The SSTP and Technology: Implications for the Future of the Sales Tax

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FINAL SUMMATION

Technological advances have greater implications for the sales tax than for any other tax imposed in the U.S. The implications go far beyond how taxes are administered and complied with to include such things as changes in the form and types of intermediate and final products that are purchased (e.g. digitized products) and the ways in which these products are distributed (e.g. music downloads). Both the private and public sectors are struggling to accommodate the sales tax, a tax that owes its heritage primarily to the 1930s' environment of mom and pop stores selling tangible goods, to today's modern business environment and the shift towards services and intangible products. Collecting tax on rapidly rising mail order and online sales is often very difficult, and new types of products, such as electronically delivered movies and music and various telecommunications services pose new sourcing and tax enforcement issues. Advances in technology create new problems, but also may provide businesses and governments with the tools to solve them.

This paper focuses on one aspect of this evolving puzzle - how recent technological advances affect compliance and administration. Further we examine the implications of this changing environment for the vendors tasked with the burden of remitting sales and use taxes and for the state and local governments that assess them. In analyzing this puzzle, the emphasis is on how technologies can operate through developments in the Streamlined Sales Tax Project (SSTP) to enhance administration and compliance.

The analysis provides several lessons. First, use taxes due on remote (e-commerce, mail order) transactions often go unpaid because vendors without physical nexus are not required to remit tax based on sales to out-of-state customers. The SSTP attempts to address the issue of untaxed remote sales using the same technology that both is contributing to the problem and enhancing firms' capacities to comply with the tax. Progress so far is promising, but the SSTP still needs Congressional action (or the U.S. Supreme Court reversing its earlier rulings) to reach its goals, and such prospects are uncertain. The evidence indicates that firm compliance costs are being reduced through streamlining, somewhat increasing the likelihood of Congressional action or new Court decisions.

Second, even if the SSTP and the broader role of technology are successful in allowing better sales tax administration and compliance, significant issues with the sales tax remain that cannot be directly addressed by technology. The existing broad exemption for most services is still perhaps the dominant issue threatening sales and use tax receipts, and solving the issue, which includes addressing the sourcing issues in an electronic age, will prove politically and practically difficult. Indeed, narrowing the base through frequent newly-legislated exemptions remains a related major concern.

Third, streamlining should enhance efficiency through the more effective implementation of destination sourcing requirements that reduce horizontal distortions. But distortions will remain, in particular the sales and use taxes paid on business inputs that cause pyramiding and other undesirable economic effects.

It is clear that there is much scope for reform of sales taxation in the United States, and that technology is likely to facilitate – but not guarantee – such reform.