



## **Streamlined Sales and Use Tax Agreement**

### **ISSUE:**

45 states plus the District of Columbia use sales taxes as an integral part of their revenue systems. Changes in the nation's economy and in the way consumers make purchases are eroding sales tax revenues. For example, the Business Research Center at the University of Tennessee estimates that state and local governments may have lost as much as \$13.3 billion in 2001 because they were not able to collect taxes on Internet sales. The center's estimate of revenue losses rises to \$45.2 billion in 2006 and \$54.9 billion for 2011. Those losses clearly exacerbate the severe budget gaps states are currently facing and affect legislatures' ability to provide essential services such as education, emergency preparedness, homeland security, health care, transportation and corrections.

The National Conference of State Legislatures' interest in streamlining sales taxes originated with two U.S. Supreme Court decisions—the 1967 *Bellas Hess* case and the 1992 *Quill v. North Dakota* case—which acknowledged that consumers owe the sales tax when they purchase goods through catalogues or over the Internet, but ruled that states cannot force retailers to collect the tax. The *Quill* case, though, offered critical clues about what states could do to overcome the court's objections. Most importantly, the court placed the problem with the complexity of many state sales tax systems and the burden that imposes on a out-of-state retailer in determining the tax owed.

### **SOLUTION:**

The Streamlined Sales and Use Tax Agreement is a significant attempt to modernize sales and use tax systems and to save them as viable components in state revenue mixes. The Agreement was developed by legislators, tax administrators and private sector representatives from 35 states whose legislatures earlier had passed model legislation authorizing their discussions. We believe the Streamlined Sales and Use Tax Agreement substantially simplifies state and local sales tax systems, removes the burdens to interstate commerce that were of concern to the Supreme Court, and protects state sovereignty. In addition, the agreement “levels the playing field” between local and out-of-state merchants and benefits all retailers by reducing their administrative costs.

Participation in the agreement, of course, is voluntary. However, it is our hope that the agreement will serve as the basis for Congress to grant authority to states to require all sellers, regardless of location, to collect sales and use taxes. The Streamlined Sales and Use Tax Interstate Agreement provides the states with a blueprint to create a simplified sales and use tax collection system that when implemented, allows justification for Congress to overturn the *Bellas Hess* and *Quill* decisions.

### **SIMPLIFICATIONS INCLUDE:**

State Administration of State and Local Sales and Use Taxes; Limits on State and Local Rates and Rate Changes; Central Seller Registration; Uniform Product Definitions; Uniform Sourcing Rules; Uniform Procedures for Exemptions; Uniform Tax Returns; Uniform Administrative Definitions; Standardization for sales tax holidays; Elimination of caps and thresholds; Amnesty for Participating Voluntary Sellers; Uniform Rounding Rule; Uniform Customer Remedy Procedures.

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