

Streamlined Sales Tax Project Meeting, July 13-14, 2000, Chicago, Illinois

The Streamlined Sales Tax Project held its sixth meeting in Chicago, Illinois on July 13-14, 2000. Approximately 60 persons representing about 30 states attended the sessions. In addition, about 20 private sector persons attended various parts of the meeting open to the public.

As of this date, there are 23 "participant states" that have indicated their intent through legislative or executive action. There are also 13 "observer states" engaged in the Project discussions. States participating in their first meeting in July were West Virginia, Pennsylvania, Alabama and Mississippi.

The meetings consisted of a series of individual Work Group meetings on July 13 to continue work on the issues before each group. A portion of each group involved private sector participants to review and offer comments on the work of each group to date. A Project Meeting was held on July 14 to receive public input on the project as a whole as well as to hear progress reports and plans from each of the Work Groups. Governor Leavitt of Utah spoke to the Project to encourage them to think boldly and to radically redesign the sales tax administration system.

Work Group Status

The Tax Base and Exemption Work Group has developed a "white paper" on a redesigned exemption administration process. The process under consideration will have two essential features for dealing with exempt purchasers and exemptions by use: (1) A buyer will claim the exemption by completion of a standard set of information (on paper or electronically) indicating the identity of the purchaser and the reason for exemption; (2) A seller will not be held liable or responsible for verifying the validity of the claimed exemption or the "good faith" of the purchaser. The obligation will be on the state to police any potential exemption abuse through the information provided when the exemption is claimed. The Work Group expects to have the white paper available for public release prior to the August meeting.

The Tax Base Work Group is also working on a set of uniform definitions for key aspects of the sales tax. The first focus is on key terms in any sales tax, e.g., sale, gross receipts, delivery, tangible personal property, etc. The second phase of the work will be to develop uniform definitions for commonly exempted items, starting with food and clothing.

The Tax Rates, Returns, Registration and Remittances Work Group is continuing to refine its preliminary recommendations. Key aspects currently under consideration by the Group are reviewed below. Preliminary recommendations may be released before the August meeting.

- The baseline for determining the appropriate tax rate will use the 9-digit Zip Code. States will be responsible for providing a data base that assigns each 9-digit Zip Code to the proper tax jurisdiction and the appropriate tax rate. States will

also be responsible for providing a data base of tax rates for each tax jurisdiction. In addition, there will be limits on the frequency with which local tax rates can be changed and a requirement that the state provide a notice of local rate and boundary changes. There will also be a required advance notice for state sales tax rate changes.

- As to returns, the Work Group envisions that a tax return would include only such information as is necessary to identify the taxpayer making the return, to post amounts remitted to the appropriate state accounts, and to distribute local tax revenues to the appropriate local jurisdictions. Consideration is also being given to developing a uniform schedule of additional "return information" (e.g., deductions, etc.) that states could obtain from retailers on a quarterly or other periodic (not monthly) basis.
- For registration purposes, the Work Group intends to support the one-stop, electronic registration system being developed by the Multistate Tax Commission. In addition, it would propose to develop a transition paper process through which a non-nexus seller could register by providing minimal information to states in which it does not have an identifiable physical presence (facility or employees) and to be routed to the appropriate registration information for those states in which it does or will have such a presence.
- In dealing with remittances, the Work Group is examining an approach that would have several features: (1) assignment to filing and remittance frequencies according to state law; (2) possible limits on the number of remittances required in any month; (3) requirements that any pre-payment or estimated remittance be based on a known, prior historical period; (4) uniform EFT formats; (5) alternative EFT approaches (e.g., credit and debit); (5) back-up or emergency payment procedures; and (6) a uniform rule that a remittance due on a legal or banking holiday will be treated as timely filed if made by the next business day following the holiday.

The Sourcing and Other Simplification Work Group is working on three principle products: (1) a uniform rounding rule; (2) a uniform bad debt deduction rule; and (3) a uniform sourcing rule. The Group is working with a rule calling for "arithmetic" rounding, i.e., over 0.5 rounds to the next digit. It also has a uniform bad debt allowance in draft form. The Group is also near a final proposal for sourcing tangible property to the state of destination. A proposal for sourcing services and digital products will require further work. Certain principles and alternative approaches were reviewed with private sector representatives. Comments were received, and the private sector will also attempt to develop language to implement a simple approach to destination sourcing for such services and products. The Work Group expects to have further products available prior to the August meeting.

The Technology Work Group reviewed the various "model specifications" with private sector representatives. It is continuing its work on standards for certifying service providers (CSPs) and an appropriate privacy standard.

Future Schedule

The next Project sessions are scheduled for August 16-18, 2000 in San Antonio, Texas. The session will begin Wednesday afternoon with individual Work Group sessions. Current plans call for a "combined" Work Group meeting (open to the public) on Thursday morning and individual Work Groups that afternoon. A portion of each Group meeting will be open to the public. The Project Meeting will be held on Friday, August 18 in the morning.

Tentative plans call for scheduling a 1-day review session with Tax Commissioners and Governor's staff on September 6, 2000, likely in Chicago. This would be followed by a public comment session on the first-stage recommendations on September 28, also in Chicago.