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Connecticut General Assembly  
Finance, Revenue and Bonding Committee

Via E-mail to: [fintestimony@cga.ct.gov](mailto:fintestimony@cga.ct.gov)

**Re: CT S.B. 1047**

Dear Co-Chairs Fonfara, Rojas, and Frantz and Members of the Committee:

On behalf of the Council On State Taxation (COST), I am writing to respectfully oppose the provisions in S.B. 1047 allowing the Commissioner of Revenue Services to enter into agreements with payment processors to collect and remit sales tax on behalf of merchants. COST submitted similar comments to S.B. 1057, which included the same provisions now included in S.B. 1047. The computer hardware and software systems necessary for daily remittance of sales tax by payment processors do not currently exist. Those systems would cost retailers, banks, payment processors, and the State large sums of money to build. More importantly, even if such systems were built, they would do nothing to address delinquent remittance or increase revenue.

### About COST

COST is a nonprofit trade association based in Washington, DC. COST has an independent membership of approximately 600 major corporations engaged in interstate and international business. COST's objective is to preserve and promote equitable and nondiscriminatory state and local taxation of multistate business entities.

### Delinquent Remittance

By receiving sales tax revenue earlier, Connecticut will experience a one-time revenue boost, accelerating 13 months of revenue into a 12-month fiscal period. This is purely a "timing" difference – no new sales tax revenue will be collected. COST commends the efforts of the General Assembly and the Commissioner to address delinquent remittance, such as the measures found in H.B. 7312. However, S.B. 1047 does nothing to assist such efforts. Merchants are much more likely to be delinquent on cash transactions since card transactions have a paper trail. COST instead encourages this committee to continue to focus its attention on efforts to address delinquent remittance where it exists.

### **Costs to Retailers, Payment Processors, and Banks**

No state currently requires daily remittance by payment processors. So, to implement this unprecedented change to sales tax collection procedures, new systems would need to be developed and implemented for the information flow between retailers, payment processors, and banks. Payment processors do not currently collect information on the amount of tax due on each transaction; they only know the total charge for each transaction. At a minimum, the payment processors would need to gather additional information on the tax amount of each Connecticut sale and the retailer's taxpayer ID. Not all current card processing hardware can handle the increased information flow, and new hardware would be required. To the extent current hardware can handle the increased information flow, new software upgrades would still be required.

Moreover, each retailer, large and small, would need to implement new systems to track and reconcile all the payments. Hundreds of payment processors exist in the market today, and a single retailer may use multiple payment processors. Currently, a retailer need only track the single monthly payment it makes to the DOR; if this measure passes, a retailer would need to reconcile all payments made on its behalf by all payment processors with whom the Commissioner has an agreement. Many of the increased hardware, software, and personnel costs would be recurring costs for payment processors and retailers.

### **Costs to Connecticut**

The DOR currently receives one payment per month from each retailer. If S.B. 1047 is passed and the Commissioner enters into an agreement with a payment processor, the DOR would receive payments each day from each such payment processor for multiple retailers. The DOR would need to develop a system to track and reconcile each payment and properly credit payments to specific retailers. The DOR would also have to develop a system for tracking subsequent events, for instance, properly crediting a retailer for merchandise returns and transaction chargebacks for which the sales tax was already remitted by payment processors.

### **No Increased Revenue**

Although S.B. 1047 would accelerate the remittance of a portion of sales tax, it would result in absolutely no new revenue. It would simply change the timing cadence of revenue and accelerate 13 months of revenue into the first 12-month fiscal period it is effective. If revenue acceleration is truly the goal of this legislation, the General Assembly could simply follow the lead of other states that have required an estimated prepayment. While COST in no way endorses such prepayment requirements, it is far less burdensome than imposing the costs of building new systems to allow for remittance of sales tax by payment processors. COST also cautions you to be cognizant of the fact that accelerating sales tax revenue is a "legislative trick" that only works one time.

**Conclusion**

COST respectfully urges you to vote against the provisions of S.B. 1047 allowing the Commissioner to require daily remittance of sales tax by payment processors. The systems are simply not currently available to efficiently implement this process – as evidenced by the fact that no other state has adopted this measure. The costs to build and maintain a system to comply with the provisions, many of which are recurring costs, are not worth the one-time revenue boost to the State. If you have any questions or would like to discuss further, please do not hesitate to contact me.

Sincerely,



Patrick J. Reynolds  
Senior Tax Counsel

cc: COST Board of Directors  
Douglas L. Lindholm, COST President & Executive Director  
Gov. Dannel Malloy  
Sen. Martin Looney  
Sen. Len Fasano  
Rep. Joe Aresimowicz  
Rep. Matthew Ritter  
Rep. Themis Klarides  
Rep. Christopher Davis