Illinois Department of Revenue

Estimating Illinois's E-Commerce Losses: June 2011 Update

Illinois Department of Revenue – Research Division

June 2011

In February 2009, the Illinois Department of Revenue's (IDOR) Research Division released estimates of the annual unpaid Illinois use tax associated with online sales to Illinois households and businesses. These original estimates and a full explanation of the methodology behind them can be found at: http://tax.illinois.gov/AboutIdor/TaxResearch/InternetSalesTaxLosses.pdf.

In June 2011, we updated the original estimates to reflect the most current information available, and we extended the estimates out to fiscal year 2013. The original estimates did not go beyond 2010. The changes to the updated estimates include the following:

1. In the original estimates, the online sales totals for 2008, 2009, and 2010 were projected, not actual. We replaced these projections with actual online sales totals as reported by the U.S. Census Bureau either in its 2009 "E-Stats" report or in its latest quarterly e-commerce report.[1] The updated actual amounts were slightly lower than projected in the original estimate because of declines in online spending during the recent recession.

2. The original estimates used product line and class of customer statistics from the U.S. Census Bureau's 2002 Economic Census to separate taxable online sales from tax exempt ones. We updated these statistics using the 2007 Economic Census, which was released in 2010 and is the most recent one available (The U.S. Census Bureau conducts an economic census only every five years, and it takes several years to analyze and release the data).[2]

3. The original estimates used a survey of the top 100 online retailers to determine which ones were collecting Illinois use tax. We repeated this survey for the update but extended it to cover the top 250 online retailers.[3] We then used the results of this survey and regression analysis to estimate the use tax collection rate for the top 251 to 500 online retailers. We used 2007 Economic Census statistics to estimate the use tax collection rate for online retailers outside of the top 500. The result of these changes is that while the original estimate assumed approximately 49 percent of sales by online retailers involve the collection of Illinois use tax, the updated estimate assumes that approximately 55 percent of sales by online retailers involve the collection of Illinois use tax.

4. The Illinois Department of Revenue recently enabled taxpayers to pay use tax using the IL-1040 individual income tax form. This has not only helped to educate taxpayers about their use tax obligation but has also made it easier for taxpayers to comply with it. The result has been a significant increase in the amount of use tax remitted by taxpayers directly to IDOR. These increased use tax collections are factored into the updated estimates and serve to reduce the estimated tax losses.

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[1] U.S. Census Bureau "E-Stats" 2009 http://www.census.gov/econ/estats/; Quarterly E-commerce Reports http://www.census.gov/retail/.

[2] U.S. Census Bureau, 2007 Economic Census. http://www.census.gov/econ/census07/.

[3] Our survey for the original estimate found that 68 percent of sales by the top 100 online retailers involved the collection of Illinois use tax. The updated survey found that this statistic had decreased to 65 percent. This decrease was due primarily to the increase in Amazon.com's market share among the top 100 from 17 percent of sales to 23 percent. Amazon.com does not collect Illinois use tax.

Estimated Unpaid Illinois Use Tax on E-Commerce Sales ($ millions)

Calendar Year Estimates	2007	2008	2009	2010	2011	2012	2013
Unpaid use tax on online sales to IL households and IL businesses	$120	$131	$125	$143	$157	$183	$212
IL household share	$70	$76	$78	$89	$95	$111	$130
IL business share	$50	$55	$47	$54	$62	$72	$82

Fiscal Year Estimates*	FY08	FY09	FY10	FY11	FY12	FY13
Unpaid use tax on online sales to IL households and IL businesses	$125	$128	$134	$150	$170	$197
IL household share	$73	$77	$84	$92	$103	$120
IL business share	$52	$51	$51	$58	$67	$77

*Fiscal year estimates are averages of the applicable calendar year estimates.

Household Estimate ($ millions)

			2007	2008	2009	2010	2011	2012	2013
1	Online Retail Sales in the United States.		$137,344	$142,281	$145,214	$166,690	$191,694	$220,448	$253,515
2	Illinois Share (Illinois' share of U.S. retail sales)	4.4%	$6,070	$6,281	$6,418	$7,367	$8,472	$9,742	$11,204
3	Illinois Share After Excluding MV, Food, Drugs, and Direct Selling Establishments		$3,608	$3,866	$4,005	$4,598	$5,287	$6,081	$6,993
4	Taxable Share of Step 3	91.1%	$3,285	$3,520	$3,647	$4,186	$4,814	$5,536	$6,367
5	Use Tax Due On Taxable Sales To Illinois Households	5%	$164	$176	$182	$209	$241	$277	$318
6	Use Tax Collected by Online Retailers	54.5%	$89	$96	$99	$114	$131	$151	$173
7	Use Tax Remitted by Buyers to IDOR		$5	$4	$5	$6	$15	$15	$15
8	Total Use Tax Paid		$94	$100	$104	$120	$146	$166	$188
9	Calendar Year Unpaid Use Tax		$70	$76	$78	$89	$95	$111	$130
10	Fiscal Year Unpaid Use Tax			$73	$77	$84	$92	$103	$120

Business Estimate ($ millions)

			2007	2008	2009	2010	2011	2012	2013
1	Online Wholesale Sales, Including MSBOs, in the United States.		$1,251,080	$1,311,496	$1,211,219	$1,392,902	$1,601,837	$1,842,113	$2,118,430
2	Illinois Share (Illinois' share of U.S. wholesale & MSBO sales)	6.2%	$77,949	$81,713	$75,465	$86,785	$99,803	$114,773	$131,989
3	Illinois Share After Excluding MV, Food, and Drugs		$37,280	$40,910	$35,126	$40,395	$46,454	$53,422	$61,436
4	Taxable Share of Step 3	26.8%	$9,983	$10,955	$9,406	$10,817	$12,440	$14,305	$16,451
5	Use Tax Due On Taxable Sales To Illinois Businesses	5%	$499	$548	$470	$541	$622	$715	$823
6	Use Tax Collected by Sellers or Remitted by Buyers Directly to IDOR	90%	$449	$493	$423	$487	$560	$644	$740
7	Calendar Year Unpaid Use Tax		$50	$55	$47	$54	$62	$72	$82
8	Fiscal Year Unpaid Use Tax			$52	$51	$51	$58	$67	$77