

IOWA STREAMLINED SALES TAX ADVISORY COUNCIL

2013 Report to the

IOWA GENERAL ASSEMBLY

February 7, 2014

Council Created; Council Charge

In 2003, House File 683, Section 204 created the Iowa Streamlined Sales Tax Advisory Council. (Please see Appendix A for a list of members as of 12/31/13). The Streamlined Sales Tax Advisory Council was codified in statute at Iowa Code §423.9A in 2006. The Council reviews, studies, and submits recommendations regarding the Streamlined Sales and Use Tax Agreement (SSUTA).

Meetings

The Council met one time this year, on November 26, 2013. The meeting was held at the Iowa Department of Revenue in the Hoover State Office Building in Des Moines. Members were also able to participate remotely by telephone. Various issues were discussed at the meeting. A copy of the 2013 meeting agenda is attached to this report as Appendix B and minutes of the meeting are attached as Appendix C. This information may also be viewed at: http://www.iowa.gov/tax/taxlaw/SLSTmeeting_agenda_minutes.html.

Significant Developments

In 2013 the Streamlined Governing Board continued to work toward passage of federal legislation dealing with remote sales. This year the U. S. Senate passed Senate Bill 743 on May 6, 2013. This bill would give collection authority to Streamlined member states and non-Streamlined states who adopt some simplification requirements. The bill then went to the House where it awaits action by the House Judiciary Committee. Chairman Robert Goodlatte has stated he would not address the bill without major modifications. In September Chairman Goodlatte released a list of seven principles to guide further discussion of the bill before it could be addressed by the House. The House Judiciary Committee is working on this based on Chairman Goodlatte's principles. The belief of those involved is not "if" but when the bill will pass Congress. With the end of year break the next best time for any movement would probably be around March or April. All state legislators are reminded to take every chance to encourage our representatives to vote in favor of the bill.

With passage of Senate bill 743 the Streamlined Governing Board established a Federal Implementation Workgroup to address issues such as listing of state contacts for both government and business, common questions and answers that can be distributed to all contacts, and consideration of revisions to the Streamlined registration system in order to allow non-Streamlined states to access the system.

The Governing Board continues to address issues of uniform definitions. This year the Governing Board voted that beverages that do not include natural or artificial sweeteners, including juices, do not fit the definition of soft drinks and are considered naturally flavored water. The Governing Board also voted to approve the interpretive opinion that fondue chocolate meets the definition of candy.

In other actions the Governing Board, on October 29th, approved Ohio's petition to become the 23rd full member state. At the meeting the Governing board adopted a "best practice" amendment to the agreement along with a best practice for defined vouchers. The "best practice" amendment makes it clear that a state cannot be sanctioned for not conforming to an approved best practice. States are also required to complete the best practice matrix by the first day of the calendar month that is at least 30 days after the Governing Board approves a best practice.

The Department submitted its annual taxability matrix and certification of compliance to the Governing Board. The Governing Board then conducted its yearly recertification exercise to ensure member states are in conformance to the Agreement. Iowa was found by the Governing Board to be in compliance. This finding was based in part on the Department's commitment to address with the 2014 Legislature the issue of amending the definition of "dietary supplement". The Department's 2014 Streamlined Sales tax bill will amend the definition of "dietary supplement", found in Iowa Code § 423.3, to conform the language of the definition to the definition of "dietary supplement" in the Streamlined Sales and Use Tax Agreement.

Updated Information

Iowa Code § 423.9 (3) authorizes four individuals to serve as Iowa's representatives on the Governing Board. One is to be a Representative of the House and Representative Guy Vander Linden serves in this capacity. One representative is to be a Senator and Senator William Dotzler serves in this capacity. Two of Iowa's representatives are from the Executive Branch. One is Director of Revenue, Courtney Kay-Decker and the other is Administrator of Tax Policy and Communications Services, Victoria Daniels.

As of December 31, 2013 there were 2,050 registrants in the streamlined project. This represents an increase of 200 registrants during 2013. Currently, 344 are model 1 sellers and use certified service providers (CSP) and 1,706 are model 4 sellers and calculate and submit their own taxes.

Members of the Council and the Iowa Department of Revenue participated in the Spring Governing Board meeting in Minneapolis, Minnesota along with the annual Streamlined Sales Tax Governing Board meeting and activities in Madison, Wisconsin. Council members Senator William Dotzler, Dale Busacker, Warren Townsend, and Victoria Daniels attended. In other actions Victoria Daniels was elected to serve on the Streamlined Executive Committee as Secretary-Treasurer.

Pending Issues

The Council would like to draw the General Assembly's attention to the following issues as the streamlined process moves forward this year:

Sourcing of Digital Goods. Workgroups involving the State and Local Advisory Council and Business Advisory Council to the Governing Board continue to meet and expect to draft general rules for the sourcing and taxing of digital products and services. At this time Iowa does not have a specific imposition section for digital goods.

Credit for Taxes Paid to Other States. The State and Local Advisory Council and Business Advisory Council continue to address the issue of credit allowed for sales or use taxes paid to another state. The workgroup is considering a "best practice" solution where a state that has not adopted an agreed upon best practice will explain how they treat a specific issue in a matrix.

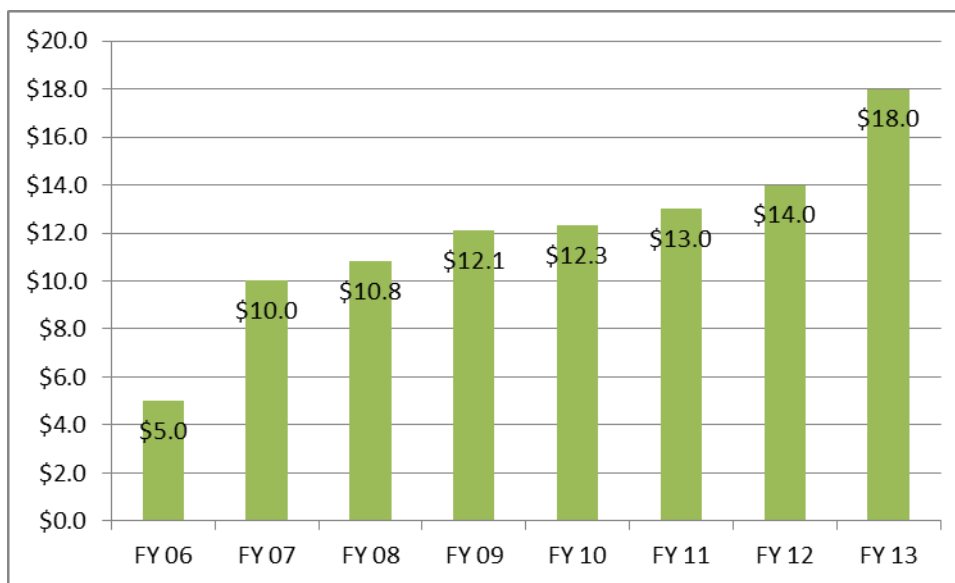
Remote (Cloud) Access to Prewritten Computer Software. The project adopted amendments and rules related to access to computer software however it did not deal with "remote" access. State and Local Advisory Council and Business Advisory Council to the Governing Board workgroups are continuing to consider options which would allow Streamlined states to correctly source and tax remote access to prewritten computer software.

Remote Sales Revenue Since Inception

The Streamlined Sales Tax Governing Board was formed in October, 2005 with remote seller registration and volunteer collections following shortly after. Iowa's remote sales collections since inception are reflected in the chart below. You will notice there was a significant increase this year of about four million dollars compared to last year. This increase was made up mostly, about three and one half million dollars, from one computer manufacturer then three hundred twenty thousand dollars from "big box" type stores and one hundred eighty thousand dollars coming from new registrations.

FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	Total
\$5.0	\$10.0	\$10.8	\$12.1	\$12.3	\$13.0	\$14.0	\$18.0	\$95.2

Dollars in Millions



Statutory Responsibilities Discharged

With submission of this report, the Council fulfills its reporting obligation as charged in Code Section 423.9A. The Council will continue to meet and communicate with the Governor and General Assembly. At the conclusion of 2014, it will file its eleventh annual report.

APPENDIX A

IOWA STREAMLINED SALES TAX ADVISORY COUNCIL

Members on December 31, 2013

Courtney Kay-Decker, Chair
Iowa Department of Revenue
Des Moines, IA

Victoria Daniels
Iowa Department of Revenue
Des Moines, IA

Senator William Dotzler
State Senate
Des Moines, IA

Michelle Hurd
Iowa Grocery Industry Association
Des Moines, IA

Jim Henter
Iowa Retail Federation
Urbandale, IA

Dick Koberg
Dica Marketing
Panora, IA

Ann Stocker
Cargill
Eddyville, IA

Chris Theisen
Theisen's Home-Farm-Auto Stores
Dubuque, IA

Warren D. Townsend
Wal-Mart Stores, Inc.
Bentonville, AR

Dave Krutzfeldt
Interpower Corporation
Oskaloosa, IA

Dustin Blythe
Iowa Taxpayers Association
Des Moines, IA

Marc Michaelson
Casey's General Stores, Inc.
Ankeny, IA

Monti Miller
The Learning Post
Des Moines, IA

Representative Guy Vander Linden
House of Representatives
Des Moines, IA

Stephen W. Roberts
Davis, Brown, Koehn, Shors & Roberts PC
Des Moines, IA

Michael C. Rubino
Deere & Company
Moline, IL

Dale Busacker
Grant Thornton
Minneapolis, MN

Kristin Kunert
NFIB/Iowa
Des Moines, IA

APPENDIX B

Agenda

I. Welcome & Introductions

New Members

II. National Meeting in Madison, WI (October 28 - 30)

- Deal of the Day Vouchers – Best Practices
- Naturally Flavored Water
- Chocolate Fondue
- Registration RFP changes
- Non-Member States using registration system
- Non-Member States using CSP and participating in certification process
- Dues Increase

III. Certificate of Compliance and Taxability Matrix/Annual Recertification

IV. Update on Registration & Revenue Tracking

V. Update on Legislation and Rules

2014 Streamlined Sales Tax Bill

- Amend Dietary Supplement Language Iowa Code § 423.57(c)

VI. Federal Legislation

- Marketplace Fairness Act of 2013 Bill Status
- Principles released by House Judiciary Committee
- Preparations:
 - Streamlined Level
 - Department Level

VII. Next Meeting?

VIII. Adjourn

APPENDIX C

Iowa Streamlined Sales Tax Advisory Council Meeting Minutes
Hoover State Office Building
November 26, 2013

Members Present: Victoria Daniels, Dustin Blythe, Stephen Roberts, Jim Henter, Representative Guy Vander Linden, Ann Stocker, Senator Bill Dotzler, and Marc Michaelson.

Members via Telephone: Dale Busacker, Dave Krutzfeldt, and Warren Townsend.

Others present: Larry Paxton, JJ Severson, and Matt Bishop, IDR staff

I. Welcome & Opening Comments – Victoria Daniels.

II. Issues voted on at the annual meeting in Madison, WI.

- a. Best Practice - Deal of the Day Vouchers (Groupon).
 - i. Best Practice will now be identified in an Appendix to the Agreement. Streamlined States will also be required to either agree with or not agree with a best practice by checking a box on a best practice matrix. If a state does not follow a best practice they will document on the matrix their current practice along with a reference to the law or rule they follow.
- b. Naturally Flavored Water
 - i. Beverages that do not include natural or artificial sweeteners, including juices, qualify as bottled water. Essence spices and natural flavoring is ok.
- c. Chocolate Fondue
 - i. Chocolate fondue pouches meet the definition of candy. The chocolate wafer inside the fondue pouch is sold in the form of a “bar, drop, or piece” which meets the definition of candy.
- d. Registration RFP changes
 - i. The Streamlined Governing Board (SSTGB) currently has an RFP posted to update the Streamlined (SST) registration system in order to handle registrations from non-SST states and allow non-SST states access to our system.
- e. Non-Member States using registration system
 - i. It is still unclear how SSTGB will deal with allowing non-member states to use our system. We don’t expect the non-SST states to cover all costs but do expect there will be some costs involved with the use of our system.
- f. Non-Member States using Certified Service Providers (CSP) and participating in certification process
 - i. Streamlined has a proven track record, regarding the use of CSP. There is a certification process where member states submit test decks to the CSP to verify their software is not only calculating the tax correctly but also sourcing the sale to the proper jurisdictions. This process is documented and has been accepted by SST states and CSP. It should not be much of an issue to add other states to the process.
- g. Dues Increase
 - i. At this time the Governing Board has voted to continue with the contracts to retain our Federal Lobbyists in order to not lose momentum, at the Federal level, for passage of the Marketplace Fairness Act. With that said, the lobbyists annual contract is a drain on normal operating expenses of the Governing Board. In order to maintain an ending balance of about 50% of annual operations a 25% increase in annual dues would be required. After much discussion among the Governing Board states, the vote to increase the 2015 dues carried with 12y. 10n and 2absent. Our dues would increase from \$21080 to \$26350.

III. Certificate of Compliance and Taxability Matrix/Annual Recertification.

- a. Iowa had no issues this year and was found to be not out of compliance with the Streamlined Sales Tax Governing Board Agreement.

IV. Update on Registration and Revenue Tracking.

- a. Iowa for FY 13 received just over \$18 million in remote sales tax receipts.
- b. There are currently 2,050 sellers registered.
 - i. There are 344 model one sellers that use a CSP to file their returns.
 - ii. There are 1,706 model four sellers that file their own returns.
 - iii. There are about 383 Streamlined registrants that have sales in Iowa.

V. Legislation and Rules

- a. Chapter 423.3 (57): Clarify definition of Dietary Supplements).
- b. Chapter 223.16 (1): Clarify sourcing language for watercraft and modular homes.

VI. Federal Legislation.

- a. Marketplace Fairness Act (MFA) passed Senate in May, 2013.
 - i. Bill now stalled in House Judiciary Committee.
 - ii. House Judiciary Committee chairman Robert Goodlatte has released seven principles needed for a House bill:
 - 1. Tax Relief
 - 2. Tech Neutrality
 - 3. No Regulation Without Representation
 - 4. Simplicity
 - 5. Tax Competition
 - 6. States' Rights
 - 7. Privacy Rights
- b. Preparations
 - i. Streamlined Level
 - 1. Federal Implementation Committee has been formed and has setup work groups to address issues such as:
 - i. State contacts.
 - ii. Central registration system.
 - iii. Federal bill analysis.
 - iv. Frequently asked questions (FAQ).
 - ii. Department Level
 - 1. Currently have ITE project working to upgrade our internal systems to handle MFA type registrations.
 - 2. Working to publish a MFA webpage where FAQ and answers can be posted. This page will allow for updates as they become available.

VII. Next meeting – wait and see what happens federally. Department will prepare and circulate the Annual Report to the Legislature for review.