

# Tax Compliance in the Amazon

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## Abstract

Enforcing the payment of tax obligations is a problem as old as taxes themselves. Collecting sales tax on *online* purchases is made even more difficult because it requires self-assessment and consumers are not always aware of their tax remittance obligations. A unique set of circumstances in Tennessee allows us to use a natural experiment to test whether new information about online sales tax obligations affects tax remittances from household consumers and more experienced business taxpayers. Our analysis builds on a very small body of research, including Iyer, Reckers and Sanders (2010) who examine use tax compliance in response to notices regarding detection risk and penalties and Slemrod, Blumenthal and Christian (2001) who examine income tax compliance in response to letters informing taxpayers that their returns would be “closely examined.”

Between March 2012 and January 2014, Amazon sent three tailored email blasts to customers with Tennessee delivery addresses, enhancing the salience of use tax payment obligations. Each email tallied the total sales price of purchases over the prior year, informed the recipient that he or she may owe state sales taxes on these purchases, and provided a link to a state website where sales and use taxes could be paid. Beginning in January 2014, Amazon began collecting and coordinating state sales tax for Tennessee purchasers. We use state administrative data on monthly sales and use tax filings to examine the effect of the Amazon emails on consumer and business filing behavior.

Consumer sales tax filings were very infrequent prior to Amazon's announcements. A given taxing area would typically see seven consumer tax payments per month (466 statewide). Each Amazon email elicited a roughly 200 percent increase in consumer payments relative to this very small mean. The wave of additional remittances was driven entirely by new filers who paid trivial sums, such that the total amount of consumer tax payments did not rise significantly in the wake of Amazon emails. The volume of consumer tax payments decayed quickly and returned to normal following each email, calling into question the efficacy of informing taxpayers of their reporting obligations.

Preliminary findings on business sales and use tax payments as a share of gross sales show that remittances did not significantly change in the wake of Amazon emails, conditioning on taxpayer-by-calendar-month fixed effects. We are now exploring detailed elements of business tax returns to assess whether there were more nuanced changes in remittances in the wake of the Amazon announcements.