

Iowa Streamlined Sales Tax Advisory Council Meeting Minutes
Hoover State Office Building
October 25, 2012

Members Present: Courtney Kay-Decker, Victoria Daniels, Michael Rubino, Stephen Roberts, Jim Henter, Representative Guy Vander Linden, and Marc Michaelson.

Members via Telephone: Dale Busacker, Dave Krutzfeldt, Chris Theisen, and Ann Stocker.

Others present: Larry Paxton, Cody Edwards, Alana Stamas and Kathy McAninch, IDR staff

I. Welcome & Opening Comments – Victoria Daniels and Courtney Decker.

II. Policy Issues under Discussion.

A. Deal of the Day Vouchers.

1. Groupon rule voted on in Salt Lake City with 17 in favor and 4 against.
2. Defines vouchers and provide examples of when and how sales tax would apply.
3. Examples of how sales tax would apply:
 - a) If you get a voucher worth \$40 for \$20. If the value of \$40 is on voucher then sales tax on the \$40 would apply. If the voucher has the purchase price of \$20 printed on the face then the sales tax would apply to the \$20.
 - b) Sales tax is collected when voucher is used.
4. Those opposing the rules wanted other voucher issues to be defined such as:
 - a) How is sales tax applied if taxpayer gets a \$20 voucher offer for free if they get four other people to buy a voucher?
 - b) When voucher expires do taxpayers get refund or does a lesser amount apply to the voucher and how is sales tax applied.

B. Credit for Taxes Paid to Other States. Issues include:

1. Can states deny credit to non-reciprocal state?
2. How is sales tax applied when item sourced in one state and used in another.
3. Local Taxes-Taxpayer buys item in a state with a lower tax rate and brings into Iowa to use. Can take difference and allocate in Iowa - who gets the sales tax local or state?
4. A complication for Iowa is that it has no local option use tax. If an audit is performed and taxpayer proves paid tax in another state and brought it into Iowa for use, and other state had local option use tax, how is the sales tax applied?

C. Sourcing of Digital Products.

1. When does possession of the goods take place: during the download or upon receipt of the product?

2. Challenge for businesses is that they do not know where the customer accesses or purchases the digital goods so they do not know which state's tax applies.
 3. Downloads can occur in a retail establishment or walking down the street. It could be very difficult to source these transactions.
 4. Washington State currently taxes digital products has established procedures in place. Iowa currently does not tax digital goods.
 5. The primary issue with digital goods is the principle of tax equity. If taxpayers pay sales tax for a book purchased at a retail book store then should also pay sales tax on the same book if they download it.
- D. Remote Access to Prewritten Computer Software.
1. Cloud computing-Going into "the cloud" and to make use of software. Taxpayer never takes possession of the software.
 2. Three Streamlined Sales Tax states currently tax remote access to prewritten software as tangible personal property. They are Indiana, Michigan, and Utah.
- E. Essential Clothing.
1. This issue directly concerns the state of Rhode Island (a Streamlined state).
 2. Rhode Island is surrounded by states that exempt clothing items under \$250 from sales tax and define them as essential clothing. They have pending legislation that would exempt essential clothing.
 3. In 2009 an amendment to the Agreement was allowed for essential clothing for the state of Massachusetts in order for them to become a member state. As of yet they have not become a member of Streamlined Sales Tax Agreement.
 4. Rhode Island has presented in their legislation that if federal law is passed for remote collection then their sales tax exemption for essential clothing is voided.
 5. Iowa is not in favor of making yet another amendment to the Agreement to allow an essential clothing exemption.
- III. Certificate of Compliance and Taxability Matrix/Annual Recertification.
- A. Iowa had some minor changes to make to its taxability matrix but was found to be in substantial compliance with the Streamlined Sales Tax Governing Board Agreement.
- IV. Legislation and Rules
- A. Chapter 240: Effective Dates of Taxation Rate Increases or Decreases-Effective 12/5/2012.
 - B. Chapter 223: Sourcing of Services-Effective 10/10/2012.
 - C. Chapter 231: Sales of Candy-Effective 9/26/2012
 - D. 2013 Streamlined Sales Tax Bill: only one issue; add food-grade carbon dioxide to definition of food.
- V. Update on Registration and Revenue Tracking.
- A. Iowa for FY 12 received \$14 million in remote sales tax receipts.

- B. There are currently 1,800 sellers registered.
 - 1. There are 264 model one sellers that use a certified service provider to file their returns.
 - 2. There are 1,536 model four sellers that file their own returns.

VI. Federal Legislation.

- A. Status and variables.
 - 1. Senate staffers are fine-tuning language and hope to have a bill ready for a vote by November 25, 2012.
 - 2. Variables include:
 - a) Vendor compensation – how much and for whom, all vendors or just vendors remote to a state?
 - b) Small seller exception -- \$250,000 in total sales or \$500,000 in total sales? Odds are it will be \$500,000.
 - c) Effective date -- who gets to start collecting and when?.
 - d) Requirements for states to maintain simplified rules and standardization.
- B. Preparations.
 - 1. Department meetings -- staff has been meeting to discuss who will be impacted by remote registrations and collections; what education is needed and for what groups?
 - 2. Consumers Use Tax -- the Department now has a fillable form and an electronic method for taxpayers to pay consumer use tax without a permit. This is in effect a prelude to remote collection.
 - 3. Education and outreach – Taxpayer education staff is preparing information and education for media and will be speaking at different meetings to help educate sellers and taxpayers.

VII. Future of the Streamlined Sales Tax Governing Board.

- A. When federal legislation is passed, what role will the Governing Board fulfill? One possibility may be to take over the role as an enforcement authority; taking the role of continuing policy development and helping to ensure compliance.

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

IX. Adjourn.