



The Difficulty of Calculating Potentially Lost Sales Tax Collections from Exempting Rare Coins, Paper Money, and Precious-Metals Bullion from Kansas Sales Tax

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- Surveys conducted in the 1990s of coin dealers in Kentucky and in Ohio both determined that about 50% of in-state retail coin dealer sales involve merchandise other than what would be impacted by a sales tax exemption for rare coins, paper money, and precious-metals bullion products.
- Many brick and mortar coin dealers are jewelers or antique stores that also handle a small volume of rare coins, paper money, and precious-metals bullion.
- It is therefore not possible to pull up data on sales tax remittances from Kansas businesses identified as coin dealers and know how much of these taxes resulted from sales of rare coins, paper money, and precious-metals bullion.
- Using Dun & Bradstreet data in the mid-1990s, I calculated that my company collected about 25% of industry-wide Michigan sales taxes on rare coin and precious-metals bullion sales. At the maximum, we collected almost \$48,000 annually on such sales, indicating that statewide sales tax collections on such products totaled less than \$200,000. The Michigan Treasury and House and Senate fiscal agencies rounded this amount up to \$300,000 in annual sales tax collections in their analyses of a rare coins and precious-metals bullion sales tax exemption that took effect in July 1999.
- The impact on paying sales tax on rare coin and precious-metals sales is so sensitive that when the Michigan sales tax rate rose from 4% to 6% on May 1, 1994, my company's sales-taxable retail sales fell almost exactly one-third in the following 12 months compared to the 12 months before the rate increase.
- In 2005, the Ohio budget staff projected that a sales tax on rare coins and precious-metals bullion would collect \$1 million over the two-year budget cycle.
- The retail profit margins on precious-metals bullion products are usually in the 1-5% range. These are the bulk of sales volume for dealers who sell rare coins, paper money, and precious-metals bullion. Collecting Kansas sales tax on the sales of such products yields greater net revenues to the state treasury than the gross profit to the company making the sale.
- Precious-metals bullion products and many rare coins are fungible, meaning that matching products can be purchased from thousands of sellers located nationwide.
- Kansas purchasers of rare coins, paper money, and precious-metals bullion can now easily purchase these products from non-Kansas sellers who do not have to charge Kansas sales tax. If these purchases are stored in Delaware depositories or elsewhere outside of Kansas—as is generally done by more prosperous Kansas residents—no Kansas sales or use tax would ever be due on such purchases.
- When rare coins and precious-metals bullion were subject to Michigan sales tax when purchased in-state, in-state retail transactions of \$5,000 or larger for such merchandise accounted for about 1% of my company's in-state retail sales. By the year 2011, my company's total in-state retail sales of rare coins and precious-metals had increased more than 2,500% (versus about a 500% increase for our in-state wholesale and out of state sales) from when the sales tax exemption took effect. Of this larger sales volume, transactions of \$5,000 or more accounted for 94% of total in-state retail sales volume.
- Therefore, any analysis such as using U.S. Mint sales volume to calculate state sales in proportion to that state's population to the national population is statistically invalid. For a more accurate figure, ICTA's 2016 national survey of actual coin dealer activity for the year 2015, determined that the average annual in-state retail sales of rare coins and precious-metals bullion came to \$104,188 per dealer of those in states where such merchandise is subject to sales taxes. In the 2015 *Numismatic Dealer Directory*, there were listed 117 Kansas dealers. This is lower per capita average than for the entire nation. Calculating $117 \times \$104,188 \times 4.75\% =$ about \$580,000 in annual sales tax collections on retail sales of rare coins and precious-metals bullion. Local sales tax collections may add another \$200-250,000.



SYNOPSIS

Rare Coins and Precious-Metals Bullion National Survey 2015 Sales-Tax Collections

Coin dealers generate sales-tax collections in four different ways: 1) in-state retail sales of rare coins and precious-metals bullion, 2) in-state retail sales of other merchandise on which sales tax is collected, 3) spending by coin dealership staff who devote part of their income on merchandise subject to sales tax, and 4) hospitality industry sales to attendees at coin trade shows.

On the basis of this survey, ICTA conservatively concludes that, contrary to what might be expected, **when a state government enacts a rare-coin and precious-metals bullion sales-tax exemption, the state is almost certain to experience a net increase in total sales-tax collections.**

Further, because of higher business activity and industry employment, states with such sales-tax exemptions also experience higher individual income-tax and business-tax collections.

<u>2015 Revenue Sources, per Coin Dealer</u>	Taxable States	Exempt States	Diff.
<u><i>In-State</i></u>			
Retail sales of rare coins and precious metals	\$104,188	\$1,068,612	926%
Retail sales of other merchandise	\$29,269	\$98,659	237%
Services	\$2,390	\$15,088	531%
Wholesale sales	\$252,189	\$651,584	158%
Total In-State Sales	\$388,036	\$1,833,943	372%
<u><i>Out-of-State</i></u>			
Retail sales	\$214,639	\$1,857,931	766%
Wholesale sales	\$472,029	\$984,780	109%
Total Out-of-State Sales	\$686,668	\$2,842,711	314%
TOTAL SALES	\$1,074,704	\$4,676,654	335%

<u>2015 Sales Taxes Collected, per Coin Dealer</u>			
Sales of sales-taxable rare coins and precious metals	\$5,423	\$0	-100%
Sales of sales-taxable merchandise—other	\$1,520	\$5,213	243%
TOTAL SALES TAXES COLLECTED	\$6,943	\$5,213	-25%

<u>Average Number of 2015 Coin Trade Shows Where Coin Dealers Hosted Booths</u>			
In-state	2.9	5.7	97%
Out-of-state in states with no coin/bullion exemption	1.3	0.5	-62%
Out-of-state in states with coin/bullion exemptions	5.3	4.6	-13%
TOTAL	9.5	10.8	14%

Proportion of taxable sales in taxable states consisting of merchandise other than coins or precious-metals bullion: **21.9%**

Total sales in taxable states not affected by enacting a coin/bullion sales-tax exemption: **90.3%**

Percentage of forsaken sales-tax collections from coin/bullion exemption replaced by increased sales of other merchandise still subject to sales tax $[(\$5,213 - \$1,520) / \$5,423]$: **68.1%**

Percentage of forsaken sales-tax collections from coin/bullion exemption replaced by increased sales-taxable purchases that result from higher industry personal incomes (estimated): **50-200%**

Percentage of forsaken sales-tax collections from coin/bullion exemption replaced by increased sales-taxable purchases that result from increased hospitality industry sales (estimated): **10-200%**

For more information, please contact ICTA by calling (678) 430-3252 or by emailing icta@ictaonline.org.

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