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# BEBR

FACULTY WORKING  
PAPER NO. 777

Registration of State Sales Tax Vendors and  
Processing of Sales Tax Returns

*John F. Due*

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May 1981

Registration of State Sales Tax Vendors  
and Processing of Sales Tax Returns

John F. Due, Professor  
Department of Economics





## Abstract

The purpose of this paper is to review the aspects of operation of state sales taxation that relate to the registration of vendors - firms making sales subject to tax, and the processing of sales tax returns and payments. The states have very little problem with firms failing to register, primarily because firms cannot buy tax free for resale without a registration number. The states vary substantially in the systems used for classification of firms by type of business, though most systems are based on S.I.C.

A substantial variety of return forms is used, but the basic information required is similar: gross sales, taxable sales, exempt sales for various purposes, and other adjustments. The tendency has been to use more than one return interval, typically monthly for the large firms, quarterly for smaller ones. The greatest change over the last two decades in processing of returns is the general use of third generation computers, with entry via video units, and direct on line access to information in the computer memory. Many states have terminals (for enquiry) in the district offices as well.



REGISTRATION OF STATE SALES TAX  
VENDORS AND PROCESSING OF SALES TAX RETURNS

Successful operation of a sales tax requires the establishment of suitable operating procedures for the handling of tax returns and money received and for the ascertainment of delinquents--firms not filing and paying on time. Such procedures, in turn, necessitate a system of registration of all vendors. These operating procedures vary somewhat among the states. Optimal methods depend upon the numbers of returns and other considerations.

Registration of Vendors

All sales tax states have some system for registration of vendors. Vendors file an application for registration with the tax administration. From this application, a certificate is issued that authorizes the vendor to make sales at retail. This authorization is known as a "license" in fourteen states: Alabama, Arizona, Colorado, Hawaii, Maryland, Michigan, Missouri, Nebraska, Ohio, Pennsylvania, South Carolina, South Dakota, Utah, and Wyoming. The term "registration certificate" is used in seventeen states and the District of Columbia: Connecticut, Florida, Georgia, Illinois, Kansas, Louisiana, Maine, Massachusetts, Mississippi, New Jersey, New Mexico, New York (certificate of authority), North Carolina, Tennessee, Vermont, Virginia, and Washington. The "permit" designation is employed in Arkansas, California, Idaho, Iowa, Kentucky, Minnesota, Nevada, North Dakota, Oklahoma, Rhode Island, Texas, and Wisconsin. The West Virginia term is Business Franchise Registration Certificate (covering all related taxes); the term in Indiana, Registered Retail Merchant Certificate. The term "registration certificate" has increased in relative usage since 1960.

Several states, e.g., Virginia, South Dakota, require separate registration for each store location. More commonly, however, only one registration is required, with a listing of various locations. Even the states requiring separate registration for each location permit consolidated returns, usually with breakdown of data by location. Other states permit registration either on a consolidated or individual store basis.

Several states, including Hawaii, Idaho, Indiana, Louisiana, Michigan, Minnesota, Missouri, New Mexico, New York, Pennsylvania, and Washington, use a single registration for both sales and use tax, that is, out of state, vendors. More commonly out-of-state use tax vendors, firms located out of state but making sales in the state, are separately registered. No fee is charged even if a charge is required for sales tax registration. Many states also provide a separate type of registration for registered consumers, that is, in-state firms not

making sales at retail and therefore not obligated to register as vendors but regularly making purchases from out of state on which use tax is not collected by the suppliers. Primarily these firms are contractors, some types of manufacturing and repair firms, professional men, and the like. These firms are not entitled to make purchases free of tax under quotation of registration number, but they are sent return forms regularly for payment of use tax. Registration of such purchasers has substantial merit, and involves little work. Inevitably the reminder to pay tax on goods bought tax free increases revenue.

Mississippi requires both sales and use tax registration of all firms that make taxable sales and owe use tax on purchases. Florida requires both sales tax registration and application for permission to import from out of state and pay use tax.



A few states require registration of tax exempt institutions to enable them to buy tax free: Colorado, Florida, Maine, Maryland, Minnesota, Nebraska, New Jersey, North Carolina, North Dakota, Pennsylvania, Tennessee,

Vermont. Those meeting the requirements are issued a special number to quote their suppliers, in conjunction in some states with issuance of an exemption certificate.

A major question relates to the need for registering those manufacturers and wholesalers who do not make retail sales. Many manufacturers and wholesalers make some incidental retail sales to employees or operate coffee shops, etc., but many do not. Initially virtually all states required registration and many still do to exercise better control over purchases for resale

and purchases of materials and to collect use taxes that are due. Exemption of purchases is conditional upon quotation of a vendor account number. But careful attention to this question in a number of states, including North Carolina, Ohio, Pennsylvania, and South Carolina, and in the Province of Ontario, has led to the conclusion that such registration is unnecessary. The firms are authorized to buy tax free for resale or for use as materials by the execution of an exemption certification, without registration number. The other jurisdictions, however, fear that eliminating the registration requirement weakens control. One compromise solution is to give all manufacturers and wholesalers a registration number for exempt purchases but to classify them as inactive if they do not make retail sales, and therefore they are not sent returns.

Unlike most European and developing economies, none of the states exempt small retailers. Such exemption is regarded as unnecessary and discriminatory, as well as costing revenue. The question does arise, however, concerning house to house sellers of cosmetics, kitchenware, Girl Scout cookies, Christmas cards, etc. The last two groups of sellers are usually small children. Though the laws usually provides no exemption, by administrative action the itinerant sellers, particularly children, are not registered. Instead tax is collected if possible from the supplying firm on the retail price. This procedure is feasible when the supplier is an instate firm (since the itinerants are not registered they cannot buy tax free) or with large national organizations that are willing to cooperate with the states, as many are. But with other out-of-state suppliers it is not feasible to enforce the tax and many of the states make no serious effort to do so.

Several states are moving toward single registration for a number of state taxes--Maryland, Michigan, Mississippi (Income, Sales, Use, Contractor, Wholesalers), New Mexico.

#### Application Forms

All states provide forms for vendors to use to apply for registration, as illustrated in figures 1 and 2. The basic information required is more or less uniform, but some states require information on the financial situation of the firm, primarily for the bond requirement. There is an increasing tendency to require the employer social security number. Applications are mailed to revenue headquarters, with fee if required, except in a few states in which they are submitted to district offices.

#### Fees

Six states require an annual reissue of licenses. The chief advantage of this system is the annual purging of the lists of inactive vendors. On the other hand, this practice causes considerable nuisance for vendor and state, and inevitably some firms are delinquent in filing, though the amount due is small. The fee is \$1.00 in Michigan, \$2.50, \$8.00 for chain stores, in Colorado, \$2.50 in Hawaii, \$3.50 in Indiana, \$15.00 per store location in West Virginia. In these states, a notice to renew the license is mailed near the end of the year. In South Carolina the annual charge, which is essentially a chain store tax, is \$5.00 for a single store, rising by increments of \$5.00 for each additional store. Arizona requires renewal every five years, with a \$1.00 fee.

In thirty-eight states, the registration is permanent so long as no change occurs in the ownership of the business. No fee is required in

ST-1 (REV. 5/76)

**APPLICATION FOR CERTIFICATE OF REGISTRATION**

STATE OF GEORGIA  Department of Revenue Sales and Use Tax Unit 303 Trinity-Washington Bldg. Atlanta, Georgia 30334	Coded		
	Key Punched		
	Cert. Mailed		

EVERY QUESTION MUST BE ANSWERED IN FULL (Please print or type)

1. BUSINESS TRADE NAME \_\_\_\_\_ Area Telephone No. \_\_\_\_\_ County Where Business Located \_\_\_\_\_

2. MAIL RETURNS TO: (Street & Number, P. O. Box or RFD No.) \_\_\_\_\_ (City) \_\_\_\_\_ (State) \_\_\_\_\_ (Zip Code) \_\_\_\_\_

3. LOCATION OF BUSINESS (Street Address, Hwy., Route) \_\_\_\_\_ (City) \_\_\_\_\_ (State) \_\_\_\_\_ (Zip Code) \_\_\_\_\_

4. Is this business located within the incorporated limits of above city or town? Yes [ ] No [ ]

5. When did or will you start business for which THIS application is made? \_\_\_\_\_  
 (If out of state applicant, give date of first activity in Georgia.) (Month) \_\_\_\_\_ (Day) \_\_\_\_\_ (Year) \_\_\_\_\_

6. If a seasonal business, state months business will be open. \_\_\_\_\_

7. Type of Ownership [ ] Individual [ ] Partnership [ ] Corporation [ ] Other (Explain) \_\_\_\_\_  
 Corporate Name \_\_\_\_\_ (Date Inc.) \_\_\_\_\_ (State) \_\_\_\_\_ (County) \_\_\_\_\_

8. Name of owner(s) or Corporate Officers: \_\_\_\_\_ Title \_\_\_\_\_ Residence Address \_\_\_\_\_ Social Security No. \_\_\_\_\_  
 (See Line 8 of instructions)

9. If you have a Federal Employer's Identification number (E. I. Number) enter here. \_\_\_\_\_

10. Nature of Business. (If combination of two or more, list percentages of sales).  
 Retail [ ] \_\_\_\_\_% Services [ ] \_\_\_\_\_% Manufacturing [ ] \_\_\_\_\_% Mining [ ] \_\_\_\_\_%  
 Wholesale [ ] \_\_\_\_\_% Construction [ ] \_\_\_\_\_% Processing [ ] \_\_\_\_\_%

11. What kind of business will you operate? \_\_\_\_\_  
 (Grocery, Hardware, Jewelry, Drug, Department Store, Garage, Lumber & Building Materials, Hotel, etc.) If combination specify as:  
 Filling Station and Cafe, Hotel and Restaurant, etc.)

12. If this business operates in a Leased Department, does the Lessor report the sales tax for you? Yes [ ] No [ ]. If "yes", enter here the Lessor's name, address and Georgia Certificate of Registration: \_\_\_\_\_

13. Will you sell: (1) Alcoholic Beverages? Yes [ ] No [ ] (2) Gasoline? Yes [ ] No [ ]

14. Address at which records will be kept and telephone \_\_\_\_\_

15. List the trade name, address and sales tax certificate number of all other businesses owned and/or operated by you and/or previously owned and/or operated by you in Georgia. (If additional space is needed, attach separate sheet.) \_\_\_\_\_

16. The method of reporting will be (Cash-Accrual) \_\_\_\_\_ Basis.

17. If a former owner operated this business, fill in pertinent data below:  
 Former owner's name \_\_\_\_\_  
 Trade Name \_\_\_\_\_  
 Address \_\_\_\_\_  
 Certificate of Registration Number \_\_\_\_\_ Effective date of change \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_

18. If this business is a successor to the business shown on line 17 above, then state the amount paid former owner for inventory, equipment, building and/or other assets \$ \_\_\_\_\_

This application has been examined by me and to the best of my knowledge is true and correct.

Date Signed \_\_\_\_\_

Agent, Dept. of Revenue

(See reverse side of the original of this Application for instructions for completing. See reverse side of the copy of this Application for general information.)

SIGNATURE \_\_\_\_\_ TITLE \_\_\_\_\_  
 (Must be signed by owner, partners or authorized officer of corporation.)

## INSTRUCTIONS FOR COMPLETING, SIGNING AND MAILING THIS APPLICATION

### A. INSTRUCTIONS FOR COMPLETING

- Line 1. Enter the trade name of your business. If there is no trade name, enter your full name. In the first box on this line enter your business area telephone number. In the second box on this line enter the Georgia County only. Leave this box blank, if your business is not located in Georgia.
- Line 2. Enter the address to which report forms and notices from this Unit should be mailed. This mail address should be shown even though it is the same as indicated on Line 3 below it.
- Line 3. Enter the address where the business is located even though it is the same as shown on line 2 above it.
- Line 4. Check the proper answer - "yes" or "no". Disregard this line if the business is not located in Georgia.
- Line 5. Enter the date you actually started or will start business in this State. Out-of-State applicants should show date of first activity in Georgia.
- Line 6. If this is a seasonal business, enter the months business will be open, otherwise, disregard this line.
- Line 7. Check the proper box designating the type of ownership. If a Corporation, enter in appropriate spaces the date incorporated, the State and the County where incorporated and the name of the Corporation.
- Line 8. Enter full name(s) of owner, partners or corporate officers. Enter full title, such as owner, partner, president, V-president or Treasurer etc. Enter complete residence address. Enter full Social Security number(s). This is a mandatory requirement pursuant to Regulations 560-12-1-05; 560-12-1-09; 560-12-1-31 and 560-12-1-33 for pursuit and collection of any delinquent sales and use taxes owed by the applicant.
- Line 9. Enter your Federal Employer's Identification number.
- Line 10. Check the proper box(s) describing the nature of the business and if two or more, be sure and state the percentages of sales in appropriate spaces.
- Line 11. Enter a full description of the kind of business you operate or will operate. Refer to examples listed.
- Line 12. If this business operates or will operate in a leased department, check the proper "yes" or "no" answer. If "yes", then enter the trade name, address and Georgia Certificate of Registration of the lessor who will report and pay the sales and use tax. Disregard this line if the business does not or will not operate in a leased department.
- Line 13. Check appropriate yes or no answers as to whether you sell or will sell alcoholic beverages and/or gasoline.
- Line 14. Enter complete address at which the records of this business are or will be kept. Enter the telephone number.
- Line 15. Enter the trade name, address and sales tax Certificate of Registration of each other business presently and previously owned and/or operated by you in Georgia.
- Line 16. Enter the method of reporting sales and use tax to this Unit - cash or accrual.
- Line 17. State in proper spaces the name, trade name, business address and Georgia Certificate Number of the former owner or owners. Also, give the effective date of change of ownership. Disregard this line if this is a new business - one not previously operated.
- Line 18. If this business is a successor to the business shown on line 17 of the application, show the amount you paid the former owner for inventory, equipment, real property and other assets. Otherwise, disregard this line.

### B. INSTRUCTIONS FOR SIGNING.

This application must be signed by the owner or the partners or an authorized officer of the Corporation, as the case may be.

### C. INSTRUCTIONS FOR MAILING AND REQUESTING INFORMATION.

The taxpayer should retain the copy of this application for his file and for inspection by the Revenue Commissioner or his Agents. Mail the original to the address shown below and call 404-656-4092 or write if you have any questions or need assistance in completing the Application

DEPARTMENT OF REVENUE  
SALES & USE TAX UNIT  
303 Trinity-Washington Building  
Atlanta, Georgia 30334

THE PROCESSING OF THIS APPLICATION WILL BE DELAYED UNLESS IT IS PROPERLY SIGNED, COMPLETE INFORMATION IS FURNISHED AND APPLICABLE QUESTIONS ARE ANSWERED.



Fig. 2. Application for Permit to Make Sales at Retail

NEW  
 REVISED  
 REINSTATED

NEVADA DEPARTMENT OF TAXATION

REVENUE DIVISION

CARSON CITY, NEVADA 89710

DO NOT WRITE IN THIS

COLUMN

DEPARTMENT OF TAXATION USE

COMBINED APPLICATION FOR SELLER'S PERMIT AND REGISTRATION UNDER NRS 372, 374 AND 377

PRINT OR TYPE - NO CARBON PAPER REQUIRED

ACCOUNT NUMBER

Name of Organization (DBA) \_\_\_\_\_ Phone Area Code \_\_\_\_\_ Phone Number \_\_\_\_\_

Full Legal Name of Corporation \_\_\_\_\_

Owner's or (owner or ) (president) \_\_\_\_\_ (owner or ) (vice-president) \_\_\_\_\_

Corporate Officer's (owner or ) (secretary) \_\_\_\_\_ (owner or ) (treasurer) \_\_\_\_\_

Describe specifically and as briefly as possible the nature of your business (Attach additional sheets if necessary) \_\_\_\_\_ Will sell alcoholic beverages--Yes  No   
Will sell cigarettes-----Yes  No

Date your business started in Nevada Month \_\_\_\_\_ Day \_\_\_\_\_ Year \_\_\_\_\_ Federal Tax Identification Number 1 \_\_\_\_\_ OR if none, Social Security Number 2 \_\_\_\_\_

Type of organization (check one)  1 INDIVIDUAL  2 PARTNERSHIP  3 CORPORATION  4 OTHER (Explain) \_\_\_\_\_

INCLUDE ALL APPLICABLE ADDRESSES BELOW

A Business mailing address street \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

B Primary business location street \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

C Corporate address street \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

D Location of business records street \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

BRANCHES IN NEVADA USING THE SAME FIRM NAME MUST BE LISTED BELOW. ATTACH ADDITIONAL SHEETS IF NECESSARY.

E Business location street \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

FEE There is a \$3.00 fee for every business location in a 3 1/2 percent county and a \$2.00 fee in a 3 percent county. Total business locations \_\_\_\_\_ Fees required \$ \_\_\_\_\_

Estimated monthly gross receipts \$ \_\_\_\_\_ Estimated monthly taxable receipts \$ \_\_\_\_\_ Reporting \* (see security below) cycle (check one) 1 \_\_\_\_\_ monthly 2 \_\_\_\_\_ quarterly

SECURITY With this application, security is required equal to three times your monthly tax liability for monthly accounts; and six times your monthly tax liability for quarterly accounts. No permit will be issued unless sufficient security accompanies application. Security required \$ \_\_\_\_\_

Have you ever been issued a Nevada sales or use tax permit? \_\_\_ yes \_\_\_ no If yes, indicate account number and name.

Account number \_\_\_\_\_ Firm name \_\_\_\_\_

Was this business taken over from a former owner or operator? \_\_\_ yes \_\_\_ no

If yes, did you acquire all or only part of the sellers business activity? \_\_\_ all \_\_\_ part

Former account number \_\_\_\_\_

Former owner \_\_\_\_\_

Former firm name \_\_\_\_\_

CERTIFICATE: The above statements are hereby certified to be correct to the best knowledge and belief of the undersigned who is authorized to sign this application.

SIGNED \_\_\_\_\_

TITLE \_\_\_\_\_

DATE \_\_\_\_\_

APPLICATION TAKEN BY \_\_\_\_\_

DEPARTMENT OF TAXATION OFFICE \_\_\_\_\_

Return original to Nevada Department of Taxation. Retain duplicate for your records. DOT ST 1

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twenty-four of these states and the District of Columbia. Fees are as follows: \$1 in Connecticut, Iowa, Minnesota, Nebraska (each store), and Ohio; \$2 in Wisconsin and Wyoming; \$3 in Nevada; \$5 in Maryland (each store), North Carolina, Rhode Island and Virginia; \$10 in Massachusetts; and \$25 in Washington, with subsequent refund against tax. This Washington rule is designed to discourage persons from registering who are not legally liable to do so.

There are two schools of thought on the question of a fee. One believes business firms should pay an amount sufficient to cover the costs of handling the registration. The other argues that registration is of primary importance to the state and the vendor should not be charged. No answer to this question is obvious.

#### CHECK TO ENSURE REGISTRATION OF VENDORS

When the sales taxes were first introduced, most states made a systematic inquiry to ensure that all firms were registered. This inquiry involved checking yellow pages in telephone directories and lists of holders of store licenses, registrants under other taxes, and the like. Application forms were mailed to all such firms. In part it involved

a door to door check by compliance personnel, who visited each place of business, partly to ensure that the vendor was registered, partly to provide information.

The states soon discovered, however, that failure to register by regular businesses was very uncommon. The primary force that ensures that firms do register is their inability to buy tax free under registration number unless they do so. Most suppliers insist on the registration number because they otherwise become liable for the tax. Most states regard the problem as negligible and make no deliberate effort to check.<sup>1</sup> Some do have the

<sup>1</sup>For example, Colorado, Kentucky, Michigan, Minnesota, Nebraska, North Carolina, Pennsylvania, South Dakota, Virginia.

compliance personnel watch for unregistered firms, but without any systematic program.<sup>1</sup> Of these, Washington encounters difficulty with firms liable for the Business and Occupation tax rather than sales tax, Vermont with contractors and bars. Maryland and North Dakota indicate that audit turns up a few firms. The final group indicates some problems: Hawaii, Idaho (about one a month), Indiana (flea markets), Kansas (out of state firms), Maine (restaurants), Maryland (part-time establishments), Mississippi, Missouri, Nevada, New Jersey (flea markets).

On the whole, therefore, evasion through failure to register is a negligible problem. With an effective program of audit of wholesalers, a retailer could escape detection for any period of time only if he bought solely from out of state or from farmers or other nonregistered suppliers. Except in unusual circumstances, such as drastic change in a tax or reorganization of administration, door-to-door checks are not worthwhile.

#### Excessive Registration

Most states have some problem with registration by firms that are not required to register. Particular difficulty occurred when the tax was first introduced. In an effort to ensure that all firms that should be registered in fact did so, the states were inclined to cast their nets too wide, and register groups that should not be. Firms, being in doubt, registered when they did not need to.

The continuing problem is much less serious, but many of the states<sup>2)</sup> report some excessive registration. In part this condition results from misinformation, but some is deliberate—the desire to buy “at wholesale.” Many suppliers accept possession of a vendor’s permit as evidence that a firm is a retailer, not an individual consumer, and so will

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<sup>1</sup>Alabama, Connecticut, Iowa, Louisiana, Nevada, Oklahoma, Tennessee, Texas, Vermont, Wisconsin, Washington.

<sup>2</sup>The exceptions are Alabama, Arkansas, Indiana, Louisiana, Maryland, and Rhode Island. Arizona, Iowa, Minnesota, Mississippi, and Nevada report few instances. Most of the other states report some problems.

sell at a discount. The principal categories involved are farmers, small repair shops, contractors, antique dealers, hobbyists, and in some states, used car dealers, when the tax is collected by the motor vehicle department.

Registration of these persons results in some loss in tax revenue since they can buy tax free, though rarely does this advantage appear to be the motive. It also results in much pseudo-delinquency. Since these firms owe little or no tax and file no tax returns, they are listed as delinquents, but when they are tracked down they owe little or nothing. If they do file, the number of returns is increased with little revenue gained.

Closely related to the problem of excessive registration is that of failure to weed out the active tax roll. Most states today seek to remove the accounts of the vendors going out of business or becoming inactive, but not all are entirely careful to do so, especially with the inactives. The result is substantial dead wood, unnecessary costs of processing returns, and excessive reported delinquencies, with costs incurred to track down firms that have quit business or are not making taxable sales.

Discovery that a firm has quit business may occur when the firm notifies the revenue department. But many do not do so. The next step is the failure to file returns; with proper enquiry, by phone, letter, or visit by a compliance officer, the fact that the firm is out of business is ascertained. This system should work with a high degree of precision, and in some states it does--but for reasons not entirely clear, in a number it does not. Massachusetts, for example, by 1978 had very substantial dead wood in the active accounts.

There is also the problem of firms that continue to file returns but owe no tax, period after period, and probably should not be registered; there is the danger that they will continue to buy tax free. As a result, several states have established purge cycles; in one to three year intervals, all zero-return accounts are reviewed and those not liable for registration are removed from the active files. Pennsylvania, for example, found 21,000 accounts in 1979 that had owed no tax for three years, and a substantial percentage of these were removed from the tax rolls. But Minnesota, for example, does not review firms continuing to file zero returns indefinitely.



Many states transfer the accounts removed from the active list to an inactive file, retained for several years, in case question should arise about past liability if the firm returns to selling at retail.

#### Screening of Applications for Permits

All applications are checked as received for completeness of information, and in most states, to see if back taxes are owed from previous registration. This is not always easy to determine, as different names may be used.

More careful screening beyond this has become increasingly limited. Mississippi, North Dakota, South Dakota, and Texas all require a check by compliance personnel, partly for informational purposes, partly to see if the firm should be registered. Missouri, Nevada, and Wisconsin typically make a careful check to see if security bond is required, and, if so, how much. Florida and Tennessee check by phone.

#### Account Numbers

At present most states issue special account numbers for sales tax. The most common pattern is a number made up of a two or three digit county identification number and a five or six digit account number sequential by county, or, in California and Colorado, by district. Some states use numbers sequentially statewide. City coding is used in some. In Washington, the number is also used for the business and occupation tax; the Nebraska and New Mexico numbers are used for most state taxes. Several states-- Massachusetts, Michigan, New York, New Jersey, Texas, and West Virginia use the federal income tax employer withholding or social security number for the sales tax number so far as possible.

The obvious merit in using a single number for all taxes, preferably the federal number, is convenience and cross-auditing among taxes. But using the number is not as simple as may appear. The most suitable number is of course the employer withholding number, but many vendors have no such number. The social security numbers, in turn, are issued to individuals, not businesses, per se, and the various persons involved in the ownership of a business will each have a number. The problem is not insurmountable, and the use of a single master file number obviously represents an ultimate goal.

But at the present many states regard the change as not feasible or advantageous, partly because there is little cross audit.

Some states reissue lapsed account numbers after several years; others do not.

### Business Classification

Only three states, Alabama, Massachusetts, and Utah, have not classified businesses by type in recent years. Most states regard classification as essential, for distributing information on certain types of business; for selection of

accounts for audit; for analysis of delinquency and other aspects of operation of the tax; and for publication of statistics, as frequently sought by various organizations. Serious difficulties occur in establishing a satisfactory classification, primarily because many firms carry on more than one type of business. An attempt is made to code based on the principal activity, but it is by no means entirely satisfactory. The net result is to lessen, but not completely to destroy, the usefulness of the classification.

Twenty-three states use the Federal Standard Industrial Classification (S.I.C.), most the four digit classification, others, three.<sup>1</sup> Missouri, New Jersey, and South Carolina use a modified S.I.C. Most states do not find the pure S.I.C. entirely satisfactory and modify it to fit the circumstances of particular firms. The other states use their own classifications.<sup>2</sup>

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<sup>1</sup> The first two digits indicate the major type of business; the third and fourth give further details. For example, 56 designates the apparel and accessories category of retail trade, 561 men's and boys' clothing and furnishings stores, 5612 clothing stores in this category, and 5613 furnishing stores in the category.

<sup>2</sup> Georgia, Tennessee, and North Carolina use a common classification. Indiana, Kansas, Kentucky, Louisiana, Maine, Oklahoma, Rhode Island, Virginia, and West Virginia use their own systems.

In general these classifications are simpler than the federal, and some regard them as adequate; others would prefer shifting to the federal. The more detailed the classification, the more meaningful are the results.

One of the most serious limitations to the systems in most states is the failure to alter the classification of businesses as the activity changes. Frequently, the change does not appear in any report received from the firm. The only effective way to update the classification is to use, at five or ten year intervals, a special questionnaire sent with the return forms, designed to provide current information. But followup is rare, except when a state revamps its classification system. In many states, coding is very poor, impairing usefulness, particularly for EDP selection of accounts for audit based on norms.

#### Sales Tax Return Forms

Of key importance in sales tax operation are the tax return forms.

Card vs. Paper Returns. A decade ago the states fell into two sharply delineated groups so far as tax return forms were concerned: the IBM type card and paper returns. The cards were prepunched to facilitate processing and sorting when they were returned. But modern computers, with entry through video (CRT) keyboard or similar input unit, coupled with the increasing tendency to batch file and microfilm early in the process, has lessened the advantages of the card returns. Only nine states still use IBM type returns, Idaho, Iowa, Kansas, Kentucky, Maine, North Dakota, Pennsylvania, Virginia, and Wisconsin.<sup>1</sup> But six other states use small stiff-paper or ordinary paper returns: Rhode Island (Fig. 3), Minnesota, Arkansas,

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<sup>1</sup>Kentucky, Pennsylvania and Wisconsin still prepunch.

STATE OF RHODE ISLAND  
 DIVISION OF TAXATION 289 PROMENADE ST., PROV. R.I. 02908  
**SALES & USE TAX RETURN** Permit No.

		Return for MONTH of	19
		A. Gross sales (item 6 on reverse).	
		B. Less total deductions (item 7 total).	
		C. Net Taxable Sales	
1. Fill out both sides completely. 2. RETURN THIS FORM WITH YOUR CHECK OR MONEY ORDER. 3. See separate sheet for detail instructions.		D. Amount of tax @6% \$	
		LESS credit for sales tax paid in other states \$	
		TAX DUE \$	
FEDERAL IDENTIFICATION NO.		E. Interest @2/3 of 1% per mo. or fraction thereof of Item D from due date.	
I hereby certify that this return to the best of my knowledge and belief is a true, correct and complete return.		F. Penalty 10% of Item D if not paid when due.	
Name of Firm	Date	G. Total amount due— (total of items D, E & F)	
Signature of Owner, Partner, or Authorized Agent	Title		

T 204 This Form to be Filed by Sellers of Tangible Personal Property

SCHEDULE A	SCHEDULE B 7. LEGAL DEDUCTIONS—SALES.
1a. Gross sales.	a. Food for human consumption (grocery stores) DO NOT DEDUCT "take-out" orders sold by a restaurant, drive-in or other eating place.
1b. Unreported collections on sales prior to 6-1-77.	b. For resale
2. Room occupancy sales.	c. Interstate
3. Cost of Personal Property purchased on resale certificate but used by you.	d. To governments & exempt institutions
4. USE TAX: Cost of personal property purchased outside of state but used by you	e. Exempt Publications
5 Other additions (Describe).	f. Gasoline and other exempt fuels
6. Total sales (Total of preceding items) to ITEM A other side.	g. Cigarettes
	h. Prescription and patent medicines
	i. Clothing and footwear
	j. Sales of motor vehicles
	k. Other (Explain)
Any change in organization or ownership of business REQUIRES a new permit.	
If business has been sold or closed, answer the following:	
<input type="checkbox"/> SOLD <input type="checkbox"/> CL	
ON WHAT DATE?	IS THIS YOUR FINAL RETURN?
	<input type="checkbox"/> YES <input type="checkbox"/> NO
If sold give name of buyer	TOTAL DEDUCTIONS (to item B other side)

Fig. 3. The Rhode Island Card Type Return, front and back



New Jersey, and West Virginia. Mississippi uses a slightly larger card, and Indiana a slightly larger paper form. The primary advantage of these small returns, especially if on stiff paper, is greater ease in handling. On the other hand, there is less space for detailed information. The remainder of the states use standard size paper returns (Fig. 4). A few, such as Hawaii, use slightly smaller sizes. All provide a duplicate copy for the taxpayer files. Some are produced in form such that the duplicates are fastened to the original copies as they come off the computer printer, with carbon insert, and are mailed to the taxpayer.

Basic Information. With minor exceptions, certain information is required on all of the returns:

- gross sales
- total deductions
- net taxable sales
- tax due
- penalty and interest due, if any.

The requirement of figures of total sales is subject to some complaint, primarily from those firms that have large nontaxable sales (usually sales for resale) relative to their retail sales. Not infrequently they simply omit the figure of total sales or they manufacture one of the figures. They may keep records of taxable sales and total sales and merely derive the figure of exempt sales by subtracting one from the other. This procedure does not necessarily result in underpayment of tax.

Many states provide a separate line for tax due on taxable purchases, and lines for other adjustments. Where firms are required to remit excess collections, a separate line is provided.

# SOUTH DAKOTA

## Department of Revenue

### State and City Sales and Use Tax Return

MAIL TO: DEPARTMENT OF REVENUE, SALES TAX DIVISION, PIERRE, S. DAK. 57501 PHONE: 605-773-5141 MAKE REMITTANCE PAYABLE TO STATE TREASURER. IF NO TAXES DUE, RETURN MUST BE MAILED WITH PROPER NOTATION.					DO NOT USE THIS SPACE	
FOR THE PERIOD	RETURN DUE	BUS. CODE	FILE CODE	ISSUE DATE	LICENSE NUMBER	PERIOD

1. <b>GROSS</b> (INCLUDE CASH, CHARGE, TRADE, EXCHANGES, AND SERVICES) _____	\$
2. USE TAXABLE (ITEMS TAKEN FROM STOCK OR PURCHASED FOR OWN USE WITHOUT PAYING TAX) _____	
3. TOTAL GROSS (ADD LINES 1 AND 2) _____	

<b>4 DEDUCTIONS</b>		A	\$	
A. SALES TO OTHER RETAILERS FOR RESALE _____		B		
B. MERCHANDISE DELIVERED OUTSIDE OF STATE _____		C		
C. U. S. GOVERNMENT, SOUTH DAKOTA COUNTIES, CITIES SCHOOLS AND HOSPITALS _____		D		
D. PRESCRIPTION DRUGS AND ARTICLES _____		E		
E. RETURNED MERCHANDISE _____		F		
F. MOTOR VEHICLE SALES - NEW AND USED _____		G		
G. MOTOR FUEL FOR HIGHWAY AND AGRICULTURE USE; LP GAS FOR AGRICULTURAL USE ONLY _____		H		
H. CIGARETTES, NEWSPAPERS _____		I		
I. LIVESTOCK, FEED, FERTILIZER, SEED, PESTICIDES, INSECTICIDES, FUMIGANTS, HERBICIDES FOR AGRICULTURAL USE _____		J		
J. TOTAL PRIME AND SUBCONTRACTOR RECEIPTS RESULTING FROM REALTY IMPROVEMENT CONTRACTS WITHIN SOUTH DAKOTA BID AFTER JUNE 1, 1979 AND REPORTED ON CONTRACTOR'S EXCISE TAX RETURN _____		K		
K. OTHER (EXPLAIN) _____				
5. RECEIPTS FROM SALES OF FARM MACHINERY, IRRIGATION EQUIPMENT AND VENDING MACHINES ON OR AFTER MAY 1, 1980 (SUBJECT TO 4% TAX) _____				X.04
6. RECEIPTS FROM SALES OF FARM MACHINERY, IRRIGATION EQUIPMENT AND VENDING MACHINES PRIOR TO MAY 1, 1980 (SUBJECT TO 3% TAX) _____				X.03
7. FOOD - AS DEFINED BY FOOD STAMP ACT (SUBJECT TO 4% TAX) _____				X.04
8. ALL OTHER ITEMS NOT LISTED ABOVE TAXABLE _____ AT 4% PRIOR TO MAY 1, 1980.				X.04
9. TOTAL DEDUCTIONS AND EXEMPTIONS (ADD LINES 4 (A-K), 5, 6, 7, 8) _____				<del>X.04</del>
10. NET AMOUNT SUBJECT TO 5% STATE TAX _____ (SUBTRACT LINE 9 FROM LINE 3)				X.05

**SALES TAX LICENSES  
CANCELLATION**

1. Date business was discontinued or transferred \_\_\_\_\_

2. Name and address of new owner \_\_\_\_\_

**RETURN  
THIS COPY**

11. TOTAL CITY AND TRIBAL TAX DUE _____ (Total From Page 2) →	\$
12. _____	
13. _____	
14. PLUS INTEREST - SEE INSTRUCTIONS _____	
15. TOTAL DUE _____	\$

I DECLARE UNDER THE PENALTIES OF PERJURY THAT THIS RETURN HAS BEEN EXAMINED BY ME AND TO THE BEST OF MY KNOWLEDGE AND BELIEF IS A TRUE, CORRECT AND COMPLETE RETURN.

DATE

SIGNATURE OF LICENSEE

SIGNATURE OF PREPARER



The returns, however, differ significantly in the requirements for listing of deductions and reporting local sales tax due. Six of the card-type return states do not require a listing of exempt sales by category (e.g., food); the other eight require this listing. Spaces for the listings are provided on the back of the form in all these instances (Fig. 3). <sup>Eleven</sup> / of the 31 paper-size-return-using states likewise do not require a breakdown of exempt sales. These are Florida, Hawaii, Indiana, Maryland, Michigan, Nevada, New York, Ohio, Texas, Utah, and Vermont. The aim is to keep the returns as simple as possible, with the belief that listing of such transactions accomplishes nothing in the absence of audit and an auditor can check the figures from the firm's records.

The remainder of the states require listing of exempt sales and other deductions by category. In about half, the spaces are provided on the front of the return (Fig. 4), on the others, on the back. In New Mexico the space is on a separate page. Most states provide separate lines for each nontaxable category; a few merely provide blank spaces. The great merit of this listing requirement is to call the firm's attention to the nontaxable categories, and to provide a basis for audit selection. As with income tax deductions, returns showing disproportionate exempt sales of certain types are good candidates for audit. Selection on this basis may be done manually, or, if the information is introduced into the computer memory, by the computer, using established norms. Many states, however, lack computer capacity to enter each type of deduction.

Those states with state-collected local sales taxes follow different paths for the reporting of these taxes on the return forms. The most common pattern is to require listing of the local sales taxes on the back of the return (with a total line on the front): Alabama, Tennessee, Arizona,



**COMBINED SALES, LOCAL SCHOOL SUPPORT, USE AND COUNTY OPTION TAX RETURN**

FOR DEPARTMENT USE ONLY

MAIL TO:  
 NEVADA DEPARTMENT OF TAXATION  
 100 E. WILLIAM ST.  
 CARSON CITY, NEVADA 89710

CHECK IF YOU ARE OUT OF BUSINESS  
 AND THIS IS YOUR FINAL RETURN.

SUCCESSOR \_\_\_\_\_

**THIS RETURN IS DUE ON OR BEFORE**

**FOR \_\_\_\_\_ ENDING \_\_\_\_\_**

IF THE NAME OR ADDRESS AS SHOWN IS INCORRECT, OR IF THE OWNERSHIP OR BUSINESS LOCATION HAS CHANGED, OR IF YOU ARE NO LONGER IN BUSINESS, NOTIFY THE NEVADA DEPARTMENT OF TAXATION IMMEDIATELY.

**READ INSTRUCTIONS ON REVERSE SIDE BEFORE PREPARING THIS RETURN.**

SCHEDULE 1		COLUMN A 2% SALES-USE TAX	COLUMN B 1% SCHOOL TAX
TOTAL SALES (SEE INSTRUCTIONS) →	1.		
TOTAL AMOUNT SUBJECT TO USE TAX (SEE INSTRUCTIONS)	2.		
TOTAL TAXABLE AMOUNT (LINE 1 PLUS LINE 2)	3.		
TOTAL EXEMPTIONS (SEE INSTRUCTIONS) →	4.		
TOTAL TAXABLE SALES (LINE 3 LESS LINE 4)	5.		
ENTER COMPUTED TAXES (SEE INSTRUCTIONS)	6.		
ENTER COMPUTED COLLECTION ALLOWANCES (SEE INSTRUCTIONS)	7.		
TOTAL CALCULATED TAXES (LINE 6 LESS LINE 7)	8.		
		+	= 9.

TOTAL TAX FROM SCHEDULE 1 (LINE 8, COLS. A & B SEE INSTRUCTIONS) ADD TO LINE 13 ENTER TOTAL TAX DUE ON LINE 14

**SCHEDULE 2** THIS SCHEDULE TO BE COMPLETED ONLY BY THOSE TAXPAYERS MAKING SALES OR REPORTING USE TAX IN ANY COUNTY HAVING THE COUNTY-CITY-RELIEF-TAX.  
 COUNTY-CITY-RELIEF-TAX AMOUNTS IN COUNTY OF ORIGIN

COUNTY-CITY-RELIEF-TAX AMOUNTS IN COUNTY OF ORIGIN	TOTAL SALES	AMOUNT SUBJECT TO USE TAX	EXEMPTIONS	TAXABLE AMOUNT
CHURCHILL				
CLARK				
DOUGLAS				
ELKO				
HUMPHREYS				
LINCOLN				
LYON				
MINERAL				
NYE				
CARSON CITY				
PERSHING				
STOREY				
WASHEE				

10. TOTAL TAXABLE AMOUNT OF SCHEDULE 2 → 10. \_\_\_\_\_  
 11. ENTER COMPUTED TAX (1/2 % OR .005 OF LINE 10, SEE INSTRUCTIONS) 11. \_\_\_\_\_  
 12. ENTER COLLECTION ALLOWANCE (1/2 % OR .005 OF LINE 11, SEE INSTR.) 12. \_\_\_\_\_

13. TOTAL TAX FROM SCHEDULE 2 (SEE INSTRUCTIONS) → 13. \_\_\_\_\_  
 14. TOTAL TAXES (LINE 9 PLUS LINE 13) 14. \_\_\_\_\_  
 15. TOTAL PENALTIES (TEN PERCENT OF LINE 14, SEE INSTRUCTIONS) 15. \_\_\_\_\_  
 16. TOTAL INTEREST (1/2 % OR .005 OF LINE 14, SEE INSTRUCTIONS) 16. \_\_\_\_\_  
 17. PLUS DEBITS FROM PRIOR PERIODS (SEE INSTRUCTIONS) 17. \_\_\_\_\_  
 18. LESS CREDITS FROM PRIOR PERIODS (SEE INSTRUCTIONS) 18. \_\_\_\_\_  
 19. TOTAL TAXES DUE AND PAYABLE (SEE INSTRUCTIONS) 19. \_\_\_\_\_

THE TAXPAYER OR AUTHORIZED AGENT CERTIFIES THAT THIS RETURN INCLUDING ANY ACCOMPANYING SCHEDULES AND STATEMENTS HAS BEEN EXAMINED BY HIM/HER AND TO THE BEST OF MY KNOWLEDGE AND BELIEF IS A TRUE, CORRECT AND COMPLETE RETURN.

SIGNATURE OF TAXPAYER OR AUTHORIZED AGENT \_\_\_\_\_

TITLE \_\_\_\_\_ PHONE NUMBER (WITH AREA CODE) \_\_\_\_\_

FEDERAL TAX IDENT. NO. \_\_\_\_\_ DATE \_\_\_\_\_

FOR DEPARTMENT USE ONLY		
SUT	LSST	CCRT

Figure 5. The Nevada Return Form



Georgia, Illinois (an additional sheet if more than one location), South Dakota, Washington, New York. A few states--Missouri, Nevada (Fig. 5), Oklahoma, Texas (4 locations only), provide spaces on the front of the return for local taxes by local jurisdiction. Colorado, New Mexico, North Carolina, Texas (for more than four localities), Utah, and Virginia require separate sheets for the local taxes, at least if the vendor is subject to more than one local tax.

### Special Return Forms

The majority of states uses only one return form, covering sales and use tax liability. But there are a number of exceptions.

1. Separate Consumer Use Return Form. Several states--Iowa (which also has a separate form for required deposits by larger quarterly files), Kansas, Kentucky, Nevada, and South Carolina--provide a separate form for consumer use tax payments--payments by individuals and nonregistered firms. Fig. 6 is an example.

2. Separate Consumer Use and Vendor Use Tax Return. A number of states have separate forms for both consumer use and out of state vendors registered to sell into the state: Alabama (plus a separate form for taxable rentals), Arkansas, Colorado, Michigan (plus a separate form for entertainers, etc.), North Carolina, Ohio (plus several other forms: car distributors, direct-pay-permit holders, advance payments), Oklahoma, Virginia (Fig. 7), and West Virginia. This approach allows simpler forms and special processing of the out of state vendors.

3. Other. Connecticut and Illinois require separate returns for hotels and motels (technically separate taxes), Indiana for sellers of gasoline, Georgia and South Dakota for contractors. New York has separate forms for lodging and utilities.

Figure 6. The Virginia Consumer Use Tax Return

Form ST-7A (Rev. 7-76)

COMMONWEALTH OF VIRGINIA  
DEPARTMENT OF TAXATION

CONSUMER'S USE TAX RETURN

	A. ITEM	B. STATE		C. LOCAL	
FOR THE PERIOD OF: _____ YEAR: _____	1. Total cost price (From reverse side).....	\$		\$	
CITY OR COUNTY OF USE OR CONSUMPTION: _____	2. Use Tax (State:3% Item 1, Col. B; Local:1% Item 1, Col. C)...				
NAME AND ADDRESS OF USER OR CONSUMER: _____ _____ _____	3. Penalty for late filing and payment (See Items 3 and 5 of instructions).....				
	4. Interest for late filing and payment (See Items 4 and 5 of instructions).....				
	5. Total tax, penalty and interest (Sum of Items 2, 3, and 4).....	\$		\$	
	6. Combined State and local tax, penalty and interest due and payable (Item 5, Col. B, plus Item 5, Col. C).....		\$		
I declare that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct and complete return.	<b>KEEP THIS COPY</b>				
SIGNATURE: _____ DATE: _____					

In Mississippi the sales and use taxes are distinct levies, and registered vendors (having any use tax liability) must file two sets of returns.

#### Combined Returns for Sales Taxes and Other Levies

Only a few states have sought to integrate the processing of other taxes with the sales tax and provide returns covering more than one type. In Hawaii and Arizona, the retail sales tax is an element in a gross receipts tax structure involving other elements as well, and these are included on the returns. Three states go beyond this. Michigan uses a single return covering sales and use tax, the single business tax (a value-added-type general business occupation levy), and withholding of income tax. New Mexico includes withholding for income tax; Washington, the Business and Occupation tax (Fig. 7). These are all levies with periodic payments at the same intervals as those of the sales tax; single returns cannot be used for levies collected on different time intervals.

#### Return Intervals

Most states, forty, now use varying return intervals based on the amount of tax paid, whereas only five (compared to twelve in 1970) use a single monthly or quarterly interval. The picture has become highly complex:

Monthly returns:<sup>1</sup> Alabama (quarterly for use tax)  
Virginia

By contrast, in 1962, seventeen out of thirty-two sales tax states used the monthly interval, in 1970, six of forty-five.

Quarterly only:<sup>1</sup> New Jersey (with monthly remittances by larger firms)  
North Dakota  
South Dakota

Utah is predominately a quarter state, as is California, Vermont, Pennsylvania, and Missouri.

<sup>1</sup>With exceptions.

Figure 7. The Washington State Combined Return Form



STATE OF WASHINGTON  
DEPARTMENT OF REVENUE AX-02  
EXCISE TAX DIVISION  
OFFICE OPERATIONS  
OLYMPIA, WASHINGTON 98504

PERIOD _____	YEAR _____
--------------	------------

# COMBINED EXCISE TAX RETURN

CHANGES IN ADDRESS OR OWNERSHIP ON LINES BELOW AND CHANGE

NAME \_\_\_\_\_ REG. NO. \_\_\_\_\_

FIRM NAME \_\_\_\_\_

STREET ADDRESS \_\_\_\_\_

CITY, STATE, ZIP \_\_\_\_\_

DATE \_\_\_\_\_

## STATE BUSINESS AND OCCUPATION TAX

Column 1 TAX CLASSIFICATION	CODE	Column 2 GROSS AMOUNT	Column 3 DEDUCTIONS <small>Totals from Page 2</small>	Column 4 TAXABLE AMOUNT	Column 5 RATE	Column 6 TAX DUE	Do Not Write In This Column
TRACTING EXTRADING FOR HIRE	16				0044		
RAVEL AGENT COMMISSIONS	30				0025		
ING WHEAT INTO FLOUR RAW SEAFOOD PRODUCTS SOYBEAN PROCESSORS	22				00125		
CLEAR FUEL ASSEMBLY MFG LITTING OR PROCESSING DRIED PEAS	28				0025		
UCHSTER BREAKING PROCESS PERISH MEAT WHOLESALE CHARTER FREIGHT BROKERS AND STEVEDORING	18				0033		
ANUFACTURING ALUMINUM	27				004		
ANUFACTURING FRESH FRUIT AND VEGETABLES	21				003		
ROCESSING FOR HIRE PRINTING AND PUBLISHING	10				0044		
ANUFACTURING—OTHER	07				0044		
HOLESALING WHEAT OATS CORN BARLEY DRY PEAS	15				0001		
HOLESALING—CIGARETTES FROM FR'S STOCK IN STATE	23				00176		
TEMPORAL DISTRIBUTION—2 OR MORE OUTLETS—NO SALES	06				0044		
HOLESALING—OTHER	03				0044		
OLD STORAGE WAREHOUSING RADIO AND TV BROADCASTING	17				0044		
UBLIC ROAD CONSTRUCTION GOVERNMENT CONTRACTING	11				0044		
ERVICE AND OTHER ACTIVITIES	04				01		
ETAILING	02				0044		

## STATE SALES TAX, USE TAX AND TOBACCO TAX

RETAIL SALES TAX	01				045		
USE TAX	05		Value of articles used by taxpayer as a consumer on which no Washington Sales Tax has been paid		045		
BEARING PRODUCTS	20				45		

## STATE PUBLIC UTILITY TAX

RAILROAD EXPRESS CAR COMPANY	24				036		
ATER DISTRIBUTION POWER	09				036		
TELEPHONE TELEGRAPH	25				036		
AS DISTRIBUTION	26				03		
OTOR TRANSPORTATION	08				018		
SEA TRANSPORTATION VESSELS UNDER 25 FEET	12				006		
OTHER PUBLIC SERVICE BUSINESS	13				018		

## NET RENTAL INCOME - ENTER LOCATION CODE AND INCOME ONLY [47]

4 DIGIT LOCATION CODE	INCOME	4 DIGIT LOCATION CODE	INCOME

31	TOTAL LOCAL SALES TAX From Page 2	45	
32	TOTAL LOCAL USE TAX From Page 2	46	

ADD PENALTY IF LATE  
5 1st Mo  
10 2nd Mo  
20 3rd Mo  
MINIMUM 2.00

33	TOTAL TAX DUE	50	
34	PENALTY	55	
35	INVENTORY TAX CREDIT ONLY	57	
36	TOTAL PAYMENT ENCLOSED	65	

DATE \_\_\_\_\_

**ADDITIONAL PENALTIES** RETURNS DUE 15TH OF MONTH, DELINQUENT IF NOT FILED BY END OF MONTH FOLLOWING TAXABLE PERIOD.





Monthly and quarterly: Arkansas (almost all monthly)  
Connecticut  
Florida  
Georgia  
Hawaii  
Idaho (plus a few seasonal semi-annual)  
Louisiana  
Mississippi (wholesale tax, semi-annual)  
North Carolina  
Oklahoma  
Rhode Island  
South Carolina  
Tennessee  
Texas  
Vermont  
West Virginia  
Wyoming

Monthly, quarterly, and annual: Arizona (monthly dominant)  
California (quarterly dominant)  
Colorado  
Indiana  
Kansas  
Kentucky  
Maryland  
Massachusetts (meals semi-annual)  
Michigan  
Minnesota  
Missouri  
Nebraska  
Nevada  
New York  
Pennsylvania  
Washington  
Wisconsin  
District of Columbia

Monthly, quarterly, semi-annual, and annual: Maine

Quarterly and annual: Iowa (with monthly payment)

Utah

Monthly and semi-annual: Illinois

Ohio

New Mexico

Table 1A indicates the dividing lines used between the various intervals, and where available, the number of returns in each category. Table 1B, These figures for the most part include only in-state sales tax vendors and therefore do not show all registered firms.

The range for placing firms on a quarterly interval extends from \$5 per month tax in Arkansas to \$750 in Texas. Using figures under \$50 leaves most firms in the monthly category. A \$300 figure places a large portion of the firms in the quarterly category.

### Relative Merits

The monthly basis was originally defended on the grounds of the lessened delinquency, since firms would be unable to build large liabilities that they could not meet. It smooths out peak work loads and get the money more quickly for the states. The quarterly system lessens the work load by two thirds but lessens the regularity of the flow. The primary reason, however, that most states were unwilling to change to it, was the time lag in getting the revenue. The lag is not a continuing problem if receipts are constant, but it is a serious matter when the tax is introduced or a change made to a longer interval, and when revenues are rising because of higher rates, prices, or greater sales. The monthly interval reduces the lag of revenues behind changes in economic activity and therefore has advantage from a fiscal policy standpoint. Early tabulating equipment made classification of firms and use of more than one period relatively difficult.

### Trends

Thus in the last decade there has been relatively little change, with some net shift from the few remaining monthly and quarterly states to the use of more than one period. The primary shift occurred in the sixties,

Table 1A. Sales Tax Return Intervals, 1980-81.

State	Interval Regarded as Standard	Monthly Tax Liability Per Month Over \$	Quarterly Tax Liability Per Month Under or Between	Semi-annual Tax Liability Per Month	Annual Monthly Tax Under	Prepay
Alabama	monthly	(all)	Use tax only	--	--	
Arizona	monthly	\$16.67	\$16.67-8.33	--	\$8.33	
Arkansas	monthly	\$5.00	\$5.00	--	--	
California	quarterly	(delinquents; high risk)			yes	
Colorado	monthly	\$300	\$301-15	--	\$15	
Connecticut	monthly	\$333	\$333			
Florida	monthly	\$33	\$33 <sup>2</sup>	2/		
Georgia	monthly	\$100	\$100	--	--	M tax over \$2500
Hawaii	monthly	\$38.46	\$38.46			
Idaho	--	\$150	\$150		few seasonal	
Illinois	monthly	\$20		under \$20	--	M tax over \$10,000
Indiana	monthly	\$10	\$10-.83	--	\$.83	
Iowa	quarterly	--	over \$10 mo.	seasonal	\$10	M tax over \$50
Kansas	monthly	\$100	\$5-\$100		\$5	
Kentucky	monthly	\$15	\$15-2.50	--	2.50	
Louisiana	monthly	\$50	\$50			
Maine	monthly	\$100	\$50-100	\$25-\$50	\$25	
Maryland	monthly	\$50	\$50			
Massachusetts	quarterly	\$100	\$100-8.33	meals	\$ 8.33	
Michigan	monthly	\$166.67	\$166.67-\$16.67	--	\$16.67	
Minnesota	monthly	\$250	\$25-250		\$25	
Mississippi	monthly	\$50	\$50	wholesale tax	few cotton gins	
Missouri	quarterly	\$150	\$150-15		\$15	
Nebraska	monthly	\$20	\$20-30 <sup>3</sup>		\$30 <sup>3</sup>	
Nevada	choice up to firm					
New Jersey	quarterly					M tax over \$100
New Mexico	monthly	\$50		under \$50		
New York	monthly	\$300	\$300-20.83		\$20.83	
North Carolina	monthly	\$25	\$25			
North Dakota	quarterly	delinquent	standard	seasonal	\$1	
Ohio	semi-annual	\$100	--	\$100		credit if pay early
Oklahoma	monthly	\$25	\$25			
Pennsylvania	quarterly	\$200	\$200-75	--	few special seasonal	
Rhode Island	monthly	\$50	\$50	some voluntary	seasonal	
South Carolina	monthly	\$100	\$100			M tax over \$12,500
South Dakota	quarterly	few delinq.	std	few	few	
Tennessee	monthly	\$100	\$100			
Texas	quarterly	\$750	\$750	--	certain mfrs	option
Utah	quarterly	few delinq.	over \$8.33	--	under \$8.33	special
Vermont	quarterly	\$500	--	use tax only		
Virginia	monthly	\$10				
Washington	quarterly	\$150 <sup>1</sup>	\$150-12.50 <sup>1</sup>		\$12.50 <sup>1</sup>	
West Virginia	monthly	\$10	\$10			
Wisconsin	--	166.67	\$100-166.67		\$160	over \$1,500 yearly
Wyoming	monthly	\$30	\$30			

1. Author's estimate; actual figures not released.  
 2. \$110 in last quarter; if under \$200 tax in last six months, semi-annual.  
 3. Approximate; not a set figure.  
 4. Taxable sales under \$500 and annual tax under \$100.

Table 1B. Number of Sales Tax Vendors by Return Intervals, 1980-81.

State	Monthly	Quarterly	Prepay	Semi-Annual	Annual	Special Seasonal
Alabama	49,222					
Arizona	63,000	12,000 <sup>1</sup>				
Arkansas	na	na				
California	77,700	299,874	45,000	--	200,116	
Colorado	na					
Connecticut	18,000	75,000				
Florida	na	--				
Georgia	75,000	28,000				
Hawaii	--	--				
Idaho	16,600	12,400				
Illinois	--	--				
Indiana	84,965	22,601		103	20,613	
Iowa	na		40,000			
Kansas	46,785	23,001			5,197	570
Kentucky	na					
Louisiana						
Maine	11,000	3,000		3,000	2,000	3,600
Maryland	40,027	22,246			2,847	25,682
Massachusetts	19,700	63,000		14,950	30,000	2,000
Michigan	na					
Minnesota	51,200	23,397			30,350	3,000
Mississippi	50,195	15,654				
Missouri	24,221	47,907			27,892	
Nebraska	30,379	18,221			6,819	
Nevada	11,000	9,000			200	
New Jersey	na					
New Mexico	52,864			20,423		
New York	na					
North Carolina						
North Dakota	50	20,700	800	4,500		
Ohio	69,461	--		128,264		
Oklahoma	na					
Pennsylvania	56,926	113,971		52,566	5,580	
Rhode Island	22,300	1,689				
South Carolina	na		3,027			
South Dakota	572	23,802		634	4,338	572
Tennessee						
Texas	43,729	145,968	--		100,183	
Utah					7,000	
Vermont	5,316	10,407			3,007	
Virginia	60,000	20,000				
Washington	461,000	146,000			1,900	
West Virginia	27,726	9,297				
Wisconsin	39,700	35,600	8,600			
Wyoming	27,755	10,215				

1. Quarterly and annual.

made possible by modern computers, which facilitates selection of returns for mailing and control over filing. The basic principle used by most states now is to keep the large accounts on monthly filing to ensure continuous flow of funds to the state and, to use the quarterly interval, with reduced paper work, for the smaller retailers. The smallest firms are often placed on an annual return basis. They owe little tax and are most likely to appear as delinquents and fail to file a return in periods in which they have no tax liability. A few states have reduced the number of intervals; Illinois, for example, eliminated the quarterly period, moving most of these firms to semi-annual, to reduce paper and computer work and delinquency check.

#### Prepayment

Several states employ a prepayment system. California, Iowa, and New Jersey, all primarily quarterly-return states, require payment or deposit to be paid monthly, if the monthly tax is in excess of \_\_\_\_, \$59, and \$100 respectively--thus ensuring early payment but avoiding the need for monthly returns. Illinois requires firms with monthly tax liability in excess of \$10,000 to pay four times a month, those between \$5,000 and \$10,000 to pay or make a deposit by the end of the month the return covers. In Georgia, if the monthly tax is over \$2,500, the firm must pay one-half the estimated tax for the next month with the previous month's return. Wisconsin and South Carolina require an earlier filing date for larger firms. Ohio and Texas give a discount for early filing, which is not mandatory.

Several states, including Hawaii, Michigan, and Wisconsin, require an annual summary return. Such a return serves for internal review for selection of accounts for audit; this review can be done much more effectively annually than monthly or quarterly. But with modern computers, if all



information on the returns is transferred to memory, annual data can easily be created, and the additional work for the vendor can be avoided.

### Seasonal Operation

One nuisance problem encountered by the states is the treatment of seasonal firms. If the former are handled as other vendors, they

are not likely to file in the off months, and thus appear as pseudo-delinquents, with time and money wasted to track them down. Their off season addresses are often not available. The result is that many states try to code the seasonal firms separately and mail them returns only during the months they operate, but the periods are not necessarily the same each year because of weather conditions and other factors. Identifying the firms and getting the necessary information about

months of operation are problems. Despite these problems, this solution is the most widely used. A few states expect the firm to notify the revenue department when it opens and closes, and place it on active status during this period. This procedure is really merely a variant of the first and appears to work no better.

West Virginia and Wisconsin code the seasonal firms and send them a packet of returns for each month during the season. Unfortunately there is no ideal answer to this problem.

### Reclassification of Firms

The states vary in their approach to classification. Typically, annually, the computer determines the firms that fall into each category, based on the tax due (in a few instances, sales) in the preceding periods. New firms are classified accordingly, and firms moving from a longer to a shorter interval. To avoid border-line firms from shifting back and forth frequently, often a range is used; a firm will be moved into a longer interval period automatically but will not be moved back to a shorter interval on the basis of the experience of one period, and only when the

tax exceeds a higher figure than the one at which it is moved into the shorter period. In several states--North Carolina and Oklahoma, for example, change to a longer interval is made only upon request of eligible firms. In most states, however, the change is made automatically, but most of these will allow a firm to remain on the monthly interval if it prefers, and a substantial number do. South Carolina is one of the few to give no choice.

Nevada alone gives the taxpayer complete choice between monthly and quarterly. The choice is made by the firm on the basis of the size of the required security which all firms in the state must provide. Washington alone does not publicly reveal the figures used as a basis for classification; the figures given in Table 1 are the authors' estimate of what is used.

#### Types of Equipment

In the earliest days of state sales tax operation, mechanical equipment was limited to bookkeeping machines and hand calculators. But many aspects of the tax operation were well-suited to automatic data processing, and gradually ADP was introduced. Computer technology has changed rapidly in the last three decades, and the systems in operation today are substantially different from those of even a decade ago. Most states have moved to sophisticated third generation computers.

As a decade ago, the dominant type of computer equipment is IBM, used by thirty-two states and the District of Columbia. All are 370s--the standard sophisticated third generation IBM computer, which have replaced the 360s of a decade ago. The exceptions are Louisiana (3031) and Pennsylvania (3033). Most are 370/158s<sup>1</sup>; or 370/168s.<sup>2</sup> Seven states use UNIVAC:

<sup>1</sup>Arkansas, Colorado, Connecticut, Georgia, Hawaii, Idaho, Iowa, Kansas, Kentucky, Louisiana, Maryland, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Oklahoma, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Utah (for a time an ITEL installation), Vermont, Virginia, Washington, West Virginia, Wisconsin.

<sup>2</sup>For example, Hawaii, Minnesota, Mississippi, Oklahoma, Tennessee, West Virginia.

Alabama, Arizona (9080), California (7016), Florida (1181), Illinois, Massachusetts, and New York (1100-42). Ohio and South Carolina use NCR systems, and the private firm that contracts to do the work for Indiana uses an NCR 200-01 installation. Maine uses a Honeywell system, Michigan a Burroughs B 6700, and Wyoming a Bell Telephone Data Speed 4540 installation.

### Input

In the earlier years of computers, input was via the punching of cards, a slow process in itself. Subsequent processing was also slow, and there was no means of direct access to information. Data could be obtained only sequentially. Today the standard method of entry is via key to disk, the keyboard frequently linked to a video screen (CRT). The data on the disk is then transferred to magnetic tape, for entry into the computer memory, with on line direct access. Entry onto disk (these are round disks somewhat comparable to phonograph records in appearance, often called floppy disks), and then transfer to tape allows faster processing than entry directly onto magnetic tape. The NCR systems provide input via key to a cassette, from which in turn the data are transferred to magnetic tape. A few states-- New Jersey, Ohio, and Texas are examples--have added minicomputers to the input units; these check arithmetic and catch certain types of errors before the data are entered into the main computer.

### Direct Access

The most significant element of the modern computer systems is direct (often called random) access on line--the ability to retrieve information on the sales tax accounts instantly on video units, and, in most instances, by hard (printed) copy if desired. In 1971, only 10 states had direct

access, and some of these for only limited data. As of 1980, only seven states do not have on line direct access--Hawaii, Kentucky, Massachusetts, Missouri, Ohio, Utah, and Virginia. These states all have plans for it. Furthermore, at least twenty states have direct access (CRT) units in the district offices: California, Colorado, Florida, Georgia, Illinois, Idaho (data for one year), Louisiana, Maryland, Michigan, Minnesota, Mississippi (hard copy only), Nebraska, Nevada, New Mexico, New York, Pennsylvania (3 cities only), Tennessee, Texas, Vermont, Wisconsin.

In many states, not all the data on the returns--especially various categories of exempt sales--are entered into the system, and therefore cannot be retrieved from the computer. But given the input, the systems allow speedy updating of files and the possibility of gaining instant information on the status of any account and the payment record for the past period. The data are kept from one to three years and then transferred to tape, with retrieval much slower.

#### Jurisdiction over Computer Facilities

In twenty-three states, all computer facilities are operated under the jurisdiction of a state central data processing agency.<sup>1</sup> In some of these states, the revenue departments do their own programming. In five additional states, Maryland, Michigan, New Jersey, Rhode Island, and South Dakota, the facilities are not in the revenue agency but in a state department of which revenue is a part. In sixteen states and the District, the computer facilities are in the revenue department. In Indiana, the Revenue Department contracts for its own computer operations, provided by a private firm. In

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<sup>1</sup>Arkansas, Connecticut, Georgia, Hawaii, Idaho, Iowa, Kansas, Kentucky, Maine, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Mexico, North Dakota, Tennessee, Utah, Vermont, Virginia, Washington, West Virginia, and Wyoming. Some of these states are small in population; none of the largest states are in the group.

South Dakota the department contracts with the University of South Dakota for computer work. The trend has been toward centralization of computer facilities, although Oklahoma moved the opposite way in 1977.

There are obvious advantages to the revenue department in having complete control of its computer facilities, particularly its ability to schedule the work to meet its own needs. Several of the tax units with central computer systems, for example Idaho, Kansas, Minnesota, New Mexico, Utah, and Virginia, are by no means fully satisfied with the present relationships. They report inability to get work done when they need it and delays in getting needed information. Utah and Kansas are particularly unhappy, and the former hopes to get its own computer. Others, however, such as Iowa, Maine, Nebraska, Nevada, and Washington, report no difficulty in obtaining needed coordination.

The advantage of a central state system is the possibility of introducing and effectively using more advanced computer techniques. In the small states, centralization is imperative for economy and efficiency. In the largest states, tax operations alone can use modern equipment effectively. In the intermediate group, the relative gains and disadvantages must be balanced in reaching a decision.

#### Processing of Returns

The precise system of processing returns varies among the states and is conditioned by the data processing equipment. But the basic patterns are similar in most states.

#### Addressing and Mailing of Tax Return Forms

All states except nine mail the return forms to the registered firms a short time, often two or three weeks, before the returns are due in each



reporting interval. With the most common form of operation the computer equipment addresses either the return forms or labels that are mechanically attached to the forms, from the master file that identifies those to receive returns in the particular period when more than one reporting interval is used. The computer prints the name, address, account number, and often the month or quarter (in some states, this information is preprinted on the return forms). Typically the return (including a duplicate for the vendor) is stuffed in a window envelope and mailed. A few states fold the return and mail it without an envelope. A return envelope, often with a distinctive color for each type of tax, is usually enclosed. In a few states using card return forms, the cards are prepunched with account numbers at the same time they are printed, but this is less common than in the past. The other states send out the forms in larger batches at less frequent intervals: twice a year in North Carolina; four times a year in Alabama, Hawaii, Massachusetts and Rhode Island, every six months in New Jersey and North Carolina, every nine months in Oklahoma, and once a year in Michigan and Hawaii, where the vendor receives a packet of twelve monthly returns plus the annual return form. Wisconsin tried a longer interval and found it unsatisfactory.

There is merit in sending the returns each time period as a reminder that they are due. The only gain from mailing at less frequent intervals is that of the cost of preparing the returns for mailing and the postage. Only Alabama still addresses from addressograph plates, once the common practice.

Another question is the choice of bulk or first class mail. Originally the states used bulk, and most still do. Some are satisfied; many are not. Of a sample of 27 states, 15 use bulk,<sup>1</sup> 10 first class (several, presorted).

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<sup>1</sup>Alabama, Colorado, Connecticut, Florida, Georgia, Louisiana, Michigan, Missouri, North Dakota, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Washington.

New York uses first class on monthly returns, bulk on quarterly; North Carolina reverses this. Wisconsin sends the large account returns first class, the remainder, bulk. While first class is much more expensive, it ensures prompt delivery and forwarding. Since many small vendors are constantly on the move, forwarding aids the state in obtaining a correct current address. But the greatest problem with bulk mail is the unreliability of delivery in a reasonable time. Some states, when investigating, have found large stacks of bulk mail in post offices undelivered for months. In some instances, bulk mail is reportedly destroyed because of lack of personnel to deliver it. Some mail service has deteriorated substantially over the last two decades. Perhaps the need is for an intermediate class of mail, not requiring the priority of first class mail but with ensured delivery within some reasonable period. The alternative is general improvement in the mail service.

#### Initial Processing

In most states, all returns come to the revenue department, typically into a central mail room. A few may come into district offices and be forwarded to headquarters. Only in Hawaii and New York do the returns regularly come to the district offices, and some do in Nevada. The envelopes are opened mechanically and the returns usually segregated, the sales tax returns being separated from others and current returns from late returns of previous periods. Most states then give a brief pre-edit, to ensure that the amount of the check and the return are in agreement. Some offices check at this point for completeness of information. Check and return are pinned or laid together for transmission to the cashier. Returns are batched, from 50 to 100.

The second step in most states is validation. The cashier places a validation number on the check and the return, either by hand numbering stamp, cash register, or newer techniques, and separates the return from the check. After separation, a deposit listing is prepared for the batch, often on a bookkeeping machine, and the total is compared with the totals of tax due as reported on the returns, and the checks sent to a bank. A number of states now prepare deposit listing by computer. Many states have sought to reduce the delay time in depositing by stressing speed in the handling of the checks themselves.

A few states, primarily larger ones, follow somewhat different patterns:

In New York, the returns are initially processed by the banks rather than the revenue department. The returns come into the district offices and are transmitted to a bank. The bank validates, prepares the deposit listing, credits the amounts to the state's account, and prepares a magnetic tape listing of the payments. Tape and the returns are then transmitted to the sales tax headquarters in Albany. The state regards this system as highly satisfactory. With banks doing a considerable portion of the work, money is deposited more quickly. In Washington, all returns come in to a Seattle bank, which performs much the same functions as the banks in New York; and in Michigan, larger returns and payments come to a Detroit bank; returns are forwarded to Revenue.

Some states that have commenced to microfilm the returns and the checks immediately after preedit do not batch; the returns go on to computer system entry immediately. Texas and New Mexico are the prime examples. Colorado, Louisiana, Maryland, North Carolina, and Tennessee are also microfilming almost immediately after the returns are opened.

### Basic Processing

A number of steps must be performed on returns following initial processing. Exact techniques vary and are constantly changing. The extent to which they are performed by computer varies among the states.

Check on arithmetic. Virtually all states check the accuracy of the arithmetic on the returns: addition and subtraction, application of percentage vendor discounts, application of tax rate, and other aspects. The check is made by the computer in most states, but still manually in at least five: Arizona, Colorado, Illinois, Oklahoma and Utah.

Posting. Before modern computers, most states used a system of visible ledger cards, one for each taxpayer, the periodic payments being entered on each card during the processing of returns, usually by bookkeeping machine. This was a slow process, in most states requiring the pulling of ledger cards from the files by hand. This system has been universally eliminated (only seven states were using it as long ago as 1970), the cards being replaced by computer files.

Current data from returns <sup>are</sup> now entered into the computer memory, by the various input devices noted earlier in the chapter. Returns typically go to data processing immediately after validation.

Typically only the basic data of gross sales (omitted in some states), total deductions, taxable sales, and tax paid are entered into the computer. Details of deductions are not required on the returns in a number of states and are not entered into the computer file in most of the others. Nebraska, New Jersey, Rhode Island, and South Dakota are among the few states to enter all details on deductions. Connecticut does so quarterly on a sample basis. Placing all information in the computer is expensive in operating time and storage required and <sup>is</sup> essential for most sales tax operations. But as a

result the computer record is incomplete and continued reliance must be placed on other records. Detailed record is essential if EDP equipment is to be used for selection of accounts for audit. But entering monthly is unnecessary, and details can be processed from an annual return if one is required.

Data are usually accumulated in the computer for at least one year, and frequently for three years, the usual period of statute of limitations and thus the basic audit period.

Preparation of Print Outs of Information. With the modern video random access units, as described, data in the memory file on any account can be obtained instantaneously, and, with adequate equipment, a hard copy can be printed. Thus most states no longer print out periodically the data from all returns, as was common in earlier days of data processing.

Accounts Receivable. Most states set up with varying degrees of sophistication an accounts receivable file, in which are listed amounts reported on returns but not paid, deficiencies assessed from office or field review or audit, and other items. These files are updated frequently. These were among the files first to be computerized.

Delinquency. As explained in the next chapter, in most states, delinquency is now ascertained from the records of filed returns, by data processing equipment.

#### Other Uses of the Computer System

1. Provision of the necessary totals of amounts collected and performs a number of internal balancing functions.
2. Allocation of collections to the various local governments in those states with state collected local sales taxes or allocation of a portion of the sales tax revenue to local governments on a formula.



3. Preparation of statistics, by type of vendor, by county, etc.
4. Selection of accounts for audit, in a few states.

#### Storage of Returns

Initially states filed manually the returns in account folders for storage. This procedure is still followed in 15 states,<sup>1</sup> including California and New York. But the task is time consuming, laborious, and subject to many errors. Misplaced returns are extremely difficult to find. On the other hand, with this system the returns for any account are always readily available, for check, for audit information, and other purposes.

Sixteen states now leave the returns in batches<sup>2</sup> compared to seven in 1970. While the returns are less readily available, this is now of less concern because of direct access in most computer systems.

#### Microfilming

The most significant change from a decade ago is the shift toward "instant" microfilming, done at a very early stage in processing, often of both the return and the check. Data are then entered into the computer system from the returns and the latter either immediately shredded or kept for a few months in the event of any question about the microfilm. The microfilm provides the permanent record of the return. Thirteen states now follow this procedure: Arkansas, Colorado, Connecticut, Louisiana, Maryland, Minnesota, Nebraska, Nevada, North Carolina, Oklahoma, Tennessee, Texas and Wyoming.

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<sup>1</sup>Alabama, Arizona, California, Georgia, Illinois, Kentucky, Mississippi, Missouri, New Mexico, New York, North Dakota, Pennsylvania, Utah, Washington and Wisconsin.

<sup>2</sup>Florida, Hawaii, Idaho, Indiana, Iowa, Kansas, Maine, Michigan, New Jersey, Ohio, Rhode Island, South Carolina, South Dakota, Vermont, Virginia, West Virginia.

In addition to the states doing this instant microfilming, a number of states microfilm the returns after two or three years to save storage space: Alabama, Georgia, Idaho, Kansas, Kentucky, Nebraska, New Mexico (microfische), Ohio, South Dakota, South Carolina, Utah and Wyoming. But the other states, roughly half, have not considered microfilming worth while. The objection long raised against microfilming--by many persons as well as the employees of revenue departments--is the greater difficulty in working with microfilmed material and the resulting eyestrain. But this argument is no longer nearly as serious, since the computer memory contains most information from the returns. But the computer memory may contain data only for one or two years, whereas for some purposes a much longer record is required, and not all the information on the returns is entered into the computer in many states. Ultimately with still greater improvements in computer systems and use, all returns data will be available from the computer for the necessary period of years--typically three to five, and the returns will have even less use than they now have. The microfilm or microfische record is adequate for legal purposes.

#### Office Audit or Post Audit

Some states routinely review all returns, or, as in Washington, all return folders annually or biannually, to look for ones in which gross sales or various deductions appear to be out of line. This review is performed to some extent by computer in Florida and Michigan, by office auditors who are not in most states trained auditors but senior clerical personnel, and by senior auditors in a few states such as Indiana.

Information Provided Registered Vendors

By far the most common practice currently is to provide all new taxpayers with a booklet explaining the tax and the requirements. These vary from brief instruction sheets to lengthy booklets. Most states do not give out copies of the act and regulations (although Virginia does give all new firms a copy of the rules and regulations), but many, for example North Carolina, North Dakota, Maine, and Minnesota<sup>1</sup> will give copies of the act and regulations upon request. North Carolina provides basic material and an order form for additional types. Usually the material is sent out with the permit; but Ohio provides it through the office of the county auditor when application is made for a permit. Several states provide circulars by type of business--Indiana, Maryland, Nevada, Vermont, for example. Iowa and Nebraska provide the regulations and then make personal contact by a phone call. Other states hold periodic seminars for vendors in the various districts--Florida, New Jersey, New Mexico, for example. California has developed a detailed information service for its own internal use, but which it will sell to registered firms.

One of the chief problems is to keep the taxpayers acquainted with changes that are occurring. The Province of Ontario has long provided a periodic bulletin sent to all vendors.

Louisiana and North Dakota issue a quarterly newsletter.(Fig. 8), sent to all vendors; Wisconsin does so on a periodic basis; Maine provides an annual summary of all changes. Many of the states develop circulars describing changes in certain lines of business, mailed with the tax returns; others

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<sup>1</sup>In Minnesota about 7% of all new registrants do request this material.

North Dakota  
Byron L. Dorgan  
TAX COMMISSIONER

# sales tax

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## GUN SHOWS AND ANTIQUE SHOWS ARE TAXABLE

We have had questions this winter regarding the taxability of goods sold or traded at gun shows and antique shows by "hobbyists." We regard the sale and trading of antiques, guns and other commodities by "hobbyists" to be a taxable transaction when these transactions take place at a public show or exhibition. We believe that when a "hobbyist" brings his goods and wares into a public place and exhibits them for sale to the general public, he or she has set himself/herself up as a retail merchant and any sales or trades which are made and at which the value of the particular items being sold or traded is ascertained, sales tax must be collected on all such sales and/or trades. Those people who are not in the habit of exhibiting their goods on a regular basis and holding themselves out to be retailers but who do take goods and wares to an occasional public showing or exhibition and offer them for sale can report the sales tax on all such sales on a one time basis to the Tax Department through the sponsor of the show. Further instructions are being issued now to sponsors of gun and antique shows and will be available to those people who wish to exhibit and sell at such sales.

## LESS PAPERWORK

Beginning with this quarterly sales tax reporting form, you will note that we are no longer sending to our sales tax permit holders a schedule of deductions which has been an enclosure in the sales tax reporting forms for many years. On that schedule, we have asked permit holders to list specific details for certain deductions claimed on the reporting form. These included line 23 which is a miscellaneous deduction line and also line 25 which is a deduction for bad debts claimed. We found that most of the sales tax permit holders did not utilize the schedule of deductions and even for those that did, we very often had to write for further information. For those reasons and for the obvious cost savings of printing 25,000 of these additional schedules, we decided that we would eliminate the schedule of deductions from the enclosures which are mailed to each sales tax permit holder on a quarterly basis.

## 2% RATE APPLIES ONLY ON FARM MACHINERY FOR AGRICULTURAL PURPOSES

We continue to receive questions from contractors and others who purchase items of what would nor-

mally be considered farm machinery such as tractors and loaders who believe that they are eligible for the reduced 2% rate on the purchase price of these items. The initiated measure which reduced the sales tax to 2% on farm machinery specifies that the farm machinery must be used exclusively for agricultural purposes. Thus, under the provisions of that initiated measure which have been effective since January 1, 1977, a tractor sold to a farmer or rancher for exclusive agricultural purposes is taxed at a rate of 2% while the same tractor sold to a construction contractor would be subject to the 3% general sales tax rate since the tractor will obviously not be used exclusively for agricultural purposes.

## RECEIPTS FROM COIN-OPERATED VENDING MACHINES

The receipts from coin-operated vending machines which dispense products selling for more than 15¢ are fully subject to North Dakota sales tax. The owner of the vending machine is responsible for that sales tax! We have had a number of inquiries from vending machine operators and from others around the state who ask us whether the receipts from a coin-operated vending machine which is located in an institution which is normally exempt from sales tax (such as a school, a state or federal building, or a hospital) should be subject to sales tax. Our response is very definitely yes! The gross receipts from all vending machines which dispense tangible personal property that sells for more than 15¢ are totally subject to sales tax and the owner of the coin-operated vending machine is responsible for the tax on those gross receipts. If the owner of the vending machine has a coin-operated machine in a state office building, for example, the receipts remain subject to sales tax because the owner of the vending machine is responsible for the tax and not the operator or manager of the state office building. The 3% general sales tax may be deducted from the total gross receipts of the vending machine prior to the time that the owner of the machine pays the percentage normally allowed to the location owner. Thus, if the receipts from a vending machine for a given length of time totaled \$100, the owner of the machine would be allowed to deduct the tax from the \$100 before dividing the proceeds with the location owner. He would report to us gross receipts of \$97.09 upon which the sales tax would be remitted and he would then apply the normal location owner's percentage on the \$97.09



rather than on the \$100 total receipts. Questions relative to disposition of vending machine receipts and the sales tax thereon should be addressed to the Sales Tax Section, North Dakota Tax Department, Bismarck, North Dakota 58505.

**NON-PROFIT ORGANIZATIONS ARE TAXABLE**

We continue to receive questions and inquiries from individuals as well as retailers throughout the state regarding the provisions of the North Dakota sales and use tax law as they apply to non-profit organizations. Most non-profit organizations have an exemption granted by the federal government which exempts them from federal and state income taxes. For some reason, this tax exemption granted for income tax purposes leads these organizations to believe that they are exempt from all other taxes including sales taxes. This is simply not true. The sales tax statute in North Dakota provides no exemption for non-profit religious or charitable organizations when making purchases for their own use. This extends to churches and church groups as well as other non-profit organizations. The only exemption in the sales tax law which applies to churches and other church groups is the provision that exempts the purchases of Bibles, hymnals, textbooks and prayer-books sold to a non-profit religious organization.

**OUT-OF-STATE RESIDENTS BUYING IN NORTH DAKOTA**

Recent audits of farm implement dealers revealed that out-of-state farmers were purchasing farm implements in North Dakota and picking them up in this state claiming that they were exempt from North Dakota tax. The sales tax generally imposes the tax at the point of sale; and, therefore, if an out-of-state resident comes into North Dakota and makes a purchase here of an item which is subject to sales tax, the North Dakota sales tax applies unless there is a specific exemption which would make that particular item exempt under our present law. There is a specific exemption from sales tax for residents of Montana and Canada, but residents of any other state or foreign country must pay sales tax when making purchases of items subject to the tax in this state.

**GARDEN SEEDS – FLOWER SEEDS – SMALL PLANTS – SHRUBS ARE SUBJECT TO SALES TAX**

Time once more for our annual reminder that the sale of vegetable seeds for home gardens are fully subject to sales tax as are the sales of flower seeds, small plants, shrubs and other items sold for home gardening or beautification purposes.

We note that in each of the five years we've published this newsletter we've mentioned the sale of garden seeds and the fact that they are subject to sales tax; however, it is still a very popular question asked each spring.

**NON-PROFIT ORGANIZATIONS MUST ALSO COLLECT SALES TAX**

If a non-profit organization sponsors any activity – concert, lecture, athletic activity, circus, carnival, play, dramatic production, meal, luncheon, banquet, for which there is a charge, the gross receipts from any of these activities or events are subject to sales tax if the answer to either or both of the following questions is yes:

- 1. Is the event held in a "publicly-owned facility"?
- 2. Are any of the net receipts being retained by the sponsoring organization?

House Bill 1507 passed by the 1979 Legislative Session became effective July 1, 1979, and provides that any activities or events sponsored by non-profit organizations which are held in a publicly-owned facility are fully subject to the sales tax on the gross receipts from such activity or event. If such activities or events are sponsored by non-profit organizations and held in privately-owned facilities, the gross receipts may still be subjected to sales tax unless the entire net receipts from such activity or event are expended entirely for religious, educational or charitable purposes. If any portion of those net receipts is retained by the organization to help defray costs of the organization or to be utilized by the organization in any way except for charitable, religious or educational purposes, then the entire gross receipts from the activity or event become subject to North Dakota sales tax. A detailed guideline covering the provisions of House Bill 1507 is being prepared now and should be available for distribution by the time this newsletter reaches you. Please write or call the Sales Tax Section of the North Dakota Tax Department and request the guideline on non-profit organizations.

**Walter M. Stack, Director  
Sales & Special Taxes Division**



provide brief instruction sheets indicating the changes, also mailed with the returns. Maryland provides a message line on the return form itself, on which any new information is printed by the computer. Trade associations assist in circulating information on changes. The instructions on the tax return forms or sent with them provide basic information.

Information on particular questions is provided by phone or correspondence, or in some instances in person, from headquarters and in district offices in the states having such offices. Major questions of interpretation are answered by senior officials; some are referred to the legal staff or the director of revenue. In most states, answers to questions are readily available informally. One important change has been the provision of 800 telephone numbers, so that taxpayers can call in to the district office or headquarters without charge to obtain clarification.

On the whole, though some states are doing a good job of disseminating information, others are not. Successful operation of a retail sales tax requires that vendors be well informed and cooperative; thus adequate information must be given to them. As a minimum, the following are suggested:

1. A single volume that contains the act and general regulations and rulings and is well indexed. Most of the indexing leaves much to be desired. This volume would be available to all taxpayers on request, free of charge. There is no need to mail a copy to each vendor when the permit is issued, as many will not make use of it.

2. A summary of the tax, with a listing of exemptions and other major features. This publication would be mailed to each new vendor. When changes occur in the tax, the summary would be reissued and mailed to all vendors.

3. Circulars that summarize provisions of the act and rulings applying to particular types of business. They would be mailed to all new firms and to all firms in a particular line of business when significant changes are made.

Distribution of Tax Payments by Magnitude of Payments

In all states for which information is available, a very high percentage of the total tax liability is paid by a very small percentage of the total number of firms. Examples are given below:

	Percentage of Registered Vendors	Percentage of Total Tax
Alabama	10-15	75-80
Connecticut	.2	28
	3	61
Florida	2	52
Kentucky	1	45
Louisiana	20	70
Minnesota	.6	35
	10	79
North Carolina	10	81
	42	98
Utah	1	40

Data for 1978, supplied by revenue departments.

This sample suggests that typically, 1 percent of the vendors pay around 40% of the tax, 10% around 80 percent, and the upper half of the firms pay over 95 percent of the total.











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