



**Tax Jurisdiction Sourcing**  
How Tax Technology can Proactively Address the Changes

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## Agenda

- **Introductions**
- **US Tax Jurisdiction Sourcing Rules**
- **How Tax Automation Software Calculates Appropriate Tax**
- **Recent Sourcing Changes due to SST**
- **How Tax Automation Software Responds to Changes in Jurisdiction Sourcing**
- **Proposed EU Sourcing of Services Change**
- **Wrap Up/Q&A**

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## US Tax Jurisdiction Sourcing Rules

- **Goods**

- Origin
  - Goods are sourced to the origination of the transaction (Ship From, Order Origin, Order Acceptance)
- Destination
  - Goods are sourced to the local jurisdiction where the goods end up (Ship To)

- **Services**

- Place of Supply
  - Services are sourced to where they are performed
- Suppliers Place of Business
  - Services are sourced to the place of business of the supplier
- Benefits Received
  - Services are sourced to the business location that receives the benefit of the services

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## Origin States

- **Current Origin States**

- Arizona
- California (Modified Origin)
- Illinois
- Missouri
- New Mexico
- Pennsylvania
- Tennessee
- Texas
- Utah
- Virginia

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## Example – Origin Method

### Origin Method of Calculating Tax on Pizza Delivery



Vancouver –  
8.2%



Camas – 8.2%



Clark County (non  
PTBA) – 7.7%



Woodland –  
7.6%

**The Pizza Restaurant Collects Vancouver Tax of 8.2%  
Regardless of the Location of the Customer**

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## Example – Destination Method

### Destination Method of Calculating Tax on Pizza Delivery



Vancouver –  
8.2%



Camas – 8.2%



Clark County (non  
PTBA) – 7.7%



Woodland –  
7.6%

**The Pizza Restaurant Determines and Calculates the Tax  
based on the Customers Location. The Restaurant must  
determine which jurisdiction the address falls in and what  
the rate is for the jurisdiction.**

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## Tax Calculations using Automation

- **Addresses are passed into Tax Automation Software for each transaction**

- Types of addresses passed include:

- Ship To
- Ship From
- Supply Location
- Order Origin
- Order Acceptance

- Address Elements

- Country
- State
- County
- City
- 5-digit ZIP Code
- ZIP +4

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## Tax Calculations using Automation

- **Addresses are Associated with Tax Authority Boundaries**

- Most Tax Authority Boundaries follow state, county, or city boundaries

- Over 300 Tax Authority Boundaries do not follow state, county, or city boundaries

- Transportation Districts
- Stadium Districts
- Police Jurisdictions

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## Tax Calculations using Automation

### ▪ Steps to Calculate Tax

- Address Elements are passed in the transaction
- Each address passed is located and associated with the appropriate tax authorities and tax rates
- Determination on which local jurisdictions can impose tax on the transaction
- Determination on whether the goods/services are taxed
- State and local sales/use tax is returned

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## Recent Sourcing Changes

### ▪ Sourcing Changes for SST Membership

- Kansas
  - Law passed in May 2003 with implementation as of July 1, 2003.
  - Strong opposition especially from small businesses.
  - It was not enforced until 2005.
- Washington
  - July 1, 2008 change to Destination Sourcing.
  - State offers mitigation to those local jurisdictions that experience a net loss in sales tax revenues due to the sourcing change.
  - Money for mitigation is appropriated by the Legislature and is transferred from the Sate General Fund to the mitigation account.

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## Recent Sourcing Changes—Cont'd

- **Sourcing Changes for SST Membership**

- Ohio

- Number of changes in recent years.
- 2006 – Split sourcing based on the amount of delivery sales.
  - Vendors with \$500,000 (\$30 million under prior law) or more in delivery sales – Destination-based Sourcing
  - Vendors less than \$500,000 (\$30 million under prior law) in delivery sales – Option between Destination or Origin
  - Originally required all businesses to change to destination-based sourcing by January 1, 2008.
- April, 2008 – HB429 passed: Allowed businesses to go back to origin-based Sourcing, if the business wishes.
- By January 1, 2020 – All business required to go back to Origin-based sourcing.

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## Recent Sourcing Changes—Cont'd

- **Sourcing Changes for SST Membership**

- Utah

- Scheduled to go live with Destination-sourcing as of July 1, 2004.
- On June 30, 2004, hours before implementation, SB 3001 was signed into law to delay the implementation until July 1, 2005
- In 2005, HB107 further delayed the implementation until July 1, 2006.
- In 2006, SB 233 was signed into law that repealed the provision for Destination-sourcing.
- Utah is currently using Origin sourcing.

- Tennessee

- Originally planned the implementation as of July 1, 2007.
- Some local governments raised concern about shifting revenues.
- Now planned to change to Destination-based sourcing as of July 1, 2009.

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## Keeping Up with Tax Changes

- **Tax Automation Software providers must continually monitor for tax changes**

- Rates
- Product Taxability
- Tax Administration Level
- Tax Holidays
- Jurisdiction Sourcing

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## Proposed EU Sourcing of Services

- **Overview**

- The European Commission is looking to create new place of supply rules for services to mitigate the risk of VAT fraud
- For the supply of Business to Business services, VAT will be due where the *customer* is established instead of where the *supplier* is established
  - Exceptions include cultural, sporting, scientific, educational services and restaurant and catering services – these will all be taxed where the services are physically carried out.
- For the supply of Business to Customer Supplies, VAT will continue to be due where the supplier is established (with exceptions)

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## Proposed EU Sourcing of Services



### ▪ **Challenges**

- This is one of the largest changes in EU VAT in years
- Sourcing rules have changed relatively infrequently in the EU (much less frequently than the US)
- Sourcing rules are different depending on the type of customer
- Exceptions to the rule
- Reporting impact
  - There are additional reporting requirements to facilitate the exchange of information between Member States and to minimize the risk of VAT fraud.

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## Proposed EU Sourcing of Services



### ▪ **Similarities/Differences with US Sourcing Changes**

- Similarities
  - Long lead time for planning/discussions with business
  - The specifics of the tax calculation will probably change multiple times through the discussions
- Differences
  - Sourcing changes are very infrequent in the EU

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## Wrap Up

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## Q&A

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