OFFICE OF LEGISLATIVE RESEARCH
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ResearchReport

Streamlined Sales and Use Tax Agreement

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Issue

What is the Streamlined Sales and Use Tax Agreement (SSUTA)? How many states have joined it? What changes would Connecticut need to make to comply with it?

This report updates OLR report 2012-R-0340.

Summary

SSUTA is a voluntary multistate agreement to simplify state and local sales and use tax laws and administrative procedures. It is designed to (1) encourage better and less expensive tax collection and minimize administrative costs and burdens on retailers, particularly those operating in multiple states, and (2) encourage Congress to enact federal legislation allowing states to require remote sellers to collect sales tax. It requires member states to, among other things, (1) adopt uniform definitions for taxable and exempt products and services, (2) simplify tax rates by limiting themselves generally to one state sales and use tax rate for all taxable products and services and eliminating exemptions based on sales price, and (3) adopt uniform rules for sourcing transactions based on where items or services are delivered or used.

SSUTA and the Wayfair Ruling

The U.S. Supreme Court's favorable remarks regarding SSUTA in its recent South Dakota v. Wayfair decision has renewed focus on the agreement.

The Court cited South Dakota's adoption of SSUTA as one of the features of its law designed to prevent discrimination between sellers. The Court noted that SSUTA "standardizes taxes to reduce administrative and compliance costs: It requires a single, state level tax administration, uniform definitions of products and services, simplified tax rate structures, and other uniform rules" ("Streamlined States Emerge Winners After Wayfair Ruling." State Tax Notes. July 2, 2018. pg. 71).

SSUTA currently has 23 full members and one associate member. Full members are states that have adopted the legislation needed to make their sales tax laws comply fully with the agreement, and associate members are states that have achieved substantial, but not total, compliance with the agreement. SSUTA also has 19 advisor states (and the District of Columbia) that do not comply with the agreement but are non-voting members of its governing board.

In 2007, the General Assembly established a commission to study whether to join the agreement. The commission determined that Connecticut would have to make extensive changes in its sales tax laws and policies to comply with the agreement, including (1) eliminating special rates for certain transactions, such as room rentals and computer and data processing services; (2) changing how certain taxable products and services are defined; and (3) eliminating exemptions based on sales price.

SSUTA

Overview

SSUTA is an effort by state and local governments to simplify and modernize sales tax collection and administration to promote compliance by, and reduce costs for, local and remote sellers of all types of goods and services. One of its major goals is to improve tax collection on cross-border sales occurring through electronic and other types of remote commerce, thereby stemming the loss of state and local tax revenue from out-of-state sales. Another major goal is to encourage Congress to enact federal legislation to allow states to require out-of-state sellers to collect sales tax on remote sales. SSUTA seeks to accomplish this goal by mitigating the burden on interstate commerce that arises from the multiplicity of sales taxing jurisdictions and the lack of uniformity and consistency in tax application by those jurisdictions.

Member States

SSUTA allows states to participate in the agreement at four levels.

- **Full members** are states that have adopted laws, rules, regulations, and policies that comply with each provision of the agreement and the changes are in effect.

- **Contingent members** are states that have made all of the changes to their statutes, rules, regulations, and policies that are necessary to comply with SSUTA, but the changes have not yet taken effect. The changes must be scheduled to take effect no later than the first day of a calendar quarter that is no more than 12 months after the state's proposed date or entry into the agreement.

- **Associate members** are states that have achieved substantial compliance with the agreement, taken as a whole, but not with each of its specific requirements.

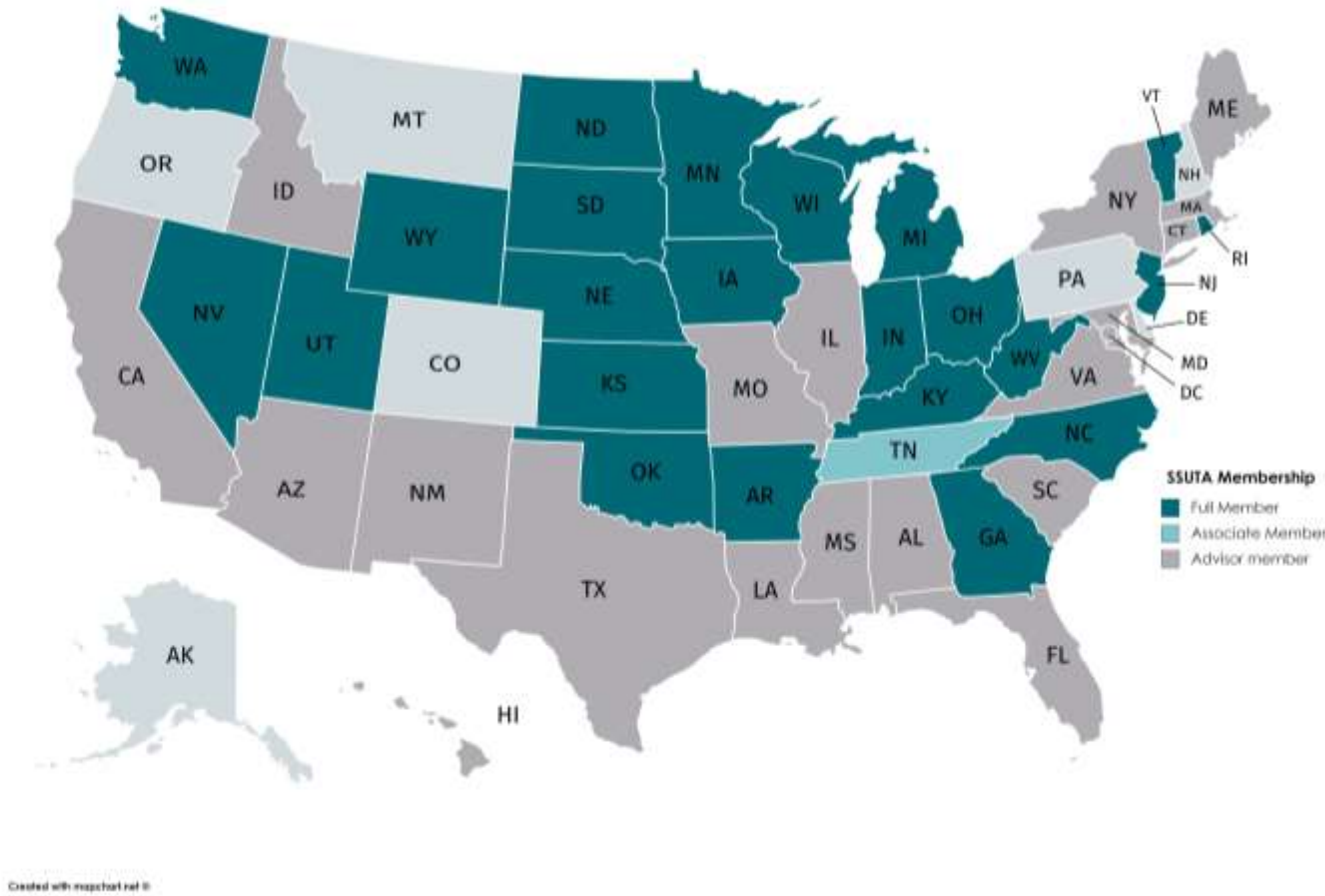
- **Advisor members** are states whose sales tax laws, rules, regulations, and policies do not comply with SSUTA but that either (1) participated as implementing states before October 1, 2005, or (2) took formal action (e.g., enacted legislation) authorizing the state to participate in interstate discussions. Advisor states have representatives on the SSUTA governing board, but they are not allowed to vote, serve on certain of the board's standing committees, or participate in closed meetings of the full board or its committees.

Table 1: SSUTA Member States

Full Members	
Arkansas	North Dakota
Georgia	Ohio
Indiana	Oklahoma
Iowa	Rhode Island
Kansas	South Dakota
Kentucky	Utah
Michigan	Vermont
Minnesota	Washington
Nebraska	West Virginia
Nevada	Wisconsin
New Jersey	Wyoming
North Carolina	
Associate Members	
Tennessee	
Advisor Members	
Alabama	Maine
Arizona	Maryland
California	Massachusetts
Connecticut	Mississippi
District of Columbia	Missouri
Florida	New Mexico
Hawaii	New York
Idaho	South Carolina
Illinois	Texas
Louisiana	Virginia

SSUTA currently has 23 full members, one associate member, and 20 advisory members, as listed in Table 1. Figure 1 shows a map of these states according to their membership status.

Figure 1: SSUTA Member States Map



Key Requirements

SSUTA requires member states to change their state laws to adopt the following key features:

- *Uniform tax definitions*. Although state legislatures can still determine what is taxable or exempt, member states must agree to use and not deviate from uniform definitions for taxable and exempt items and services and other key tax terms. Thus, all member states must define such things as "food" and "clothing" in the same way.

- *Simpler rates and no price-based exemptions*. Member states are generally allowed one tax rate for all taxable items or services, although a second state rate is allowed for food and drugs. Each local taxing jurisdiction is allowed only one rate. In addition, member states are generally barred from exempting items or services from sales tax based on their price.

- *State-level administration of all local sales and use taxes.* Member states must administer all state and local sales taxes and distribute tax revenue to local taxing jurisdictions. States and local jurisdictions within them must use common sales tax bases. The agreement also requires states to provide for central seller registration, uniform returns and remittances, and simplified administration of exemptions.

- *Uniform sourcing rules.* Member states must generally have destination-based sourcing rules for goods and services, although they may elect to use origin-based sourcing rules subject to certain conditions.

- *Amnesty.* Member states must provide amnesty for uncollected or unpaid sales or use tax to sellers who register to collect tax. Sellers qualify for amnesty if they (1) register to collect and remit sales or use taxes within 12 months from the date the state joins the agreement and (2) remain registered and collect the tax for 36 months. The required amnesty does not apply to sellers who (1) received an audit notice from the state, (2) are being audited, or (3) were registered with the state in the preceding year.

Connecticut and SSUTA

The Streamlined Sales Tax Commission, created by PA 07-4, June Special Session, found that Connecticut would have to make major revisions to its sales and use tax law in order to join SSUTA. Although some of the issues the commission's report raised have changed since 2008 because of amendments to SSUTA, the most significant issues raised are still salient. We briefly discuss them below.

To start, because SSUTA generally allows states to impose only one state sales tax rate for taxable items or services, Connecticut would need to amend its tax structure to eliminate or replace its multiple tax rates. Connecticut's sales tax is generally 6.35%, but it also has other rates for room occupancy charges (15%); computer and data processing services (1%); boats, boat motors, and boat trailers (2.99%); certain luxury items (7.75%); short-term car rentals (9.35%); and motor vehicles sold to active duty U.S. military members stationed in Connecticut (4.5%). Although some member states have removed their room occupancy tax from their sales and use tax and replaced it with an excise tax, SSUTA explicitly prohibits states from imposing a replacement tax on any good or service defined in the agreement that effectively circumvents the agreement's intent.

In addition to the prohibition on multiple tax rates, SSUTA requires uniformity in tax base definitions. Legislatures in member states can determine what is taxable or exempt, but in making those decisions, they must use and not deviate from uniform definitions for taxable and exempt

items and services and other key tax terms. Many of SSUTA's definitions differ from Connecticut's. For example, SSUTA's definition of "candy," which excludes any preparation containing flour, would exempt many types of candy bars from Connecticut sales tax that are currently taxable.

SSUTA also prohibits states from exempting items or services from sales tax based on their price. Connecticut currently has several exemptions based on price, including (1) items costing $20 or less sold by certain nonprofit organizations and schools; (2) the first $2,500 of funeral expenses; and (3) sales of certain gift shop items for $100 or less by nursing homes, rest homes, residential care homes, convalescent homes, or adult day care centers.

Additional Resources

Streamlined Sales and Use Tax Agreement. Adopted November 12, 2002, and amended through May 3, 2018.

State Guide to the Streamlined Sales Tax Project: An Overview and Guide for State Lawmakers and Tax Administrators Explaining the Streamlined Sales Tax Project. Streamlined Sales Tax Governing Board. May 3, 2018.

Frequently Asked Questions. Streamlined Sales Tax Governing Board. Accessed July 6, 2018.

Streamlined Sales Tax Commission Report. Streamlined Sales Tax Commission. January 2008.

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