



# A Tax Windfall Whose Time Has Passed

## Pennsylvania's Sales Tax Vendor Discount Program

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In the past, sales tax accounting was done with pencil and paper. Clerks in green visors gathered receipts, totaled sales tax collections, and wrote checks each month to the Commonwealth. In return for their trouble and expense, businesses were permitted to keep 1% of sales taxes that we pay them when we make purchases. This is called the sales tax vendor discount. Times and technology have changed, but the sales tax vendor discount has not.

Today, sales tax is calculated and collected at computerized registers. Sales information is electronically transferred to accounting software that enables businesses to calculate, file tax returns, and send in taxes payments at the click of a mouse. New technology has dramatically reduced the administrative costs for businesses making the discount unnecessary.

This tax break might have been needed in pre-computer days, but today it simply creates a windfall, particularly for billion dollar, big box retailers like Wal-Mart and Best Buy.

Eliminating the sales tax vendor discount will save the Commonwealth \$74 million a year and help to prevent layoffs in schools, hospitals and libraries. Here are the facts<sup>1</sup>:

- **Pennsylvania spends more on its vendor discount program than all but two states— Texas and Illinois.**
- **Only 13 states have unlimited sales tax vendor discounts.** 13 others limit the amount a company can claim, while 18 states offer no vendor discount at all.
- **The vendor discount is a windfall for big retailers. In 2007-08, \$12 million went to just 10 companies with sales exceeding \$1 billion in Pennsylvania.**
- **Small companies receive little benefit from the program.** Half of the 301,000 licensed vendors in the state had sales of less than \$100,000 and received an average sales tax discount of \$9. Another 21% of the vendors received nothing.
- **No other Pennsylvania taxpayers receive this kind of tax break.** Employers paying payroll taxes to the state receive no discount for making payments on time, and neither do income tax payers. Did you get a discount for filing your PIT return by April 15?

### **Conclusion: A Luxury Pennsylvania Can No Longer Afford.**

In bad economic times, Pennsylvania has to save money. It can no longer afford to pay a few large businesses to collect sales taxes, when other businesses and taxpayers don't get this benefit. The sales tax discount program was conceived in a time before computers. Technology has streamlined that process, rendering the discounts obsolete. Taxpayers cannot afford such a costly program that no longer achieves the goals it was designed to tackle.

*"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*

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<sup>1</sup> Philip Mattera & Leigh McIlvaine, *Skimming the Sales Tax: How Wal-Mart and other Big Retailers (Legally) Keep a Cut of the Taxes We Pay on Everyday Purchases*, Good Jobs First, November 2008. <http://www.goodjobsfirst.org/pdf/skimming.pdf>