



Statement of Tennessee Governor Bill Haslam

Before the

Committee on the Judiciary

U.S. House of Representatives

Hearing on H.R. 3179, the "Marketplace Equity Act of 2011"

July 24, 2012

Chairman Smith, Ranking Member Conyers and members of the committee, I am grateful to be here to testify on behalf of the National Governors Association. I believe I am uniquely positioned to be before you to talk on this issue today.

I come from a family that founded and operates a national retail business based in Tennessee. I have served as chief executive officer of Saks Direct, Saks Fifth Avenue's online and catalog retailer. I was Mayor of Knoxville, a city that's budget depends on property taxes from both businesses and residents. And now I'm governor of a state that's budget relies heavily on sales tax collections.

Let me be clear – I am a Republican governor that does not believe in increasing taxes. Tennessee is a low tax state to begin with, and we've been able to cut taxes over the past two years. This discussion isn't about raising taxes or adding new taxes. This is about states having the flexibility and authority to collect taxes that are already owed by their own in-state residents.

This discussion is also about leveling the playing field for local brick and mortar businesses in communities across Tennessee and across the country.

For example, I've heard Senator Alexander talk about the Nashville Boot Company where the owner tells about a customer who came into the store, tried on a pair of boots, asked the employees questions about the boots and then went home and ordered them online to keep from paying state sales tax, which we need to remember that state law already says the customer owes.

When you buy something at the Nashville Boot Company, or any other local store, the tax you owe is calculated with your purchase, they add it to your bill, and then send the taxes owed to the state for you.

This is an issue of fairness. Comparable businesses that sell the same things are not being treated the same. Most people I talk to understand that and agree that isn't fair.

So why is this happening today?

Because 20 years ago the Supreme Court said that states couldn't require out-of-state catalogs or online businesses to collect sales tax because it was too complicated for them to calculate the sales tax in each state, much less in local communities. But in the past two decades, technology has advanced more than almost anyone could have believed, and it is not only possible, but it is easy, for these businesses to collect the taxes owed just like local businesses with cash registers do.

Current software covers over 12,000 state and local tax rates, and there are at least eight companies already competing to provide software that is affordable to even the smallest businesses.

But this isn't only an issue that impacts business. As state budgets are stretched and state leaders are working to provide services to taxpayers at the lowest cost in the most efficient and effective way, we are talking about real dollars.

The current estimate of sales tax that goes uncollected each year in the United States is more than 20 billion dollars. In Tennessee, we believe that number to be 400 million dollars. That money could fund critical state programs that vulnerable citizens rely on; it could help cover federal mandates that states face; or it could go back to the taxpayers in the form of further tax relief.

We would certainly have healthy discussions in Tennessee about how to allocate those dollars, but that is for another time. My point today is that states should have the authority to collect that money, which is already owed, and to be able to make budgeting decisions that include those dollars.

We probably all know this intuitively - Internet shopping is a trend that is on the rise. When my daughter-in-law buys her laundry detergent online, that tells you something.

According to the U.S. Census Bureau, e-commerce represented 16.6 percent of retail sales in 2011, and online sales grew 16.1 percent compared to overall retail sales which grew 4.7 percent.

More and more people are doing their shopping online and are expected to spend more money.

According to Forrester Research, 25 million more Americans are expected to shop online in four years, and each shopper will spend an average of \$530 more (up from \$1,207 in 2012 to \$1,738 in 2016) [*Forrester Research: U.S. Online Retail Forecast, 2011 to 2016*].

The argument that this is a small part of the economy doesn't hold up.

This is the right time for Congress to act.

As a governor, I realize in the coming years that Washington is going to be sending states and local governments less and less money as you tackle the nation's debt. And as a Republican, I am proud of you for doing that. But if that is the case, then you should also allow each state to have the flexibility to make decisions about this issue and to collect taxes that are already owed.

This is a conversation about fairness. Fairness to states in allowing them to manage their own budgets, and fairness to local businesses that are part of the fabric of this country, are vital to our economy and our entrepreneurial identity.

Thank you.