

The Seven
Deadly Sins of
Origin Sourcing



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Benefits Foreign (Non U.S.) Sellers

- Sales made to U.S. customers by foreign sellers (imports) are exempt from sales tax
- Exports by U.S. businesses to foreign customers will be taxed twice: once in the origin state and a second time by the destination country (which the seller will have to collect in almost all cases)
- Taxing exports and exempting imports stands rational tax policy on its head

2

Unconstitutional

- Violate the Equal Protection Clause because customers in the same state will be taxed at different rates based on the seller's physical presence
- Violates the Due Process Clause because customers will be subject to tax in jurisdictions with which they have no contact

3

Radical Rewrite of Sales Tax Laws

- All sales tax states use destination sourcing for interstate sales; this proposal would impose a new origin sourcing on top of the existing regime for some sellers
- The burden of all general state sales taxes is on the consumer; origin sourcing would turn that on its head by imposing the tax on sellers
- States will be required to redistribute their sales tax revenue

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Dumbfounded Customers

- If the proposal works as intended—which we argue it cannot because of Constitutional infirmities—consumers will be subject to the tax rate and rules in states which they may never have visited
- Rules specifying the “origin” of a transaction will be inscrutable to consumers; consumers won’t have any easy way of knowing the origin of a transaction
- A single online transaction could have multiple “origin”, resulting in different rates applied to every item in a consumers shopping cart.

5

Encourages Sellers to Manipulate their Origin Jurisdiction

- Whatever the legal definition of the origin jurisdiction is, sellers will manipulate it to their advantage
- The greater the effort to avoid manipulation, the greater the confusion to both sellers and consumers, and the greater the cost of compliance and administration

6

New Tax

- If the proposal works as intended, customers in states without a sales tax will now have to pay sales tax on purchases from states with a sales tax
- If the proposal works as intended, customers in states with relatively lower sales tax rates will pay taxes at a higher rate on some purchases
- If the proposal works as intended, non sales tax states will be coerced by the lure of new revenue into imposing a “default” sales tax rate on sellers in their own state.

7

State Sovereignty is Trampled Upon

- Origin sourcing penalizes states for choosing to raise revenue through sales taxes, as opposed to income or other taxes
- If the proposal works as intended, it prevents states from collecting use tax; in other words, it prohibits states from imposing tax on their own citizens based on activity that solely occurs within the state

What does **origin sourcing** spell?



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