Three papers all suggest potentially large effects on traditional and mail-order (online) retailers if there are changes in sales tax laws:

**Goolsbee**
- 1997 survey of 25,000 customers asks whether respondents had ever made an online purchase
- those who had were more likely to have come from high-tax state/area
- estimated that subjecting e-retailers to taxation could reduce online sales by 24%
  - doesn’t have quantities, just whether they had purchased, so estimated elasticity might be less reliable
  - maybe “high tax’ is correlated with “computer savvy”, so that’s the effect the analysis is picking up

**Ellison & Ellison**
- 2000 data of online purchases of computer components –have 1) address of every purchaser from particular firm for a year and 2) the prices & firm locations each one saw before making the purchase
- look at how differently they behave in the two scenarios:
  e.g., purchasers from NJ:
  - $69 NJ
  - $70 CA v. $70 CA
  - $71 NJ
- can calculate tax-inclusive prices for every customer and separately estimate how sensitive they are to prices, taxes, home-state location
- estimated online purchases would decrease by 30% if standard sales taxes were eliminated (i.e., e-commerce gets a substantial advantage from tax-avoidance motives)
- found consumers were less sensitive to tax difference than price differences, but firms still lose significant sales to out-of-state competitors
- also found consumers were willing to pay small premium to purchase from home state
- these last two results seem to be at odds, but actually, people tend to buy in-state for low-priced items and out-of-state for high-priced
- shipping time also matters: greater than 4 days and demand decreased by 20%
- for inexpensive items, there’s a less concentrated retail sector than one would expect in a world without home-state preference
- if taxes were equalized across channels, home state preference could dominated and lead to less concentrated retail
Einav, et al:

- 2008-2010 data on Buy-It-Now purchases on eBay across many product categories
- find 1% age point increase in state’s sales taxes increase online purchases by 2% but decrease online purchases from home state retailers by 3-4%

These three papers suggest potentially large effects on traditional and mail-order (online) retailers if there are changes in sales tax law.

Back to four questions

- how important is tax-avoidance to consumers (and online retailers)?
  - significant motive for consumers to buy online.

- if the tax-advantaged status of mail-order retail disappears, what are the likely direct effects on mail-order retail and traditional retail?
  - don’t know exactly, but the results on sensitivities suggest:
    * 20-30% of online sales could move back to traditional retails
    * consumers who buy online will move to in-state retailers

- are there important general-equilibrium effects (in addition to the direct effects)?
  - online firms’ incentive to locate in low-tax, small population states disappears
  - online firms’ incentives to minimize the number of states with nexus disappears
  - to the extent that home state bias is important, large states will gain businesses
  - to the extent that shipping time is important, businesses will expand warehouses and distribution networks

- is the tax-advantaged status likely to disappear?
  - just speculation, initial changes suggest large retailers (not small ones) will be targeted