

Streamlined Sales Tax Project Meeting, September 15, 2000, Nashville, Tennessee

Co-Chair Charles Collins called the meeting to order and welcomed all attendees at 9:30a.m. First-time attendees introduced themselves.

NCSL staff reported that the state of Alabama joined the Project through an executive order. The Project now officially comprises 27 participating members and 12 observer states. It was also reported that the California legislature passed the model NCSL legislation authorizing the state to participate in the Project. The legislation is awaiting Governor's action.

August Project meeting minutes were approved unanimously.

Work groups reported brief summaries of their work in Nashville.

The Rate Group discussed the time notice required from local governments and state before making a rate or an exemption change effective. They recommend 60 days notice and changes effective on the first day of a calendar quarter for local governments and the same rule expressed as legislative intent for the state. The electronic remittance coupon would be extended by a couple of lines to include gross receipts and exemption amounts. The group recommends offering both ACH credit and debit options. There are still some concerns about using FIPS data and zip plus four to identify situs but it was agreed that this would suffice at the start of the system. It has to be clear that a central registration system could be used but had to offer the option to relate only to sales and use tax and not necessarily tie the registrant to any other taxes. Options to address special districts delineation are still being explored, as is the design of a uniform reporting form for vendors not using the technology solutions.

The Sourcing Group reported that the sourcing rule was drastically simplified. The transaction will be sourced in the following order, defaulting to the next step if the previous one is not applicable:

over-the-counter ➤ shipped to purchaser's address ➤ billing address ➤ any other address used in the order ➤ origin.

The Group dropped the "known use" concept. Regarding bad debts: recovery of bad debts already refunded or credited will be done on a pro-rata basis, tax being calculated on the amount recovered and not on the original amount.

The Tax Base Group explained its basic approach to definitions: "..the group is taking a broad approach to drafting definitions of core terms and exemptions for two reasons. First, it is critical that vendors be able to tell from looking at an invoice what is taxable and what isn't without considering 46 different states' and local jurisdictions' definitions. Second, it is necessary to identify exemptions as exemptions rather than exclusions within definitions to establish an exempt product classification code that will be incorporated in the Streamlined Sales Tax System's certified software." The group made

progress working on a definition of food and is still considering how to handle "bundled" sales.

The Technology Group worked mostly on Model 3 (proprietary system). They are leaning towards no certification requirement but rather towards a contractual arrangement between states and vendors, spelling out audit rules (statistical sampling), compliance tests, assessments, graduated system of penalties etc. They discussed "paying for the system" and so far have arrived at two principles: the burden will be uniform for the states, and the compensation will come from the revenue generated by the system.

The co-Chair announced a public hearing in Chicago on September 29 to comment on various issues. The Project needs to determine exactly what issues will be up for public comments on Sept.29. Jack Kopald, Tennessee, made the following motion:

To post on the web page on September 19th the current positions of the work groups on certain features to seek public comments in Chicago on September 29th.

The features will be the following:

Rate Group: All their conclusions except the notice time required from the states

Sourcing Group: Sourcing rule, bad debt provisions and rounding rule

Technology Group: The three models

Base Group: Exemption Administration

Motion seconded by Johnnie Burton, Wyoming.

Motion passed by voice vote. No dissent heard.

There will be a second public hearing in Chicago on October 26th. Definitions finalized by the Base Group and agreed to by the Project will be up for comments at that time, along with whatever other recommendations may be appropriate.

During the public comment period of the Project meeting, the following members of the audience commented:

Mr. Jeffrey L. Hyde, Senior Tax Counsel for General Electric Capital Corporation.

Mr. Hyde asked that the Project consider extending the bad debt provision to third party financial institutions that buy receivables from vendors. Mr. Hyde's remarks will be mailed to the Steering Committee and can be obtained from any member of that Committee.

Ms. Maureen Riehl, Vice-President of the National Retail Federation. Ms. Riehl commended the Project for all the progress that was made and all the business participants for taking time to attend such meetings. Ms Riehl distributed a draft of a position paper developed by some major retailers. She indicated that she was pleased the Sourcing Group understood the problems presented by the complexity of their first sourcing rule proposal. She was pleased with what the Group presented in Nashville. The

NRF thinks that the model legislation needs to be as complete as possible and Ms. Riehl reiterated the offer of the Federation to help the Project as much as possible.

Co-Chair Charles Collins updated the participants on the pilot project. Four companies were awarded contracts. They are esalestax.com, Pitney Bowes with Vertex, Taxware International with Hewlett-Packard and Taxware International with Pitney Bowes. Procedures are being set up now to start the pilot project in October.

There being no further business, the meeting was adjourned at 10:50 a.m.