

Origin Sourcing Issues

Origin Sourcing vs. Destination Sourcing

- ◆ Administrative/Compliance Burden
 - Small/Local Sellers with delivery sales
 - Very difficult and costly to convert from origin sourcing to destination.
 - Ongoing compliance costs.
 - Streamlined sourcing is larger burden than current sourcing.
 - Large/Multistate Retailers with store locations
 - Conversion costs to switch to Destination. Intrastate sales must now be sourced to point of delivery.
 - Still must maintain origin for over-the-counter sales.
 - Long term benefit on delivery sales- especially if all states move to destination. Much of the benefit comes from certainty of uniform, clear sourcing rule.
 - If most origin states never move to destination, must comply with current complex and varied origin systems.
 - Databases and liability relief are benefit.
 - Internet Retailers
 - Less issues because many don't currently collect in all states.
 - Potential for significant benefit (if they are collecting) if all states move to destination. Since they don't have over-the-counter sales, they would source all sales to destination.
 - Purchasers
 - Much greater certainty at the time of the purchase with destination sourcing. Especially true since some origin states require shipped from location to be sourcing criteria.
 - Databases and liability relief are benefit.
 - Lower ongoing systems costs if they can get uniform rules.
 - Must still maintain origin sourcing for over-the-counter purchases.
 - With destination, easier to validate correct rate is charged by seller.
 - CSP's
 - Origin is easier for clients that can file return for single tax jurisdiction.
 - Switching to destination causes one-time costs.
 - Monthly returns are more complicated resulting in greater opportunity for error.
 - Long term benefits from certainty of uniform sourcing.
 - Benefit of destination will be much greater if all states can adopt.
 - Retail Consumers
 - Opportunity for change in liability because of difference between origin rate and destination rate.

- Opportunity for confusion on what seller is charging them.
 - State Revenue Agencies
 - Must develop and maintain databases, provide liability relief.
 - Returns are more costly to process- vendors reporting for multiple jurisdictions.
 - Transition expenses can be significant- internally and for taxpayer education/assistance.
 - Local Governments
 - Origin less complicated when trying to determine if correct tax revenues are being collected.
- ◆ State Participation in Streamlined
 - Current Member States
 - Issues for states that have previously switched from origin to destination. Especially for states that are currently in transition (Washington).
 - Current Associate States
 - Utah, Tennessee and Ohio are in jeopardy of losing associate status and not gaining full member status primarily because of destination sourcing.
 - Non Member States
 - Remaining origin states unlikely to come into compliance with the Agreement if destination sourcing is required (Texas, Arizona, Illinois, Missouri, New Mexico).
 - Not certain if these states could come into compliance if destination sourcing requirement is relaxed.
- ◆ Revenue Issues
 - Local Governments
 - Can be significant revenue shifts from switching to destination sourcing.
 - Can be revenue losses due to differential between origin rate (rates are often higher within municipal boundaries) and destination rates.
 - Concerns that destination sourcing will invalidate current economic development initiatives and jeopardize revenue streams that are currently pledged for bond payments.
 - State Governments
 - Potential for mitigation costs related to local government issues.
 - Interstate revenue issues resolved if all states adopt destination.
- ◆ Impact of Enactment of Federal Legislation
 - State support
 - Concern that federal streamlined legislation will ever be enacted with current level of state membership.
 - Additional state membership increases likelihood of enactment of federal legislation (especially if larger states become members).
 - Likelihood of federal legislation decreases if states actively oppose current requirement for destination sourcing.

- Local Government support
 - This is one issue of concern for local governments. Addressing this issue should help but may not result in active support.
- Business Support
 - Must evaluate by all types of sellers
 - Small/local retailers should be much more supportive if origin option is allowed.
 - Purchasers- must evaluate support under both options.
- Uniformity Argument
 - Concern that deviation from destination sourcing will be made an issue by opponents.
 - Must evaluate degree to which proposal really makes things more complicated (for all types of sellers and purchasers) and determine extent to which the will be an issue in Congress.
- ◆ Legal Issues
 - Constitutional Concerns
 - No Commerce Clause issues with destination.
 - Some Commerce Clause issues may exist with origin sourcing as it now exists.
- ◆ Other Issues
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Proposal #2 (Intrastate Origin) vs. Proposal #5 (Delivery Rate for Interstate Sales)

- ◆ Administrative/Compliance Burden
 - Small/Local Sellers with delivery sales
 - Should be no difference between these proposals. Will still be able to origin source delivery sales.
 - Large/Multistate Retailers with store locations
 - No difference for intrastate delivery sales and over-the-counter sales.
 - For sales into origin state, #2 would be destination, #5 would be blended rate. Systems must accommodate destination sourcing anyway for other states. Possible benefit to #5 because of single rate and no local reporting.
 - Possible upfront costs with converting to #5 since current systems don't accommodate blended rate.
 - Internet Retailers
 - For sales into origin state, #2 would be destination, #5 would be blended rate. Systems must accommodate destination sourcing anyway for other states. Possible benefit to #5 because of single rate and no local reporting.
 - For states in which internet retailers have no physical presence, states pay for CSP services. The burden on these internet sellers should be the same for #2 and #5.

- Possible upfront costs with converting to #5 since current systems don't accommodate blended rate.
 - Purchasers
 - No difference for over-the-counter purchases.
 - Tax systems must maintain data for origin sourcing (over-the-counter and intrastate deliveries) for both proposals. Must also accommodate destination sourcing for both proposals (for destination states). On proposal #5, must also accommodate delivery rate.
 - Single delivery rate and no local reporting is a benefit.
 - No difference regarding accrual of local use tax.
 - No difference regarding liability relief from state if origin or destination/delivery rate is paid to seller.
 - Direct pay under proposal #5 allows the state to also select the delivery rate.
 - CSP's
 - Proposal #5 would require change in systems to accommodate delivery rate.
 - Systems currently accommodate destination and will be required to do so in the future.
 - Easier returns and less opportunity for errors under #5 with single rate and no local reporting.
 - Retail Consumers
 - Opportunity for change in liability because of difference between destination rate and delivery rate rate.
 - Under proposal #2, customer would be charged origin or destination. Under proposal #5 customer would be paying blended rate on some transactions. In some instances, this rate may be higher than the rate currently imposed.
 - State Revenue Agencies
 - Some issues with administering blended rate (returns).
 - Issues with allocating revenues collected from blended rate.
 - Local Governments
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- ◆ State Participation in Streamlined
 - Current Member States
 - Issues for states that have previously switched from origin to destination. Especially for states that are currently in transition (Washington).
 - Current Associate States
 - Concerns over ability of states to enact blended rate- states will respond individually.
 - Non Member States
 - Same as above.
- ◆ Revenue Issues
 - Local Governments

- Likelihood that blended rate would be set at a level that would result in reduction of overall revenue for local governments.
 - Under #5 local governments concerned with getting funds back from the state- allocation formula.
 - Local use taxes may be currently dedicated to retire bonds. Possible implications with proposal #5 on credit ratings if revenue is diminished or sent to the state and allocated back.
 - State Governments
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- ◆ Impact of Enactment of Federal Legislation
 - State support
 - Additional state membership increases likelihood of enactment of federal legislation (especially if larger states become members). Need to evaluate if one proposal results in more states becoming members.
 - Likelihood of federal legislation decreases if states actively oppose current requirement for destination sourcing.
 - Local Government support
 - This is one issue of concern for local governments. Addressing this issue should help but may not result in active support.
 - Business Support
 - Need to evaluate if business support for federal legislation will be greater with one proposal over the other. Also need to consider extent of business support by type of business.
 - Uniformity Argument
 - Possible advantage to proposal #5 because of single rate and no local reporting.
- ◆ Legal Issues
 - Commerce Clause
 - Less concern with proposal #2.
 - Legal authority to impose blended rate tax- possible state constitutional issues on state legislatures imposing a local tax.
- ◆ Other Issues
 - Concern has been raised that state legislators may oppose provision which requires allocation of local component of delivery rate back to local governments (#5).

Indiana Filed Amendment vs. Destination Sourcing

- ◆ Administrative/Compliance Burden
 - Small/Local Sellers with delivery sales
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 - Large/Multistate Retailers with store locations

- - Internet Retailers
 -
 - Purchasers
 -
 - CSP's
 -
 - Retail Consumers
 -
 - State Revenue Agencies
 -
 - Local Governments
 -
- ◆ State Participation in Streamlined
 - Current Member States
 -
 - Current Associate States
 -
 - Non Member States
 -
- ◆ Revenue Issues
 - Local Governments
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 - State Governments
 -
- ◆ Impact of Enactment of Federal Legislation
 - State support
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 - Local Government support
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 - Business Support
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 - Uniformity Argument
 -
- ◆ Legal Issues
 - Commerce Clause
- ◆ Other Issues
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Proposal #2 vs. Destination Sourcing

- ◆ Administrative/Compliance Burden
 - Small/Local Sellers with delivery sales
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- Large/Multistate Retailers with store locations
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- Internet Retailers
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- Purchasers
 -
- CSP's
 -
- Retail Consumers
 -
- State Revenue Agencies
 -
- Local Governments
 -
- ◆ State Participation in Streamlined
 - Current Member States
 -
 - Current Associate States
 -
 - Non Member States
 -
- ◆ Revenue Issues
 - Local Governments
 -
 - State Governments
 -
- ◆ Impact of Enactment of Federal Legislation
 - State support
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 - Local Government support
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 - Business Support
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 - Uniformity Argument
 -
- ◆ Legal Issues
 - Commerce Clause
- ◆ Other Issues
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Proposal #5 vs. Destination Sourcing

- ◆ Administrative/Compliance Burden
 - Small/Local Sellers with delivery sales
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- Large/Multistate Retailers with store locations
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- Internet Retailers
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- Purchasers
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- CSP's
 -
- Retail Consumers
 -
- State Revenue Agencies
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- Local Governments
 -
- ◆ State Participation in Streamlined
 - Current Member States
 -
 - Current Associate States
 -
 - Non Member States
 -
- ◆ Revenue Issues
 - Local Governments
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 - State Governments
 -
- ◆ Impact of Enactment of Federal Legislation
 - State support
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 - Local Government support
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 - Business Support
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 - Uniformity Argument
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- ◆ Legal Issues
 - Commerce Clause
- ◆ Other Issues
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Indiana Filed Amendment vs. Proposal #2

- ◆ Administrative/Compliance Burden
 - Small/Local Sellers with delivery sales
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- Large/Multistate Retailers with store locations
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- Internet Retailers
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- Purchasers
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- ◆ Revenue Issues
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 - State Governments
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- ◆ Impact of Enactment of Federal Legislation
 - State support
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 - Local Government support
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 - Business Support
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 - Uniformity Argument
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- ◆ Legal Issues
 - Commerce Clause
- ◆ Other Issues
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Indiana Filed Amendment vs. Proposal #5

- ◆ Administrative/Compliance Burden
 - Small/Local Sellers with delivery sales
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- Large/Multistate Retailers with store locations
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- Internet Retailers
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- Purchasers
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- ◆ State Participation in Streamlined
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