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Members of the Connecticut General Assembly

***Via E-mail***

**Re: Substitute S.B. 877 (File 913)**

Dear Madam or Sir,

On behalf of the Council On State Taxation ("COST"), I am writing to encourage you to remove Section 19, relating to automatic sales tax remittance, from Substitute S.B. 877 (File 913). Section 19 would require Connecticut businesses to invest staggering sums of money to implement new sales tax remittance systems that would provide very little benefit to the State. Any of the purported benefits can be achieved without mandating huge investments by simply requiring retailers to make estimated prepayments of sales tax. While we do not advocate for advanced prepayments, it is much more efficient and, unlike Section 19, includes cash transactions.

## About COST

COST is a nonprofit trade association based in Washington, DC. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of approximately 550 major corporations engaged in interstate and international business. COST's objective is to preserve and promote the equitable and nondiscriminatory state and local taxation of multijurisdictional business entities. A significant number of COST's members do business in Connecticut and purchase a significant amount of services used in the State.

## Businesses Would Incur Huge, Unnecessary Expenses

No state currently requires daily sales tax remittance by payment processors. Because this would be a novel compliance requirement, new systems would need to be developed and implemented to accommodate the increased 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, 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 doing business in Connecticut, large and small, would need to implement new systems to track and reconcile all these payments. Hundreds of payment processors operate 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 Department of Revenue Services; under the proposed system, each retailer would need to reconcile a myriad of payments made on its behalf by payment processors. Many of the increased hardware, software, and personnel costs would be recurring costs for both payment processors and retailers.

I have attached a report commissioned by the COST-affiliated State Tax Research Institute (STRI) estimating the expenses that would be incurred by the business community to build the necessary new systems for a similar proposal in Massachusetts. STRI collected information from over twenty businesses on the costs to design, implement, test and operationalize an accelerated sales tax collection system. Respondents included retailers, payment processors, and financial institutions. Based on these responses and on publicly available data on the number and size of retailers and payment processors, the attached STRI report concluded that the proposed accelerated sales tax remittance program could cost businesses $1.22 billion in up-front costs and an additional $28 million in annual recurring costs. While these are very high-level estimates based on the best data available in a short timeframe, they nonetheless indicate that an accelerated sales tax remittance system would impose a significant financial burden.

## The State Would Receive No Real Benefit

The State would receive no new revenue from the proposal. The proposed accelerated sales tax remittance system would result in, at best, a one-time revenue shift that results from accelerating thirteen months of revenue into a twelve-month fiscal period. Other purported benefits include "fraud prevention" by providing prepayment by retailers that otherwise might fail to remit the tax collected. Sales tax remittance by payment processors, however, has no impact on the cash economy (other than potentially driving noncompliant taxpayers to the cash economy).

## Acceleration of Revenue Can Be Achieved Without Huge Infrastructure Changes

All of the alleged "benefits" can be achieved much more cheaply and efficiently through other means such as a monthly estimated tax payment. Twenty other states require some sort of estimated prepayment, and the business community does not have to build new systems to do it. To be clear, COST does not advocate for an estimated prepayment. But at least it would not require the business community to needlessly build costly new systems to comply.

## The Only Party Pushing This Idea is One That Seeks to Profit, at the Expense of the State, from Additional Complexities

The only business supporter of the concept of automated sales tax remittance is STAC Media, LLC, a company that claims to have patented the concept of "real time" sales tax collection on debit and credit card purchases. The company does not purport to offer any software for sale, so it will likely seek to profit in Connecticut by claiming a royalty. When it was pushing the idea in Connecticut in the past, it sought a royalty fee of .25% of total Connecticut sales tax collected. If successfully claimed, this would amount to huge annual expense to the State in exchange for one-time revenue.

**Conclusion**

For the reasons outlined above, COST urges you to remove Section 19 from the budget. To the extent that creates any budget gap, COST urges you to fill that gap by simply requiring an estimated sales tax prepayment as is done in several other states. If you have any questions or would like to discuss this matter further, please do not hesitate to contact me.

Sincerely,

Patrick J. Reynolds

cc: COST Board of Directors
Douglas L. Lindholm, COST President & Executive Director