Streamlined Agreement

Impacts Difficult to Forecast

August 12, 2008

Both the Department of Revenue and local jurisdictions will find it difficult to predict the changes in their tax revenues due to new voluntary compliance revenue and to destination-based sales tax. The first quarterly evaluation of the Streamlined Sales Tax Agreement (SSUTA) impacts will not be available until the end of December 2008, when tax returns for July, August, and September 2008 have been processed and analyzed. As a result, budget forecasting will be more difficult for local governments which rely on local sales taxes.

Using the Department's past estimates from the Sourcing Study

The 2003 Sourcing Study and 2004 Sourcing Study II estimates of the impacts of destination-based sales tax are on the Department's web site. While the Department used the best data available, these estimates are dated and have limitations. For example:

- The figures are based on 2002 survey data.
- In-state businesses (located in Washington at the time) were asked to "guesstimate" their deliveries to customers outside of their jurisdiction.
- Voluntary compliance revenues were estimated based on the collection experience of Kansas and Kentucky, two SSUTA member states that tracked tax reported by voluntary remote sellers directly or through their in-state affiliates. However, Washington's collection experience may differ from Kansas and Kentucky.

Because of these limitations, these estimates should not be relied on for future expectations.

Using the September 2008 local sales tax distribution business-level detail

The first local sales tax revenue data subsequent to implementation will be available at the end of September and are based on July tax returns. Local governments currently receive business-level detail on taxes collected in their jurisdictions. Detail from the September 2008 distribution can be compared with September 2007 to identify changes in retail activity. However, changes in activity may be due to reasons other than the change to destination-based sales tax. Examples include:

- Out-of-state sellers who voluntarily registered under the SSUTA.
- Washington businesses from outside the jurisdiction that made deliveries to destinations inside the jurisdiction.
- Establishment of a new business location
- Businesses that close or relocate to a new location.
- Annexations that cause businesses to report to a different location.

Additional data found in local sales tax distribution

1. North American Industrial Classification System (NAICS) codes available on the distribution detail can help a jurisdiction identify Washington businesses which are in industries that make deliveries. For instance, taxes reported by a furniture store which appears in September's distribution detail and which has an out-of-jurisdiction mailing address may be due to destination-based sourcing.
2. Business name.
3. Tax registration number of the business.
4. The *mailing* address of each business may help identify new activity coming from out-of-state.

You will receive the business-level detail for businesses voluntarily registered through the SSUTA. However, the Department is prohibited by the SSUTA from identifying businesses as such. The following is an example of the distribution detail received by jurisdictions:

(This is not an actual business)

1. 444190/205
2. DOORS INC

3. 602-000-000

DATE OPEN: 01/07/00 DATE CLOSED: 00/00/00
ACCT TYPE: REGULAR ACCOUNT
STATUS: ACTIVE
TYPE OWNER: CORPORATION
ACCT FREQUENCY: MONTHLY
EXTENSION: 0

4. PO BOX 47767
SAN DIEGO CA ZIP CODE: 92175-5067

TRANS CODE	LINE CODE	TYPE OF TAX	PERIOD YEAR	TAXABLE AMOUNT	TAX PAID
ELF	51	OPTIONAL	03-2008	700.00	3.50
ELF	45	REGULAR	03-2008	700.00	3.50

1. NAICS Code **3. Registration Number**
2. Business Name **4. Mailing Address**

Even with this resource, it may not be possible for jurisdictions to determine whether they will experience a net gain or loss as a result of destination-based sourcing.

What can jurisdictions infer from their distribution data?

- Jurisdictions may see some gains due to shifts of sales into their jurisdictions from businesses that have not previously reported in their jurisdiction.

- Jurisdictions may not be able to determine shifts of sales taxes from their jurisdictions. For example, a new store opening in another jurisdiction may have an impact on your local sales tax revenues.

- Jurisdictions may not be able to determine all gains from voluntary compliance revenues because:

  - in-state business may have an out-of-state mailing address.

  - the Department is not permitted to identify the businesses registered under the SSUTA.

  - multi-channel sellers may report through in-state registered affiliates.

- Jurisdictions may not be able to determine whether all businesses have implemented destination-based sales tax.

When calculating mitigation, the Department of Revenue will:

- Calculate percentages of deliveries both inside and outside of each jurisdiction.

- Adjust for Washington businesses that are late to implement destination-based sales tax.

- Adjust for annexations that occur mid-year.

- Adjust for multi-period audit activities.

- Calculate losses for taxes based on county-wide collections such as the criminal justice tax, public health and safety tax, and metro parks tax.

Department of Revenue
Washington State