

HOUSE BILL REPORT

HB 1706

As Passed Legislature

Title: An act relating to granting the department of revenue the authority to issue direct pay permits.

Brief Description: Authorizing the department of revenue to issue direct pay permits.

Sponsors: By Representatives Morris and Cairnes; by request of Department of Revenue.

Brief History:

Committee Activity:

Finance: 2/14/01, 2/21/01 [DP].

Floor Activity:

Passed House: 3/9/01, 94-0.

Passed Senate: 4/10/01, 47-0.

Passed Legislature.

<h3>Brief Summary of Bill</h3>

- Authorizes a direct payment permit program under which a taxpayer may remit state and local sales and use taxes directly to Department of Revenue rather than to the retailer.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 10 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos, Van Luven and Veloria.

Staff: Rick Peterson (786-7150).

Background:

The sales tax is paid on each retail sale of most articles of tangible personal property and certain services. Taxable services include construction, repair, telephone, lodging of less than 30 days, restaurant meals, physical fitness, and some recreation and amusement services. The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition has not been subject to the sales tax. The use tax commonly

applies to purchases made from out-of-state firms.

The state tax rate is 6.5 percent. Local sales and use taxes also apply. The local sales tax is imposed by the jurisdiction in which the sale occurs. The local use tax is imposed by the jurisdiction where the property is first used. The total state and local sales tax rate imposed is between 7 percent and 8.6 percent, depending on the location.

The sales tax must be collected by the seller from the buyer and is held in trust by the seller until paid to the Department of Revenue. The use tax must be collected from the buyer by a business that maintains in this state a place of business or a stock of goods, or engages in business activities within this state. In all other cases, the use tax must be paid by the user.

Taxpayers who report taxes of over \$240,000 per year on the combined excise tax return are required to remit the tax by electronic funds transfer to the Department of Revenue.

Direct payment is a program that allows a business to buy goods without payment of sales tax to the seller at time of purchase. Instead, the business would pay the sales tax due, if any, directly to the Department of Revenue. According to a survey by the Federation of Tax Administrators, 33 of the 40 states with sales taxes provide for the direct payment of sales tax. Application procedures, requirements, and restrictions vary widely. For example, California limits the program to taxpayers with at least \$75 million in taxable purchases in each calendar quarter, while Idaho allows participation whenever it is to the "mutual convenience of the Tax Commission, the taxpayer, and the taxpayer's vendors."

Summary of Bill:

A direct payment permit program is created under which a taxpayer may remit state and local sales and use taxes directly to Department of Revenue rather than to the seller. Generally the local tax will be assigned to the taxpayer's location rather to the seller's location.

Taxpayers who remit taxes through electronic funds transfer or make taxable purchases of at least \$10 million annually may apply to the Department of Revenue for permission to directly pay sales and use taxes. The Department will approve or deny applications based on the taxpayer's capability with regard to local sales and use tax coding, vendor notification, record keeping, electronic data, and tax reporting procedures.

Sellers of products for which a purchaser uses a direct pay permit are relieved of the duty to collect and remit sales or use tax.

Direct pay permits may not be used when purchasing meals or beverages, motor vehicles,

trailers, boats, airplanes, auto towing services, hotel-motel services, auto parking, landscape maintenance services, telephone services, and personal services, such as amusement and recreation services, physical fitness services, and tattoo parlor services.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on August 1, 2001.

Testimony For: Of the 45 states with sales taxes, 33 have some provision for direct payment of sales tax. This is an administrative simplification for the Department of Revenue. This bill would provide efficiencies for businesses and the department. Purchasers will no longer have to educate vendors about whether items are subject to sales tax or exempt. It will reduce paper work. It will prepare the state for paperless invoice transactions. It will assist with centralized audit review.

Testimony Against: None.

Testified: Tim Sekerak, Department of Revenue; Sandi Swarthout, ALCOA; and Naomi Rush, ALCOA.