

Prepared for: Minnesota Local Taxes Advisory Task Force

Streamlined Sales Tax

BACKGROUND,
IDENTIFYING BURDENS,
WAYS TO REMOVE
BURDENS, SUMMARY
OF KEY FEATURES, AND
LOCAL TAX ISSUES

Craig Johnson, Executive Director
Streamlined Sales Tax Governing Board

Objective

Provide information on what the Streamlined Sales and Use Tax Agreement (SSUTA) is and the SST organization that administers the SSUTA.

Identify the key features of the SSUTA.

Identify some of issues to consider related to local taxes.

Disclaimer – Streamlined does not control or interpret state laws. Information in this presentation may change and is only valid as of the date of the presentation.

Topics

- Provide general background and information on:
 - What is Streamlined Sales Tax (SST)?
 - Why SST started?
 - Who's involved?
 - What does SST Do?
 - What makes sales tax systems burdensome?
 - Key features of Streamlined Sales and Use Tax Agreement
- Local Sales Tax related issues

What is Streamlined Sales Tax (SST)?

Effort by state and local governments and business community

Focus is on:

- Simplification
- Uniformity
- Removing burdens
- State sovereignty

What is SST? - Streamlined's Goals

01

Create a simpler system for administering the various state and local sales taxes

02

At least make processes uniform if they cannot be made simple

03

Balance the interests of a state's sovereignty with the interests of simplicity and uniformity

04

Leverage the use of technology to ease the retailer's tax collection and reporting

Why did SST start? – US Supreme Court

- 1967 case of *National Bellas Hess v. Illinois*
- 1992 case of *Quill Corp. v. North Dakota*
- States do not have the authority to require sales tax collection by out-of-state retailers **with no physical presence** in a state
- Burdens imposed by States constituted an “undue burden on interstate commerce” and a violation of the Commerce Clause of U.S. Constitution

Why did SST start? - Simpler System Needed!

1999: National Governors Association, National Conference of State Legislatures, Federation of Tax Administrators and Multistate Tax Commission requested tax administrators to develop a simpler sales tax system:

- That is less complex
- Addresses unlevel playing field for merchants
- Addresses loss of revenue from states unable to collect taxes already imposed
- Inability of States to administer use tax with purchasers

Who's involved?

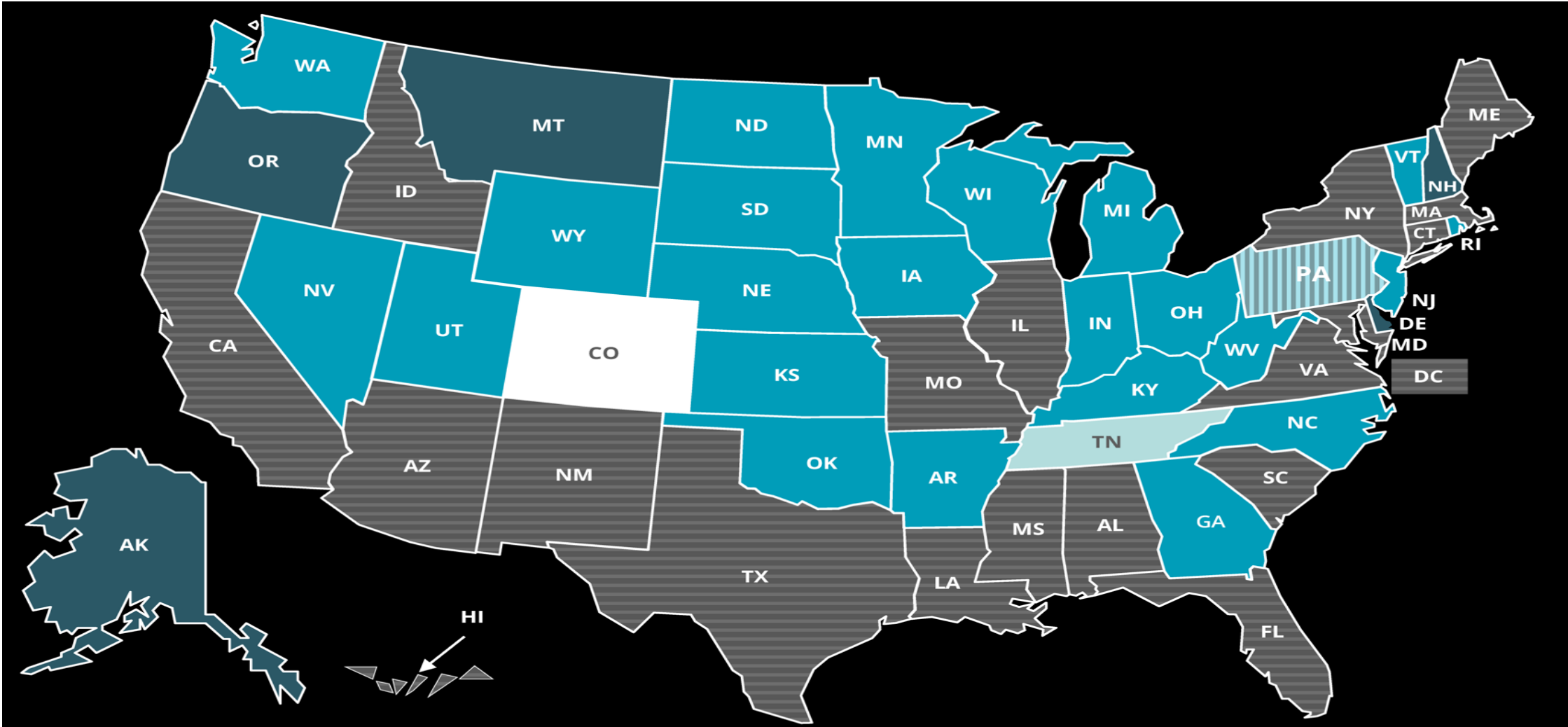
States


- Initially - All with a sales tax except Colorado involved in developing the SSUTA
 - Voluntary participation
 - 23 Full member states
 - 1 Associate member state


Local Governments


Business Community

SST STATE MEMBERSHIP STATUS 10-01-2023




 Full Member States

 Associate Member States *flex to full*

 Advisory States *not conforming*

 Non-sales Tax States

 Project States *not advisory*

 Non-participating State

Who's involved? – States – Governing Board

- Comprised of representatives from every member state
 - Amendments and interpretations of the Agreement
 - Admits states into membership
 - Implements administrative mechanisms
 - Reviews state compliance with the Agreement
 - Enters into contracts on behalf of member states

Reference: SSUTA Sections 801 and 806

Who's involved? – States – Advisory Council

- State and Local Advisory Council (SLAC) – Section 810 and Rule 810
 - Advises Governing Board on all matters related to the administration of the Agreement as it relates to the States
 - Includes amendments and interpretations, admission of states into membership, compliance and interpretations
 - Ex officio membership on Governing Board
- Voice for states and local governments – including those not on the Governing Board
- Develops new definitions and analyzes proposed amendments
- Develops rules and advises on requests for interpretations
- Works with Business Advisory Council (“BAC”)

Who's involved? - Locals

Local Governments

- Local Government Advisory Council – Section 812 and Rule 812.1
 - Advises the Governing Board on all matters related to the administration of the Agreement as it relates to local governments.
 - Includes amendments and interpretations
- US Conference of Mayors
- Government Finance Officers Association
- National League of Cities
- National Association of Counties

Who's involved? - Business

Business Community

- Business Advisory Council - Section 811
 - Represents the private sector
 - Advises the Governing Board on all matters pertaining to the administration of the Agreement as it relates to the business community
 - Includes:
 - Amendments, admission of states into membership, noncompliance, and interpretations
 - Advises and assists the State and Local Advisory Council
- Trade associations
- Accounting and law firms
- Individual businesses

What do we do?

“Assist states as they administer a simpler and more uniform sales and use tax system.”

- Simplify and modernize sales and use tax administration in order to substantially reduce the burden of tax compliance.
- Improve sales and use tax administration systems for all sellers and for all types of commerce.

What makes the current system(s) burdensome?

- ▶ Separate state and local tax administration
- ▶ Unclear rules on who has the right to tax a transaction
- ▶ Too many tax rates within each state and locality
- ▶ Different state and local tax bases

What makes the current system(s) burdensome?

- ▶ Separate state definitions – and some locals don't follow their own state definitions
- ▶ Retailer is held liable for tax when a buyer lies or fails to provide proof of an exempt sale
- ▶ Returns different in every state
- ▶ Separate registration required in every state – and even some local jurisdictions

Background: Ideas on How to Reduce Some of the Burdens

- One level of tax administration per state ...no locally administered sales taxes
- Set-up a central registration system
- Have one rule that establishes who has the right to tax a transaction
- Have fewer tax rates within each state and locality

Background: Ideas on How to Reduce Some of the Burdens

- Have the same state and local tax bases
- Have common definitions for the same product
- Do not make the retailer liable when a buyer lies or fails to provide proof of an exempt sale
- Have states disclose how certain items are treated

Results: Streamlined Sales and Use Tax Agreement (SSUTA)

SSUTA effective October 1, 2005

Current membership (10/1/2023)

- 23 Full members:

Arkansas, Georgia, Kansas, Kentucky, Indiana, Iowa, Michigan, Minnesota, Nebraska, New Jersey, Nevada, North Carolina, North Dakota, Ohio, Oklahoma, Rhode Island, South Dakota, Utah, Vermont, Washington, West Virginia, Wisconsin, Wyoming

- 1 Associate member:

Tennessee

Key Features of SSUTA

- State level administration of local sales and use taxes
- Common state and local tax bases within a state
- Uniform destination-based sourcing rule for goods and services
- One-stop central registration system
- Uniform definitions

Key Features of SSUTA

- Uniform simplified electronic return (SER)
- Rate and boundary databases
- Taxability matrix
- Simplified exemption administration
- Liability relief provisions
- Certified Service Providers (CSPs)

Local Sales Tax – Issues to Consider

- Burdens placed on sellers
 - *South Dakota v. Wayfair* – sellers with no physical presence
- Who administers?
 - Central administration versus separately administered (registration, filing returns, payments, audits)
- Notification requirements
 - Brick-and mortar and remote sellers

Local Sales Tax – Issues to Consider

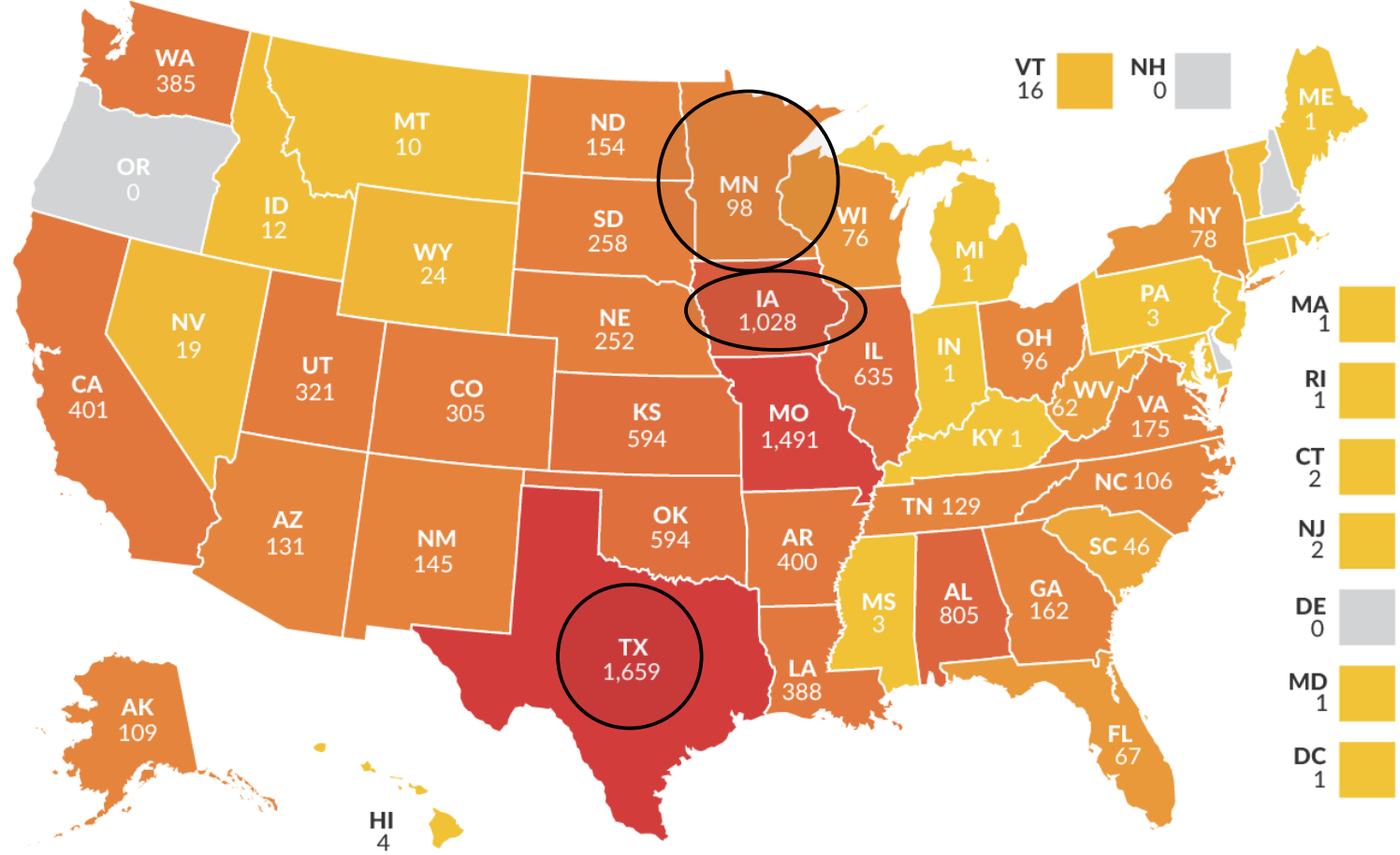
- What's taxable?
 - Uniform state and local tax base (definitions, exemptions, etc.)
- How is it sourced?
 - Which jurisdiction's tax applies?
- Determining proper jurisdiction – sellers identify on returns filed
 - Boundaries
 - “Machines” are trying to determine the correct jurisdiction and tax rate
 - Rate and Boundary databases
 - Exact matches means uniformly formatted and same abbreviations used (Street v. Str v. St)
 - USPS Standardization/Normalization
 - If jurisdictions can be easily identified, varying rates are not as problematic

Local Sales Tax – Issues to Consider

- Complexities Can Lead to Lawsuits
 - Overcollection – class action
 - Under collecting – qui tam or assessments by taxing authority
- Ask yourself - Would you be OK if other states required your sellers to have to comply with a similar tax in their state (i.e., MN based seller making remote sales into another state)?

How Many Sales Tax Jurisdictions Does Your State Have?

Total Sales Tax Jurisdictions by State, 2020



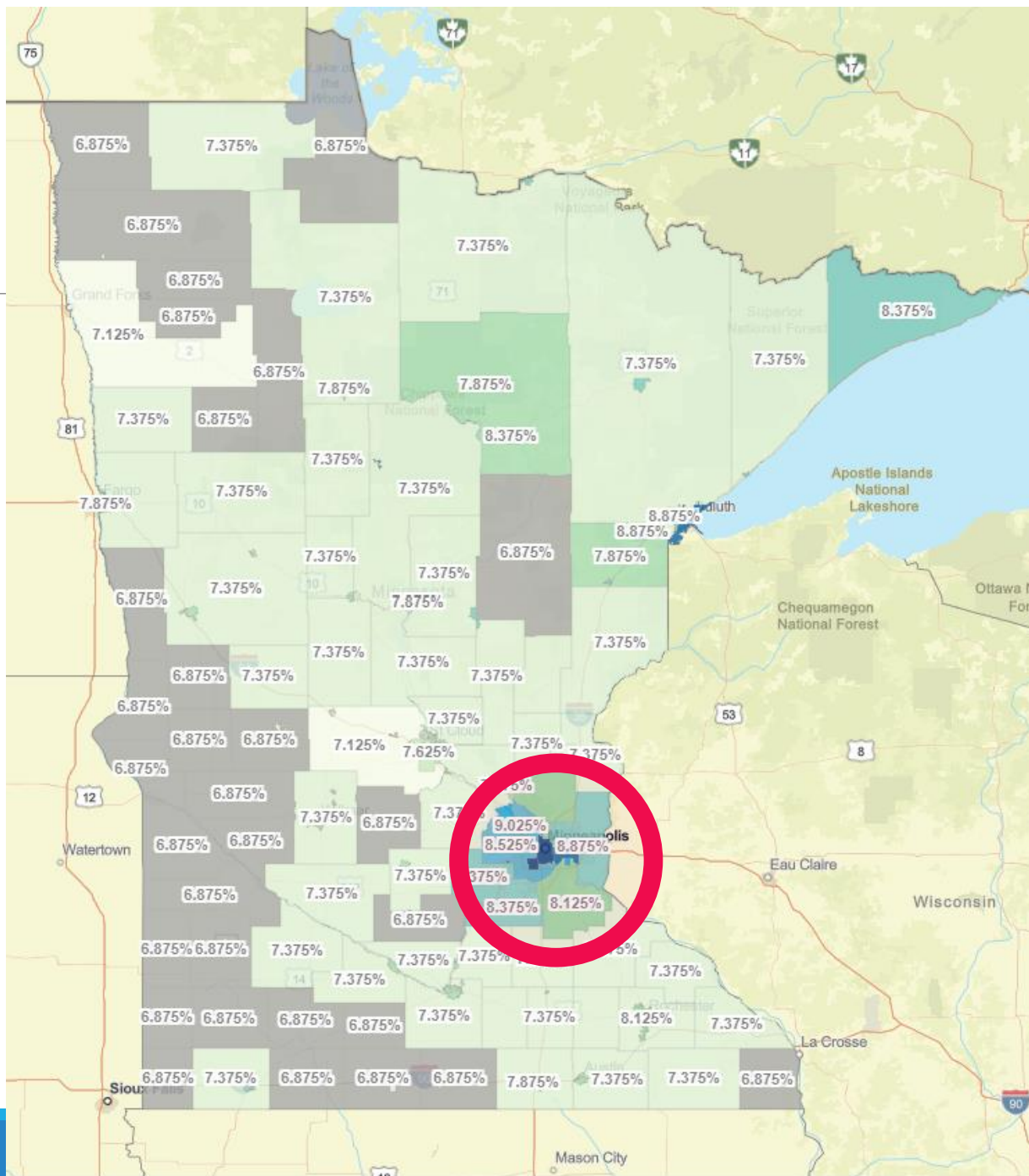
Note: Count includes standard sales tax jurisdictions that Vertex tracks in its tax compliance system.

Source: Vertex, Inc.

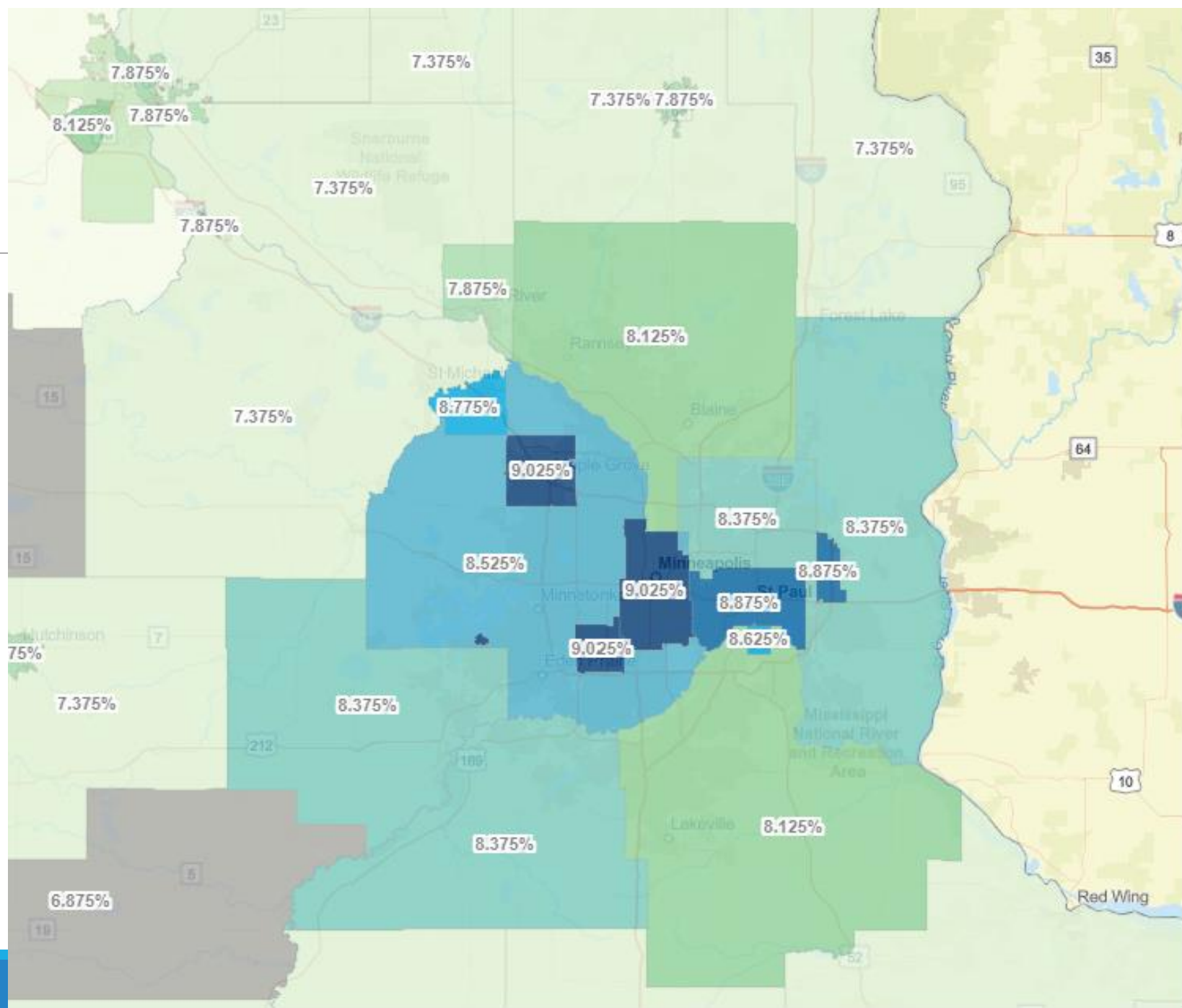
Total Sales Tax Jurisdictions by State, 2020



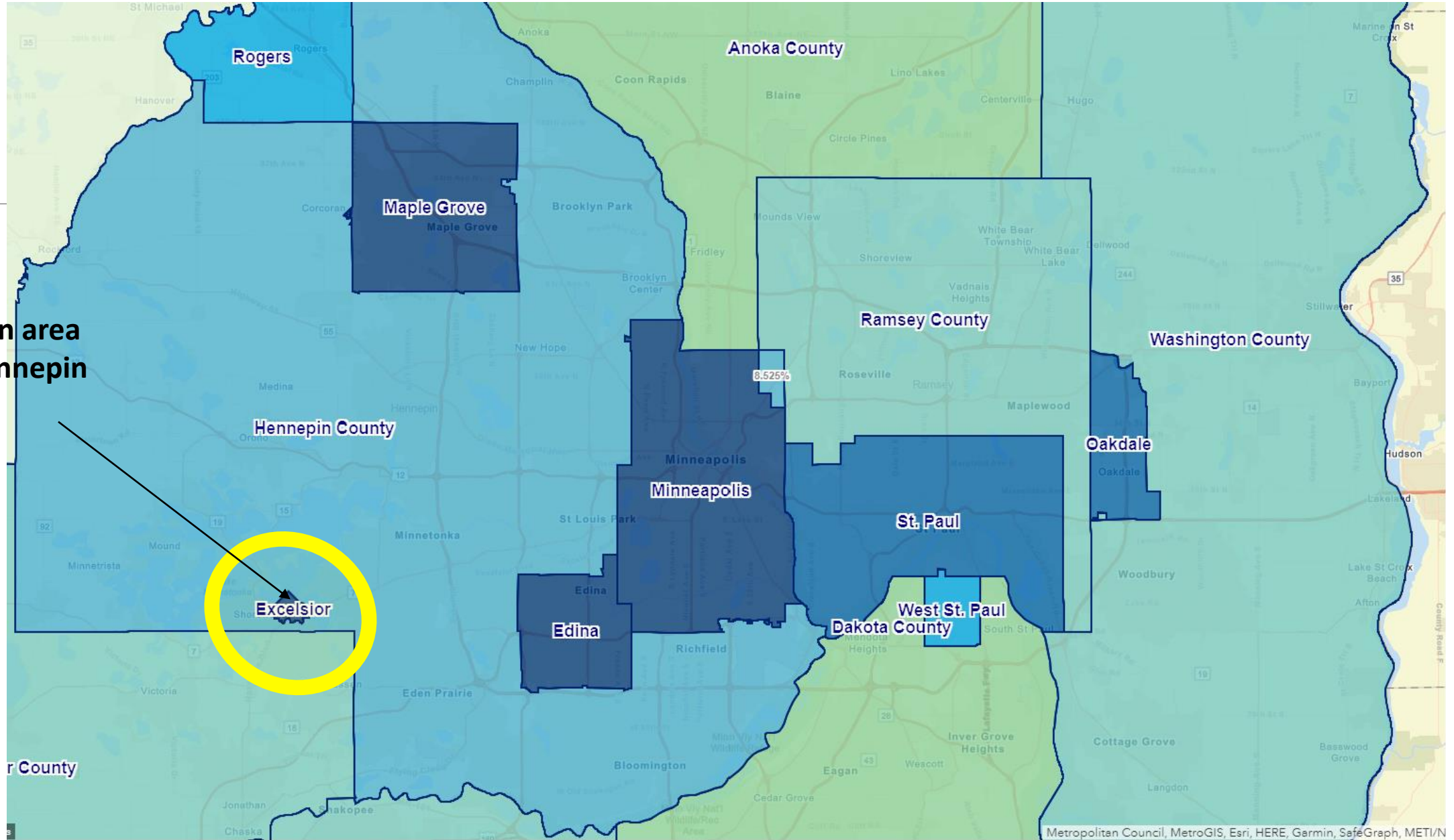
Jurisdictions in Minnesota



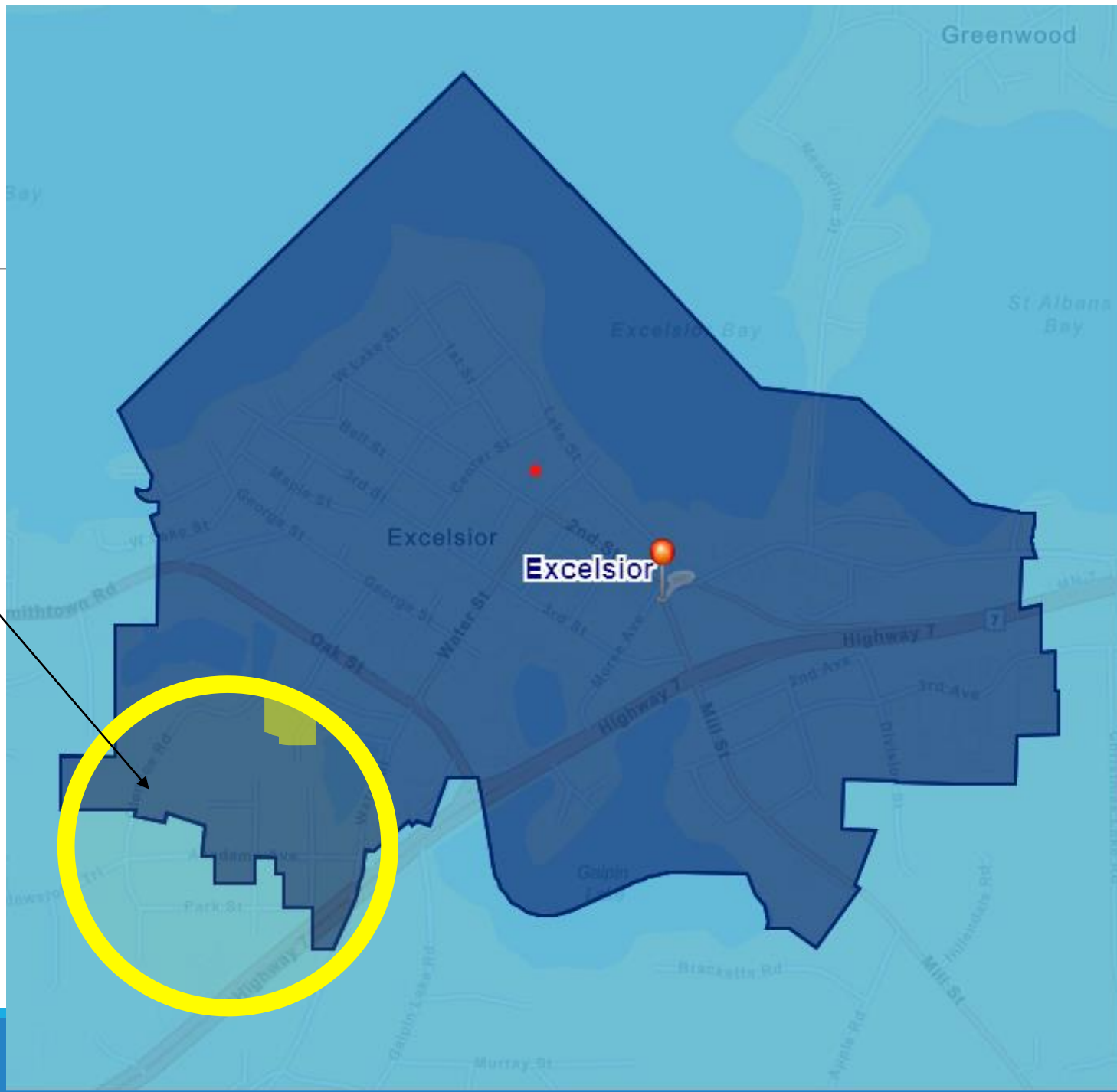
**Closer Look
at Local
Sales Taxes
In Areas
Near
Minneapolis
and St. Paul**



Focus in on area within Hennepin County



Boundaries for tax do not follow streets



Excelsior City tax applies to Building A on one side of boundary line...

Find the Rate

Address Search:
Enter address or place

Effective Period:
Oct-Dec 2023

Sales Tax Results

Address Returned: None

Local General Sales & Use Tax Rates

State Tax: 6.875%

County Tax: 0.15%, Hennepin County

City Tax: 0.5%, Excelsior City

Other Tax: None

Other Local Tax 1: 0.5%, Hennepin County Transit

Other Local Tax 2: None

Other Local Tax 3: 0.75%, Metro Area Transportation

Other Local Tax 4: 0.25%, Metro Area Tax for Housing

Total Sales Tax Rate: 9.025%

Reset Address Download Results

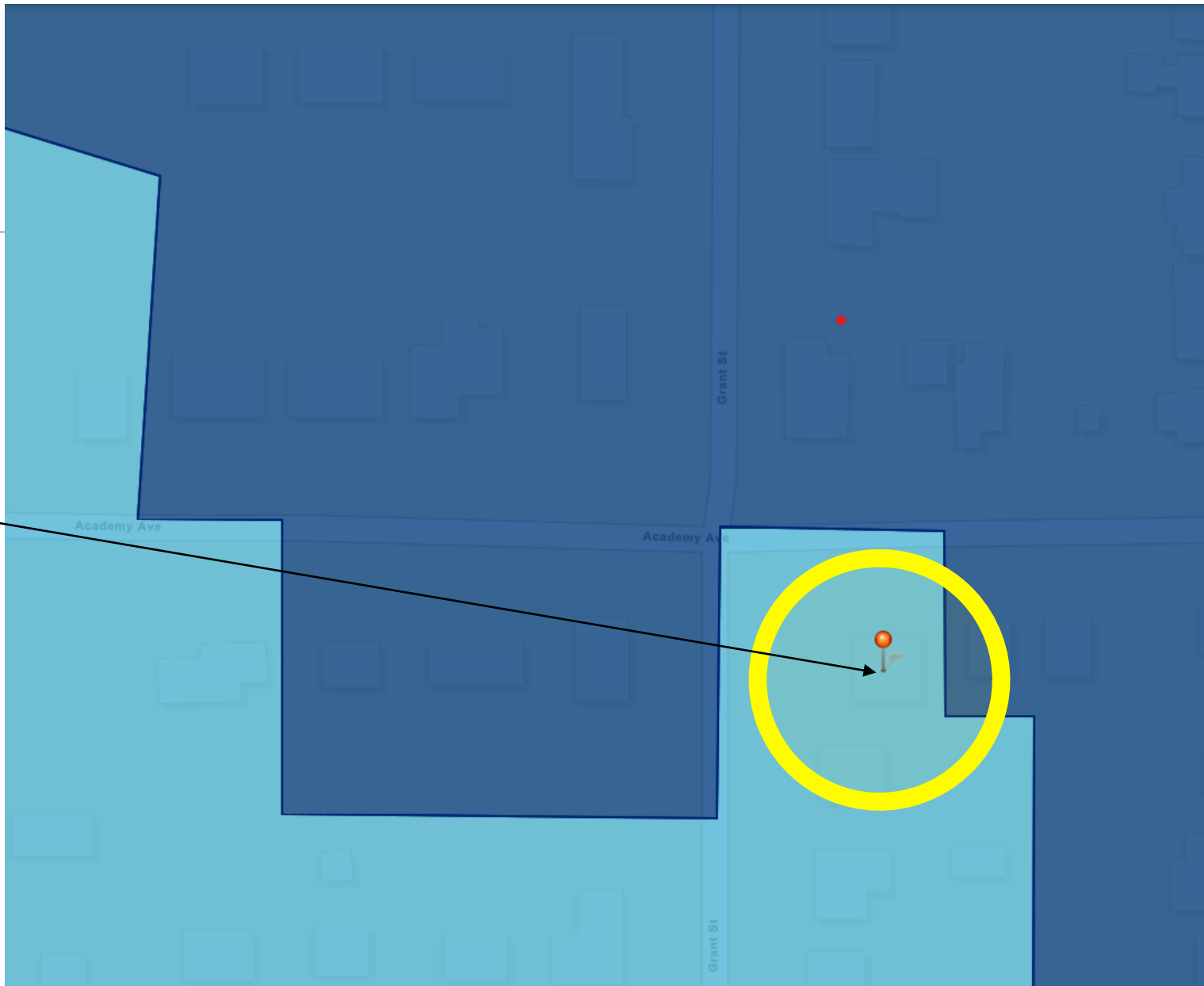
Calculate the Rate

(optional) Dollar Amount:
x 9.025%

Calculate Reset Calculator

Special Local Taxes

But not to Building B with no street between them.



Find the Rate

Address Search:

Effective Period:

Sales Tax Results

Address Returned: None

Local General Sales & Use Tax Rates

State Tax:	6.875%
County Tax:	0.15%, Hennepin County
City Tax:	None
Other Tax:	None
Other Local Tax 1:	0.5%, Hennepin County Transit
Other Local Tax 2:	None
Other Local Tax 3:	0.75%, Metro Area Transportation
Other Local Tax 4:	0.25%, Metro Area Tax for Housing

Total Sales Tax Rate: 8.525%

Calculate the Rate

(optional) Dollar Amount: x 8.525%

Special Local Taxes

Local Sales Tax

- Ideal Local Sales Tax
 - Clarity and Certainty
 - What's taxable
 - What's the rate
 - Where does it apply (jurisdiction)

Local Sales Tax

- Ideal Local Sales Tax
 - Generates revenue anticipated/needed
 - Centrally administered with all other local taxes
 - Uniform base (definitions, exemptions, etc.)
 - Uniform rate
 - Simple sourcing (5-digit zip)
 - The simpler the tax – the more likely it will be properly collected and generate the desired revenue.

QUESTIONS?