

Contact: Ken Sikkema
Public Sector Consultants Inc.
(517) 484-4954

New Report Examines Michigan Sales Tax Collection and the Internet; Finds Negative Economic Impact of Tax Loophole

Public Sector Consultants Report Identifies Negative Effects of Loophole on Local Jobs, Investment, State Tax Revenue

LANSING, MI— Public Sector Consultants released a report today examining the effect on the state’s economy of a loophole in Michigan’s sales tax law affecting purchases made over the Internet, titled “Michigan Sales Tax Collection and the Internet: A Need for Fairness.” The report, commissioned by the Michigan Retailers Association, uncovered an uneven playing field in the state’s sales tax law that gives unfair price advantages to out-of-state online and other out-of-state retailers that cost Michigan jobs, investment, and millions of dollars in tax revenue.

The report found that the growth of purchases made by consumers through remote vendors over the Internet is a contributor to the state’s shrinking tax base and a hindrance to economic growth. While these sales are subject to sales tax collection, under a loophole in the current sales tax law, remote vendors that do not have a physical presence located within Michigan are not required to collect and remit sales taxes.

“The major implication of this sales tax issue is an uneven playing field for Michigan-based retailers and out-of-state online mega-retailers competing for the same purchase,” said Ken Sikkema, a senior policy fellow at Public Sector Consultants and a former Majority Leader in the Michigan State Senate. “This uneven playing field reduces economic activity across the state and prevents small businesses in Michigan from adding jobs.”

The loophole negatively affects job makers and the state’s economy in a number of ways. According to the report:

- Closing the loophole would lead directly to the creation of as many as 1,600 new jobs;
- Investment in Michigan’s economy in the form of sales at brick-and-mortar retail outlets would increase by as much as \$126 million per year by closing the loophole; and
- The loophole will cost Michigan \$141.5 million in sales tax from electronic remote sales in 2012 alone.

“There is no doubt that the retail sector in Michigan is suffering from this price disadvantage and would benefit from full collection of sales tax,” said Gary Olson, a senior policy fellow at PSC and the former director of the nonpartisan Michigan Senate Fiscal Agency. “The loophole in current law is hurting retailers, hurting Michigan’s economy and negatively impacting the state budget.”

For more information or to view PSC’s report, please visit www.pscinc.com.

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