The Streamlined Sales Tax Project: An idea whose time has arrived?

By Richard A. Vallari CPA, CMI

In recent articles, I discussed concepts regarding sales and use tax nexus, the boundaries imposed by the US Supreme Court that restrict a states' ability to require remote sellers to collect use tax, general concepts under the Internet Tax Freedom Non-discrimination Act, and the challenges states face capturing sales or use tax for e-commerce transactions. Finally, I presented an overview of the Streamlined Sales and Use Tax Project (SSTP). This article presents further insight into SSTP; specifically, a brief history of the origins and advantages the SSTP claims to provide sellers who wish to join and abide with its' terms.

The Streamlined Sales and Use Tax Project is a joint effort of the National Governor's Association and the National Conference of State Legislatures. The initiative began in the fall of 1999 as a way to simplify sales tax collection. The mission statement developed by the Streamlined Sales Tax Governing Board and posted on the SSTP website is: "To assist states as they administer a simpler and more uniform sales and use tax system". The result of efforts to achieve this goal is a cooperative undertaking of 44 states, the District of Columbia, local governments, and the business community to simplify sales and use tax collection and administration by retailers and states.

The SSTP was designed to be effective when at least 10 states (representing 20% of the population of all states) that impose a sales tax, (1) have amended their sales and use tax laws to be in substantial compliance with the agreement, (2) have petitioned for membership, certifying substantial compliance, and (3) have been admitted by three-fourth vote of the other petitioning states. These benchmarks were achieved on October 1, 2005. Nevada met the conditions and received membership on April 1, 2008.

Under the project's rules, sellers agree to voluntarily collect tax if their home state has established legislation that allows them to do so. Currently, close to 1,200 businesses voluntary collect tax under the rules of the SSTP. Ultimately, if federal legislation is enacted that mandates remote sellers to collect tax, the playing field between internet retailers and brick and mortar establishments will become more competitive.

Critics of the SSTP argue, as an example, that it is not reasonable for a Nevada business with no relationship to a remote state, other than an on-line customer, to have to collect and remit the tax for that customers' state. Proponents of the SSTP point out the estimated $20 billion of tax revenue that states lose to sales and use tax that is never collected or remitted. In our current economy where state and local governments are strapped for cash, the collection of tax under SSTP is a welcomed addition to their finances.

How will SSTP achieve its goal of sales tax simplification? Keep in mind SSTP is a multi-state effort to create unanimity regarding certain rules among the member states. The SSTP advertises some of the benefits to include uniform definitions for items with the law, rate simplification, state level tax administration of all state and local sales and use taxes, uniform sourcing rules (i.e., where a sales occurs), simplified administration for use and entity-based exemptions, uniform audit procedures and joint audits for multi-state businesses, third-party collection systems, and other new technology models for sales tax collection. Under SSTP, these advertised benefits certainly may entice some multi-state companies to participate.

Next month I will discuss these benefits in greater detail. In the meantime, I encourage you to think about how SSTP may affect your clients, should federal legislation be enacted making this law.

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