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Illinois Attempts to Reduce the Retail Discount

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The Governor's budget includes a proposal to cap the retailers' partial reimbursement for collecting the sales tax on behalf of the state to a $1,000-per-month. The Director of the Illinois Department of Revenue (IDOR) testified in support of the proposal last week.

The reimbursement is the 1.75% of the sales tax retailers are allowed to retain as partial reimbursement for their costs of serving as the administrator of the sales tax code on behalf of the state and local governments. Assume someone buys goods for $100 at the average state and local government sales tax rate of 8.75%. That means they pay sales tax of $8.75 on their $100 purchase. The retailer is allowed to retain 1.75% of that $8.75 **or $0.15**.

This is only a partial reimbursement for the retailer. In fact, retailers subsidize the cost of collection for state and local governments every time a consumer uses an electronic form of payment. Over 80% of transactions are electronic and that number is growing around 7% per year. Anyone processing an electronic payment (e.g. VISA, MasterCard, Amex, etc.) pays to the card companies an average processing fee of 2.5% plus $0.10 on every transaction. These fees are applied to the entire cost of the item including the sales tax. Using our $100 example transaction above, the following fees apply to **just the tax portion**:

- Merchandise = $100
- State sales tax = 8.75% (average combined state and local rate)
- Total = $108.75 ($100 + 8.75%)
- Per swipe transaction fee = $0.10
- Average processing fee on just the tax portion = $0.22 ($8.75 x 2.5%)
- Retail Discount on just the tax portion = $0.15 ($8.75 x 1.75%)
- Net retail subsidization of sales tax collection = $0.17 ($0.07+$0.10)
- On average, Illinois retailer loses at least **$0.17** on just the sales tax portion of every electronic transaction ($0.22-$0.15 + $0.10 = $0.017)

Additionally, there are other costs which the current statute recognizes: 35 ILCS 120/3: *"…which is allowed to **reimburse the retailer for the expenses incurred** in keeping records, preparing and filing returns, remitting the tax and supplying data to the Department on request."* Moreover, Illinois is universally considered to have the most complicated sales tax code in the nation. Illinois has the fastest remittance in the nation and requires reconciliation in the next month for the previous month. Illinois requires weekly reporting for sellers with an average monthly liability of $20,000. Illinois has many overlapping jurisdictions with separate rates including state, local government, special business development zones, enterprise zones, tax increment financing zones, school districts, public safety taxes, etc. Retailers must track, apply, and remit all of these. Sales taxes are filed by location. That means many sales tax returns (i.e. ST-1's) are different.

Finally, IDOR is the recipient of similar reimbursements. IDOR administers at least 24 taxes on behalf of local government. Their average fee is 2.17%. The state gets more for doing less than Illinois retailers. AND they do not pay transaction fees on electronic payments. **If it is good for the state to be reimbursed for their costs, it is good for retailers.**