

Remitting Sales and Use Tax at the Point of Sale

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Remittance of Sales and Use Tax at POS

A process whereby the sales tax charged and paid via an electronic payment method is separately accounted for and remitted to the tax agency in real-time or near real-time when the transaction is finalized or at predetermined intervals.

- ▶ Electronic transactions
- ▶ Multiple methods to account for and remit the tax to the revenue agency
- ▶ Likely a long term transition

Objective – Food for Thought

- ▶ Raise awareness of the potential to remit sales and use taxes in real time or near real time
- ▶ Not intended to propose or endorse any specific approach or solution
- ▶ Benefits to revenue agencies and concerns of business
- ▶ The need for states to agree and work together on the way forward

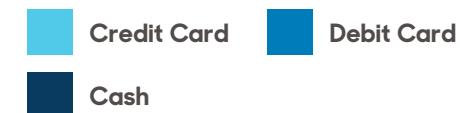
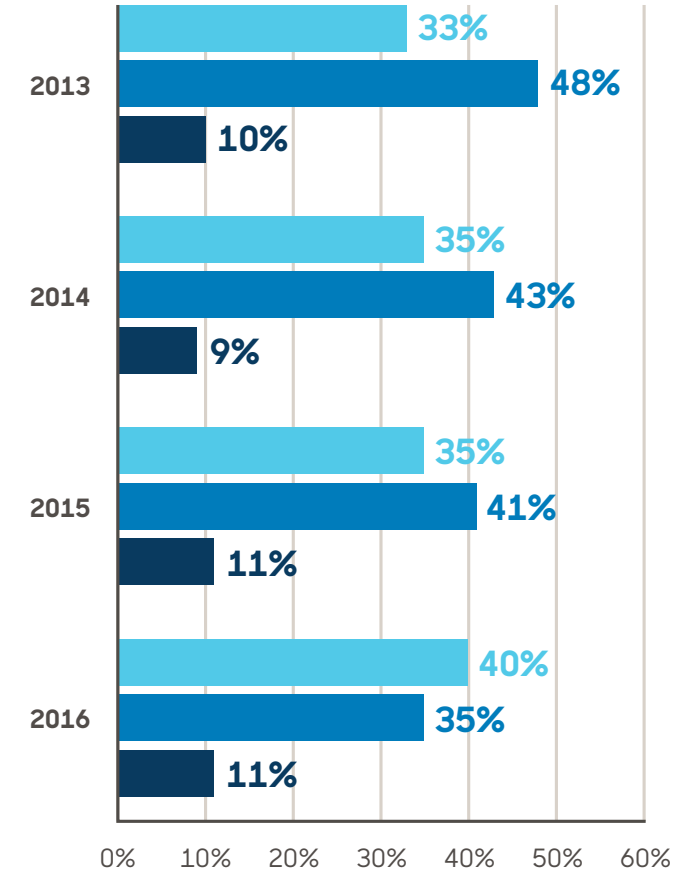
Payment Preferences

Payment with credit and debit cards are preferred payment method of consumers.

Exhibit 5:
Preferred Payment Type by Age

Most Preferred Payment Type	Age range					
	18 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 or older
Credit card	22%	57%	52%	31%	34%	42%
Debit card	47%	26%	30%	45%	35%	29%
Cash	18%	5%	8%	12%	17%	10%

Exhibit 4:
Most Preferred Payment Type



US Tax Gap

	Tax Year 2001	Tax Year 2006	Tax Years 2008-2010
Estimated Total True Liability	\$ 2,112	\$ 2,660	\$ 2,496
Gross Tax Gap	\$ 345	\$ 450	\$ 458
Overall Voluntary Compliance Rate	83.7%	83.1%	81.7%
Enforcement and Late Payments	\$55	\$65	\$52
Net Tax Gap	\$290	\$385	\$406
Overall Net Compliance Rate	86.3%	85.5%	83.7%
Net Tax Gap Rate	13.7%	14.5%	16.3%

Sources:

- IRS Releases 2006 Tax Gap Estimates, FS-2012-6, January 2012
- Tax Gap Estimates for Tax Years 2008–2010, Revenue Service April 2016
- GAO-07-423R National Research Program Data, March 15, 2007

Impact of Information Reporting on Non-Compliance

Percent of Income Unreported – Individual Income Tax

Information Reporting	1992	2001	2006	2008-2010
Substantial & Withholding (W-2)	1%	1%	1%	1%
Substantial (1099)	4%	5%	8%	7%
Some (K-1)	7%	9%	11%	19%
Little or No Information Reporting	32%	54%	56%	63%

Sources:

- IRS Releases 2006 Tax Gap Estimates, FS-2012-6, January 2012
- Tax Gap Estimates for Tax Years 2008–2010, Revenue Service April 2016
- TAX GAP Multiple Strategies, Better Compliance Data, and Long-Term Goals Are Needed to Improve Taxpayer Compliance GAO-06-208T October 25, 2005

Enablers

- ▶ The technology exists
- ▶ Consumers prefer electronic forms of payment and are moving away from cash
- ▶ The value of the national tax gap is continuing to increase and is likely to exceed \$500 billion annually
 - Traditional compliance enforcement approaches are having a limited impact
 - A new approach is necessary
 - Payment of tax at the front end would mitigate a portion of the tax gap
- ▶ National emphasis on sales tax simplification post-Wayfair

Real Benefits for Tax Administration

- ▶ Non-filers
 - The cost of non-filers is lessened to value of cash sales
 - More accurate identification of non-filers
- ▶ Under-reporters
 - Limited to value of cash sales, which is decreasing
- ▶ Non-payment
 - Limited to value of cash sales
- ▶ Potentially more transactional and summary data about sales and purchases
 - Additional 'in-house' data to review, identify and conduct sales tax audits
 - Use of transactional data to reconstruct income for other tax types
- ▶ The cost of enforcement
 - Less need for field audit
 - Shift to more automated and correspondence audits

The Impact on Sales and Use Tax Audit Programs

- ▶ Less need for audit and thus less cost to the agency
- ▶ Less outstanding sales tax liabilities
- ▶ Decreased revenue per audit will require rethinking audit programs
- ▶ Less able to justify cost of audit resources using current performance metrics
 - Online sales and use tax collection will lower audit yield as well

Potential Challenges

- ▶ Some businesses may move to cash only
 - May not be feasible, except in smaller, local business
- ▶ Impact on and costs to payment processors or other service providers
- ▶ Role of 3rd party software/service providers for sales and use tax
- ▶ Impact on businesses
 - Changes/transition in sales tax reporting and payment
 - Loss of temporary use of sales tax revenues
- ▶ Nationwide standards vs state by state

Concerns of Business Community

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- ▶ What is being sold? Idea? Software? Hardware?
 - ▶ Accelerated remittance by retailer?
 - ▶ Estimated prepayment by retailer
 - ▶ Daily remittance by retailer
 - ▶ Remittance by third party (card processor)?
 - ▶ Recent legislative proposals in AZ, CT, MA
- ▶ Cost/benefit analysis
 - ▶ Asserted benefits/problem to be solved?
 - ▶ Costs to the state?
 - ▶ Costs to the business community?
- ▶ Technical/logistical/practical issues?
- ▶ Businesses urge caution - ask key questions

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Income Tax Returns Processing - How Did It Happen?

- ▶ General consensus around the objective of returns processing
- ▶ Universally recognized need for change
- ▶ The solution was achievable
 - It was realistically viewed as a long term initiative
- ▶ States worked together to justify and enable change
- ▶ States and IRS worked with stakeholders to develop and communicate standards
 - Return preparation software providers
 - Tax preparation services

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Questions

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