

AM07038A04

December 12, 2007

A motion by Oklahoma relating to sourcing:

Section 310: GENERAL SOURCING RULES

- A. ~~The~~ Except as provided in Section 310.1, the retail sale, excluding lease or rental, of a product shall be sourced as follows:
1. When the product is received by the purchaser at a business location of the seller, the sale is sourced to that business location.
 2. When the product is not received by the purchaser at a business location of the seller, the sale is sourced to the location where receipt by the purchaser (or the purchaser's donee, designated as such by the purchaser) occurs, including the location indicated by instructions for delivery to the purchaser (or donee), known to the seller.
 3. When subsections (A)(1) and (A)(2) do not apply, the sale is sourced to the location indicated by an address for the purchaser that is available from the business records of the seller that are maintained in the ordinary course of the seller's business when use of this address does not constitute bad faith.
 4. When subsections (A)(1), (A)(2), and (A)(3) do not apply, the sale is sourced to the location indicated by an address for the purchaser obtained during the consummation of the sale, including the address of a purchaser's payment instrument, if no other address is available, when use of this address does not constitute bad faith.
 5. When none of the previous rules of subsections (A)(1), (A)(2), (A)(3), or (A)(4) apply, including the circumstance in which the seller is without sufficient information to apply the previous rules, then the location will be determined by the address from which tangible personal property was shipped, from which the digital good or the computer software delivered electronically was first available for transmission by the seller, or from which the service was provided (disregarding for these purposes any location that merely provided the digital transfer of the product sold).

- B. The lease or rental of tangible personal property, other than property identified in subsection (C) or subsection (D), shall be sourced as follows:
1. For a lease or rental that requires recurring periodic payments, the first periodic payment is sourced the same as a retail sale in accordance with the provisions of subsection (A). Periodic payments made subsequent to the first payment are sourced to the primary property location for each period covered by the payment. The primary property location shall be as indicated by an address for the property provided by the lessee that is available to the lessor from its records maintained in the ordinary course of business, when use of this address does not constitute bad faith. The property location shall not be altered by intermittent use at different locations, such as use of business property that accompanies employees on business trips and service calls.
 2. For a lease or rental that does not require recurring periodic payments, the payment is sourced the same as a retail sale in accordance with the provisions of subsection (A).
 3. This subsection does not affect the imposition or computation of sales or use tax on leases or rentals based on a lump sum or accelerated basis, or on the acquisition of property for lease.
- C. The lease or rental of motor vehicles, trailers, semi-trailers, or aircraft that do not qualify as transportation equipment, as defined in subsection (D), shall be sourced as follows:
1. For a lease or rental that requires recurring periodic payments, each periodic payment is sourced to the primary property location. The primary property location shall be as indicated by an address for the property provided by the lessee that is available to the lessor from its records maintained in the ordinary course of business, when use of this address does not constitute bad faith. This location shall not be altered by intermittent use at different locations.
 2. For a lease or rental that does not require recurring periodic payments, the payment is sourced the same as a retail sale in accordance with the provisions of subsection (A).

3. This subsection does not affect the imposition or computation of sales or use tax on leases or rentals based on a lump sum or accelerated basis, or on the acquisition of property for lease.
- D. The retail sale, including lease or rental, of transportation equipment shall be sourced the same as a retail sale in accordance with the provisions of subsection (A), notwithstanding the exclusion of lease or rental in subsection (A).

“Transportation equipment” means any of the following:

 1. Locomotives and railcars that are utilized for the carriage of persons or property in interstate commerce.
 2. Trucks and truck-tractors with a Gross Vehicle Weight Rating (GVWR) of 10,001 pounds or greater, trailers, semi-trailers, or passenger buses that are:
 - a. Registered through the International Registration Plan; and
 - b. Operated under authority of a carrier authorized and certificated by the U.S. Department of Transportation or another federal authority to engage in the carriage of persons or property in interstate commerce.
 3. Aircraft that are operated by air carriers authorized and certificated by the U.S. Department of Transportation or another federal or a foreign authority to engage in the carriage of persons or property in interstate or foreign commerce.
 4. Containers designed for use on and component parts attached or secured on the items set forth in subsections (D)(1) through (D)(3).

NEW SECTION 310.1 ELECTION FOR ORIGIN-BASED SOURCING

- A. A state that has local jurisdictions that levy or receive sales or use taxes may elect to source the retail sale of tangible personal property and digital goods pursuant to the provisions of this section in lieu of the provisions of Subsection A(2)(3) and (4) of Section 310 if they comply with all provisions of Subsection C of this section and the only exception to Section 310 is the exception provided for in subsection B of this Section.
- B. A state may source retail sales, excluding lease or rental, of tangible personal property or digital goods to the location where the order is received by the seller if:

1. The order is received in the same state by the seller where receipt of the product by the purchaser (or the purchaser's donee, designated as such by the purchaser) occurs;
2. Location where receipt of the product by the purchaser occurs is determined pursuant to Section 310A(2),(3) and (4); and
3. ~~business records of the seller that are maintained in the ordinary course of the seller's business are adequate to determine at the time the order is received where the order is received by the seller.~~

At the time the order is received, the recordkeeping system of the seller used to calculate the proper amount of tax to be imposed captures the location where the order is received.

C. A state electing to source sales pursuant to this section shall comply with all of the following:

1. When the location where the order is received by the seller and the location where the receipt of the product by the purchaser (or the purchaser's donee, designated as such by the purchaser) occurs as determined pursuant to Section 310A(2),(3) and (4) are in different states, the sale must be sourced pursuant to the provisions of Section 310.
2. When the product is sourced pursuant to this section to the location where the order is received by the seller, only the sales tax for the location where the order is received by the seller may be levied. No additional sales or use tax based on the location where the product is delivered to the purchaser may be levied. The purchaser shall not be entitled to any refund if the combined state and local rate or rates at the location where the product is received by the purchaser is lower than the rate where the order is received by the seller.
3. A state may not require a seller to utilize a recordkeeping system which captures the location where an order is received to calculate the proper amount of tax to be imposed.
4. A purchaser shall have no additional liability to the state for tax, penalty or interest on a sale for which the purchaser remits tax to the seller in the amount

invoiced by the seller if such invoice amount is calculated at either the rate applicable to the location where receipt by the purchaser occurs or at the rate applicable to the location where the order is received by the seller. A purchaser may rely on a written representation by the seller as to the location where the order for such sale was received by the seller. When the purchaser does not have a written representation by the seller as to the location where the order for such sale was received by the seller, the purchaser may use a location indicated by a business address for the seller that is available from the business records of the purchaser that are maintained in the ordinary course of the purchaser's business to determine the rate applicable to the location where the order was received.

5. The location where the order is received by or on behalf of the seller means the physical location of a seller or third party such as an established outlet, office ~~or~~ location or automated order receipt system operated by or on behalf of the seller ~~or the seller's employee~~ where an order is initially received by or on behalf of the seller and not where the order may be subsequently accepted, completed or fulfilled. An order is received when all of the information necessary to the determination whether the order can be accepted has been received by or on behalf of the seller. The location from which a product is shipped shall not be used in determining the location where the order is received by the seller.
6. Such state shall provide for direct pay permits pursuant to Section 326 of this Agreement and the requirements of this subsection. Purchasers which remit sales and use tax pursuant to such a permit shall remit tax at the rate in effect for the location where receipt of the product by the purchaser occurs or the product is first used as determined by state law. A member state may establish reasonable thresholds at which level the state will consider direct pay applications, provided the threshold must be based upon purchases with no distinction between taxable and non-taxable purchases. The member state shall establish a process for application for a direct pay permit as provided herein. The member state may require the applicant to demonstrate:
 - a. Ability to comply with the sales and use tax laws of the state,

- b. A showing of a business purpose for seeking direct payment permit and how the permit will benefit tax compliance, and
- c. Proof of good standing under the tax laws of the state.

The member state shall review all permit applications in a timely manner so that applicants receive notification of authorization or denial within one hundred twenty (120) days. The member state may not limit direct pay applicants to businesses engaged in manufacturing or businesses that do not know the ultimate use of the product at the time of the purchase.

- 7. When taxable services are sold with tangible personal property or digital products pursuant to a single contract or in the same transaction, are billed on the same billing statement(s), and, because of the application of this section, would be sourced to different jurisdictions, a State shall elect either origin sourcing or destination sourcing to determine a single situs for that transaction. Such state election is required until such time as the Governing Board adopts a uniform methodology to address such sales.
- 8. A member state that elects to source the sale of tangible personal property and digital goods pursuant to the provisions of this section shall inform the Governing Board of such election.

D. Compliance with the provisions of this section shall satisfy a state's eligibility for membership in this Agreement as follows:

1. If a state is in substantial compliance with all each of the provisions of this agreement other than sourcing of sales of tangible personal property and digital goods as provided in Section 310 and elects to source sales of tangible personal property and digital goods pursuant to this section, such state may become an associate member state in the same manner as provided for states to become full member states pursuant to Article VIII of this Agreement.

2. On or after January 1, ~~2009~~ 2010, a state which becomes an associate member state pursuant to this subsection shall automatically become a full member state, provided that at least ~~three (3)~~ five (5) states which are not

substantial compliance with all each of the provisions of the agreement other than sourcing sales of tangible personal property and digital goods pursuant to Section 310 of the Agreement and have notified the governing board of an election pursuant to paragraph 8 of subsection C of this section to source sales pursuant to this section and have been found to be in substantial compliance with the provisions of this section.

3. The provisions of this section shall be fully effective for all purposes on or after January 1, 2009 2010, provided that at least three (3) five (5) states which are not full member states on December 31, 2007, have been found to be in substantial compliance with all each of the provisions of the agreement other than sourcing sales of tangible personal property and digital goods pursuant to Section 310 of the Agreement and have notified the governing board of an election pursuant to paragraph 8 of subsection C of this section to source sales pursuant to this section and have been found to be in substantial compliance with the provisions of this section. States electing to source sales under this section after that time may become full member states if all other requirements for membership are satisfied.

NEW SECTION 604: ADDITIONAL MONETARY ALLOWANCE REQUIRED FOR MEMBERS MAKING CERTAIN ELECTION

- A. In addition to the monetary allowance provided pursuant to Sections 601, 602 and 603 of this Agreement, each every full member state that makes the election by Section 310.1 of this Agreement, shall provide a monetary allowance as provided in this section upon becoming a full member state, shall provide reasonable compensation for the incremental expenses incurred in establishing or maintaining a uniform origin system for administering, collection and remitting sales and use taxes on origin-based sales.

- ~~B. The monetary allowance shall be provided to CSPs, sellers burdened by the continuation of origin sourcing and purchasers burdened by the continuation of origin sourcing.~~
- ~~C. The Governing Board shall establish the amount of such allowance and the eligibility for such allowance. The Governing Board shall determine the effective date of any amendments to the amount of or eligibility for such allowance.~~

Section 705: ASSOCIATE MEMBERSHIP

- A. An associate member shall have all the rights and privileges of a member state except that:
1. An associate member may not vote on amendments to or interpretations of the Agreement when the provisions of Section 701 have been met without the use of associate members; and
 2. An associate member may not vote to determine if a petitioning state is in compliance with the Agreement pursuant to Section 804 of the Agreement.
 3. A representative of an associate member state shall not be eligible to serve on the compliance review and interpretations committee.
- B. A state which is an associate member on January 1, 2007, shall retain such status until the Governing Board finds such state to be in compliance pursuant to Section 805 or ~~December 31, 2007~~ December 31, 2008 July 1, 2009, whichever is earlier, ~~without regard to whether the population requirement of Section 701 has been met.~~ Any associate member that has not been found in compliance by ~~December 31, 2007~~ December 31, 2008 July 1, 2009, shall forfeit its status as an associate member. The president of the governing board shall provide an associate member state with the reasons why such state is not in compliance with the Agreement. Forfeiture of its status as an associate member does not preclude a state from re-petitioning for membership pursuant to Section 801.
- C. Notwithstanding any provision of this Agreement to the contrary, a seller may, but is not required to collect sales or use tax on sales into an associate member state unless the seller is otherwise required to collect such taxes under applicable law. Notwithstanding the provisions of Section 401 (B), a seller that volunteers to collect tax in an associate member state is not required to collect tax in any other associate member state. An associate

member shall be responsible for payment of costs as provided in Article VI for those sellers that volunteer to collect tax in an associate member state.

D. Neither the Governing Board nor a member state may share or grant access to an associate member state any seller information from the seller's registration pursuant to Section 401. Neither the Governing Board nor a member state may share or grant access to an associate member state any seller information from an audit conducted by the Governing Board or a member state on behalf of the Governing Board unless the associate member state is a party to the audit.

E. An associate member shall be responsible for the payment of the petition fee and the annual cost allocation as determined by the Streamlined Sales Tax Implementing States or Governing Board.

F. An associate member state shall provide amnesty pursuant to the provisions of Section 402, provided, the amnesty shall be in effect from the date the associate member status is attained until 12 months after the associate member state becomes a full member state.