Credit for Taxes Paid to Other States

Questions:
If a sale of a product is properly sourced to a state under the provisions of Section 310 or 310.1 of the SSUTA and a seller collects that state's sales tax from the purchaser based on these provisions, is that tax "legally due" in that state if no taxable event occurred ~~the product was never stored, used, or consumed~~ in that state?

Does the answer change if the statute of limitation has expired for one or more of the parties involved?

Example Facts:

- Seller sells a perpetual license to use prewritten computer software ~~under a perpetual license~~ to a purchaser for $1,000.
- The software will be downloaded by the purchaser.
- Purchaser uses its credit card to pay for the software.
- The credit card address is in State 1.
- Seller sources the sale to State 1 based on Section 310.A.4 of the SSUTA.
- State 1's sales and use tax rate is 5%.
- State 1 does not legally impose its sales tax on this transaction.
- Seller charges, collects, and remits the $50 ($1,000 x 5%) in tax from the purchaser on this transaction since it was sourced under Section 310~~1~~.A.4. of the SSUTA to State 1.
- The prewritten computer software is not downloaded in State 1. Instead, one of the purchaser's employees downloads the software in State 2.
- State 2's sales and use tax rate is 7%.
- Both States 1 and 2 are SST member states.
- The statutes of limitation have not yet expired on this transaction for the seller, the purchaser, State 1, or State 2.

Result:
Option 1
State 2 must provide a credit for State 1's 5% tax seller charged purchaser against the 7% tax due in State 2. State 2 will still receive the difference between the 7% tax it imposes and State 1's 5% tax the purchaser paid to the seller.

Rationale 1:
Although no taxable event occurred in State 1, ~~S~~since the seller properly sourced the transaction to State 1 based on Section 310.A.4. of the SSUTA, the tax the purchaser paid to the seller was legally due and therefore should be allowed as a credit against the 7% use tax due in State 2.

Option 2
State 2 does not have to give credit for the 5% tax the seller charged to the purchaser because that tax was not legally due in State 1. State 1 must issue a refund of its 5% tax to either the seller or purchaser.

MC12006
9/2/2012

Rationale 2:
Although the transaction may have been "sourced" to State 1, since no taxable event occurred ~~the prewritten computer software was never actually stored, used, or consumed~~ in State 1, State 1 cannot impose its tax on that transaction. Therefore, State 1 must issue a refund of its 5% tax to either the seller or purchaser. Just because a transaction is sourced to State 1, does not mean that State 1 can legally impose its tax on that transaction.~~, especially if the product is never in State 1.~~