

Michigan to go after sales tax dodgers

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You figure the people doing the selling can collect for the taxman, right?

It's not always the case.

Fact is, Michigan says it will lose \$300 million next year in uncollected use tax, which is what consumers are supposed to be paying the state -- on their own -- for purchases covered by the 6% sales tax but not collected by online and catalog companies.

Those rubber mocs from L.L. Bean? You owe the tax. Those Harry Potter books from Amazon? Ditto, Dumbledore.

Today, Michigan is entering a brand-new phase in a 5-year effort to increase tax collections from purchases made online, by phone or through the mail from out-of-state sellers. Michigan revenue officials estimate that without stepped-up collections, \$300 million could go uncollected in 2006.

The new steps include making available to retailers computer software that can instantly calculate the tax in Michigan and the 17 other states participating in a coalition dubbed the Streamlined Sales Tax Project.

Consumers are legally required to pay sales taxes when they are not collected for online and phone purchases, but among Michigan's 5 million income tax filers, fewer than one in 50 volunteered on their MI-1040 that they made untaxed purchases in 2004.

How much use tax did those few taxpayers declare on average for those purchases? \$46.86.

Impact on consumers

The immediate effect of the new effort on purchasers, though, is not expected to be dramatic. Collection of sales taxes by out-of-state vendors remains largely voluntary and only a handful of companies which have not previously collected Michigan's tax are expected to start doing so.

Michigan tax collectors don't know how many taxpayers are failing to declare their use tax liability on their income tax forms, as required. And enforcement of sales tax liability laws against individual taxpayers is minimal.

The new effort comes out of states which have been prodded by traditional retailers who argue that remote sellers have an unfair pricing advantage if they don't collect sales taxes. (Many do, and any store with a physical presence in the state has to collect them.)

Any move to convince retailers otherwise has been slow, however, in part because of the perception that taxing purchases made online represents a new tax on the Internet.

Emily Palsrok, a public relations specialist in Lansing who says she does Internet shopping from time to time, said Friday she believes "the state has the right to collect taxes on Internet sales ... just like they do from the store."

"But I'm not sure they will collect the kind of money they think they will."

Palsrok said she's pretty sure she has filed the tax form in the past. She says she doesn't owe the state any money.

Mark Micali, vice president of government affairs for the Direct Marketing Association, said he doesn't anticipate dramatic change.

Micali said members of the association, who reported more than \$200 billion in catalog and Web sales in 2004, will continue to weigh the benefits and drawbacks of collecting sales taxes. The upside is improved relations with state tax authorities and the ability to integrate their remote sales operations with on-site retail.

The downside is sorting through the maze of sales tax regulation and jurisdiction.

Collecting sales tax for far-flung states also will impose an obligation on some companies to give those states audit privileges, Micali said.

Concerns about online sales

Today's changes are the latest in a string of subtle shifts in state tax policy that resulted from concerns about the growth in online sales.

In 2000, the state Department of Treasury added a line on Michigan income tax forms for the voluntary reporting and payment of the tax.

First-year collections were about \$2.8 million; in 2004, taxpayers turned over about \$4 million. That compares to overall sales and use tax collections of \$7.8 billion.

Backers of the streamlining project expect its effect to grow in time. Diane Yetter, a sales tax consultant in Chicago, said one incentive for remote retailers to begin collecting sales taxes is tax amnesty.

Businesses that voluntarily implement collections by Oct. 1, 2007, will be granted amnesty from payments and penalties for having failed to make mandatory collections in the past, she said. If a remote seller which also has enough physical presence in Michigan to require that it collect sales taxes, and has not been doing so, implementing a program now would provide immunity from state tax authorities.

Response of retailers

In 1992, the U.S. Supreme Court ruled that states could not require sellers outside their boundaries to collect their sales taxes unless the company had a significant physical presence -- like retail stores -- in those states.

"My gut tells me that all of the major retailers ... which have separate remote sales operations ... will come on board sooner or later because of the protection," Yetter said.

Some of those companies, such as WalMart and JCPenney, were involved in the development of the changes made by the states in the project, she said.

Michigan tax authorities said some companies, which were not collecting Michigan taxes in 1999, have begun to do so: Lands' End and J. Crew are two examples. Others, such as L.L. Bean, do not collect Michigan taxes.

Company officials there could not be reached Thursday or Friday.

Another giant online retailer, Amazon.com, was singled out by Michigan officials in 2000 for criticism because the

company had promoted itself as a sales tax-free zone.

This week, an Amazon spokesman offered to inquire about the company's current policy, but -- as of late Friday afternoon -- had not offered any explanations.

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