



AMERICANS FOR TAX REFORM

# P O L I C Y   B R I E F

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## **The Streamline Sales Tax Proposal: A Tax Increase Under the Radar**

Supporters of the Streamlined Sales Tax Project (SSTP) claim that the agreement, which has been entered into by 34 states, is merely an effort to allow states to participate in national discussions about how to “simplify” and “streamline” their sales and use tax system. Organizations such as the National Governors’ Association (NGA) and the National Council of State Legislatures (NCSL) support the plan.

However, every major free-market and pro-growth association opposes the SSTP. These groups include Americans for Tax Reform, the National Taxpayers Union, Citizens for a Sound Economy, Club for Growth, Citizens Against Government Waste, the Cato Institute, the Heritage Foundation, the American Enterprise Institute and dozens of state-based think tanks across the nation.

These groups oppose the adoption of the SSTP because the history of the movement does not support a commitment to tax neutrality, and because its proponents cannot guarantee that the net impact on taxpayers in every state will be zero. Proponents of SSTP include state tax commissioners and their staffs, multi-state accounting firms, who stand to benefit from the compliance complexity SSTP induces, and tax-and-spend lawmakers desperate to ease the process of collecting taxes – so as to more easily increase taxes.

Because the SSTP is the first and essential step to create a stealth tax hike that would extend a national state sales tax to out-of-state Internet and other remote purchases, costing consumers hundreds of millions of dollars, all pro-taxpayer lawmakers should oppose the creation of this tax-and-spend cartel. As a legislator, you should oppose this tax harmonization scheme for the reasons cited below, and also because SSTP is not providing an honest analysis of the plan’s impact on taxpayers.

**Efforts by a state official to bring his or her state into this sales tax cartel constitutes support of a tax increase, and is a violation of Americans for Tax Reform’s Taxpayer Protection Pledge.**

Increasing taxes should not be easy. All efforts to reform tax collection must ensure that competition among states and localities is protected and encouraged. Legislators,

particularly pledge signers, must work to minimize the impact of taxation to the greatest extent possible. Simplifying or streamlining the process is a very laudable goal and should be done to limit the paperwork and bureaucratic nonsense that taxpayers face each year when filing their taxes. A lawmaker's first priority should be to create a method that benefits taxpayers first and accounting firms second, while promoting economic growth and improving the efficiency of commerce.

Behind the scenes, however, the Streamlined Sales Tax Project is not benign. The SSTP movement has printed a national park's worth of paper about its benign intentions, but none of its operatives will attest to the net taxpayer impact of SSTP, now and in the future.

At their quarterly meetings, held in geographic locations across the country to allow as many budget-constrained tax commissioners to attend as possible, SSTP planning committees debate various tax changes while members of the audience work to agree in consensus. Taxpayers – and most lawmakers – would have a hard time understanding many of the minutiae discussed at these meetings. These minutiae are precisely the problem -- many tax code changes could make tax increases easier to implement and exemptions more difficult.

For example, implementing a sales tax in a state like Oregon would be much easier if the code is readily available and previously agreed upon by every state, or a majority of states.

To clarify our position, ATR will refute four of the MTC's seven goals. These four goals cause taxpayers to suffer directly and/or afford taxpayers no protection from future harassment. ATR will quote directly from the SSTP text and rebut.

## **TAX NEUTRALITY**

### **SSTP Tax-and-Spenders:**

“Legislatures will choose what is taxable or exempt in their states. However, participating states will agree to use the common definitions for key items in the tax base and will not deviate from these definitions. As states move from their current definitions to the SSTP definitions, a certain amount of impact on state revenues is inevitable. However, it is the intent of the Project to provide states with the ability to closely mirror their existing tax bases through common definitions.” (page ii, Lawmakers' Guide: 2003).

### **Taxpayers rebut:**

A good example of how the SSTP will remove your autonomy to shape your own tax code and how the plan will harm taxpayers is provided by the changes Minnesota made to conform to the SSTP. Prior to adopting the SSTP, Minnesota imposed sales taxes only upon the price of each product purchased from a seller that had nexus in the state. The new SSTP definition of “sales tax” broadened Minnesota's sales tax to include shipping, handling, and postage. Now, thanks to the SSTP, the people of Minnesota pay a new tax on goods purchased outside

the state, but they also get the added bonus of paying a higher price for goods bought from in-state vendors.

In the second sentence the SSTP booklet uses the term “key items” to explain how the plan will simplify the tax code by ensuring that each state applies an equal sales tax to these items. However, SSTP supporters do not define or clarify what the taxable “key items” are. In fact SSTP supporters have changed or manipulated the plan in order to gain the support of politically powerful states, such as Texas and New York. Therefore, the stated goal that the plan will “simplify and streamline” the tax code is completely false.

In addition, the MTC admits that the possibility of “impact” will occur when states implement SSTP tax code recommendations. Exemptions provide no long-term relief for taxpayers; adopting an exemption is more difficult than implementing the code in its entirety. Any effort to “reform” the tax code in each state must begin with the policy that the code will offset any possible tax increase by a dollar-for-dollar tax reduction.

It is clear, from this example, that supporters of the SSTP tax cartel are not upfront or honest about the negative impact of extending sales taxes to include many currently untaxed online transactions.

## **RATE SIMPLIFICATION**

### **SSTP Tax-and-Spenders:**

“States will be allowed one state rate and a second state rate in limited circumstances (food and drugs). Each local jurisdiction will be allowed one local rate. A state or local government may not choose to tax telecommunications services, for example, at one rate and all other items of tangible personal property or taxable services at another rate. State and local governments will accept responsibility for notice of rate and boundary changes at restricted times” (page ii, Lawmakers’ Guide 2003).

### **Taxpayers rebut:**

The booklet does not explain that allowing each state and local government to have its own tax rate compounds the current problem of tax simplification.

The free market, free enterprise movement has a long record of supporting fundamental tax reform and competitive tax jurisdictions. Rate simplification towards one flat rate is a commendable goal. The SSTP does not accomplish this objective!

If enacted the SSTP would force each merchant in the U.S. to monitor and calculate up to 7,500 different tax rates on any and all sales. Furthermore, merchants would be responsible for determining each customer’s nine-digit zip code, since many zip codes cross local jurisdictions.

The SSTP does not achieve simplification. In fact, the plan adds a new tax and regulatory burden on every business in America.

## **ADMINISTRATION of ALL STATE and LOCAL SALES and USE TAXES**

**SSTP Tax-and-Spenders:**

“Businesses will no longer file tax returns with each local government within which it conducts business in a state. Each state will provide a central point of administration for all state and local sales and use taxes and the distribution of the local taxes to the local governments. A state and its local governments will use common tax bases.”

**Taxpayers rebut:**

Several states have looked at reducing compliance costs to reduce local jurisdictions’ liability. Taxpayers’ concern is that this will reduce competition between local jurisdictions to attract businesses and homeowners, and increase the likelihood of a tax cartel in which counties, cities, and towns are subject to the special interests of a central tax collector.

Taxpayers do not benefit from centralized power, when the purpose of that power is to collect and redistribute their tax dollars. For example, in Maine, some localities sent more tax dollars to Augusta than were returned to them, causing massive taxpayer dissatisfaction *and eventual overturn of the law*.

**UNIFORM SOURCING RULES****SSTP Tax-and-Spenders:**

“The states will have uniform and simple rules how they will source transactions to state and local governments. The uniform rules will be destination/delivery-based and uniform for tangible personal property, digital property, and services.”

**Taxpayers rebut:**

A single entity responsible for all destination/delivery-based transactions and resulting tax compliance in each state will create more bureaucracies to consume more taxpayer dollars.

The same argument made against a single state tax collection agency can be made in opposing a central third-party tax collection agency. The central collection of all sales taxes again increases the likelihood of a tax cartel that will limit competition among states and ensures that individual states are subject to the special interests of a central tax-collecting agency.

Furthermore, defining source transactions to conform to a uniform definition will open a Pandora’s box for privacy watchdogs. Authorizing a central tax collection agency to integrate the new SSTP created tax collection software into the business mainframe of every merchant in America raises numerous questions about the protection of consumer privacy.

The central agency would have access to an individual’s home address, phone number, financial information, and other pieces of information that are highly sensitive and confidential.

**CONCLUSION:**

The SSTP was created to implement a tax harmonization scheme that would allow states the authority to implement a predetermined and already-designed system for taxing consumers. Under the guise of tax simplification, SSTP supporters want to override a Supreme Court

decision that prevents states from taxing interstate commerce without explicit congressional permission, thereby creating a “stealth tax” that extends the sales tax to currently untaxed products, services, and sales.

In addition, the plan forces state legislatures to cede important control over aspects of their state’s sovereign tax system in deference to a national tax cartel. This is the first and essential step to implement a quiet tax hike and extend a national state sales tax to out-of-state Internet and other remote purchases, costing both buyers and sellers millions of dollars. In sum, the SSTP diminishes states from having the autonomy to shape their own tax policy, costs each state’s economy jobs, and devastates their technology sector.

It is time for taxpayer advocates to speak out against expanded sales taxes on consumers, and for state legislators to regain and protect their ability to control their own tax structure and refute the notion that sales tax competition among states is counterproductive.