

Streamlined Sales Tax – SLAC
Disclosed Practice Number 4 - Post Transaction Issues

Note: These tax administration practices address various scenarios that may occur after the initial sale has taken place, including scenarios in which customers are returning or exchanging products. The practices are intended to provide general guidance on how a seller can obtain a refund or credit from the state for the tax refunded to a customer.

Unless indicated otherwise throughout Disclosed Practices 4:

- Use of the word “tax” means the sales or use tax paid by the customer to the seller which was timely remitted by the seller to the state;
- Use of the word “refund” can include a credit;
- The tax rates used in the examples are for illustrative purposes only and are presumed to be correctly computed;
- The seller is not engaged in fraud or making intentional misrepresentations; and maintains proper books and records to substantiate taxes collected and remitted based on the applicable state’s requirements;
- Do not apply to sales of motor vehicles;
- Apply to products voluntarily returned by the customer and accepted by the seller (*e.g.*, does not include repossessed products) and;
- **The disclosed practices only provide general guidance and assume there are no other unique circumstances that apply.**

Disclosed Practice 4.1 – Refund Procedure Document

***Explanation:** Some states have written procedures on their websites to explain how sellers and customers can properly obtain a refund of tax when a product is returned to the seller or subsequently determined to not be taxable.*

***Post Transactions 4.1** - Does your state have written guidance on your website, or otherwise, that explains how sellers and/or customers can properly obtain a tax refund from your state? (If “yes”, please provide a website link and/or indicate how a person can obtain guidance in the comments.)*

Disclosed Practice 4.2 - Initiation of the State’s Statute of Limitations for a Seller to Claim a Tax Refund for Returned Products

***Explanation:** A state’s statute of limitations varies as to when it begins for a seller to obtain a refund of tax paid for products returned by a customer. It can be based on:*

- *The due date of the tax return on which the tax was required to be paid by the seller to the state;*
- *The date the tax on the sale was actually due by the seller to the state;*
- *The date the tax was actually remitted to the state (or the due date of the tax return, whichever is later);*
- *The date the customer returns the product (such as a rescission of sale) to the seller and receives the refund from the seller.*

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Example A

- Seller is located in your State and makes a \$100 sale on January 21, 2016, of one product.
- Customer takes possession of the product in your State on the date of the sale.
- The transaction is subject to a 6% sales tax, including any applicable local sales taxes.
- Seller collects \$106 from the customer.
- Seller reports the \$100 sale and remits the \$6 in sales tax owed to the state and local jurisdiction on its January tax return which was due on February 20, 2016, but was actually received by the state on February 21, 2016.
- Customer returns the product on March 25, 2016, and receives a full refund of the purchase price (\$100) and sales tax paid to Seller (\$6).
- The Seller makes a request for a refund/credit of the \$6 in tax with your State after having refunded the sales tax to the customer.

Disclosed Practice 4.2 - When does your state's statute of limitations begin for a seller to obtain a refund of tax paid for products returned by a customer?

Post Transactions 4.2.A - It begins on the due date of the tax return on which the tax was required to be paid by the seller to the state (February 20, 2016, in Example A above).

Post Transactions 4.2.B - It begins on the date the tax on the sale was actually due by the seller to the state (February 20, 2016, in Example A above).

Post Transactions 4.2.C - It begins on the date the tax was actually remitted to the state (or the due date of the tax return, whichever is later) (February 21, 2016, in Example A above).

Post Transactions 4.2.D - It begins on the date the customer returns the product (such as a rescission of sale) to the seller and receives the refund from the seller (March 25, 2016, in Example A above).

Post Transactions 4.2.E - Other - If the state's answers to 4.2.A - 4.2.D. were all "no", check "yes" and explain when the statute of limitations for a seller's claim begins in the comments section.

Disclosed Practice 4.3 – Statute of Limitations for a Seller to Claim a Tax Refund

Explanation: Most states have either a three- or four-year statute of limitation for refunds related to when a seller can obtain a refund of tax paid for products returned by a customer.

Disclosed Practice 4.3 – How long is your state's statute of limitations time period for a seller to claim a tax refund on products returned by a customer?

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Post Transactions 4.3.A. - A three-year statute of limitations (based on the state’s response in 4.2) for a seller to make a refund request to the state. Therefore, it is past the state’s statute of limitations for the seller to claim refund from the state.

Post Transactions 4.3.B. - A four-year statute of limitations (based on the state’s response in 4.2) for a seller to make a refund request to the state. Therefore, it is past the state’s statute of limitations for the seller to claim refund from the state.

Post Transactions 4.3.C.- If the answers to both 4.3.A. and 4.3.B., were “no” please indicate “yes” and provide your state’s time period for a seller to make a refund request to the state in the comments.

Disclosed Practice 4.4 – Documentation to Prove Refund of Tax to Customer

Explanation: States differ on what records are required to be retained to prove sales tax was paid by the customer and refunded to the customer. Note: a state’s answer to this question does not impact the use of sampling, as authorized by the state, in an audit to ascertain liability.

Example B

Seller retains the paper or electronic sales and refund/credit receipts which denote:

- Product purchased
- Date of product purchased,
- Tax collected, and
- Product returned,
- Date product returned, and
- Tax refunded.

Disclosed Practice 4.4 - Will your state accept the seller’s paper or electronic sales receipts showing sales tax was charged and refunded as sufficient documentation to establish and support that a customer paid sales tax?

Yes // No // Comments

Disclosed Practice 4.5 – Credit on Tax Return, Subsequent Tax Return or Refund Claim

Explanation: States vary on how they will allow a seller to claim credit for tax refunded to its customers. Some states will allow a credit on the tax return if the product return was made prior to the tax return being filed. Other states, subject to a state’s statute of limitations, will allow a credit to be claimed on a subsequent tax return filed by a seller. And, some states require a seller to file an amended tax return/refund claim to claim a credit.

Check all disclosed practices that apply

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Disclosed Practice 4.5.A. - Does your state allow a seller to take a credit (or net) on its tax return if the product was returned prior to the seller filing its tax return to report the original sale?

Yes // No // Comments

Disclosed Practice 4.5.B. - Subject to the state’s statute of limitations, does your state allow a seller to take a credit (or net) during the reporting period when the product was returned if the product is returned in a different reporting period than the original sale?

Yes // No // Comments

Disclosed Practice 4.5.C. – Subject to the state’s statute of limitations, does your state require the seller to file an amended tax return and/or refund claim when the product is returned after the seller filed its tax return to the state to report the original sale?

Yes // No // Comments

Disclosed Practice 4.5.D. – If the answers to 4.5.A., 4.5.B., and 4.5.C. were all “no” please indicate “yes” and explain your state’s procedure in the comment section.

Yes // No // Comments

Disclosed Practice 4.6 - Full Refund or Allow Netting for Other Charges

***Explanation:** Some states have a general requirement that a seller must provide a customer with a full refund of the sales price and associated tax of product returned. Other states will allow sellers to net a refund for service charges (e.g. restocking/return fees) to make the return (with any applicable tax on those charges being required to be collected and remitted by the seller).*

- *These service charges, addressed above, are for restocking the product but do not represent wear and tear of a product being returned. “Wear and Tear” are not addressed within this disclosed practice.*

Example C

- Seller is located in your State and makes a \$100 sale of one product;
- The transaction is subject to a 6% sales tax, including any applicable local sales taxes;
- Seller collects \$106 from the customer and remits the \$6 of tax to the state;
- Customer returns the product and the seller imposes a service charge of 10% of the sales price (such fee taxable by the state - $\$10 \times 6\% = \0.60 tax);
- Customer receives a refund of \$95.40 in one transaction.

Disclosed Practice 4.6.A - Does your state allow the seller to obtain a refund from the state if the seller nets any charges imposed by the seller to make a return (understanding the tax must be collected on any taxable charges) *If your state has exceptions, please note that response in comments*

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Yes // No // Comments

Disclosed Practice 4.6.B - If the answer to A was “no,” does your state allow the seller to obtain a refund from the state if it provides a full refund, including the sales tax, but subsequently imposes any service charges (and imposing any applicable tax) to the customer as a separate transaction?

Yes // No // Comments

Disclosed Practice 4.7 - Taxability of Restocking/Return Fees

Disclosed Practice 4.7.A – Does your state impose a sales tax on restocking fees or return fees that are not directly associated with the use, excluding wear and tear, of a returned product?

Yes // No // Comments

Disclosed Practice 4.7.B – Does your state impose a sales tax on wear and tear of a product? If so, is it taxable?

Yes // No // Comments

Disclosed Practice 4.8 - Cash/Credit Refund versus Store Credit

***Explanation:** Some sellers when accepting a returned product will not provide a cash or credit to a customer’s credit card or debit card; generally due to the return happening outside of the seller’s return policy. Instead, a store gift card/voucher is provided for the entire purchase amount, including tax.*

Disclosed Practice 4.8. Does your state treat a store credit the same as a cash refund for a return?

Yes // No // Comments

Disclosed Practice 4.9 - Simultaneous Return and Sale

***Explanation:** With some returns, a seller may accept a returned product from a customer that at the time of the return, the customer elects to purchase another product. This disclosed practice addresses whether a state will allow a seller to still claim credit (or net) for a returned product with a simultaneous purchase of another product.*

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Example D.1.

- Seller makes a \$100 sale of one product;
- The transaction is subject to a 6% sales tax, including any applicable local sales taxes;
- Seller collects \$106 from the customer and remits \$6 of tax to the state;
- During a later filing period the customer returns product for a full refund;
- Customer when making the return purchases another product for \$150; and
- Seller collects \$53 from the customer and remits \$3 of tax to the state.

Disclosed Practice 4.9.A - Does your state allow the seller to only collect and remit the additional sales tax on the price difference of a returned product when the replacement product costs more? **If no, please explain in the comments.**

Yes // No // Comments

Example D.2.

- Seller makes a \$100 sale of one product;
- The transaction is subject to a 6% sales tax, including any applicable local sales taxes;
- Seller collects \$106 from the customer and remits \$6 of tax to the state;
- During a later filing period the customer returns product for a full refund;
- Customer when making the return purchases another product for \$50; and
- Seller refunds \$53 to the customer and requests \$3 tax refund from the state.

Disclosed Practice 4.9.B - Does your state allow the seller to obtain a refund from the state for the price difference of a returned product when the replacement product costs less?

Yes // No // Comments

Disclosed Practice 4.10 – Refund Pending State Approval

***Explanation:** After completing a transaction, a seller may be notified by a customer that a transaction was not taxable. Seller will not refund tax to the customer until the state approves the refund request. Some states will process the refund to a customer without the seller entering into a written agreement to pay the customer the refund. Some other states will also process a refund to the seller; however, the seller must enter into a written agreement with the customer to give the refund to the customer.*

Disclosed Practice 4.10.A - Does your state require the seller to refund the tax to the customer prior to obtaining a refund from the state?

Yes // No // Comments

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Disclosed Practice 4.10.B - Will your state refund or credit a seller for tax erroneously collected and remitted to the state prior to the seller refunding the customer the tax if the seller does not have a written agreement to refund the customer?

Yes // No // Comments

Disclosed Practice 4.10.C - If you answered “no” to disclosed practice 4.10.B, will your state refund or credit a seller for tax erroneously collected and remitted to the state prior to the seller refunding the customer the tax if the seller has a written agreement that it will refund the tax to the customer the tax if the state approves the refund?

Yes // No // Comments

Disclosed Practice 4.11 – Seller Refund When Customer Did Not Pay Tax

***Explanation:** Sellers sometimes pay sales tax to the state prior to receiving payment from the customer. The customer subsequently refuses to pay the invoiced sales tax claiming the product is not subject to tax. Seller files for a refund, providing the customer’s reasons for why the tax is not owed.*

Disclosed Practice 4.11 - Can the seller obtain a refund of the tax paid to the state if the customer correctly asserted the product was exempt? *If “no”, please indicate how a seller can claim a refund in the comment section.*

Yes // No // Comments

Disclosed Practice 4.12 - Returned Product to Seller in Another State

***Explanation:** Customer buys a product in State A and returns the product to seller’s location in State B. When processing the tax return in State B, seller refunds full amount of State A’s tax to the customer and claims a refund for the tax to State A. In addition, seller has multiple stores in State A, which also has local taxes. For local taxes, State A still requires a refund of the tax based on the location of the store where the product was purchased, not the return location.*

Disclosed Practice 4.12.A - The customer has the original sales receipt indicating the tax was paid to your state. While the product is not returned to your state, will your state allow the seller to claim the refund of the tax paid to your state, regardless where the product was returned? If “no,” please explain procedure in the comment section.

Yes // No // Comments

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Disclosed Practice 4.12.B - If your state has local taxes, are there any special rules for in-state returned product that differ from your response in 4.11.A.? If “yes,” please provide details in comment section.

Yes // No // Comments

Disclosed Practice 4.13 - Returned Product with No Receipt

***Explanation:** Some sellers allow customers to return a product to a seller without a receipt. Seller has no idea where product was originally purchased (both location and seller). In that situation, sellers’ policy is usually to provide a credit for the product based on the returned product’s current selling price in the store, plus the tax rate at that store.*

Disclosed Practice 4.13 - Will your state allow the seller to receive a refund or credit from the state based on the seller refunding the tax to the customer without a receipt using the tax rate at the store where the return was made and the price of the returned product at the store at that time? Please note in the comments any special documentation the seller needs to provide the state.

Yes // No // Comments

Disclosed Practice 4.14 - Customer Directly Filing for a Refund

***Explanation:** Sometimes a customer either cannot find a seller or the seller refuses to file a refund claim on behalf of the customer. In that situation, a customer wants to file a refund claim directly to the state. The states’ procedures on whether they will refund the customer vary.*

Disclosed Practice 4.14.A - Does the state give customers the option to request a refund directly from the state (*i.e.*, the customer is not normally required to make the request through the seller)?

Yes // No // Comments

Disclosed Practice 4.14.B - If the answer to disclosed practice 4.14.A was “no,” does the state have a procedure for a customer to obtain a refund from the state when the seller cannot be found or refuses to submit the refund for a customer? If “yes”, please provide details in the comment section.

Yes // No // Comments