

## ***The Outlook for Retail Trade— and Sales Tax Receipts***

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Federation of Tax Administrators  
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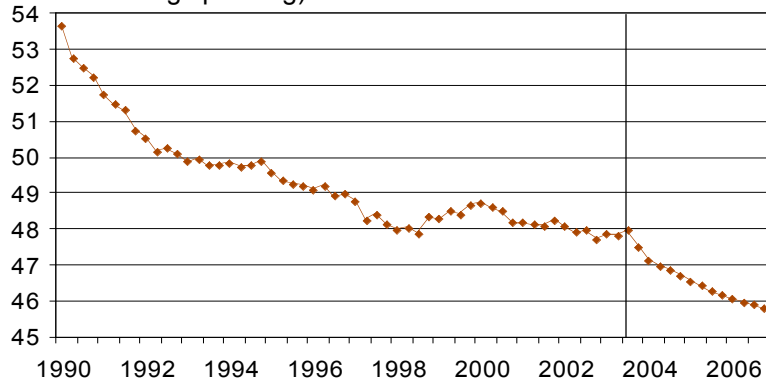
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### ***A Disappearing Tax Base***

- ◆ **The more competitive the retail industry, the lower both prices and sales tax receipts will be.**
  - ➔ **The industry is increasingly competitive.**
  - ➔ **Consumer demand for most goods is elastic. As prices fall, less is spent, though rising incomes and population predominate.**
  - ➔ **The money saved on goods is spent on services and leisure pursuits—most of them untaxed.**

## Consumer Spending on Goods Shrinks as a Share of the Total

(Spending on durables and nondurables as a % of total nonhousing spending)

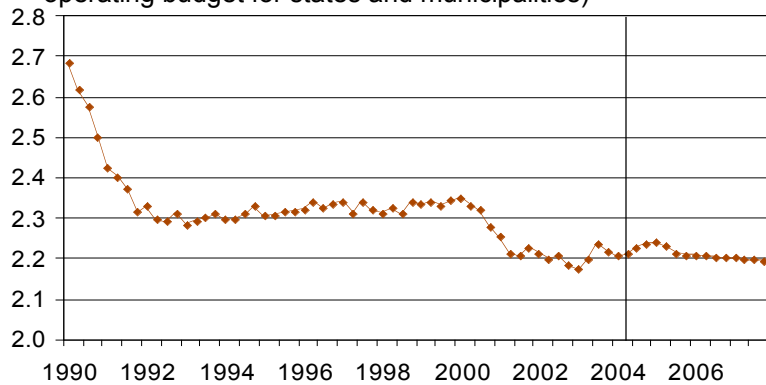


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## Consumer Spending on Goods Also Falls Relative to State & Local Spending

(Spending on durables and nondurables as a % of NIPA operating budget for states and municipalities)



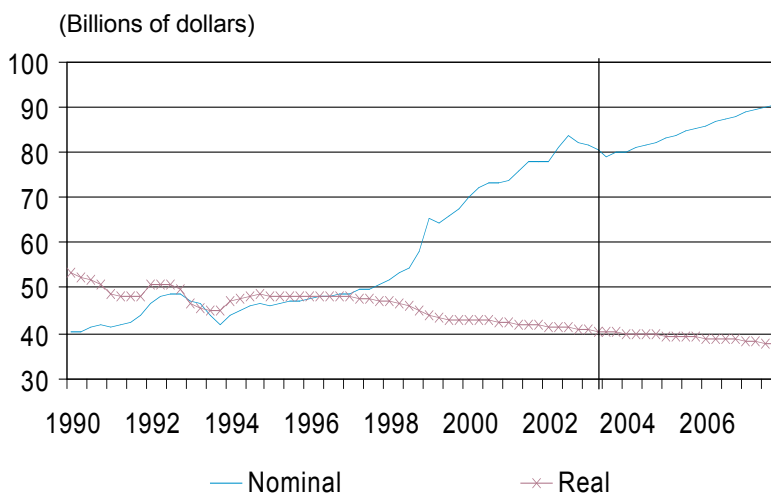
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## *A Disappearing Tax Base*

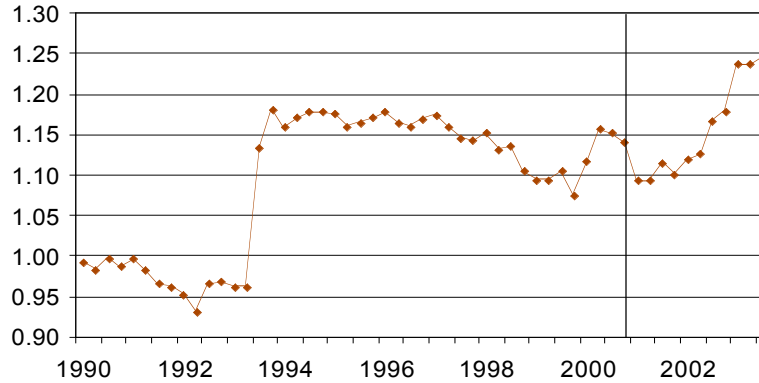
- ◆ Taxing goods and services with inelastic demand has its own problems.
  - ➔ The candidates are either essential or “sinful.”
  - ➔ Are taxes to raise money or discourage use?
- ◆ What states need is Giffen goods.

## *Will Demand for Cigarettes Remain Inelastic ? (Bondholders Hope So)*



## Retail Prices for Tobacco Products Race Ahead of Wholesale

(Ratio of CPI for tobacco products to PPI)

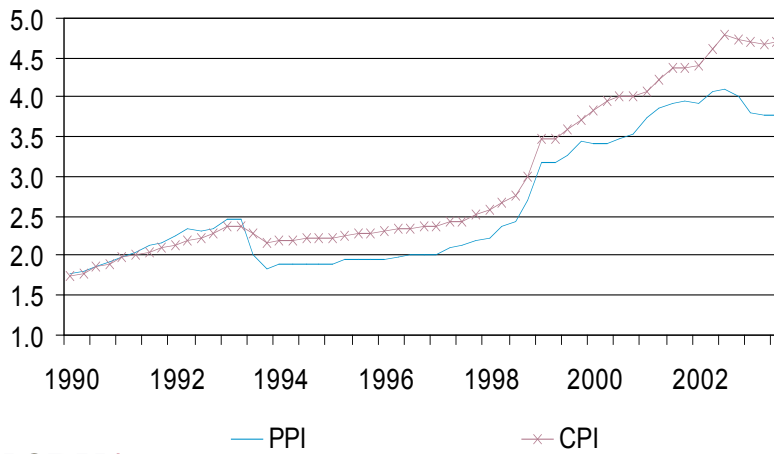


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## Manufacturers Eat the Sales Tax Increases

(Indexes for tobacco products)

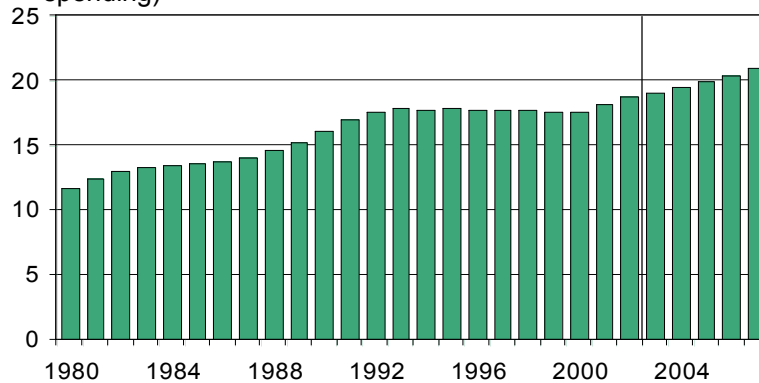


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## **More and More of the Consumer's Dollar Goes for Medical Care**

(Spending on medical care as a percent of all consumer spending)



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## **A Disappearing Tax Base**

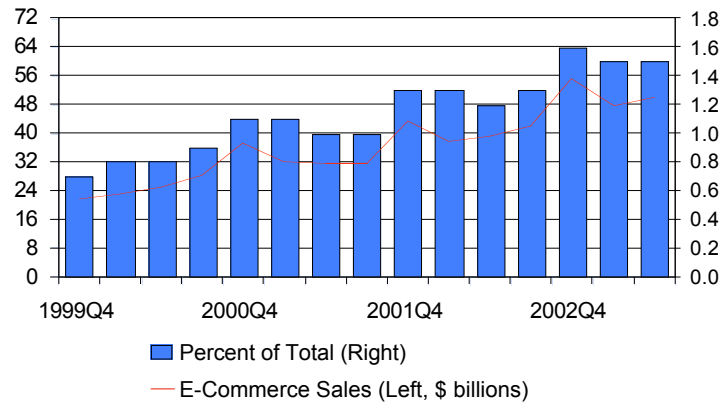
- ◆ **E-commerce—mostly untaxed is growing by leaps and bounds.**
  - ➔ **What about digitized products, e.g. software, music, movies, books.**
  - ➔ **What about on-line auctions? Anyone can be a dealer. Ebay only provides the infrastructure.**
  - ➔ **What about international sales?**
- ◆ **Unpleasant alternatives**
  - ➔ **Tax more services.**
  - ➔ **Charge more fees.**
  - ➔ **Raise other taxes.**



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## E-Commerce Is Small, But Growing Fast



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