

# **Bond Case Briefs**

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## **GFOA: Bringing Sales Tax into the 21st Century**

Since the mid-1900's, state and local governments have struggled with the issue of taxing remote sales. For decades, the primary method of remote sales was in the form of mail-order businesses. In 1967, the U.S. Supreme Court ruled in *Bellas Hess v. Department of Revenue*, 386 U.S. 753 (1967), that a state could not require sellers to collect use taxes if the only connection with customers in the state is through materials sent by common carrier or mail.

Then in 1992, the Supreme Court upheld the standard in *Bellas Hess* in *Quill v. North Dakota*, 504 U.S. 298 (1992), holding that a state can only require a business to collect and remit sales tax if the business has substantial presence (i.e. nexus) in that state. Both decisions, however, occurred well before the Internet forever changed the way consumers shopped and transformed the retail marketplace into the billion-dollar global platform we know today.

As a result of these decisions, state and local governments faced growing numbers of uncollected sales taxes over the past several decades. In an attempt to remedy this, there have been efforts at the federal level to enact legislation that would establish a framework of sales tax simplification and administration. The intent of the framework is to bring sales tax laws into the 21st century and grant state and local governments the ability to enforce existing sales tax laws on remote sales, while also minimizing the burden of collection on retailers. The billions of dollars state and local governments forego each year is much needed revenue that could support vital services in communities across the country like infrastructure, public safety, and education.

But 2018 proved to be a landmark year for the issue of remote sales tax. In June, the U.S. Supreme Court reversed those two pivotal cases by finally removing the antiquated physical presence requirement that has burdened state and local sales and use tax laws. This report will take a brief look at the importance of these taxes and how sales tax administration could be one step closer to 21st century modernization.

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