

The Streamlined Sales and Use Tax Agreement - “clearinghouse” discussion paper

Background

- It is important to begin focusing on technological solutions to simplify tax collection and facilitate greater voluntary seller participation in Streamlined.
 - It is also important to begin focusing on these simplifications in order to support federal efforts regarding remote seller collection authority and to limit the cost of vendor compensation and size of the small seller exemption.
 - This paper addresses one technological solution that could be leveraged in advancing these goals, i.e., the central clearinghouse.
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What is the clearinghouse?

A centralized application with some or all of the following functionality:

- Rates and boundary lookup for all full member states with automatic updates.
 - Taxability information lookup for all full member states with automatic updates.
 - Taxability refers to taxability under existing state taxability matrices and not to products undefined under the SSUTA. Product mapping for undefined products would involve greater costs; however, it may be worth exploring such options in these discussions.
 - Manual and automated sales (e.g. a shopping cart or QuickBooks) tax reporting services for download to a central return.
 - Note the cost of the “plug-in” is not included in the scope of this project.
 - A single point for filing returns.
 - A single point for tax remittance using electronic funds transfer (EFT) or other methods of payment.
 - Full transaction history reporting for sellers.
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Guiding principles

- The tool would incorporate state data on rates and boundaries.
- The tool would incorporate taxability and exemptions for all full member states as indicated in each state’s taxability matrix.
 - Should the tool be expanded to include all exemptions?
- The tool would be available at low or no cost to all sellers.
- The tool would be able to integrate with common business software and platforms.
- The tool would be certified by the member states.
- The tool would be available for sellers and businesses providing services to sellers for use in sales tax administration.
- Sellers would be held harmless for proper use of certified data.
- The tool would be secure and consistently available.

Option 1: SST-operated simple clearinghouse

Option 1: SST-operated simple clearinghouse

- Streamlined would develop and operate a **simple** application that includes:
 - A central rates and boundaries lookup for all full member states with automatic updates.
 - A central taxability information lookup for all full member states with automatic updates.
- States would fund the development and on-going maintenance costs.
- The Governing Board would own the underlying technology.
- Sellers would not be charged a fee (or a very low fee).
- Third parties and sellers would need to perform the other aspects of sales and use tax reporting (e.g. manual and automatic reporting and transaction reporting), remittance, and filing.

Estimated development costs:

- Precise costs are unknown; however, the Washington Department of Revenue estimates the costs are roughly \$85,000 to \$105,000.*
 - Assumes 700 – 900 work hours (1 contractor) over 3 months.
 - Assumes a \$100.00 per hour averaged rate of compensation.
 - Assumes equipment/software costs of approximately \$15,000.

On-going maintenance costs.

- Before this can be estimated, it must be decided whether maintenance would be performed in-house or contracted out to third parties.
- In contracts for both development and maintenance, maintenance is frequently about 20% of the development costs (based on preliminary feedback from Information Services at the Washington Department of Revenue). For example, if the development contract is \$200,000, then maintenance might be \$40,000 per year.

Variation to Option 1:

- Contract with a third party to develop, maintain, and own the simple clearinghouse.
- Sellers would be charged only a reasonable fee.
- Third parties and sellers would need to perform the other aspects of sales and use tax reporting, remittance, and filing.

**Note: Washington's estimate is based upon the attached document under Option 2 and is subject to revision as additional information is obtained. This estimate is very rough and there may be a significant cost variance if the project moves forward.*

Option 2: SST-operated robust clearinghouse

Option 2: SST-operated robust “one-stop” clearinghouse

- Streamlined would develop a **robust** application including:
 - A central rates and boundaries lookup for all full member states with automatic updates.
 - A central taxability information lookup for all full member states with automatic updates.
 - Manual and automated sales (e.g. shopping cart) tax reporting service functionality.
 - A single point for filing returns.
 - A single point for tax remittance using electronic funds transfer (EFT) or other payment methods.
 - Full transaction history reporting for seller.
- Member states would fund the development and on-going maintenance costs.
- The Governing Board would own the underlying technology.
- Sellers would not be charged a fee (or a very low fee).

Estimated development costs.

- Precise costs are unknown; however, the Washington Department of Revenue estimates costs are roughly \$280,000 to \$370,000.*
 - Assumes 2300 – 2700 work hours (2 – 3 contractors) over 12 months.
 - Assumes a \$100.00 per hour averaged rate of compensation.
 - Assumes equipment/software costs between \$50,000 to \$100,000.

On-going maintenance costs.

- Before this can be estimated, it must be decided whether maintenance would be performed in-house or contracted out to third parties.
- In contracts for both development and maintenance, maintenance is frequently about 20% of the development costs (based on preliminary feedback from Information Services at the Washington Department of Revenue). For example, if the development contract is \$200,000, then maintenance might be \$40,000 per year.

**Note: Washington’s estimate is based upon the parameters described in the attached document (the “Clearinghouse” Requirements Estimate) below and is subject to revision as additional information is obtained. This estimate is very rough and there may be a significant cost variance if the project moves forward.*



SSTClearingHouse -
requirement...

**Option 3:
Third party-
operated robust
clearing house**

Option 3: Third party-operated robust “one-stop” clearinghouse

- Same as Option 2, except:
 - Streamlined would contract (or partner) with a third party developer to develop and operate the application.
- The contracting party would cover some or all of the development and maintenance costs.
- The contracting party would own the underlying technology in whole or part.
- The contracting party would charge a reasonable fee.
- Presumably, the contracting party would be permitted to keep a portion of tax remitted, as compensation, similar to existing CSPs.

Note: This Option is similar to the current CSP model. However, because it has proved challenging to cost effectively provide CSP services to small sellers, we propose the Executive Committee consider whether there are ways to encourage this model so that all sellers can benefit via Option 3.

Questions

- Are the outlined principles adequate?
 - Should additional functionality be considered?
 - Are there alternative options that have not been considered?
 - Does the Governing Board currently have authority to pursue any of these options under the SSUTA?
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Next Steps
