

State and Local Tax:

Just when we thought we had it figured out!

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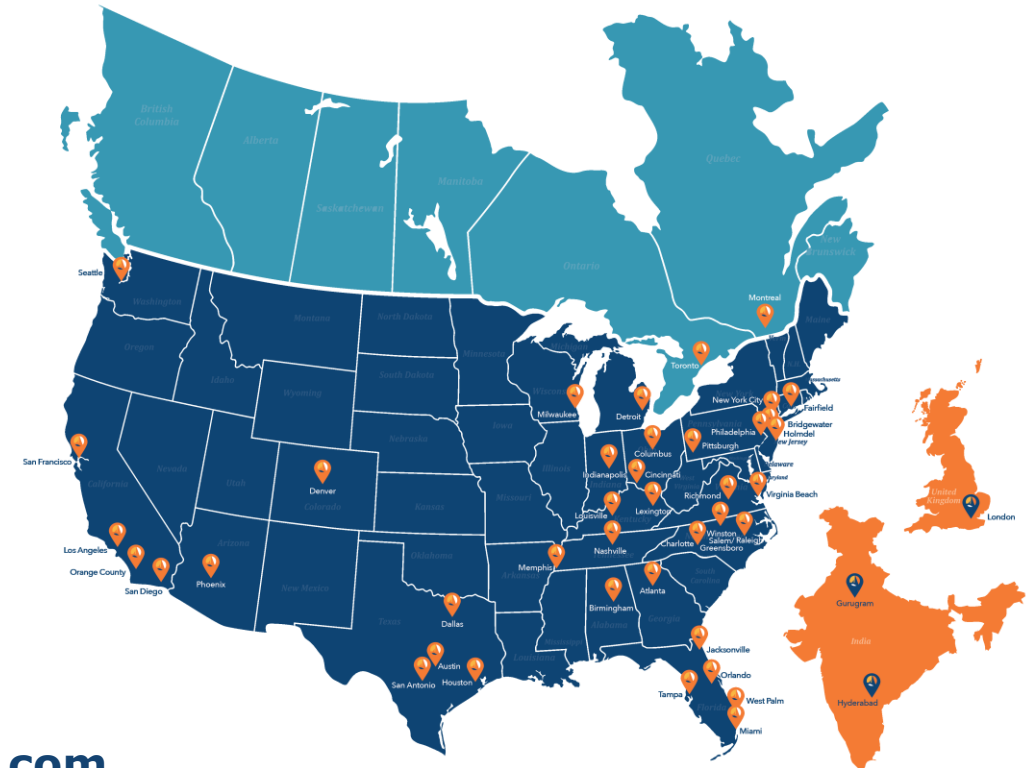
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Introductions: About Vaco

Vaco provides consultative, project-based and interim support solutions in the areas of finance, accounting, information technology, operations and managed services to more than 10,000 clients globally.

Our **San Antonio** team consists of highly skilled professionals, many with at least 10+ years of experience, and backgrounds in both public and corporate accounting. This expertise enables us to hit the ground running and quickly provide our clients value.

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Today's Learning Objectives

- Gain a general understanding of notable changes and what to expect going forward within the state and local tax landscape
- Obtain insight on state and local tax enforcement initiatives (e.g., audits)
- Understanding the technical complexities, organizational impacts, state trends, and pitfalls of managing sales and use taxes

Introductions: Today's Presenter



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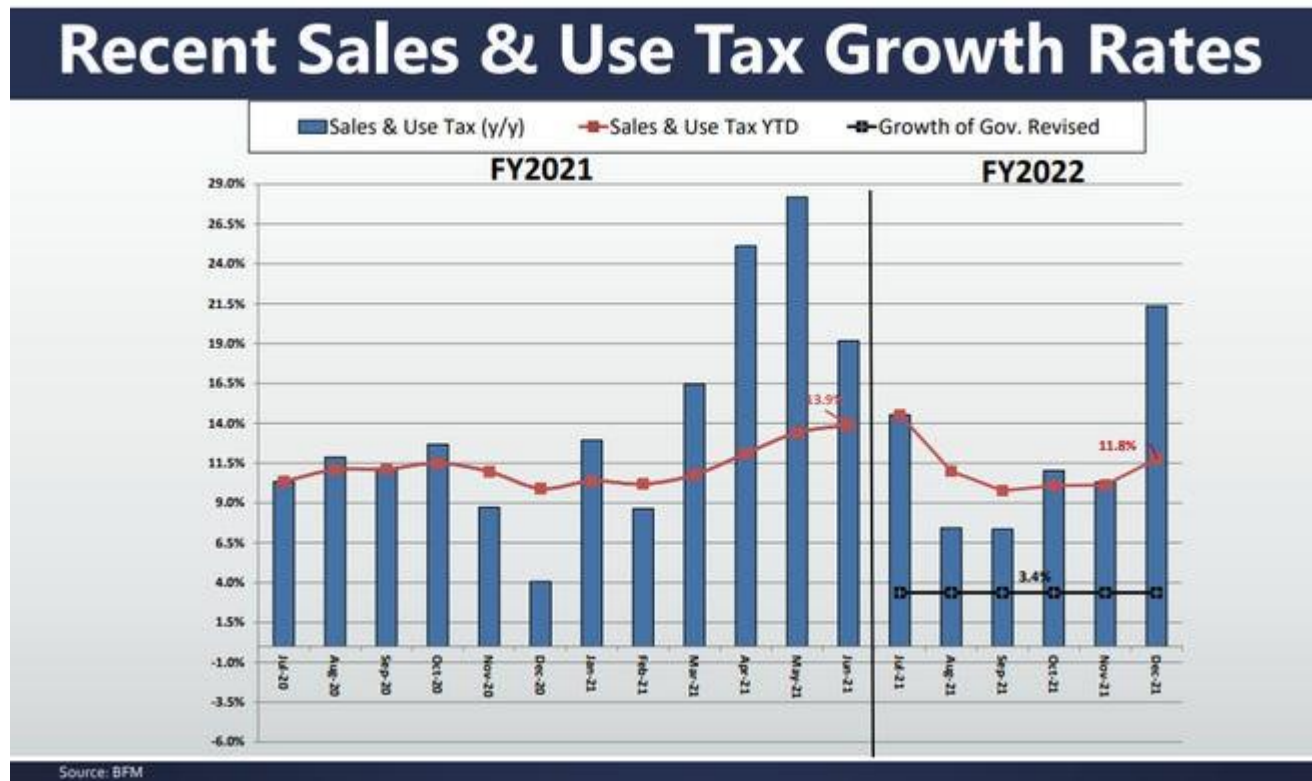
Agenda

- State and Local Tax Landscape
- State and Local Tax Outlook
- Structural and Procedural Changes
- SALT & Inflation
- Q&A



SALT LANDSCAPE

State and Local Tax Landscape



42 states reported higher sales and use tax revenue.

27 of which reported an annual growth of over 20%.

State Budget Impacts

Remote sales rose from \$3.2B in 2018 to \$23.1B in 2021

State Remote Sales Tax Revenue Collections from 2018 to 2021				
Year	Revenue from all remote sales (in millions)	Number of states reporting	Revenue from remote sales via marketplaces (in millions)	Number of states reporting
2018	\$3,200	21	\$344	5
2019	\$6,735	28	\$1,276	12
2020	\$16,328	31	\$6,529	20
2021	\$23,104	33	\$9,539	20

Source: GAO survey of the 45 states with a statewide sales tax and the District of Columbia. | GAO-22-106016

Economic Nexus Legislation:

- **As of 2021, all states now have an economic nexus regulation**
 - All enforced except Missouri, will implement remote seller nexus in 2023.
- **Economic nexus has had a significant impact**
 - Sales taxes lead all sources of revenue
 - 29.5% of all state tax revenue
- **Economic thresholds drop;** making it easier for taxpayers to meet

SALT OUTLOOK

Changes and Enforcement

What taxpayers are facing:

- **Tax rate changes**
 - New Mexico: Reduced state sales tax rate from 5.125% to 5%
 - Local jurisdictions: Enacting sales tax for the first time
 - Missouri (just shy of 1800 local jurisdictions), Kansas and Texas closely behind
- **Expansion of sales and use tax base**
 - Taxing more services; digital products and digital code
 - Legislatively
 - Audit Field Work

Changes and Enforcement

What taxpayers are facing:

- **Creation of new taxes**

- Digital Advertising Tax (Arkansas, Maryland, Nebraska, New York, Texas, Washington)
- E-Cigarette Tax (Texas)
- Retail Delivery Fee (Colorado)

- **Audits.... Audits.... Audits**

- Economic nexus audits are increasing
 - Focusing on registrations
 - Alaska pursuing businesses they expect to be registered but are not
- Remote workers

SALT Outlook: Continued...

Economic Nexus Enforcement:

- **Economic thresholds drop**; making it easier for taxpayers to meet
 - Arizona and Tennessee
- **Home rule jurisdictions to piggy-back off state's economic nexus rules**
 - Alabama, Alaska, Arizona, Colorado, Louisiana
- **Marketplace facilitators and marketplace sellers**
 - States differ in who is considered a facilitator
 - Began with sales tax, and may continue to meals, lodging, amusement, and local taxes

STRUCTURAL AND PROCEDURAL CHANGES

Structural Multi-State Changes

New Mexico:

- **Local rates: “origin-sourced” to “destination-sourced”**
- **Compensating tax (use tax changes)**
 - Sale of TPP vs services

Illinois:

- **“Leveling the Playing Field”**
 - Retail Occupation Tax: “origin-sourced” to “destination-sourced”
 - Did it really level the playing field for remote sellers?

Texas:

- **Internet-based transactions: “origin-sourced” to “destination-sourced”**
 - Facing local legal action – changes on hold pending outcome...

Texas Procedural Changes

“Pay to Play”:

- **H.B. 2080 effective September 1, 2021**
 - Elimination of “pay to play” system for judicial review of tax cases
 - Eases financial burden on taxpayers who wish to formally dispute their taxes

Public Record:

- **H.B. 2857 effective September 1, 2021**
 - Related to audit taxpayer information; was published six days after audit notice was issued
 - Law now requires 20 days

Tax Certificates:

- **S.B. 296 effective June 7, 2021**
 - 60-day notice is now a 90-day notice

SALT & INFLATION

Results of Inflation

State legislatures targeting specific state and local taxes:

Motor Fuels Tax temporary changes:

- **Connecticut** – Suspends excise tax on gas (April to June)
- **Florida** – Reduces MFT rate by 25.3 cents/gallon (October)
- **Georgia** – Suspends excise tax on motor fuel (March to August)
- **Maryland** – Suspends MFT (March to April)
- **New York** – Suspends state sales tax on gas (June to December)
- Proposed legislation: Alaska, Illinois, Maine, Missouri, Rhode Island, South Carolina

Results of Inflation

State legislatures targeting specific state and local taxes:

Sales Tax on Groceries temporary changes:

- **Kansas** – Rate reduction from 6.5% to 4% in 2023. In 2024, it further drops to 2%; becomes fully exempt in 2025
- **Illinois** – Eliminates existing 1% rate on groceries for on year beginning July 2022
- **Tennessee** – Eliminates existing 4% rate on groceries for month of August
- **Virginia** – Already has a reduced food rate, however, further reduces rate to 1% in 2023
- Proposed legislation: Alabama, Hawaii, Utah

Results of Inflation

State legislatures targeting specific state and local taxes:

Brand new Sales Tax holidays

- **Florida** –
 - Children’s books, diapers, and clothing
 - Energy Star appliances
 - Home gardening supplies
 - Tools used by skilled trade workers
- **Illinois** – Clothing and school supplies
- **New Jersey** – Back-to-school supplies

Questions?



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