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Automated sales tax collection (ASTR) could generate \$770 million in new revenue annually for Massachusetts while eliminating fraud

BOSTON – An accelerated sales tax remittance system that would automatically direct sales taxes to the state treasury when consumers purchase with a debit or credit card would collect \$770 million every year, eliminate high-tech fraud and improve efficiency according to a new study released today by Performance Economics.

The Baker Administration has been exploring an Accelerated Sales Tax Remittance (ASTR) system to improve collections and administration as mentioned in its Fiscal 2020 budget.

Working with current payment processing infrastructure, ASTR enables real-time sales tax collection for transactions using credit or debit cards. In place, an ASTR system will:

- capture approximately \$770 million in “new” revenue annually without new taxes;
- result in a significant increase in compliance;
- provide third-party oversight to ensure compliance;
- relieve small business of paperwork;
- transfer approximately \$7.3 million in gains generated by the “float” to the Commonwealth where it belongs; and
- tax the current base more efficiently without raising the sales tax rate.

To project the new amount of revenue under an ASTR system, the study applied a rigorous statistical analysis that draws upon current estimates of noncompliance. Rather than working with one data point, the study generated several possible outcomes, all of which showed a positive effect. The \$770 million estimate is the average increase in revenue across several possible outcomes.

This initiative brings innovation to an antiquated sales tax collection process using technology, infrastructure, processes, and workflows that are already in existence and being used today by the payment processing industry. The ASTR examined by the state does not require major hardware upgrades, a claim made by its critics based on incomplete information. Current industry standards could move to an ASTR by adopting a software change.

“The improvements ASTR will bring to the state’s tax collection system will allow for an increase in sales tax revenue without having to raise the rate or broaden the base,” says John Barrett, President of Performance Economics. “The current system shortchanges the taxpayer. Illicit technologies which enable vendors to disguise sales amounts, cost the Commonwealth millions in uncollected taxes. Fraud and bankruptcies also cheat the state of millions in taxes. Ensuring collection from tax evaders is one of the best ways to make the tax system fairer for everyone who plays by the rules.”

Performance Economics (PE) is a full-service economic consulting firm using applied economics to provide insightful solutions to help its clients make informed decisions about complex issues. PE's experienced partners access state-of-the-art statistical techniques, economic modeling and financial analysis to inform and clarify public policies and private sector outcomes.

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