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Cross-Border Shopping and the Sales Tax: A Reexamination of Food Purchases in West Virginia

This study examines the role of sales taxation on cross-border shopping using county level food store data for West Virginia over the 1982-2000 period. During the 1980-82 period, West Virginia legislators eliminated the sales tax on food by cutting the rate on food from 3 percent by 1 percentage point per year. Then in 1989 legislators reintroduced the taxation of food, but at an increased rate of 6 percent. West Virginia's neighboring states (Kentucky, Maryland, Ohio, Pennsylvania, and Virginia) either exempt food from sales taxation, or in the case of Virginia tax food at a reduced rate. In total, there are currently 20 states that impose state and/or local sales tax on food products. Residents in West Virginia border counties experienced a significant shift in the after-tax price differential with neighboring states for food products. The reintroduction of the 6 percent sales tax on food in 1989 provides an opportunity to evaluate the impact of this large discrete change in sales tax policy on the food store industry in border counties relative to interior counties. This is relevant particularly due to recent proposals in West Virginia to eliminate or cut the sales tax on food purchases.

In this study we present new evidence of cross-border shopping in response to sales taxation. Using county level data on food store income and sales tax data for West Virginia over the 1982-2000 period we estimate that for every one-percentage point increase in the county relative price ratio due to sales tax change, the per capita food income decreases by about 0.7 percent. Our estimates indicate that food sales fell in West Virginia border counties by about 4 percent as a result of the imposition of the 6 percent sales tax on food in 1989.

Our results indicate that, on average, the imposition of the 6 percent sales tax on food in 1989 reduced food store income in West Virginia border counties by about \$69 million in total during the period 1990-2000 or \$6.3 million annually. We also show that West Virginia counties at the Kentucky, Ohio and Virginia borders might have had significant negative cross-border sales impact from the sales tax on food with relatively weaker evidence for counties at the Ohio and Virginia borders.

Generally, these results confirm the findings of previous work on taxation and border shopping. Our findings suggest that policymakers do well to consider carefully the tax structure in neighboring jurisdictions, and that tax harmonization efforts could lead to significant efficiency gains. In the case of West Virginia, the imposition of the sales tax on food resulted in a significant outflow of expenditures in border counties--\$6.3 million annually. It may be that in the end the benefits of imposing the sales tax on food outweighed the costs, but information presented here and in the previous literature helps decision makers to make that assessment.

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