

CAPTURING INTERNET SALES: STREAMLINED SALES TAX

by Mike Sutherland

It has never been easier than it is today to buy things without leaving home. Using a computer, tablet or phone to go online and purchase almost anything has added a level of convenience for consumers that could not have been imagined not so long ago.

It is likely that few people realize that when they buy online, they deprive their local community and their state of resources needed for public investment in schools, transportation, safe communities and other building blocks for a strong economy.

WHAT'S THE CONNECTION?

Few online purchases made by Missourians include the payment of state and local sales tax. That's not because no tax is owed; it is because no tax is collected.

There is something Missouri can do to recoup this lost revenue and level the playing field for local businesses that find themselves at a disadvantage because they have to charge sales tax.

By passing the Streamlined Sales Tax collections mechanism, state legislators can begin to close this loophole in tax collections.

The situation exists because the



U.S. Supreme Court holds that online retailers don't have to collect applicable sales taxes from their customers if the retailer has no actual physical presence (such as a warehouse) in the state. When you buy something from a business outside of Missouri, you technically owe what is called a "use" tax instead of sales tax. It is the same tax, at the same rate. Many Missourians probably don't know they are legally required to calculate and remit sales taxes to the state on purchases made through "remote sellers," like online retailers. Whether they know about the obligation or not, the reality is that if they don't pay, no one will know. After all, when you buy something at a store, the cashier adds the sales tax to the price. However, with online

purchases the responsibility often lies solely with the consumer. The result costs municipalities and the state, and the people they serve, more money every year as online commerce keeps growing. In 2011, the last year this data was collected, only 168 Missourians remitted use tax payments to the state, totaling a little more than \$200,000.

The Streamlined Sales Tax (SB 795), introduced by state Sen. Wayne Wallingford, would make it

easier for online retailers to collect and remit sales and use tax. The measure would make Missouri a participant in what is known as the Streamlined Sales and Use Tax Agreement. This is a voluntary collections mechanism developed through the cooperative effort of 44 states, the District of Columbia, local governments and the business community. It simplifies sales and use tax collection and administration by retailers and states in order to minimize costs and administrative burdens on online and mail-order retailers to collect sales and use tax from customers in multiple states.

By simplifying state sales tax laws, it is easier for online retailers to collect and remit state and local sales and use taxes. Once a state has enacted

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the legislation, it becomes a member of the national Streamlined Sales Tax Governing Board. The Board then notifies retailers that have registered with the Board to collect taxes on purchases made by residents of the state.

To simplify compliance, the Board has certified seven providers whose sales tax collection software interfaces with the shopping carts of online retailers. Through an automated structure, the service providers are able to automatically calculate state and local sales taxes. The providers are paid for this service by keeping a small portion of the taxes they collect.

Of the 45 states with sales taxes, 24 have joined the compacts, including Missouri neighbors Arkansas, Iowa, Kansas, Nebraska and Oklahoma.

These states now capture some previously uncollected sales and use tax from online retail purchases. Based on the experience of these states, Missouri could expect to collect \$15 million to \$20 million in the first year of implementation.

To get back the rest of the money states and localities lose from online transactions will also require action by the federal government. While the state legislation will make it easier for online retailers to voluntarily comply with collecting state and local sales taxes, the federal legislation would make that compliance enforceable. In

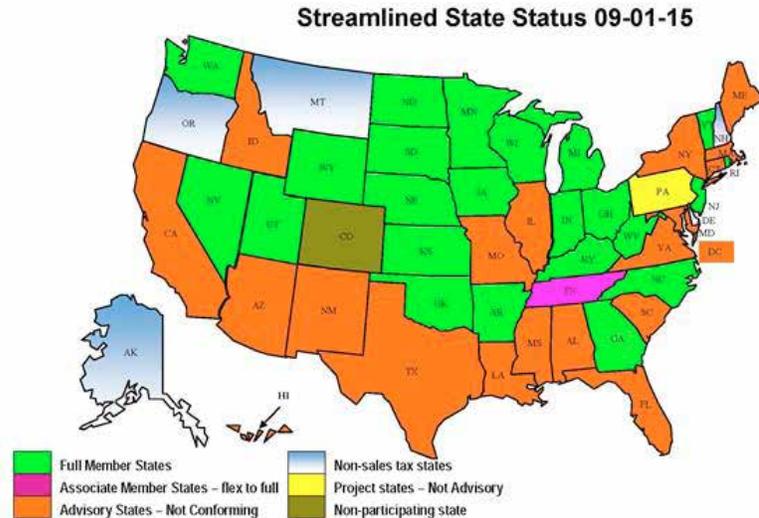
fact, Congress is considering legislation to require the compliance of large retailers. The federal legislation is known as the Marketplace Fairness Act sponsored by Missouri Sen. Roy Blunt. Both state and federal legislation are needed for Missouri to effectively close this tax loophole.

The money involved is significant. If both the state and federal legislation had been in place in 2014, Missouri would have captured nearly \$360 million more in state and local sales

tax revenue that year, according to a University of Missouri estimate.

NOT A NEW TAX

It is important to point out that none of this involves creating any new taxes. The Streamlined Agreement and the Marketplace Fairness Act simply put in place a way to collect tax that already is owed, but rarely paid. The same products that are subject to sales and use tax today would be subject to the tax after the measure is



Missouri Tax Revenue

Combined, the average rate for state and local sales and use taxes in Missouri is 7.805 percent, that includes:

- **3 percent state general revenue sales tax**
- **1.1225 percent in earmarked state sales taxes**
- **3.58 percent average local tax**

Based on the portions of the total that each comprise, in 2014, collections would have resulted in these increased revenues:

- **State General Revenue: \$137.6 million**
- **State Education (Proposition C): \$45.868 million**
- **State Conservation: \$5.73 million**
- **State Parks/Soil: \$4.586 million**
- **Localities: \$164.207 million**

enacted. The Streamlined Sales Tax Agreement, coupled with the federal Marketplace Fairness Act, would move that responsibility back to retailers, just like responsibility for the collection of the sales tax falls now to local “brick and mortar” retailers.

The push for improved and more equitable sales and use tax collection comes at a time when state and local governments increasingly struggle to meet growing public needs. The collection of owed sales taxes will increase the ability of state and local officials to pay for local schools, first responders, parks, infrastructure, public health and other services people expect and deserve.

There is no reason to think people will stop shopping online. And there is no reason why their doing so should have to erode the services needed for communities to thrive. By passing the appropriate legislation at the state and federal levels, our elected officials can make sure that no matter how people shop, everyone contributes to funding the services that make Missouri a great place to live. □

Mike Sutherland is policy director for the Missouri Budget Project, a nonprofit, objective, public policy analysis organization that provides independent research on complex state budget, tax, and economic issues and how they impact all Missourians. The Missouri Budget Project works to enhance the ability of all Missourians to participate in the public debate and ensure that advocates, policy makers and the public have the information needed to create sound fiscal policies.

More Than Marketplace Fairness: How Missouri Cities Are Affected

Capturing lost local sales tax revenue from sales made over the Internet will take a two-prong approach. First, the U.S. Congress must pass enabling legislation. Second, at the state level, the Missouri General Assembly must standardize local and state sales tax laws to those of other states.

In doing so, several provisions of local sales tax laws must be changed to match the state’s sales tax law. It is important to note that this would mean:

- **Municipalities would no longer be able to apply their sales tax to domestic utilities;**
- **Municipalities could not opt out of the various sales tax holidays.**

While the Streamlined Sales Tax legislation is an important component to the Internet sales problem, it is not the fix. Congressional action is the fix.

Missouri cities need to be aware of an important issue: When Congress enacts the federal Marketplace Fairness Act (still languishing in Congress) and authorizes the levying state and local taxes on Internet sales, a municipality must first have passed the local use tax to take advantage of that authorization.

There are approximately 100 municipalities that currently levy a use tax. Learn more about a use tax for your municipality at www.mocities.com.

~ Missouri Municipal League

Do You Need To Pass A Vehicle Sales Tax?



Municipalities must vote on a vehicle sales tax by November 2016.

Questions? We can help!

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