

**AM No. 10-184**

**MEMO TO:** Mayor John Marchione  
City Council

**FROM:** Michael E. Bailey, Finance & Information Services Director

**DATE:** September 7, 2010

**SUBJECT:** **STAFF REPORT:** Streamlined Sales Tax

**I. RECOMMENDED ACTION:**

For informational purposes only; no action is required.

**II. DEPARTMENT CONTACTS:**

Michael E. Bailey, Finance and I.S. Director	425-556-2160
Malisa Files, Financial Planning Manager	425-556-2166

**III. BACKGROUND:**

On July 1, 2008, the State of Washington took the final step in conforming with the national Streamlined Sales and Use Tax Agreement (SSUTA) which was put in place to simplify sales and use tax collection and administration by retailers and states. For the State of Washington, putting the Agreement in place meant switching the basis of sales tax collection from point-of-sale to destination-based sourcing, resulting in a sales tax revenue shift among jurisdictions; some jurisdictions gained revenues while others saw a loss. To ease the hardship on negatively impacted jurisdictions, the State of Washington included a provision in the State's streamlined sales tax statute to mitigate losses in revenue.

During fiscal 2003-2004, the Department of Revenue (DOR) prepared preliminary estimates of the revenue gain or loss for each jurisdiction under Streamlined Sales Tax (SST). According to the DOR, Redmond was estimated to lose approximately \$550,000 per year or about 5% of the City's sales taxes at that time. However, internal estimates projected Redmond's sales tax losses at double the DOR amount or approximately \$1 million annually due to the presence of equipment manufacturers and software retailers that would presumably be shipping products nationwide.

Because of the potential losses, Redmond participated with both positively and negatively impacted cities to successfully push for full mitigation of local sales tax revenue losses incurred under the SST sourcing change. The DOR also established an advisory committee, made up of positively and negatively impacted jurisdictions, to assist the Department with the mitigation calculations. Mitigation is based on a firm by firm

comparison of sales patterns in each jurisdiction before and after the change to destination sourcing (see Attachment A for more information). The first mitigation amount to negatively impacted cities was distributed on December 31, 2008, which covered the net losses for July, August and September, 2008. Redmond received approximately \$84,000 in the first mitigation cycle, but has not been eligible for mitigation since that time.

The impact on Redmond from SST has been neutral. Since the last mitigation payment in 2008, Redmond has gained approximately \$134,000 in sales tax revenue due to the sourcing change. New retailers have appeared on Redmond's sales tax rolls that do not have a local presence, but are delivering goods and services to City residents.

The following websites provide additional information on Streamlined Sales Tax.

Washington State Department of Revenue:

<http://dor.wa.gov/Content/FindTaxesAndRates/RetailSalesTax/DestinationBased/MoreSST.aspx>

Streamlined Sales Tax Governing Board Frequently Asked Questions:

<http://www.streamlinedsalestax.org/index.php?page=faqs>

Streamlined Sales and Use Tax Agreement:

<http://www.streamlinedsalestax.org/index.php?page=modules>

Staff will continue to monitor the impacts of streamlined sales tax and will report back to the Council if there are any significant changes that occur. In the meantime, if you have questions or need additional information, please contact Mike Bailey (x2160) or Malisa Files (x2166).

/s/  
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Mike E. Bailey, Finance & Information Services Director

08/17/2010  
Date