

HB 2493

Bill Analysis

January 27, 2000

Brief Description: Simplifying implementation of sales and use tax rate changes.

Bill Sponsors: Representatives Ruderman, Cox, Dunshee, Thomas and Kenney; by request of Department of Revenue.

Brief Summary of Bill

- Sales and use tax changes (including changes due to annexations) must always take effect at the beginning of a tax quarter; and
- ⌋ A taxpayer who properly uses technology provided by the department of revenue to compute taxes due shall be held harmless for sales and use tax rate computation errors.

Staff: Linda Brooks, 786-7153.

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 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 (DOR).

Total retail sales and use tax rate ranges between 7.0 and 8.6 percent, depending on location.

The total rate contains both state and local taxes. The state sales and use tax rate is 6.5 percent. In addition to the state rate, local governments impose up to a 1.0 percent sales and use tax for general fund purposes. Additionally, local governments may impose up to 1.8 percent in sales and use taxes for dedicated purposes such as transit, high capacity transit (the RTA), criminal justice, or juvenile detention. However, no local government is using its full taxing authority for these dedicated purposes. The highest current local rate for dedicated purposes is 1.1 percent.

When the Legislature or a local government enacts a new sales and use tax or modifies an existing tax rate, the effective date is whatever date the Legislature or local government specifies. Similarly, if a local government annexes an area, the local government specifies whatever date it wishes as the effective date for the annexation.

Retailers are responsible for collecting and remitting sales taxes to the DOR. To assist retailers and other businesses in preparing their tax returns, the DOR has been developing a geographic information system (GIS). The DOR indicates that sales and use tax rate data included in the GIS system now covers all areas of the state. A taxpayer may access this GIS database on the DOR's website. For example, if a telecommunications company wants to know what sales tax rates apply to a customer located at a particular address, the company may enter that address into the GIS database and find out what the applicable state and local sales tax rates are for that address.

Summary of Bill:

The Legislature intends to lessen the administrative burden on retail businesses by coordinating all sales and use tax changes. State and local governments may only enact a new tax or rate change that takes effect on the first day of a tax quarter. Similarly, sales and use tax rate changes resulting from an annexation of an area by a local government may only take effect on the first day of a tax quarter.

A local government must notify the DOR of a new sales tax or rate change at least 75 days in advance of the effective date for the new tax or rate change. A local government must also give the DOR at least 75 days advance notice of an annexation, if the annexation would change a sales and use tax rate in the annexed area.

Retailers and other businesses that properly use technology provided by the DOR to calculate taxes are not liable for tax rate calculation errors. The DOR must waive any unpaid tax amounts, interest, and penalties that result from a tax rate calculation error.

Appropriation: None.

Fiscal Note: Available.

Effective Date: If enacted, this act takes effect on July 1, 2000.