April 29, 2014

The Honorable Bob Goodlatte  
Chairman, Judiciary Committee  
U.S. House of Representatives  
Washington, D.C. 20515

Re: Hybrid Origin Sourcing

Dear Chairman Goodlatte,

On behalf of the National Conference of State Legislatures (NCSL), I am writing to express our appreciation for your efforts to draft legislation that will level the playing field for all retailers without imposing unnecessary burdens on sellers. We agree with your assessment when you released your set of principles that the collection of sales taxes by remote sellers is not a new tax but a compliance problem. However, NCSL opposes the concept of “origin sourcing” or “hybrid origin sourcing,” two sourcing regimes that would require sales taxes to be collected at the location of the seller and not the consumer. For millions of Americans, such proposals run counter to your assessment and would indeed be a new tax or a higher tax on purchases they buy from out of state sellers.

As a legislator from Oregon, which does not have a sales tax, my constituents are not required to pay sales tax on purchases they make in stores or online. However, should Congress pass legislation that employs origin sourcing, this would no longer be the case. Moreover, origin sourcing will not only impose new taxes on residents of non-sales tax states, but will increase the tax burdens for any consumer that makes purchases from sellers in states that have higher sales tax rates than the state of the buyer. And if this were to take place, the state of the buyer would likely be obligated to remit the additional tax collected, the amount above current state law, to the consumer. If this occurred, states and consumers would face an administrative nightmare and costly burden on state governments. State governments in non sales tax states would be required to expend state revenue to return revenue to our constituents, a cost that we presently do not have.

Additionally, should consumers purchase products from retailers in states that have lower sales tax rates than their state of residence or no sales tax, the consumers would still be legally required, under their state’s use tax law, to remit the remaining portion of the tax. This would be an additional burden to consumers and would make the problem more complex rather than meeting your stated principle of “simplicity” for businesses and consumers. A hybrid origin sourcing system would still require almost all citizens of sales tax states to file and pay use taxes.

NCSL supports legislation that would allow states to collect taxes that are owed without imposing new taxes on any consumers, and eliminating the burden of paying use taxes for sales made out of state. Under the 10th Amendment to the Constitution, States have the sovereignty and autonomy to choose on what and how to impose taxes in order to fund government services. My state, along with Alaska, Delaware, Montana and New Hampshire, have chosen to not impose sales taxes and have determined to generate revenue through other avenues. I know in Oregon efforts to impose a state sales tax have always been
defeated in the legislature or by referendum. Unfortunately, if origin sourcing was mandated by the federal government it would undermine our sovereignty and will force our constituents to pay taxes which they previously did not have to pay.

The complexity in administering origin sourcing is why the Streamlined Sales and Use Tax Agreement required destination sourcing for out of state sales and why no country in the world has sourced their consumption taxes to the place of the seller. Unfortunately, my colleagues and I believe that origin sourcing cannot solve the remote sales tax collection problem.

It appears that some conservative think tanks and technology associations primarily supported by the largest online opponent of collecting sales taxes on out of state purchases are advocating a hybrid sourcing system, as a Republican state legislator I find this untenable as such a proposal would be an infringement on the rights of states and impose new taxes on Americans, two things good conservatives abhor. NCSL supports legislation that would allow states to collect remote sales taxes that they are owed and at the rate of the location where the buyer resides, truly taxation by representation. Unfortunately, origin sourcing does not level the playing field for retailers and actually has the federal government picking winners and losers among America’s sellers.

NCSL has worked with your staff and the staff of the other members of the Judiciary Committee. We have offered creative solutions to meet the principles you outlined in September. Our proposals on audits and the implementation of certified software would eliminate most if not all concerns raised by small online sellers. On behalf of my colleagues from sales tax states, I respectfully request that you move forward with the states’ proposals and pass legislation in this Congress to end the tax compliance problems on out of state sales.

NCSL appreciates your efforts to craft legislation that would allow for the collection of sales taxes on out of state sales and we look forward to continue working with you and your staff to have a successful conclusion of this effort in the 113th Congress. For further information on the states’ proposals, please contact Neal Osten (202-624-8660 / neal.osten@ncsl.org) or Max Behlke (202-624-3586 / max.behlke@ncsl.org) in NCSL’s Washington, D.C. office.

Sincerely,

Senator Bruce Starr, Oregon
President, National Conference of State Legislatures