

Streamlined Sales Tax A Brief Overview

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Remote sales: Big Picture Issues

- Compliance with sales tax laws by multi-state corporations is too complex
- Local merchants suffer from lack of level playing field
- Significant losses of tax revenue due to growth in electronic commerce and inability of states to administer use tax with consumers

Background: What Retailer's Say Makes the System Burdensome

- Separate state and local tax administration in states
- Unclear rules on who has the right to tax a transaction
- Too many tax rates within each state and locality
- Different state and local tax bases

Background: What Retailer's Say Makes the System Burdensome

- Same word means different things in different states
- Retailer's held liable for tax when a buyer lies or fails to provide proof of an exempt sale
- Returns in each state require different information
- Registering in every state and locality is difficult

Background: What Needed to be Done

Need: A cooperative effort between tax authorities and the retail community to develop methods of simplifying sales and use tax administration - particularly for multistate sellers.

History of Streamlined Sales Tax Effort

- 1999: National Governors Association and National Conference of State Legislatures requested tax administrators to develop a sales tax system:
 - ◆ That is less complex
 - ◆ Addresses unlevel playing field for merchants
 - ◆ Addresses loss of revenue from states unable to collect taxes already imposed

Who Got Involved?

- 44 States, DC and Puerto Rico
 - Legislative Branch
 - Executive Branch
- Local Governments
- Tax Practitioners
- Business community

Streamlined's goals

- Create a simpler system for administering the various state and local sales taxes
- Make processes uniform if they cannot be made simple
- Balance the interests of a state's sovereignty with the interests of simplicity and uniformity
- Leverage the use of technology to ease the retailer's tax collection

Results: Streamlined Sales and Use Tax Agreement (SSUTA)

- SSUTA approved November 2002 by the states, and amended since
- Provisions are based on simplification, uniformity and technology principles
 - ◆ Simplification (e.g., state-level administration of tax)
 - ◆ Uniformity (e.g., uniform definition of "lease," lease sourcing rule)
 - ◆ Technology (e.g., certification of tax calculation software)
 - ◆ Balancing interests of state sovereignty

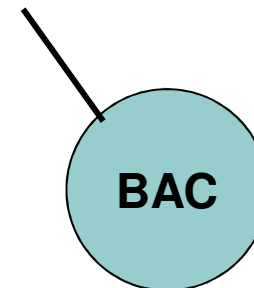
Results: Streamlined Sales and Use Tax Agreement (SSUTA)

- SSUTA effective October 1, 2005
- Current membership (8/1/2015)
 - ◆ 23 Full members
 - ✓ Arkansas, Georgia, Kansas, Kentucky, Indiana, Iowa, Michigan, Minnesota, Nebraska, New Jersey, Nevada, North Carolina, North Dakota, Ohio, Oklahoma, Rhode Island, South Dakota, Utah, Vermont, Washington, West Virginia, Wisconsin, Wyoming
 - ◆ 1 Associate members
 - ✓ Tennessee

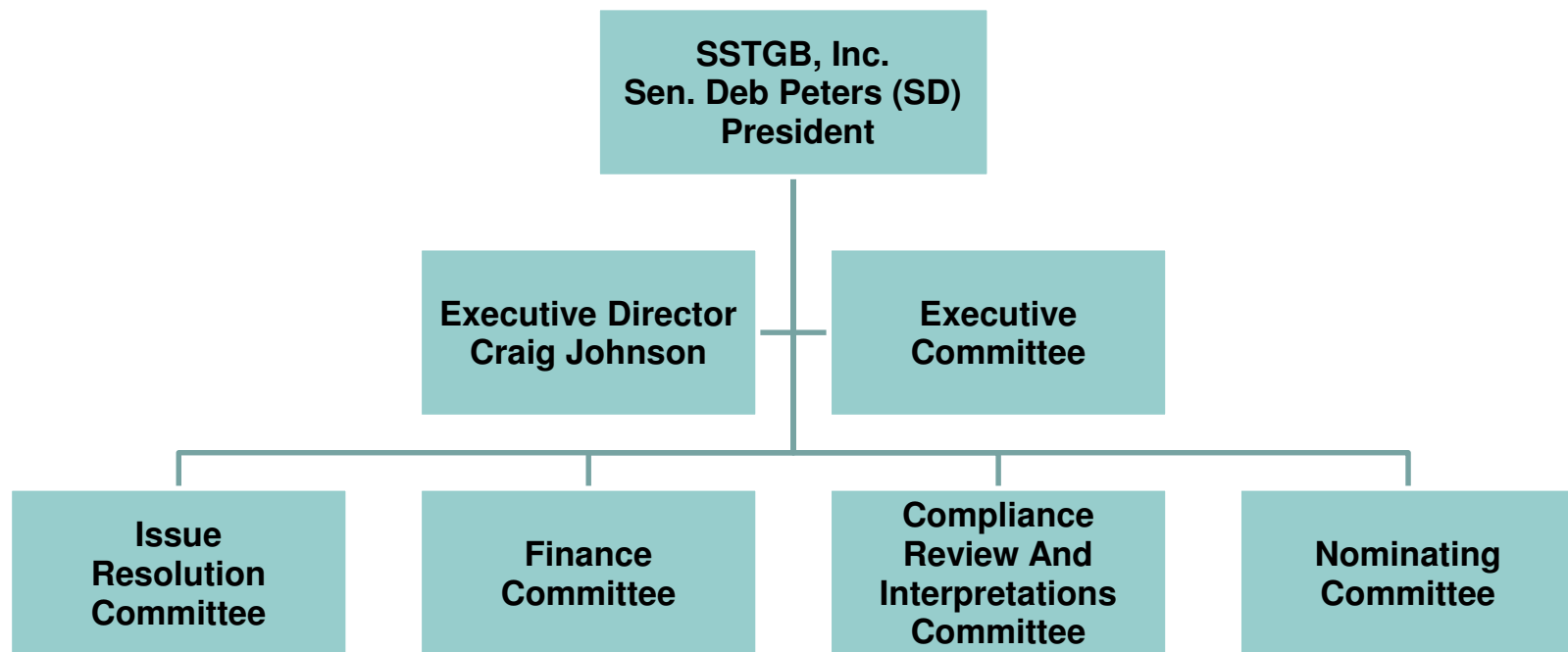
Governance of SSUTA

- All member states have seat on the Governing Board
- Governing Board formed non-profit entity: Streamlined Sales Tax Governing Board, Inc
- Governing Board advised by
 - ◆ **State and Local Advisory Council**
 - ◆ **Business Advisory Council**

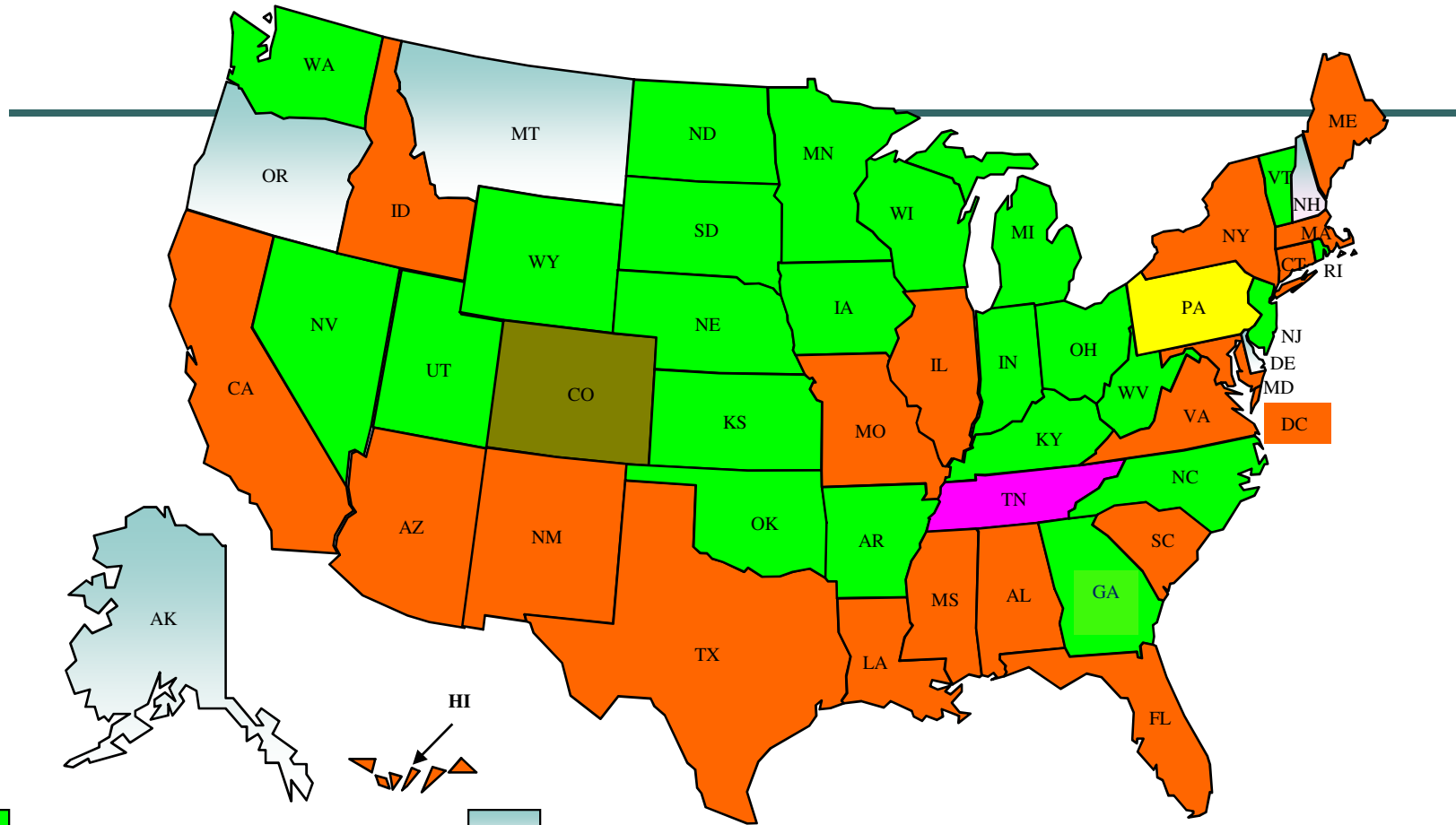
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Governance of SSUTA



Streamlined State Status 08-01-15



- | | | | |
|---|---|---|--------------------------------------|
|  | Full Member States |  | Non-sales tax states |
|  | Associate Member States – flex to full |  | Project states – Not Advisory |
|  | Advisory States – Not Conforming |  | Non-participating state |

Governing Board

- Interpretations of and Amendments to SSUTA
 - ◆ 3/4 vote requirement
- Certifies tax technology systems and service providers
- Reviews state compliance with SSUTA
- Implements administrative mechanisms
 - ◆ Vendor compensation
 - ◆ Multi-state audit procedures
- Handles dispute resolution

State and Local Advisory Council

- Voice for states and local governments for all states including those not on the Governing Board
- Ex officio membership on Governing Board
 - ◆ Chair – Tim Jennrich (WA)
 - ◆ Vice Chair – Alison Jares (SD)
- Develops new definitions and analyzes proposed amendments
- Develops rules and advises on requests for interpretations
- Works with Business Advisory Council (“BAC”)

Business Advisory Council

- Voice of business community members
- Provides input to Governing Board and State and Local Advisory Committee related to administration, interpretation, compliance with and amendments to the agreement
- Members include businesses, associations, and practitioners

Compliance Review and Interpretations Committee

- Committee role and process
- Interpretation Requests
- Impact on ruling requests, dispute resolution process
- Annual recertification of member states

“Best Practices” in SSUTA

- Promote greater uniformity across states. This is particularly beneficial to multistate sellers, but improves compliance and provides an infrastructure of support for all states with a particular uniform provision
- Greater use of technology in sales and use tax administration to ease the administrative burden for sellers and improve accuracy and compliance for states
- Shift responsibilities to states especially in areas where state is or should be in possession of information necessary for administration of the tax (e.g., tax rates and jurisdictions, taxability matrix)

Key Features: Central Registration System

- One place where any company can register for sales tax purposes
- One place where a company can update their registration information
- Inconceivable that federal legislation can be implemented without this requirement

Key Features: Rates and Boundary Databases

- Matches rates to state and local jurisdictions (zip code or address-based)
- States possess the information, but it often is not collected and provided uniformly
- Database is important to in-state retailers that are required to account for sales in multiple jurisdictions
- Hold harmless/retailer protections are contingent on using the state-provided information (due diligence)

Key Features: Taxability Matrix

- Quick and easy reference point on state treatment of selected items
- State is in possession of information - it should be shared
- Not an obligation to provide information on taxability of all goods and services
- Hold harmless/retailer protections are contingent on using the state-provided information

Key Features: Simplified Electronic Return and Remittance Rules

- Simpler administration on both taxpayer and state end
- Also available to in-state retailers
- Might not be used by all, but is of benefit to certain groups of TPs

Key Features: Uniform Definitions

- Food and food ingredients
- Prepared food
- Candy
- Soft drinks
- Dietary supplement
- Clothing
- Lease or rental
- Tangible personal property
- Bundled Transaction
- Drugs
- Durable Medical Equipment
- Computer Software
- Prewritten Computer Software
- Delivered Electronically
- Load and Leave
- Sales Price
- Specified digital products

Key Features: Exemption Administration - Good Faith

- Seller should not be liable for policing improper practices of buyers
- Seller has limited knowledge of buyer operations
- State will have information with which to pursue buyers that use exemptions inappropriately
- Uniform data requirements are advantageous to multistate sellers
- Simplified certificate requirements and seller liability relief will be of great benefit to in-state and single state sellers

Key Features

- Common state and local tax bases within a state
- Uniform destination-based sourcing rule for goods and services
 - ◆ States can choose origin sourcing for **intrastate** delivered products
- Rate simplification
 - ◆ One general state rate per state, with a second rate (which could be zero) on food and drugs
 - ◆ One single local rate per jurisdiction

Technology Implementation

- Model 1 Sellers use services of a Certified Service Provider (CSP)
- Model 2 Sellers use a Certified Automated System (CAS)
- Model 3 sellers have an in-house (Proprietary) System
- Model 4 (All others)

SSTP Technology Model One: The “Certified Service Provider” (CSP)

- CSP is a third party that provides “cradle to grave” tax service that includes liability determination, return filing and tax remittance
- CSP software applications must apply certification standards and must receive approval by the Governing Board
 - ◆ Calculation accuracy standards
- Five CSPs have contracts with Governing Board
 - ◆ Accurate Tax
 - ◆ Avalara
 - ◆ Exactor
 - ◆ Fed-Tax (Tax Cloud)
 - ◆ Taxware (formerly ADP/Taxware)
- Businesses who volunteer to collect tax in state may use CSP’s at no cost – states pay CSP for services to volunteer sellers
- As of 08/01/15 there were over 600 companies using CSP services

CSP - Responsibilities & Liabilities

- Integration of software with seller's order processing system
- Applied data & tax calculations
- Tax liability & statistical reporting
- Funds transfers
- System performance & security

Annual Re-Certification Process

- By August 1 each year states submit:
 - ◆ Letter certifying compliance with the requirements of the SSUTA
 - ◆ Updated Certificate of Compliance
 - ◆ Updated Taxability Matrix

Contact Information

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QUESTIONS?