

The Institute for Professionals in Taxation®: Locally Administered Sales and Use Taxes

Executive Summary

The Institute for Professionals in Taxation® (IPT) is dedicated to pursuing the uniform and equitable administration of state and local property, income, ad valorem and sales & use taxes; to minimizing the cost of tax administration and compliance; and to delivering a high degree of professionalism governed by a strict code of ethics.

The Institute for Professionals in Taxation, founded in 1976, is a 501(c)(3) nonprofit professional association serving over 4,200 members representing approximately 1,450 corporations, firms and taxpayers throughout the United States and Canada. More information about IPT is available at ipt.org.

For more information or for questions regarding the study, contact: Chris Muntifering, CMI,
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IPT is pleased to release this report resulting from the Institute's first commissioned research initiative: "Locally Administered Sales and Use Taxes," IPT retained the accounting firm KPMG to research and perform this study to address the increased role that local sales taxes have assumed in financing local governments. All survey data was collected in late 2015. In considering the importance and impact of these taxes to and on our membership, as well as the impact on the American tax system, we observed there are an estimated 10,000 local jurisdictions that impose a general retail sales tax in the United States – not even considering the more selective sales taxes (*e.g.*, special taxes on lodging or food and beverages).

For taxpayers, the cost of complying with these myriad taxes is a significant challenge; for governments, challenges include the cost of administering the taxes (relative to the perceived benefits of the taxes), tax coordination, tax implementation, and fiscal equalization. Consistent with the goals of the Institute, this report provides a balanced view of these challenges faced by both taxpayers and governments.

As this report notes, these challenges are exacerbated when the local sales taxes are administered by the localities themselves, rather than by their respective state tax administration agencies, in conjunction with the administration of the state sales taxes. For this reason, IPT retained KPMG to focus its research on locally administered sales taxes. Although there are complexities under any taxing regime, locally administered sales taxes present unique issues because a seller, as collector, is required to interact separately with each relevant local government and often the locally administered taxes differ materially from both their counterpart state tax and one another, even within the same state.

Given these and other legitimate concerns with locally administered sales taxes, IPT sought to review the issues with more rigor and specificity. Building on the extensive survey work and research, undertaken by KPMG and a thorough review by a team of academics, this report not only explains the issues that locally administered sales taxes present but also provides an estimate of the incremental compliance costs for both taxpayers and governments, compared to local taxes administered by a single state tax administration agency.

The report has three components:

Part I identifies jurisdictions that independently administer their local sales taxes and catalogs the key characteristics of such taxes, including their procedural requirements.

Part II is an analysis and quantification of the incremental costs of locally administered sales taxes for both taxpayers and governments, based on a survey of a sample of taxpayers and local jurisdictions in five key states that have a significant number of such taxes (Alabama, Alaska, Arizona, Colorado, and Louisiana).

Part III identifies options that states and localities could pursue to simplify compliance with locally administered taxes and potentially reduce the costs of compliance and administration for both taxpayers and governments. These options, in order of the magnitude of probable benefits, include:

- improving the availability of information on locally administered sales taxes to taxpayers by requiring regular updates of information on (a) which localities self-administer their sales taxes, (b) the rates at which the taxes are imposed, (c) the tax base and administrative procedures for the taxes, and (d) contact information for their local administrators (which should be made available electronically from a centralized source in each state);
- improving the degree of conformity between state and local sales taxes by (a) requiring that the tax base and administrative procedures for locally administered taxes be consistent with the state sales tax base and procedures, (b) limiting the areas in which local tax bases and procedures may differ from the state base and procedures, and (c) requiring that information on any such differences be regularly updated (and made available electronically from a centralized source in each state);
- requiring that all locally administered sales taxes be administered instead by the state tax administration agency; and
- simplifying the rate structure for local sales taxes by (a) establishing a single, state-wide rate attributable to all jurisdictions, (b) not requiring sourcing of transactions to jurisdictions below the state level, and (c) not otherwise limiting the degree of rate variation and required sourcing of transactions to local jurisdictions by authorizing different local tax rates at only the county or parish level.

It is the intention of the Institute for Professionals in Taxation that this “Locally Administered Sales and Use Taxes” study will be used by both taxpayers and governments to help create a tax community that is better informed and, ultimately, tax regimes that better align with the needs of both taxpayers and governments.

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