

**IOWA STREAMLINED SALES TAX ADVISORY COUNCIL**

2007 Report to the

**IOWA GENERAL ASSEMBLY**

February 29, 2008

## **Council Created; Council Charge**

House File 683, Section 204, signed into law by Governor Thomas J. Vilsack on June 4, 2003, created the Iowa Streamlined Sales Tax Advisory Council (the "Council"). The Council was created in 2003 (please see Appendix A for a list of members as of 12/31/07).

The Streamlined Sales Tax Advisory Council was codified in statute at Iowa Code §423.9A during the 2006 Regular Session.

As charged by HF 683, the Council shall review, study, and submit recommendations to the Iowa streamlined sales tax delegation regarding the proposed streamlined sales and use tax agreement formalized by the project's implementing states and other issues.

## **Meetings**

The Council met five times in 2007 with each meeting being held at the Iowa Department of Revenue offices in the Hoover State Office Building in Des Moines or by conference call. Meetings were held on January 19, April 2, July 9, October 15 and December 17, 2007. Various issues were discussed at these meetings. Copies of 2007 meeting agendas are attached to this report as Appendix B and minutes of the meetings are attached as Appendix C. This information may also be viewed at [www.state.ia.us/tax/taxlaw/streamlinedcouncil.html](http://www.state.ia.us/tax/taxlaw/streamlinedcouncil.html).

## **Significant Developments**

In 2007 the national streamline project (the "Project") dealt with a significant challenge. Faced with associate member states that were potentially dropping out of the Project, and other states not yet being able to join, the Governing Board addressed the issue of sales tax sourcing as one of the primary inhibitors to states becoming full members of the Project.

This topic consumed numerous Project meetings and a special task force was appointed. At the Project's December meeting, the Agreement was amended to provide new sourcing opportunities for states that have origin based sourcing and local sales taxes.

The intent of the amendment was to meet the needs of states such as Tennessee, Utah, Ohio and Texas and allow them to pass legislation achieving compliance with the Agreement. All eyes are on these states to see if the controversial amendment achieves the desired results.

The amendment is available to all states. States such as Iowa, Kansas and Washington are permitted to avail themselves of the new provisions if a return to intrastate origin based sourcing is desired.

The business community has several concerns with the new amendment, including lack of ability to implement it given the current state of business models, and whether it will pass constitutional muster. A proposal to address the sourcing issue was provided by

the business community, but was rejected due to the Project's perceived difficulties in achieving agreement with the local taxing jurisdictions within the states.

The Project also addressed the issue of vendor compensation within the amendment that dealt with alternative origin based sourcing. The project will require that a state that decides to use the alternative sourcing provision must provide reasonable compensation for the incremental expenses for a retailer to maintain an origin based taxing system.

The compensation model continues to provide compensation to Certified Service Providers for non-nexus taxpayers only. This compensation model will negatively impact many small and some mid-sized businesses located in states with local sales taxes and is contrary to the commitments made to Iowa businesses upon passage of the initial Streamlined legislation. The General Assembly in 2006 requested the Director and the Council to provide recommendations to address the additional administrative burdens sustained by businesses as a result of the State's participation in the Project, particularly destination based sourcing. This request was addressed for Iowa in April 2007 in the Council's report of preliminary recommendations to the Iowa Legislature. See report attached as Appendix D: "ASSISTANCE FOR IOWA RETAILERS AFFECTED BY STREAMLINED SALES TAX".

After several years of discussion between the business community and states, the issue of digital goods came to successful resolution in December. Digital goods are now included in the Agreement in a manner that sets the stage for future growth and development in the digital industry. If a state wants to tax digital goods, the state must specifically impose the tax on the digital goods.

The Governing Board went through the yearly recertification exercise to be sure member states are in conformance with the agreement. Iowa was recertified and found to be in compliance. There are four delegates to the Governing Board: two from the legislative branch which are Representative Christopher Rants and Senator William Dotzler and two from the executive branch which are Revenue Director Mark Schuling and Revenue Taxpayer Services and Policy Administrator Dave Casey.

As of December 31, 2007, there are 1,070 registrants on the streamlined project. Currently, 57 are model 1 and use certified service providers (CSP), 96 are model 2 and use certified automated systems (CAS), and 917 are model 4 and calculate and submit their own taxes. This represents no increase of registrants during 2007.

There is no legislation required in 2008 to keep Iowa in conformance with the streamlined process and/or to maintain the prior business position of certain industries in Iowa. However, the General Assembly should anticipate annual streamlined legislation in the future, similar to annual legislation required to conform Iowa to the Internal Revenue Code.

The Council and the Iowa Department of Revenue took several actions in 2007:

- In conjunction and with the guidance of the Council, council members participated in national streamlined sales tax meetings and activities. Council members Kristine Magill and Dave Casey participated in all national streamlined sales tax meetings in 2007. Council member Steve Roberts also attended the December meeting.
- The Council fulfilled the request by the 2006 General Assembly for recommendations to address the additional administrative burdens sustained by businesses as a result of the State's participation in the Project, particularly destination based sourcing. The Council's report of preliminary recommendations to the Iowa Legislature, "ASSISTANCE FOR IOWA RETAILERS AFFECTED BY STREAMLINED SALES TAX", was provided in April 2007.
- Rules that implemented 2006 corrective legislation have been filed with the Rules Coordinator. They have been published in the Iowa Administrative Code Bulletin.

### **Pending Issues**

The Council also cautions the General Assembly to monitor the following issues as the streamlined process moves forward nationally this year:

- The issue of vendor compensation needs to be addressed at both the state and national level. There continues to be a high level of business concern regarding the lack of progress made on this issue.
- The national project has succeeded in creating several "standard" definitions for all states to use as part of a simplified system. The participating states are meeting to develop rules for uniform application. In addition to numerous standard administrative definitions, clothing, computer related items, food, health-care and telecommunications are all areas where standard definitions have been developed. Work continues on areas such as bundling, direct mail and uniform audit standardization. Definitions are already being revisited due to varying interpretations being encountered by member states.
- Workgroups involving the State and Local Advisory Council and Business Advisory Council to the Governing Board continue to meet to address the issue of replacement taxes. Several Governing Board member states have enacted what appear to be replacement taxes to circumvent provisions of the Streamlined Agreement. This issue has not been successfully resolved yet and is critical to maintaining the integrity of the Project.
- Direct Mail Issue. The direct mail issue has become a major focus for the Project. A number of issues must be addressed to handle the various activities associated with direct mail. This is not a major issue for Iowa, since Iowa provides an exemption for delivery charges and delivery charges are defined to include postage, handling, shipping and transportation charges.

## **Statutory Responsibilities Discharged**

With submission of this report, the Council again fulfills its reporting obligation as charged in HF 683. The Council will continue to meet and communicate with the Governor and General Assembly. At the conclusion of 2008, it will file its fifth annual report. As noted previously, Council data is posted at [www.state.ia.us/tax/taxlaw/streamlinedcouncil.html](http://www.state.ia.us/tax/taxlaw/streamlinedcouncil.html).

- End -

# **APPENDIX A**

## IOWA STREAMLINED SALES TAX ADVISORY COUNCIL

Members on December 31, 2007

Kristine Magill, Co-Chair  
RSM McGladrey, Inc.  
Cedar Rapids, IA

Mark R. Schuling, Co-Chair  
Iowa Department of Revenue  
Des Moines, IA

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

Andy Warren  
NFIB/Iowa  
Des Moines, IA

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

David Casey  
Iowa Department of Revenue  
Des Moines, IA

Jerry Fleagle  
Iowa Grocery Industry Association  
Des Moines, IA

Jim Henter  
Iowa Retail Federation  
Urbandale, IA

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

Ed Wallace  
Iowa Taxpayers Association  
Des Moines, IA

Ross Larson  
Colorfx, Inc.  
Des Moines, IA

Dave Krutzfeldt  
Interpower Corporation  
Oskaloosa, IA

Dick Koberg  
Dica Marketing  
Panora, IA

Jay Turner  
Electrical Engineering & Equipment  
Des Moines, IA

Monti Miller  
The Learning Post  
Des Moines, IA

Ann Stocker  
Cargill  
Eddyville, IA

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

# **APPENDIX B**

IOWA STREAMLINED SALES TAX ADVISORY COUNCIL

January 19, 2007; 10:00 A.M.

Hoover State Office Building  
4<sup>th</sup> Floor Conference Rooms  
Des Moines, Iowa

Agenda

- I. Welcome, Introductions & Opening Comments
- II. National Meetings in Seattle, Washington (December 10-14, 2006)
  - A. BAC
  - B. SLAC
  - C. Governing Board
- III. Update on Legislation & Rules
- IV. Update on Registration & Revenue Tracking
- V. Analysis Required by Iowa State Legislature Regarding Impact on Iowa Businesses
- VI. Annual Report to the Iowa General Assembly for 2006
- VII. Future Streamlined Sales Tax National Meetings:
  - A. Charlotte, NC - March 14-17, 2007
  - B. Detroit, MI - June 20-23, 2007
  - C. Kansas City, KS - September 2007
- VIII. Set Next Advisory Council Meeting
- IX. Adjournment

IOWA STREAMLINED SALES TAX ADVISORY COUNCIL

April 2, 2007; 10:00 A.M.

Hoover State Office Building  
4<sup>th</sup> Floor Conference Rooms  
Des Moines, Iowa

Agenda

- I. Welcome, Introductions & Opening Comments
- II. National Meetings in Charlotte, NC (March 14-17, 2007)
  - A. BAC
  - B. SLAC
  - C. Governing Board
- III. Update on Legislation & Rules
- IV. Update on Registration & Revenue Tracking
- V. Analysis Required by Iowa State Legislature Regarding Impact on Iowa Businesses
- VI. Direct Mail Sourcing Provision (Iowa Code 423.19)
- VII. Future Streamlined Sales Tax National Meetings:
  - A. Detroit, MI (June 20-23, 2007)
  - B. Kansas City, KS (September 17-20, 2007)
- VIII. Set Next Advisory Council Meeting
- IX. Adjournment

IOWA STREAMLINED SALES TAX ADVISORY COUNCIL

July 9, 2007; 10:00 A.M.

Hoover State Office Building  
4<sup>th</sup> Floor Conference Rooms  
Des Moines, Iowa

Agenda

- I. Welcome, Introductions & Opening Comments
- II. National Meetings in Detroit, MI (June 20-23, 2007)
  - A. BAC
  - B. SLAC
  - C. Governing Board
- III. Update on Legislation & Rules
- IV. Update on Registration & Revenue Tracking
- V. Analysis Required by Iowa State Legislature Regarding Impact on Iowa Businesses
- VI. Future Streamlined Sales Tax National Meetings:
  - A. Kansas City, KS (September 17-20, 2007)
  - B. December Meeting (Phone conference) Site Unknown
- VII. Set Next Advisory Council Meeting
- VIII. Adjournment

IOWA STREAMLINED SALES TAX ADVISORY COUNCIL

October 15, 2007; 10:00 A.M.

Hoover State Office Building  
4<sup>th</sup> Floor Conference Rooms  
Des Moines, Iowa

Agenda

- I. Welcome & Opening Comments
- II. National Meetings in Kansas City, KS (Sept. 18-20, 2007)
  - A. BAC
  - B. SLAC/Governing Board
- III. Direct Mail
- IV. Digital Goods
- V. Update on Legislation & Rules
- VI. Update on Registration & Revenue Tracking
- VII. Analysis Required by Iowa State Legislature Regarding Impact on Iowa Businesses
- VIII. Future Streamlined Sales Tax National Meetings:
  - A. Dallas, TX (December 10-12, 2007)
  - B. No Dates Set for 2008
- IX. Set Next Advisory Council Meeting
- X. Adjournment

IOWA STREAMLINED SALES TAX ADVISORY COUNCIL

December 17, 2007; 10:00 A.M.

Hoover State Office Building  
4<sup>th</sup> Floor Conference Rooms  
Des Moines, Iowa

Agenda

- I. Welcome & Opening Comments
- II. National Meetings in Dallas, TX (Dec. 10-12, 2007)
  - A. BAC
  - B. SLAC/Governing Board
- III. Direct Mail
- IV. Sourcing
- V. Update on Legislation & Rules
- VI. Update on Registration & Revenue Tracking
- VII. Analysis Required by Iowa State Legislature Regarding Impact on Iowa Businesses
- VIII. 2007 Annual Report to the Legislature
- IX. Future Streamlined Sales Tax National Meetings:
  - A. Washington, DC Area - March 2008
  - B. Possible July Meeting
  - C. Annual Meetings in Charleston, WV - Early September
- X. Set Next Advisory Council Meeting
- XI. Adjournment

# APPENDIX C

**Iowa Streamlined Sales Tax Advisory Council Meeting Minutes  
Hoover State Office Building  
January 19, 2007**

**Present:** Kristi Magill, Mark Schuling, Monti Miller, Andy Warren, Jay Turner , Jim Henter, Jerry Fleagle, Jim Miller, Dave Casey, Larry Paxton, Darwin Clupper and Jeff Aten. Warren Townsend attended via telephone.

**I. Welcome, Introductions & Opening Comments**

Mark Schuling and Kristi Magill opened the meeting at 10:05 a.m. by welcoming everyone and thanked them for their participation. Mark noted that the Council has obligations to the Legislature and thanked the Sub-Committee for their work.

**II. National Meetings in Seattle , Washington ( December 10-14, 2006 )**

**A. Business Advisory Council (BAC)**

Warren Townsend updated the Council on the BAC meeting in Seattle noting discussion of the following issues:

- MPU (multiple points of use) – Business agreed to revisions and that the proposal be forwarded to the Governing Board.
- Digital products

**B. State & Local Advisory Council (SLAC)**

Dave Casey noted several issues discussed at the SLAC meeting in Seattle.

- Bundled Transactions – Sent to Governing Board for approval. This was resolved at the Governing Board meeting.
- MPU (Multiple Points of Use) – This was resolved at the Governing Board meeting.
- Direct Mail Sourcing – A representative came to the SLAC meeting to discuss. For Iowa purposes, the department doesn't see this as a problem.
- Digital Products (electronic downloading) – Dave believes a resolution is close. SLAC will be looking at this between now and next Governing Board meeting. (FYI: The department's Policy/Technical bill has language drafted to impose tax on digital products limited to individuals only. It's intended to level the playing field for retailers.)
- Healthcare List – There are a number of items on the list and new items continue to be added.
- Purchasers Liability Relief – Approved by SLAC
- Replacement Taxes – Still being discussed by SLAC

### C. Governing Board

- The Governing Board voted to repeal Section 312 (MPU) and adopt the rule related to computer software only.
- Purchaser Liability Relief – Currently, the seller is relieved if a state's taxability matrix is incorrect. Purchasers' liability relief applies to incorrect databases, along with incorrect taxability matrix.
- Telecommunication Sourcing Amendment – This was just some clean up language to Section 309 related to ancillary services.
- Amendments from Ohio – Since some states have Legislatures that meet every other year, an amendment to allow a 2-year time frame to get in compliance with the Agreement was proposed by Ohio . This was approved by the Governing Board.
- Fur Clothing (replacement taxes) – Some states created a separate excise tax when clothing is exempt. Situations exist for some states like Minnesota and New Jersey that have a separate definition for fur clothing. The Governing Board approved a definition of fur clothing which will allow Minnesota and New Jersey to tax fur clothing as part of their sales tax laws.

Kristi expressed a concern regarding replacement taxes. Dave explained what the department did with the hotel/motel sales tax by moving it to excise tax and that is would be considered a replacement tax. The department felt it had a good reason to do this. This issue is still being discussed by SLAC.

- Bundled Transactions – Dave covered Article III – Rule 330. This was passed and approved by the Governing Board. This is the final version.
- Certified Automated System compensation to retailer purchasing a CAS product (Taxware). There was discussion of a credit good for 24 months for 1.5% of the tax collected. Kristi inquired about installation. Was there anything in the contract for installation costs? Larry Paxton and Dave Casey weren't sure, they will check.
- Governing Board approved various rules from SLAC and interpretation documents from the Compliance Review and Interpretations Committee.

### III. Update on Legislation & Rules

Dave provided a handout and gave a brief overview of the amendments to the agreement that will require legislative change.

Rules are currently being reviewed by the department and will be sent to the Council for review when ready.

### IV. Update on Registration & Revenue Tracking

Larry Paxton reported 1,070 registrations and provided a breakdown by models. David Thompson, National Streamlined IT Director, is verifying registrants. Collections for the first quarter of the fiscal year were \$1,469,000. This number is higher than projected and is mostly model 4 revenue.

## **V. Analysis Required by Iowa State Legislature Regarding Impact on Iowa Businesses.**

The Sub-Committee provided the Council with a paper entitled Issue Brief – Assistance for Iowa Retailers Affected by Streamlined Sales Tax. The council discussed possible options. Other states are looking at the issue, we believe Iowa is further ahead in the process at this point.

Jeff Aten has had discussion with Avalara & Exactor and they are willing to listen to us and do whatever we want because they know it will bring in other states. Kristi expressed its worth exploring.

The Council agreed it should be kept simple whatever avenue is taken. Vendor discount or a credit back to the retailer based on percentage of collections was discussed. The department will draft a proposal for review by the Council that would provide a couple of alternatives for the Legislature.

## **VI. Annual Report to the Iowa General Assembly for 2006**

he Council discussed the 2006 Report and offered suggested changes. Mark will make the changes and provide the Council with the opportunity to approve the final changes.

## **VII. Future Streamlined Sales Tax National Meetings:**

Stacey Johnson continues to be a board member on BAC, but is no longer a member of the Advisory Council.

SLAC meeting scheduled for Chicago in February. The two main topics on that agenda will be replacement taxes & direct mail sourcing. The department feels these are not big issues for us. Therefore, the department will not be attending. Kristi is planning to attend.

A. Charlotte , NC – March 14-17 meeting and amendment information is out on the national website. The department will have a conference call with Representative Rants and Senator Dotzler before the meeting.

B. Detroit , MI – Saturday meetings are scheduled so Legislators can be involved. Also, The Governing Board is trying to hold meetings in member states or states trying to pass legislation.

C. Kansas City , KS – Same as B.

**VIII. Set Next Advisory Council Meeting**

The next Iowa Advisory Council meeting is scheduled for April 2, 2007 at 10:00 a.m.

**IX. Adjournment**

Meeting adjourned at 11:55 a.m.

**Iowa Streamlined Sales Tax Advisory Council Meeting Minutes**  
**Hoover State Office Building**  
**April 2, 2007**

**Present:** Kristi Magill, Mark Schuling, Dave Casey, Jim Henter, Ann Stocker, Jim Miller, Andy Warren, Ross Larson, Jay Turner , Dick Koberg , Larry Paxton, Darwin Clupper, Dave Krutzfeldt , Marc Michaelson, Jeff Aten, Ed Wallace, Steve Robert and Warren Townsend via conference call.

**I. Welcome, Introductions & Opening Comments**

Mark Schuling and Kristi Magill opened the meeting at 10:00 a.m. by welcoming everyone and thanked them for taking the time to participate. Ed Wallace, President of the Iowa Taxpayers Association, was introduced to the Council.

**II. National Meetings in Charlotte , NC ( March 14-17, 2007 )**

**A. Business Advisory Council (BAC) – see section B for additional comments.**

- Digital products – ongoing discussions
- Direct Mail Sourcing – ongoing discussions
- Replacement Taxes – ongoing discussions
- Sourcing Issues – Other ways to approach this other than destination sourcing
- Filled Board member positions

BAC/NCLS – Meeting in two weeks in DC. There is a BAC planning committee meeting to prioritize BAC initiatives and focus.

**B. State & Local Advisory Council (SLAC)**

The State of Washington is becoming a full member. Three Associate member states, Ohio , Utah and Nevada , have destination sourcing issues that are keeping them from becoming full member states.

Four topics were discussed and none were resolved.

**Direct mail sourcing**

Dave explained the big issue occurring right now is that some states are taxing postage. For Iowa purposes, postage is exempt from tax. A lot of issues regarding postage being taxed or not taxed, plus mailing services issues remain.

Kristi added that she attended a work group meeting in Chicago . The proposals were all withdrawn at the Charlotte meeting, but they will continue to work on issues for the Detroit meeting.

It was explained how direct mail sourcing is taxed in Iowa . If property is mailed by the printer, then tax is at the printer's location. If property is delivered by the printer to the purchaser's location, then tax is at the purchaser's location.

Streamline Governing Board doesn't have the authority to tell states what tax to charge on postage. (I don't understand this sentence. As currently worded, the SSTP is telling states that postage is taxed)

Another question concerns whether the printer has mailing information and is there sufficient knowledge of where it's sourced. The BAC/SLAC working group is coming up with definitions.

### **Digital Products**

A couple of proposals how to handle digital products. Three major areas are identified: digital visual works, digital audio works and digital books (videos, music and books).

In Iowa, the Department has proposed to tax these items if downloaded to create equity with in state retailers. These items will be taxed only if sold to individuals.

Streamline is trying to define digital products so no state has to change their current law. Dave thought they were close to resolution then it fell apart at the end. He didn't know if an agreement will be ready for Detroit.

Our language has been out for a while and Dave hasn't received any comments. Kristi likes what Iowa has done historically and thought it serves as a model. It's not a big problem for Iowa.

### **Replacement Taxes**

Iowa has had two separate excise taxes with hotel/motel and special equipment tax. These taxes were carved out of the sales tax to create separate excise taxes.

The controversy was over the definition of clothing in the SSUTA, and then Minnesota and New Jersey created a separate excise tax for fur. The agreement has now created a new definition of fur, and these two states can toggle on or off regarding the tax.

BAC argues that creating replacement taxes solely to circumvent the agreement is a violation of the intent of the project. Kristi commented that businesses and states need to find some middle ground.

### **Tax Rate Increases**

A petition for 30 days notice to sellers for tax increases was voted on and failed.

Dave Krutzfeldt proposed a 45 day minimum time frame for a notice to sellers of a tax rate increase.

Dick Koberg stressed a timeframe is definitely needed. He's concerned about the cigarette increase setting precedence.

Jim Henter doesn't want to see this dropped. He'd like to see a 60 day timeframe to allow for testing to be done.

There were few legislators in Charlotte so states were reluctant to vote on this issue. Senator Dotzler and Representative Rants will be made aware of the issue by Dave and Kristi.

### C. Governing Board

Besides discussing the four topics above, the Governing Board discussed the following:

- Associate Member States – Set to expire on 1/1/08 . An extension needs to be voted on.
- Florist issue – On 1/1/08 , the sourcing then becomes destination.
- Health care issues – Updated the list of items included in the health care list.
- Audit Committee – Looking at how audits will be performed.
- Matrix – Expanding taxability matrix or creating a supplemental matrix.
- Webinars – CSPs are working with some states to host webinars to educate sellers. A committee was formed within streamline to make it easier to deal with all states.

### III. Update on Legislation & Rules

Dave Casey had e-mailed the Council the proposed draft for Streamlined Sales Tax legislation for 2007 that incorporates amendments to the SSUTA that were passed in calendar year 2006 for comments and didn't receive any feedback. Dave asked for the Council's approval to take it to Representative Rants today. Dave Krutzfeldt moved to approve the Bill and Steve Roberts seconded. The Council unanimously approved the Bill.

### IV. Update on Registration & Revenue Tracking

Larry Paxton updated the Council. There are 1,123 companies registered. Contact is being made with model 1 sellers and making them select a CSP, change to model 4 sellers or unregistering them. Of 153 model 1 sellers, we need to contact 88 for decision on a CSP. There are 67 model 2 sellers and the rest are model 4 sellers. Total collected year-to-date is \$4 million (that's half the fiscal year). The department projected \$6 million for the year; we're now estimating \$8 million.

Taxware is having problems getting loaded to some people's systems. Most CSP activity is Avalara. Most of the money is coming from other filings.

#### **V. Analysis Required by Iowa State Legislature Regarding Impact on Iowa Businesses.**

On March 6, 2007 , Dave Casey provided to the Council for comments a write up on the issue of the impact on retailers affected by the streamlined destination sourcing provision. There are two options listed: one is a direct payout to the retailers in the form of a rebate and two is discount on the taxes paid with a quarterly return. The discount is 1.5% of the calculated tax with a maximum per quarter discount of \$150.00 and a maximum time period of 24 months.

Dave received comments back from Kristi. The Council engaged in a lengthy discussion regarding the two options. The Council will make final recommendations for Senator Dotzler and Representative Rants within the next two weeks. Kristi will work with the Department of Revenue on revising the draft for Council approval.

#### **VI. Future Streamlined Sales Tax National Meetings.**

##### **A. Detroit , MI ( June 20-23, 2007 )**

Dave mentioned Mark Schuling and Representative Rants might be going to this one in Detroit .

##### **B. Kansas City , KS ( September 17-20, 2007 )**

#### **VII. Set Next Advisory Council Meeting**

The next Advisory Council meeting will be in July.

#### **VIII. Adjournment**

Meeting was adjourned at 12:16 PM.

**Iowa Streamlined Sales Tax Advisory Council Meeting Minutes**  
**Hoover State Office Building**  
**July 9, 2007**

**Present:** Kristi Magill, Mark Schuling, Dave Casey, Dave Krutzfeldt, Ed Wallace, Dick Koberg, Steve Roberts, Jim Henter, Ross Larson and Representative Christopher Rants. Chris Theisen and Ann Stocker joined the meeting via conference call. Jim Miller from the Attorney General's Office and Jeff Aten and Larry Paxton from the department were in attendance.

**I. Welcome, Introductions & Opening Comments**

Mark Schuling and Kristi Magill opened the meeting at 10:04 a.m. by welcoming everyone and thanking them for making themselves available. Representative Rants joined the Council meeting to discuss the impact on Iowa businesses issue.

**II. National Meetings in Detroit , MI (June 20-23, 2007)**

Kristi Magill, Dave Casey and Larry Paxton attended the Detroit meeting. Mark Schuling and Ed Wallace also attended the Detroit meetings.

**A. Business Advisory Council (BAC)**

Kristi reported that a fair amount of time at the BAC meeting was spent on rules and procedural issues. The big topics from a technical standpoint were digital goods, direct mail, bundling, and replacement taxes.

- Digital goods didn't get resolved in Detroit . The business community wants to have a separate and distinct definition for digital goods.
- Direct mail definition & sourcing - Discussed what changes needed to be made to the Agreement. A direct mail coalition unrelated to SSTP has been formed to work with BAC on the direct mail issue. Business correspondences such as bank statements, visa bills, currently fall under the definition of direct mail sourcing. BAC is concerned that the current treatment of business correspondence as direct mail, which is separate and distinct from direct mail advertising, results in unintended sourcing changes and other problems for business. A proposed rule to Governing Board was handed out to the Council. Notification and comments are to be provided by July 20, 2007 .

Ed Wallace added that BAC needs to educate this new coalition. The coalition is just getting involved in Streamline.

Kristi brought up that the sales price definition includes “any services necessary to complete the transaction.” BAC believes that the Governing Board should clarify.

- Replacement tax issue was discussed. BAC wants to see something added to SSTUA. This was deferred.

## B. State & Local Advisory Council (SLAC)

- Replacement tax issue – This was referred to the NCSL Task Force and it is on the agenda for August NCSL work group to handle.
- Delivery Charges - Michigan has a rule on delivery charges (handout) where states can toggle on or off. Iowa is already exempt. The rule is being requested so other states can get legislation through if needed. This came out of the direct mail issue and Michigan took the lead. The rule is out for comments.
- Destination sourcing issue – Small businesses are affected such as pizza delivery as an example. Alternative sourcing proposals put forward from Ohio are more complex and not workable. These were deferred. President of Governing Board created a special 15-member group to look at these proposals. Senator Luke Kenley from Indiana will head up the group. The group will include representatives of full member, associate member and other states that are most directly impacted by destination sourcing. It will also include representatives from BAC. Kristi indicated that the task force is charged to work hard and return with options to Kansas City for the next Governing Board meeting.

From a tax administrative position, every time a state wants to change something the state should not have to amend its state laws. It defeats the idea of simplification. One option is that three-fourths of the states need to approve a specific state's exceptions to destination sourcing before a state can come forward with a change.

Federal legislation submitted by Wyoming Senator Wyden was handed out; in that legislation there is a \$5 million de minimis standard for remote sales exemption.

The Council discussed de minimis standards. Some of the Council felt de minimis standard has potential, but what Ohio wanted was more like Ohio specific. Some states have already made the change and are concerned about a new standard.

Utah , Tennessee , and Ohio are at risk to fall out of compliance. Ohio is the largest state currently in the project. Dave challenged our Council to come up with a solution.

The special Task Force will meet in Boston in August. Some think the Task Force will come to KC with an amendment to the Agreement that is a broad-based proposal so Ohio could pass legislation. If there are comments for the Task Force, please let Kristi know.

### C. Governing Board Meeting

- Associate member state status is set to expire on December 31, 2007. Discussed what should be done or to extend that date for 2 more years. The Task Force will also examine the issue of associate member state status.
- Digital Products – There's a big divide between businesses and the states. There was no resolution in Detroit and the issue will be again on the next Governing Board meeting agenda.
- Direct Mail – Proposed rules – We have the opportunity to make comments by the 19th of July.
- Amendment Handling – Iowa informed legislators in the beginning to be prepared for an annual SST bill. There was concern that States didn't know what was being voted on. GB is looking at how amendments are adopted and will come up with some rules. There were some amendments in Detroit , but nothing that would need legislation.
- Status of States: 15 Full Member States

The status of the Associate Member States:

- Washington was voted in as an Associate Member effective July 1, 2007, to be the 16th Full Member effective 7/1/08 .
- Arkansas and Wyoming will come on 10/1/07.
- Nevada – constitutional vote needed
- States without Legislation: Utah , Tennessee & Ohio

### III. Update on Legislation & Rules

As of right now, there have been no changes to the SSUTA that would require legislation and no rules are ready to go.

### IV. Update on Registration & Revenue Tracking

1,036 Registered: 130 model 1 sellers, 57 model 2 sellers and 849 model 4 sellers. Of the total registered, 28 are located in Iowa.

As of March 31, 2007, the amount collected for fiscal year 2007 is \$6,525,000.

### V. Analysis Required by Iowa State Legislature Regarding Impact on Iowa Businesses.

Kristi provided some history on the legislative request made to the Director of Revenue and the Council to determine the number of sellers impacted by the SST Agreement, what additional administrative burden exists for these sellers and provide recommendations to address the additional burden. A working group of the Council met

and prepared the paper “Assistance for Iowa Retailers Affected by Streamlined Sales Tax” which was shared with the entire Council on April 24, 2007, via e-mail.

The Council discussed the possibility of one rate for Iowa sales tax. Representative Rants indicated that it needed to be driven by the business community. It was decided to hold off on the recommendations to the legislature until the Task Force meets in Kansas City .

The Council went through “Assistance for Iowa Retailers Affected by Streamlined Sales Tax” paper. Casey provided some clarification on bullet #7 regarding the number of retailers affected. He also commented that these recommendations weren't formal or cast in stone; they are just a tiered format with parameters.

Darwin raised potential constitutional issues. The Committee will follow-up with the legislature after the September meeting.

## **VI. Future Streamlined Sales Tax National Meetings.**

### **A. Kansas City , KS (September 17-20, 2007)**

BAC is the 17th , SLAC is the 18th and morning of the 19 th & Governing Board is 19th & 20th , to be held at the Great Wolf Lodge in Kansas City , KS. Details are not out yet.

### **B. December Meeting – This meeting has not been set yet.**

There was discussion it could be a teleconference. Senator Cook, President of the Governing Board, will be leaving in September. Joan Wagnon of Kansas will be the new President. The position of President of the Governing Board rotates between an elected official and an appointed official.

## **VII. Set Next Advisory Council Meeting**

The next Advisory Council meeting will be the 2nd or 3rd Monday in October. Diane will send an e-mail. Please note: Kristi will be located for the next 10 months in Washington, D.C. Her e-mail is the same, but please use her cell number to contact her. Her cell number is 319-350-2845.

## **VIII. Adjournment**

Meeting was adjourned at 12:04 PM.

**Iowa Streamlined Sales Tax Advisory Council Meeting Minutes**  
**Hoover State Office Building**  
**October 15, 2007**

**Present:** Mark Schuling, Dave Casey, Jim Henter, Jay Turner, and Steve Roberts. Representative Christopher Rants, Kristi Magill, and Ross Larson joined the meeting via conference call. Jim Miller from the Attorney General's Office and Jeff Aten, Darwin Clupper and Larry Paxton from the Department were in attendance.

**I. Welcome, Introductions & Opening Comments**

Mark Schuling opened the meeting at 10:05 a.m. by welcoming everyone.

**II. National Meetings in Kansas City , KS ( Sept. 18-20, 2007 )**

**A. BAC –** Kristi reported there were multiple meetings throughout the week for the Business Advisory Council trying to develop alternative proposals for the sourcing issue. The BAC came up with an approach with two rates per state; a delivery rate and an over-the-counter rate. The type of transaction would dictate which rate to charge.

Some states felt this wouldn't resolve their problem and it could cause a rate increase in some cases.

Meanwhile, the task force continues to meet frequently.

IDR takes the position that the project needs to move forward and hopes are that if the task force can come up with a resolution; Iowa would support it. Other states don't feel that way. They are taking the hard-line approach that if they had to go through it; then other states should have to go through it. The BAC approach is an option for other states that can't get past the sourcing issue. Representative Rants doesn't see the Iowa legislature opening up this issue. He's okay with the BAC's proposal in order to move forward. The task force continues to review proposals. It was noted that it was a disappointment that Ohio hasn't been participating in these meetings.

Digital Goods issue was resolved in Kansas City . This was a major issue that had been discussed for a long period of time.

**B. SLAC/Governing Board**

The Governing Board ended up by deferring the sourcing issue.

The Governing Board accepted Arkansas and Wyoming as new full members, effective January 1, 2008 . Washington will be the 18th state as a full member, effective July 1, 2008 . The Governing Board deferred action on Nevada's petition for membership until December and Tennessee was accepted as an Associate Member State .

Utah and Ohio still have destination sourcing issues.

States will need to annually update the certificate of compliance. The 2007 Annual Report is out on the Streamlined Web site.

Changes to delivery charges – Michigan submitted a proposal to toggle on or off. This was approved, but will not have any impact for Iowa .

Digital Goods – Listed definitions was a major item. Finally through!

### **III. Direct Mail**

The Governing Board never got to this issue in Kansas City . Progress has been made in the meantime. The BAC disagrees with several key issues in the SLAC road map. The BAC approved its own version of a road map to address direct mail issues. Utah , West Virginia and Wyoming sponsored direct mail delivery charge amendments.

### **IV. Digital Goods**

The Governing Board approved definitions of certain specified digital products. This was a major accomplishment.

Dave added that Iowa currently does not tax these items; the Department may make a proposal to the Legislature to tax as separate imposition for these digital products.

### **V. Update on Legislation & Rules**

At this point, it appears there isn't a need for 2008 legislation. Darwin is drafting rules and Dave will be reviewing.

### **VI. Update on Registration & Revenue Tracking**

Larry Paxton provided an update. There are 1,050 sellers registered. Of those, 100 are model 1's; 57 are model 2's of which 30 have signed up with a provider. Those signed up without a provider will be checked for accuracy. The remaining 900 are model 4's. IDR is checking list of top 500 retailers for companies that should be registered under Streamlined.

The amount collected in FY 2007 was \$9,099,000. The Department is projecting \$12 million in FY 2008.

### **VII. Analysis Required by Iowa State Legislature Regarding Impact on Iowa Businesses**

The paper the Council put together is still valid. Kristi indicated we'll see what happens in December with the Governing Board, then the Council will readdress.

Representative Rants agreed with Kristi and noted the Council needs to educate the Legislature and get them prepared for this legislation in 2009.

We will continue to put this item on the agenda so we don't lose sight of it. Jim Henter expressed concern about the time this could take. It was delayed until after the Kansas City meeting and now it's delayed again until the December meeting. He mentioned it goes back to 2004 regarding destination basis compensating retailers who have already spent their money. It will be kept as a top priority on the future agendas. If nothing happens at the December meeting, then the Council will try to figure out how to proceed.

### **VIII. Future Streamlined Sales Tax National Meetings.**

#### **A. Dallas , TX (December 10-12, 2007)**

Registration information for the Dallas meeting is now available. Registration fees are \$365 for SLAC/GB and \$75 for BAC.

Following is a breakdown of meetings:

- Monday AM – Sourcing Taskforce
- Monday PM – SLAC with the main topic being sourcing
- Tuesday AM – BAC/SLAC
- Tuesday PM & Wednesday – Governing Board

Meeting information should be on the national Streamlined Web site. Dave Casey will forward the information he has to Representative Rants and Steve Roberts.

#### **B. No Dates Set for 2008**

There's a possibility of only meeting three times per year.

### **IX. Set Next Advisory Council Meeting**

Diane will poll the Council regarding availability for a December 17th meeting.

### **X. Adjournment**

Meeting was adjourned at 11:05 AM.

**Iowa Streamlined Sales Tax Advisory Council Meeting Minutes**  
**Hoover State Office Building**  
**December 17, 2007**

**Present:** Mark Schuling, Dave Casey, Jay Turner, Andy Warren, Jim Henter, Ed Wallace, and Ross Larson. Kristi Magill, Dave Krutzfeldt and Jerry Fleagle joined the meeting via conference call. Jim Miller from the Attorney General's Office and Larry Paxton, Jeff Aten and Darwin Clupper from the department were in attendance.

**I. Welcome & Opening Comments.**

Mark opened the meeting at 10:05 AM.

**II. National Meetings in Dallas , TX (Dec. 10-12, 2007).**

**A. BAC**

Kristi Magill remarked that the bulk of the BAC meeting was on direct mail and sourcing.

**B. SLAC/Governing Board**

Dave Casey indicated that the SLAC meeting was much like the BAC meeting. Most of the discussion was related to direct mail and sourcing.

Dave reported on three workgroups:

1. Florists Workgroup - A temporary exception from destination sourcing for "florist sales" through December 31, 2009. The main problem is with large national companies called "Order Gatherers." Whatever is decided for the Florists, it should not further complicate bringing Order Gatherers under the agreement, particularly following Congressional action.
2. Sales Price Workgroup – Services vs. tangible personal property. This group is all over the board. This workgroup will be surveying states.

Kristi indicated that direct mail issues need to be addressed in this working group.

3. Maintenance and warranty contract Issues – Iowa is different because we have special provisions. This is a new workgroup.

There was a little discussion on services. It wasn't known if they're going to get a work group together or not. Casey indicated they need to address this issue.

At the Governing Board meeting, some new rules were passed.

Wyoming and Arkansas become full member states effective January 1, 2008. Nevada will become a full member state effective April 1, 2008, and Washington effective July 1, 2008. As of July 1, 2008, nineteen states will be full member states.

### **III. Direct Mail.**

This was deferred again in Dallas. Kristi indicated BAC submitted comments to SLAC on their work. BAC sees it as good work but there are still a couple of outstanding issues before they would be in agreement to SLAC proposals.

### **IV. Sourcing.**

A Sourcing Amendment passed in Dallas. Dave provided a copy of the approved motion and reviewed with the Advisory Council. It creates a new section 310.1. The new provision will allow an alternative origin sourcing for in-state sales only. Kristi believes the majority of BAC does not agree with these proposals, but it passed anyway to keep the project alive. The different proposals also created a lot of discussion on federal legislation. The Governing Board questions what the project can do to get Congress to look at federal legislation.

### **V. Update on Legislation & Rules.**

Dave provided the update. So far this year, amendments that have occurred would not require legislation. On the rules side, the department is finishing up 2007 legislation and then more work on Streamlined rules will occur.

### **VI. Update on Registration & Revenue Tracking.**

Larry Paxton provided an update. There are 1,070 sellers registered. Of those, 57 are model 1's; 92 are model 2's (He's not positive these are actually model 2's. The Streamlined Registration Office will try to determine accuracy.) The remaining 917 are model 4's.

The amount collected in the third quarter was \$2,519,000.

### **VII. Analysis Required by Iowa State Legislature Regarding Impact on Iowa Businesses.**

The Advisory Council discussed the need to pursue the vendor compensation issue since it hasn't been addressed at the national level. Dave suggested that we use the Annual Report to the Legislature as a vehicle to educate the Legislators. Kristi will provide the first draft of the Annual Report. Kristi supports putting some legislation together, but the figures are in question. In the National Cost of Collection Study, the figures are not the same as the Advisory Council Sub-committee's. From a legislative perspective, it would be best if we could provide a figure. The Advisory Council has struggled with this in last

year's report and again for this year's. The Sub-committee also had difficulty coming up with a figure.

There was discussion that Advisory Council representatives of associations may need to go to their members. Ed Wallace asked if any other states had a methodology. Some states do but no one knew which states. The Council needs to focus on retailers affected by the change and what was the cost of businesses to switch. If anyone has any ideas, please keep Kristi in the loop. She'll include it in the Annual Report.

It was also suggested that one thing might be to bring Jay Turner in to discuss with Legislators to educate them as one of those retailers affected by this project.

In Dallas, Iowa stood up for vendor compensation and Iowa was the only state standing. Representative Rants spoke out for vendor compensation; but at the end of the day, Iowa was alone.

### **VIII. 2007 Annual Report to the Legislature.**

As stated previously, Kristi will provide the first draft.

### **IX. Future Streamlined Sales Tax National Meetings.**

**A.** Washington , D.C. – Due to the possibility of federal legislation, the next national meeting will be held the end of March in D.C.

**B.** Chicago , IL – End of June or early in July

**C.** Charleston , WV – Possibly the week after Labor Day for the Annual Meeting

The Governing Board is looking at just meeting three times a year in 2008.

### **X. Set Next Advisory Council Meeting.**

The Council won't meet until after the next national meeting. There may be a conference call in January to discuss the annual report and/or the vendor compensation issue.

### **XI. Adjournment.**

Mark adjourned the meeting at 11:15 AM .

# APPENDIX D

## **ASSISTANCE FOR IOWA RETAILERS AFFECTED BY STREAMLINED SALES TAX**

**ISSUE:** What type of assistance should be provided to Iowa retail sellers that were affected by the change to destination sourcing as required by the Streamlined Sales and Use Tax Agreement (SSUTA) to assist them in complying with the additional administrative burdens incurred.

### **BACKGROUND – IOWA STREAMLINED SALES TAX LAW**

- Iowa passed its version of the Streamlined Sales Tax Law which became effective on July 1, 2004. One of the major provisions and a change for Iowa retailers was that tax must be charged based on the destination of where the tangible property was sold or where a service was furnished or performed. This change required Iowa retailers to amend their accounting and reporting systems primarily related to local option taxes.
- Iowa passed its version of the Streamlined Sales Tax Law with the belief that there would be little or no impact on the administrative costs to Iowa retailers or that the Streamlined Project would provide some relief to Iowa retailers that would have new administrative costs to comply with the sourcing provisions. At the time of passage of the Iowa law, the Streamlined Project was working on technology solutions to assist retailers.
- The SST Governing Board subsequently interpreted the SSUTA to provide relief only for out-of-state retailers who could use a Certified Service Provider (CSP) or any retailer that could purchase a Certified Automated System (CAS). The Governing Board did not provide relief to in-state retailers and the Iowa law did not provide any relief for an Iowa retailer who was affected by this change. The Iowa law does not provide for any vendor discount to any retailer who is required to register and file Iowa sales/use tax.
- The Iowa Streamlined Sales Tax Advisory Council was very concerned regarding the costs of compliance with the destination sourcing provision and was especially concerned with the affect on small retailers in Iowa that were forced to change their tax accounting and reporting systems.
- Section 47 of House File 2794 required the Streamlined Sales Tax Advisory Council to review the impact of any additional administrative burdens on Iowa retailers and to develop alternatives and report to the Iowa Legislature.
- A subcommittee of the Advisory Council was formed to review this issue and discuss alternatives.
- The Department of Revenue reviewed returns filed by registered Iowa retailers to determine the number of retailers that were affected by the change to destination sourcing. The department identified approximately 5,900 retailers that showed a change in their reporting of local option taxes from periods prior to the law change compared to periods after the law change. This number represents around 10% of Iowa retailers. The subcommittee believed that this percentage was a reasonable number of retailers impacted by the change.

**THE ADVISORY COUNCIL PROPOSES THE FOLLOWING RECOMMENDATION:**

**ELIGIBLE RETAILERS WOULD CLAIM A DISCOUNT ON THEIR SALES TAX RETURN:**

The following conditions would be applied to the discount:

Discount would be calculated as a percentage of tax collected on annual taxable sales. An example is as follows:

- 0 – 500,000 of net sales                      5% of collected tax
- 500,001 – 1,500,000 of net sales      3% of collected tax
- 1,500,001 and up of net sales          1.5% of collected tax
- Retailer was in business prior to July 1, 2004.
- No refunds may be granted for the discount.
- Retailer must report sales into at least one new jurisdiction.
- Discount may be claimed for a minimum of 60 months (20 quarters).
- Retailer must apply to the department in order to qualify. The application must certify that the retailer was in business prior to July 1, 2004, the retailer incurred additional costs to comply with the streamline changes to the Iowa law, and the retailer is now required to report local option taxes in at least one new jurisdiction. The department would reserve the right to verify the information and request additional information.
- Local jurisdictions should provide funding for some or all of the cost associated with the discount.

**Note:** Many members of the Council have expressed concern regarding the idea of having a cap on the discount, and at what level. The majority of small and mid-sized business representatives on the Council rejected a cap of \$300 per quarter as being too low. Without making a specific recommendation, the Council offers the following thoughts for consideration by the legislature:

- A significantly higher quarterly cap.
- Provide the discount only to businesses with total sales below a certain threshold (a range of \$100 million to \$200 million was discussed), and then make the discount significant. This would make the discount a small/mid-sized business provision. If this were considered, additional feedback from large retailers should be obtained.

**Request:** The Council believes that it is very important that it meet with members of the legislature at an upcoming Council meeting, or at a time to be established at the discretion of legislators, to discuss possible solutions to this issue.