

Businesses Can Switch Back to Traditional Way of Calculating Sales Tax

Legislation recently signed by Governor Ted Strickland allows businesses engaging in delivery sales within Ohio to return to the state's traditional way of calculating the sales tax: at the origin of the sale.

The new law, House Bill 429, allows Ohio businesses now charging sales taxes based on the destination of their Ohio delivery sales to switch back to the traditional "origin" method. Merchants who moved to destination sourcing of delivery sales have until Jan. 1, 2010 to switch back to the traditional method.

The new law is, in part, a response to small business owners who considered destination sourcing more complex than Ohio's traditional "origin" method. "This law balances the needs of small business owners with the goal of creating a more level playing field for all Ohio businesses when it comes to Ohio's sales tax," Tax Commissioner Richard A. Levin said.

The vast majority of Ohio merchants have always collected and remitted sales tax based on the location of their store. For them, little will change. H.B. 429 also means no change for out-of-state retailers selling into Ohio; they continue to collect sales taxes based on the rate at the destination of the sale, as they do today.

But the new law means big change for a relatively small group of merchants who engage in delivery sales of tangible personal property, such as furniture stores and appliance stores. Since 2006, Ohio had been gradually moving such merchants to "destination sourcing" of the sales tax – charging sales tax based on the destination of the delivery rather than the location of the store.

This transition was part of Ohio's effort to become a full member of the Streamlined Sales Tax Project, a multi-state effort to harmonize sales tax rules across state lines and simplify compliance for multistate businesses. For years, the multistate group required states to move to destination sourcing in order to become full members.

As a result, approximately 55 of Ohio's largest delivery sellers were required by Ohio law to move to destination sourcing in 2006. A relatively small number of other delivery sellers – probably under 1,000 – voluntarily switched to destination sourcing in anticipation of a Jan. 1, 2008 deadline.

That deadline never came. Last summer, in response to concerns from small businesses, the General Assembly put the shift to destination sourcing of delivery sales on hold.

Later, in December, the Governing Board of the Streamlined Sales Tax Project decided to allow "origin states" to become a full member of the organization start-

ing in 2010 as long as at least four other "origin states" are also ready to become full members.

H.B. 429 is a response that moves Ohio back into the origin camp.

Merchants who switched to the new destination sourcing system and who will now be switching back per H.B. 429 will eventually be eligible for compensation of up to \$1,000 (for mandatory switches to destination sourcing) and \$600 (for voluntary switches).

The compensation won't be available until July 1, 2009 at the earliest; more information will be available later on this subject from the Department of Taxation. 