Internet Sales Tax Overview in Mississippi

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Executive Summary

Mississippi was the first state to enact a sales tax in 1930. Since that time forty-five other states and DC have levied sales taxes of their own. While sales tax rates vary and applicable goods and services differ between states one thing has held true: states cannot impose a sales tax on businesses which do not have a physical presence, or as the Supreme Court called it in Quill Corp. V. North Dakota (1992) a nexus, in that state. The advent of the internet and the increase of online consumer and business purchases have launched a debate around the issue of internet sales taxation. Advocates for the tax claim the addition will help states in desperate need of revenue and level the playing field for those "brick and mortar" businesses who must charge their customers sales tax. Detractors point to the additional costs to consumers, the potential stagnation of an otherwise exploding online marketplace and the burden placed on businesses and revenue departments to analyze and collect taxes for almost 10,000 various tax jurisdictions within the United States.

Moves have been made at the federal level to attempt to utilize the power vested within the Commerce Clause of the United States Constitution (Article I, Section 8, Clause 3) to provide a framework for allowing states to levy this tax. In 2000, a number of states negotiated the Streamlined Sales Tax Project to attempt to overcome congressional gridlock and begin the process of coming to agreements on simplification and collection of sales taxes. This lead to the Streamlined Sales and Use Tax Agreement (SSUTA) effective on October 1, 2005. This granted the states of SSUTA the ability to negotiate and levy sales taxes among the other member states.

SSUTA is comprised of 4 general requirements for simplification: 1) state level administration, 2) uniform tax base, 3) simplified tax rates and 4) uniform sales sourcing rules. 24 states currently have passed legislation which conforms to the SSUTA principles. Though with the variance across tax districts on rates and applicable goods certain provisions of SSUTA such as provision 2 and 3 have proved to be difficult for many states to negotiate. Congress has made several attempts to pass the Marketplace Fairness Act which would enable state governments to levy and collect sales and use taxes from remote retailers (online). Additionally, several states have begun negotiating with large retailers and worked on “click through nexus” statutes to have sales taxes included in their online purchases. These have become known as “Amazon Laws” due to the current market share that the retailer Amazon holds in online sales and the method by which in-state individuals use the site for sales.

Utilizing the literature available, FY 2012 proves to be the most recent viable data point for analysis of the Mississippi budget and potential revenue additions from taxing remote sellers. FY 2012 general fund receipts illustrate that sales taxes provided 39% ($1.855 billion) of the revenue closely followed by individual income totaling 31% ($1.489 billion). It is estimated that approximately 6.5% of sales are now occurring online and the Mississippi Economic Policy Center utilizing a study produced by the University of Tennessee’s Center for Business and Economic Research puts the total number at $134.9 million is lost revenue for FY 2012. This number is comprised of both electronic business to business and business to customer sales. The authors also note that it is estimated that 93% of e-commerce stems from business to business sales.

The following study provides not only an overview of sales taxes, state and federal policies, a look into the Mississippi budget and revenue and the relevant arguments for and against implementation, but also a critique of projections, a narrative for policy consideration and caveats in the research. Explored are issues such as enforcement, costs and benefits, consumer and business behavior, potential blind spots and an assessment of the current political landscape. Assessing the literature and current political/policy moves the research team provided three recommendations:

1.) Explore potential avenues for a revenue neutral trade-off when implementing for the benefit of families and poorer members of our state.
    a. This would include lowering or eliminating grocery taxes.
2.) Wait for Congress to pass the Marketplace Fairness Act, but seek to negotiate with large companies in the meantime.
    a. This allows the state the opportunity to begin raising revenue and equalizing barriers on "brick and mortar" stores while also avoiding large administrative burdens on small businesses and the Department of Revenue.
3.) Analyze the effects and exemptions for impacts of key business sectors in the state before negotiating with other SSUTA states.
    a. This allows the state an opportunity to understand the business to business e-commerce landscape and look at how it impacts not only recruitment of business, but also valuable sectors such as manufacturing and agriculture.

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Introduction to Sales Tax and Internet Sales Tax

A sales tax is known as a consumption tax, which is a tax that is levied on the sale and purchase of a good or service; these taxes are imposed by all levels of government (Sales Tax Definition, 2003). A conventional sales tax is put into effect at the time of a sale, collected by the seller, and then passed on to the government body (Sales Tax Definition, 2003). A business that has sold a good or service to a buyer is responsible for the collection of these types of taxes in a given location, if the retailer has a nexus there (Sales Tax Definition, 2003). A nexus is when a retailer has a physical presence within the state a customer has bought one of their goods or services (Sales Tax Definition, 2003). A “brick and mortar” presence within the state a customer has bought a good or service (Sales Tax Definition, 2003). For example, if a person buys something online at a store like Old Navy and the company has a physical presence where the customer is buying a product; sales tax must be collected by the company. Physical presence of the company can be an actual building, an office with employees of the retailer, or even something as small as a P.O. Box within the state of purchase (Sales Tax Definition, 2003). The nexus idea had its early beginnings with the ruling in the Supreme Court case of National Bellas Hess v. Department of Revenue in 1967 (National Bellas Hess v. Department of Revenue, 1967). Bellas Hess was a company that primarily used mail orders on their variety of products. Their main building was located in Missouri and they sold to a customer in the state of Illinois (National Bellas Hess v. Department of Revenue, 1967). The state of Illinois tried to force Bellas Hess to collect sales tax on their products that were sold there. The Supreme Court voted in favor of Bellas Hess because they did not have any physical presence of any kind in the state of Illinois (National Bellas Hess v. Department of Revenue, 1967). The idea of nexus was actually established after the Supreme Court case of Quill Corp. v. North Dakota ruling in 1992 (Commerce Clause, 2016). The Quill Corporation was told to collect taxes on products sent to the state by the North Dakota Office of State Tax (Commerce Clause, 2016). The corporation did not have a physical presence within the state of North Dakota, they were based out of the state of Delaware, and the Supreme Court ruled in favor of Quill because they did not have a physical presence within North Dakota and did not have to collect the tax in question (Commerce Clause, 2016).

Sales taxes are also known as regressive taxes, which is a tax that takes a bigger percentage of money from people that are low-income (Regressive Tax Definition, 2003). This type of tax is put into effect uniformly and this results in low-income people being hit harder than people with higher incomes (Regressive Tax Definition, 2003). There are different variations of sales taxes that are enforced in the country. A manufacturer's' sales tax is a tax on the sales of touchable property that is considered personal by manufacturers and producers of the product being bought. Wholesale sales taxes are taxes on the purchase of concrete personal property when said product is in a packaged form that needs to be shipped or delivered to the customer (Sales Tax Definition, 2003). Excise taxes are taxes that are applied to a narrow field of goods or services such as alcohol or gasoline (Sales Tax Definition, 2003). Value-added taxes or VAT taxes are taxes that are enforced on all sales, this helps with the avoidance for the system of resale certificates (Sales Tax Definition, 2003). Retail sales taxes are taxes that are levied on any type of concrete personal property to any consumer or industrial customers (Sales Tax Definition, 2003). Finally, use taxes are taxes that are put on the consumer of a good or service without sales taxes. These taxes are mostly levied by the states and are only used on big items such as vehicles and boats (Sales Tax Definition, 2003).

There are exemptions of sales taxes in the United States. The exemption, that is most common, is known as a resale exemption (Sales Tax Exemptions, 2016). This is described as goods that are purchased to be resold in the same exact manner they were purchased originally. This exemption can be achieved with a resale certificate (Sales Tax Exemptions, 2016). The company or purchaser cannot get a resale certificate if the product in question has been used by the purchaser in any way besides being resold. Goods and services sold to the federal government do not require tax collection (Sales Tax Exemptions, 2016). This type of exemption can also be achieved by state and local governments, non-profit organizations, and organizations that are considered religious, charitable, and educational (Sales Tax Exemptions, 2016). Exemptions can be achieved by industries in the field of: agriculture, manufacturing, or industrial processing (Sales Tax Exemptions, 2016). There are requirements for these types of tax exemptions and must fill out documentation to prove whether or not a certain sale or purchase falls within the guidelines of the exemption that is trying to be achieved (Sales Tax Exemptions, 2016). An exemption that helps with lower-income citizens are exemptions on products such as: food, medicine, and in some cases clothing. They are exempt sometimes or taxed at a lower rate than other products that are purchased by consumers (Sales Tax Exemptions, 2016). Mississippi, as a state, has three major tax exemptions: Agricultural Taxes, Governmental Utility, and Industrial Other (Mississippi Department of Revenue, 2016).

Agricultural taxes can be exempt on things such as: sale of agricultural goods like cotton, livestock, seed, and also fertilizers (Mississippi Department of Revenue, 2016). Also, the sales of farm products are also exempt in the state (Mississippi Department of Revenue, 2016). Government utility are such things as sales to the Mississippi Band of Choctaw Indians, schools, United States Government, sales within the state government, and sales of school textbooks to students (Mississippi Department of Revenue, 2016). Industrial other can consist of the sale of containers to manufacturers, raw materials, offshore drilling equipment, and sales of petroleum products (Mississippi Department of Revenue, 2016).

There are many different opinions on when and who introduced sales taxes in the United States. The history of sales taxes, in the United States, can be traced back to the year 1821 (Fox, 2002). During this year, Pennsylvania introduced a mercantile license tax on the citizens of the state (Fox, 2002). This was not considered a broad-based tax at the time. The modern sales tax system that we see today was developed around the time of the depression era in the 1930s (Fox, 2002). The first state to tax retailers exclusively was Kentucky in 1930 (Fox, 2002). This tax was considered progressive, but it was replaced rather quickly with a 3% flat tax in 1934. This flat tax was eliminated two years later in 1936 (Fox, 2002). The modern day sales tax within Kentucky was not introduced until the year 1960. Mississippi gets credit from the Commerce Clearing House for introducing the first sales tax in the year 1930 (Fox, 2002). Sales taxes have been introduced and levied in forty-five states and also the District of Columbia. All of these taxes came in different time periods (Fox, 2002). Twenty-four states introduced them in the 1930s, six states in the 1940s, and five states in the 1950s, and eleven states levied sales tax policies in the 1960s (Fox, 2002). Vermont was the last state to jump on board with sales taxes in 1969 (Fox, 2002). Obviously by the number of states with sales tax, not all states require them.

The states that do not collect or enforce general sales taxes are: Alaska, Delaware, New Hampshire, Montana, and Oregon (Fox, 2002). The state of Mississippi has 7% general sales or use tax rate and this percentage of tax is above the national average of 5.95% (Mississippi, 2016). The average sales tax rate at the local level is an added .07%. The state of Mississippi's governments brings in around $1,030 from every individual in sales taxes and $479 in excise taxes from every individual (Mississippi, 2016). This adds up to $1,509 per individual and that is the 21st highest in the United States (Mississippi, 2016).

The advancement of technology, primarily the creation of the internet, has caused an evolution on how and when to collect sales taxes in the United States. The main focus on sales tax collection with the creation of the internet has been online sales. Amazon has been the main focus in this evolution on the collection of sales taxes over the internet. This has resulted in legislation in states to be passed on the collection of internet sales taxes. This type of legislation is known as "Amazon tax" laws (Winston & Strawn LLP, 2013). This type of law is usually based on two approaches: a "click-through nexus" and some sort of reporting requirement to better the sales tax compliance within the state (Winston & Strawn LLP, 2013). First, the "click-through nexus" is complicated and difficult to describe. Under this idea, a company or seller will have a physical presence in the state of the customer where other types of businesses or agents provide dealings on their behalf (Winston & Strawn LLP, 2013). If a company that has a presence in the state does business with a company that does not, the company that does not will be deemed to have a presence within the state (Winston & Strawn LLP, 2013). If a company's website links to another company's website or business, no matter if the second has a presence or not through the "click-through" narrative that company now has a presence and is expected to collect sales taxes (Winston & Strawn LLP, 2013). States that have enacted a "click-through nexus" policy are: Arkansas, California, Connecticut, Illinois, New York, North Carolina, Rhode Island, and Vermont. Illinois tried to use this type of legislation, but it was challenged and deemed unconstitutional by the state's Supreme Court in 2012 (Winston & Strawn LLP, 2013).

The second approach to achieving an "Amazon tax" law is known as use tax reporting (Winston & Strawn, 2013). This is when states can necessitate that companies and any other retailer to inform customers of the requirement to notify and pay a use tax and frequently attempt to force companies without a nexus, which is taxable, to plug out a tax return (Winston & Strawn LLP, 2013). Colorado tried this approach but it was struck down by a federal court on unconstitutional grounds because the statute violated the latent and dormant Commerce Clause (Winston & Strawn LLP, 2013). This was decided because it put a burden on the company to accomplish business or commerce across state borders in a smooth fashion without any unnecessary problems (Lunder, & Pettit, 2015).

States have been concerned on missing out on a large sum of sales tax money when it comes to online sales from companies such as Amazon. This is a real concern since there was a total of $225.5 billion in online sales in 2012, a number given from the U.S. Department of Commerce (Belhke & Osten, 2014). The states of the country missed out on around $23 billion in sales tax revenue that was not collected according to the National Conference of State Legislator's estimates (Belhke & Osten, 2014). This is a huge amount of money that will surely only get larger as the presence of online companies become more prevalent in the United States.

The states have not been the only entities trying to enact legislation like this in the country. There has been several proposed federal level legislation on the subject. These proposed bills would give the right to tax online sales to the states. The Main Street Fairness Act was a proposed law in 2010 (Winston & Strawn LLP, 2013) . This act would force distant retailers to gather sales or use taxes if the state is a part of the Streamlined Sales and Use Tax Agreement or the SSUTA (Winston & Strawn LLP, 2013). The SSUTA came into effect in 2005. It was born after Congress tried to put a lasting ban on sales tax collection of online sales. This agreement has four requirements on the subject of simplifying the state and local tax codes: state-level administration, uniform tax base, simplified tax rates, and uniform sales sourcing rules (Winston & Strawn LLP, 2013). As of 2011, there are twenty-four states that partake in this agreement as well as the District of Columbia (Winston & Strawn LLP, 2013). Mississippi is not an active member of the SSUTA according to their website.

Another proposed bill is the Marketplace Equity Act, which was proposed by the House of Representatives in 2011 (Winston & Strawn LLP, 2013). This act would make it to where states can force distant retailers to collect sales or use taxes when the state implements a simplified tax administration system (Winston & Strawn LLP, 2013). It differs from the Main Street Act because it has its own guidelines instead of depending on the guidelines of the SSUTA and it does not create its own board to figure out conflicts that may arise (Winston & Strawn LLP, 2013). The Marketplace Fairness Act of 2013 is proposed legislation that is considered a hybrid of the Main Street Act and the Marketplace Equity Act (Winston & Strawn LLP, 2013). This act would give states the power to force a duty on distant retailers to collect taxes, which are sales or use, if the state chooses between two options: it has to be a member of the SSUTA, or has to put into place a tax administration system that is simplified (Winston & Strawn LLP, 2013). An Amazon representative has endorsed this proposed legislation at a hearing that was conducted by the Senate Commerce, Science, and Transportation Committee (Winston & Strawn LLP, 2013). Amazon has also come to terms with numerous states such as: California, Pennsylvania, and New Jersey on the subject of collecting sales taxes (Winston & Strawn LLP, 2013). The agreement they came to terms with stated that Amazon agreed to collect sales or use taxes in return the states would not collect taxes on past sales that went uncollected (Winston & Strawn LLP, 2013).

The subject of enforcement has been a hot topic when it comes to online sales and Amazon has a statement on their website about how they go about collecting these types of taxes. The website states that if an item is subject to sales tax in the state where the item for consumption is to be shipped, the tax is usually calculated on the total selling price of every individual item being purchased. In harmony with state tax laws, the entire price at sale of a particular item will usually include the following: item-level shipping and handling costs, item-level discounts, gift-wrap charges, and an allocation of order-level shipping and handling charges and order-level discounts. They state that the amount charged based on tax depends on a lot of factors including: identity of the seller, type of item purchased, and where the product is being shipped. They state that factors can change between the time an item is purchased and the time a credit card is authorized by the company. This could affect the calculation of the sales tax on a particular item. Amazon states that the amount that appears on an order as Estimated Tax may be different from the sales taxes that will ultimately be charged (About Sales Tax, 2016).

Currently, there are twenty-eight states in the United States that have introduced online sales tax laws or “Amazon laws”. These states are: Arizona, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New York, North Carolina, North Dakota, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington, West Virginia, and Wisconsin (About Sales Tax, 2016).

Mississippi has tried in the past to create an “Amazon tax” law in 2010. It was under the title of S.B.2927. The bill stated that an individual doing business in this state, who makes a distant sale, is subject to the authority of the state to charge and gather the use tax when the person conducts business in the state by means of employees, independent contractors, agents or other representatives and for associated purposes (Mississippi SB2927, 2016). However, on the same year it was proposed, the bill did not make it out the Senate Finance Committee on February 2, 2010 (Mississippi SB2927, 2016). On the subject of Mississippi, this report will move onto the subject of the state’s budget and needs.

A Closer Look at the Mississippi Budget and Needs

Introduction

In effort to present a brief Mississippi budget history for this study, we have reviewed state budget data for five fiscal years, Fiscal Years 2012 - 2016. This budget information contains appropriations that were made by the state legislature. Review of these reports, which include estimated expenditures, revenues, and sales tax figures for the aforementioned years show that the state of Mississippi does a good job of maintaining a balanced budget. This information shows that the budget for the state of Mississippi has increased steadily over the years in terms of its revenue intake, enabling it to in turn increase in expenditures, or appropriation amounts. The budgets for the examined years reveal that the state usually exactly matches it estimated appropriations with its estimated revenues, with the exception of Fiscal Years 2015 and 2016. The state also maintains a Rainy Day fund that houses $400 million. In addition to information concerning fiscal years 2012 - 2016, General Fund projections for fiscal years 2015-2019 were reviewed. These projections show an increase in revenue for the state beginning in FY 2016. Projections also indicate that no additional discretionary funds above what is required will be available for expenditures during the Fiscal Years of 2017, 2018, and 2019.

Brief History

In 1994, the Mississippi Legislature passed an act called the Mississippi Performance Budgets and Strategic Planning Act of 1994. This act was created as an attempt to improve the budgeting process for the state. It would shift the focus from line-item budgeting to performance-based budgeting (Legislative Staff, 2014). Line-item budgeting only requires that the government give information concerning what the government was purchasing (Legislative Staff, 2014). Performance-based budgeting, however, calls for the focus to be on what the government was accomplishing with its purchases and expenditures rather than only focusing what the state government was expending funds towards (Legislative Staff, 2014). In effort to achieve this shift in budgeting processes, the act requires the collection and analysis of data that will be used to measure the performance of state agency programs in relation to the goals and objectives that were put forth in each agency's five-year strategic plan (Legislative Staff, 2014).

Also to move towards this performance-based budgeting system, the legislative leadership team and the staff identified three major steps necessary to complete this goal. These steps are as follows: identify statewide priorities for the work of state government; create a comprehensive inventory of state agency programs, including the development and analysis of robust performance measures for each program; and implement the Pew-MacArthur Results First Initiative (Legislative Staff, 2014).

To achieve the first step, the Mississippi Lieutenant Governor and the Speaker of the House of Representatives appointed a subcommittee on State Performance Goals of the Joint Legislative Budget Committee to articulate the following things: a vision, a mission, and a philosophy for the state government (Legislative Staff, 2014). This subcommittee also was instructed to identify priority policy areas for the state government. The following priority policy areas were identified: economic development; education (K-12 and higher education; public safety and order; health; human services; natural resources; infrastructure; and government and citizens (Legislative Staff, 2014). In August of 2014, the statewide strategic planning elements were distributed as part of agencies' budget instructions that were provided by the Mississippi Legislature. These budget instructions were to be used as part of the FY 2016 budget cycle (Legislative Staff, 2014).

Step two in moving from a line-item budgeting system to a performance-based budgeting system, was created as a way to get agency budgetary programs to identify what could be referred to as performance accountability programs (Legislative Staff, 2014). This step ideally resulted in the creation of an inventory list; this inventory list was hoped to create and make available detailed information that would help to ensure that public funds are being used efficiency and effectively. (Legislative Staff, 2014).

The third and last step in this process involves implementing the Pew-MacArthur Results First Initiative. This initiative works with states to aid them in taking an innovative approach to evidence-based policymaking (Legislative Staff, 2014). This initiative uses the Results First cost-benefit analysis model. In this model, states examine offered programs and determine which programs have been tested and are considered to be effective on research available for them (Legislative Staff, 2014). After identifying programs that are promising and/or effective, states then compare the expense of public programs to the returns that these public programs deliver. This helps policymakers to use state funds on programs that are the most cost-effective and programs and policies available. This also helps policymakers to avoid wasted spending on programs that have been proven to be ineffective (Legislative Staff, 2014). As previously stated, the Legislative Budget Office has directed state agencies to align their five-year strategic and action plans with statewide elements of the statewide strategic plan (Mississippi Legislature, 2015).

In 2015, the state legislature reported that Mississippi had developed a strategic plan for improving the budgeting process for state agencies. This strategic plan requires the Legislature, its staff, and state employees to use data as a basis for the decisions that they make concerning the budget (Mississippi Legislature, 2015). This plan aims to ensure that public dollars are being used to their highest and best use (Mississippi Legislature, 2015). This plan also aims to create a more efficient, effective, transparent, and accountable state government (Legislative Staff, 2014). The state plans to achieve these goals by using performance-based budgeting. The plan went into effect July of 2015 (Legislative Staff, 2014).

Sustainability of the Budget

The state budget seems to be sustainable due to its operation on a balanced budgeting system; in effort to use public funds efficiently and effectively, state officials are ordered by a statute in the Mississippi Code to operate on a balanced budgeting system. To operate on the budgeting system, the state looks at the upcoming year's estimated revenues and uses that as a basis for its upcoming budget proposal. These expected revenues act as a boundary for the state to operate within and not exceed when developing the budget for the upcoming fiscal year. This balanced budget helps to ensure that the state does not spend above its means, which aids in ensuring the future sustainability of Mississippi's budget. The state, by law, cannot incur a deficit while making the budget by spending above its means.

Though the state government tries to create a balanced budget when planning for each fiscal year, there is always a chance that revenues may fall short of the expected amount, creating the possibility of falling into debt or not being able to continue funding necessary state programs. Because of this, statute § 27-104-13 in the Mississippi Code mandates that the Governor must act as the State Fiscal Officer and cut the budget immediately if he becomes aware that expenditures may exceed what the state is receiving in revenue intake. To further protect the state from the budget downfall, statute § 27-103-203 in the Mississippi Code gives the Governor the authority to use up to $50 million in the Working Cash Stabilization Fund, also known as the Rainy Day Fund.

Budget Breakdown

The Mississippi budget, according to publications from the Mississippi Legislative Budget Office, has increased at a steady rate from year 2012 to year 2016. A breakdown of estimated revenues and appropriations can be found below.

- Fiscal Year 2012 (Joint Legislative, 2011).
    - General Fund Revenues Estimated for Fiscal Year 2012 Budget – $4,468,263,060
    - Regular General Fund Appropriations for Fiscal Year 2012 Budget – $ $4,628,263,060
- Fiscal Year 2013 (Joint Legislative, 2012).
    - General Fund Revenues Estimated for Fiscal Year 2013 Budget – $4,751,849,038

    - Regular General Fund Appropriations for Fiscal Year 2013 Budget – $4,751,849,038

- Fiscal Year 2014 (Joint Legislative, 2013).
    - General Fund Revenues Estimated for Fiscal Year 2014 Budget – $5,050,081,966
    - Regular General Fund Appropriations for Fiscal Year 2014 Budget – $5,050,081,966
- Fiscal Year 2015 (Joint Legislative, 2014).
    - General Fund Revenues Estimated for Fiscal Year 2015 Budget – $5,501,180,000
    - Regular General Fund Appropriations for Fiscal Year 2015 Budget – $5,501,146,294
- Fiscal Year 2016 (Joint Legislative, 2015).
    - General Fund Revenues Estimated for Fiscal Year 2016 Budget – $5,744,059,207
    - Regular General Fund Appropriations for Fiscal Year 2016 Budget – $5,744,058,322

By looking at the above figures, we can see that estimated revenues for the state have increased over the years, thus enabling the state to increase its appropriation amounts. The state generally matches exactly its revenues with its appropriations, or expenditure amounts. The outlying years studied are Fiscal Year 2015 and Fiscal Year 2016. During these years, estimated appropriation amounts were slightly below estimated revenue amounts.

Sales Tax

Sales tax rates are based on gross proceeds of sales and gross income; they also depend on the type of business it is (Sales Tax Rates, n.d.). Categories of businesses are as follows: Retail Sales; Wholesale Sales; Construction Contracting; Floating Structures; Public Utilities;

Amusements; Miscellaneous Specified Business; and Rental. All of these categories have subcategories and tax rates for subcategories differ accordingly. There are also special taxes on goods such as tobacco and beer (Sales Tax Rates, n.d.). The sale of all tangible personal property in Mississippi is subject to the regular retail rate of sales tax, which is 7%, unless the law exempts a particular item or offers a reduced tax rate for the item. Installation labor is also taxable if it is connected to the sale of tangible personal property (Annual Report, 2014).

The below numbers come from Fiscal Years 2012 – 2016.

- General Fund Revenues Estimated for Fiscal Year 2012 Budget Sales Tax Figures:
    - $1,816,900,000 (39.48%)
- General Fund Revenues Estimated for Fiscal Year 2013 Budget Sales Tax Figures:
    - $1,886,900,000 (39.13%)
- General Fund Revenues Estimated for Fiscal Year 2014 Budget Sales Tax Figures:
    - $1,946,000,000 (38.30%)
- General Fund Revenues Estimated for Fiscal Year 2015 Budget Sales Tax Figures:
    - $2,045,000,000 (37.46%)
- General Fund Revenues Estimated for Fiscal Year 2016 Budget Sales Tax Figures:
    - $2,135,200,000 (37.72%)

By looking at the data, it can be seen that as estimated revenue amounts have increased, sales tax estimations have increased at a steady rate as well.

Areas of Public Need

By implementing an Internet sales tax in Mississippi, areas of public need can be addressed. Some of these areas include MAEP and infrastructure. According to the Mississippi

Adequate Education Program (MAEP), funding for K-12 comes from the General Fund. 55% of state funds are diverted to special funds rather than placed in the General Fund (The Parents' Campaign, n.d.). This 55% of revenue is collected from state taxes and fees that are paid by residents of Mississippi and never touches the education system (The Parent's Campaign, n.d.). In effort to combat the ever-present education problem in the state, the revenues gained from Internet sales tax could possibly go towards improving the state's education system and preparing the state's youth for the future.

In regards to infrastructure, according to the American Society of Civil Engineers, the state of Mississippi received a poor 2012 Report Card in regards to its infrastructure (American Society, 2012). The Report Card gives an independent and unbiased review of Mississippi's infrastructure needs in 2012. It addresses infrastructure needs, capacity, and funding in the state of Mississippi as assessed by the Mississippi Section of the American Society of Civil Engineers (American Society, 2012). For the 2012 Report Card, grades A - ? have the following meanings:

A: Exceptional
B: Good
C: Mediocre
D: Failing
?: Incomplete
Mississippi made the following grades in 2012 according to the Mississippi Section of the American Society of Civil Engineers:
Dams: D
Drinking Water: C-
Roads and Bridges: C
Wastewater: C

Because adequate infrastructure is essential for the health and well-being of a state and its residents, revenues from Internet sales tax can go towards improving the infrastructure of the state. This report will now move towards internet sales tax with a breakdown of reasons why and why not to implement this kind of policy.

Reasons to Implement an Internet Sales Tax

Program and Infrastructure Funding

Mississippi is in dire need of improvements for programs and infrastructure such as education, schools, bridges, and drinking water. According to The Parents' Campaign, Mississippi has underfunded education according to what the Mississippi Adequate Education Program (MAEP) dictates should be spent in each district since 2009, totaling $1.6 billion in underfunding (The Parents' Campaign, 2015). Education funding is also required to repair schools with around $3.4 billion in estimated funding needs for school infrastructure in 2012. Also in 2012, according to the American Society of Engineers, the state had 2,274 bridges which were deficient structurally and was in need of a $3.7 billion twenty year investment to improve drinking water infrastructure (American Society of Civil Engineers, n.d.)

With growing program and infrastructure deficiencies, Mississippi is in need of more funding to boost the budget in many areas. A new source of funding is seemingly necessary for the state to maintain its funding obligations, and internet sales tax is a fantastic way to help meet those funding needs without having to increase taxes. According to the National Conference of State Legislatures, Mississippi had a loss of $134.9 million in 2012 in possible revenue by not being able to collect sales tax on electronic commerce (ecommerce), both business to business and business to consumer (2014). By not collecting sales tax on internet sales, states must deal with real losses in revenue as those purchases may have been made locally, and the sales tax would go to the state and local government, but are now being made over the internet in which no, or very little, sales tax is being collected.

Internet sales are rarely supposed to be free of tax. Mississippi has a “Use Tax” which is supposed to be claimed by the purchaser on their taxes and paid to the state. Consumers who buy large items out of state which require a registration, such as vehicles, pay this tax when they register the items with the state. However, as smaller, everyday items do not require registration there is not really a method for the state government to track these sales. Because the sales cannot all be tracked, there is little, or no, enforcement of the “use tax” and even less incentive for Mississippians to pay. Attempts to make the tax better known, and easier to claim, such as the changes to the income tax forms to include a section for out of state purchases, has done little to improve the amount of use tax being claimed (Reily, 2014). Because of the difficulty of enforcement of the use tax and the loss of sales tax to internet and out of state sales, it is logical for the state to strongly consider imposing an internet sales tax on all businesses to halt the reduction in revenue.

Improve Competition Between Online Retailers and Brick-and-Mortar Businesses

Maybe one of the largest arguments against tax free ecommerce sales is that it takes away from brick-and-mortar businesses, such as local businesses like mom and pop stores. This is a very common sense assumption to make because taxes and tariffs have been used for hundreds of years as barriers to trade between countries. However, these barriers have often been implemented purposefully by a government, and not by chance because of the market. In the case of internet sales taxes, or the lack thereof, a barrier is placed on purchasing from brick-and-mortar businesses because the items can be purchased cheaper and more easily by doing so online from another source. Goods sold over the internet can be sold at a lower price leading to a clear advantage for online retailers over local businesses. Advantages, like lower prices and convenience, which online retailers possess lead to decreased business for local retailers making it difficult for smaller store owners to stay in business, and, as previously discussed, reduces sales tax to local and state governments. The Institute for Local Self-Reliance (ILSR) states that online retailers have an advantage of somewhere between 4 and 11 percent over local businesses (2016). An article in The Washington Post states that in 2014 there was a fall of about 11 percent over the Black Friday weekend for brick-and-mortar sales (Cook, 2015) compared to internet sales which increased 12.6% compared to the same weekend in 2013, as reported by IBM (International Business Machines, 2014).

Online retailers also have the benefit of having very low start-up costs and being able to buy and sell more items in bulk. This allows a quicker turnaround for profit by allowing online retailers to sell more items in less time by selling them all at once, something many brick-and-mortar locations, especially small mom-and-pop stores have difficulty doing (National Retail Federation, n.d.) To manage the falling profits caused by the shift from local stores to online sales, brick-and-mortar businesses are seeing a greater need to start an online part to their store and to make their store more like a showroom than a business (Cook, 2015) This can pose new problems to some retailers as starting an online business might be too difficult, as well as managing a new set of advertising rules and learning sales tax laws for online consumers might be overwhelming.

Tax Burden

Sales tax is what is known as a regressive tax because it affects the less wealthy more than it does the wealthy. Because the sales tax is the same for everyone, sales tax is a greater burden the less money one has to spend. If a sales tax free way to purchase goods is offered to only a few groups of people, that sales tax becomes even more regressive and a greater burden is placed on the groups which still pay a majority of taxes in the traditional way through brick-and-mortar business purchases. This is what is expected to be happening today in the sales. Computers and internet access are not benefits all people can enjoy. Poorer families may find it difficult to gain access to a computer, and, though computers and internet access are often offered as a free service by libraries, being available at the time of delivery of goods may prove to be difficult with the pressure to work multiple jobs just to maintain. The elderly may also find it difficult to move into the technological age and might find it difficult to make purchases online because of a knowledge or skill barrier. Another group which might find that they are left behind by the ability to buy items tax free through the internet is those living in very rural areas. Some places in Mississippi are still without high speed internet and access to libraries may require some travel time, which eliminates a major benefit that tax free purchases might bring. A lack of sales tax on internet goods reduces revenue for the state as mentioned before, money the state cannot do without. A greater portion of the sales tax revenue for the state must then fall to the groups which cannot make use of the benefits of not paying sales or use taxes. These three groups, and perhaps some that have been missed, must make up the loss in revenue due to other, more privileged, groups which do not have to pay sales tax on some items (Sale and Taxation of goods over the internet, n.d.)

Local Jobs

As mentioned, increased taxes have been used as barriers for trade quite a long time. However, taxes and tax laws can also be barriers for job creation and development from state to state. Currently, Quill v North Dakota upholds that a company must have a physical nexus of some kind within a state for that company to be forced to collect sales tax for sales in that state. By using the advancements in computers, internet, and shipping, it is much easier for businesses to avoid building in many states to keep from having to collect sales taxes. It is important in retail to maintain any advantage that can be had over competitors, and the same is true between online retailers and brick-and-mortar ones. As mentioned previously, the lack of internet sales tax is a major advantage online retailers have over their physical, local counterparts. This is where the lack of taxing can prove to be a barrier to local job growth. In order to keep this advantage, some online retailers may choose to physically expand, such as building warehouses or shipping depots, much slower and into fewer states than if they had to collect the sales tax anyways. If an online retailer chooses to keep not collecting sales tax in a state then they cannot build a nexus in that state, thus leading to no jobs being created for that company. No building, no jobs. Amazon, a major internet retailer, is already making deals with states to collect sales taxes thus opening up more opportunities to build warehouses in more states (Majoo, 2013). The argument could be made that online retailers still would not expand the presence of their warehouses because the upfront costs would outweigh the benefit of being able to build in a greater number of places. Though the upfront costs may be high, the benefits to the company may be greater still. If an online retailer builds a nexus in a state and starts collecting sales taxes in that state, then that retailer has lost the advantage of pricing lower because of the lack of sales tax. However, that same retailer has gained a significant advantage in that it can now build a warehouse and reduce both shipping time and cost to its customers. Convenience is a major factor in choosing online shopping, and improving the efficiency of shipping could make up for the loss of another benefit. On top of improving services to customers, the online retailer directly benefits the state by creating local jobs wherever a nexus is built. More nexuses lead to more jobs and to more income taxes, property taxes, and sales taxes which will benefit the state at all levels. Bringing down barriers to industry growth, such as a lack of online sales tax, can lead to even more revenue and job creation which Mississippi greatly needs right now.

Growing Source of Revenue

With the advancements of technology, such as smartphones, tablets, and Wi-Fi, online sources have shown significant growth as it has become easier and easier to make purchases online for average, everyday people. The number of people who use the internet for purchases is staggering, and the sooner Mississippi can make the move to begin drawing more from this revenue source, the more benefits can be claimed for the state. According to Statista, in the United States 191.9 million people shopped digitally in 2013. That is 60.2% of the entire U.S. population shopping online, many times without paying sales or use taxes. There was also a reported 19% growth between 2012 and 2013 in internet sales worldwide, showing that significantly more people are joining the online purchasing world every year (statistics and facts about global e-commerce, n.d.). InternetRetailer and Forrester Research Inc. project a growth of 57% in online sales in the United States by 2018 (Enright, 2014). The sooner Mississippi can make its move into collecting taxes on these purchases, the greater amount of revenue can be collected in the long run, revenue that is sorely needed to improve programs like education and infrastructure such as roads and bridges.

Reasons to Not Implement a Sales Tax

Although some individuals might think that implementing a sales tax is beneficial, it may not be the best decision for the public and other businesses. While some businesses and politicians are in favor of internet sales tax to be implemented, others are not as willing such as companies like Ebay. Because internet sales tax has not been carefully thought and planned out, it poses many questions and concerns as to whether or not it would be the best idea in order to create additional revenue. Although some would agree that passing the internet sales tax law would be a good idea, there are others who would agree that there are other reasons why it would hurt businesses and states. Reasons internet sales tax should not be implemented include the excessive amount of paperwork, the inability to position on price, difficulty in determining which state collects the sales tax and difficulty in determining how states would enforce the internet sales tax law.

If the government were to implement internet sales tax and require companies to charge customer's sales tax, it would require that the company itself complete extra paperwork in other states. Implementing internet sales tax would create excessive paperwork for companies and businesses. If internet sales tax is implemented, businesses would have to "register in every state in which they sell; therefore, if a business is selling nationwide, they would have to submit business registration forms in all fifty states, various cities, counties, etc. each of which have different requirements" (Sproles, 2010). Besides the forms that would need to be submitted to all of the states, businesses would also need to "submit tax forms at the end of tax season to each jurisdiction in which they sold something", (Sproles, 2010) and just in case one of the states decided to audit the business, they would need to ensure they kept documentation of each transaction that was made. Based on a 2014 study done by tax foundation, there were 9998 sales tax jurisdictions within the United States at the time. With Mississippi having only 3 tax jurisdictions other states such as Texas have as many as 1515(Henchman and Borean, 2014). For local businesses who have an online service, that presents a problem for them because they would have to complete tax forms in those states where people order. Therefore, those local businesses would have to submit tax forms to every tax jurisdiction where items were bought.

Maintaining all of the excessive paperwork would causes businesses to devote more time to paperwork than necessary. They would be spending more money in order to keep up with the paperwork consumption and to ensure that their transactions and records are up to date so there are no discrepancies later on. Having to register in every state would limit the amount of things that businesses could do. Businesses would also have to hire more employees in order to compensate for the extra work they be doing. Large businesses such as Amazon would be able to afford to hire individuals or have software that tracks and manages where all of their paperwork would go and who they would be submitting it to; however for those smaller businesses, they would need to hire more people and devote more time to ensure that all of their paperwork is correct and accurate; otherwise, they would be opening up the door for different agencies to come in and investigate and audit them. In an article released by CNN, they interviewed a local business owner named Justin Krauss. He owns his own garage flooring business and stated that if he had to collect internet sales tax, he would have to "update his accounting software, hire a computer programmer to update his virtual shopping cart system, then continuously file a steady stream of paperwork in which he estimates would cost him about $40,000" (Pagliery, 2013). Mr. Krauss also stated that he would have to "rely on accounting software providers to process transactions and file the paperwork for about $4,000 a year" (Pagliery, 2013). For those businesses who only make enough money to continue to keep their business open or those businesses who have thin profit margins, hiring extra people and having to invest in extra software will not be something that they will be able to afford without having to reduce someone else's salary or without cutting bonuses. Because each state, city and county has their own tax code/law, businesses would have to continuously be up to date with other states, cities and counties tax codes/law in order to avoid an audits from their government. Despite the fact that some businesses would attempt to invest in the best technology in order to avoid making any mistakes in other states auditing them, because of all of tax codes/laws that must be followed, it could become impossible for businesses to continue to take all the necessary steps in order to avoid mistakes within the paperwork. The lastly estimated number for tax jurisdictions, estimated at around “9,600” (Albright, 2015). With this many tax jurisdictions within the United States, businesses will not have enough time to file and process all of the paperwork necessary in order to comply with the tax codes/laws. Each of the 9,600 tax jurisdictions have their own process that must be followed; therefore, businesses who are trying to comply with these codes might become mixed up because there are so many that they must comply with. According to the Tax Foundation, "businesses in the United States filed over 10 million tax returns in 2012. Assuming the IRS's estimated $420 filing costs holds true, over $4.4 billion was paid in compliance cost by businesses and non-profit organizations" (McCaherty, 2014). With businesses paying hundreds of dollars to comply with tax regulations, they are unable to remain profitable being that they lose more money complying with tax regulations.

Along with having to file and handle tons of paperwork, businesses would also have the problem of the inability to position on price. When buying things offline, the main things that causes problems with people is shipping and handling. Implementing internet sales tax would not be the best option because customers who shop online would not agree on paying the price of the item, shipping and handling as well as paying internet sales tax. Business would have to “convince customers to shell out money for an additional 7-9 percent sales tax, on top of convincing them to pay those dreaded shipping fees” (Sproles, 2010). “In a world with an online sales tax, businesses will have to shift its marketing promise away from price to focus on product benefits and customer service. These two selling points will become more and more important to help justify higher prices to customers” (Sproles, 2010). Customers are not going to agree with paying for their merchandise, paying shipping and handling as well as paying a sales tax at the end. Because customers are going to have to start paying internet sales tax, businesses could possibly lose money from their online sales. Because the inability to position on a price presents a problem if internet sales tax law implemented, businesses would also have to find a solution to continue their business because if they chose not to participate in online retail, then they risk losing customers and their business sales are likely to be reduced meaning they are losing revenue.   Businesses would also face a problem with efficiency as well regarding the price as well. It is assumed that shopping online provides more efficiency to consumers especially if they are not responsible for paying internet sales tax. For example, for businesses whether they are small or nor, "an additional economic inefficiency arises if vendors change locations to avoid collecting sales taxes. The location change would likely result in higher transportation costs; therefore, in the long run, it is conceivable that the higher transportation costs would erode the advantage of evading the sales tax" (Maguire, 2013).   Because of the change of locations, businesses attempt to find a location where they will not be responsible for paying internet sales tax; therefore, they tend to move farther away which causes issues for them being able to be efficient. Being that businesses move farther away they risks losing customers which has an effect on their profit margins.

Thirdly, states would have difficulty in determining which state collects the sales tax. Whether the sales tax goes to the state the company is in or the state the purchaser lives in would be up for debate and quite complicated. Being that the majority of most states goal is to collect revenue for their state in order to make a profit and help better their state, various states are going to be competing against each other in order to be the ones who collect those taxes. This issue of which state will collect the tax will also become an issue for online retailers because when it's time to fill out various tax forms and their income tax, it will make it difficult for them to determine what numbers to fill out on their tax forms in order for them not to be penalized for not filing the correct amount. When choosing which state would collect the sales tax, the federal government would have to decide which state collected the tax such as the state where the purchaser lives or the state where the seller lives. One of the purposes for sales tax is to provide state and localities some of the revenue they need in order to “repair or build roads, sewers and provide services that allow businesses to do what they need to do” (Should There Be Sales Taxes on Internet Purchases?). However, “if sales taxes are collected in the states and localities where buyers live, the state and localities where sellers are located may not be able to collect the revenue they need” (Should There Be Sales Taxes on Internet Purchases?). This in return would create problems for many states and businesses because it would be difficult for them to agree on which state would collect the revenue being that each state wants the revenue they are owed in order to add to their state's budget. For those states who already have a high sales tax rate, it often presents problems for them being that they would potentially have to re-evaluate their tax rate. For those states who already has “high rates and who residents have a greater incentive to evade taxes-are exposed to greater potential revenue losses from the growth of internet commerce. Because of the greater potential losses, these states are more likely to support reforms that help maintain their sales and use tax revenue base” (Maguire, 2013 pg 5). Being that the states do not want to lose revenue they know will automatically come to the state, they are going to fight for their state’s rights and support reforms or laws that benefits their state tax revenue base.

Lastly, states would have difficulty in enforcing these internet sales tax laws if they are passed in Congress. Because, if passed, this law would involve all businesses small, medium and large, states would have issues implementing these laws to ensure that every business abided by the necessary laws and performed all the tasks needed in order to comply with government rules. The problem that would persist would include companies who "use a tactic known as "entity isolation" to avoid having to collect sales tax in the majority of states. Entity isolation occurs when "a taxpayer separately incorporates its nexus-creating assets (or conversely, its remote selling assets) thus protecting it remote selling operations from state tax jurisdictions" (Swain 2002 pg. 420). By establishing and contracting with legally distinct subsidiaries to carry out specific tasks, such as order fulfillment, a company gains physical support it needs within a state without establishing a physical presence there itself. The Quill standard does not allow the state to tax the parent corporation based on the presence of a subsidiary alone" (Hutchen 2015 pg. 588). An example of this would be Amazon who has "some sort of physical presence in twenty-two states. In five of these states, Amazon owns and operates subsidiaries but has no other physical presence" (Hutchen 2015 pg 588). However, in cases such as these, Amazon can avoid collecting sales tax which causes them to have to do less work. However, not only would this issue be a problem, but

> if the House passes the bill, the MFA (Marketplace Fairness Act) will essentially overrule the Quill decision and Bellas Hess and allow a state to tax every sales transaction where the online retailer ships merchandise to a buyer located within its borders. But in order to exercise this new power, a state must first simply its sales-tax code under one of two options. The state may either join the SSUTA (Streamlined Sales and Use Tax Agreement) or meet five criterias: (1) give advance notice of all sales-tax rate changes, (2) designate a single state organization to handle all matters related to collection of the sales tax, (3) establish a uniform sales-tax base throughout the state, (4) use destination sourcing ("sales generally sourced to the location where the purchaser receives the item

sold. Retailers who ship and deliver sold items to their customer's location are required to collect the local sales tax in effect where delivery is made" Kansas State Dept. of Revenue) to determine the rate for out-of-state purchases, and (5) provide free software and hold retailers harmless for any errors caused by reliance on the software. The second option amounts to a watered-down version of the SSUTA that tries to replicate the aspects of the agreement that simplify sales-tax codes the most without forcing states to actually become members of the SSUTA. Once a state has met the requirements of either option outlined in the statute, the MFS authorizes the state to force online" (Hutchen 2015 pg. 590).

If this law was implemented, states would have to go through a very precise process in order to ensure businesses inside and outside the state abided by the internet sales tax rules. Because some businesses are still able to "slip through the cracks", states are going to have a hard time attempting to make those businesses abide by the state's rules especially of the business is not located within the state. Because of the changes that would have to occur, states would also have to ensure that businesses outside their state have the proper software in order to ensure that those businesses are reporting their tax information; however, the state might have to provide the software to the state or risk waiting for the business to purchase the software. Now the report will go into detail about economic analysis found on the subject of internet sales tax.

Economic Analysis of an Internet Sales Tax on Local/State Economies

Taxes affect local economies in various ways. In some ways they present a barrier towards economic growth and are in some ways positive. The issue at hand is an Internet sales tax being added to Mississippi's repertoire of taxes. Despite the utilization of Internet sales taxes in multiple locations, the literature remains remarkably silent on the issue of how those taxes affect economies. What evidence is presented hereafter represents the most pertinent information from the literature, which either directly speaks to the issue of Internet sales taxes, or data that speaks to sales taxes effects on local economies.

Tennessee Study

Bruce, Fox, & Luna (2009) established the baseline study of internet sales taxes (Bruce et al, 2009). Their estimates state that 93% of US e-commerce comes from business to business sales, showing a nexus of e-commerce that most who argue on the issue may not recognize (Bruce et al, 2009). It follows that if 93% of e-commerce stems from business to business sales, that the largest impact will not be felt by consumers in their living rooms who may decide to purchase out of state goods, but in state business owners who want to purchase Mississippi made goods. This issue bears further discussion.

If the majority of e-commerce is done business to business, and given that the *Quill* decision requires a nexus within the state it is applied in, Mississippi businesses which purchase goods from other Mississippi businesses will pay the majority of the tax. The question then becomes at what point is it feasible for Mississippi businesses to buy their goods in state? Will it drive local businesses to purchase goods from out of state businesses? Or do businesses that purchase Mississippi goods now turn to other areas to avoid this tax? This is an area for further research.

Bruce, Fox, & Luna (2009) further break their projections for sales tax income out by state levels. Their conservative national estimate averages out at $11.4 billion dollars in 2012

(Bruce et al, 2009). A less stringent national forecast they produced estimated $12.65 billion (Bruce et al, 2009).

At the Mississippi level, they forecasted a five-year total between 2007 and 2011 a total of $2,432,300 based on forecasts of e-commerce purchases by consumers and businesses (Bruce et al, 2009). A forecast based on the sales taxes actually collected by the state on e-commerce estimated that Mississippi stood to gain $1,815,800 in revenue (Bruce et al, 2009). Another forecast of a five year total of $616,000 of lost tax revenue from E-Commerce sales, giving a better picture of what Mississippi stands to gain (Bruce et al, 2009).

The researchers gathered data about the size of the state's share of e-commerce by distributing percentages of the national aggregate by the size of the state and local tax revenues of each state (Bruce et al, 2009). They furthered use the input of researchers in the state's revenue departments to estimate levels of taxability (Bruce et al, 2009).

E-Fairness Studies

Perhaps the most plentiful source of information on economic impact of the Internet Sales Taxes is efairness.org, a group that advocates for the use of the Internet sales tax. In the interest of the full disclosure, this author wants to ensure the reader is aware of the group's undertaking. This group has written numerous studies on the topic and its impacts in various states. This section attempts to provide an overview of their findings on two states.

Massachusetts

This study surrounds the impact of an Internet sales tax in Massachusetts on Tax revenue. It goes further in that this study also examines a use tax that collects against other remote sellers (E-Fairness, 2010). They found that under the proposed tax, Massachusetts stood to gain

$387,000,000 dollars in 2011 (E-Fairness, 2010). They further find that the tax would add 1,971 jobs to the economy, and brick and mortar retailers would regain $279,000,000 which had been previously lost to online retail due to the disparity between brick and mortar prices and internet retailer (E-Fairness, 2010).

This data is extracted from the Census Bureau's E-Stats program, from which they developed a methodology, which corrected for geographical detail from the raw numbers provided by the data (E-Fairness, 2010). From there, they extrapolated trends from the data to create relevant historical patterns (E-Fairness, 2010). They describe their methodology for business-to-business sales in the following way.

> "We forecasted total business-to-business sales for 2011-2020 by first regressing the adjusted historical sales series on the total U.S. GDP (Gross Domestic Product) and the real change in GDP for 1999-2010. This forecasting specification was used in the University of Tennessee study. Applying the resulting coefficients to a 10-year forecast of GDP from Moody's Analytics, a national forecasting firm, we obtained a projection of business-to-business sales that provides for growth of 4.4 percent a year on average through the end of the decade, compared to average GDP growth of 4.6 percent a year." (E-Fairness, 2010. P14).

They go on to explain that their forecast assumes that amount of e-commerce in the business-to-business space will decrease considerably (E-Fairness, 2010). They further explain that their methodology on the business to consumer section of the estimate is the product of the census estimates of population of working age adults, the percentage of American adults who purchase online goods as estimated by Pew and the

American Life Project, and the average of the average yearly purchase made by online buyers (E-Fairness, 2010). From this data, they extrapolate that in 2020, this share should triple to $545 billion (E-Fairness, 2010).

To extrapolate data at the state level, the researchers estimated Massachusetts portion of e-commerce by examining the share of Massachusetts's contribution to total US personal income (E-Fairness, 2010). They multiplied this percentage against their national numbers to establish the state levels of each category (E-Fairness, 2010).

They further criticize the University of Tennessee study on the grounds that their methodology utilized a different measure to bring the national level data to the state level (E-Fairness, 2010). They state that their choice not to use this methodology is because the Tennessee methodology creates a bias against states that have lower sales tax burdens (E-Fairness, 2010). This creates problems specifically in the state of Massachusetts; they contend that the highly educated and computer-literate population of this state could not be represented by the estimate due to the fact that the shift would represent Massachusetts only holding 1.9% of the national e-commerce level, as opposed to the 2.72 percent that this new methodology showed (E-Fairness, 2010).

This is applicable to Mississippi because it shows that the Massachusetts methodology may not be appropriate, and that the Tennessee methodology may not be appropriate either. If the criticisms of the Tennessee methodology hold water, then perhaps both measures do not accurately capture the state of things in Mississippi.

Mississippi is widely acknowledged as a state with a lower educated populous and consistently rated as one of the poorest states in the US, while also maintaining rates of taxation on multiple items that both studies may not account for. Without an in-depth analysis of the raw results from surveys submitted to revenue offices, it is impossible to know what rated Mississippi where it was in the Tennessee study. This is a serious limitation and should be taken into account by any future researchers on the topic.

Alabama

This study differs from the other two because it examines losses on an existing sales and use tax rather than potential gains from one that does not exist. This an important consideration on the topic because it establishes information about the way a tax would interact with the marketplace and the way that business would interact with the tax. Moreover, Alabama’s geographic proximity to Mississippi cannot be overstated. Notwithstanding the fact that the states share a border, the difference in the populations of Mississippi and Alabama should also be taken into account.

The Alabama study reports that Alabamians had bought more than $34 billion from online sources in 2011 (Robicheaux, 2012). The majority of these sales were business-to-business, consistent with the findings of the other two reports (Robicheaux, 2012). Moreover, the study found that Alabama had a difficult time collecting taxes from online retailers (Robicheaux, 2012). Nearly half of the taxable business to consumer sales collected no sales tax (Robicheaux, 2012). These sales reach $2.3 billion in 2011 (Robicheaux, 2012).

The losses on this revenue are staggering and raises questions about the costs of enforcement of an Internet sales tax. While certainly the costs of doing nothing outweigh the costs of enforcement, one wonders how much more work is being added to employees of the revenue department in order to account for this revenue. Moreover, what is the impact on tax dollars lost on online sales on jobs?

Robicheaux (2012) found that Alabama's economy lost $2 billion dollars annually in retail sales to sellers which did not have to pay Alabama taxes, costing thousands of jobs (Robicheaux, 2012). He further cites a US Department statistic showing that influx of $1 million in retail sales in Alabama would create 22.5 new jobs and would add almost $600 thousand in household incomes (Robicheaux, 2012). The lowest projection of remote retail sales was $2.18 billion for 2011 showing the disparity, and the potential gains for Alabama. (Robicheaux, 2012).

One would be hard pressed to argue that more jobs in Mississippi would be a bad thing. The influx of revenue could be used to repair infrastructure, invest in further economic development, build hospitals, and perhaps most importantly, fund Mississippi schools. The overall net positive results of the additional revenue cannot be ignored for the state.

Projections

A lack of visibility into how business-to-business sales are handled from a taxation perspective in this state limits our projections. Business-to-consumer sales are also hard to break out. What follows is a macro level analysis of the sales taxes that could be gathered via an Internet sales tax.

We assume ecommerce equals 6.44% of total sales, but our projections are operational at different levels as well. Following this formula, with Total Gross Sales in the state equaling $45,178,718,888 in 2012 we estimate that the E-Commerce total would equal $2,909,509,496.

The total amount of taxes collected in fiscal year 2012 was $2,785,749,171. So, with this data in mind, we projected between 1% & 20% tax on e-commerce.

At the 1% level, $29,095,094.96 is the additional revenue. At the 5% level, the additional revenue equals $145,475,474.80. At the 7% level, the revenue equals $203,665,664.72. At 10%, the revenue equals $290,950,949.60. Finally, at the 20% level, revenue projections equal $581,901,899.20.

Discussion & Conclusion

This topic is expansive and nebulous. Because Mississippi is already a poor state, more revenue sounds appealing and creates a feeling of possibility. However, there are sobering economic implications of such a tax. If it holds true that the rates of business-to-business commerce in Mississippi are equivocal to national rates of or around 90%, one must ask the question about what the impact on business-to-business sales will be. Business-to-consumer sales may stay largely unaffected due to consumer oversight, or for the fact that consumers may choose to go to the brick and mortar locations, impacting the economy in dynamic ways.

The tax itself can be made revenue neutral by reducing the tax burdens on other goods, but even then, we do not have enough insight into the effects of such a proposal on the economy. It may be considered a net good to be able to reduce the burden of taxation on groceries by raising a tax on Internet sales. This may also have detrimental effects on the business-to-business sales relationships of Mississippi businesses.

The literature is remarkably silent on what the effects of such a tax on state economies are. Over the entire literature reviewed herein shows a net positive result for the state, but explains very little about what happens to private business. Where it does speak, it speaks in broad generalities, or leaves it to mention that jobs are created. All employment is gainful to be certain, but not all jobs are created equal.

The question now becomes does the state want to try to collect on lost retail sales, and potentially create a number of low wage, low skill jobs which do little to lift families out of poverty in a state already hard pressed to do so, or is it worth it to “ride the wave” of economic progress incoming right now? The Nissan plant in Mississippi has created a veritable groundswell of new manufacturing jobs in the state, bringing in plants and higher wage jobs that impact local economies in massive ways. Even in a state as poor as Mississippi, $7.25 an hour is not a living wage, but the high $20 and $30 hourly wages brought in by new manufacturing jobs surely are.

Thus the question evolves once more, is it worth it to capture this revenue, and potentially dissuade new manufacturing jobs from coming into the state? If business-to-business e-commerce is 93% of the equation as some estimates put it, can it be safely said that this tax will have no negative impacts on business development in this state? These answers are vital to the way forward and bear serious discussion. Through the research, we have found a numerous amount of problems concerning how to implement the policy and problems with finding adequate research on the topic. The next section will address these issues.

Policy Considerations and Research Caveats

Enforceability and Variance of Policies

If an online sales tax law is a policy that Mississippi is going to pursue in the future, there are many caveats that need to be researched and addressed when it comes to enforceability. First, what will the thresholds be on companies that have to collect online sales tax? There can be a $1 million rule like California has currently, which is when a company exceeds $1 million in sales then they are supposed to start collecting sales tax, but that could be seen as singling out large companies while smaller ones do not have to do the same thing. This can also be seen as a positive as well because smaller companies will not have a burden on them that could hurt business. Will the law affect individual sellers like there are through EBay and other sites? Making an individual seller collect online sales tax would be very hard to enforce and also may lead to less business for those types of people. Will this policy cover everyone or will it be targeted towards large companies like Amazon? There can be a deal made between Mississippi and large companies to start collecting online sales taxes as long as the companies do not have to pay back past uncollected taxes like the deal New York made with Amazon. Business to business can be an issue as well because it seems like a double tax problem with a business selling goods to another business just for the sole fact that the latter one is selling the goods bought to consumers. If it is a clear blanket law that covers everyone, can small businesses be assured this will not hurt them if they want to do online sales? They would have a hard time getting the proper people involved to do collection. They might have to hire another accountant, or more employees to make sure they are complying with the law. This can be seen as a huge burden on small companies within the state. People can almost anything over the internet now, so will there be exemptions on necessities bought over the internet? Will sales tax collection be forced on goods and services that people really need? Does Mississippi even have the proper resources to put together a sound, enforcement strategy for online sales tax? Software systems are expensive and Mississippi already does not have a lot of money to use. Also, will companies be forced to buy and implement a software system to collect online sales taxes properly? Training employees to use new equipment is time consuming. Smaller businesses might not have the money to buy the system in the first place much less hire someone to train them how to use it. Thresholds, being fair to everyone and making sure individuals and small businesses are not going to struggle with a policy like this are big obstacles that need to be seriously considered because this type of policy has the potential to affect everyone's pocketbooks.

Even if this becomes a reality, how will the state make sure that they are getting the proper amount of sales tax? States are having a hard time already enforcing these laws, so how will Mississippi be any different? Also, if there is an enforcement problem then the state will not be collecting as much sales tax as they can possibly get and that would lead to lack of revenue for the areas the online sales tax money would go towards. This is a very complex issue from a lot of different angles. There are a lot of problems with enforcing these types of laws and there should be a lot more research performed on the manner since it is fairly new and there really is not a lot of quality research currently available.

Cost-Benefits Analysis

A major problem when discussing internet sales tax policies is the need for more information. While, during the course of this research project, many sources were found, these were mostly opinionated pieces, such as blogs or editorials. While there were some more reputable studies found, such as the Tennessee study, there was little consensus among the statistics between them. One article in the Mississippi Business Journal stated that studies have found that the amount of electronic commerce taxes that could have been collect range from $40 to $200 million (MBJ 2013). It is important, especially if the decision is made to move forward to push for implementing internet sales tax, to be confident in the statistics, something that is not easy at this time. Because of the lack of literature, and coherence in the existing literature, it would probably be best to open the process with a study on Mississippi's electronic commerce.

Pressing forward with internet sales tax implementation will come with some other problems other than a lack of knowledge. Firstly, there are some issues with “start-up costs” for the state. If the policy is passed, policy makers will need to consider whether or not to provide the tax software necessary for online calculation. Also, there will need to be some thought put into how businesses will take into account tax exemptions and alterations on some goods, such as agriculture goods. Possible effects on consumers and businesses will also need to be discussed. Adding a tax on goods purchased online might not change where consumers shop, but just take more money from those buying online. If it does drive people back to shopping in brick-and-mortar location, it could mean a higher time and economic cost to families who end up spending more on gas and time traveling.

Although there are some costs to implementing internet sales tax, there are also benefits. Collecting sales tax on electronic commerce, Mississippi gains a new revenue source. Mississippi and its citizens could benefit from collecting tax on electronic commerce if that revenue was used to improve infrastructure or was used for education. Mississippi’s local businesses could see improvement in sales if online sales were taxed. Currently, online retailers have an advantage over brick-and-mortar businesses in that they can price goods lower than brick-and-mortar stores can due to the lack of taxation. Consumers may choose to return to buying from brick-and-mortar businesses which could increase profits which could allow local businesses to thrive and hire more people. So there could be an increase in sales and jobs, but also an increase in taxes to the state on those sales and incomes, as well as property taxes which help localities.

Incentive Shifts

Implementing an Internet sales tax in the state of Mississippi will have an effect on various issues. One of the main questions here is how will this tax affect revenue intake for the state? Possible incentive shifts could play a huge role in whether or not a Mississippi Internet sales tax will increase state revenue, decrease it, or have no effect on it at all. Because of this, incentive shifts, and possible influences of these shifts, should be taken into consideration when trying to determine what effect Internet sales taxes will have on state revenue amounts.

In effort to get an adequate understanding of how implementing an Internet sales tax for the state of Mississippi will affect revenue, state officials should first look at how this tax will affect Mississippi consumers, or more specifically, their purchasing behavior. Studies need to be done that will first determine what consumer habits are in the state. Then, a study should be done to attempt to predict how implementing an Internet sales tax will affect those consumers and their purchasing habits. Lastly, a study should done that will attempt to determine the effect that this tax would have on the state in regards to its business interactions. These issues break down into two separate categories – business-consumer relations and business-business relations – that will both have an effect on state revenue intake.

One question to consider when deciding how to move forward in regards to a law concerning Internet sales tax implementation would be whether or not an Internet sales tax would present an incentive or serve as a disincentive for Mississippi residents to buy more items from brick and mortar businesses in the state rather than buying from online stores. What will the consequences or benefits of this tax be based on consumer behavior? How will this affect the way that Mississippi consumers obtain their goods?

Also in regards to consumers, the effect that this tax will have on various classes in Mississippi should be taken into consideration. A study should be done to determine how implementing this tax will affect all consumers in effort to ensure that is will not negatively and disproportionately affect one class or demographic group. Also, the effects of this tax on various geographic areas should be considered. Will it negatively and disproportionately affect some areas more than others?

In regards to business to business relations, various questions should be considered. They are given below. How will other states behave and interact with Mississippi businesses as a result of this Internet sales tax? Will this tax incentivize or disincentive businesses to remain in or come to the state? How will this tax affect business to business sales for the state? How will small businesses be affected by this tax? Will it negatively and disproportionately affect them?

Before moving forward in a decision of whether or not to implement this tax, more information should be gathered that will offer insight into whether or not this will actually increase state revenue amounts. This will determine whether or not it would be beneficial to the state or if implementation of this tax would be unworthy of the time and energy of the state. Both of the aforementioned relationship types and all of the above questions should be studied and considered when determining whether or not this tax would actually increase revenue amounts for the state. All of these factors affect consumer behavior because it can increase or decrease the incentive to purchase their goods from brick and mortar stores or online stores. Such factors can also shift incentives for businesses. Due to this, such information is essential if an informed decision is to be made for the state.

Blind Spots in the Literature

The conversation between public and private sectors regarding internet sales tax had been quite the highlight during these past few years; however, the research behind the actual topic has many blind spots that researchers and government officials have failed to address. The majority of the information that is present on the issue at the time, explains the basic information regarding internet sales tax; however, it does not go into detail regarding the effects on states, individuals and businesses. Because there is little research on the subject, it is difficult to determine what the future is liable to look like regarding all parts of the government. A few of the blind spots that internet sales tax literature fails to address include how states will enforce the potential law, how it will affect citizens and small businesses and the potential ramifications

One of key concerns for most researchers is the concern that states will not be able to enforce businesses to collect the sales tax they are supposed to in order to report during tax season. Because there are numerous amounts of states and they each have their own separate rules regarding tax codes and tax rules, businesses will have to comply with their rules as well as ensure they are collecting sales tax. This issue is a blind spot because it does not address all the aspects in how states will monitor and enforce the issue that businesses will collect internet sales tax. It especially becomes an issue when states have to ensure that businesses who do not have a physical presence in the state will collect the internet sales tax for that state. Because research and studies have not been done as to how states could collect the internet sales tax, it is difficult to determine how states will have the power and authority to enforce these rules.

Another blind spot in the literature on this particular subject does not address how this law could affect citizens and small businesses. Being that the discussion of the implementation of internet sales tax for businesses is fairly recent, the literature that is available on the subject does not discuss in depth how internet sales tax would affect small businesses with this economy. It also does not elaborate on the discussion of how it would affect big businesses such as Amazon. Since small businesses do not have the funds nor the staff as larger companies and businesses, they will not always be able to meet the standards that is imposed on them. One of the main reasons that people shop online is because they are able to avoid being charged sales tax from the business; however if they are charged an internet sales tax, the literature does not deeply explain how people will be affected and what effect that could pose for small businesses especially for their profit margins. The literature on this particular topic leaves questions up for discussion regarding various aspects of businesses and citizens.

A third blind spot includes the potential ramifications that the government, citizens and businesses might face regarding the implementation of internet sales tax. There are many aspects regarding the ramifications and what effect they would have on everyone who is affected by the tax. While the literature addresses the general aspects of the potential law, it does not speak deeply about the ramifications that could be caused as a result of internet sales tax being implemented. While the most positive impact of this law would be states being able to gain additional revenue, the literature does not address what that would mean for small businesses, big businesses, citizens, or the government. Whether or not it would be more of a consequence than a benefit has not been an in depth issue the literature has discussed regarding this issue. Other ramifications the literature failed to address involved what impact it would have on businesses such as agriculture who plays an important role within the United States food supply. Because they may need to purchase their products online and it might cause a hassle for those businesses who rely on those in agriculture to buy their products from them; therefore, they often want to be able to make them the best offer because of other competitors who will be doing the same thing.

Despite the positive feedback that the literature explains regarding internet sales tax; there are also many blind spots that the literature fails to address. There are many components to internet sales tax that in order to determine whether or not it would be effective, research and studies need to done in order to determine whether it would the best option for government, businesses and citizens. Being that there is not enough literature to address so many of blind spots, many people still have questions concerning the implementation of the tax. Before any implementations can be done or before congress decides to move forward regarding this matter, more research should be done and more collaboration among agencies, businesses and citizens should be discussed in order to gain a better understanding of how it would affect the country as a whole.

Political Realities/Feasibility

This brief attempts to address some of the political considerations of implementing an Internet sales tax in Mississippi. It operationalizes on three sections which illustrate the difficulties surrounding the topic of taxation in this state.

Some Considerations:

Feasible to Pass?

Foremost, the possibility of passing a new form of taxation in this state is quite low. The political atmosphere is hostile to government at the moment due to a backlash of conservative ideologues in the state government. Many of these legislators ran on platforms that opposed taxes and to go back on their platforms may mean facing a primary. This means that were this vote to reach the floor for a vote, it would almost certainly be defeated.

Is it better to wait on the federal government?

It would perhaps be best then to wait on the federal government to implement such a tax at the federal level. Once the tax is implemented at the federal level, it may be more easily passed at the state level. Or at least the opposition to it will be lessened. Surely once people begin to see programs be fully funded they will see the value of the tax. Or perhaps, it will be within the considerations of the state legislators that to avoid the tax would be foolish now that the federal government is collecting on it.

How Will It Be Received?

This author believes with almost complete certainty that the tax would be received poorly. The general public would surely see a new tax at this time as “yet another burden.” Moreover, the tax could create backlash against legislators that supported it could create an even less friendly atmosphere in the legislature to the new tax, resulting in reversal of the tax or in the reduction of other taxes to create a tax neutral situation. If reductions on taxes such as groceries are possible, that may prove an overall positive, but this author does not believe such a situation is feasible in the current political climate.

Recommendations and Conclusions

The pros and cons of internet sales taxation highlight some of the larger issues and debates facing our economy. Revenues currently may not be able to keep with the growing costs of the provision of goods and services and state-based businesses may face unfair competition from retailers who aren’t required to pass on the sales tax to their customers. Several states have already begun seeking ways to alleviate these burdens and while the federal government has allowed states to negotiate they have not allowed them to impose taxes without agreeing to the guidelines set by SSUTA. Given the current national context and state climate for internet sales taxes and more broader taxation the research team have established three recommendations for the state should they choose to begin implementation of such a tax.

The first recommendation is that the state could explore potential avenues for a revenue neutral trade-off when implementing an internet sales tax. Given the status of a sales tax being regressive and the fact that many families may be utilizing the internet to purchase goods not available in rural locations it could be possible to lower or eliminate taxes on items such as groceries. This option, while helping families, may also be utilized politically to make a claim that while the tax burden may slightly shift, families and businesses in Mississippi will actually be benefited.

The second recommendation is waiting for congress to pass the Marketplace Fairness Act, but in the meantime seek negotiations with large remote retailers to begin collection and distribution of sales tax to the Department of Revenue. Since the administrative costs of implementing an online sales tax remains high for both the state and businesses if implemented before federal action and/or in negotiation with SSUTA states this will allow for collection of taxes from large retailers while also beginning to set the stage for equalization of barriers faced by local retailers. It also will add some much needed revenue to the state general fund.

The Third recommendation is further research. The team has viewed the current exemptions for certain key sectors as well as an understanding of the industrial recruitment the state is actively pursuing. Having a better understanding of how implementation or negotiation of a sales tax would impact these employers and businesses should be key to any policy moves going forward. This is especially true in a business to business e-commerce landscape since it is projected that over 90% of online commerce is done in that manner. Industries such as manufacturing and agriculture are important to our economy and before we negotiate with other states we need to know what impacts this can have on them.

Given the growth of online sales, states and the federal government will continue to seek ways of taxing remote retailers. Whether the argument is for leveling the playing field with "brick and mortar' stores or garnering much needed revenue, the issue will only become more important as businesses seek to utilize the internet as a means of finding a large consumer base and lowering the costs associated with retail space. Mississippi will need to not only understand the landscape of online sales taxation, but be in a position to capitalize on its implementation. Utilizing the research done here it is the research team's hope that the state will begin the process of discovering a way to move forward on the topic.

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