

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

Streamlined Sales Tax Governing Board

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

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

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

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

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

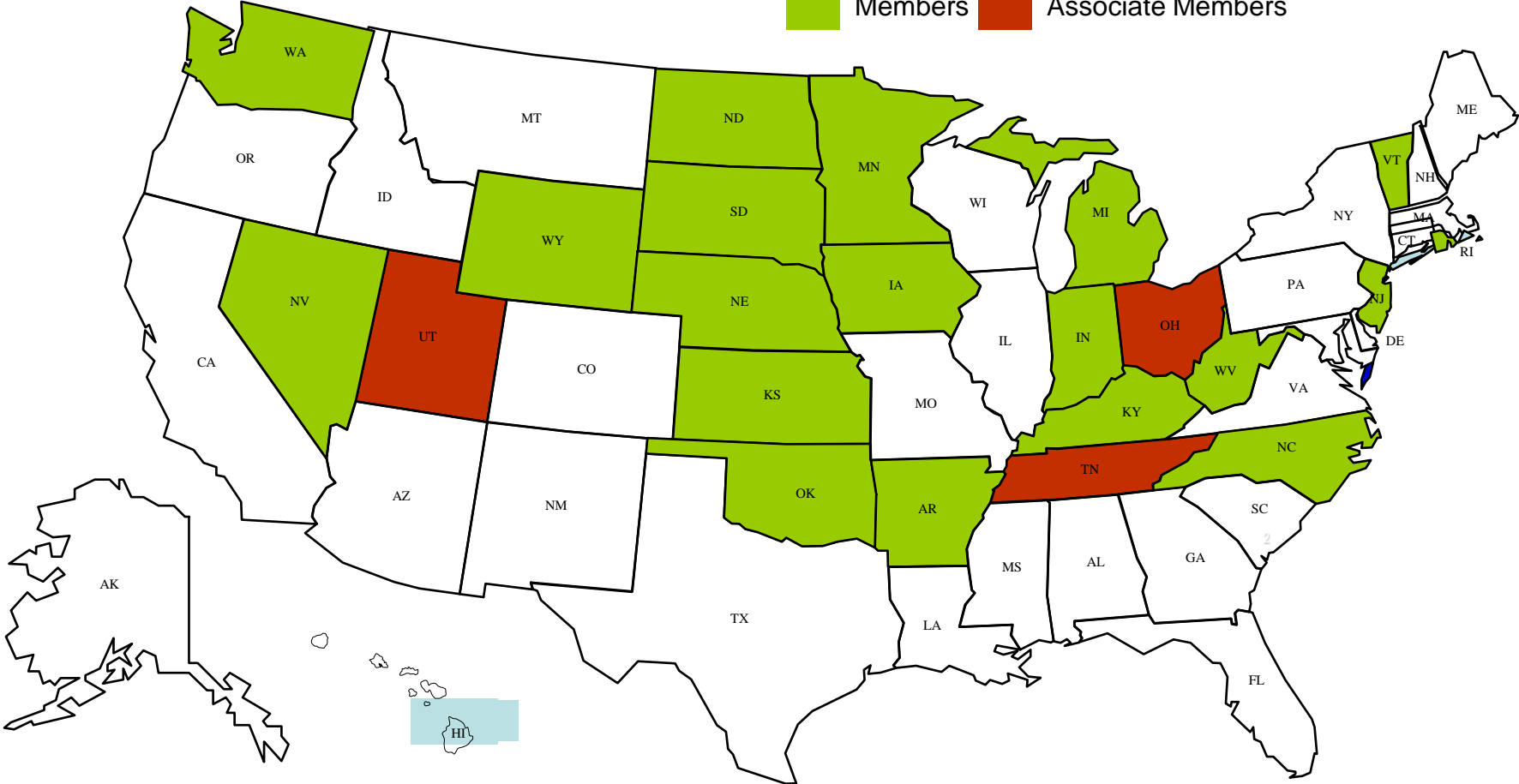
23 States are members. 20 Full members and 3 Associate Members) .

Voted on recommendations in Agreement.

Focusing on administrative and implementation issues. Amendments to Agreement and interpretations.

(Now State and Local Advisory Council)

Members Associate Members



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
 - Through FY 2008 (since 10/1/2005) sellers collected and remitted \$258 million in tax
 - Over 1,100 registered sellers – most using their own system
 - 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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