Streamlined Sales Tax Project

2001 FTA
Revenue Estimating & Tax
Research Conference

Diane Hardt
Wisconsin Department of Revenue

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Streamlined Sales Tax Project

- **Background**
- **Recommendations**
- **Timeline**
- **Status**

What are the Problems?

- **Complexity of Current Tax Structure, Especially for Multi-state Taxpayers**
- **Collection of Use Tax on Out-of-State Purchases**

What is the Result?

- **High Compliance Cost for Taxpayers**
- **Uncertainty Over Tax Application**
- **Economic Disadvantage for "Main Street" Vendors**
- **Lost Tax Revenues for State and Local Governments**

Background
Streamlined Sales Tax Project

- **What is SSTP?**
  - **Project to modernize sales and use tax**
  - **Affects all taxpayers and all commerce (bricks and mortar and remote)**
- **How will it be accomplished?**
  - **Simplification and uniformity**
  - **Use of technology**
- **Who is involved?**
  - **State Government**
  - **Input from Local Government, Business, and Public**
  - **NGA, NCSL, and others**

Background
Streamlined Sales Tax Project

- **Project Organization**
  - **Two Co-Chairs**
  - **Steering Committee**
    - **Members**
      Michigan, Missouri, New Jersey, North Carolina, South Dakota, Texas, Utah, Wisconsin, and Wyoming
  - **Work Groups and Sub-Groups**
  - **Project Meetings**
  - **Public Hearings**

Streamlined Sales Tax Project

- **Activities**
  - **Seven Project Meetings (2000)**
  - **Two Public Hearings**
    - **September 29, 2000**
    - **October 26, 2000**
  - **Four Project Meetings (2001)**

Participating States   (33)

Alabama	Michigan	Rhode Island
Arkansas	Minnesota	South Carolina
Florida	Mississippi	South Dakota
Illinois	Missouri	Tennessee
Indiana	Nebraska	Texas
Iowa	Nevada	Utah
Kansas	New Jersey	Vermont
Kentucky	North Carolina	Washington
Louisiana	North Dakota	West Virginia
Maine	Ohio	Wisconsin
Maryland	Oklahoma	Wyoming

Recommendations - Base and Rate

- **Menu of uniform definitions**
- **State and local governments will have same tax base (except motor vehicles, aircraft, boats, and mobile homes)**
- **Simplified exemption processing**
  - **Relax good faith requirement**
  - **Exemption database**
- **Uniform exemption certificate**
- **Product coding scheme (mid-term)**

Recommendations - Base and Rate

- **Single State rate per state**
- **Single local rate per local jurisdiction**
- **States administer local sales & use taxes**
- **Local rate and boundary changes effective only on first day of calendar quarter with 60 days' notice**
- **Local government required to report rate and boundary changes to state**
- **States would be limited or prohibited from placing caps on tax on products or transactions**

Recommendations - Administration and Sourcing

- **Single registration**
- **Uniform treatment of bank holidays**
- **Uniform treatment of bad debts**
- **Uniform rounding**
- **Limited scope audits and certification standards**
- **No nexus attribution for voluntary collection**

Recommendations - Administration and Sourcing

- **Uniform sourcing**
  - **All products and services**
  - **Hierarchy**
    - **Over counter**
    - **Shipped to**
    - **Billed to**
    - **Default**

Recommendations - Technology

- **Simplified filing - uniform form (ELF)**
- **Electronic funds transfer for all remittances**
- **State data base matching rate to jurisdiction**
- **States cannot hold retailers liable if state-provided information is incorrect (rates, boundaries, zip+4 assignment)**
- **Technology models**

SSTP Technology and Collection Models

- **Model 1: Certified Service Provider (CSP)**
- **Model 2: Retailer uses Certified Automated System (CAS)**
- **Model 3: Proprietary system as a Certified Automated System**
- **Model 4: Traditional Collection Systems**

Model 1: Certified Service Provider (CSP)

- **States contract with CSP's.**
- **States test and certify CSP's system.**
- **States compensate CSP's.**
- **Retailer selects CSP to perform sales tax functions.**
- **CSP determines tax due, pays the tax to the states, and files the return with the states using a CAS.**

Model 1: Certified Service Provider (CSP)

- **CSP is liable for tax due with two exceptions:**
  - **errors by the state**
  - **fraud by the retailer**
- **CSP is subject to audit and periodic system checks.**
- **CSP is liable for updates.**
- **Model 1 designed for remote sellers.**
- **Model 1 integrated into order process.**

Model 2: Certified Automated System (CAS)

- **Tax application system tested and certified by states.**
- **Retailer selects CAS to calculate tax due.**
- **Retailer establishes an interface with CAS.**
- **CAS performs calculation of tax due.**
- **States compensate retailer for CAS.**

Model 2: Certified Automated System (CAS)

- **Company whose system is certified must update CAS.**
- **Retailer is liable for tax due unless failure by CAS or errors by the state.**
- **CAS is subject to periodic systems check.**
- **Retailer is subject to audit on tax remittance and return filing.**

Model 3: Proprietary System as Certified Automated System

- **Existing system certified as a CAS**
- **Retailer meets performance standard (statistical confidence level and acceptable margin of error)**
- **States periodically check system**
- **Accommodate large retailers with nationwide sales (starting at annual sales revenue of at least $500 million)**

Model 3: Proprietary System as Certified Automated System

- **Retailer liable for all sales tax functions and tax due**
- **Retailer liable for additional tax if system falls short of performance standard**
- **Retailer not liable for errors of states**
- **Retailer subject to audit on purchases**

Model 4: Traditional Collection Systems

- **Decision to use CSP or CAS is up to retailer**
- **Retailers benefits from simplifications**
- **Retailer performs sales tax functions.**
- **Retailer determines tax due, pays the tax to the states, and files the return with the states.**
- **Retailer is liable for tax due.**
- **Retailer is subject to audit on tax remittance and return filing.**

Streamlined Sales Tax Project Pilot - Model 1

- **Purpose - Test Linkage**
- **Features - Existing Tax Law**
- **States:**
  - **Kansas**   **North Carolina**
  - **Michigan**   **Wisconsin**
- **Process**
  - **Request for Proposal Issued**
  - **Proposals Reviewed by Pilot States**
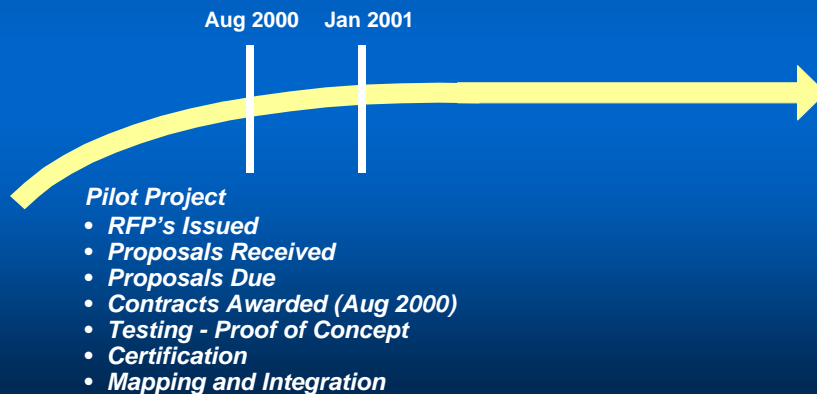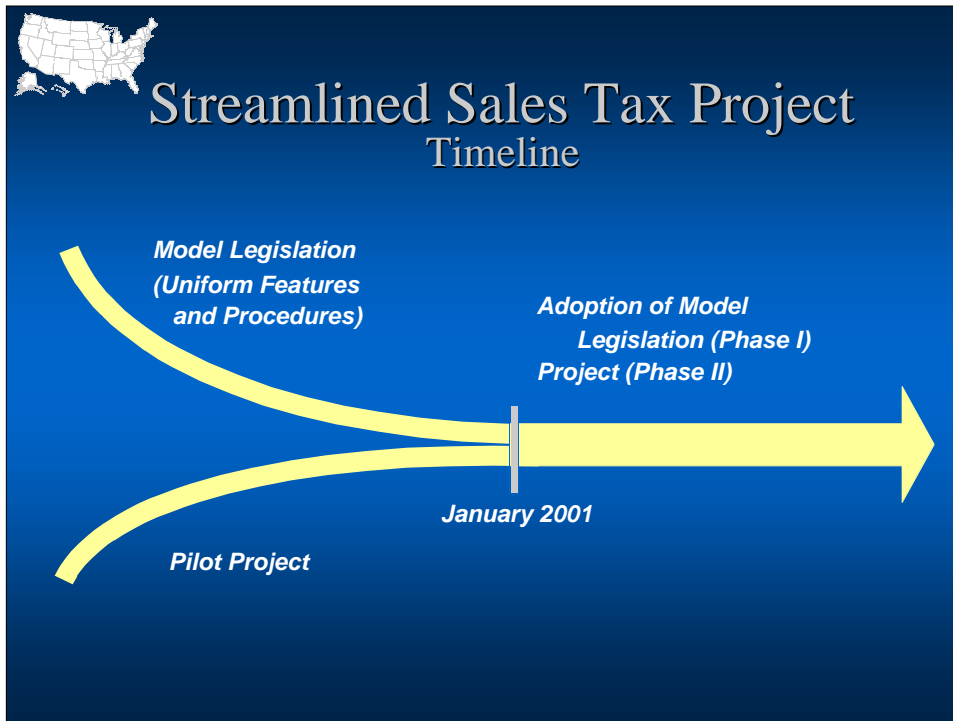 - **Contracts awarded to CSP's**

Streamlined Sales Tax Project Pilot - Model 1

- **Certified Service Providers**
  - **esalestax.com**
  - **Pitney Bowes (Vertex)**
  - **Taxware International (Hewlett-Packard)**
  - **Taxware International (Pitney Bowes)**
- **Status**
  - **Testing**
  - **Proof of concept**
  - **Certification**

Streamlined Sales Tax System
Timeline: Technology

Aug 2000   **Jan 2001**

Pilot Project
- *RFP's Issued*
- *Proposals Received*
- *Proposals Due*
- *Contracts Awarded (Aug 2000)*
- *Testing - Proof of Concept*
- *Certification*
- *Mapping and Integration*

Streamlined Sales Tax Project
Timeline

Model Legislation
(Uniform Features
and Procedures)

Adoption of Model
Legislation (Phase I)
Project (Phase II)

January 2001

Pilot Project

Streamlined Sales Tax System
Timeline: Features and Legislation

Model Legislation

Uniform Features
- **Rate Simplifications**
- **Initial Uniform Definitions**
- **Exemption Administration**
- **Uniform Sourcing Rule**
- **Uniform Bad Debts Treatment**
- **Uniform Rounding Rule**
- **Certification Authority**
- **Payment Provisions**

Additional Development
(Phase II)

- **More Uniform Definitions**
- **Product Coding**
- **Uniform Return**
- **Review of Pilot Results**
- **International Issues**

Jan 2001

Streamlined Sales Tax Project Status: Model Legislation

- **Model Act**
  - **Authority to enter agreement**
  - **Conforming legislation**
- **Interstate Agreement**
  (contract between states)
  - **Effective date**
  - **Administration**
  - **Certification**
  - **Governance**

Streamlined Sales Tax Project Status

- **Legislative Activities**
  - **Legislation introduced in 27 states**
  - **Enacted in 19 states-**
    Wyoming, Kentucky, Utah, Arkansas, North Dakota, Indiana, Maryland, Oklahoma, Louisiana, Tennessee, Nebraska, Nevada, Florida, Texas, Minnesota, Rhode Island, Illinois, and North Carolina and Wisconsin
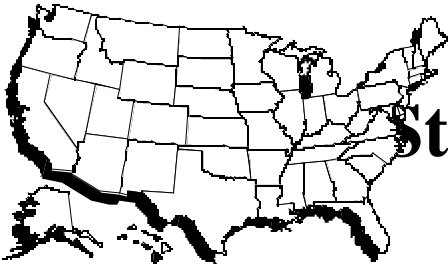
Streamlined Sales Tax Project Status

- **Future Project Activities**
  - **Determine Implementation Requirements**
    - **Data Bases   Exemption Administration**
    - **Audit Standards   Certification Standards**
  - **Prepare Issue Papers**
    - **Definitions**
    - **Features**
  - **Project Meetings**
    - **October 22 & 23 - Louisville, KY**

Website

- www.streamlinedsalestax.org
  - **Structure and Rules**
  - **Participating States**
  - **Meeting Announcements**
  - **Agendas**
  - **Press Releases**
  - **Project Updates**
  - **Work Products**
  - **Public Comment**

Streamlined Sales Tax Project

EXECUTIVE SUMMARY

August, 2001

Steering Committee

Charles Collins
Co-Chair
North Carolina

Diane Hardt
Co-Chair
Wisconsin

Nancy Taylor
Michigan

Carol Fischer
Missouri

Harold Fox
New Jersey

Scott Peterson
South Dakota

Eleanor Kim
Texas

Bruce Johnson
Utah

Johnnie Burton

The Streamlined Sales Tax Project is an effort created by state governments, with input from local governments and the private sector, to simplify and modernize sales and use tax collection and administration. The Project's proposals will incorporate uniform definitions within tax bases, simplified audit and administrative procedures, and emerging technologies to substantially reduce the burdens of tax collection. The Streamlined Sales Tax System is focused on improving sales and use tax administration systems for both Main Street and remote sellers for all types of commerce.

Thirty-nine states are currently involved in the project. Thirty-three states are voting participants in the project because their legislatures have enacted enabling legislation or their governors have issued executive orders or a similar authorization. Six states are non-voting participants in the work of the project because they do not have the formal commitment of the state executive or legislative branches.

The project has addressed its issues through a steering committee and four work groups: Tax Base and Exemption Administration; Tax Rates, Registration, Returns and Remittances; Technology, Audit, Privacy and Paying for the System; and Sourcing and Other Simplifications. Businesses—including national retailers, trade associations, manufacturers, technology companies, and others--have actively participated in Project

meetings by reviewing proposals and providing feedback to the states on key elements of the new system.

The key features of the Streamlined Sales Tax System include:

- Uniform definitions within tax bases. Legislatures still choose what is taxable and exempt but will use the common definitions for key items in the tax base.

- Simplified exemption administration for use- and entity-based exemptions. Sellers are relieved of the "good faith" requirements that exist in current law and will not be liable for uncollected tax. Purchasers will be responsible for incorrect exemptions claimed.

- Rate simplification. States will be responsible for the administration of all state and local taxes and the distribution of the local taxes to the local governments. State and local governments will use common tax bases and accept responsibility for notice of rate and boundary changes. States will be encouraged to simplify their own state and local tax rates.

- Uniform sourcing rules. The states will have uniform sourcing rules for all property and services.

- Uniform audit procedures. Sellers who participate in one of the certified Streamlined Sales Tax System technology models will either not be audited or will have a limited scope audit, depending on the technology model used.

- Paying for the system. To reduce the financial burdens on sellers, states will assume the responsibility for implementing the Streamlined Sales Tax System.

Participation in the system by both vendors and states is voluntary. Also, registration by vendors in the Streamlined Sales Tax System does not infer nexus for business activity or income tax purposes.

The Streamlined Sales Tax System will provide sellers the opportunity to use one of three technology models. A seller may select Model 1 where a Certified Service Provider performs all of the seller's sales tax functions. A seller may select Model 2, a Certified Automated System, to perform only the tax calculation function. A larger seller with nationwide sales that has developed its own proprietary sales tax software may select Model 3 and have its own system certified by the states. However, some sellers may choose to continue to use their current systems and still enjoy the benefits of simplification.

On December 22, 2000 state representatives to the Streamlined Sales Tax Project voted to approve a Uniform Sales and Use Tax Administration Act and Streamlined Sales and Use Tax Agreement. State legislatures began considering the Act and Agreement in January 2001.

The approval of the Act and Agreement provides the basis for states to enact legislation to provide the benefits of simplification to vendors in their state. However, the Project will continue its work throughout 2001 to incorporate additional elements into the system. These elements may include additional uniform definitions, a uniform

tax return, and revisions to the technology models based upon information gained through the testing of tax collection software.

As of August, 2001, twenty-seven states have introduced legislation dealing with simplification. Streamlined legislation has been enacted in eighteen states and is waiting for signature by the governor in one additional state.

PARTICIPATING/OBSERVER STATES

At its March 2000 meeting, the rules adopted by the Streamlined Sales Tax Project anticipated two levels of activity in the Project as dictated by the executive and legislative branches in each interested state. "Participating" states represent those states in which the Governor has signed an Executive Order or the legislature has passed legislation authorizing state personnel to participate in the discussions of the Project. Participating states are also voting representatives in the Project. "Observer" states represent those states that have expressed an interest in the Project's mission but have not received the executive or legislative authorization to become a Participating state. Observer states participate in all Project meetings but do not have voting status within the Project.

As of August, 2001, the following list represents Participating and Observer states in the Project.

Participating States (33)		Observer States (6)
Alabama	Nevada	California
Arkansas	North Carolina	Colorado
Florida	North Dakota	Connecticut
Illinois	Ohio	Georgia
Indiana	Oklahoma	Idaho
Iowa	Rhode Island	Pennsylvania
Kansas	South Carolina	
Kentucky	South Dakota	
Louisiana	Tennessee	
Maine	Texas	
Maryland	Utah	
Michigan	Vermont	
Minnesota	Washington	
Mississippi	West Virginia	
Missouri	Wisconsin	
Nebraska	Wyoming	
New Jersey		