Reviewing the Mitigation Detail Files
Department of Revenue

Background

On July 1, 2008, businesses reporting sales taxes in the State of Washington began coding sales to the location where a good was received by a consumer, rather than to the location from which the good was shipped. This new method of coding is referred to as "destination-based sales tax." The previous method is referred to as "origin-based sales tax." The State is mitigating and will continue to mitigate those local jurisdictions which are negatively affected by the shift in sales tax revenues. The mitigation amount is calculated by the Department of Revenue and is referred to as "Streamlined Sales Tax Mitigation."

Each quarter you receive a set of files supporting your Mitigation results. These files show some of the detail behind the calculations. We ask you to review these files and to provide input to help us improve the Mitigation analysis.

We feel a local jurisdiction is more aware of its local businesses than we are. There are many aspects of local business such as the opening and closing of stores that are tracked more heavily by local governments. A local jurisdiction's input provides us with valuable information to improve the Mitigation analysis and to make the results more accurate.

This document will help you interpret the data we make available and understand how to review it. It will show you what you can and cannot know from the data and how to most effectively use your time when reviewing it.

What you cannot tell from this data

There are certain aspects of the analysis which you cannot see in your data. Some of these are excluded because of disclosure issues. Others are excluded because the level of detail involved makes it too cumbersome to organize into a report that is easy to understand.

You cannot calculate your voluntary offset. The voluntary offset represents new revenue coming into your jurisdiction from out-of-state businesses which have signed on to the national Streamlined Sales and Use Tax Agreement. These revenues reduce your Mitigation payment, if you receive one. The Department shows you the size of your voluntary offset but does not give you any information about the individual businesses. The national Streamlined Sales and Use Tax Agreement prevents the Department from disclosing the identities of these businesses.

Due to Washington's disclosure laws, we cannot disclose to you retail sales activity which occurs outside your jurisdiction. Tax reporting outside of your jurisdiction affects your Mitigation calculation. There are at least two reasons for this. First, the total statewide level of retail sales for a business in your jurisdiction factors into the estimated gain or loss due to the change to destination-based sales tax. The Department looks at the total sales of each business to account for the fact that sales shrink or grow over time. Second, some taxes, such as the Criminal Justice and Public Safety taxes, depend on reporting throughout your entire county.

You will not be able to tell all of the businesses which were excluded from your jurisdiction in the Mitigation analysis and why. By comparing your local tax distribution data to your Mitigation data, you may be able to determine some of the excluded businesses. However, you will not be able to tell why a business was excluded. The Department is able to provide this information to you for some businesses upon request, but the reasons for excluding a business are too varied to provide you a full file with it each Mitigation payment.

Beginning with the third payment, which you will receive June 30, 2009, the Department will provide to you a list of businesses which were removed at the request of a jurisdiction. This is only one reason why a business may be excluded from the analysis, but it will let you know what adjustments to your calculation were made as a result of the reviews of other jurisdictions.

What you *can* tell from this data

You can tell the businesses included in the analysis and the estimated gain or loss due to the change to destination-based sales tax for each business. This allows you to see who had the biggest impact on your calculation. The column labeled "taxable_gain_loss" represents the Department's estimate of the gain or loss in tax base due to the change to destination-based sales tax for each business.

We also provide the level of retail sales in your jurisdiction for each of the two quarters being compared. It can be useful to compare this on a business-by-business basis to the estimated gain or loss due to the change to destination-based sales tax. This is illustrated below in the hypothetical firm review.

We have included the North American Industrial Classification System (NAICS) code in the file for each business. This gives you an idea of the activity in which the business is engaged, which in turn helps you interpret the results we have estimated. This is also included below in the hypothetical firm review.

Finally, we provide a "calculation detail" file which shows you the revenue effects of the change to destination-based sales tax. These are the final steps of your calculation process. The level of change for each type of revenue (i.e. Basic/Optional or Criminal Justice Tax, etc.) is depicted.

What questions to ask when reviewing the Mitigation business-detail file

When reviewing your detail file, it is important to prioritize those businesses that have a large effect on the calculation. The single best way to prioritize is to examine those businesses with a very large or very small “taxable_gain_loss” value. These should be businesses which ship a large value of goods into or out of your jurisdiction.

It is also important to ask the right questions when examining the data. The four most useful questions to ask the Department about a business are:

1. Business X is included in the analysis and I believe they are not making deliveries. Can you verify?
2. Has business X always reported using destination-based sales tax?
3. Business X is making deliveries but is not included in the analysis. Should it be included?
4. Business X is a chain store and has opened or closed an establishment in my jurisdiction since January 1, 2007. Can you make an adjustment for that?

The first two questions have to do with whether a business changed from origin-based sales tax to destination-based sales tax. Since the Mitigation analysis is designed to compensate jurisdictions for this change, any businesses which were not impacted by the change in sales tax reporting should not be included in the analysis. In fact, it is possible that the Mitigation analysis would mistakenly estimate an effect due to the change to destination-based sales tax for such a business if it were included.

The following pages show a hypothetical detail file and walk you through the review of it.

Hypothetical business-level detail file

TRA_ID	Name	Addre	NAICS	locTaxReturn	Taxable_2007_Q4	Taxable_2008_Q4	**taxable_gain_loss**
600000005	SMALLSOFT INC	-	312111	1704	2,858,521	442,635	(1,407,145)
600000013	U-BILT FURNITURE LLC	-	442110	1704	1,843,954	99,473	(797,996)
600000015	SHAGGY CARPETS LTD	-	442210	1704	323,388	30,933	(63,790)
600000011	FORK IN THE ROAD INC	-	423730	1704	237,249	-	(37,100)
600000001	JOHN SMITH'S ACME WIDGETS	-	333999	1704	10,000	3,531	(9,256)
600000020	THE BEE'S KNEES IRISH PUB	-	722110	1704	275,433	260,220	(7,366)
600000016	DIAMOND OF THE SEA LLC	-	448310	1704	246,956	193,915	-
600000003	DIANA'S DINER	-	722110	1704	-	54	54
600000019	VAN'S VANS	-	441110	1704	-	65	65
600000002	PAPA MATT'S PIZZA	-	722211	1704	3,481	4,297	398
600000000	LONGRIE'S BIKE CO	-	451110	1704	8,600	9,574	519
600000006	TIM BURR'S TIMBER CO	-	444190	1704	-	581	581
600000009	ROCKY MOUNTAIN MEATS	-	445210	1704	-	3,799	3,799
600000004	GROSSMAN'S SLAUGHTERHOUSE	-	311611	1704	5,160	8,228	4,069
600000018	JASON'S BLADES	-	332213	1704	-	4,292	4,292
600000010	SURFDOM INC	-	339920	1704	-	4,927	4,927
600000012	POINDEXTER'S PROCESSORS AND PARTS	-	443120	1704	4,624	9,934	5,879
600000008	SUNSHINE MARY'S MUSHROOM CANNERY	-	311421	1704	-	8,572	8,572
600000007	FLUCTZEUG INTERNATIONAL	-	423860	1704	306	55,055	54,809
600000017	EGGDROP CORP	-	314999	1704	-	57,539	57,539
600000014	LUKE HANDY'S COOLING CO	-	333415	1704	239,204	190,606	71,649

These make your Mitigation payment bigger or get you closer to receiving a payment.

These have little to no effect on the Mitigation analysis.

These make your Mitigation payment smaller or get you further from receiving a payment.

You probably want to concentrate on those businesses that have a big impact on your Mitigation payment (or lack thereof). These are the ones with big positive or negative numbers.

This column represents how much of the tax base we estimate shifted in or out of the jurisdiction because of the change to destination-based sales tax. The Mitigation payment amount is based on the total of these. Negative numbers are goods shipped out and make your payment larger.

Notice that I sorted first by the “taxable_gain_loss” column. This makes it easier to concentrate on the businesses that have a large effect on my calculation. Now I should begin to look for businesses that I think have no deliveries or were always reporting using destination-based sales tax.

Luke Handy’s Cooling Company (the bottom record) is well-known in my jurisdiction as an installation contractor. They manufacture and install industrial air-conditioning systems. I suspect that they have always reported using destination-based sales tax since they are like a construction company.

TRA_ID	Name	Addre	NAICS	locTaxReturn	Taxable_2007_Q4	Taxable_2008_Q4	taxable_gain_loss
6E+08	SMALLSOFT INC	-	312111	1704	2,858,521	442,635	(1,407,145)
6E+08	U-BILT FURNITURE LLC	-	442110	1704	1,843,954	99,473	(797,996)
6E+08	SHAGGY CARPETS LTD	-	442210	1704	323,388	30,933	(63,790)
6E+08	FORK IN THE ROAD INC	-	423830	1704	237,249	-	(37,100)
6E+08	JOHN SMITH'S ACME WIDGETS	-	333999	1704	10,000	3,531	(9,256)
6E+08	THE BEE'S KNEES IRISH PUB	-	722110	1704	275,433	260,220	(7,366)
6E+08	DIAMOND OF THE SEA LLC	-	448310	1704	246,956	193,915	-
6E+08	DIANA'S DINER	-	722110	1704	-	54	54
6E+08	VAN'S VANS	-	441110	1704	-	65	65
6E+08	PAPA MATT'S PIZZA	-	722211	1704	3,481	4,297	398
6E+08	LONGRIE'S BIKE CO	-	451110	1704	8,600	9,574	519
6E+08	TIM BURR'S TIMBER CO	-	444190	1704	-	581	581
6E+08	ROCKY MOUNTAIN MEATS	-	445210	1704	-	3,799	3,799
6E+08	GROSSMAN'S SLAUGHTERHOUSE	-	311611	1704	5,160	8,228	4,069
6E+08	JASON'S BLADES	-	332213	1704	-	4,292	4,292
6E+08	SURFDOM INC	-	339920	1704	-	4,927	4,927
6E+08	POINDEXTER'S PROCESSORS AND PARTS	-	443120	1704	4,624	9,934	5,879
6E+08	SUNSHINE MARY'S MUSHROOM CANNERY	-	311421	1704	-	8,572	8,572
6E+08	FLUCTZEUG INTERNATIONAL	-	423860	1704	306	55,055	54,809
6E+08	EGGDROP CORP	-	314999	1704	-	57,539	57,539
6E+08	LUKE HANDY'S COOLING CORP	-	333415	1704	239,204	190,606	71,649

NAICS 333415 is an industrial air-conditioning equipment manufacturing NAICS.

This firm had a little bit of change from one year to the next, but not much. I wonder if they are installing the AC systems themselves and using destination-based sales tax to report it. If they are, any changes for this firm are because they are doing different jobs, not because they switched sourcing.

If we look at the “Taxable_2007_Q4” and “Taxable_2008_Q4” columns we see there was a change in reporting but that it was not a particularly large change. This could be normal variation for a company that moves from job-to-job. Because I am concerned that this company did not change its reporting due to the change to destination-based sales tax, I am going to add it to my list of businesses for the Department of Revenue to review. To do this I’ll make a note in the file, which I will later send to the Department.

The next business I notice in the file is Fork In The Road Inc., which wholesales forklifts and forklift parts. I know they closed their establishment in my jurisdiction between Quarter 4, 2007 and Quarter 4, 2008, so it makes sense that the Department shows $0 for 2008. However, that also means that the "taxable_gain_loss" amount reflects a change other than just the change to destination-based sales tax. I will note that this business closed in the file that I send to the Department.

Finally, I notice that one of the warehouses in my jurisdiction, Ghoti Shipping Co., is not in the file. I saw a very large drop in my local tax distribution data for this business after the change to destination-based sales tax. I suspect they made the change and should be included in the analysis. I will note their account number and name for the Department of Revenue.

Once I have some businesses reviewed, I compile them together and put them in a file to send to the Department. The file looks like this:

TRA_ID	Name		Notes:
6E+08	FORK IN THE ROAD INC		The business closed its establishment in my jurisdiction in May 2008. Can you adjust for that?
6E+08	LUKE HANDY'S COOLING CO	(other columns)	This business may have always been reporting using destination-based sales tax. Should it be excluded?
6E+08	GHOTI SHIPPING CO.		This is a warehouse that looks like it changed sourcing. Why is it excluded? Can it be included?

These are a few examples of the checks you can do on the Mitigation detail file. These questions would be useful things to ask and would refine the Mitigation analysis. These refinements would ensure that your jurisdiction is treated fairly.

What questions do not lead to useful investigations

When making your review of the detail file, it is important to understand the Mitigation analysis and to ask questions that are likely to lead to a useful investigation.

The following questions do not lead to useful investigations and are often based on a misunderstanding of the analysis:

1. The "taxable_gain_loss" column does not equal the difference between the two taxable retail sales columns (which were called Taxable_2007_Q4 and Taxable_2008_Q4 for the second payment). Have I been under- or over-mitigated?
2. Have I been mitigated for business X?
3. If business X was reporting to me prior to the change to destination-based sales tax, why do you show that I had a gain from this business's change?

The first question is related to the way the Department calculates your gain or loss due to the change to destination-based sales tax. The amount is calculated by examining the percentage of a business's total statewide sales which occurred in your jurisdiction. If this percentage is different after the change than it was before, we attribute the difference to the change. This method is *not* equivalent to subtracting the two taxable columns since it involves the total statewide level of sales for the business. You cannot conclude anything from the fact that the calculated gain or loss column is different than the difference between the two taxable columns.

The second question relates to whether a jurisdiction has been mitigated for a given business. The Department does not compensate any jurisdiction for the loss due to a single given business. We compensate a jurisdiction for the net effect of the change to destination-based sales tax across all businesses put together if the net effect is negative. We do this since a jurisdiction may have losses that are offset by gains from other businesses shipping in. As a result, this question does not have a simple answer. The best indication of the effect of a business on your Mitigation analysis is the "taxable_gain_loss" column in the Mitigation detail file.

The final question relates to businesses that were reporting to your jurisdiction prior to the change to destination-based sales tax. The Department does not specifically exclude any businesses that were reporting to your jurisdiction before the change. A business may have, for instance, a storefront in your jurisdiction, and may start reporting deliveries that they have made from a warehouse in a neighboring jurisdiction. We remove specific businesses only if we demonstrate that they did not alter their reporting due to the change to destination-based sales tax.

You can learn more about how the Mitigation analysis is done by reading the Mitigation Walkthrough available on the local government website. It is broken into four parts which can be found here:
http://www.dor.wa.gov/Content/FindTaxesAndRates/RetailSalesTax/DestinationBased/SSTMitigation.aspx

Mitigation Exclusion File

The mitigation exclusion file contains those businesses already excluded from the calculation and why they were excluded. For questions see the "Exclusion File ReadMe" document at:
http://dor.wa.gov/Docs/Pubs/Misc/Streamline/New_Excluded_File_readme_(12-10-2009).doc

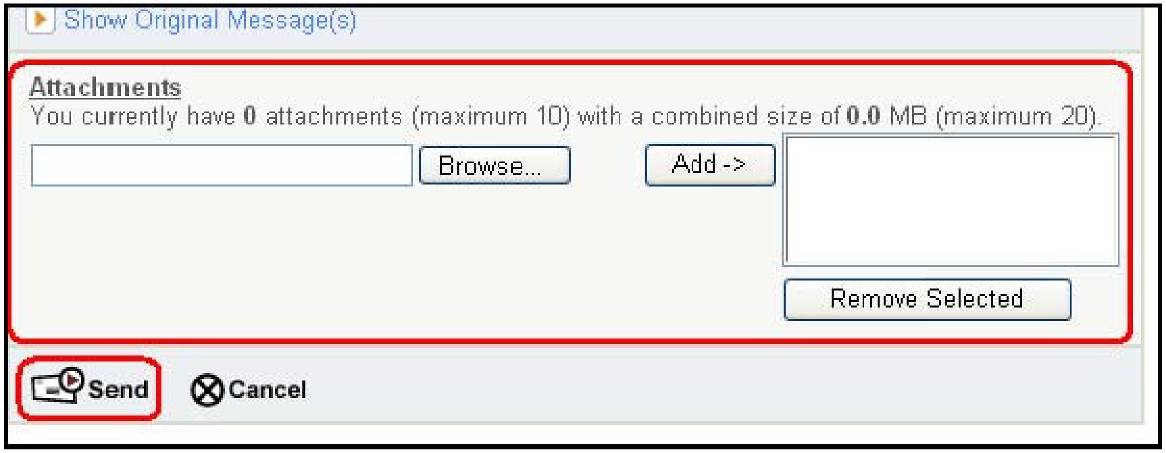
How do you send the info back to the Department of Revenue?

Once you have prepared your comments and questions for the Department, you will need to send them back to us using the Secure Messaging system. This is the system through which you received your data from us. Do NOT send your responses to us through e-mail, as we do not consider that to be a secure form of transmission.

You can send your comments and questions to us by going through the following steps:

1. Log into the secure message system where the Mitigation data is located.
2. Open the message which contains the data.
3. Press the "Reply" button.

4. Attach any documents as part of your response using the attachment controls at the bottom of the page. You may also type in any messages to the text box above, just like you would send a regular e-mail.
5. Press the “Send” button.



If you follow these steps, we will receive your response in a secure way. This helps us protect the privacy of the businesses in your jurisdiction while still allowing us to receive your input on the Mitigation analysis.

If you have any questions or concerns about your Mitigation analysis, please contact Valerie Torres at:

E-mail: ValerieT@dor.wa.gov
Phone: 360-534-1521