

MEMO

RE: HB 2005 - Destination Sourcing of Sales Tax

TO: Olathe Chamber of Commerce Board of Directors

FROM: State Senator Karin Brownlee

DATE: 6-24-03

HB 2005 contains several tax provisions but most notable is the sales tax provision which changes the collection of sales tax from the origin of sale to the destination of the sale. This is a tremendous sea change from current Kansas tax policy. Currently, we collect sales tax at the business location where the sale occurs. This change will have the tax collected at the destination. Here are some examples of the headaches this will cause:

Heating & Cooling business: Where the products are installed, the retailer will be expected to charge the correct sales tax of that municipality

Vitamin mail business: Wherever the product is shipped, that sales tax will be the applicable taxing level

Book store: Products ordered by customers outside of the retail store will pay the tax rate at the point they take delivery

As you can see, the burden on small and large businesses alike will be tremendous. The Department of Revenue (DOR) will eventually have a zip-plus-four database to assist in the effort. At this time, DOR estimates their cost of implementation to be about \$250,000 plus annual minimal ongoing costs. The cost to businesses whose computer programs don't comply and who will need to purchase new cash registers, etc. is untold. (Probably huge!)

Why was this legislation considered and passed? The problem of taxing remote sales such as Internet and catalog sales has been a challenge. Supposedly the state is missing out on millions of dollars in sales tax. The Streamlined Sales Tax Project (SSTP) is the answer to this dilemma and is promoted by organizations such as the National Governor's Association (NGA) and National Conference of State Legislators (NCSL). For a state to participate in this project, they must agree to the stipulations and pass legislation conforming to the agreement. States that have passed this destination sourcing are: AR, ND, SD, WV, UT, KY, IN, WY, TN, NB, and VT. States with legislation in process are OH, NV, OK, IA and NC.

Here are two websites which might be helpful. The first is a Kansas Legislative Research document which explains HB 2005: http://skyways.lib.ks.us/ksleg/KLRD/pubpage_confcomm.html This site is the national website explaining the project: <http://www.streamlinedsalestax.org/>. On this site, go to the reference of the 11/12/02 - Final SSTIS Agreement .

Lastly, I think we need to revisit this as to whether or not it is good for Kansas. The implementation date was much too aggressive both for retailers and DOR. Please feel free to call me.