

STREAMLINED SALES TAX UPDATE

February 2006

The Streamlined Sales Tax Project began in March 2000 as an effort by states, with input from local governments and the private sector, to simplify and modernize sales and use tax collection and administration. The goal of the representatives working on this Project is to achieve sufficient uniformity and simplification so as to encourage sellers without nexus in states to voluntarily collect sales or use tax in participating states. Currently, forty-three states and the District of Columbia have by legislative or executive action authorized participation in Project.

In November 2002, the Streamlined Sales and Use Tax Agreement was approved by the states. The Agreement contains the uniformity and simplification provisions developed by the Project. The Agreement has been amended several times over the last three years to adopt items that the Project participants continued to address. The Agreement itself was to become effective when at least ten (10) states representing twenty percent (20%) of the population of all states that impose a sales tax were determined to be in compliance with the provisions of the Agreement.

Over the last few years, states, including North Carolina, have enacted provisions to bring themselves into compliance with the Agreement. 2005 was a significant year in that in July 2005, eighteen states representing over twenty-eight percent (28%) of the population of states imposing sales tax were determined to be in substantial compliance with the Streamlined Agreement and became either full or associate member states. Full member states are states that were determined presently to be in substantial compliance with the provisions of the Streamlined Agreement. Associate member states are states that have taken action to amend their laws to come into compliance but have future effective dates. On October 1, 2005, the Streamlined Sales Tax Governing Board, Inc., consisting of representatives of the member states, came into existence. The Governing Board will oversee administration of the Agreement including matters such as interpretations of the Agreement, admittance of new members, and oversight of contracts and technology.

Since 2001, legislation has been enacted in each session to bring North Carolina laws into compliance with the provisions of the Streamlined Agreement and North Carolina was admitted as a full member state. There are currently thirteen full member states and six associate member states as Nevada was admitted as a member state as of January 1, 2006. As the states continue to address matters brought before them, there will be future amendments to the Agreement that will require amendments to our law. With most amendments states are being given at least two legislative sessions to address the issues and our Department has been working with General Assembly staff on changes to the Agreement made in April 2005 that will need to be enacted by January 1, 2008 in order for our State to remain in compliance. We look forward to continuing to work with members and staff and want to express our appreciation for all that has been accomplished to date.

The Governing Board is overseeing the implementation of several technology initiatives that will ease the burden of sellers for collection and remittance of sales and use tax. On October 1, 2005, a central registration system was activated on the Governing Board's website. This allows a multistate seller to complete a single electronic registration form and become registered to collect sales and use tax in all the member states. The member states download the registration information and incorporate the data into their own registration systems. To date, 479 sellers have registered through the central site with 27 of these being new sellers signifying that they will collect tax in North Carolina and with 67 being sellers already registered and collecting tax. Over \$110,000 has been collected from the new sellers since activation of the system. In addition to these new sellers, we have estimated that we are collecting over \$1.5 million annually from several sellers that came forward prior to the formation of the Governing Board who indicated that the reason for beginning to voluntarily collect tax was the progress that the states had made through the Streamlined Project efforts.

Another major initiative is the finalizing of contracts with third party service providers that will perform the administrative sales tax collection and remittance functions for sellers. Under this model, states have agreed to compensate the service providers for the services that they provide to sellers thus significantly easing the burden of collecting tax in states in which a seller is not located. The member states have been working for months on reviewing the tax computation software developed by the service providers and other functions necessary for the proper collection and remittance of tax. Four firms are currently being evaluated and it is hoped that the Governing Board will enter into contracts with at least two of the firms over the next few months. Once a service provider is available, it is anticipated the number of voluntary sellers will significantly increase.

All forty-three participating states and the District of Columbia, along with local government representatives, continue to work on remaining issues undertaken by the Streamlined Project through a State and Local Advisory Council. Private industry representatives have also formed an advisory body as recognized in the Streamlined Agreement. These bodies will be consulted and assigned projects by the Governing Board as new issues are brought forward, as deemed appropriate. Only the states that compose the Governing Board have the authority to vote on amendments to the Streamlined Agreement and entry of new members. It is anticipated that at least two more states, Vermont and Washington, will petition for membership in 2006 and that more states will choose to give serious consideration to making law changes necessary to become members now that the Agreement is effective and sellers are coming forward.

Members of our Department continue to represent the State and are delegates to the State and Local Advisory Council and the Governing Board. Our staff will continue to work with the appropriate parties to explain any new measures that come forth and to help formulate any legislation necessary to keep North Carolina in compliance. Federal legislation has once again been introduced in Congress that would require remote sellers to collect tax in those states that have adopted the uniformity and simplification provisions of the Streamlined Agreement. If this legislation is eventually enacted, our State should find itself in position to benefit accordingly.

Thank you for the opportunity to present this update. My staff and I will be glad to provide any additional information. 2005 was an important year in this process although there continues to be important work ahead. Once again, the support of members of the General Assembly and their staff have given is appreciated and we look forward to future discussions.

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