

Maine Issue Brief

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The Silent Tax Revolt: Mainers Cross-Border Shopping in New Hampshire II

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Faced with a \$225,000,000 budget shortfall, some Maine legislators are considering significant tax increases in order to close the budget gap. Perhaps the most popular proposed solution is raising the sales tax by either increasing the rate 20 percent (to 6 percent from 5 percent) or by expanding the sales tax base to certain services. Such a plan would naturally increase the flow of cross-border shopping to New Hampshire; blunting any increase of the sales tax and worsening the plight of Maine's retailers.

This study is the second report in an ongoing series by The Maine Heritage Policy Center to understand the economic and fiscal impact of cross-border shopping.[1] As shown in Table 1, this more comprehensive study estimates that Mainers saved \$21,185,122 per year on Saturdays alone in sales, cigarette and gasoline taxes by shopping at the 12 stores surveyed in New Hampshire.[2] Though some Maine legislators may want to deny this fact, Mainers are engaging in a silent tax revolt.[3]

Table 1
Estimated Savings to Maine Citizens Engaging in Cross-Border Shopping in New Hampshire
Site Visits Made on February 9, 2008 (Saturday)

Store	Average Number of Cars Counted	Estimated Number of Cars per 10 Hours per day (a)	Estimated Lost Sales Tax Revenue per Year on Saturdays (Taxable Sales)				Estimated Lost Cigarette Tax Revenue per Year on Saturdays	Estimated Lost Gasoline Tax Revenue per Year on Saturdays	Estimated Total Lost Sales (\$300 spent per car), Cigarette and Gasoline Tax Revenue per Year on Saturdays
			\$100 Spent per Car	\$200 Spent per Car	\$300 Spent per Car	\$400 Spent per Car			
"South" Portsmouth Super-Walmart	43.5	870	\$226,200	\$452,400	\$678,600	\$904,800	\$904,800	\$121,243	\$1,704,643
"North" Portsmouth	72.0	1,440	\$374,400	\$748,800	\$1,123,200	\$1,497,600	\$1,497,600	\$200,678	\$2,821,478
Somersworth Super-Walmart	150.0	3,000	\$780,000	\$1,560,000	\$2,340,000	\$3,120,000	\$3,120,000	\$418,080	\$5,878,080
Rochester Super-Walmart	62.3	1,245	\$323,700	\$647,400	\$971,100	\$1,294,800	\$1,294,800	\$173,503	\$2,439,403
North Conway Super-Walmart	93.0	1,860	\$483,600	\$967,200	\$1,450,800	\$1,934,400	\$1,934,400	\$259,210	\$3,644,410
Gorham Super-Walmart	15.0	300	\$78,000	\$156,000	\$234,000	\$312,000	\$312,000	\$41,808	\$587,808
Home Depot Portsmouth	46.5	930	\$241,800	\$483,600	\$725,400	\$967,200	\$0	\$129,605	\$855,005
Home Depot Somersworth	46.0	920	\$239,200	\$478,400	\$717,600	\$956,800	\$0	\$128,211	\$845,811
Home Depot Rochester	15.0	300	\$78,000	\$156,000	\$234,000	\$312,000	\$0	\$41,808	\$275,808
Home Depot North Conway	16.0	320	\$83,200	\$166,400	\$249,600	\$332,800	\$0	\$44,595	\$294,195
Lowes Somersworth	19.0	380	\$98,800	\$197,600	\$296,400	\$395,200	\$0	\$52,957	\$349,357
Target Somersworth	38.0	760	\$197,600	\$395,200	\$592,800	\$790,400	\$790,400	\$105,914	\$1,489,114
Total	616.3	12,325	3,204,500	6,409,000	9,613,500	12,818,000	9,854,000	1,717,612	21,185,112

(a) Assumes turnover every 30 minutes.
Source: The Maine Heritage Policy Center

The most significant finding of this updated study is that there was practically no seasonality in the data. Despite conducting the survey on a very cold, overcast day in early February, the same-store visits yielded only slightly lower car counts than the previous study conducted during the holidays in early December. This is further evidence that cross-border shopping is a year round activity.[4]

Overall, a conservative estimate of total savings on the sales tax, cigarette tax and gasoline tax per year on Saturdays alone is \$21,185,112 (assuming \$300 in taxable sales per car). If the tax savings during the other six days are 25 percent of this estimate, then the total yearly tax savings would equal \$52,962,780. Also keep in mind that this estimate is for just 12 stores and does not include estimates for the numerous other shopping outlets in New Hampshire, which includes two malls. Nor does this estimate include the individual income tax, corporate income tax, property tax, fees and licenses and other business-level taxes that are paid by all of these retail outlets and their employees. One can easily imagine the tax savings from cross-border shopping that accrues to individuals and businesses quickly climbing into the hundreds of millions.

Finally, while these savings are a gain to Maine taxpayers as individuals, this estimate also represents a loss to Maine's state government tax collections. Maine legislators should not react hostilely and condemn cross-border shoppers by enacting a furious and futile enforcement regime. Rather they should treat this as a warning sign that Maine's tax burden is unsustainably high—especially when Maine's tax burden (tax collections as a percent of personal income) was 45 percent higher than New Hampshire's in FY 2005. Recognizing that New Hampshire is Maine's chief economic competitor should lead Maine's policy-makers to pursue a lowering of Maine's tax burden.[5] Doing so would benefit both Augusta's tax coffers and Maine's economy by encouraging Mainers to do their shopping in their home state.

Notes and Sources:

- [1] The Maine Heritage Policy Center plans to replicate this study once a quarter to increase the robustness of the data. Future studies will examine cross-border activity on weekdays, price differences among goods and services and additional retail outlets. The previous study is available here: <http://www.maineconomy.org/Portals/0/Issue%20Brief.%20No%2027.pdf>
- [2] The estimated taxable sales used to calculate the overall tax savings was increased from \$200 to \$300 over the previous study. It should also be noted that while Mainers saved on Maine taxes, their overall gain is reduced since they do pay certain New Hampshire taxes. The presence of cross-border shopping, however, indicates that the net gain is strongly positive.
- [3] Certainly sales tax free internet sales are also booming and is another component of the silent tax revolt. However, there is no good data on the total number of transactions conducted over the internet.
- [4] The car count in this study is based on the average of the two site visits.
- [5] And a significant economic competitor New Hampshire is—according to the State Coincident Index published by the Federal Reserve Bank of Philadelphia, New Hampshire was one of four (Arizona, Idaho and Nevada) of the fastest growing states since 1992. <http://www.philadelphiafed.org/econ/indexes/coincident/>

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