

Maine Issue Brief

Published by The Maine Heritage Policy Center

No. 27

January 24, 2008

Tax Savings to Mainers Engaging in Cross-Border Shopping In New Hampshire

By J. Scott Moody and J Dwight

Maine shares a border with only one other state—New Hampshire. More importantly, from a tax policy perspective, the Maine-New Hampshire border represents one of, if not the, largest tax differentials in the country.[1] According to the Census Bureau, in FY 2005, Maine's tax burden—tax collections as a percent of personal income—was 45 percent higher than New Hampshire's (13.03 percent versus 8.99 percent). This enormous tax differential becomes a powerful incentive for Mainers to do their shopping in New Hampshire.

There is no existing data on the extent of cross-border shopping. The Maine Heritage Policy Center has begun to conduct a study to estimate the economic and tax revenue impact of cross-border shopping.[2] This study is based on visits to four Walmarts, two Home Depots and one liquor store along the southern Maine-New Hampshire border on Saturday, December 1, 2007 where the number of Maine license plates were hand-counted at each store as a proxy for Maine cross-border shoppers.

Table 1 shows the actual number of cars counted during the first survey and various estimates of tax savings. The busiest store for cross-border shoppers was the Super-Walmart in Somersworth, NH with 162 Maine license plates counted. As a percent of all cars, the Portsmouth liquor store had the highest number of cross-border shoppers with approximately 30 to 40 percent of all cars having a Maine license plate.[3] Clearly, people are voting with their feet.

Table 1
Estimated Savings to Maine Citizens Engaging in Cross-Border Shopping in New Hampshire
Site Visits Made on December 1, 2007 (Saturday)

Store	Actual Number of Cars Counted	Estimated Number of Cars per 10 Hours per day (2)	Estimated Sales Tax Savings per Year on Saturdays				Estimated Cigarette Tax Savings per Year on Saturdays	Estimated Gasoline Tax Savings per Year on Saturdays	Estimated Total Sales Tax (\$200 spent per car), Cigarette Tax and Gasoline Tax Savings per Year on Saturdays
			\$100 Spent per Car	\$200 Spent per Car	\$300 Spent per Car	\$400 Spent per Car	1 Carton per Car	10 Gallons per Car	
"South" Portsmouth Walmart	46	920	\$239,200	\$478,400	\$717,600	\$956,800	\$956,800	\$128,211	\$1,563,411
"North" Portsmouth Walmart	77 (1)	1,540	\$400,400	\$800,800	\$1,201,200	\$1,601,600	\$1,601,600	\$214,614	\$2,617,014
Somersworth Walmart	162	3,240	\$842,400	\$1,684,800	\$2,527,200	\$3,369,600	\$3,369,600	\$451,526	\$5,505,926
Rochester Walmart	67	1,340	\$348,400	\$696,800	\$1,045,200	\$1,393,600	\$1,393,600	\$186,742	\$2,277,142
Portsmouth Home Depot	50	1,000	\$260,000	\$520,000	\$780,000	\$1,040,000	--	\$139,360	\$659,360
Somersworth Home Depot	51	1,020	\$265,200	\$530,400	\$795,600	\$1,060,800	--	\$142,147	\$672,547
Portsmouth Liquor Store	27 (1)	1,080	?	?	?	?	\$1,123,200	\$150,509	\$1,273,709
Total	480	10,140	\$2,355,600	\$4,711,200	\$7,066,800	\$9,422,400	\$8,444,800	\$1,413,110	\$14,569,110

(1) Average of two site visits.

(2) Assumes turnover every 30 minutes, every 15 minutes for the liquor store.

Source: The Maine Heritage Policy Center.

We the people of Maine...

THE MAINE HERITAGE POLICY CENTER

Applying various conservative assumptions to the car count, the amount of cross-border savings to Maine citizens can be estimated. First, the hourly turnover rate (the rate in which one batch of cars is replaced by a new batch) is assumed to be every half hour (every 15 minutes for the liquor store) and sustained over a 10 hour period. For the Somersworth Super-Walmart this equates to an estimated total of 3,240 Maine cars who visited that Saturday (162 cars times 2 turnovers/hour times 10 hours). Savings to Maine citizens were estimated for the sales tax, cigarette tax and gasoline tax.

Sales Tax: Table 1 illustrates the sales tax savings based on various average taxable spending per car of \$100, \$200, \$300 or \$400. At the Somersworth Super-Walmart alone, the sales tax savings estimate ranges from \$842,400 (at \$100) to \$3,369,600 (at \$400) per year on Saturdays. Due to the complex structure of liquor sales in Maine, the study does not attempt to estimate the tax savings associated with the cross-border activity at the Portsmouth liquor store.

Cigarette Tax: The study assumes that an average of one carton of cigarettes was purchased by all cars counted at Walmart and the liquor store. For every carton sold in New Hampshire, Mainers save \$20 in cigarette taxes (\$2 per pack times 10 packs per carton) for a total of \$8,444,800 per year on Saturdays.

Gasoline Tax: The study assumes that an average of 10 gallons of gasoline was purchased by all cars. Currently Maine's gasoline tax rate is 26.8 cents per gallon. As a result, Mainers save \$1,413,110 in gasoline taxes per year on Saturdays.

Overall, a conservative estimate of total savings from the sales tax, cigarette tax and gasoline tax per year on Saturdays is \$14,569,110 (assuming \$200 in taxable sales). If the tax savings during the other six days is 25 percent of this estimate, then the total yearly tax savings would equal \$36,422,776. Also keep in mind that this estimate is for just seven stores and does not include estimates for the numerous other shopping outlets in southern New Hampshire or those in North Conway, NH or Gorham, NH. While this study does not attempt such a comprehensive estimate, one could easily imagine the tax savings quickly climbing into the hundreds of millions.[4]

Finally, while this is a gain for Maine taxpayers, this estimate also represents a loss to Maine's state government. Maine policy-makers should not react hostilely by condemning 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. Lowering the tax burden would benefit both Augusta and Maine's economy by encouraging Mainers to do their shopping in their own state.

Notes and Sources:

- [1] Coincidentally, another border with a high tax differential is between Vermont and New Hampshire. Vermont's tax burden is 43 percent higher than New Hampshire's.
- [2] Technically, avoiding taxes, especially the sales tax, through out-of-state purchases is illegal since Maine residents are required to pay the use tax on out-of-state purchases. While some Mainers do pay their use tax, the low level of use tax collections suggests that many Mainers do not pay. This study does not condone illegal tax avoidance; however, fully understanding the causes and consequences of cross-border shopping can lead to better tax policy.
- [3] Curiously, 5 out of the 6 cars in the employee parking lot also had Maine license plates—though they were not counted for the purposes of this study.
- [4] MHPC 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 difference among goods and services and additional retail outlets.

J. Scott Moody is vice president of policy and chief economist at The Maine Heritage Policy Center and can be reached at jsmoody@mainepolicy.org.

J Dwight is president of Dwight Investment Counsel and is on the Board of Advisors of The Maine Heritage Policy Center. He can be reached at jdwright@gwi.net.

Maine Issue Brief is a publication of The Maine Heritage Policy Center that provides research and commentary on current public policy issues. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

The Maine Heritage Policy Center is a 501 (c) 3 nonprofit, nonpartisan research and educational organization based in Portland, Maine. The Center formulates and promotes free market, conservative public policies in the areas of economic growth, fiscal matters, health care, and education – providing solutions that will benefit all the people of Maine. Contributions to MHPC are tax deductible to the extent allowed by law.

© 2007 The Maine Heritage Policy Center. Material from this document may be copied and distributed with proper citation.

P.O. Box 7829
Portland, ME 04112
207.321.2550 (p)
207.773.4385 (f)

<http://www.mainepolicy.org>
<http://blog.mainepolicy.org>
info@mainepolicy.org

Additional MHPC Staff:	Sandy Cleveland <i>Office Manager</i>
Tarren Bragdon <i>Chief Executive Officer</i>	Heather Noyes <i>Director of Development</i>
Stephen L. Bowen <i>Education Policy Analyst</i>	

We the people of Maine...

THE MAINE HERITAGE POLICY CENTER