

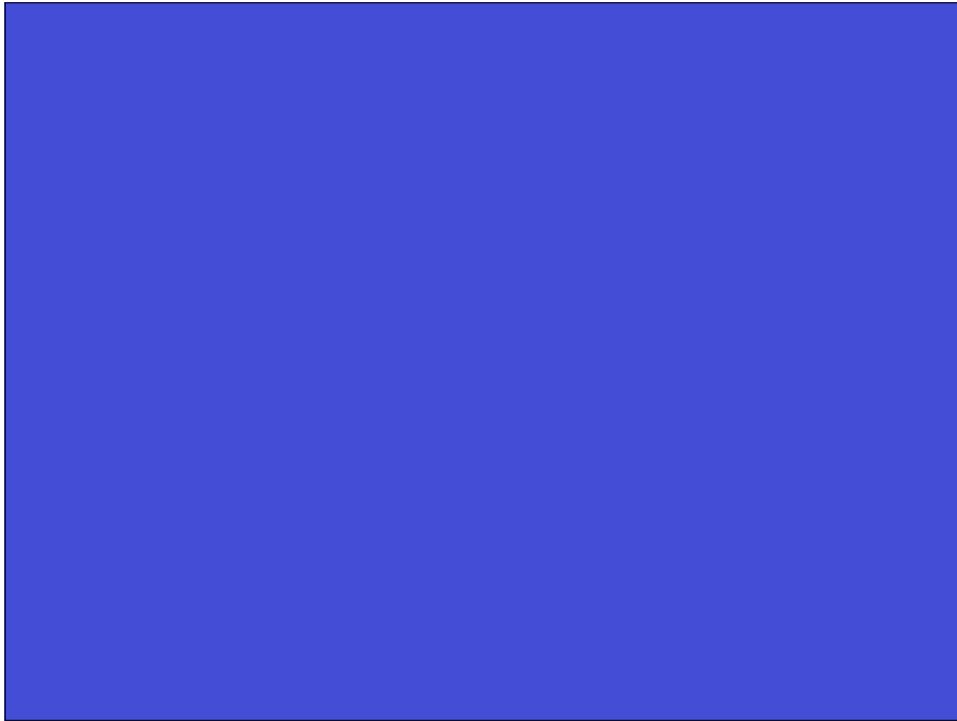
Legal and Policy Issues Posed by the Streamlined Sales and Use Tax Agreement

Federation of Tax Administrators
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Agenda

- Administrative & Technology
- Definitions & Usage
- Sourcing
- Rates & Bases (Effect on Locals)
- Miscellaneous (Bad debts, holidays)
- Bundling
- Certification of Providers & Systems
- Governance



Administrative & Technology Provisions

- Better utilization of simplification & uniformity provisions
- Reduced complexity of tax administration for sellers & governments
- Reduced cost of collection burden
- Improved compliance with tax laws

Administrative & Technology Provisions

- Electronic Filing and Remittances
- Central Electronic Registration
- State Approved Data Bases & Product Matrix

Electronic Filing and Remittances

- Sections 318 & 319
- Uniform, simple, monthly returns
 - Limited number of data elements
 - Electronic filing available for taxpayers
- Payments can be made by electronic funds transfer
- Procedures being developed

Central Electronic Registration

- Section 303
- Single registration accepted by all states signing agreement
- Online registration
- Limited number of data elements
- No signature requirement
- Requirements being developed

State Approved Data Bases & Matrix

- Sections 305, 307 & 328
- Data base matching appropriate rate to every jurisdiction
- Data base showing boundaries for jurisdictions
- Tax application matrix identifying exempt products
- Sellers using data bases and product matrix not responsible for errors in data bases & matrix
- Procedures and standards being

Simplified Exemption Processing

- Sections 316 & 317
- Relaxed good faith
 - Burden of proof shifted to claimant
- Uniform form (limited data elements)
- Certified systems provide for improved compliance
- Procedures and standards being developed

Certification of Services Providers & Automated Systems (Section 501)

- Sellers can select a model for collecting and remitting tax or maintain existing system
- Seller's responsibility for filing and paying and liability for errors in tax application vary with method chosen
- Models make greater use of state provided data bases & product matrix

Tax Collection and Remittance Models

- Proposed Collection Technology Solutions
 - Model One: Certified Service Provider (CSP)
 - Model Two: Retailer using Certified Automated System (CAS)
 - Model Three: Proprietary System as a Certified Automated System (CAS)
- Traditional Collection System

Proposed Collection Technology Solutions

- Utilizes Transaction Tax Technology
 - Software used by merchants to calculate, report and remit transaction tax liabilities
- Converts mailing addresses to “Taxing Jurisdiction Codes”
- Determines the taxing location (“situs;” sourcing rules)
- Determines the types and application of taxes
- Applies special rules (zero rating, exemptions, etc.) or standard rules

Model One: Certified Service Provider

- Party certified by tax authorities for tax application
- Functions
- Certification and approval process

Model Two: Certified Automated System

- System approved by tax authorities for tax application
- Functions
- Certification process

Party Responsible for Functions: Model One

Certified Service Provider

- Integration of software with seller's order processing system
- Applied data & tax calculations
- Tax liability & statistical reporting
- Funds transfers
- System performance

Merchant

- Fraud or malfeasance
- Accounts payable transactions (purchases)

Consumer

- Claimed entity- or use-based exemptions

Party Responsible for Functions: Model Two

Certified Technology Provider

- Applied data & tax calculations

Merchant

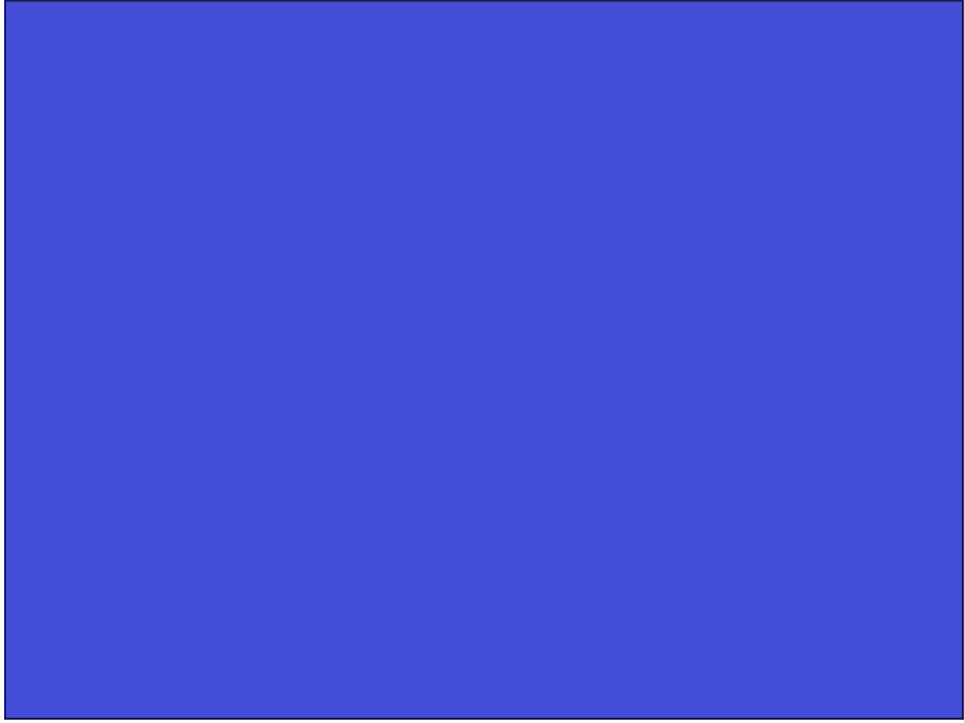
- Integrations
- Tax liability & statistical reporting
- Funds transfers
- Fraud or malfeasance
- System performance

Consumer

- Claimed entity- or use-based exemptions

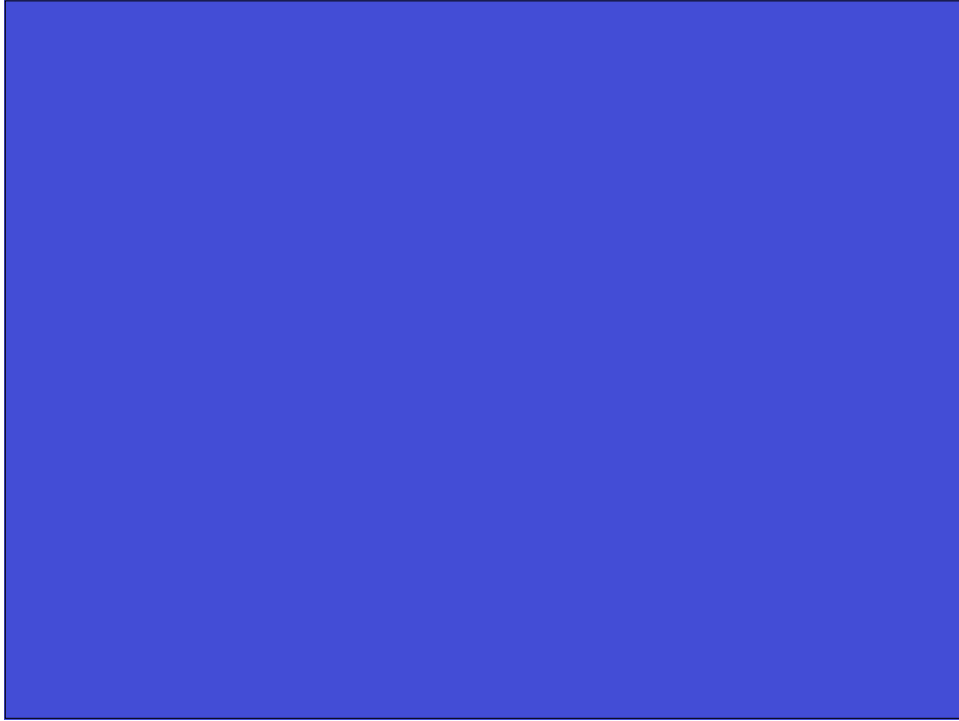
Collection Model Issues

- Certification standards
- Testing
- Process and procedures
- Implementation



Impact on Merchants

- Simpler tax structure (multi-state merchants)
- Lower compliance cost
- Greater accuracy of tax calculations
- Less monitoring of tax law changes
- 3rd parties maintaining transaction tax systems
- Easier audits with less exposure



Pilot Project – Model One

- Purpose
- States involved
- Process
- Status
- Taxware involvement

Status of Effort

- Legislation
- Implementation
- Education

How Do You Modernize Tax Administration Systems?

- Simplification
- Uniformity
- Use of Technology

Simplification

- Rate simplification
- Simplified exemption administration
- State-level administration of local taxes

Uniformity

- Definitions
- Rules for sourcing
- Audit procedures

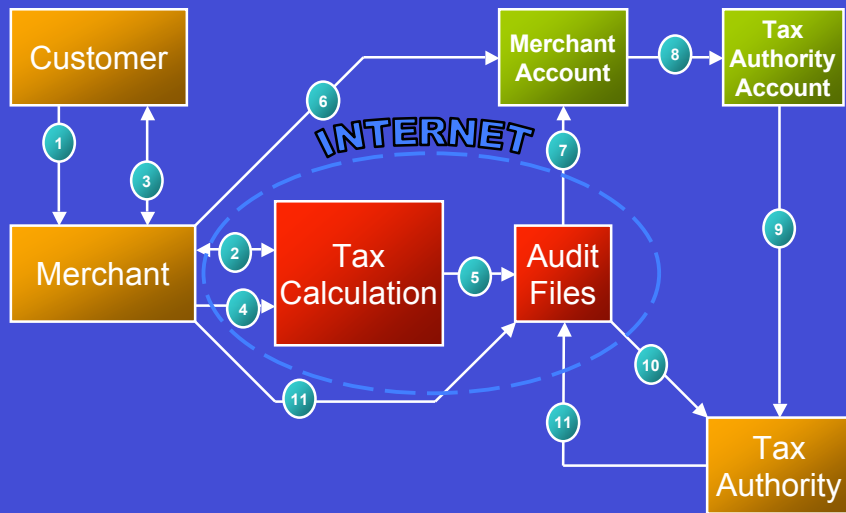


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Provisions

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Proposed Technology Model One: Certified Service Provider



Proposed Technology Model Two: Certified Automated System

