

## FORECASTING TAX REVENUES ASSOCIATED WITH MARKETPLACE FACILITATOR LAWS: A CASE STUDY IN OKLAHOMA

*Prime Numbers: Amazon and American Communities* is a study series conducted by Civic Economics with the American Booksellers Association.

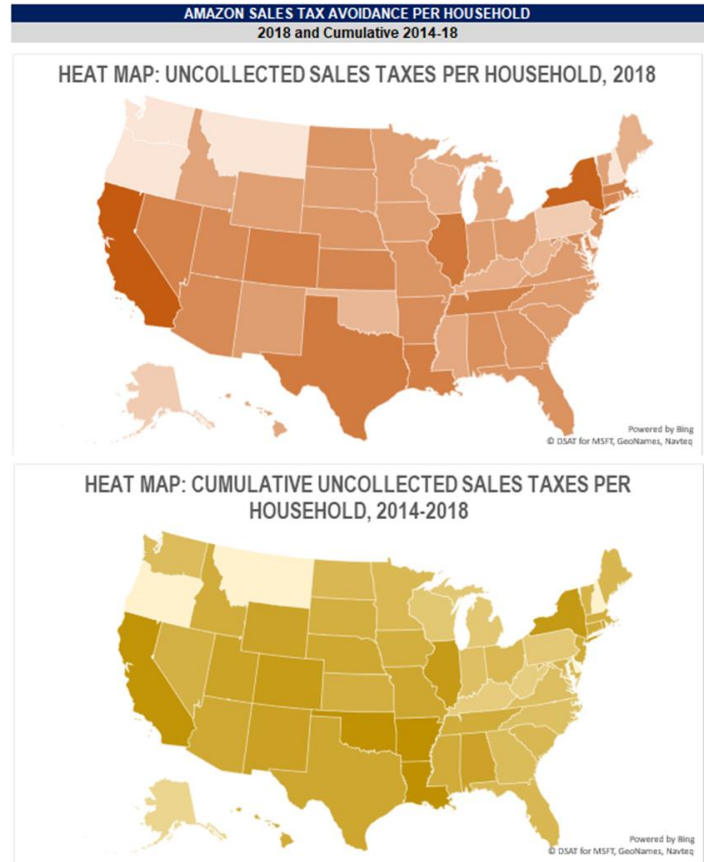
Among the key features of the series is an estimate of Amazon's retail sales in every state and the District of Columbia and including both Amazon's direct sales (which are taxed everywhere in line with sales taxes) and third-party Marketplace sales (which are not reported directly, and which are taxed in only eight states).

In previous analyses of Amazon's fiscal impact at the state level, Oklahoma has always stood out as one of the biggest losers of tax revenue because (a) the state is more sales-tax dependent than most and (b) there was no mechanism to collect any taxes on online sales in the state beyond self-reported use taxes.

Upon preparing the 2019 version, which is built from Amazon's annual report for 2018, Oklahoma again stood out, achieving the rare worst-to-first in collecting taxes on Amazon sales.

The analysis that follows seeks to quantify the tax revenues that Oklahoma has gained through recent policy changes.

It also provides a data-driven validation of Civic Economics' proprietary methodology for estimating third-party Amazon Marketplace sales in each state and thus the tax revenue that might be collected from those sales.



SOURCE: *Prime Numbers 2019*, Civic Economics and the American Booksellers Association

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For more information about Civic Economics, *Prime Numbers*, or this analysis of Oklahoma use tax revenues associated with the state's Marketplace Facilitator law, please contact:

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For the full *Prime Numbers* report and state supplements, visit:  
<http://www.civiceconomics.com/primenumbers.html>

## ADDENDUM: A TAX REVENUE CASE STUDY

Prime Numbers is distinct from the typical analysis of Amazon financial because Civic Economics is interested in particular slices of the Amazon empire. We are looking only at the sale of tangible goods in competition with brick and mortar retailers in the United States. And of those sales, we need to distinguish between those sales made by Amazon directly and those for which Amazon is the facilitator of a third-party sale through Marketplace.

With the release of Amazon's 2017 Annual Report in early 2018, Civic Economics was able to begin estimating Amazon's retail sales by third-party sellers participating in the Marketplace program. As noted elsewhere in this report, we build that estimate from Amazon's reported fee revenue for providing the services associated with Marketplace, and consistently describe our estimates as such.

So, it caught our eye that one state might have a useful dataset to check those estimates. Oklahoma, which previously topped the *Prime Numbers* charts of states with the largest revenue losses from Amazon, has recently enacted two changes in how online sales are taxed in the state:

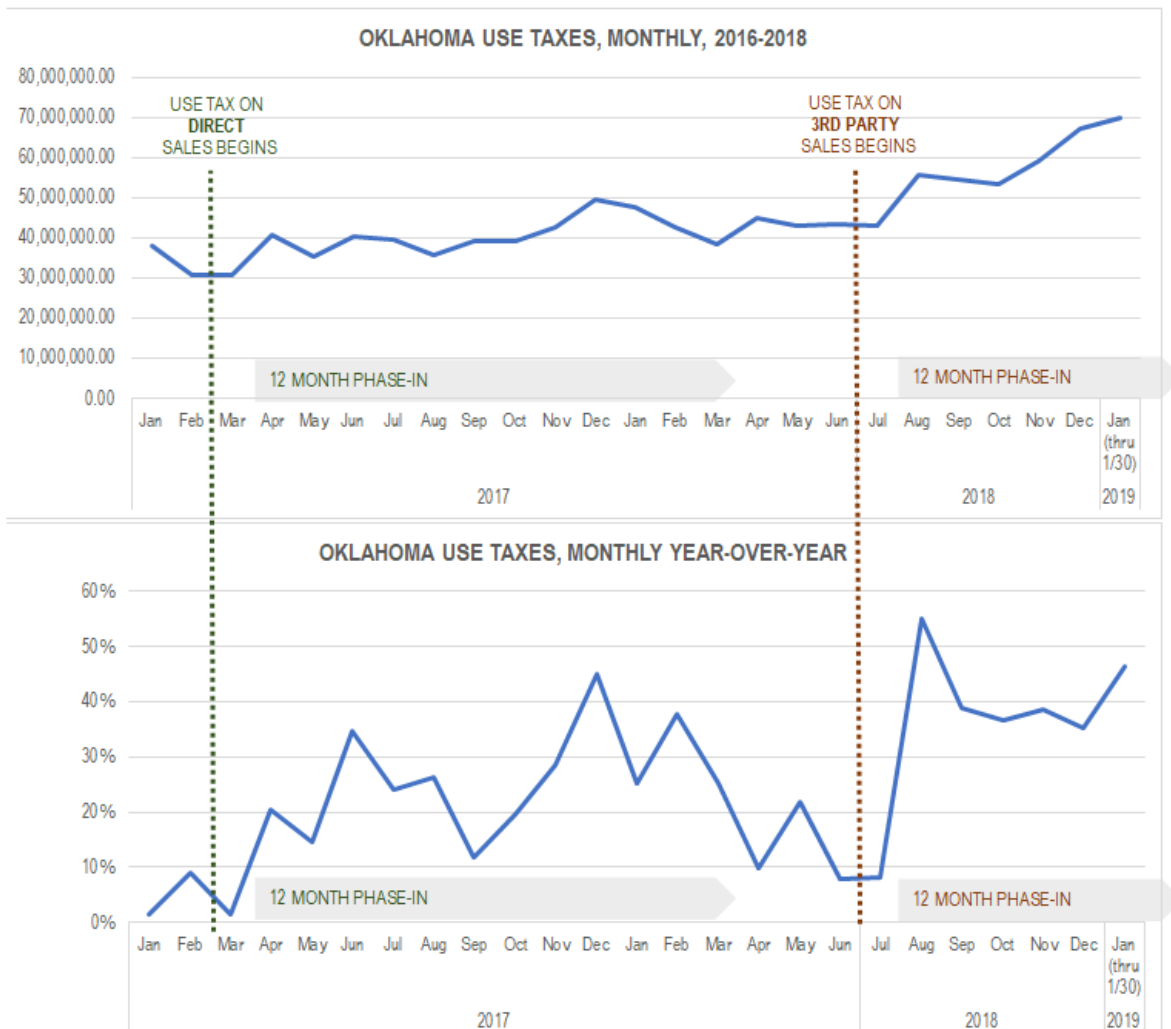
- Effective in March of 2017, Oklahoma began collecting Use Tax (equivalent to Sales Tax rates) from Amazon for sales in which it was the seller. Other large online retailers are also subject to this policy.
- Effective July of 2018, Oklahoma began collecting Use Tax on Amazon's Marketplace sales, in cases where the third-party seller earns more than \$10,000 per year in the state. Other large marketplace facilitators are subject to this tax but, as of early 2018, only Amazon has complied.

Oklahoma provides transparent daily reporting of its tax collections by tax category. Our hunch was that this provided the opportunity to chart use tax revenues over time and identify the portion of those revenues associated with these changes. We have charted that data on the following page, back through 2017.

The first thing that jumps out from the charts is how clearly these two policy changes impacted revenue. Each change produced a noticeable bump in use tax collections, as expected. Because other online retailers were impacted by the March 2017 change, Amazon's share of that revenue remains beyond analysis. But the later change, effective the first day of Oklahoma's fiscal year and to date effecting only Amazon, presents an analytical opportunity.

The increase in use tax revenues following July 1, 2018 can be quantified as a monthly year-over-year change. In addition, we can factor out the growth in Amazon's own direct sales during that period (using the national number, 13%), which continue to contribute to the increase in revenue. And finally, as a proxy for growth in use tax revenue associated with economic conditions, we can factor out a growth rate equivalent to that experienced by sales tax revenues (5.6%).

CASE STUDY: CHANGING AMAZON TAX POLICY IN OKLAHOMA



SOURCE: Oklahoma Tax Commission, Taxpayer Access Point: [https://oktap.tax.ok.gov/oktap/Web/\\_/](https://oktap.tax.ok.gov/oktap/Web/_/)

For now, we would hesitate to estimate precisely how much revenue the new tax has brought in. Other factors will be at work in monthly revenue, Oklahoma’s staggered use tax reporting periods introduce fluctuations throughout the year, and the marketplace facilitator law only applies to a subset of third-party sellers, a subset that will change over time depending on sales volume in the state.

However, we can say that the marketplace facilitator law appears to have produced \$50-60 million dollars in use tax revenues in the six months it has been in force, of which roughly half is the state share with the remainder going to local governments. At Oklahoma’s average tax rate, that revenue would be associated with \$600 million or more in sales into the state by covered third-party sellers. Annualized based on the proportion of sales Amazon typically achieves in the second half of the calendar year, total tax revenue for all of 2018 would have been greater than \$100 million, on taxable Marketplace sales exceeding \$1.1 billion.

For this *Prime Numbers* study, our methodology estimated that all Amazon third-party sellers achieved just over \$1.2 billion in sales in Oklahoma in 2018. Conceding the gaps in both available data and in the applicability of the state's policy change, we believe this analysis supports our current, conservative methodology for estimating Amazon retail sales by state.

Perhaps more importantly for policymakers, this case study indicates that *Prime Numbers* does provide broad guidance in predicting the future revenue potential of marketplace facilitator laws in other states. Indeed, when Oklahoma considered the law, legislative staff estimated total Fiscal Year 2018 annual revenue at just \$20 million, illustrating a near total lack of information. This report, and future updates, will provide states and cities with a more reliable understanding of the revenue implications of taxing Amazon sales fairly.

