Streamlined Sales Tax Governing Board
Compensation Focus Group

Discussion Document (as Revised January 21, 2010)

1) Parameters for alternative compensation proposal.

   a. Compensation would apply to all sellers.
   b. Compensation amounts would be set as minimums and states would be allowed to pay additional compensation.
   c. Proposal will not directly pay for credit and debit card fees.
   d. Proposal will include caps that will apply to total compensation.
   e. Proposal will include a trigger provision that recognizes that the timing of requirement to compensate must recognize state budget considerations and the actual receipt of "new" revenue.
   f. Additional compensation will be required in states with more complex tax structures (local jurisdictions, 2^{nd} state rate for groceries or drugs, clothing thresholds).
   g. Additional compensation will be provided to smaller sellers consistent with the findings of the Joint Cost of Collection Study (JCCS).
   h. Proposal will be designed so that compensation amount can be determined from information on a single return.
   i. Attempt to address the equity of compensation for sellers that have a large percentage of tax exempt sales.
   j. Minimum rates will be set recognizing the overall cost to states relative to new money from remote collection authority, cost compared to total sales and use tax revenue, prospects for achieving broad state support for proposal and ultimate adoption by states.

2) Explanation of Current Alternative Compensation Proposal
   a. General Requirements
      i. Must be paid to all sellers.
      ii. Must apply to state and local sales and use taxes.
      iii. Compensation requirement will be placed in the Agreement. Compensation must be provided prior to a state getting collection authority over remote sellers. The payment of compensation is not required for Governing Board Membership.
      iv. Corresponding language will be included in federal legislation. This language must provide clear grant of collection authority for states meeting the requirements of the Agreement and assurance to retailers that states must comply with compensation requirement. Language must also allow for future adjustments to compensation as additional simplifications and improvements in technology reduce collection costs.

v. Compensation calculation will be incorporated into the electronic return so that amount of compensation can be determined from the information included on an individual return.
vi. A state may limit compensation only to sellers that file and remit timely.
vii. A state may elect to not pay compensation on a seller's purchases for their own use.
viii. States will be allowed to restrict sellers from filing returns for individual locations or for related entities in order to enhance their compensation.
ix. States will not be required to pay compensation to a seller that is using a CSP (if the state is paying for the CSP service).

b. Outline of Proposal

i. Compensation will be paid as a percentage applied to tax remitted on an individual return. The figures in this proposal are based on a monthly return. Appropriate adjustments will be made to accommodate alternative filing periods.
ii. Three "Tiers" of compensation are proposed to recognize that smaller sellers have much greater costs relative to the amount of tax they remit than do larger sellers. The Joint Cost of Collection Study grouped sellers into three categories. It categorized small retailers as those having annual sales of between $150,000 and $1 million, medium retailers as those having annual sales between $1 million and $10 million, and large retailers as those having annual sales in excess of $10 million. Converting these annual sales numbers into monthly tax remitted numbers (assuming a 7.5% tax rate) results in small sellers being identified as those remitting less than $6,250/month, medium sellers as those remitting less than $62,500/month, and large sellers remitting over $62,500/month. These classifications were used to develop the proposed tiers. Under this proposal, all sellers will be paid compensation on the first $6,250 remitted each month at on rate, will be paid a lower rate on tax remitted each month between $6,250 and $62,500, and a lower rate on tax remitted each month in excess of $62,500.
iii. The rates that will be applied to Tier 1, Tier 2 and Tier 3 are proposed to be set in relation to the cost differences found in the JCCS. That study found that the cost for medium sized sellers was 40% of the cost for small sellers and that the cost for large sellers was 15% of the cost for small sellers. A state can pay a higher rate for all Tiers or an individual Tier.
iv. The compensation rates established for an individual state will be adjusted to account for the differences in the tax rates of the states. This is necessary since compensation is to be paid on the amount of tax remitted.

v. States that require sellers to report tax for local jurisdictions will pay additional compensation. It is proposed that the rates for each Tier be increased by 10%. This higher rate will apply to all sellers.
vi. States that have a second state rate on groceries or drugs will be required to pay additional compensation on the tax collected at that rate.
vii. Compensation will be capped by allowing states to not pay compensation on tax remitted monthly above a certain amount. For states with annual sales and use tax collections below $2 Billion the amount proposed is $1 Million/month, for states with collections between $2 Billion and $6 Billion the amount is $5 Million/month, and for states with collections above $6 Billion the amount is $10 Million/month. These amounts represent the minimum level a state can use for the upper limit on Tier 3.

c. Other Issues

i. Additional compensation for new sellers to defray initial costs of collecting sales and use taxes.
ii. Trigger provision that addresses the timing of the requirement to compensate all sellers with the receipt of new money from remote collection authority.
iii. Applicability of proposed compensation structure to communication taxes.
iv. Applicability of proposed compensation to transactions where seller does not have the same collection obligation.
v. Concerns of sellers with large share of tax exempt transactions.
vi. Requirement for additional compensation for states with a clothing threshold.