

Online Marketplace Sales

According to research by Internet Retailer, global transactions through marketplaces were nearly equal to traditional sales from e-retail sites in 2017.¹ In that year, the Top 75 online marketplaces had more than \$1.55 trillion in global sales, up by 34% from the prior year. Gross merchandise sales accounted for more than 90% of these sales. Within the Top 75, 42 marketplaces were based in the United States. Collectively, they sold—globally—\$473 billion in goods in 2017, up by 24% from the prior year. Most of these sales (over two-thirds) originated through Amazon’s marketplace, which some analysts estimate now has over 2 million sellers and is consistently the first site U.S. consumers go to when shopping online.

Analyses by various groups that track marketplace sales place Amazon’s share of the U.S. market at nearly 50% of the total, with the top 10 e-commerce businesses accounting for a combined share of about 70%.² Detailed information for this group of dominant players is readily available, so a concentrated focus on them presents a reasonable picture of the overall market.

EDR performed an independent analysis of the major e-commerce marketplaces to assess the likely impact on state revenue if these companies (sometimes referred to as facilitators) were required to collect sales taxes on behalf of the participants using their e-marketplace platforms. These retailers generally fall into two categories: (1) those who sell their own products as well as provide platforms for third-party-sellers (e.g., Amazon, Walmart); and (2) those who solely provide platforms for third-party sellers (e.g., Etsy, eBay).

The starting point for the analysis was to develop estimates of gross merchandise sales (GMS) for the largest marketplaces. An internet search of various sites that collect, project, and report on e-commerce was undertaken. In some instances, GMS was only reported on a worldwide basis, and additional information had to be found in order to estimate each marketplace’s U.S. activity.

The next step was to identify which sales are taxable. A sale can be exempt from taxation for a number of reasons: (1) the item itself is exempt and not taxable under the state’s statutes; (2) the sale is to a tax-exempt organization; or (3) the sale involves an item for resale or incorporation into another good.³ To perform this analysis, research was undertaken to determine the kinds of purchases that are made through the various marketplaces. Some data was specific to the marketplace, while other data related the e-commerce industry as a whole. Where business-specific data was lacking or incomplete, EDR relied on information from U.S. Census Bureau analyses of retail sales by industry/commodity. As a result of this combined research, discrete adjustments were made. For example, the higher percentage

¹ These figures are inclusive of products offered by the owner of the site, as well as those placed for sale by third-parties.

² A recent eMarketer industry report indicates that Amazon marketplace sellers account for about 68% of total Amazon sales (direct sales about 32%). According to Internet Retailer, the other top ten U.S. marketplaces include eBay, Walmart, Houzz, Wish.com, Sears, Etsy, Newegg, 5miles and Jet.

³ Many Business-to-Business (B2B) sales fall into this last category. While sales for resale or incorporation into another good can occur via e-commerce, they are typically treated separately and excluded from the retail sales figures reported for the various marketplaces. To the extent that any of these sales are part of the reported sales figures used in this analysis, they are assumed to be addressed through the adjustment for exempt sales.

of nontaxable items for Walmart reflects the growing importance of its online grocery business. This is also an area of growth for Amazon. For most other marketplaces, the items sold are assumed to be taxable; however, effectively, a 10% adjustment was made to total U.S. sales for all marketplaces.

Two additional adjustments are needed to U.S. taxable sales. First, it has already been mentioned that some marketplaces (such as Amazon) feature products offered by the owner of the site, as well as those placed for sale by third-parties. To tease out the discrete effect of the marketplace and avoid double-counting remote sales that have been separately treated, a factor was developed to indicate the share of sales occurring through third-party sellers.

The second adjustment reflects the fact that Florida is the third most-populated state and naturally attracts a large number of retail businesses that are population dependent. This indicates that there are a significant number of sellers that already have nexus to Florida. Because some taxes are currently collected from the individual marketplace sellers and some marketplaces sell their own products and remit taxes on those sales, a factor was needed to reflect the assumed level of remittance that is already occurring. The discrete assumptions underpinning this factor were based on a search of registrants in the DOR database, as well as an in-depth review of the tax collection procedures on individual websites.

With respect to the latter review, EDR had previously conducted an internet search of the Top 1000 remote sellers and their affiliates to determine if they had a physical presence in Florida. Various trade analyses show that the more dominant marketplaces attract well-established brands and retailers that are more likely to have an independent Florida presence. For these marketplaces, EDR attributed a share of its U.S. taxable sales to DOR-registered Florida sellers that are also availing themselves of the marketplace. EDR's selected method produced an estimated share of 44.5% of the portion of U.S. taxable sales associated with marketplace sellers.⁴ For the smaller marketplaces, 18% was used based on EDR's previous work on "Remote Sales." The industry data confirms that most sellers on platforms like eBay and Etsy are small businesses with limited market penetration. As such, they are less likely to be registered with a state for tax collection purposes.

Once these steps have been completed, all of the parameters necessary to estimate potential collections have been determined:

1. U.S. share of Gross Merchandise Sales (GMS)
2. Percent of exempt sales⁵
3. Third-party marketplace sellers' share of the total taxable sales

⁴ To check the reliability of the 44.5% share, an alternative method was employed. The sales of the top 10 marketplaces, as reported by www.statista.com, were subtracted from the estimate of the total GMS of the Top 1000. A geometric weight was then estimated that produced a declining level of sales for the smaller 990 firms that summed to the total GMS attributable to this group. The sales of those with a Florida presence were summed and taken as a percent of those not in the group of five. This estimate produced a slightly higher estimate of just over 48%. This result seems to support the original estimate.

⁵ There was some concern that streaming or digital sales may be included in the GMS estimates. Since these sales are not subject to sales taxes, it was felt the estimated percent non-taxable might be understated. EDR contacted the firm that publishes the Top 1000 listing (as well as other industry analyses) to ascertain the level of streaming and digital sales included in the GMS estimates provided by Internet Retailer. According to the Research Director, they define e-retail to focus on the sale of physical products and attempt to exclude purchases associated with streaming and downloads of software, music, books, and games.

4. The share of taxable sales attributed to marketplace sellers provided by registered sellers
5. Florida's share of U.S. sales—assumed to be equal to the state's share of U.S. resident population

For convenience, all numbers on the accompanying table have been transformed into estimated Florida sales taxes. After completing the analysis for the 2017 calendar year, EDR's estimated universe of potential state sales taxes from marketplace sales is \$388.13 million.

COMBINED REMOTE AND MARKETPLACE SALES:

By way of comparison, the United States Government Accountability Office (GAO) published a report in November 2017 that estimated the combined local and state revenue that could be gained from collecting sales tax on remote and marketplace sales. For Florida, the GAO identifies a potential gain that ranges between \$486.0 million in its low scenario to \$758.0 million in its high scenario. After removing projected local taxes, the suggested state share ranges between \$436.8 million to \$681.3 million, producing a simple average of \$559.1 million. EDR's 2017 combined total for remote and marketplace sales is close to this average—the combined total for both universes is \$533.5 million.

EDR Projected Marketplace Provider Sales State Sales Tax Collections (\$ millions)

	<u>Amazon</u>	<u>Walmart.com</u>	<u>Ebay</u>	<u>Etsy</u>	<u>Newegg</u>	<u>Smaller Platforms [6]</u>
Total Sales [1]	\$156,197	\$12,100	\$3,400	\$3,900	\$2,500	\$56,409
U.S. Share (%) [2]	100.0%	100.0%	100.0%	65.3%	100.0%	100.0%
U.S. Share of Sales (\$)	\$156,197	\$12,100	\$3,400	\$2,547	\$2,500	\$56,409
Percent of Exempt Sales [3]	10.00%	17.40%	0.00%	0.00%	0.00%	10.00%
U.S. Taxable Sales (\$)	\$140,577	\$9,995	\$3,400	\$2,547	\$2,500	\$50,768
Marketplace Sellers [4]	68.00%	8.00%	100.00%	100.00%	100.00%	100.00%
Registered Markplace Sellers	44.50%	44.50%	18.00%	18.00%	44.50%	18.00%
U.S. Sales Escaping Taxation (\$)	\$53,054	\$444	\$2,788	\$2,088	\$1,388	\$41,630
Florida's Share (%) [5]	6.38%	6.38%	6.38%	6.38%	6.38%	6.38%
Escaped Sales to Florida (\$)	\$3,385	\$28	\$178	\$133	\$89	\$2,656
Florida Tax Rate (%)	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Potential Gain in SUT (\$)	\$203.09	\$1.70	\$10.67	\$7.99	\$5.31	\$159.36

Potential Gain to State **\$388.13**

[1] Total Sales is defined as **Gross Merchandise Sales (GMS)**. GMS is typically defined as the dollar value of items sold, excluding shipping fees and net of refunds associated with canceled transactions.

[2] In some instances, sales are only reported as "global" and an estimate may be provided of the portion that is in the U.S.

[3] Exempt sales include medicines and food and drink.

[4] An estimate of the share of sales that are by third-party.

[5] It is assumed that Florida's share of sales matches its share of population.

[6] Smaller Platforms include First Dibs, Google Shopping, Facebook, Wish.com