

Summary of Final Discussion Points Joint Legislative Hearing for AB 547 and SB 267

October 6, 2003

Prewritten Software - Attachment 1

- Scenarios 1 and 2 are the most common in the industry. There is also a variation of Scenario 1 where the customer purchases the software directly from the developer and has a third party perform the modifications, resulting in the same amount of tax.
- It was assumed in the fiscal estimate that the software consultant would bill out the prewritten software at cost in Scenario 1, resulting in no change in tax.
- Scenario 3 happens rarely in the industry, which is another reason for the low fiscal impact.
- Modifications remain exempt in Wisconsin under SSTP.
- Of the states that tax prewritten software, but not modifications to the software (approximately 33), 21 currently tax the prewritten component at retail as proposed under the SSTP agreement.
- The definition of prewritten software addresses upgrades. It provides that if the upgrade is prewritten (same upgrade going out to many users), it is prewritten software. If the upgrade is created for a single customer relating to previously made modifications, the upgrade is not prewritten software and not taxable.
- Subsequent licenses to a customer of prewritten software that was previously modified for that same customer will be taxed in the same manner as the original software (prewritten software is taxable and modifications are not taxable). Currently, the department treats the subsequent licenses to the same customer as entirely prewritten and taxable.
- Vendors want a uniform definition among all states so that they can collect tax correctly on computer software.
- While there will be some transitional record keeping concerns that purchasers of software may have, the department will work with WMC and its members to address those concerns.

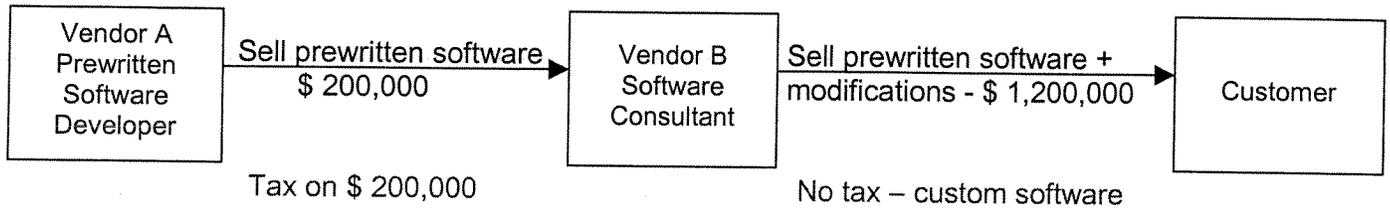
Multiple Points of Use - Attachment 2

- For taxable services, digital property, and prewritten software delivered electronically, that are used concurrently in more than one jurisdiction, the agreement requires that the customer provide the vendor with a Multiple Points of Use (MPU) form.

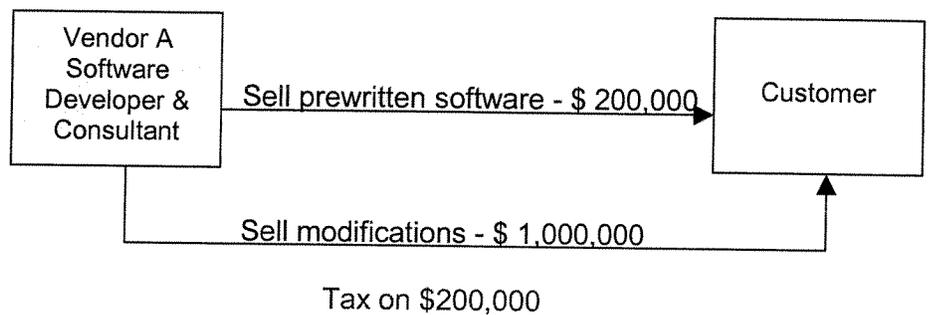
- Upon receipt of the form, the vendor is relieved from collecting the tax on the sale. The customer is subject to use tax based on where the services, digital property, and prewritten software delivered electronically are used.
- If the customer fails to give the vendor an MPU form, the vendor will source the sale under the general sourcing hierarchy (delivery location if known and if not known, the billing location).
- Whether the customer provides an MPU or not, the customer is subject to use tax in the state where used, with credit given for any sales or use tax paid elsewhere.
- Under current law, tax would be collected by the vendor where delivered to the server. If used in other states, use tax would be due in those states where used, with credit given for the tax first paid to the state of the server location. The same treatment would apply under SSTP if the customer did not give an MPU. If the customer gave an MPU to the vendor, the vendor would impose no tax and the customer would pay use tax to the states where used.

Treatment of Modified Prewritten Computer Software – Current Law

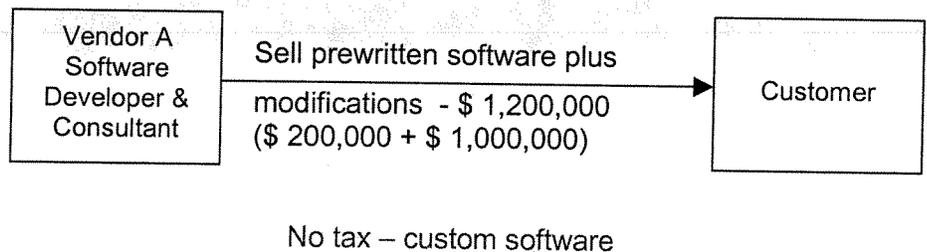
Scenario 1 – Third Party (Not Software Developer) Modifies Prewritten Software



Scenario 2 – Software Developer Modifies Prewritten Software Under Separate Contract



Scenario 3 – Software Developer Sells and Modifies Prewritten Software in a Single Transaction



Treatment of Modified Prewritten Computer Software – Under SSTP Bill

Scenarios 1, 2, and 3

The transfer to the Customer of the prewritten software for \$200,000 is taxable. There is no tax in Scenario 1 for the transfer of the prewritten software to Vendor B because it is for resale.

Multiple Points of Use

Current Law

Prewritten Software Vendor

Licenses computer software. Single copy is delivered electronically to customer's server in Wisconsin.

License of software is subject to sales tax

Customer Server in Wisconsin

Users concurrently use the computer software (seat licenses) in locations around the country.

License of software is subject to use tax where used based on a reasonable allocation. Credit is given for tax paid to Wisconsin.

Illinois User

Minnesota User

Indiana User

Michigan User

Iowa User

SSTP

- If the customer provides an MPU to the vendor, the vendor does charge tax on the sale or license of the prewritten software delivered electronically to the customer's server in Wisconsin. The customer would pay use tax to Wisconsin, Illinois, Minnesota, Indiana, Michigan, and Iowa based on a reasonable allocation of the purchase price.
- If the customer does not provide an MPU to the vendor, the vendor will collect tax for the jurisdiction where the sale or license is sourced under the sourcing rules (most likely the location of the server). As under current law, the customer would be subject to use tax in the states where the software is used, with credit given for tax paid to the state where sourced.

Joan Hansen

Director, Tax & Corporate Policy

Wisconsin Manufacturers & Commerce

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WME

REPRESENTING WISCONSIN BUSINESS

**Wisconsin
Manufacturers
& Commerce****Memo**

TO: Members of the Assembly Committee on Ways and Means and Senate Committee on Homeland Security, Veterans and Military Affairs and Government Reform

FROM: Joan Hansen, Director, Tax & Corporate Policy

DATE: October 6, 2003

RE: Streamlined Sales Tax Legislation: AB 547/SB 267

Wisconsin Manufacturers & Commerce is appearing for information today with Art McDermott on AB 547 and SB 267 pertaining to the streamlined sales tax legislation that is being spearheaded by the Department of Revenue. Art is with Alliant Energy and is a Senior Tax Analyst. He is also an attorney and a member of the WMC Tax Steering Committee.

WMC supports many provisions of the legislation intended to administrate the sales and use tax more effectively and efficiently in Wisconsin and across the country. Many of the provisions allow for modernization and streamlining including:

- The overall simplification of returns, remittances and registration with the one year amnesty provision for voluntary sellers.
- Filing of sales tax returns electronically, nationwide and eliminating separate tax returns for local sales and use taxes.
- The adoption of the uniform tax procedures and uniform customer refund procedures.
- The use of manufacturing exemption certificates.
- The provisions included in Assembly Bill 24 sponsored by Representative Ziegelbauer – the drop shipment language, which is strongly supported by the business community and was supported by the Assembly Committee on Ways and Means and by the entire Assembly earlier this year.

The following comments represent some areas of technical concern, as well as policy issues to consider:

First, the theory of creating substantially similar definitions for food and other tangible items seems to be a positive move, but it is definitely a significant change in the structure of sales/use tax collection; and the Wisconsin Legislature is relinquishing some future legislative authority and flexibility in determining the sales taxability of tangible personal property. Currently, no elected Wisconsin officials are part of the "Project" that defines tangible personal property.

The adoption of this legislation means that there will virtually be no flexibility to modify or change definitions, which could become problematic as markets change and new products are developed. It is also probable

that in the future, there will be an attempt to define services, which are currently not subject to the sales tax unless specifically enumerated in the statutes in Wisconsin.

This approach essentially becomes the "all or nothing" method of taxation – and with Wisconsin's historically high overall tax rankings, we do not want to be on the side of "all".

Certainly, the uniform definitions are the foundation of the legislation and it is understandable why this approach is being pursued with the erosion of the sales tax base, but it is also a move to carefully consider. At this point, only twenty states have adopted this legislation and three are already out of compliance. Congress has not adopted the approach at this point.

Secondly and most significantly, the legislation changes the statutory language related to computer software. Under current law "computer software, except custom software" is subject to the sales tax. As written in AB 547/SB 267, "pre-written" software is subject to the sales tax. Although this may seem like a subtle and insubstantial change, in practice, it will represent a tax increase for the majority of businesses that use custom computer software.

The effect of this subjects businesses to a sales tax increase that they otherwise would not or should not incur at the retail level. Currently, if a business is customizing software everything related to that customization is not subject to the sales tax, including modification, future enhancements, consultant work and work by third parties, programmers, IT, installation, maintenance and repair. The legislation allows for the initial purchase of original software to be subject to the sales tax even though it will be customized and could not BY ITSELF be used prior to customization for the purchaser.

This unfortunately also poses an administrative concern for businesses that contract for these services because the initial part of the purchase is rarely, if ever, itemized on the bill because the entire project is considered a custom computer software project.

WMC's suggestion would be to remove this item completely from the legislation, assuming Wisconsin could continue to be in substantial compliance with the overall project.

The final concern for WMC is sourcing for software programs. In cases of businesses installing software on a server, the sales tax is currently collected at the main location of the server. Under the legislation, depending on where the software is being accessed, it may trigger a multiple point-of-use test and an apportionment method of sales tax would need to be determined. This will pose an administrative nightmare for some businesses.

Thank you for the opportunity to appear before the committee today. Art McDermott from Alliant Energy will discuss these technical issues in more detail.



Wisconsin Merchants Federation

"The Voice of Wisconsin Retailing"

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October 6, 2003

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State Representative Mickey Lehman, Chair
Assembly Committee on Ways and Means
103 West
State Capitol
Madison, WI 53702

RE: Support Streamlined Sales Tax/SB 267 & AB 547

Dear Senator Brown and Representative Lehman and Committee Members:

The Wisconsin Merchants Federation joined by the Midwest Hardware Association has been working for more than three years as part of a national effort to set the stage for states to require out-of-state sellers to collect and remit sales taxes. SB 267 and AB 547 is legislation critical to that goal.

Why is this important? Simple. Does your competition pay taxes? This question cuts across the entire retail industry statewide and nationally. This question cuts across all shapes and sizes of retailers from Land's End to Kohl's Department Stores to hardware, jewelry and music stores. This is truly a main street issue.

Main street retailers should not become "catalog/internet showcases" for consumers to come in, kick the tires and then order merchandise over the internet to save the sales tax. SB 267 and AB 547 don't create a new tax or set the stage for one. The tax liability is already imposed. This is a collection issue. This is a national issue that requires all states to work together to fix this problem.

The National Governor's Association is in strong support and fears that there is only a small window of opportunity to enact uniform sales tax codes now. As internet sales grow stronger and become more established the governors fear that this problem will grow too big to fix.

The devil is truly in the details on this issue. States have to review obscure sales tax codes to uniformly decide if marshmallows should be taxed or not. If peanuts are sold they are considered food but if you put chocolate on them they become candy and taxable.

According to the National Retail Federation, the states' sales tax systems are nearly as complicated as the IRS tax code. It's not just the states that collect sales tax. So do more than 7,000 local jurisdictions. Sales tax simplification should make everyone's life easier but it won't be easy to get this done. Progress has been made but the heavy lifting starts now with the passage of SB 267 and AB 547.

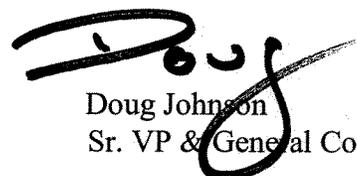
In addition to evening the competitive playing field for state retailers now competing at a disadvantage there are huge tax issues. The WI Department of Revenue estimates that as much as \$300 million biennially could be collected once out-of-state sellers are required to collect and remit sales taxes. Tax fairness underscores this issue. All retailers and consumers should pay their fair share.

According to the New York Times editors, "Most online purchases generate no sales tax, a fact that deprived states of more than \$19 billion last year or more than half of their collective budget shortfalls. One easy way for Congress to help states facing fiscal devastation is to allow them to collect taxes from online retail transactions...Congress must strive to make (collection) possible...the country can not afford to see a vast swath of its retail sector transformed into a duty-free zone."

Thank you all for your attention to this matter of state and national significance.

Sincerely,


Chris Tackett
President & CEO


Doug Johnson
Sr. VP & General Counsel

cc: Governor Doyle
WMF Board



MIDWEST HARDWARE ASSOCIATION

2801 Dixon Street ■ PO Box 8033 ■ Stevens Point, WI 54481-8033

October 6, 2003

Ed Walchak
Chicago, IL
President

Senator Ron Brown, Chair
Senate Committee on Homeland Security
Veterans and Military Affairs & Government Reform
104 South
State Capitol
Madison, WI 53702

State Representative Mickey Lehman, Chair
Assembly Committee on Ways and Means
103 West
State Capitol
Madison, WI 53702

David Warren
Milton, WI
Vice President

RE: Support Streamlined Sales Tax
SB 267 and AB 547

John J. Haka
Managing Director

Honorable Chairmen and Committee Members:

On behalf of over 500 family-owned and operated retail hardware stores across Wisconsin, the Midwest Hardware Association endorses Senate Bill 267 and Assembly Bill 547 and the continuing efforts to standardize and streamline sales tax regulations in Wisconsin and other states.

Throughout their long history Wisconsin's hardware stores have never shied away from a fair fight among competitors in an open market place. Just as MHA members from years ago found ways to successfully compete first against catalog sellers, and then chain stores and most recently mass merchandise discounters, they will find creative ways to compete in "the new retail economy" But, government should not have rules which provide pricing advantages to certain channels of distribution while disadvantaging others. It is unfair to require brick and mortar retailers to charge, collect and remit state and local taxes on the sale of their products, while Internet and other remote sellers are allowed to advertise and sell the exact same merchandise tax free.

The members of the Midwest Hardware Association believe that Wisconsin's Main Street retailers, the same retailers who provide thousands of jobs to Wisconsin residents, pay real estate taxes, remit personal property taxes, pay income taxes on the profits of their business, fund state unemployment benefits and pump millions of dollars into the state's economy each year, should not also be subject to a government mandated competitive disadvantage which has existed for over 20 years. It's time to "level the playing field" among all types of retailers.

Senate Bill 267 and Assembly Bill 547 are critical "next steps" in the process to change an unfair system which currently exists. Hardware store owners from across Wisconsin ask for your proactive support in the passage of this legislation.

Sincerely,

John J. Haka
Managing Director

*Serving
Hardware
Retailers in
Wisconsin and
Illinois Since 1896*



Main Office: **Dave's Milton Ace Hardware**
430 South John Paul Road • P.O. Box 428
Milton, Wisconsin 53563
P: 608 868 2843 • F: 608 868 2921

Dave's Evansville Ace Hardware
7 East Main Street
Evansville, Wisconsin 53536
P: 608 882 4646 • F: 608 882 6405

October 6, 2003

State Senator Ronald Brown, Chair
Senate Committee on Homeland Security,
Veterans and Military Affairs and Government Reform
104 South
State Capitol
Madison, WI 53702

State Representative Mickey Lehman, Chair
Assembly Committee on Ways and Means
103 West
State Capitol
Madison, WI 53702

RE: Support Streamlined Sales Tax/SB 267 & AB 547

Dear Senator Brown and Representative Lehman and Committee Members:

As a Wisconsin small business owner for over 12 years and an internet enthusiast for about 5 years, I would like to share some thoughts regarding the Streamlined Sales Tax initiative.

As you are aware, more and more people are enjoying the convenience of making purchases over the internet. Even my hardware customers make purchase on line from out of state companies. More than once I have been asked to match a price of an on-line competitor. This I have no problem with. I am perfectly capable of competing with anyone on a level field. The problem for me comes when I am then asked to also lower my price an amount equal to the Wisconsin Sales tax since the internet vendor will not be charging any.



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I know that our law requires these purchases to be declared and a use tax remitted. You obviously know that the vast majority of people do not. This is a direct loss in revenue from Wisconsin sales tax and it is growing every day! The really unfortunate part, is when revenues are sufficiently reduced, someone will be asked to "pick up the slack". I fear that someone will be Wisconsin's small businesses.

There is absolutely no technological reason that remote sellers can not collect sales tax and remit it electronically to the proper jurisdictions. As I see it, the first step and the only major hurdle is the simplifying of sales tax laws from state to state. Wisconsin has been a leader in this effort and I urge you to do everything in your power to make it law.

Wisconsin's main street merchants are vitally important in providing jobs and benefits to our neighbors and in supporting all types of local causes. Please help us remain viable, and the State of Wisconsin to remain solvent by taking this first important step. SB 267 & AB 547 are not about additional taxes. They are about the ability to compel remote sellers to do what Wisconsin businesses have been doing faithfully for years.

Thank your for your thoughtful consideration of this measure!

Sincerely,

A handwritten signature in black ink, appearing to read "D. Warren", with a long horizontal flourish extending to the right.

David Warren
President

GENERAL ELECTRIC COMPANY COMMENTS

**SUBMITTED AT THE JOINT HEARING OF THE ASSEMBLY WAYS &
MEANS COMMITTEE AND THE SENATE HOMELAND SECURITY,
VETERAN & MILITARY AFFAIRS AND GOVERNMENT REFORM
COMMITTEE**

OCTOBER 6, 2003

General Electric Company appreciates the opportunity to submit comments on AB 547 and its companion SB 267. GE has a special interest in Wisconsin's legislative effort to simplify sales tax administration because its Medical Systems business is headquartered in the State and employs approximately 6,000 people statewide. GE sells goods throughout the United States and is impacted by the costs of attempting to comply with the varying administrative requirements of the over 7,000 U.S. jurisdictions imposing sales and use taxes.

For these reasons, GE supports administrative simplification that will encourage remote vendors to voluntarily collect tax; reduce the costs of multistate sellers in collecting this tax on behalf of the states; reduce audit expenses; and reduce the costs to the state in auditing taxpayers and collecting unremitted taxes. Both the private and public sectors can be winners if this effort succeeds.

Most of the provisions included in the Streamline Sales Tax Implementing Agreement go to the heart of the issue of administrative simplification and will go far in reaching the goal of a less burdensome sales tax system. Such provisions, which GE wholeheartedly supports, include:

- Simplified seller registration;
- Uniformity in effective dates;
- Development of a state monitored database of rates and jurisdictions;
- Uniform sourcing rules;
- Uniform rules for tax returns and tax remittance; and
- Independent state authority with regard to bad debts.

However, GE believes that provisions related to the Governance of the Streamline Sales Tax Project require continued modification. Therefore, it is important for Wisconsin to enact this legislation so it can continue to play a critical role in further developing how the Governing board will operate with regard to state and taxpayer disputes and rights of both parties.

In closing, GE supports the development of a simplified sales tax administration regime that restricts its focus to those administrative provisions that directly impact the ability of multistate sellers to accurately and efficiently comply with state sales tax requirements.

Thank you for your consideration.

For more information, contact:

Scott Roberti, State Tax Policy Director

General Electric Company

(203) 373-3413

or

Suzanne Kelley, Manager

GE Government Relations

(262) 548-5035 – WI Office



October 6, 2003

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Senate Committee on Homeland Security
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Madison, WI 53702

State Representative Mickey Lehman, Chair
Assembly Committee on Ways and Means
103 West
State Capitol
Madison, WI 53702

RE: Support Streamlined Sales Tax/SM 267 & AB 547

Dear Senator Brown and Representative Lehman and Committee Members:

My company, Ward-Brodt Music, is a retailer of musical instrument products, serving those who teach and make music for a profession or as a hobby. We rent musical instruments to beginner students throughout Southern Wisconsin and parts of Northern Illinois. Our print music department has clients in most states and has an international reputation for service and a knowledgeable staff. We have visitors from all over the country due to our reputation as a good citizen within our community and the music products industry. We support most local performing groups with advertising and promotional events to bring culture to the community and schools. We are also a collector of sales taxes, since, in the real world, our company does not pay taxes, but our customers do the prices that we charge.

For us, charging for those taxes is challenging. We have route representatives who assist customers with rentals of band and orchestra instruments through school accounts. We must know each county and track these customers by their address to comply with sales tax legislation. We provide some services that are not taxable, such as musical lessons, yet we sell materials for those lessons that are taxable on the same invoice. We sell products over-the-counter to schools and churches, but also to individuals, again looking at what organization is taxed and who isn't. We have thick files of copies of tax exempt certificates. And, our national turn-key software provider has to make us an exception since Wisconsin is one of two states that charges sales tax on shipping or postage charges. This issue is often contested by customers, thus I carry a copy of the regulation with me to show citizens that we are not over charging them.

We are further challenged by mail order, phone order, and internet marketing where the customer perceives savings by avoiding sales taxes. I have even heard out-of-state sales



persons tell me to buy from them and save sales taxes, thus not informing the consumer of their obligation to pay use tax on the state income tax form. I have heard politicians state that charging sales taxes on mail order hurts senior citizens. With these transactions, Wisconsin loses revenue; thus our citizens are taxed by some other means, or tax payer funded services are cut.

For us, today's retail playing field is not level since all internet providers have a presence in every home that has internet access. Nearly every product that we sell can be found through a search engine with hundreds of sources listed.

Since sales taxes have become such an import means to fund state and local services, and infrastructure, any program that keeps that revenue stream in place should be a high priority. I personally think that the estimated lost revenue from border-hopping, mail order, phone orders, and internet transactions is under stated. The time has come to streamline and standardize the sales tax collection among all states. Small business does a tremendous job in collecting other taxes for our governments, unemployment compensation, social security, workman's comp and personal income taxes. Shouldn't the governments that are receiving the taxes collected by businesses help us to compete and operate more efficiently?

The technology is available for all interstate sellers, including E-bay, to administer and collect these taxes; many large national companies are already doing this. Let's get all businesses to comply and PLEASE make it simpler.

Respectfully submitted by,



Michael C. Faulhaber

Ward-Brodt Music Company, President

Hardt, Diane L

From: Gibbons, Vicki L
Sent: Friday, October 03, 2003 4:32 PM
To: Miszewski, Matthew
Cc: Hardt, Diane L; 'dqj@supranet.net'
Subject: Prewritten Software

Matt,

Attached is the information dealing with the tax treatment of prewritten software that is modified. One is a flow chart summarizing the tax treatment. The second is the actual bill definition of prewritten software upon which Wisconsin would impose a tax. As I stated in our telephone conversation, we believe the bulk of computer software sales today that involves prewritten components fall under the first two scenarios. The reason for our low fiscal effect in this area is because only Scenario 3 results in a real revenue change and this happens infrequently.



computer software
illustration...



prewritten software
definition...

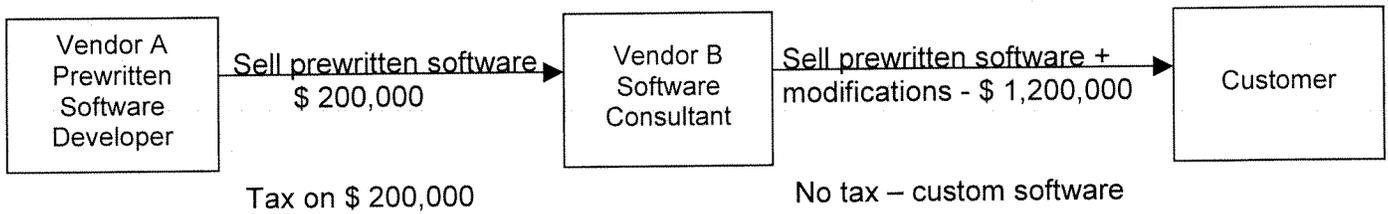
Thank you so much for your help. If you need to discuss further, you can reach me on my cell phone at (608) 225-4268.

Vicki L. Gibbons
Wisconsin Department of Revenue
Mail Stop #6-40
P.O. Box 8933
Madison, WI 53708
(608) 266-3873
vgibbons@dor.state.wi.us

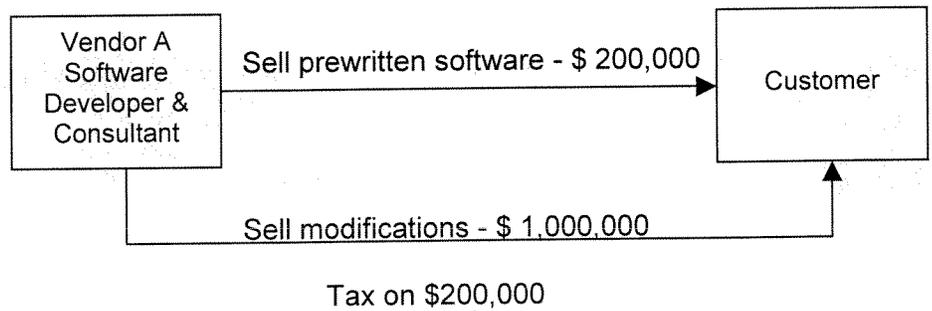
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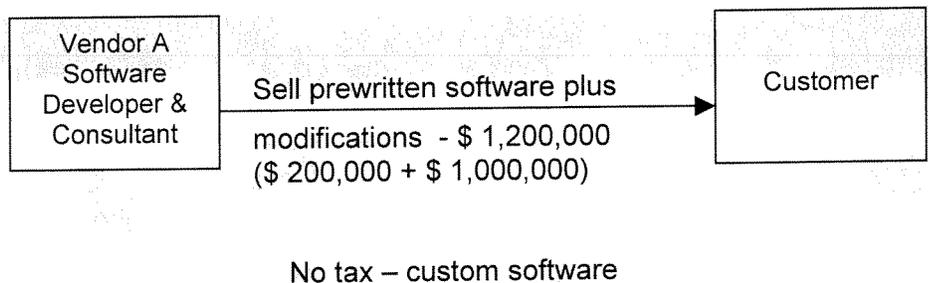
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Memorandum

To: All Legislators

From: Senator Ron Brown
Representative Michael Lehman
Senator Bob Jauch
Representative Wayne Wood

Date: September 25, 2003

Re: Co-Sponsorship of LRB 2028/8, related to the Streamlined Sales Tax
October 1st Deadline

The Streamlined Sale Tax Project is a national effort by state governments to simplify and modernize sales and use tax collection and administration. The project includes tax law simplifications, more efficient administrative procedures, and emerging technologies to substantially reduce the burden of tax collection.

With LRB 2028/8, Wisconsin will become the 21st state to enter into this national agreement to simplify sales tax collections. The proposal has been crafted carefully over the last three years with bi-partisan support, close guidance by the Department of Revenue, and significant input from the business community. Thus far, the plan has enjoyed a wide range of support from the private sector, with a large cross section of main street merchants and large retailers represented.

If you wish to sign onto this LRB 2028/8, please contact either Rep. Lehman's office at 267-2367 or Sen. Brown's office at 266-8546 by 5:00 p.m. on Wednesday, October 1st. Companion bills will be introduced in the Senate and Assembly. Co-sponsors will be listed on both bills unless otherwise requested.

(Draft/analysis by the Legislative Reference Bureau included in PDF file below)



03-20288.pdf

Please see the attached fact sheet.

Wawrzyn, James

From: Mruk, Katie
Sent: Wednesday, February 05, 2003 8:25 AM
To: Wawrzyn, James
Subject: FW: streamlined sales taxes

more info on streamlined sales taxes . . .

-----Original Message-----

From: Gates-Hendrix, Sherrie
Sent: Tuesday, February 04, 2003 5:28 PM
To: Mruk, Katie
Subject: streamlined sales taxes

Hi Katie --

Here is the one-page summary of the streamlined sales project that I mentioned.



SST Leg Sum Feb
03.doc

Major supporters include Rep. Gard, Rep. Pettis, Rep. M. Lehman as well as the Counties Assn, the Merchants Assn, Hardware Store Assn, GE and GE Medical, Lands End, phone companies, Wal-Mart, etc.

And these are how the product definition changes would affect the tax base. As you can see, it's a tax cut (or revenue loss, depending on how you look at it). While there would be a couple changes to bring in more revenue, I don't expect much opposition as we have so much business support. See what you think:

Significant Changes From Current Law	Annual GPR Revenue Change (\$M)
Required if Exempting Food	
Exempt popped popcorn	-1.47
Exempt frozen novelties sold by grocers	-2.05
Exempt deli meals and sandwiches	-0.31
Required if Taxing Soft Drinks	
Exempt carbonated unsweetened water	-0.08
Exempt powdered soft drink and fruit drink mix	-0.51
Exempt fruit drinks with 51-99% juice	-1.28
Exempt non-alcoholic beer	-0.42
Tax ready-to-drink tea and coffee	2.56
Required if Taxing Durable Medical Equipment	
Tax oxygen equipment and diabetes equipment (other option is to exempt all durable medical equipment)	0.64
Required if Taxing Clothing	
Tax cloth diapers and services	0.04

Total Tax Base Changes to Keep Most Closely in Line with Current Law

-2.88

I appreciate you looking at this -- let me know if you need anything more from me.

Thanks.

Sherrie



State of Wisconsin • DEPARTMENT OF REVENUE

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Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

The Streamlined Sales Tax Project in Wisconsin

What It Does & Why It's Important

- Leveling the Playing Field: Equity between businesses that now collect sales tax (small main street businesses or any business with physical presence in many states) and those who don't (large Internet or mail-order businesses without physical presence in most states).
- Making Tax Administration & Collection Easier: The project's goal is to make it easy for merchants to calculate and remit sales and use tax to the states. The administrative and cost burdens on merchants will be substantially reduced or eliminated under SST. New technology will make many improvements possible. Merchants will even have the option of using private, state-sanctioned providers to collect and remit sales taxes.
- Developing Common Definitions: SST has developed common definitions for key items in the tax base like food and clothing; states are being asked to adopt those definitions in their statutes. Legislatures would still decide what's taxable, but states would use common definitions for items (for example, what percentage of fruit juice a drink can contain and still be considered soft drink --- and thus taxable). The goal is some measure of uniformity among states, making tax collection more simple for merchants nationwide.

What's In It For Businesses

- Uniform sales tax returns nationwide that can be filed electronically. Local sales and use tax returns will be eliminated.
- A central registration system that will provide one-stop service for sellers who voluntarily collect sales tax.
- New technology options for sellers who collect sales tax. State-certified tax collection software will be available as well as new Certified Service Providers (CSPs). These CSPs will act as a tax processing entity for sellers (including filing all sales tax returns) at no charge to sellers.
- States will assume liability for errors in tax collection related to two new state-certified data bases: (1) matching tax rates to tax jurisdictions, and (2) matching items and services taxable in each tax jurisdiction. Sellers who use these state-certified data bases will not be held responsible for errors in tax collection.
- Simplified tax exemption processing with protection for sellers that accept exemption certificates or exemption information.
- Easier expansion into markets in other states or via the Internet because all states will use the uniform definitions and administrative procedures.

SSTP Item	Revenue Impact
<u>FOOD</u>	
Packaged Ice	Minus
Chocolate Chips/Baking Chocolate	Plus
Candy with Flour	Minus
Popcorn	Minus
Frozen Novelties	Minus
Fruit Drinks with 51-99% Juice	Minus
Powdered Soft Drink or Fruit Drink Mix	Minus
Non-alcoholic Beer	Minus
Ready-To-Drink Tea	Plus
Carbonated, Unsweetened Water (soda water, club soda, etc)	Minus
Meals, Sandwiches, etc by Weight or Volume and Without Utensils	Minus
Take Out Salad Bars That Do Not Offer Heated Items	Plus
Marshmallows	Plus
Fountain Drinks Sold by Institutions	Minus
Factory Outlet Sales of Prepackaged Food	Minus
<u>MEDICAL</u>	
Antiembolism Elastic Hose	Plus
Durable Medical Equipment for Home Use	Minus
<u>MISCELLANEOUS</u>	
Catalogs & Directories Printed & Shipped by Non-Nexus Printers	Plus
Cloth Diapers & Cloth Diaper Services	Plus
Custom/prewritten Software	Plus
No fair market value when converting property from exempt to taxable use	Plus
Local exposition district taxes	Plus
Total Revenue Impact	\$(5.4 million)
Voluntary Collections	\$1.9 million
Net Fiscal Effect	\$(3.5 million)

Wisconsin Department of Revenue
 Division of Research and Policy
 July 30, 2003

SUMMARY OF FISCAL EFFECTS OF THE STREAMLINED SALES TAX AGREEMENT, FY2005
 (\$ millions)

	State Sales Tax	County & Stadium Taxes*
<u>FOOD</u>		
Packaged Ice	(\$1.07)	(\$0.08)
Chocolate Chips/Baking Chocolate	1.19	0.09
Candy with Flour	(0.67)	(0.05)
Popcorn	(1.47)	(0.11)
Frozen Novelties	(2.19)	(0.16)
Fruit Drinks with 51-99% Juice	(1.31)	(0.09)
Powdered Soft Drink or Fruit Drink Mix	(0.51)	(0.04)
Non-alcoholic Beer	(0.42)	(0.03)
Ready-To-Drink Tea	2.82	0.20
Carbonated, Unsweetened Water (soda water, club soda, etc)	(0.08)	(0.01)
Meals, Sandwiches, etc by Weight or Volume and Without Utensils	(0.32)	(0.02)
Take Out Salad Bars That Do Not Offer Heated Items	minor +	minor +
Marshmallows	minor +	minor +
Fountain Drinks Sold by Institutions	minor -	minor -
Factory Outlet Sales of Prepackaged Food	minor -	minor -
SUBTOTAL - FOOD	(\$4.02)	(\$0.29)
<u>MEDICAL</u>		
Antiembolism Elastic Hose	minor +	minor +
Exempt All Durable Medical Equipment	(2.64)	(0.19)
SUBTOTAL - MEDICAL	(\$2.64)	(\$0.19)
<u>MISCELLANEOUS</u>		
Catalogs & Directories Printed & Shipped by Non-Nexus Printers	\$1.25	\$0.09
Cloth Diapers & Cloth Diaper Services	0.04	0.00
Custom/prewritten Software	minor +	minor +
Cloth Diapers & Diaper Services	minor +	minor +
Lease & Rental Sourcing	0.00	0.00
Post-Paid Telecommunications Services Sourcing	0.00	0.00
Exempt Purchases Converted to Taxable Use	minor +	minor +
SUBTOTAL - MISCELLANEOUS	\$1.29	\$0.09
GRAND TOTAL	(\$5.37)	(\$0.39)
OTHER FISCAL EFFECTS:		
<u>Costs to the State</u>		
SSTA Administrative Fee	\$0.03	
Retailer's discount & CSP-certified software payment (24 mo. limit)	unknown +	
<u>Revenue Increases</u>		
Exposition District Taxes		\$0.25
Voluntary Collections by Large Multi-State Retailers	\$1.93	\$0.14
NET FISCAL EFFECT	(\$3.47)	- 0 -

Streamlined Sales Taxes

The state sales and use tax is 5% of the price of taxable items; the tax rate and items taxed (known as the 'base') are determined by the Legislature. Customers pay sales taxes to businesses, which then send the money to the state. When businesses do not collect sales tax on an item that is taxable in Wisconsin, use tax is owed. Use tax is reported and payable on use tax or Wisconsin income tax returns.

Problems with our Current System:

- Businesses struggle with the complexity of Wisconsin's sales tax, and consumers suffer when taxes are improperly collected. Current laws dictating which items that are taxable and exempt are very confusing, leading to different treatment of very similar items. For example, a Twix candy bar is considered a candy and taxable; a cookie that is nearly identical in content to that candy bar is not taxable.
- Businesses must collect and report sales taxes in all states in which they are located. Dealing with a myriad of different rates and bases can be burdensome and time consuming, especially for small businesses and multi-state businesses.
- Two Supreme Court cases (National Bellas Hess and Quill) determined that only businesses with a physical presence (known as 'nexus') in the state must collect Wisconsin taxes. Businesses not located here often do not collect Wisconsin sales taxes, which can give them a competitive advantage with our Wisconsin businesses.

Streamlined Sales Tax Legislation Basics:

The legislation proposes no new taxes, but adopts a national model to streamline states' sales tax base by:

Creating uniform definitions within categories of taxable items, so that states that tax the same categories treat all items within that category the same. For example, if a state chooses to exempt food but tax soft drinks, streamlined sales tax definitions will mean that juice drinks containing 50% or less juice will clearly be taxable as a soft drink, and drinks with 51% or more juice will be exempt because they are a 'food'.

Modernizing tax administration through uniform tax forms and processes amongst participating states. While these processing simplifications would apply to all businesses, those that do not have nexus with Wisconsin will not be required to collect our sales taxes until Congress requires collection from all sellers for all types of commerce.

Advantages to this Legislation:

- Fairness for our Main Street businesses by leveling the playing field between businesses that must collect sales taxes and large, multi-state businesses that are not required to collect because they're not physically located here.
- Simplified processing for our businesses including a uniform tax return, electronic filing and state tax software to reduce administrative burdens. While Wisconsin lawmakers will still determine their tax base, uniform definitions amongst the 7,500 separate taxing jurisdictions in the country will make the system easier for businesses and consumers to understand. States will also continue to set their sales tax rates.
- Improved compliance with tax laws. While many individuals may have a use tax liability, it is widely believed that the rate of compliance with the law is very low.
- Readies Wisconsin for national implementation: Passage of this legislation will make Wisconsin ready in case Congress authorizes states to collect taxes from retailers, regardless of their physical presence.

Supporters of Streamlined Sales Tax Legislation

Wisconsin Grocers Association

Wisconsin Merchants Federation

Midwest Hardware Association

Wisconsin Counties Association

JC Penney Company

Sears/Lands End

General Electric

EDS

Wal-Mart

Shopko

Target

Kohls

AT&T

Verizon

Sprint

RR Donnelley

Apria Healthcare, Inc.

Council on State Taxation (COST)

National Retail Federation

International Mass Retail Association

Equipment Leasing Association

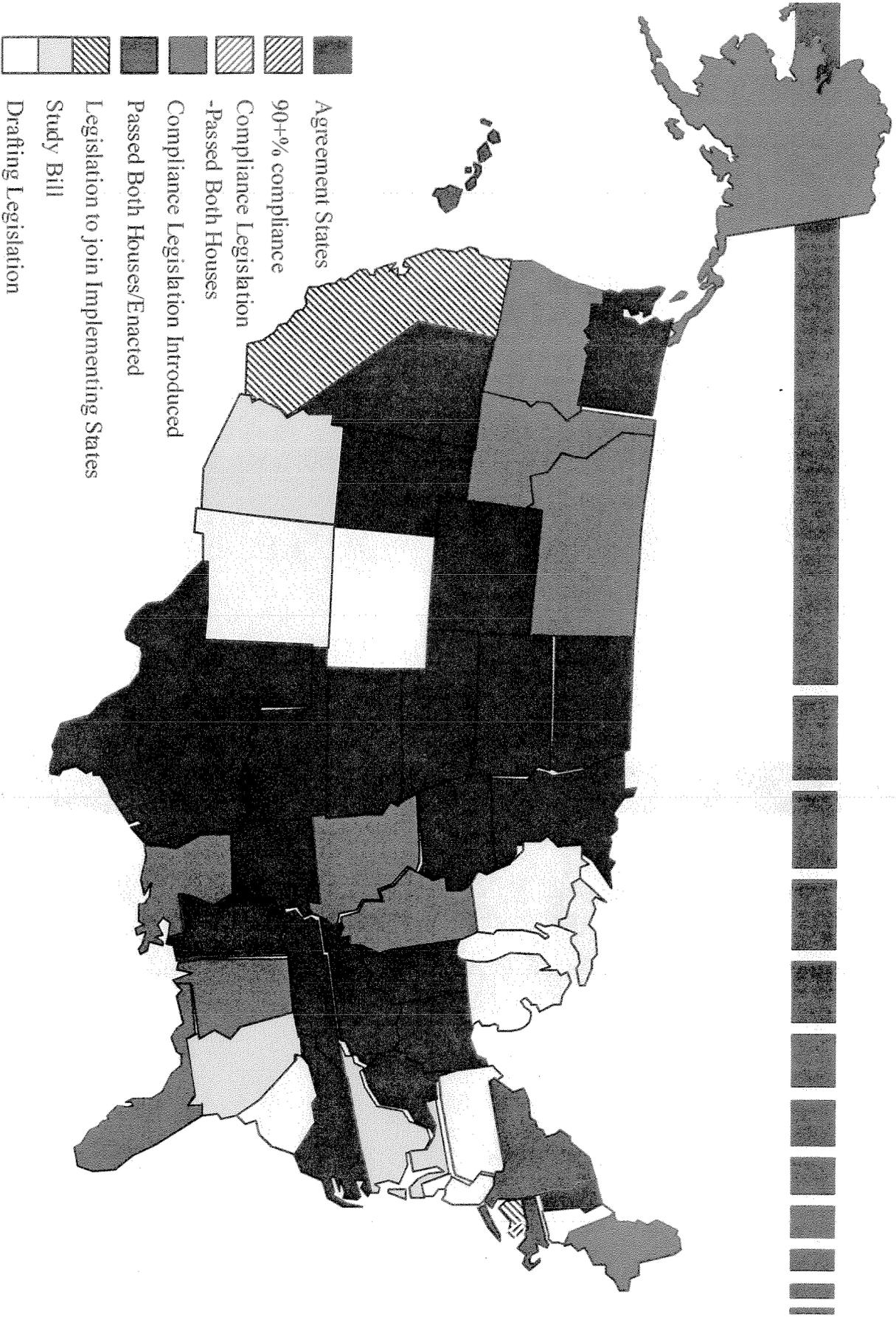
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SUBTOTAL - MEDICAL	(\$2.64)	(\$0.19)
<u>MISCELLANEOUS</u>		
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STREAMLINED SALES & USE TAX NCSL AGREEMENT - 2003 IMPLEMENTATION





**Streamlined Sales Tax Project (SSTP)
Briefing
Wisconsin Legislature**

July 31, 2003

Streamlined Sales Tax Project

- **Background**
- **Key features**
- **State legislative action**
- **What's next?**



**Streamlined Sales Tax Project
Background**

- **What is SSTP?**
 - Modernize sales and use tax
 - Affects all taxpayers and all commerce
- **Why is modernization important?**
 - Reduce complexity especially for multistate taxpayers
 - Increase voluntary compliance
 - Level the playing field for retailers



Streamlined Sales Tax Project Background

- **How will it be accomplished?**
 - Simplification and uniformity
 - Use of technology
- **Who is involved?**
 - Government, including state & local
 - Business
 - NGA, NCSL, and others



Streamlined Sales Tax Project Participating States (41)

(30 States in December 2000)

Alabama	Maryland	Pennsylvania
Arizona	Massachusetts	Rhode Island
Arkansas	Michigan	South Carolina
Connecticut	Minnesota	South Dakota
District of Columbia	Mississippi	Tennessee
Florida	Missouri	Texas
Hawaii	Nebraska	Utah
Illinois	Nevada	Vermont
Indiana	New Jersey	Virginia
Iowa	New York	Washington
Kansas	North Carolina	West Virginia
Kentucky	North Dakota	Wisconsin
Louisiana	Ohio	Wyoming
Maine	Oklahoma	



Streamlined Sales Tax Agreement Key Features

- **Simplified exemption processing**
- **Uniform sourcing: destination based**



Streamlined Sales Tax Agreement
Key Features

- **Menu of uniform definitions**
 - Food and food ingredients
 - Prepared food
 - Candy
 - Soft drinks
 - Dietary supplement
 - Clothing
 - Lease or rental



Streamlined Sales Tax Agreement
Key Features

- **Menu of uniform definitions**
 - Tangible personal property
 - Drugs
 - Durable Medical Equipment
 - Computer Software
 - Prewritten Computer Software
 - Delivered Electronically
 - Load and Leave



Streamlined Sales Tax Agreement
Key Features

- **Uniform return**
- **One rounding rule after 12-31-05**
- **Common customer refund procedures**



**Streamlined Sales Tax Agreement
Key Features**

- Tax collection and remittance models
- Central registration system
- State data base matching rate to local jurisdiction
- Data base of boundary information for local jurisdictions



**Streamlined Sales Tax Agreement
Key Features**

- Limited scope audits and certification standards
- States cannot hold retailers liable if state-provided information is incorrect (rates, boundaries, zip + 4 assignment)
- Compensation



**Streamlined Sales Tax Agreement
What's in it for Small Business?**

- Clear, bright-line definitions
- Simplified exemption process
- Simplified return
- Level playing field



**Streamlined Sales Tax Agreement
State Conformity**

- Arkansas	- Ohio
- Iowa	- Oklahoma
- Indiana	- South Dakota
- Kansas	- Tennessee
- Kentucky	- Utah
- Nebraska	- Vermont
- Nevada	- West Virginia
- North Carolina	- Wyoming
- North Dakota	



**Streamlined Sales Tax Agreement
State Conformity Close**

- Minnesota
- Texas
- Washington



**Streamlined Sales Tax Agreement
WI Conformity Status**

- LRB draft prepared
- Proposed effective date
July 31, 2004
- Fiscal impact



Streamlined Sales Tax Agreement
Federal Legislative Activity

- Expiration of Internet Tax Freedom Act in November 2003
- Sales and use tax fairness act
- Business activity tax simplification act



Questions?

www.streamlinedsalestax.org