

TC0005 Tax Rule Request Instructions

August 2016

Certification is for the taxability of the “product category.” Certification does not include certifying the taxability based on (1) a specific seller or purchaser (entity-based exemptions) or (2) a specific use (use-based exemptions).

SSUTA does not define “Product Category” or Product.

- **Category is a group of like products.**
- **Product is the individual item.** (CSP Contract E.4.(e) “Product categories” does not include individual products.)
- **Subcategories or listings of individual products are necessary when a product or group of products within a “product category” is taxed differently than the “product category” as a whole.**

If an individual product is taxed differently than the other like products, the individual product must be listed separately which creates a new product category or subcategory.

- **Individual products should not be listed unless that product’s taxability is different from the other products in that category or there is only one like product.**

Example 1:

- Food is a category (defined in= SST)
- Bottled water, candy, dietary supplements, and soft drinks are subcategories under food. Because these subcategories’ taxability may differ from food, separate tax rules are required.

Tax Rules list:

Food
Food: Bottled Water
Food: Candy
Food: Dietary Supplements
Food: Soft drinks

Example 2:

- Drugs is a category (defined by SSUTA)
- Insulin – is a specific product that is a drug. Because insulin’s taxability may differ from the taxability of the category, a separate tax rule is required.

Tax Rules List:

Drugs
Drugs: Insulin

States may require different breakdown of items within a specific category. Unless the category or product is defined by the agreement, the product categories or subcategories may vary from state to state.

Question: If a “product category” is listed and approved, how is a state sure that the products within the category are actually products that should be in that category without reviewing specific listings.

Answer: This would be covered by the audits.

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CSP Instructions

- 1) Complete Form TC0005 CSP System Change or Tax Rules Request Form.
- 2) For Tax Rule Certification Requests, also complete TC0005 Tax Rules worksheet Fields on TC0005 Tax Rules Worksheet:
 - A. Row # - Number lines beginning with 1, for sorting and reference purposes.
 - B. Parent Product Category Tax Code or Category Number – Number used by CSP
 - C. Child, Subcategory, or Individual Product Number – Number used by CSP

Use the CSP tax codes or category codes. These codes should be compiled by the states with the tax rules for future use in testing tax rules using the test deck.

- D. Parent Product Category Description – Be specific. Some products have names that apply to different products depending on the category in which it is listed.
- E. Child, Subcategory, or Individual Product Description – Be specific. If additional description or explanation is required, use column for CSP Additional Comments.

Use Product Categories (like products) when possible. Do not list specific products unless the product taxability differs from the Product Category.

- F. Sales or Use Taxability – Enter T for Taxable or E for Exempt

SSUTA Rule 317.1:

C. Systems Related Issues

1. Default rules for coding the taxability of products.

a. Sellers, Certified Service Providers (CSP's), and Model 2 Automated Systems (CAS's) shall code all products that are tangible personal property as taxable unless a member state has specifically exempted or excluded the product from its tax base.

b. Sellers, CSP's, and CAS's shall code all services sourced to member states that enumerate taxable services as exempt unless a member state has specifically enumerated the service as a taxable service.

c. Sellers, CSP's, and CAS's shall code all services sourced to member states that tax services in the same manner as tangible personal property as taxable unless a member state has specifically exempted or excluded the service from its tax base.

- G. Does a Reduced Rate Apply? Enter Y for Yes or N for N. States may have a reduced rate for food and drugs. If there is a reduced rate, enter the reduced rate.
- H. If a Cap or Threshold applies, what % of sale or \$ amount is taxable amount limited to? Only use this if the product category or product rule is for has a cap or threshold. If product category includes items that have and items that do not have a cap or threshold, the products will need to be separately listed.

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- I. State Law, Rule or Publication – It is the CSPs responsibility to research the taxability of products prior to submitting a Tax Rule Certification request. List the state law, rule or publication used to determine the product taxability.
 - J. CSP Additional Comment. Enter any additional notes or comments that will help the state understand the product category or how you arrived at the taxability.
- 3) Send Form TC0005 to TC
- a) TC will number the form and forward form to the state requested.
 - b) State will review, approve, request additional information, or request additional time.
- 4) Respond to any questions the states may have and state any reasons for disagreement on taxability codes, if there are any. Provide as detailed explanation as possible.
- a) Add response to column after the state's response on the tax rule line that is being discussed. Enter date response is sent.
 - b) Create separate codes for entries the states indicate are for products or subcategories in the product category that have differing taxability.
 - c) Update Taxability Codes in Column --- to taxability as the state indicates. The final form for the state to sign off on should have the correct taxability in the Sales or Use Taxability column.
- The final form the state approves should show the corrected product categories and tax rules.
- 5) Complete any testing the state requires.
- 6) Repeat until State approves entire list.
- 7) If state does not certify, request additional information or request additional time by the first day of the calendar month that is at least 30 days from the date Testing Central notifies the state or from the date the CSP replied to the last request, the CSP may close the tax rule and will receive relief of liability, to the extent the state allows, as provided in the CSP contract section E.4.(b).

State Instructions

1. Review rules to determine taxability.
The state has until the first day of the month that begins at least 30 days after it receives a tax rule request to:
 - certify the rule,
 - request additional information, or

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- request an extension in time, which is done in writing to the Executive Director. The extension provides until the first day of the calendar month that is at least 60 days from the date Testing Central notified the state of the request.

The time frame begins again each time the CSP sends additional information.

If a state fails to certify the taxability of the a new product category within the time period described, the CSP is not liable to the extent determined by that state for any taxes due for these product categories until the first day of the calendar month that is at least 30 days after the CSP is notified of the required change. (CSP Contract E.4.)

2. If state has questions as to what the product category is or includes or the taxability is incorrect, enter your comments or questions in the State Comments column (column L). Enter the date response is sent.

Provide a detailed explanation the additional information you need.

Provide the correct taxability and explanation.

If rule is for a product category that includes both taxable and exempt products, explain that the product category needs to be split or subcategories assigned and why.

- If the taxability of a transaction is dependent on who the customer is and what they do with the product purchased, if their state law does not specifically exempt that product, the code should be tax.
- If the taxability is dependent on who is selling product or what it is sold in conjunction with, then the code may require further breakdown.

Example 1: Software training. The training is taxed if provided by a third party, but not if provided by the software seller. Because there is no customer exemption info that would document when this is exempt, this requires two product categories/subcategories. Software training provided by seller in conjunction with sale of product and Software training by someone other than the seller.

Example 2: Software training. All software training is taxable. Software training purchased by a public school is exempt. Because this is a purchaser exemption, no separate category is required. The product is taxable unless exemption documentation is provided by the customer.

3. Return the form, with comments to the CSP, copy to Testing Central (David and Jody).
4. Request testing if necessary to confirm correct rules are in place.
5. If rule is correct or once it is corrected, enter the State Date Approved (column K) This is the date the state certifies that specific rule. Liability relief will begin on this date for this rule.
6. Repeat until all rules are certified.
7. Once completed, complete Form TC005 indicating Rules are approved and Date.
8. Keep all tax rules reviewed. Compile a master listing by placing all rules into one worksheet. This will allow you a place to quickly access and research tax rules you have reviewed and should be used

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by a CSP. This master list can eventually be used for testing tax rules directly with a CSP in a test deck.

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