



Certifying Data Bases for Improved Tax Compliance

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Panel:

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Agenda

The panel will discuss challenges for taxpayers in getting detailed information and data about taxing jurisdictions, rates, boundaries and tax base for accurate tax compliance. They will focus on the benefits and challenges for states and taxpayers of certifying third party databases as a potential solution.

What is the Issue?

- **Sellers need accurate and timely data to comply with State and Local sales taxes and similar transaction taxes.**
 - Taxability matrixes
 - Tax rates
 - Jurisdiction address and boundary data
- **State and Local governments are not consistent in providing data.**
 - Streamlined states are required to provide databases for all categories above with respect to the sales tax.
 - A few non-streamlined states provide databases for sales taxes.
- **Some vendors need databases to have more detail than what is necessary to comply with the sales taxes.**

What is the Request?

- Allow vendors to purchase components of certified service provider (CSP) databases and processes and get same protections for that component as vendors who contract for the entire CSP process.
 - Taxing jurisdictions: rates and boundaries
 - Taxability matrixes: what is taxable and exempt
- Have States certify third party address database solutions and provide vendors with the sales tax protections of reasonable business practice and hold harmless for using certified information.

Streamlined Rate & Jurisdiction Database Requirements

- **Applies solely for sales and use tax purposes**
- **Rate and Jurisdiction Databases**
 - Uniform format approved by Governing Board
- **Granularity depends on state**
 - Zip
 - Zip +4
 - Street Address
- **Provided at no cost**

Streamlined Database Requirements

- **Certify Systems of Certified Service Providers**
 - Rate and jurisdiction component of system
 - Taxability determinations
- Test deck process
 - Each state generates own test deck
 - Each state determines accuracy level

Certified Service Provider Databases

- Streamlined Sales Tax States currently certify the integrated databases of CSPs. A vendor who utilizes a CSP is held harmless for back liability and is following a reasonable business practice.
- What vendors would like – to purchase components of the system to utilize in their own tax compliance systems.
- Connecticut (a non-Streamlined Sales Tax State) provides an option for certain sales tax delinquent taxpayers to utilize a CSP rather than face other penalty provisions.

Streamlined Database Requirements

- **State Concerns Related to Certifying Third Party Address-Based Databases**
 - Resources to certify multiple databases
 - Multiple “points of truth” may lead to confusion
 - Address granularity not needed for sales tax purposes in every state
 - Affect on other taxing authorities within the state (i.e., telecom taxes)

Streamlined Database Requirements

- **Benefits of Streamlined Certification**

- States

- Efficiency - Review one system used by many different sellers
- Increased confidence that proper tax being calculated
- Improved voluntary compliance

- CSPs and Business Community

- Liability relief
- Reasonable business practice

Third Party Database Certification Experience

- A number of states have certified third party data bases. They include:
 - Kansas also provides hold harmless
 - North Carolina
 - Oklahoma also provides hold harmless
 - Washington