

Streamlined Sales Tax

What is it?

Business enterprises and over twenty member states jointly developed a program to simplify and reduce the sales tax compliance burdens on businesses operating in multiple states. As part of this cooperative effort, in exchange for simplification, businesses making sales into member states agree to voluntarily collect and remit sales tax on all taxable sales into the member states.

Simplifying Sales & Use Tax

Essential simplification requirements of the agreement are:

- Uniform definitions (e.g. “food” means the same thing in every state)
- Single tax rate per state (states barred from imposing multiple special tax rates other than on food/drugs)
- Eliminate caps and thresholds (e.g. VT can no longer only tax clothing over \$110 in value)
- Common rule for rounding
- Single return for state and local level taxes
- Common tax base (tax applies to the same products/services at the state & local level) administered at the state level
- Ability to register and file online
- Standardized rules for sourcing sales (all sales are sourced based upon destination)
- Common exemption certificates
- Amnesty for past liability in exchange for voluntary participation
- States bear portion of compliance cost of remote sellers by providing an allowance deducted from voluntary remittances of tax.

Motivation for State Participation in the Streamlined Sales Tax Agreement

Trends show a continued significant decline in sales tax revenue due to the emergence and expansion of E-commerce and other remote transactions in which remote sellers can't be compelled to collect the tax from customers. Although the tax is legally due and owing from the in-state purchasers, few fully report the tax they owe and it is not cost effective for states to pursue use tax from individuals through audit.

Not only is this a significant revenue drain, but it puts in-state brick and mortar sellers who are employing citizens and paying taxes at a competitive disadvantage against remote sellers who don't have to add tax to their selling price.

The states initiated SSTP largely in response to these untaxed sales so as to mitigate the losses and even the playing field for in-state businesses. The ultimate goal is to sufficiently simplify sales tax compliance such that the burdens to interstate commerce, cited by Congress as the sole impediment to their passing legislation requiring such compliance, would be substantially reduced. This would pave the way for Congress to act in compelling all remote sellers to collect sales tax on behalf of states that have incorporated the SSTP simplification measures.

Motivation for Voluntary Participation by Businesses

SSTP addresses the traditional bricks & mortar businesses concerns about unfair competitive advantages favoring online e-commerce retailers. These businesses must add sales tax to the purchase price as well as incur real estate and property tax costs.

SSTP is also supported by many of the large online retailers, unsure of their “nexus” or taxable presence, who would much prefer to collect and remit tax under a simplified system rather than risk having a tax that they can simply pass through to their customers become their own liability upon audit.

SSTP Conformity Changes in Vermont

Implementation of SSTP will require some changes to Vermont’s sales and use tax provisions.

- Beer retail sales become taxable as Vermont was required to adopt the SSTP definition of “Alcoholic Beverages” which does not permit different tax treatment of beer and wine.
- Delivery charges become part of the purchase price
- All canned software becomes taxable whether purchased as tangible (CD or other forms) or electronically delivered
- Clothing and footwear exemption applies to ALL clothing regardless of price
- Cash discount given at the time of sale reduces the purchase price upon which tax is calculated (currently not allowed)

Important Changes to Local Option Taxes

Sourcing rules change to destination-based. The delivery location determines the local option tax jurisdiction instead of the location from which the sale originated as under current law. This will have NO impact on in-store, “walk-out” sales as the origin and destination are the same from a seller’s perspective. This will, however, require sellers in non-local option tax jurisdictions to collect the local option tax when delivering products to customers in local option sales tax towns (As of 8/1/2006: Burlington, Manchester, Williston, Stratton). The taxability of all products and services under the local option tax changes to mirror state law. For example, clothing and footwear will be exempt for both state and local option tax whereas clothing is currently taxable at the local level. Telecommunications also become subject to the local option tax whereas they are currently not taxed.

Impact to Vermont Businesses

SSTP eliminates the remote sellers pricing advantage over Vermont-based businesses by requiring them to add the 6% Vermont sales and use tax to the purchase price on sales to Vermont residents. Shipping and delivery charges must be included as part of the purchase price upon which sales and use tax must be by collected, which further limits remote sellers ability to undercut prices of Vermont based businesses.

Effective Date

The SSTP Governing Board will consider Vermont’s petition for membership on August 29th. If approved as an Associate Member, Vermont’s SSTP laws will take effect January 1, 2007.