Mitigation: Destination-based Sales Tax

Part I: Calculating the Gain or Loss in Taxable Sales for Local Jurisdictions

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Background

Local jurisdictions will be impacted by the change to destination-based sales tax. Some local jurisdictions will gain revenue while others will lose because of the shift of local sales tax revenues between jurisdictions.

Net losses to local governments due to destination-based sales tax will be mitigated by the state. The Department of Revenue, with advice from the Mitigation Advisory Committee, will determine the amount each negatively impacted jurisdiction will receive to make up for the net loss.

The amount of mitigation is based on the loss in taxes to a jurisdiction due to destination-based sales tax. This loss is reduced by the amount of voluntary compliance revenue received by the local jurisdiction.

Gain or Loss of Taxable Sales Calculation

The gain or loss to local jurisdictions for each business is determined by comparing its FY 2008 location codes to its FY 2009 location codes. Generally, when a business changes to destination-based sales tax, the number of location codes on its tax return will increase.

Methodology:

The gain or loss to local jurisdictions for a business is computed using **actual** tax return data for FY 2008 (July 1, 2007 through June 30, 2008) (origin-based tax) and FY 2009 (July 1, 2008 through June 30, 2009) (destination-based tax). The calculation is done in the following steps:

1) Using FY 2008 tax data, determine the percent of its total taxable amount contributed by each location code.

2) Multiply the percentage distribution from Step 1 by its FY 2009 total taxable sales amount. The result of this step is an estimate of what each location code would have received in taxable sales in FY 2009 under origin-based taxation.

3) Subtract the results of Step 2 from FY 2009 taxable amount by location codes under destination-based taxation.

4) Multiply the local tax rate for the jurisdiction by the results of Step 3.

Overview of the calculation:

Gain or Loss of Taxable Sales by Location for Business B

Step 1	FY 2008 Taxable Sales by Location Code	÷	FY 2008 Total Taxable Sales	=	FY 2008 Percent of Taxable Sales by Location Code
Step 2	FY 2009 Total Taxable Sales	X	FY 2008 Percent of Taxable Sales by Location	=	FY 2009 Est. of Origin-Based Taxable Sales by Location
Step 3	FY 2009 Taxable Sales under Destination-Based Sales by Location Code	-	FY 2009 Est. of Origin-Based Taxable Sales by Location	=	Gain or Loss of Taxable Sales by Location Code
Step 4	Tax Rate by Location Code (as of June 30, 2008)	X	Gain or Loss of Taxable Sales by Location Code	=	Gain or Loss of Local Tax Due by Location Code

Scenario:

Business B sells home appliances. The storefront is located in unincorporated King County. Merchandise may be received at the store, or the store may deliver the appliances to the customer's home. Monthly sales for the business are $100,000. The breakdown of the sales is:

- $45,000 over-the-counter sales and deliveries to King County (Location Code 1700)
- $20,000 in deliveries to Bellevue (Location Code 1704)
- $10,000 in deliveries to Redmond (Location Code 1724)
- $25,000 in deliveries to Seattle (Location Code 1726)

Prior to July 1, 2008, all local sales tax revenue goes to King County. Starting **July 1, 2008**, the home appliance store will collect sales tax based on the destination of the shipment or delivery. Local sales tax revenue will go to King County, Bellevue, Redmond, and Seattle.

Step 1:

To determine what percent of FY 2008 total taxable sales of the business is contributed by each location code, the taxable amount of each location code is divided by that total:

FY 2008 Taxable Sales by Location Code	÷	FY 2008 Total Taxable Sales	=	FY 2008 Percent of Taxable Sales by Location Code

FY 2008 Percent of Taxable Sales by Location Code

Location Code	Local Tax Rate	Actual FY 2008 Taxable Sales	FY 2008 Percent of Taxable Sales	Local Tax Due
1700	0.025	100,000	100%	2,500
1704	0.025	-	0%	-
1724	0.025	-	0%	-
1726	0.025	-	0%	-
Totals		100,000	100%	2,500

Step 2:

To estimate what each location code would have had in taxable sales in FY 2009 had there not been a change to destination-based tax, the FY 2009 total sales amount of the business is multiplied by the FY 2008 percentage distribution:

FY 2009 Total Taxable Sales	X	FY 2008 Percent of Taxable Sales by Location	=	FY 2009 Est. of Origin-Based Taxable Sales by Location

FY 2009 Taxable Sales by Location Code as if Origin-Based Sales

Location Code	Local Tax Rate	FY 2009 Taxable Sales under Destination-Based Sales	FY 2008 Percent of Taxable Sales	FY 2009 Est. of Origin-Based Taxable Sales	Local Tax Due
1700	0.025	45,000	100%	100,000	2,500
1704	0.025	20,000	0%	-	-
1724	0.025	10,000	0%	-	-
1726	0.025	25,000	0%	-	-
Totals		100,000	100%	100,000	2,500

Step 3:

The difference between the actual FY 2009 destination-based taxable sales and the estimated FY 2009 origin-based taxable sales is the gain or loss to local jurisdictions:

FY 2009 Taxable Sales under Destination-Based Sales by Location Code	-	FY 2009 Est. of Origin-Based Taxable Sales by Location	=	Gain or Loss of Taxable Sales by Location Code

Gain or Loss of Taxable Sales due to Destination-Based Sales by Location

Location Code	Local Tax Rate	FY 2009 Taxable Sales under Destination-Based Sales	FY 2009 Est. of Origin-Based Taxable Sales	Gain or Loss of Taxable Sales	Gain or Loss of Local Tax Due
1700	0.025	45,000	100,000	(55,000)	(1,375)
1704	0.025	20,000	-	20,000	500
1724	0.025	10,000	-	10,000	250
1726	0.025	25,000	-	25,000	625
Totals		100,000	100,000		

Step 4:

To determine the gain or loss of local tax due for each location, the gain or loss of the taxable sales for each location is multiplied by the tax rates for local taxes eligible for mitigation for each location:

Tax Rate by Location Code (as of June 30, 2008)	X	Gain or Loss of Taxable Sales by Location Code	=	Gain or Loss of Local Tax Due by Location Code

Note: Until the mitigation calculation is finalized, these calculations will be done on a quarterly basis using one quarter of data from FY 2008 and one quarter of data from FY 2009.

Department of Revenue
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