In the News

April 24, 2001

"States Begin Effort To Simplify Tax Law Patchwork ", by Ivan Sciupac, *Stateline.org*, April 24, 2001.

This is a sample of news summaries directly relating to your issues that can be provided to accompany your monitoring reports These alerts can be sent by e-mail or fax.

Are marshmallows food or candy? Although the average grocery shopper probably never gave it a thought and could care less, how state governments end up defining marshmallows and a host of other everyday items could have a sweeping effect on consumers and retailers.

Thirty-two states are participating in an ambitious plan to simplify their sales tax codes and reach common agreement on what is taxable and what is not. The movement, known as the Streamlined Sales Tax Project, is designed to reduce the costs and burdens of sales tax compliance through simplified laws and policies. With 7,500 different (and often conflicting) taxing jurisdictions across the country defining and taxing the same products differently, supporters say the time has come for a more uniform system.

The project has been gaining momentum. Last month, Wyoming became the first state to adopt legislation to simplify the state's tax codes. Eighteen other states are considering similar legislation: Alabama, Arkansas, Illinois, Indiana, Kansas, Kentucky, Maryland, Massachusetts, Minnesota, Missouri, Nebraska, North Carolina, North Dakota, Oklahoma, Tennessee, Texas, Utah, and Vermont.

"We need to clear up the definitions we have across the states," said Illinois Sen. Steven J. Rauschenberger (R). "That's going to be difficult, but it'll be beneficial in the end."

The project is driven by the growth of e-commerce, which is potentially a major revenue stream for states and localities. The states currently rely on sales taxes for nearly half of their revenues, but Internet sales are effectively off-limits because of a 1992 U.S. Supreme Court ruling, Quill Corp vs. North Dakota, which held that a state cannot require retailers without a physical presence, or "nexus" in that state to collect taxes on sales to its residents.

The de facto ban on taxing e-commerce transactions is compounded by a three-year congressional moratorium on any new taxes on Internet access fees. It is set to expire Oct. 20, but Congress now is debating whether to extend the freeze another five years. If states show Congress that they are willing to simplify and streamline their sales tax systems, some believe it could lift the moratorium, paving the way for legislation that would clear away the current roadblocks to collecting existing taxes on e-commerce and mail order sales.

Legislation introduced in February by Sen. Ron Wyden, D-Oregon, and Rep.Christopher Cox, R-California states: "If a sufficient number of states simplify and unify their sales and use tax systems, Congress should consider authorizing those states to require sellers to collect taxes on sales of goods or services delivered in-state."

According to a February 1999 study by the University of Tennessee, states could lose as much as $20 billion in revenue in 2003 if they continue to be denied these revenues.

While supporters of the tax streamlining project say the potential income could bolster state budgets hampered by a slowing economy, foes of Internet taxation are numerous and vocal.

"I am deeply concerned that a tax on Internet growth will serve to hinder growth in this very important sector," Massachusetts Gov. Jane Swift (R) testified at a Senate hearing last month. Referring to the economic shakeout that has seen many Internet high-fliers collapse or stumble inn recent months, Swift declared: "While segments of the high-tech sector have been able to absorb some of these company closings, it would be a mistake to drive remaining business out of business through added taxes."

"States Begin Effort To Simplify Tax Law Patchwork ", by Ivan Sciupac, *Stateline.org*, April 24, 2001.