HB 1960
Bill Analysis

March 4, 1999

Brief Description: Revising laws impacting retailer tax collection and remittance.

Bill Sponsors: Representatives Cairnes, Reardon, Huff, Linville and Carrell.

Brief Summary of Bill

- Requires sales and use tax changes to always take effect on October 1. Additionally, local governments must enact any sales or use tax changes by no later than July 1 of each year.
- Compensation is provided to retailers in any year cash registers are reprogrammed as a result of tax changes.
- The Department of Revenue is to determine if taxpayers may make estimated tax payments.
- If funded, the Department of Revenue is required to conduct a sales tax administration study.

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Background:

The sales tax is imposed on retail sales of most items of tangible personal property and some services. Sales tax is paid by the purchaser and collected by the seller.

Use tax is imposed on the use of an item in this state, when the acquisition of the item has not been subject to sales tax. Use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using

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the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the department of revenue.

Presently, retails sales and use tax rates range between 7 and 8.6 percent, depending on location. The table illustrates current state and local tax rates.

State sales and use tax	6.5%
Local govt. sales & use tax (for general fund purposes)	0.5 - 1.0%
Local govt. sales & use tax (for dedicated fund purposes)	0.0 - 1.1%*
GRAND TOTAL SALES & USE TAX	7.0 - 8.6%

*Local governments have authority to impose up to 1.8 percent in dedicated sales taxes for purposes such as mass transit, high capacity transit (RTA), criminal justice, or juvenile detention, but no local govt. is presently using its full taxing authority. The highest current rate is 1.1% for local dedicated purposes.

The Legislature determines sales and use tax exemptions. Sales and use tax exemption bills contain various effective dates.

Usually, any sales and use tax exemption enacted by the Legislature automatically applies to both state and local sales and use taxes. Local governments cannot enact their own sales and use tax exemptions, because local sales and use tax exemptions must be consistent with state sales and use tax exemptions.

Each local government determines, however, whether to impose a particular sales and use tax. For example, some counties impose a 0.1 percent sales and use tax to generate revenues for juvenile detention facilities and jails. When a local government decides to impose a new sales and use tax or to modify an existing sales and use tax rate, the local government specifies the effective date of the new tax or modified rate.

Retail sales and use taxes are due monthly, unless the Department of Revenue has allowed a taxpayer or class of taxpayers to file quarterly or annually. Actual taxes due, rather than estimated tax payments, must be paid when a tax return is filed.

Last year the Legislature appropriated money for the Department of Revenue to conduct a study identifying and measuring the costs that retailers face in collecting and remitting sales taxes. The department has completed the study and copies of the report are available.

Summary of Bill:

The Legislature intends to lessen the administrative burden on retailers by coordinating all sales and use tax changes. The implementation of a new sales and use tax or modifications to an existing sales and use tax may only take effect on October 1 of any year. This October 1 effective date applies to new taxes or tax changes enacted by either state or local governments.

Additionally, local governments must enact ordinances implementing or modifying sales and use taxes by no later than July 1 of each year. The local governments must also provide notice to the Department of Revenue (department) within fifteen days of enacting their ordinances. In turn, the department must notify retailers of any state or local sales and use tax changes sixty days prior to the October 1 effective date.

The department must determine whether taxpayers should be allowed to make estimated tax payments. The department must consult other states to learn about their experiences with estimated tax payments. Additionally, the department is to seek input from taxpayers. By December 1, 1999, the department must inform House and Senate fiscal committees as to whether the department intends to proceed with a rule making to allow estimated tax payments to be made.

In any year when a retailer is required to reprogram its cash registers as a result of sales and use tax changes or new taxes, the retailer is entitled to compensation. Specifically, a retailer may deduct 0.3 percent of the sales taxes collected by the retailer on the first $400,000 in retail sales that year. Additionally, a retailer may deduct 0.7 percent of the sales taxes collected by the retailer that year on retail sales greater than $400,000 but less than or equal to $3,000,000

The table provides examples of what compensation amounts would be for individual retailers:

If the retailer's sales that year are:	Compensation would be:
$200,000	$48
$400,000	$96
$1,500,000	$712

$3,000,000	$1,552
$5,000,000	$1,552

The Department of Revenue is required to conduct a sales tax administration study, if the Legislature appropriates money for the study. If funded, the department must complete and deliver its report to the House and Senate fiscal committees by September 1, 1999.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and makes section 10 take effect immediately. The other sections of the bill take effect ninety days after adjournment of session in which the bill is passed.