South Carolina Tax Realignment Commission
Streamlined Sales Tax Initiative

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What Is the Streamlined Sales Tax Initiative?

– Government/business effort to simplify sales and use tax administration
– Affects all businesses and all commerce
– Reduces complexity and cost of compliance
– Increases voluntary compliance
– Emphasis areas:
  • Current collectors
  • Remote sellers
Why is the Initiative Important?

• Importance to states
  – Improved tax compliance
  – Simplified administration
  – Addresses issues of remote commerce
  – Voluntary collection

• Importance to business
  – Reduces complexity (certainty)
  – Lower cost of compliance
  – Improved tax compliance
  – Reduced audit burden
Who is Involved?

• Government
  – State tax administrators
  – Legislators
  – Local representatives

• Associations

• Business
  – Retailers (bricks & online)
  – Manufacturers
  – Telecommunications and cable
  – Leasing companies
  – Providers
What Is At Stake

• Increased collection due to improved compliance
• Reduced cost of compliance by business
• Level playing field for instate merchants
• Increased collection of remote commerce
  – 2008: E-commerce loss to state and local governments is $7.7 Billion
  – 2012 revenue projected loss for state and local governments is $11.3 Billion
# Level of State Involvement in Effort

## Streamlined Sales Tax Project

- **Began March 2000**
  - Members were state tax administrators and business representatives.

- **44 states and District of Columbia involved. Need**
  - Executive order from Governor or legislation to participate
  - (45 states & DC have sales tax.)

- **Drafted Streamlined Sales Tax Agreement language. Developed**
  - white papers on technical tax issues.

- **Voted on recommendations in Agreement.**

(Now State and Local Advisory Council)

## Streamlined Sales Tax Governing Board

- **Members are states that have**
  - Enacted legislation for provisions of Streamlined Sales Tax Agreement.

- **Governing Board started in July 2005**
  - when appropriate number of states were in compliance

- **23 States are members. 20 Full members and 3 Associate Members.**

- **Focusing on administrative and implementation issues. Amendments to**
  - Agreement and interpretations.
Streamlined Sales Tax Agreement

- Interstate Agreement for Cooperative Tax Administration
- Provisions for Modernization
  - Simplification
  - Uniformity
  - Technology
  - Governance
- Became effective with compliance by min. of 10 states with 20% of pop. of states with sales tax
- Approved November 2002
- Located at www.streamlinedsalestax.org
Streamlined Sales and Use Tax Agreement

• Simplification provisions
  – State level administration of local sales and use taxes
  – Rate Simplification
    • One general State rate
    • One add’l State rate (Drugs or Food)
    • One rate per local taxing jurisdiction
Streamlined Sales and Use Tax Agreement

- Simplified exemption processing
  - Sellers can use a standard form for claiming an exemption electronically or retain the data elements on the form, as adopted by the Governing Board
  - A purchaser is not required to provide a signature to claim an exemption unless a paper exemption certificate is used
  - Sellers meeting exemption procedure requirements relieved of liability where the purchaser improperly claims an exemption
  - States may choose to require purchasers to provide an exemption identification number, but may not require sellers to verify the number
Streamlined Sales and Use Tax Agreement (cont.)

- Uniformity provisions
  - Common state and municipal bases in a state
  - Common base for municipal jurisdictions
  - Uniform sourcing:
    - Destination-based for shipments
    - Products and services
    - Telecommunications
    - Option for Origin sourcing for instate shipments
Streamlined Sales and Use Tax Agreement (cont.)

- Uniformity provisions (cont.)
  - Uniform definitions
    - Administrative
      - Sales price
      - Tangible personal property
    - Product (used if state exempts product)
      - Durable medical equipment
      - Computer software
      - Prewritten computer software
      - Food
      - Candy and soft drinks
Streamlined Sales and Use Tax Agreement (cont.)

• Technology provisions
  – State provided matrix of exempt products
  – Central electronic registration system
  – Rates and boundaries databases
  – Uniform returns and remittances
  – Certification of tax compliance systems
Technology Provisions

- **Central Electronic Registration System**
  - Accepted by all states
  - Limited number of data elements
  - No signature requirement for electronic
  - A seller registered under the Agreement must register in each full member state
    - Registration not required in associate member states
    - Registration under the centralized system is voluntary
Technology Provisions

- Rates and Boundaries Databases
  - States must provide and maintain a database of all sales and use tax rates for all taxing jurisdictions
    - Database must assign each 5-digit and 9-digit zip code to the tax rate and jurisdiction
    - Taxpayers and providers held harmless for errors
Technology Provisions

• Uniform Returns & Uniform Remittances
  – One tax return is required for each taxing period per state and all taxing jurisdictions within the state

• Return due no earlier than the 20th day of the month following the month in which the transaction occurred

  – State option of additional remittance(s)
Technology Provisions

• Certified Tax Compliance System
  – System calculates transaction taxes, provides for appropriate returns and handles exempt transactions
  – Accommodates taxation rules, sourcing rules and special rules
  – Utilizes state provided data bases for rates and matrix for exempt products
  – Handles transactions for all jurisdictions
  – Certified and approved by GB states
  – Deployed in two models
    • Certified Service Provider
    • Certified Automated System
Certified Service Provider (CSP)

- Third party providing tax calculation service
- Service includes software for calculation, filing of returns and remitting tax
- CSP software applications must apply SSTP certification standards
  - Calculation accuracy standards
  - Technology standards (e.g., ISO 17799, SAS70)
- CSPs are government contractors compensated by states (compensation limited to non nexus transactions)
Certified Automated System (CAS)

– Business may not be able to use CSP
  • Technology policies may prohibit transfer of data outside of firewall
  • Slower processing speed for remote tax calculations

– Certified automated systems are installed inside a company’s firewall, linked to your transaction source

– States provide allowance for non nexus transactions for two years
Streamlined Amnesty Provision

• A company can register and receive amnesty for any prior uncollected sales tax
• To get amnesty company must agree to collect on sales in all full member states
• To continue amnesty company must continue to file and pay for 36 months or longer if traditional nexus.
• Amnesty offered by state for 12 months after becoming Full Member.
• Amnesty remains effective for:

  Utah, Ohio and Tennessee – continues (associate member states)
Streamlined Activity

• Sellers voluntarily registered to collect tax using the Streamlined system
  o Through FY 2008 (since 10/1/2005) sellers collected and remitted $258 million in tax
  o Over 1,100 registered sellers – most using their own system
  o Seller can also use one of four certified service providers without charge for non nexus transactions
Actions to Consider

• State review of actions needed to become member
  – Governing Board Members and Executive Director will assist
  – Business community will assist

• Implement provisions not requiring legislation
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