



# Streamlined Sales Tax Mitigation

Proposed Final Report  
Joint Legislative Audit & Review Committee  
January 5, 2011

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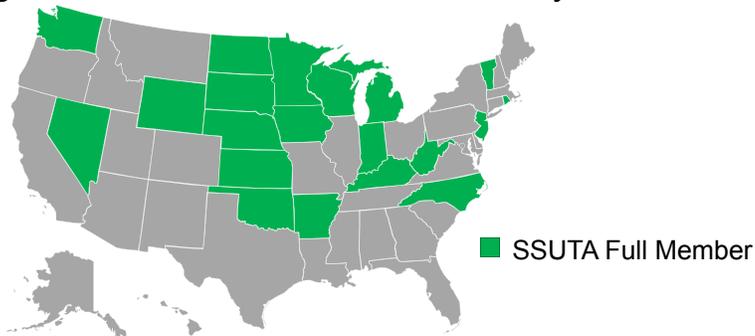
## Statute Mandates Study

RCW 44.28.815 directs JLARC to review the ***mitigation provisions*** enacted when Washington became a full member of the Streamlined Sales and Use Tax Agreement

## What is the Streamlined Sales and Use Tax Agreement (SSUTA)?



- Multistate agreement to simplify state tax laws and facilitate taxation of interstate sales
- Currently 20 full member states
- Washington became a full member on July 1, 2008



## SSUTA Membership Has Two Primary Effects on Local Sales Tax



- 1 New revenue from out-of-state retailers registered with SSUTA
- 2 Membership required changes to Washington's sales tax laws

## 1 New Revenue From SSUTA Registered Retailers



- Generally, states cannot require out-of-state retailers to collect and remit sales tax
  - Internet retailers without a physical presence in WA do not need to collect sales tax on sales in WA
- However, retailers registered with SSUTA voluntarily collect and remit sales tax to SSUTA member states

This new source of revenue is known as  
“Voluntary Compliance Revenue”

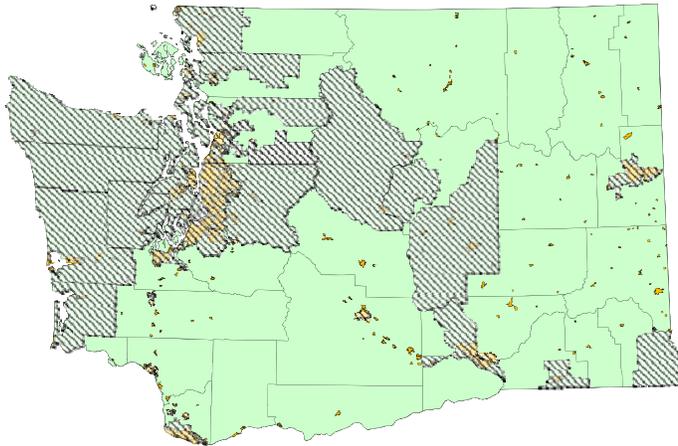
## 2 Required Changes to WA's Sales Tax Sourcing Laws



- Sourcing laws determine the taxable location of a sale
- Location determines the sales tax rate and which jurisdictions receive local sales tax



## Change to Sourcing Rules Impacted 364 Local Taxing Jurisdictions

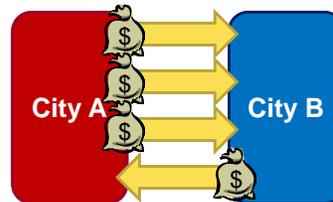


- Counties (39)
- Cities/Towns (281)
- ▨ Transit Areas (27)
- ⊠ Other (17) *not displayed*

## Change to Sourcing Rules Shifted Distribution of Local Sales Tax



- Majority of jurisdictions experienced a gain in local sales tax revenue due to sourcing change
- Minority of jurisdictions experienced a loss



Revenue from <b>Origin Sourcing</b> :	\$3	\$1
Revenue from <b>Destination Sourcing</b> :	\$1	\$3
<b>Gain/Loss</b> From Sourcing Change:	<b>-\$2</b>	<b>+\$2</b>

## Legislature Enacted Provisions to Mitigate Net Losses



- Net loss equals the loss from sourcing change, offset by voluntary compliance revenue
- Jurisdictions receive mitigation payments for net losses

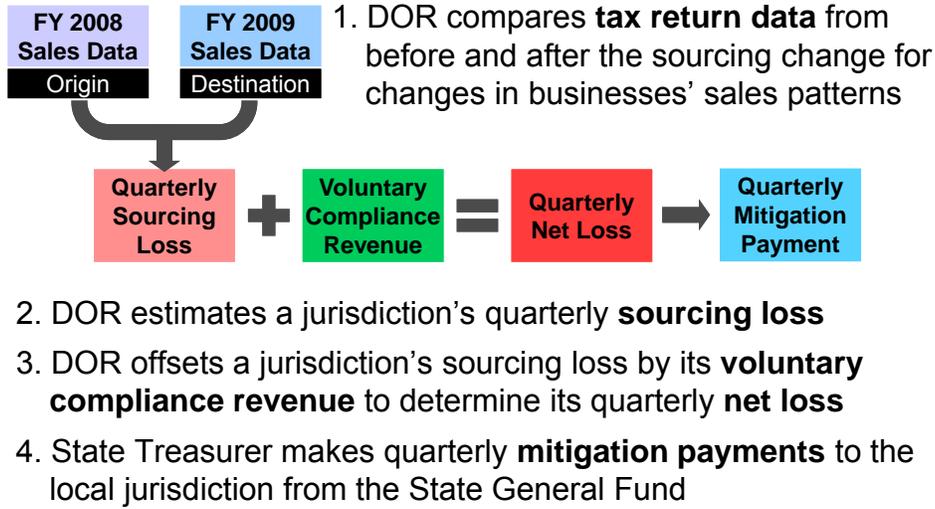


## Overview of JLARC Observations



- DOR and Treasurer followed statutory provisions
- Payments and revenues lower than expected
- Extent that payments mitigate actual losses unclear
- Mitigation provisions may not address all losses
- No other states have mitigation provisions

## DOR and Treasurer Followed Statutory Provisions



## Payments and Revenues Lower Than Expected



- Currently 62 jurisdictions receive payments
- Nine quarterly mitigation payments to date

	FY 2009		FY 2010	
	Fiscal Note Estimate	Actual Amount	Fiscal Note Estimate	Actual Amount
Mitigation Payments	\$31.6 M	\$21.4 M	\$41.5 M	\$26.1 M
Voluntary Compliance Revenue	\$49.1 M	\$5.6 M	\$59.0 M	\$7.1 M

## Extent That Payments Mitigate Actual Losses Unclear



- Payments are based on DOR's estimates of the losses caused by the sourcing change
- Data is not available to calculate the actual impact of the sourcing change
- Cannot verify DOR's estimates against actual amount of losses

## Mitigation Provisions May Not Address All Losses



- Future Payments:
  - All payments are based on DOR's estimates of losses experienced in Fiscal Year 2009
  - Losses experienced in future years will not be reflected in future payments
- Past Payments:
  - Corrections or refinements to DOR's estimate only apply going forward
  - DOR does not make retroactive adjustments for payments that have already been made

## No Other States Have Mitigation Provisions



- Other full member states did not experience a similar impact to local sales tax revenues
  - Already used destination sourcing
  - Do not have local sales tax
  - Local sales tax structured differently
- States similar to Washington have delayed implementing the change to destination sourcing

## Association and Agency Comments



- Association of Washington Cities:
  - Mitigation is still an important effort
  - “Origin sourcing” used by other states is not the same as origin sourcing used in Washington
- Washington State Association of Counties:
  - WSAC concurred with the report
- Washington State Transit Association:
  - Noted concern with the accuracy of the fiscal note
- DOR / OFM:
  - JLARC review important, no additional comments

## Contact Information



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