



**STATEMENT OF THE HONORABLE MICHAEL A. GUIDO
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on behalf of

THE UNITED STATES CONFERENCE OF MAYORS

before the

**STREAMLINED SALES TAX PROJECT
THURSDAY, OCTOBER 26, 2000
CHICAGO, ILLINOIS**

Good Morning and thank you for inviting me. I am Michael Guido, Mayor of Dearborn and Chairman of the U.S. Conference of Mayors Urban Economic Policy Committee. I am pleased today to appear on behalf of the nation's Mayors to offer comments on the Streamlined Sales Tax project. First we want to commend the Co-Chairs, Charles Collins and Diane Hardt, along with all of the members of the Steering Committee for your hard work and commitment to this important project. I also want to commend you for involving state and local officials in developing plans to reform our sales and use taxes for the 21st Century economy.

Let me start by acknowledging that our taxes are out of step with the new economy and that they are desperately in need of reform. The sales tax dates back to the 1930's, a time when most purchases were made over the counter at local stores. Since then, we have witnessed an enormous change in the market place. Although most people still prefer to do their shopping on Main Street, a rapidly increasing number are going on line to buy goods and services. The convenience of shopping over the Internet is a huge attraction for many customers. With a computer and access to the Internet, customers can shop locally and internationally at an unlimited number of stores at a time convenient for them, particularly since online shopping is available twenty four hours a day, seven days a week.

While it may not be difficult for our local retailers to figure out and collect our taxes, we realize it could be quite burdensome for out-of-state merchants (remote sellers), particularly those who sell to customers in multiple states. For this reason the U.S. Conference of Mayors appreciates the opportunity to work with this Project to reform our sales and use taxes so they will be simple and easy for all merchants to collect.

We experienced our first problem collecting taxes on remote sales in the 1960's when an increasing number of customers residing in our cities began to use catalogue mail-order sales to purchase goods from merchants in different states. Soon after that, the Supreme Court ruled that it would be overly burdensome to require out-of-state merchants to figure out and collect our sales taxes. As a result, we have been prohibited from requiring remote sellers to collect our taxes. Since the Supreme Court's *Bellas Hess* decision in 1967 and the *Quill* decision in 1992, state and local governments have lost huge sums in revenues.

Furthermore, these two decisions have left a huge loophole in our tax system. Under these rulings, local retailers are required to collect our taxes but out-of-state companies are not. This problem undermines our tax policy by giving out-of-state Internet companies an unfair competitive advantage over our local retailers. Further, as Internet commerce continues to grow exponentially, local and state governments stand to lose significantly more in sales tax revenues.

According to an earlier study by the Advisory Commission on Intergovernmental Relations, state and local governments lost an estimated \$5 billion annually during the 1980's due to uncollected taxes on mail-order sales. The Internet poses a much bigger risk. Based on a recent study conducted by the University of Tennessee, state and local governments stand to lose an estimated \$20 billion by 2004 if this loophole is not corrected. Under ordinary circumstances, we would have to cut back on public services and increase other taxes in order to offset this type of reduction. But in the midst of the strongest and longest economic growth on record for our nation, most state and local governments have been able to avoid these two unpopular choices.

When the economy changes, and we all know it will, we could be forced to make these tough choices. That is why it is always critically important that our tax policy be fair to all sectors of commerce. The U.S. Conference of Mayors strongly believes there must be a level playing field between retailers and "e-tailers". All sectors must be required to collect the same taxes. We are excited about working with this Project to reform our tax policy so that one sector is not given a competitive advantage over the other.

For many local governments, sales taxes are an essential source of revenue. Of the 25 largest cities that collect general sales taxes, four cities: Albuquerque, Denver, Oklahoma City and Tucson rely on them for over half of all of their tax revenues. Another seven cities: Austin, El Paso, Nashville, New Orleans, Phoenix, San Antonio and San Diego rely on them for between thirty and fifty percent of their total revenues. For most of these cities, the amount collected in general sales taxes exceeds the amount they

spend on police protection. This is just one way of viewing the importance of sales taxes to many of our cities.

Sales taxes are also an important source of many cities local bonding capacity. Local governments use sales taxes to back bonds for many different purposes: local school district capital needs in Iowa and Louisiana, infrastructure in Texas and California, transportation in New York City, a jail in New Mexico, and municipal parking in Phoenix, for example.

As Mayors, we strongly support the goals of the Streamlined Sales Tax Project, which are to simplify and modernize sales and use tax administration. We appreciate how you from the very beginning, have involved local governments, local retail, Internet companies and other interested parties in the process for developing a solution that addresses the broad array of concerns that have been raised.

We believe significant progress has been made. Thirty-nine of the 46 states that have sales and use taxes are involved with the Project. Another goal of this Project is to create a level playing field. When fully implemented we believe it will make our sales taxes simple and remove any burdens that hinder merchants from collecting and remitting them to states and localities.

As you develop and finalize your plans for reforming our taxes, we strongly urge you to maintain local option tax rates. For many of our Mayors there is no issue more important than this one. This will allow states to continue working with their local governments to choose the mix and the level of taxes that best suit their preferences, tradition and needs. That is why 36 states have authorized a local sales tax. Many of our cities levy sales taxes while many others do not. This gives them a funding source to pay for services and projects that are important to local residents but which may not be to all residents of the state.

Unfortunately, there are those in Congress who want to impose a single rate per state requirement on all remote sales as a condition for merchants to collect our taxes. This would eliminate the local option tax on remote sales, disregarding the huge differences in each state among urban, suburban and rural areas, and among local traditions and community needs. It will also create dual tax rates since local retailers would still be required to collect our local taxes and remote sellers would be required to collect the single rate. Instead of leveling the playing field, the single rate requirement would further complicate matters by creating a "special tax rate" for e-tailers. This would be a blended rate, and most likely it would be lower than many local option taxes.

Advocates of the single rate argue that it is needed to protect merchants from the burden of figuring out the tax rates for thousands of different localities. This simply is not necessary since software can be developed to provide merchants the tax rate of any locality based on the zip code of the purchaser. We are delighted that the Streamlined Sales Tax Project plans to use such software and is currently in the process of testing it in

four states. We believe state and local tax rates should be set at the state level and not in Washington.

We do have a few concerns about the provisions in the Streamlined proposal that call for a uniform tax base and for giving states the responsibility for the administration of all state and local taxes. Some of our cities currently have a different tax base and administer their own sales and use taxes. In some instances these cities depend on sales and use taxes for over 50 percent of their revenues. Unlike their states, these cities do not have many other broad-based revenue options such as the income tax. When there is a huge difference between the local tax base and the state tax base, the local government could lose a significant amount in revenues.

For example, a uniform tax base would have an adverse impact on cities such as Denver, which has a broader tax base than the state of Colorado. The city also administers its own taxes and conducts its audits in a manner quite different from the state. In 1998, if the state had a uniform tax base and administered all state and local taxes, the city would have lost 27 percent of its total sales and use tax revenues. The loss would have resulted from the following: the state exempting more items from the sales tax than the city; the state not imposing the sales tax in some instances where the city does; the city using different audit procedures which allow it to recover more of their projected revenue loss; and the city's use tax which the state does not have.

In cases like these, a solution must be found that will hold these cities harmless. The collection of taxes on remote sales will in no way make up the difference in revenues lost when there is a huge variance in the state and local tax base. Unless a solution is found, transferring to a uniform tax base could be catastrophic to such cities. At the very least, we would ask state officials involved in this Project as well as state legislators who will be involved later on to include Mayors and other local elected officials in your respective states in the process of deciding on a uniform tax base and on state administration of all taxes. A special effort should be made to involve Mayors from cities that have a significantly different tax base and those that separately administer their own local tax system.

Again, we commend the leadership and members of this important Project. We believe you are headed in the right direction. However, we urge you to proceed with caution on the uniform tax base and to work with Mayors and other local leaders to find a solution that will hold cities harmless. We are excited about the prospects this project offers us to reform our taxes and to create a level playing field for all merchants. And we stand ready to assist you in any way we can to ensure its success.

Thank you for the opportunity to testify.