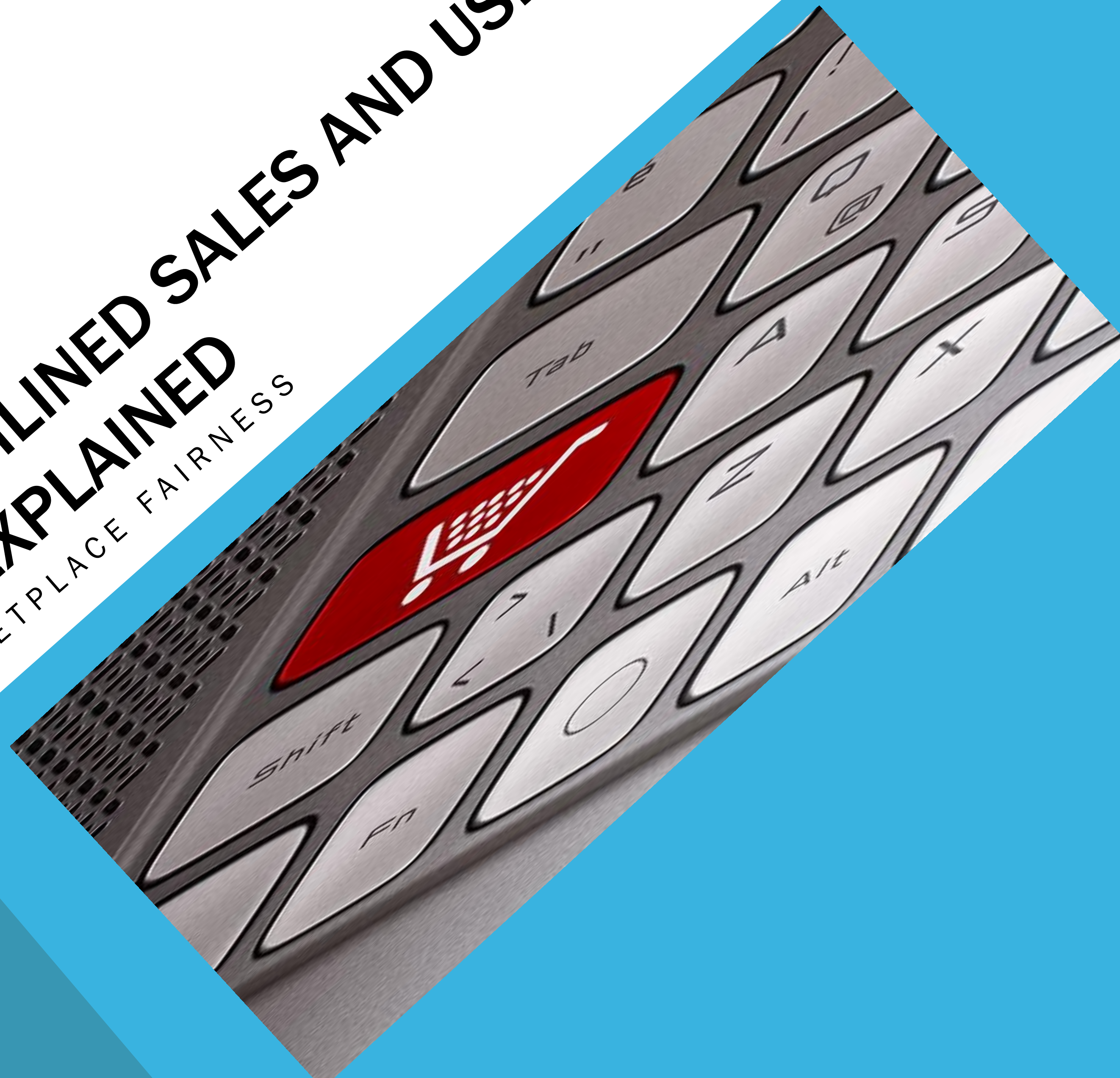
STREAMLINED SALES AND USE TAX EXPLAINED

MARKETPLACE FAIRNESS



- Sales & Use Tax: 101
- Evolving Retail Landscape
- Streamline Agreement
- Legislation

Sales &Use Tax: 101

SALES TAX

- Sales tax is imposed on retail sales of tangible personal property and certain services. All sales are generally presumed taxable unless specifically exempted by law. The state sales tax rate is 4.225%.

Source Missouri Department of Revenue

SALES TAX

- Cities, counties and certain districts may also impose local sales taxes as well. Once the seller remits sales tax to the department, the department then distributes the local sales taxes to the cities, counties and districts.

Source Missouri Department of Revenue

USE TAX

- Unlike sales tax, which requires a sale at retail in Missouri, use tax is imposed directly upon the person that stores, uses, or consumes tangible personal property in Missouri.
- Retailers are not required to remit use tax, purchasers (users) have the burden to remit use tax

USE TAX

What is subject to use tax in Missouri?

Use tax is imposed on the use, storage or consumption of tangible personal property in Missouri, unless the purchase is subject to sales tax or there is a specific exemption listed in Chapter 144.

Source: Missouri Department of Revenue

USE TAX

Local option use tax:

- \- Must be set at a rate equal to the rate of the local sales tax in effect;
- \- Will automatically be reduced or raised according to the changes in the sales tax rate

DOUBLE TAXATION NOT ALLOWED

- Use tax does not apply if the purchase is from a Missouri retailer and subject to Missouri sales tax.

- The Use tax is intended to eliminate the unfair economic advantage that interstate sellers (those outside of Missouri) have over hometown merchants.

Where do we stand now?

- Around 56 of Missouri’s 114 counties and over 100 of its roughly 950 municipalities have local use taxes.
- Voters in several counties and cities will be asked to approve a use tax in the future.

Evolving Retail landscape

EVOLVING RETAIL LANDSCAPE

- US. E-commerce sales, 2012-2017

Online retail sales will grow from $225.5 billion in 2012 to 434.2 billion in 2017, according to eMarketer

Source: eMarketer, April 2013

- US online sales will grow at a compound annual rate of 10% from 2012-2017, Forrester Research says. By 2017, the web will account for 10% of U.S, retail sales.
- Retail sails made on smartphones reached $8 billion in 2012, 3% of total e-commerce sales.

Source: Forrester Research

EVOLVING RETAIL LANDSCAPE

Nearly six in ten cell owners used their phone inside a physical store for assistance or guidance on a purchasing decision this holiday season.

- 46% of cell owners used their phone while inside a store to call a friend or family member for advice about a purchase they were considering.
- 28% of cell owners used their phone while inside a store to look up reviews of a product to help decide if they should purchase it or not.
- 27% of cell owners used their phone while inside a store to look up the price of a product, to see if they could get a better price elsewhere.

Source: Pew Internet and American Life project

EVOLVING RETAIL LANDSCAPE

- By 2012 the projected loss for state and local governments is $23.3 billion, including $11.4 billion from remote electronic commerce, $6.8 billion from business-to-consumer catalog sales, and $5 billion from business-to-business catalog sales.

State and Local Government Sales Tax Revenue Losses from Electronic Commerce," April 2009 update to report by professors Bill Fox, Don Bruce and LeAnn Luna at Univ. of Tennessee

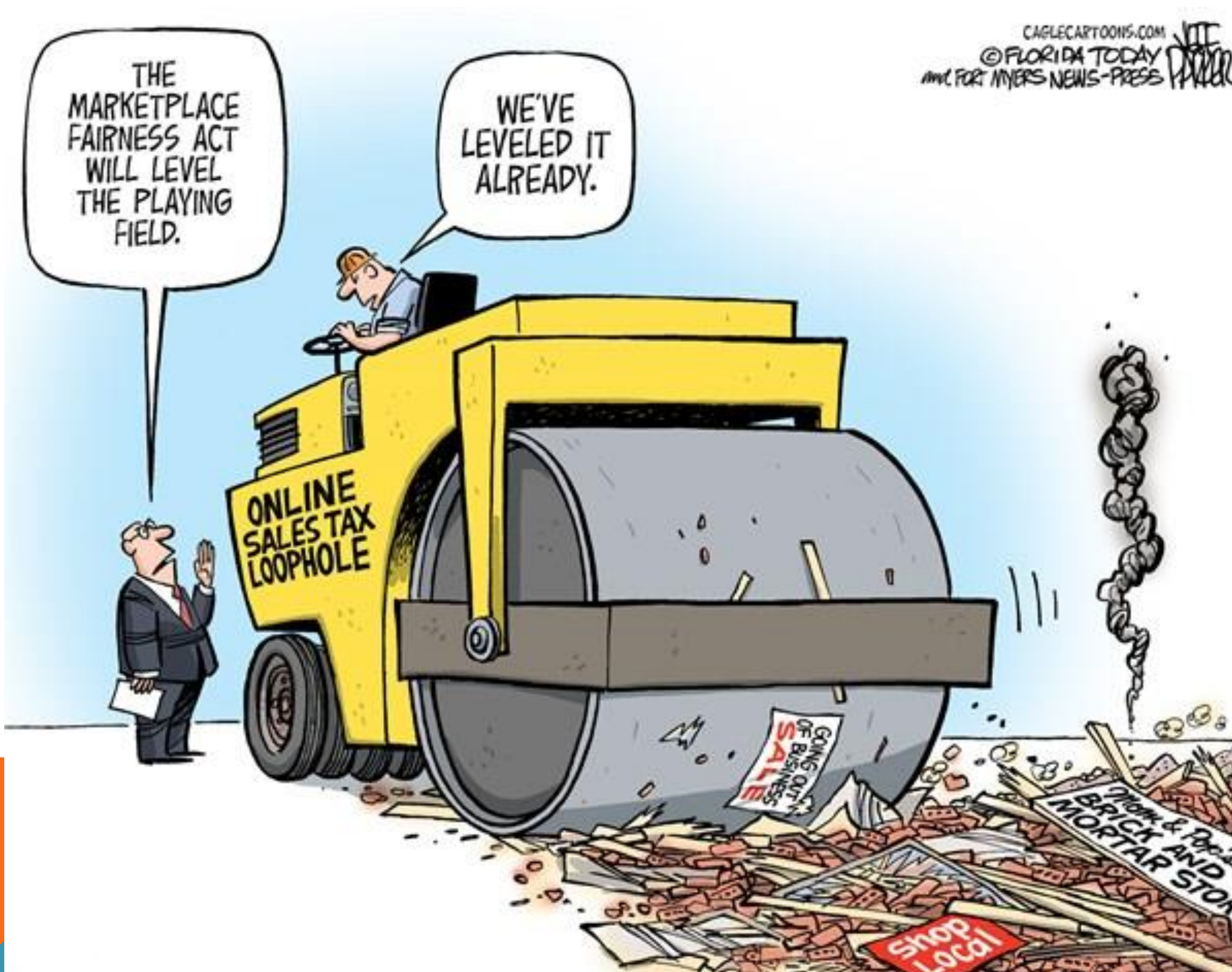
- Nearly 50% of all computers and 30% of all consumer electronics bought in the United States are now purchased online

Source: Internet Retailer's Daily News Service

EVOLVING RETAIL LANDSCAPE

- It is expected that online sales will grow from 7% of overall retail sales to close to 9% by 2016. Key drivers of this growth include consumers' greater comfort level with purchasing various categories online and broader web shopping capabilities with mobile and tablet devices

Source: Forrester Research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and FORT MYERS NEWS-PRESS
THE MARKETPLACE FAIRNESS ACT WILL LEVEL THE PLAYING FIELD.
WE'VE LEVELED IT ALREADY.
ONLINE SALES TAX LOOPHOLE
GOING OUT OF BUSINESS SALE
Mom & Pop's BRICK AND MORTAR STOR
Shop Local

WHY DO MARKETPLACE CHANGES AND THE USE TAX MATTER?

- Only jurisdictions with a use tax can potentially collect on remote sales.
- 1992 Supreme Court decision in Quill Corp. v. North Dakota held: requiring collection of tax by out-of-state retailers with no physical presence in a state would be a burden on interstate commerce and would therefore violate Commerce Clause of U.S. Constitution

WHY DO MARKETPLACE CHANGES AND THE USE MATTER?

- The Supreme Court held that businesses shouldn’t be expected to know the complex and diverse tax laws in the individual states.
- The court determined that if a business did not have nexus with a state, it would not be required to collect and remit use taxes.
- The court said that the burden of complying with so many differing laws violated the Commerce Clause of the United State Constitution.

PROBLEM: BIG PICTURE ISSUES

- Compliance with sales tax laws by multi-state remote retailers is too complex
- Local merchants suffer from lack of level playing field
- Significant losses of revenue are expected due to growth in electronic commerce and inability of states to administer use tax with consumers
  - Source: Scott Peterson, Chairman SSUTA

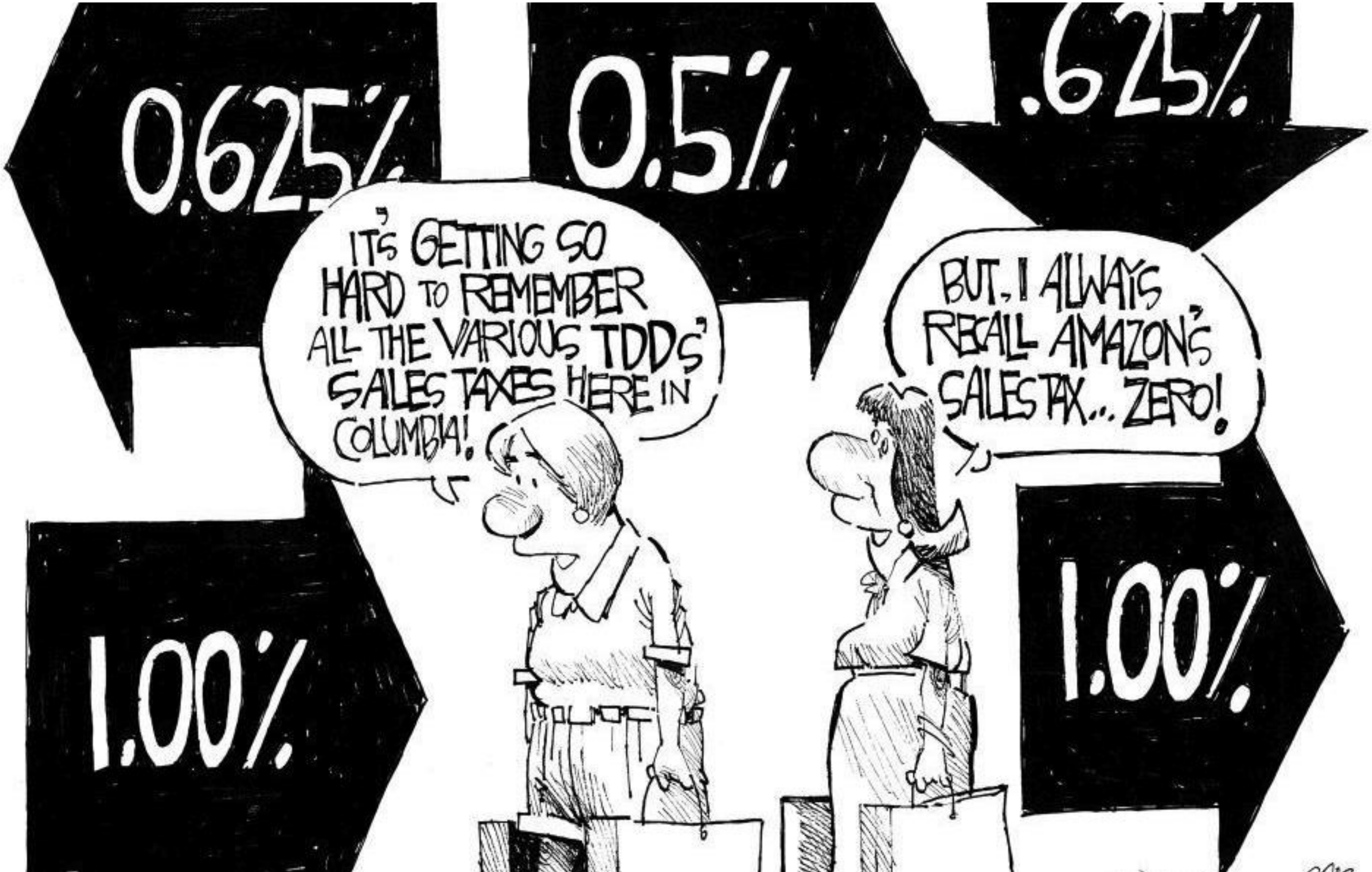
SOLUTION: STREAMLINED SALES AND USE TAX AGREEMENT (SSUTA)

- In response to the Quill Decision state lawmakers sought a solution.
- The National Governor's Association and the National Conference of State Legislatures joined together to form the Streamlined Sales and Use Tax Project (SSUTP).
- The participating states then generated the Streamlined Sales and Use Tax Agreement.

WHAT RETAILER'S SAY MAKES THE SYSTEM COMPLEX

- Unclear rules on who has the right to tax a transaction
- Too many tax rates within each state and locality
- State and locals tax different items
- Too many definitions for the same product
- The retailer is liable when a buyer lies or fails to provide proof of an exempt sale

- Source: Scott Peterson, Chairman SSUTA


0.625%
0.5%
.625%
IT'S GETTING SO HARD TO REMEMBER ALL THE VARIOUS TDDS' SALES TAXES HERE IN COLUMBIA!
BUT, I ALWAYS RECALL AMAZON'S SALES TAX... ZERO!
1.00%
1.00%

SSUTA

<u>Goals of the Streamlined Sales & Use Tax Agreement</u>

- Reduce the unfair competitive disadvantage for community retailers.
- Create a simpler system for administering the various state and local sales taxes.
- Encourage out-of-state sellers to voluntarily collect tax on sales.
- Balance the interests of sovereignty with the interests of simplicity and uniformity.
- Leverage the use of technology to ease the retailer's tax collection.

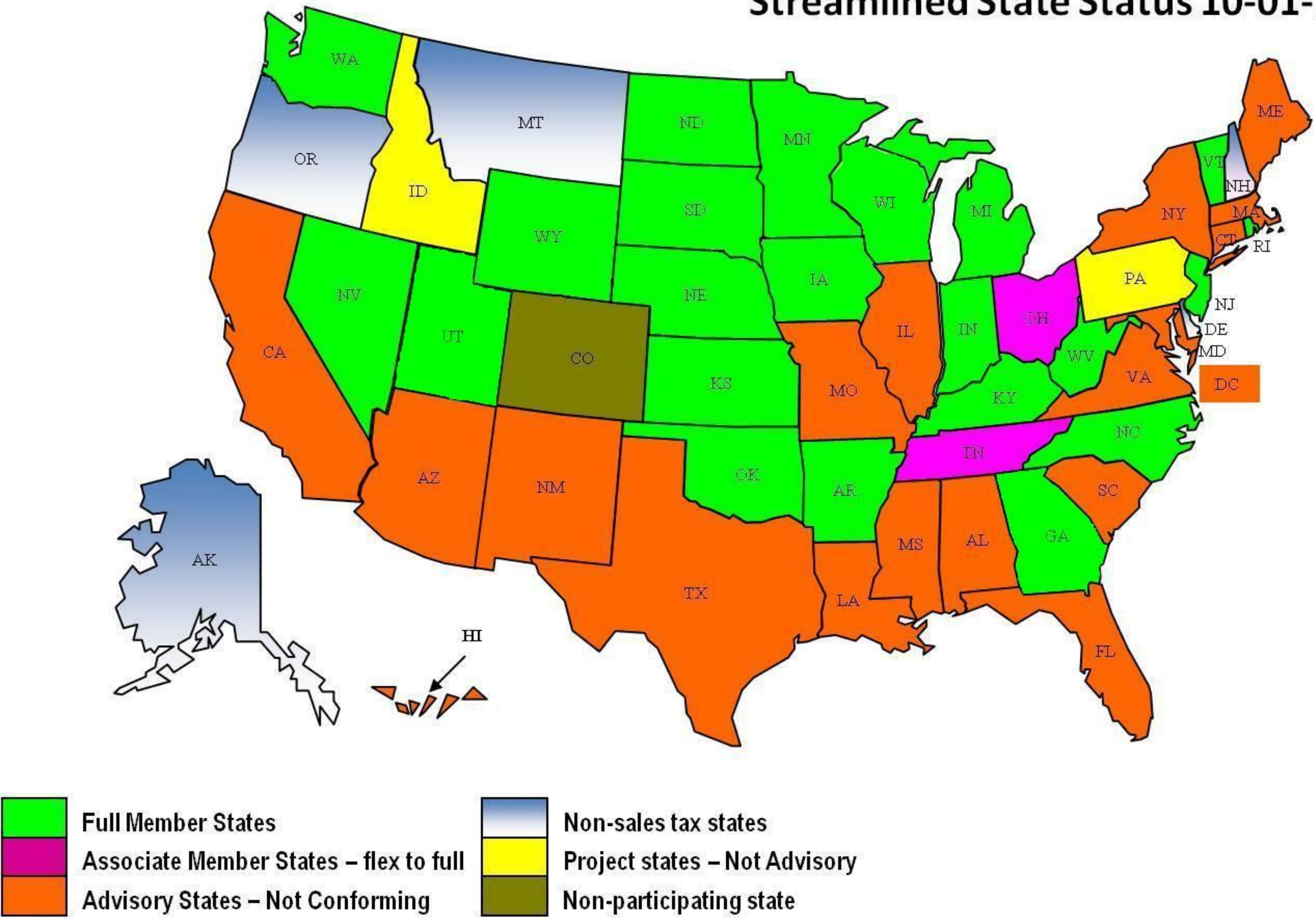
SSUTA: KEY FEATURES

- Common state and local tax bases within a state
- Uniform definitions
- Uniform sourcing rule for goods and services
- Destination based, but states can choose origin sourcing for intrastate delivered products and direct mail
- Uniform sourcing rules
- State level administration of local sales and use taxes
- Rate simplification
- One general state rate per state, with a second rate (which could be zero) on food and drugs

SSUTA

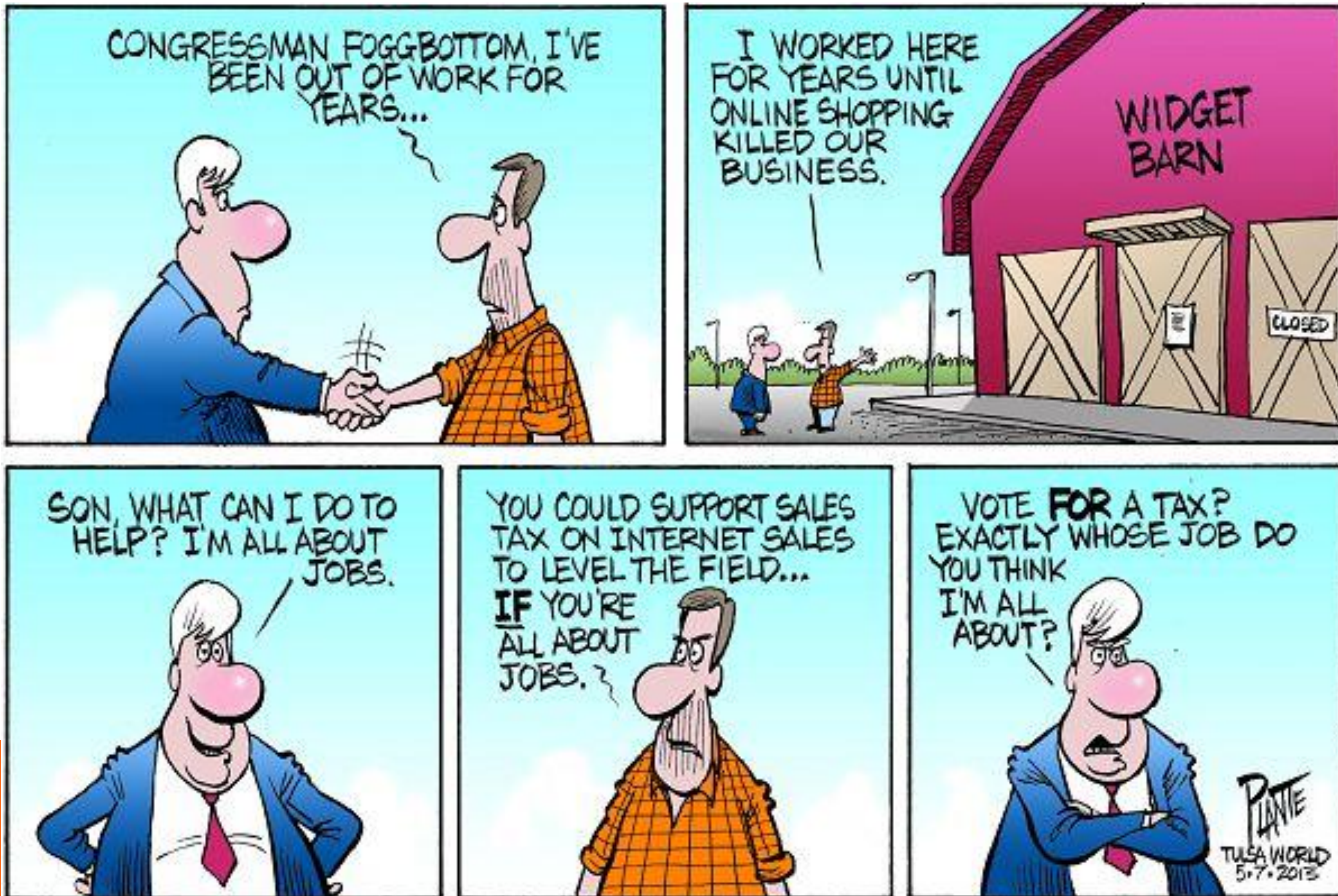
- SSUTA became effective October 1, 2005
- There are currently 24 states that have made similar changes to their laws Georgia was the most recent state to pass tax simplification legislation.

Streamlined State Status 10-01-12



SSUTA

- In the participating states approximately 1,900 businesses voluntarily collect and remit use tax back to the states.
- Those companies have collected over $900 million in sales tax for the participating states.
- If Missouri makes the changes necessary to comply with the SSUTA, it is expected that the businesses that currently participate in other states will collect and remit use tax for Missouri.


CONGRESSMAN FOGGBOTTOM, I'VE BEEN OUT OF WORK FOR YEARS...
I WORKED HERE FOR YEARS UNTIL ONLINE SHOPPING KILLED OUR BUSINESS.
WIDGET BARN
CLOSED
SON, WHAT CAN I DO TO HELP? I'M ALL ABOUT JOBS.
YOU COULD SUPPORT SALES TAX ON INTERNET SALES TO LEVEL THE FIELD... IF YOU'RE ALL ABOUT JOBS.
VOTE FOR A TAX? EXACTLY WHOSE JOB DO YOU THINK I'M ALL ABOUT?
PLANTE
TULSA WORLD 5·7·2013

WHAT IS HAPPENING IN MISSOURI?

<u>Market Place Fairness Act</u>

The legislative proposal would make changes in the area of tax collection and change the definitions used to define items subject to the sales and use tax to be similar to other states. Missouri would join 24 other states as a member of the Streamline Sales and Use Tax Project.

WHAT IS HAPPENING IN MISSOURI?

- The legislation <u>does not create a new tax</u>; it makes changes to encourage the collection of the current use tax.
- According to the Missouri Department of Revenue a seller not engaged in business in Missouri (does not have nexus) is not required to collect Missouri tax, but the purchaser in these instances is responsible for remitting use tax to Missouri.
- If the changes are made it is hoped that out-of-state retailers will be encouraged to voluntarily remit use tax to Missouri on behalf of purchasers.

WHAT'S HAPPENING IN D.C

- According to the federal bill each member state under the Streamlined Sales and Use Tax Agreement (SSUTA) would be authorized to require all sellers, with sales of more than $500,000 in remote sales, to collect and remit sales and use tax to the state where the purchaser lives.
- If a state is not a SSUTA state, it could require the collection of sales and use tax from remote sellers if a single-state level agency administers the tax, provides a uniform tax base, provides for remote sellers to collect tax based on the destination of the product, and holds remote sellers harmless if mistakes are made based on the information the state provides.

LEGISLATIVE IMPACT

State	Federal	Remittance	Revenue (est)
Yes	No	voluntary	$10-12 million
No	Yes	none	none
Yes	Yes	mandatory	$200-400 million

CONCLUSIONS

- SSUTA does not call for any new tax, it merely encourages collection by retailers
- Jurisdictions with use tax could benefit
- The Marketplace Fairness Act would help eliminate the current situation which puts the “brick-and-mortar” retailers in Missouri at a competitive disadvantage to remote retailers located in other states.

MORE QUESTIONS?

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