LEONINE PUBLIC AFFAIRS

MAY 2020

ABOUT STRI

The State Tax Research Institute (STRI) is a 501(c)(3) organization established in 2014 to provide educational programs and conduct research designed to enhance public dialogue relating to state and local tax policy. STRI is affiliated with the Council On State Taxation (COST). For more information on STRI, please contact Douglas L. Lindholm at dlindholm@cost.org.

ABOUT THE AUTHOR

Scott Mackey is an Economist and Managing Partner at Leonine Public Affairs in Montpelier, Vermont. He is an expert on state and local tax policy, focusing primarily on the wireless telecommunications industry where he works with a coalition of wireless telecommunications providers to publicize the tax burden on wireless consumers and end discriminatory tax treatment of wireless network investment. In this capacity, he has testified before the United States Congress (most recently in April 2011) and in numerous state legislatures on tax issues.

His studies on the impact of taxes on wireless consumers have been featured in USA Today, the Wall Street Journal, 20/20, and dozens of newspapers across the country.

Prior to joining Leonine Public Affairs, Mr. Mackey was Chief Economist at the National Conference of State Legislatures (NCSL) in Denver. He staffed the NCSL Task Force on State and Local Taxation of Telecommunications and Electronic Commerce. This task force developed model legislation passed by legislatures in 17 states that created the "Streamlined Sales Tax Project." The Task Force also developed model principles for state telecommunications tax reform that were unanimously endorsed by delegates at the 2000 NCSL annual meeting and are still NCSL policy today.

He earned his undergraduate degree in Environmental Economics at Middlebury College and his MBA from the University of Colorado.

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EXECUTIVE SUMMARY

This is the second of two studies commissioned by the State Tax Research Institute that examine the costs and benefits of the so-called "Accelerated Sales Tax Remittance" (ASTR) system. The first study analyzed the potential costs of ASTR on retailers and payment processors. This study examines the claims that Massachusetts will receive hundreds of millions in new tax revenue from ASTR and finds those claims to be unsupported.

First proposed by the Governor in the FY2018 budget, the FY2021 Budget again includes the proposed ASTR system that would require all Massachusetts retailers and payment processors to modify their sales tax collection and remittance processes using technology that is not only untested, but currently does not exist. If enacted, the ASTR proposal would:

- Require 350 or more companies in the United States that provide payment processing services to retailers selling to Massachusetts customers—not just businesses physically present in Massachusetts—to spend between $1.7 and $3.4 million each to upgrade their point-of-sale systems. ASTR is estimated to cost payment processors about $700 million.
- Require retailers selling to Massachusetts customers to spend millions in programming and training costs to provide payment processors with information on a daily basis of how much Massachusetts sales tax is included in credit card transactions; and also to reconcile traditional sales tax filings from customers using cash, checks, and automatic checking account debits with those transactions where customers use credit and debit cards. A 2017 study by the STRI estimates that the total costs for retailers to comply with ASTR would exceed $500 million.

The ASTR proposal is predicated on the need to address fraud in the sales tax collection and remittance process, and a report commissioned by proponents claiming that the Commonwealth would receive over $750 million in "new" tax revenues due to increased compliance. However, these estimates are based on faulty assumptions:

- The ASTR proposal fails to address the most common types of sales tax fraud, such as the underreporting of sales tax on cash transactions and exemption certificate fraud.
- The estimated $750 million in "new" revenue from reduced fraud is based on outdated and questionable studies of sales tax fraud—studies that were done before new technology and additional reporting requirements from the IRS and the Massachusetts Department of Revenue greatly enhanced current audit tools to combat fraud. Moreover, the studies relied on by the proponent's report are not supported by actual data or are based entirely on the cash economy. Based on the analysis in a more recent study by a state revenue agency, the proponent's report overstates new revenue to the Commonwealth by over $700 million.

To summarize, the two STRI studies together identify costs to retailers and payment processors to implement ASTR that would greatly exceed the modest fraud reduction benefits to the Commonwealth. Moreover, any new program that would impose unique and burdensome requirements on retailers would be particularly ill-timed given the devastating fiscal impact of the coronavirus crisis on retailers (and other) businesses. Finally, other provisions in the Governor's Budget proposal to increase penalties for fraud and to accelerate payment of sales taxes made directly by large retailers (and not through financial intermediaries) would provide tangible benefits to the Commonwealth without imposing significant new costs on businesses.

INTRODUCTION

Massachusetts Governor Charles Baker's FY2021 Budget proposal includes three provisions to "modernize" collection of the sales tax.[1] One of these provisions is a new, untested Accelerated Sales Tax Remittance (ASTR) system that, if enacted, would impose significant new costs on retailers, banks, and payment processors. In the Governor's Budget proposal, the implementation of the ASTR system would be required beginning on July 1, 2023.[2] While the Governor's budget has no revenue estimate for the ASTR proposal, a report commissioned by the proponents of the ASTR proposal promises new annual revenues of $763 million from uncollected sales taxes as detailed in a report issued in April 2019 by Performance Economics (PE). This STRI study examines the basis for the estimated $763 million in new sales tax collections from implementing ASTR. This study finds that the PE report grossly overestimates the amount of fraud in the current sales tax system by using outdated and unsupported fraud estimates, and also exaggerates the efficacy of the ASTR system in combatting any such fraud.

1 House No. 2 (2020), Sections 48–51, pages 279–282. Available at: https://malegislature.gov/Budget/GovernorsBudget

2 Ibid, section 110.

THE FRAUD ESTIMATES IN THE PERFORMANCE ECONOMICS STUDY ARE NOT SUPPORTED BY ACTUAL DATA OR ARE BASED ENTIRELY ON THE CASH ECONOMY

The Governor's FY2021 budget estimates that sales and use taxes on items other than motor vehicles will total $6.641 billion. The estimates from the PE study suggest that approximately 11.5% of all sales taxes are not currently being collected due to fraud that would be prevented through the use of ASTR.

The PE model that generated the $763 million estimate assumes that *" … sales tax fraud in Massachusetts on regular consumer items … has a mean of 16% … "*[3] This number appears to be an approximate average of the five "studies" highlighted on table 2 of the PE report.[4] However, a review and analysis of these reports suggest that only two of the five cited publications (*e.g.*, the Ainsworth study and the Minnesota Auditor's Report) use real or relevant data to estimate sales tax fraud. Furthermore, the Ainsworth study focuses only on fraud in cash transactions, not credit card sales.

Appendix A provides additional detail on each of the cited studies. One source is from a footnote in a Ph.D. student's thesis, and the 10–28% fraud estimate in the thesis is completely unsupported by data. The Urban Institute and Brookings Institution papers were advocacy pieces arguing against a national sales tax, and neither paper provides citations for their fraud estimates. The Brookings Paper argues against a national sales tax due to compliance concerns but suggests its fraud estimates are based on IRS estimates for income tax evasion as well as studies of value added tax (VAT) compliance internationally. VAT tax rates are significantly higher than sales tax rates, increasing the financial benefits of tax evasion and making the comparison irrelevant.

The Boston University Law School (Ainsworth) study extrapolates data from Revenue Quebec and is based solely on experience with restaurants, the segment with the highest use of cash transactions and the highest potential for tax fraud. The Quebec Goods and Services Tax (GST) rate is 2.5 times higher than the Massachusetts sales tax rate, providing a significantly larger incentive to cheat. The Ainsworth paper suggests that *"…tax losses from Zappers and related frauds in the Massachusetts restaurant industry alone could exceed $600 million."*[5] Moreover, the Ainsworth study is clearly addressing fraud in the cash economy, not in the credit card economy. As Ainsworth states in the study, "Zappers and related software programming, Phantom-ware, facilitate an old tax fraud—skimming cash receipts … Zappers liberate owners from the need to personally operate the cash register to skim receipts. Remote skimming of cash transactions is now possible without the knowing participation of

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3 *"Estimating the Costs and Benefits of an Accelerated Sales Tax Remittance System for Massachusetts,"* Performance Economics LLC, April 2019, page 23. The difference between the 11.5% boost in sales tax collections due to ASTR and the 16% used in the PE study model appears to be due to the inability of ASTR to address fraud in the cash economy.

4 Performance Economics study, page 22.

5 Richard Ainsworth, *"Massachusetts Zappers—Collecting the Sales Tax That Has Already Been Paid,"* Boston University School of Law, May 28, 2009, page 1.

the cashier who physically rings up each sale."[6] Nowhere in the Ainsworth study are credit cards even mentioned. As Ainsworth commented in another study one year later, *"Zappers skim cash sales at retail … they do not skim all sales and they never skim credit card transactions."*[7]

The PE study made only a minimal effort to account for the disproportionate share of fraud estimates in the Ainsworth and other studies that is likely attributable to the cash economy. The PE study made an adjustment in the estimate for the share of restaurant and other purchases that are made with credit cards (vs. cash), but did not make the even more consequential adjustment to account for the much higher level of fraud that is attributable to the cash economy.[8]

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6 Ibid, pages 1, 3. The 2016 Ainsworth study on New Hampshire cited in the PE study is also focused only on fraud in the cash economy. See Richard Ainsworth, "Zappers—Technological Tax Fraud in New Hampshire," Boston University School of Law, Law & Economics Working Paper No. 16–40.

7 Richard Ainsworth, Boston University School of Law Working Paper No. 10-04, (February 26, 2010).

8 John Mikesell and Sharon Kioko, *"The Retail Sales Tax in a New Economy."* Presentation to the Municipal Finance Conference, July 16, 2018. See the discussion on page 20.

THE FRAUD STUDIES CITED ARE OUTDATED AND DO NOT REFLECT NEW AUDIT TECHNIQUES

All five of the studies used to calculate the 16% mean fraud estimate are outdated. Three of the reports are from 2000 or earlier, one is from 2008, and the other is not dated, although the student's thesis was completed in 2010. The age of these studies is significant due to changes in the law governing the reporting of transactions and the advances in technology and data mining that are available to auditors today that were not available when these papers were written.

As an example, beginning in 2012, the IRS required credit card payment processors to issue a form 1099-K showing the total amount of credit card payments to individuals and businesses above a certain threshold. These numbers are also reported to the IRS. In 2017, the Massachusetts legislature added a parallel state reporting requirement (M1099-K) for any payments to individuals and businesses that exceed $600 per year. In other words, credit card processors making payments to a Massachusetts individual or business (such as a retailer) of more than $600 in a calendar year must furnish an M1099-K showing the total amount paid to the recipient, with a copy provided to the Department of Revenue. This allows the DOR to flag any large discrepancies between credit card payments and sales tax remittances for potential tax audits.

Advances in data mining and other audit techniques and computer technology and record-keeping, combined with federal and state reporting requirements, give state auditors significantly more tools to detect fraud than were available ten to twenty or more years ago.

RECENT STUDIES OF SALES TAX COMPLIANCE

The Washington State Department of Revenue has been publishing sales tax compliance studies every two years for the past decade. The most recent study, published in 2018, estimated sales tax non-compliance at 0.9% of total tax liability.[9] This figure includes both fraud as well as other types of non-compliance, such as late payment of sales tax remittances. The 0.9% figure was down significantly from the 1.8% estimate in 2016.

A reasonable estimate of the potential new sales tax revenues from ASTR starts with using estimates that are supported by relevant studies by state Departments of Revenue or other reliable sources. Absent other recent studies, the Washington Department of Revenue study is the most reasonable and plausible source for estimating potential sales tax non-compliance for the purposes of developing revenue estimates. Using a 1% estimate and the Federal Reserve System's Cash Product Office estimate that about 30% of retail transactions are cash transactions,[10] potential fraud from credit card-related sales is at most about 0.7% of the $6.5 billion in sales taxes, or $45 million.

However, this $45 million estimate also overstates the potential new revenues to the Commonwealth because it assumes that fraud is balanced evenly between credit card transactions and cash transactions, which it clearly is not. Indeed, Professor Ainsworth, author of numerous studies on sales tax fraud in Massachusetts and elsewhere, has argued that the [ASTR] system doesn't get to the root of the problem—cash.[11] If Professor Ainsworth is correct, even this $45 million is illusory.

9 Washington Department of Revenue, *"2018 Compliance Study,"* December 2018, page 4. Available at: https://dor.wa.gov/sites/default/files/legacy/Docs/Reports/Compliance_Study/compliance_study_2018.pdf

10 Raynil Kumar, Tayeba Maktabi, and Shaun O'Brien, *"2018 Findings from the Diary of Consumer Payment Choice,"* Federal Reserve System Cash Product Office, November 1, 2018, page 5.

11 Ainsworth quoted in: Markos, Mary: Experts Recommend Measures for State to Track, Collect Revenues, Boston Herald, June 14, 2019. In a conversation between Bill Rennie, Retailers Association of Massachusetts, et.al, and Professor Ainsworth on September 10, 2019, Ainsworth indicated that "most if not all of the fraud is in the cash economy."

ASTR IS NOT AN EFFECTIVE SOLUTION TO ADDRESS FRAUD IN CASH OR CREDIT CARD TRANSACTIONS

ASTR would target credit card transactions where compliance is highest and where new audit tools are available to address fraud. At the same time, it completely ignores the cash economy where fraud is most problematic. It would impose significant new costs on businesses that are complying with the law while failing to address those businesses where fraud is most likely to occur.

For example, Revenue Quebec, the subject of the Ainsworth study, found significant tax fraud in the restaurant economy where cash transactions are most prevalent. Rather than imposing expensive new obligations on all retailers, it implemented a targeted system that requires bars and restaurants to provide bills to customers showing tax amounts paid. Restaurants and bars are also required to install and operate a government-approved electronic "Sales Recording Module" that records all sales transactions and must be retained with other tax books and records and must furnished to auditors upon request.[12] However, Revenue Quebec did not impose any ASTR-like system that would require retailers to make daily tax payments through third party financial intermediaries. To our knowledge, no state in the U.S. and no country in the world has implemented an ASTR-like system requiring daily sales tax remittances to the government by third party payment processors on behalf of all retailers.

In addition to failing to address the cash economy, ASTR may not materially impact other types of sales tax fraud because the seller will still be responsible for identifying the product being sold, determining whether that product is taxable, determining the amount of tax that will be collected from the customers, and calculating whether the seller falls below threshold levels (for remote sellers) requiring the collection of the sales tax. It is only after all these steps have been completed that the seller transmits information to the payment processor showing the portion of the customer's payment that represents sales tax paid. Currently, third party payment processors have no system for determining how much of each credit card transaction, if any, is for sales tax charged on a good or service. All information about the product or service sold, its sales price, and the determination of whether that product is taxable in the purchaser's state would continue to be made by the seller. A seller that is motivated to commit fraud and willing to risk criminal liability could still commit fraud in the ASTR system by mis-categorizing taxable products as exempt or otherwise manipulating the amount of sales tax collected in the data sent to payment processors. The PE study makes no adjustment for the potential manipulation of data in the ASTR process, and simply assumes that its inflated estimates of sales tax fraud in the credit card economy will be entirely reversed by implementation of the ASTR system.

Another source of potential tax fraud is the improper use of exemption certificates. In Massachusetts and other states, religious, scientific, charitable, educational and other non-profit organizations are exempt from paying sales tax on items directly related to their non-profit mission. In some instances, state auditors have found that individuals improperly use exemption certificates for purchases that did not qualify for an exemption. ASTR will have no impact on this type of fraud since the seller makes the determination about whether to accept an exemption certificate. The same situation also applies to the improper use of sale for resale exemptions by businesses that purchase items that are resold or incorporated into products sold at retail.

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[12] https://www.revenuquebec.ca/documents/en/publications/in/IN-522-V%282020-02%29.pdf

THE PERFORMANCE ECONOMICS STUDY IGNORES OR UNDERSTATES THE COSTS TO RETAILERS AND PAYMENT PROCESSORS

In 2017, STRI published a study showing that Massachusetts retailers and payment processors would incur the following one-time costs:

- Retailers (other than major telecommunication providers)—$418 million
- Major telecommunications providers—$99 million
- Payment Processors—$700 million[13]

These estimates were based on certain assumptions about software, hardware, training, and other costs associated with testing and implementing a new system. Most of the cost estimates were based on company experiences with prior technology implementation projects because an ASTR system did not actually exist in 2017 (and does not currently exist today).

The estimates did not include any royalty or other payments that might be necessary to compensate the company or companies that would develop the technology necessary to implement the ASTR system. One company asserted at a meeting of the National Conference of State Legislatures that it could charge a royalty of 0.25% of collections for use of its patented process. If this is a valid assertion, either the Commonwealth, retailers, or payment processors would pay an additional $15 million annually in costs.[14]

The Performance Economics study asserts, without any supporting evidence, that retailers would not have any additional implementation costs and that *" … an ASTR system … would actually reduce the costs of existing retailer tasks."*[15] In fact, retailers would have to undertake substantial process changes in order to comply with ASTR and provide the payment processors with the amount of tax collected on a daily basis. Retailers would also need to implement additional steps to reconcile payments made through the ASTR system with payments made through the regular sales tax return filings and remittances. The assertion that retailers would incur no additional costs from an ASTR system underscores the fundamental misunderstanding by the PE study authors of the complexity of the sales and use tax remittance system.

The process would be particularly onerous on telecommunications and cable television providers that currently remit taxes on an accrual basis.[16] Telecommunications companies that issue bills have no way of knowing at the time bills are issued whether

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13 Scott Mackey, *"Daily Sales Tax Collection System Could Cost Massachusetts Businesses $1.2 Billion."* State Tax Research Institute, September 2017, page 7.

14 National Conference of State Legislatures, Executive Committee Task Force on State and Local Taxation, May 30, 2014, Anchorage, Alaska. http://www.ncsl.org/documents/task_forces/Alask a_TF_Summary_May30.pdf

15 Performance Economics study, page 10

16 For example, under current law the sales tax charged on a customer bill dated May 30th and due June 29th would be remitted to the Commonwealth on June 20th even if the customer paid the bill (including the sales tax) on the June 29th due date. Under the proposal, if the customer paid by check, the Commonwealth would still receive the remittance on June 20th but if the customer paid by credit or debit card then the Commonwealth would receive the remittance on June 29th.

their customers will pay with a credit or debit card subject to ASTR or by check, automatic checking account debit, or other methods not subject to ASTR. Significant back-end reconciliation procedures will need to be developed to ensure that companies remitting on an accrual basis do not pay twice on the same transaction.

The PE study also significantly underestimates the number of payment processors that would incur costs to modify their systems to accept bifurcated payments on each transaction. As noted in the STRI study, there are over 700 payment processors operating in the US.[17] The PE study suggests that there are only 19 payment processors operating in Massachusetts, and that each processor would incur implementation costs of between $1.7 and $3.4 million.[18]

The PE study is misleading because while there may be only 19 payment processors providing services to retailers with a physical presence in Massachusetts, in the wake of the *Wayfair v. South Dakota* decision, retailers not physically present in the Commonwealth who sell more than $100,000 to Massachusetts customers are legally required to collect and remit taxes on sales to Massachusetts residents. Therefore, the ASTR requirement would apply to all payment processors nationally (and internationally) that provide services to retailers that sell goods or services to Massachusetts customers. Given the size of the Massachusetts market, it is likely that the majority of payment processors operating in the US would be required to incur these implementation costs of $1.7 to $3.4 million. Even conservatively assuming that only half of all payment processors comply, the cost balloons to between $600 million and $1.2 billion.

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17 STRI study, page 5.

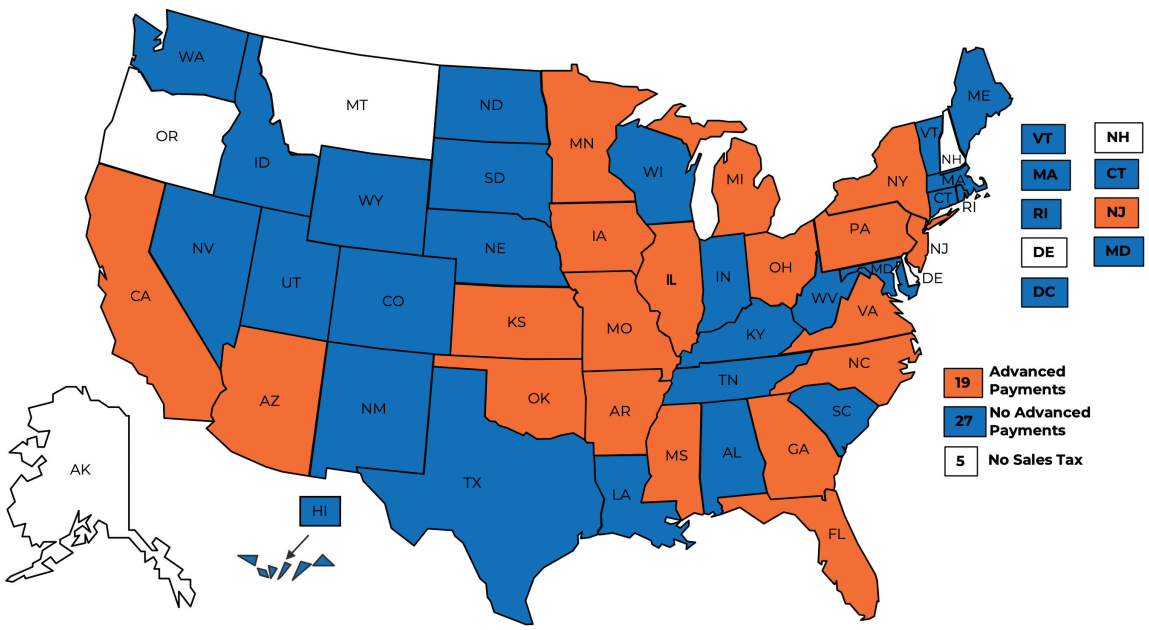
18 Performance Economics study, pages 29–30.

MORE COST-EFFECTIVE OPTIONS ARE AVAILABLE TO REDUCE FRAUD AND EXPEDITE SALES TAX REMITTANCES

It is clear that the costs of the ASTR system far outweigh any benefits that would accrue to the Commonwealth. Fortunately, several more cost-effective solutions have already been enacted by a significant number of other states. Indeed, these provisions have also been included in the Governor's FY2021 Budget.

First, Section 49 of House Bill 2 allows the Commissioner of Revenue to require an accelerated payment of estimated monthly sales tax remittances for retailers with annual sales tax liability of $100,000 or more annually. The executive budget estimates that this provision, if enacted, would result in a one-time acceleration of $317 million in sales tax revenues in FY2021, representing approximately 58% of the average monthly sales tax collections.[19] Under this proposal, the Commonwealth would also receive a recurring benefit from the float interest of $4.8 million. Therefore, all but $900,000 of the purported float interest benefit of ASTR would already accrue to the Commonwealth if Section 49 is enacted.[20]

The proposed acceleration of monthly estimated payments by retailers is a relatively common practice among states with sales taxes. As shown in the map, 19 of the 45 states with sales taxes require advance sales tax payments from large retailers. Enactment of Section 49 would allow the commonwealth to accelerate the collection of sales taxes and capture most of the benefit of the interest rate float on sales tax collections without imposing significant new costs on retailers, payment processors, and banks. It would follow the practice of many sales tax states instead of creating a new sales tax collection system that has never been tried in any other state.



Source: Council On State Taxation, *The Best and Worst of State Sales Tax Systems*, **April 2018, pg. 15**

[19] Given the significant negative, and potentially catastrophic, financial impact of the coronavirus pandemic on retailers, Massachusetts may want to consider delaying the implementation of Section 49 for one or more fiscal years.

Section 51 of House Bill 2 would impose significant new penalties for the sale or use of "zappers" or other types of "phantom-ware." These new penalties are estimated to improve sales tax compliance by $2 million in FY2021. This approach would target law enforcement and Department of Revenue resources to address sellers committing fraud, instead of imposing new burdens and costs on retailers, banks, and payment processors who are complying with the law. Twenty-nine of the 45 states with sales taxes currently have such laws on books.[21]

The avoidance of additional compliance costs on retailers in Massachusetts is particularly important given that retailers are currently not reimbursed by the State for any of the already significant costs they incur for sales tax compliance. Massachusetts is one of 18 states that does not provide a "vendor discount" for retailers who collect and remit the sales tax.[22] State vendor discounts allow retailers to keep a percentage of the sales tax collected from customers to offset the cost of collecting and remitting state sales taxes.

In 2008, the Joint Cost of Collection Study, a public private partnership between the states and retailers, released a peer-reviewed, comprehensive study by PricewaterhouseCoopers on the costs incurred by retailers to collect state and local sales taxes.[23] The study found the following costs of compliance:

	Weighted Average (as % of tax collected)
Gross Collection Cost	3.09%
Less: Vendor Discount	(0.5%)
Less: Net Float	(0.1%)
Net Cost of Collection	2.59%

The study noted that Massachusetts is one of 12 states that does not permit local option general sales taxes, which reduces the administrative complexity and cost of collecting sales taxes. Therefore, the gross collection cost above overstates the costs associated with Massachusetts sales tax collections. However, the JCCS illustrates that businesses collecting sales taxes for the Commonwealth incur significant expense under the current sales tax regime that is largely uncompensated. The existing fiscal burden on retailers relating to sales tax collection and remittance is another reason why the ASTR proposal is such bad public policy, imposing even more significant costs on retailers without any provision to reimburse them for the additional financial burden.

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20 The PE study estimates that the Commonwealth would receive approximately $7.3 million in new revenues from interest earned from sales tax revenues that would be paid immediately instead of on the 20th of the following calendar month. It is unclear whether this estimate accounts for taxpayers like telecommunications companies that bill consumers for sales taxes monthly and remit on an accrual basis. The average monthly sales tax remitted to the Commonwealth under the FY2021 budget estimate (excluding motor vehicles) is $545 million. Using a 1.5% interest rate and assuming that 70% of sales taxes (the credit/debit card portion) would be accelerated by an average of one month, the annual recurring benefit to retailers from the float interest would be $5.7 million.

21 Alabama, Arizona, Arkansas, California, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, North Carolina, North Dakota, Oklahoma, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Utah, Vermont, Washington, West Virginia, and Wyoming.

22 Federation of Tax Administrators, *"State Sales Tax Rates and Vendor Discounts: January 1, 2020."* Available at: https://www.taxadmin.org/assets/docs/Research/Rates/vendors.pdf.

23 PricewaterhouseCoopers, Joint Cost of Collection Study. Available at: https://www.streamlinedsalestax.org/docs/default-source/work-groups/small-seller/joint-cost-of-collection-study.pdf?sfvrsn=253e8868_6

One final factor merits consideration here. Since the Governor's introduction of ASTR as part of the FY2021 state budget, the COVID-19 pandemic has unleashed both a devastating global health care crisis and a precipitously declining world economy. Retailers, in particular, are reeling from stay-at-home advisories and business shutdowns including one issued in Massachusetts by Governor Baker. It may take months, and more likely years, for businesses to return to "normal." In this unprecedented environment, it would be a major public policy and economic debacle to introduce new requirements, in Massachusetts alone, mandating businesses to implement the untested ASTR system at great cost to retailers and financial institutions and for little or no actual benefit to state government.

CONCLUSION

The ASTR system proposed in Section 50 of the Executive Budget would impose significant new costs on retailers and payment processors in Massachusetts and nationally. These costs would be imposed on all retailers who sell taxable goods and services to Massachusetts customers, as well as credit and debit card payment processors who serve retailers selling to Massachusetts residents. On balance, the $1.2 billion estimated new costs would dwarf any potential fiscal benefit to the Commonwealth from implementing ASTR. To our knowledge, no state in the U.S. and no country in the world has implemented ASTR or a similar system requiring daily sales tax remittance to the government by third party payment processors on behalf of all retailers.

The sales tax modernization proposals in Sections 49 and 51 of the Governor's FY2021 Budget would achieve most of the one-time tax acceleration benefits and significant fraud prevention benefits without imposing burdensome new costs on businesses. These sections should be enacted without including the ASTR proposal, and would provide tangible financial benefits to the Commonwealth.

APPENDIX 1: SOURCES FOR SALES TAX FRAUD ESTIMATES IN PERFORMANCE ECONOMICS REPORT ON ASTR

Source	Tax Fraud Estimate	Data from Year:	Discussion
Minnesota Legislative Auditor	5%	Tax Year 2000	The study cites an American Economics Group study using DOR actual tax data from 2000. Since then, Minnesota has joined the Streamlined Sales Tax Project and significantly improved audit effectiveness using data mining and other technology. Relevant quote from auditor's report: *"If successful, the [Streamlined Sales Tax] project could substantially reduce the tax gap because having businesses collect the sales tax on behalf of the state would replace the low-compliance use tax with the much higher-compliance sales tax."*[1]
Tax Policy Center (Urban Institute)	13%	Unknown (paper is from late 1990s)	This "estimate" is from a short paper by the Urban Institute's Tax Policy Center advocating against a national sales tax.[2] *"Previous studies have found a 13 percent "delinquency" rate for state sales taxes."* However, because there is no footnote to source this information, there is no way to verify the information. It is not clear whether delinquency includes late payments from vendors at any given moment in time or whether it is narrowly defined to include fraud.
Brookings Institution	15%	1998	The "estimate" is from a short paper[3] arguing against a national sales tax: *"The tax evasion rate under the income tax is between 15 and 20 percent … here we simply note that a 15 percent evasion rate in the sales tax, which is probably conservative, would raise the rate [of the national sale tax] to 35 percent."* It appears that the 15% number was not based on any actual data, but rather was used for rhetorical purposes to argue against a national sales tax. The author goes on to claim that other nations have chosen to impose VAT taxes because *"… at rates of more than 12%, sales taxes are too easy to evade."* (Note that the Massachusetts sales tax is half this rate.) The only other evidence cited in this "study" is Florida data showing that 5 percent of purchases using exemption certificates were fraudulent. However, ASTR would not address exemption certificate fraud.

1 Report available at: https://www.auditor.leg.state.mn.us/ped/pedrep/taxcomp.pdf

2 Report available at: https://www.taxpolicycenter.org/briefing-book/would-tax-evasion-and-avoidance-be-significant-problem-national-retail-sales-tax

3 Report available at: https://www.brookings.edu/research/dont-buy-the-sales-tax/

Source	Tax Fraud Estimate	Data from Year:	Discussion
Boston University Law School	16%	2008	The estimate appears to be taken from two papers by Richard Ainsworth[4] that examine the use of "zappers" in Quebec and extrapolate data from Revenue Quebec enforcement efforts. However, the rate of the GST in Quebec is 2.5 times higher than the Massachusetts sales tax rate (14.975% vs. 6.25%) so there is a significantly greater incentive to commit fraud in Quebec. Furthermore, the Ainsworth estimates for both Massachusetts and New Hampshire (which lacks a sales tax) are based on restaurants which, as noted in the ASTR study, have a much higher percentage of cash transactions. Moreover, the Ainsworth studies are clearly addressing fraud in the cash economy, not in the credit card economy.
Florida International University	10% to 28%	Unknown (Thesis is from 2010)	This estimate is from a Ph.D. Thesis by a graduate student in Public Affairs from Florida International University.[5] The number appears to be the author's back of the napkin calculation in a footnote in the thesis with no supporting documentation: *"Calculation of an evasion rate for the sales tax is very difficult. Using the theory that large companies are generally compliant and the estimate of 60% noncompliance to some degree on the part of most small companies, an estimate of sales tax theft and evasion in Florida would likely be within a range of $2.1 to $6 billion annually (10% to 28%). The size of the range is indicative of the difficulty in determining an appropriate cutoff between large and small companies, since the real issue is not size, but the extent to which internal controls exist. Even at the low end of the range, 10%, the impact of evasion greatly exceeds the popular estimates of 2% to 5% and represents $24 billion in annual sales tax theft nationwide."* In short, there is no empirical evidence to suggest that this estimate is even remotely accurate.

[4] Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1411174

[5] Available at: https://digitalcommons.fiu.edu/dissertations/AAI3447780/. The full thesis is only available for purchase. The footnote cited is on page 54.

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STATE TAX RESEARCH INSTITUTE

Council On State Taxation

122 C Street, NW | Suite 330

Washington, DC 20001 | (202) 484-5222