SALES TAX COMPLIANCES AND RULES FOR MULTI STATE BUSINESSES IN USA

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ABSTRACT

Every state has its own set of regulations on sales, income, and employment taxes, making it difficult to stay in compliance when filing taxes in more than one state. An organization's financial line may take a major hit if its leaders don't take the time to learn about and adequately handle these responsibilities. Ignoring them can result in fines, audits, and unexpected liabilities. Revenue authorities set audit selection guidelines to optimize audit assessments based on taxpayer information reports and available resources. A comparable game is tax enforcement and sales tax compliance. Companies act as tax collectors on behalf of their customers when it comes to the general sales tax. Underreporting gross sales or abusing usage and exempt tax rules are two ways in which a business owner might reduce their statutory tax burden when it is collected. To better understand the sales tax compliance-enforcement framework, it is necessary to first analyze the firm's conduct. Based on the well-known Von-Neumann-Morgenstern model for uncertain decision-making, it is believed that firms act in a way that resembles the risk-averse entrepreneurial owner/manager's goal of maximizing the anticipated utility of earnings. If the entrepreneur has already decided whether to produce or sell, then the remaining decision is to determine what percentage of the total sales tax proceeds will not be sent to the revenue authority.

Keywords: *Sales Tax; Compliances Rules; Multi State; Businesses; USA*

INTRODUCTION

Historically, state tax systems have relied heavily on sales taxes. The states' dependence on this tax has grown throughout the years. Local governments have also started to favor sales tax as of late. Similar to how property taxes have traditionally been a significant source of income for local governments, sales taxes are an essential source of funding for state governments (Fisher, 2017). Similar to what has happened at the state level, we are seeing municipal governments move toward a sales tax system (Fox, 2013). Furthermore, local governments' involvement in delivering services has grown substantially over the last fifty years, making the sales tax both a state and a municipal policy problem; as a result, state governments are increasingly transferring cash to local governments via state sales taxes. Concurrently, "business" taxes, such the corporation income tax, are often the center of policy debates because of the widespread belief that they have a closer relationship to economic activity.

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Substantial reform of the United States federal income tax system has been revived after the 1996 presidential campaign and the 1994 congressional elections, which saw the Republican party take control of Congress for the first time in more than 40 years. Concurrently, President Clinton and Congress have proposed policy measures that would bring the federal budget into balance by 2002 in response to increasing bipartisan concern over the deficit. Yet, even with such legislation passed, the US would have huge deficits starting around 2010 when the baby-boom generation starts to retire. The government deficit is projected to rise from around 2% of GDP in 1995 to 3% in 2005 on the present policy trajectory, according to the Congressional Budget Office (1996). The deficit will widen due to higher outlays for Medicare and social security payouts for the elderly as the baby boomer generation ages into retirement. In 2010, the CBO projects a deficit of 5% of GDP, which will rise to 11% in 2020 and 37% in 2030 unless other policy shifts occur. Obviously, deficits of this magnitude cannot be maintained. By 2030, interest payments will account for 31% of GDP.

OVERVIEW OF THE U.S. TAX SYSTEM

The federal government, together with state and municipal governments, shares the ability to tax and spend. Local and state governments get the remaining funds, while the federal government keeps around 65%. Local and state governments have traditionally received about 20% of their funding from federal matching and unrestricted grants. Many of these awards are now being reevaluated by Congress over their delivery method to local governments. In 1995, the combined revenues of the federal, state, and municipal governments in the US were $2.27 trillion, which accounted for 31% of GDP. In 1995, the aggregate deficit of the federal government was $67.6 billion, with expenditures totaling $2.34 trillion. In 1995, state and local governments had a surplus of $95 billion, more than offsetting the $162.6 billion federal deficit, or 2.2% of GDP.

Each of the three tiers of government has its own unique system of taxes. Eighty percent or more of the money that the federal government gets comes from individual and social insurance taxes. There are five separate statutory tax rates for federal individual incomes, with rates ranging from 15% to 39.6%. The effective marginal tax rate for taxpayers with higher incomes rises by 1 to 4 percentage points due to two unique aspects - the elimination of personal exemptions and the limits on itemized deductions. So, for earnings beyond $200,000, the effective marginal tax rate is about 40 to 41 percent. Among all tax returns filed in 1992, 72% fell into the 15% tax rate. A third of the total taxable income came from these individuals.

OBJECTIVES OF THE STUDY

1. To study on the U.S. Tax System

2. To study on Nature of the Sales Tax Compliance Game

MITIGATING BUSINESS TAX EXPOSURE ACROSS MULTIPLE STATES

Businesses have a lot to gain by expanding into other states, including access to new markets and more money. These benefits, however, are accompanied with additional complexities, most notably in the form of tax responsibilities. Every state has its own set of regulations on sales, income, and employment taxes, making it difficult to stay in compliance when filing taxes in more than one state. An organization's financial line may take a major hit if its leaders don't take the time to learn about and adequately handle these responsibilities. Ignoring them can result in fines, audits, and unexpected liabilities. In order to develop sustainably and stay in compliance, businesses that have activities or workers in more than one state must take the initiative to learn about and handle their multi-state tax exposure.

NATURE OF THE SALES TAX COMPLIANCE GAME

Most people see the relationship between taxpayers and revenue authorities in income tax compliance and enforcement as a game of strategy. 4 Taxpayers want to reduce their reported tax obligations as much as possible because of the audit and penalty risks. Revenue authorities set audit selection guidelines to optimize audit assessments based on taxpayer information reports and available resources. A comparable game is sales tax compliance and enforcement. Companies act as tax collectors on behalf of their customers when it comes to the general sales tax. Underreporting gross sales or abusing usage and exempt tax rules are two ways in which a business owner might reduce their statutory tax burden when it is collected. Businesses are then compelled to report sales transactions and taxes withheld to state revenue agency either monthly or quarterly. The company might be audited if there is reason to believe that they are not complying and if the necessary resources are available for the audit. The company might face fines and interest penalties for noncompliance, the exact amount of which would depend on the seriousness of the offense.

Considering the firm's conduct is the first step in developing the sales tax compliance-enforcement framework. Based on the well-known Von-Neumann-Morgenstern model for uncertain decision-making, it is believed that firms act in a way that resembles the risk-averse entrepreneurial owner/manager's goal of maximizing the anticipated utility of earnings. If the entrepreneur has already decided whether to produce or sell, then the remaining decision is to determine what percentage of the total sales tax proceeds will not be sent to the revenue authority.

MULTISTATE TAX COMPACT AND COMMISSION

States have the option to adopt the Multistate Tax Compact, a model tax system, via their own legislative processes. The Compact (www.mtc.gov/compact/html) established the Multistate Tax Commission and laid forth its general operating guidelines. The Compact's stated goal is to

- make sure that tax bases are divided fairly and that issues over apportionment are resolved,
- "strive for consistency or alignment in substantial parts of tax systems" (emphasis added)
- I support plans that aim to make taxes easier and more compliant
- "Prevent taxation that is duplicated."

Although not directly stated in the Compact, the protection of state sovereignty has been emphasized in remarks made by Commission members and in papers produced by the Commission, such as the Multistate Tax Commission Review from September 2001. The member nations' revenue secretaries serve as commissioners, and neither the Compact nor their roles are legally enforceable. Although full members must embrace the Compact, which includes UDITPA, they are not obligated to adhere to any regulations or requirements regarding uniformity and are only liable for dues. A notable example of a deviation from UDITPA in reality is the use of sales-weighted corporate income apportionment formulae by member states, as opposed to the three-factor method advocated by UDITPA. The states have the option to legally leave the organization by dissolving the Compact, which includes UDITPA. The states' willingness to voluntarily embrace policies from the Compact and the Commission shows their determination to maintain control over tax policy and administration. One major real-world effect, however, is that the Compact's central goal—the standardization of state tax systems—will remain unfulfilled.

In the early years of the MTC, the two membership categories allowed under the rules were Compact and Associate. Twelve associate members and thirteen compact members were present in 1967–68. The MTC allowed Sovereignty members in 1997–98 and Project members in 1993–1994. Many states' members have left the MTC, including: Wyoming, North Carolina, Virginia, West Virginia, Illinois, Indiana, Nebraska, Nevada, New York, and North Carolina. Certain nations have since re-joined the MTC.

The Compact outlines the Commission's responsibilities, which include researching and analyzing state and municipal tax systems and levies, proposing changes to make them more consistent or compatible, and offering resources to help people comply with their local and state tax laws. The Compact lays out the broad strokes for how uniformity rules should be drafted, how interstate audits should be carried out, and how disputes should be resolved via arbitration. Two pilot audits examined corporate income taxes and one examined sales taxes; these audits marked the beginning of the Joint Audit Program in 1969. Various impacted parties, including states and representatives of the business sector, are members of MTC's public involvement working groups, and the agency has a structured process in place for developing proposals for uniformity, which includes public hearings. Beyond the scope of the Compact, the Commission's actual operations include a wide variety of topics.

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NEED FOR STATE CORPORATE INCOME TAX COORDINATION

When it comes to research on taxes across states, the Willis Commission may have done more than anybody else. The current system of state taxes as it impacts interstate trade is detrimental for businesses and the states, according to the Willis Commission's conclusion. Furthermore, the most significant issues are not unique to any of the taxes that were examined, but rather affect all of them. The underlying tension between the way state and municipal laws handle the taxes of interstate firms and the challenges of actually enforcing compliance is a well-known source of frustration, so this is not unexpected. The tax responsibilities of sellers operating in more than one state have been increasingly expanded by the states, with the support of court sanctions. More and more businesses are being held largely responsible on a national scale by the law as the concept of taxation by the state of the market gains traction. The establishment of a strategy by the states that would enable these enterprises to perceive their tax liabilities on a national level has not occurred with the rising distribution of tax requirements. As a consequence, businesses whose operations take them across many states are subject to a patchwork of state and local taxes that is both inefficient and unfair.

Stronger remarks have been made by more recent observers. "States taxation of the income of multistate/multinational corporations remains a mess," McLure says, citing the 1959 landmark case Northwestern Portland Cement v. Minnesota as an example. (emphasis added, McLure 1986; p. 131).

Inefficiency in the economy may arise from a lack of standardization. The effective tax rates on return to capital vary among states due to variances in corporate income tax regimes. If the aggregate capital stock remains unchanged, tax reform that is revenue neutral and equalizes effective marginal tax rates among states will improve welfare. Furthermore, effective marginal tax rates may vary by sector and maybe even by firm type due to inconsistencies in state corporate tax regimes. On this matter, there is a dearth of empirical data. Using data from several EU member states, Sørensen (2001) calculated the welfare loss caused by variations in effective business tax rates. He examined a revenue-neutral tax reform that would have applied a uniform rate throughout the European Union (EU), based on the population-weighted existing marginal tax rates, rather than different rates for corporations in different nations. Achieving such standardization would boost welfare by 0.16% to 0.35% of GDP, a figure he calls "disappointingly small." The welfare gain from this reform in the US would probably be even smaller than what Sørensen estimates for the EU, considering the larger effective marginal tax rates within the EU compared to U.S. state corporation income taxes and the larger differences in tax rates across the EU compared to interstate differences within the US.

SHIFTING BUYING PATTERNS

The landmark judgment before Wayfair was Quill Corp. v. North Dakota (Quill). A "substantial" physical presence inside a state was defined as being necessary for a firm to be obligated to collect and pay taxes, according to this 1992 opinion. A one-day presence is now considered "substantial" in certain jurisdictions after the phrase was watered down and eviscerated over the years. A company's sales tax liability in any one state may extend to any number of workers, independent contractors, or affiliates engaged in business inside that state on any given day. The topic of sales and use tax, which are levied on purchases by state, county, and local governments, has received very little attention from lawmakers. It is very doubtful that Congress will take action to standardize the federal approach to sales and use taxes at this time, given that they did not do so in the 25 years after Quill. No one in Congress has a clear idea of what to do next, and there are red tape hoops the feds must jump through before it can dictate policy at the state level. Following the 1992 Quill decision, Americans' purchasing habits underwent a sea shift.

People nowadays seldom go out of their way to find a thing. The majority of consumers now choose to purchase online due to the ease it offers. Customers' habits have shifted due to improvements in online shopping security, lightning-fast delivery, and the sheer number of products offered. An opportunity for the Wayfair lawsuit arose as a result of these two events. The Wayfair case considerably increases the pool of companies who are obligated to pay sales and use taxes, even if the physical presence standards are still in effect. A certain threshold of salesand/or transactions inside a state or jurisdiction is now considered sales tax nexus according to the Wayfair ruling. Economic nexus is the new buzzword in town. South Dakota arbitrarily imposed a $100,000 sales barrier, or 200 transactions into the state, to enable them to collect sales and use taxes. Some states went lower, while others went higher, and still others did away with these Court-mandated limitations entirely. This was because the case allowed other states to select their own money and/or transaction requirements.

INCONSISTENT RULES & ENFORCEMENT

Wayfair regulations are difficult to implement uniformly because to differences in economic nexus standards among jurisdictions and states, which affect effective dates, transaction requirements, revenue criteria, and more. As a result of the deluge of corporate feedback, the majority of governments tasked with implementing economic nexus are rushing to find loopholes in the new regulations. Reactions from the government take time. A number of states have begun to seek legislative amendments that would do away with the transaction count entirely and keep the trip wire as a pure economic instrument, with sums ranging from little to large.

The Wayfair legislation, for instance, took effect on April 1, 2019, in the Golden State. Nevertheless, the local authorities were able to link up with Wayfair since the state is state

collected. All firms, whether they're based in the state or not, may benefit from automation when it comes to tracking sales activity in each district. This way, when the threshold is triggered on the following transaction, all taxes can be prepared and sent automatically.

As far as sales and use taxes go, Colorado is right up there with the worst of them. Each of Colorado's more than seventy-one home rule communities has its own unique licensing requirements and tax structure. These home rule communities are exempt from Colorado's Wayfair statute, which covers only state law; yet, several of these municipalities have started notifying merchants from out of state that they must register. To protect your customers' interests, research thoroughly to see whether a home rule city may enforce before registering a firm that isn't need to be registered. Businesses in Colorado might be faced with annual license maintenance costs exceeding $20,000 if all communities were to implement a sales tax requirement.

The Department of Revenue extended a grace period to companies prior to enforcement, first until March 31, and then again until May 31, 2019, despite though Colorado originally established the effective date for Wayfair adoption as December 1, 2018. Setting up processes and meeting the state filing requirements for compliance was a huge undertaking. Companies are still putting in a lot of work trying to stay up with the ever-changing regulations.

There is a lack of clarity on the procedures and regulations that apply to the over 10,000 taxing jurisdictions in the United States. Outsourcing part or all of the process of interpreting risk, reducing exposure, and staying current in sales and use tax compliance is a good option for businesses that don't have the in-house resources to delve deeply into the rules and regulations.

ROLE OF SALES TAX AUTOMATION

Automation of sales taxes has gone a long way since its inception forty years ago. A variety of sales tax automation solutions have recently become available, making compliance easier and cheaper for even the tiniest multi-state enterprises and startups. Given the ever-changing sales tax requirements in the United States, it is prudent to delegate as much as possible to an automated tool.

The complexity and multi-level nature of sales tax compliance necessitates that management first determine who they are, where they are, and how best to comply by removing layers of complexity based on jurisdiction (state, municipal, home rule, special district), activity, and kind of tax.

When combined with an in-house team or an outsourced compliance partner, technology can offer valuable and time-saving data. However, it cannot replace human expertise when it comes to making these decisions and effectively managing sales tax from registration to remittance, audit to penalty resolution.

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ROADMAP TO COMPLIANCE

The purpose of sales tax automation technologies is to facilitate future sales tax compliance, so they are prospective in character. They don't take responsibility for previous actions or address cases of non-compliance. To achieve this goal, companies must take a more holistic view of the events—both recent and far in the past—that have an effect on sales tax obligations and the risks associated with them.

- Taxability, exposure, and relationship
- Practical and legal factors to take into account when deciding where to comply
- Discussing procedures for penalty abatement and remediation

It is not possible to automate the process of interpreting laws, rules, and regulations. Management gains the understanding necessary to make critical choices about compliance by working with a certified sales tax consultant through each aspect of compliance.

Identifying exposure using a simplified nexus study is the first step in gaining information. This sheds light on the company's revenue creation by jurisdiction, both state and municipal, and how the firm generates its income. You can easily evaluate the relative risk throughout the nation and find out what is needed to establish nexus by doing a nexus evaluation. If a firm wants to start fixing things, it should look to the bigger states first. States like California, Florida, Illinois, New York, and Texas, which have very dense populations, might fall into this category.

The company's controls, including the procedures for creating and processing sales orders, as well as their compliance evaluation. In states where sales are distant, gather information such as gross income and the number of transactions in order to file the correct forms.

Because every US state has its own unique set of regulations, rates, and exemptions, it may be difficult for firms operating in more than one state to ensure that they are in full compliance with sales tax laws. Making sure you're accurately computing, collecting, and remitting sales tax is crucial if your business operates across more than one state.

STEPS FOR MANAGING MULTI-STATE SALES TAX COMPLIANCE:

1. Find your physical or economic connection in every state.
2. Get a sales tax permit in every state where you're doing business.
3. Keep yourself updated on the unique tax laws, exemptions, and rates for every state.
4. Make rate computations easier and more accurate using automated sales tax software.
5. When necessary, collect sales tax.
6. Each state's sales tax returns must be submitted punctually.
7. Document everything for any audits.

8. Keep an eye on the ever-changing tax rules and be sure to update your systems accordingly.
9. The best course of action is to get the counsel of a tax specialist.

With the correct procedures in place, you may simplify and reduce the likelihood of noncompliance when dealing with sales taxes in more than one state.

VARIOUS STATE AND LOCAL RETURNS OF SALES TAX COMPLIANCE

It is often believed that the most straightforward aspect of sales tax compliance is compiling the necessary statistics and delivering them to the relevant governments. There are a lot of moving parts, however, not the least of which are the many state and local returns, each of which requires a different amount of information:

Oversee Reported Tax Information. Ideally, all sales tax computations would be handled by a central system, allowing for the production of a single report every month that specifies all use and sales tax responsibilities. But the truth is that varied sales tax procedures are necessary for companies due to factors such as expansion, mergers, changes in accounting systems, and the introduction of new e-commerce platforms.

Retain a Tax Schedule. It is essential to keep track of state-specific information in a tax calendar that includes the location of a company's sales tax registration, the due date of each return, the credentials to access electronic filing, and other relevant dates. Since filing frequency might vary or businesses can register in more than one state or municipal jurisdiction, this tax calendar will need maintenance and updates over time.

Get ready to file. The capacity to generate and submit paper and electronic returns is an essential component of any sales tax compliance procedure. An electronic filing fee is required by the majority of states. Many local governments still insist on paper returns accompanied by a check. When it comes to internal deadlines, some companies may find it difficult to have payments or cheques issued on time. Regardless of internal constraints, the jurisdictions will stubbornly refuse to change their due dates.

Deal with Messages. Letters are enjoyed by jurisdictions. Important yet informative mail may be among these messages. A jurisdiction may notify its residents, for instance, that the filing frequency is changing from quarterly to monthly. There will be a penalty if you miss this update and don't submit your returns for two months. Furthermore, a deficiency notice may be sent by authorities requesting the resolution of a problem. Time limits for responding to these defect warnings are sometimes rather short—5 days, 10 days, etc.

Create a Sales and Use Tax Procedure Document. Every month, publicly traded firms and those subject to other financial covenants must provide detailed records of their sales and use tax procedure, including all controls put in place to guarantee its proper execution. These controls must also be checked and tested on a regular basis to make sure they are working correctly. To "catch-up" with all the new registrants, governments will certainly speed up their enforcement efforts. Whether or whether they participate in marketplaces, firms must handle their own procedures and obligations since each state will most likely have its own regulations. Having to handle everything by yourself is no easy feat. Compliance with sales taxes is obviously not a set-it-and-forget-it job, especially because many of the 10,000+ taxing jurisdictions are releasing new regulations. You should consider outsourcing your sales tax requirements if you want to save money, work more efficiently, and decrease risk.

CONCLUSION

Revenue authorities then set audit selection criteria to optimize audit assessments based on taxpayer information reports and available resources. A comparable game is sales tax compliance and enforcement. Companies act as tax collectors on behalf of their customers when it comes to the general sales tax. Underreporting gross sales or abusing usage and exempt tax rules are two ways in which a business owner might reduce their statutory tax burden when it is collected. To better understand the sales tax compliance-enforcement framework, it is necessary to first analyze the firm's conduct. Every state has its own set of regulations on sales, income, and employment taxes, making it difficult to stay in compliance when filing taxes in more than one state. An organization's financial line may take a major hit if its leaders don't take the time to learn about and adequately handle these responsibilities. Ignoring them can result in fines, audits, and unexpected liabilities. In order to develop sustainably and stay in compliance, businesses that have activities or workers in more than one state must take the initiative to learn about and handle their multi-state tax exposure. The company's controls, including the procedures for creating and processing sales orders, as well as their compliance evaluation. In states where sales are distant, gather information such as gross income and the number of transactions in order to file the correct forms. Because every US state has its own unique set of regulations, rates, and exemptions, it may be difficult for firms operating in more than one state to ensure that they are in full compliance with sales tax laws. The post-Wayfair era has made sales tax much more convoluted than before. Despite their claims, many suppliers still leave the most difficult aspects of sales tax, as well as the responsibility, unsolved.

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