

Legislative Objective

Streamlined Sales & Use Tax Agreement

Background:

The most significant change to sales and use tax law in recent history is the Streamlined Sales Tax Agreement (SSTA). The SSTA establishes common product definitions, administration and reporting procedures, and compensation to sellers when adopted nationwide. The goal is to protect main street retailers, to ease the burden on employers operating in multiple states and to create incentives for remote sellers without nexus in Washington to voluntarily collect sales and use tax. The 2007 legislature passed SB 5089 to make the final changes to conform our sales tax law to the SSTA. Under the Streamlined Sales Tax Agreement, sales tax is based on the destination (where the consumer takes possession) of the product or service. To allow employers who make retail delivery sales enough time to comply with the new law, the legislature delayed implementation of destination sourcing until July 1, 2008. The legislature also established a tax credit for small businesses to cover costs in changing their accounting systems or for the use of a Certified Service Provider (CSP). The 2006 National Joint Cost of Collection Study concludes the average cost of compliance for retailers in 2003 was 3.09% of the sales tax collected. Of the 45 states that collect sales tax, 28 provide an allowance. Washington does not.

Problem:

Following adoption of the Streamlined Sales Tax Agreement (SSTA), small and medium size businesses continue to express concerns on their ability to implement destination sourcing for sales and use tax collection and remittance. While a tax credit exists to help employers comply with the new law, many highly impacted businesses are not eligible. Laws passed to ensure that compliance with the SSTA does not constitute nexus for purposes of licensing fees and business and occupation taxes need further clarification to prevent overzealous cities from collecting taxes unnecessarily. Finally, businesses are increasingly frustrated with the lack of recognition for their role in collecting taxes. Businesses incur costs calculating, recording and collecting sales tax from customers. They set up systems to gather data, prepare and file reports. Develop sales tax manuals, train personnel and supervise performance among other activities to collect and remit sales tax.

Solution:

1. Protect uniform definitions, classifications and administration of the sales and use tax code consistent with the SSTA. Develop and advocate changes to the SSTA to protect small business and encourage ease of compliance. Enact legislative and regulatory changes adopted by the Governing Board to ensure compliance as a member of the SSTA to the extent changes represent substantial simplification.
2. Recognize the role of all business in collecting sales and use tax and provide an allowance or other form of compensation, such as reducing the cost of compliance, to help recoup their costs.
3. Clarify that the presence in a local jurisdiction of delivery sales using third party delivery companies or deliveries in a company owned vehicle does not establish nexus for purposes of licensing fees or business and occupation taxes.
4. Revenues from remote sellers through the participation in the SSTA should expand tax credits for business affected by the sourcing change and for the cities mitigation account. Unrelated programs should not earmark revenues gained through SSTA.
5. Ongoing mitigation to cities that lose revenue through the sourcing shift change should be transitional and not permanent. Funding should come solely from the Mitigation Account that relies on new revenues gained from voluntary collection of remote sales. Mitigation should not increase taxes and not be funded with general fund state revenue.
6. Preclude local jurisdictions from imposing moratoria on distribution centers, industrial and warehouse facilities or to re-designate industrially zoned property because of adoption of the Streamlined Sales Tax Agreement.