

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** HB 1624 (Third Edition)

**SHORT TITLE:** Streamlined Sales Tax System

**FISCAL IMPACT**

**Yes (x)      No ( )      No Estimate Available (x)**

**GENERAL FUND REVENUE (STATE AND LOCAL):** See “Assumptions and Methodology”

**PRINCIPAL DEPARTMENT AFFECTED:** The sales and use tax is collected by the Department of Revenue.

**EFFECTIVE DATE:** The sales tax exemption certificate provision becomes effective January 1, 2001. Use tax reporting requirement repeal becomes effective for tax years beginning on or after January 1, 2003. The remainder of the bill becomes effective when it becomes law.

**ISSUE BACKGROUND:** The objective of the proposal is to assist in the implementation of a system to simplify and streamline the sales and use tax collection system for remote and in-state retailers. This would be accomplished by shifting sales tax administration to a technology-oriented business model where the primary responsibility for calculating, collecting, reporting, and remitting the use tax lies with a “Certified Sales Tax Collector” instead of the remote retailer. The State would reimburse the Collector for the costs of integrating the system with a vendor’s system and for operating the system. The costs of the system would be funded from the receipts collected and could be recovered through a flat transaction fee, a percentage rate, or some combination.

To participate in the program the Collector must use a certified software program to determine the state and local tax due on a transaction. The participating retailer will not be subject to state audit on the transactions it processes using the Collector’s software. Finally, a contract with a Collector is not a factor in establishing nexus for state tax purposes.

**EXPLANATION OF BILL:**

- (1) Eliminates the “good faith” requirement when accepting an exemption certificate from a purchaser on a sale made over the Internet or by other remote means.
- (2) Codifies a long-standing practice of the Department of Revenue to issue “direct pay certificates” to a person who is unsure how the property purchased should be taxed at the time of the acquisition.

- (3) Provides that the penalty for misusing an exemption certificate applies not only to a resale certificate but also to a direct pay certificate and a farmer's certificate.
- (4) Establishes a uniform sourcing rule that calculates tax due based on a "ship-to address".
- (5) Provides that the customer of a retailer who takes part in the new system must pay the sales and use tax on the item purchased.
- (6) Provides that local sales tax rate changes may be made no more than twice a year and at least 90 days notice must be given to the Department before a rate change can be made.
- (7) Prohibits the use of state courts in North Carolina for debts owed to a retailer who is required to collect use tax for the State on a mail-order transaction but refuses to do so. The provision would apply only to retailers who report gross sales of at least \$5 million on the most recent federal income tax return.
- (8) Allows the Division of Motor Vehicles to disclose a social security number to the Department of Revenue for the purpose of verifying a taxpayer's identification.
- (9) Provides funding for contracts for the collection of delinquent tax debts owed by nonresidents and foreign entities. Funds are provided by allowing the Secretary of Revenue to apply the amounts collected under the contract to the cost of the contract.
- (10) Allows the Secretary of Revenue to retain as much as needed to develop a request for proposal for a more automated tax collection system. The earmarking shall come from the amounts derived during the 2000-01 fiscal year from the collection of delinquent debts owed by nonresidents and foreign entities.
- (11) Requires certified sales tax collector to be bonded or have an irrevocable letter of credit in an amount set by the Secretary of Revenue.
- (12) Provides that Department of Revenue may audit a retailer participating in streamlined sales tax system in the case of fraud.
- (13) Repeals required use tax reporting as part of income tax filing process and replaces with prior system of annual use tax returns.

**ASSUMPTIONS AND METHODOLOGY:** The provisions in the proposal represent the first implementation steps to achieving the objective of a simplified system of collecting sales and use taxes from remote and in-state retailers. Over the long-term a number of other actions will need to take place in North Carolina and other states to simplify the sales and use tax. Some examples include the development of common product definitions, local tax rate uniformity (numerous rates in other states), product return policies under the new system, joint audit procedures, and state/local tax exemption consistency. Thus, the current proposal is the start of a lengthy process.

A recent study by the Center for Business and Economic Research at the University of Tennessee estimates that by calendar year 2003 the incremental state and local revenue loss on e-commerce transactions would be \$238 million. If the current revenue losses on catalog sales and e-commerce purchases are included, the amount could be over \$400 million by 2003.

**FISCAL RESEARCH DIVISION 733-4910**

**PREPARED BY:** David Crotts

**APPROVED BY:** James D. Johnson

**DATE:** June 29, 2000



**Signed Copy Located in the NCGA Principal Clerk's Offices**