

Reforming an Antiquated Sales Tax Perk

Governor Corbett proposes to retain Pa.'s sales tax vendor discount for small businesses while limiting million-dollar windfalls for the state's largest retailers

Pennsylvanians pay sales tax on numerous purchases, but few of us realize that the store collecting the tax gets to keep a portion of it. This discount provided to vendors for the timely payment of sales tax is a relic from the days when small retailers had to collect sales receipts by hand and write checks to the state. New technology has rendered this discount obsolete and too expensive for Pennsylvania. Many states have already eliminated or capped their vendor discounts. Governor Tom Corbett has proposed that Pennsylvania reform its vendor discount by enacting a reasonable limit on how much any one retailer can receive.

Pennsylvania is one of 28 states that provide a vendor discount to compensate retailers for collecting the sales tax and submitting it to the state in a timely fashion. Of these, 16 states have imposed a cap on just how much of a discount a vendor may receive.

Under Governor Corbett's plan, Pennsylvania's vendor discount would be limited to \$250 per month for each sales tax filer beginning July 1, 2012. The vast majority of business, 98%, would continue to receive the same discount, while only the state's largest retailers, like Wal-Mart, Best Buy and Home Depot, would be affected by the cap.

Costly for Pennsylvania, a Windfall for Big Profitable Corporations

The sales tax vendor discount cost Pennsylvania nearly \$71 million in 2011-12. **Over \$10 million of this goes to a handful of companies. In the past two years, five companies have averaged sales tax vendor discounts of \$1 million per year or more, while another 11 exceeded \$500,000 per year.**

These companies are huge. To get a sales tax vendor discount of \$500,000 in a year, a company must have *at least \$833 million* in sales subject to tax in Pennsylvania. A 2008 report by Washington, D.C.-based Good Jobs First, [*Skimming the Sales Tax: How Wal-Mart and Other Big Retailers \(Legally\) Keep a Cut of the Taxes We Pay on Everyday Purchases*](#), estimates Wal-Mart's share of Pennsylvania's vendor discount at \$3.1 million.

Small businesses, by contrast, received only a few dollars from the program. In October 2011, 74% of all monthly filers received \$50 or less, while another 16% received nothing.

PA Vendor Discount Third Most Costly in the Nation

The Good Jobs First report found that Pennsylvania ranks third among the states in revenue lost from its sales tax vendor discount program, trailing only Illinois and Texas. This is largely because Pennsylvania has no cap on how much any one vendor can keep from the discount.

Corbett Proposal Responsibly Reins in Vendor Discount

The sales tax vendor discount was conceived in a time before computers, when retailers had to keep track of sales tax collections on paper. Technology has streamlined that process for many companies, rendering the discount obsolete.

The Governor’s proposal limits the discount any company can receive to \$250 per month. This change would have little to no impact on small businesses. Had such a cap been in place in October 2011, only 2% of monthly tax filers would have been affected. By contrast, reforming the vendor discount would save the Commonwealth \$41 million in 2012-13.

At a time when the commonwealth has made deep cuts to public schools and universities, health and human services, and investments in local communities, Pennsylvania should not be giving away millions in sales tax revenue to billion-dollar corporations. Capping the vendor discount preserves the incentive for small businesses while limiting how much big companies can collect. It is a common sense reform that should be included in the 2012-13 budget agreement.

Table 1. Monthly Sales Tax Vendor Discounts by Range – October 2011

Monthly Credit	Filers	Percent of Filers	Sales Tax Collected (\$ millions)	Percent of Collections
\$0	23,525	16.0%	\$18.9	2.9%
\$1-\$250	120,619	82.2%	\$206.9	32.3%
\$251-\$10,000	2,518	1.7%	\$237.2	37.0%
\$10,001-\$20,000	41	0.0%	\$55.4	8.6%
\$20,000-\$50,000	14	0.0%	\$43.3	6.8%
\$50,000+	8	0.0%	\$79.5	12.4%
Total	146,725		\$641.2	

Source. Pennsylvania Department of Revenue

“At a time when state and local governments are facing a fiscal crunch, policymakers should take a hard look at retailer compensation practices. This legal skimming is depriving governments of desperately needed revenue.”

— Good Jobs First Executive Director Greg LeRoy