Mitigation: Destination-based Sales Tax
Part II: Voluntary Compliance Revenue Offset

May 21, 2008

Background

Local jurisdictions that experience a net loss in sales tax revenues because of destination-based sales tax are eligible for mitigation. The net loss is determined by reducing the loss in sales tax for the local jurisdiction by the amount of the voluntary compliance revenue.

Loss of Sales Tax Revenue	-	Voluntary Compliance Revenue	=	Net Loss

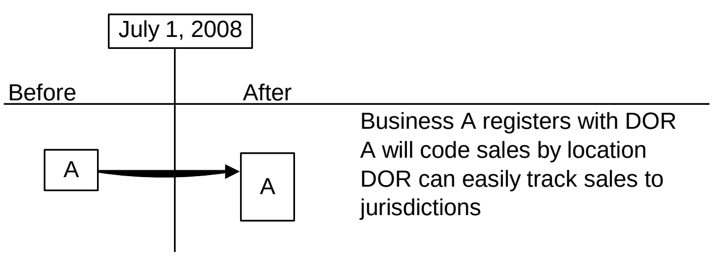
Voluntary compliance revenue

Voluntary compliance revenue is the local sales tax revenue gain to each local taxing jurisdiction reported to the Department of Revenue by sellers in other states registered through the Streamlined Sales and Use Tax Agreement (SSUTA). These are sellers who voluntarily collect sales tax in Washington.

Currently there are more than 1,100 businesses that are SSUTA voluntary sellers. Some of them may be Washington taxpayers.

Voluntary sellers receive unique tax registration number

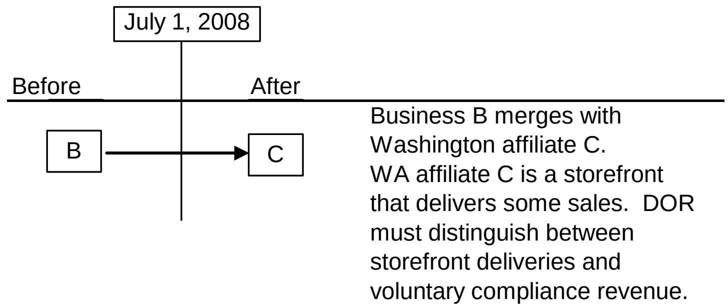
Voluntary sellers receive a tax registration number from the Department of Revenue. This allows voluntary compliance revenue collections to be tracked separately from other retail sales tax revenue collections.



According to estimates by other member states, some voluntary compliance revenue collections are reported under the separate registration numbers. For these sellers, the Department of Revenue will use **actual** voluntary compliance revenue collections.

Voluntary sellers may not use unique tax registration number

Other voluntary compliance revenue collections may be reported by voluntary sellers who choose to merge with their affiliates who have nexus with Washington. These voluntary sellers may report their voluntary revenue collections on their affiliate's account.

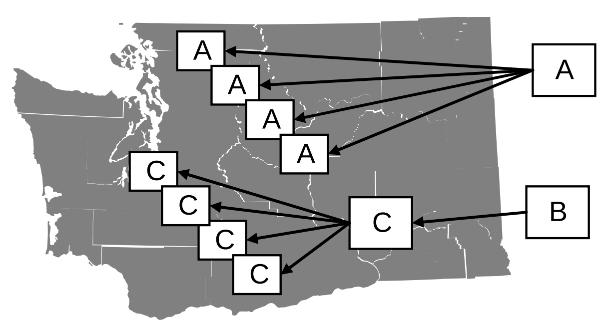


For these sellers, it will be necessary for the Department of Revenue to **estimate** the voluntary compliance revenue collections because all tax collections are reported on the affiliate's account.

Example:

Business A makes deliveries to four local jurisdictions in the State of Washington. They file their tax return under their unique registration number. Business A's voluntary compliance revenue collections are tracked separately from other retail sales tax revenue collections under this unique registration number.

Business B also makes deliveries to four local jurisdictions in the State of Washington. However, Business B merged with Business C. Business B does not file returns under its unique business registration number after the merger with C. The voluntary compliance revenue collections for Business B are reported on the tax return for Business C along with the storefront sales. In this instance the voluntary compliance revenue collections are not easily distinguished from other storefront and delivery activity.



For FY 2009 *(July 1, 2008 through June 30, 2009)*, voluntary compliance revenue offset:

- **Actual** voluntary compliance revenue collections will be used for all businesses that file under a separate registration number, and

- **Estimated** voluntary compliance revenue collections will be used for the voluntary sellers who do not report new revenue collections separately. The voluntary compliance revenue collections for each of these businesses will be calculated by comparing their FY 2008 sales patterns to their FY 2009 sales patterns. This comparison will include:

  - Verifying the name of the seller from SSUTA

  - Determining the affiliate's account number where the voluntary compliance revenue is reported

  - Using Employment Security data to ensure that new location codes are not a result of a new storefront opening.

For fiscal years *after* FY 2009, voluntary compliance revenue offset:

- **Actual** voluntary compliance revenue collections will be used for all businesses that file under a separate registration number, and

- A growth factor may need to be used to **estimate** the voluntary compliance offset based on the FY 2009 voluntary compliance revenue collections for the voluntary sellers that do not report new revenue collections separately. The Mitigation Advisory Committee is currently reviewing this issue.