Origin Sourcing Issues

Origin Sourcing vs. Destination Sourcing

♦ Administrative/Compliance Burden
  o 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.
  o 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.
  o 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.
  o 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.
  o 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.
  o 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
- 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 is 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**

- **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
    - 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
  - Large/Multistate Retailers with store locations

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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
State Governments

Impact of Enactment of Federal Legislation
State support
Local Government support
Business Support
Uniformity Argument

Legal Issues
Commerce Clause

Other Issues

Proposal #2 vs. Destination Sourcing

Administrative/Compliance Burden
Small/Local Sellers with delivery sales
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
  - State Governments

♦ Impact of Enactment of Federal Legislation
  - State support
  - Local Government support
  - Business Support
  - Uniformity Argument

♦ Legal Issues
  - Commerce Clause

♦ Other Issues

Proposal #5 vs. Destination Sourcing

♦ Administrative/Compliance Burden
  - Small/Local Sellers with delivery sales
- 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
  - State Governments

- Impact of Enactment of Federal Legislation
  - State support
  - Local Government support
  - Business Support
  - Uniformity Argument

- Legal Issues
  - Commerce Clause

- Other Issues
  - 

**Indiana Filed Amendment vs. Proposal #2**

- Administrative/Compliance Burden
  - Small/Local Sellers with delivery sales
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
- State Governments

Impact of Enactment of Federal Legislation
- State support
- Local Government support
- Business Support
- Uniformity Argument

Legal Issues
- Commerce Clause

Other Issues

Indiana Filed Amendment vs. Proposal #5

Administrative/Compliance Burden
- Small/Local Sellers with delivery sales
- 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
  - State Governments
- Impact of Enactment of Federal Legislation
  - State support
  - Local Government support
  - Business Support
  - Uniformity Argument
- Legal Issues
  - Commerce Clause
- Other Issues