
REPORT TO THE
FINANCE, REVENUE & BONDING COMMITTEE
CONNECTICUT GENERAL ASSEMBLY

SALES TAX COLLECTION INITIATIVES

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Public Act No. 13-184



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Introduction

Connecticut's Sales and Use Tax (Sales Tax) has long been a revenue staple for the state. As a "trust tax," sellers of goods or services must maintain valid tax registration and act as agents of the state in the timely collection and remittance of sales tax proceeds.

Sales tax collection typically faces a number of challenges that include:

- Failure to register
- Inconsistent business registration information or inconsistent inter-agency enforcement
- Cash sales or shadow booking
- Non-reporting or under-reporting;
- Lack of statewide automated point-of-sales (POS) infrastructure
- Out of state sales, on-line sales and other remote sales (as well as low individual use tax compliance)
- Overall tax complexity

With the leadership of the Connecticut General Assembly's Finance, Revenue & Bonding Committee, a number of legislative initiatives have supported efforts by the Department of Revenue Services (DRS) to improve sales tax collection. In addition to providing revenue to sustain a balanced state budget, more effective sales tax collections help assure taxpayer fairness and a level playing field for business competitors.

In 2013, the General Assembly enacted Public Act 13-184 and charged DRS with initiating a pilot program intended to assure full and timely collection from delinquent taxpayers on sales transactions by credit card, debit card or electronic payment. The legislation also called on DRS to analyze other initiatives to enhance sales tax collection. This **report presents the agency's** findings and recommendations.

In relevant part, Conn. Public Act No. 13-184 provides the following:

Sec. 80. (Effective July 1, 2013) (a) For all taxable periods that commence on or after October 1, 2013, and prior to April 1, 2014, the Commissioner of Revenue Services may require any taxpayer with sales tax liability that is delinquent, as described in section 12-7a of the general statutes, to remit electronically the sales tax due on each sale made by such taxpayer by consumer credit or debit card or electronic transfer during each such period. The commissioner shall notify in writing any taxpayer he requires to comply with the provisions of this section, and shall do so in accordance with subsection (b) of this section. Any taxpayer so notified shall remit such taxes to the commissioner through a processor of consumer credit or debit card payments or electronic transfers approved by said commissioner in accordance with subsection (c) of this section. Each taxpayer notified by the commissioner shall remit such taxes not later than the end of the second business day after each such sale.

(b) Each taxpayer required by the commissioner to comply with the provisions of subsection (a) of this section shall receive written notice from the commissioner on or before October 1, 2013. Such notice, which shall be delivered in accordance with section 12-2f of the general statutes, shall contain a complete listing of all processors of consumer credit or debit card payments or electronic transfers approved by the commissioner.

(c) In order to be approved by the commissioner, a processor of consumer credit or debit card payments or electronic transfers must utilize the specific file format prescribed by the commissioner. The commissioner shall make available the specific file format by August 15, 2013. In addition, and in order to receive approval from the commissioner, each processor of consumer credit or debit card payments or electronic transfers shall make available to the commissioner any and all other information as the commissioner may require, including, but not limited to, identification of the specific software, including any third party software, being utilized by said processor of consumer credit or debit card payments or electronic transfers, the specifications of such software and such processing, and assurance that such software and such processing shall provide record transactions sufficient for purposes of collections and audit of sales subject to tax.

(d) Any taxpayer who fails to comply with the provisions of this section shall be subject to any and all penalties imposed under chapter 219 of the general statutes, including the revocation of its permit.

Sec. 81. (Effective July 1, 2013) The Commissioner of Revenue Services shall analyze methods to enhance collection and remittance of sales taxes by retailers as required pursuant to chapter 219 of the general statutes. The commissioner shall consider (1) the amount of such sales taxes that are annually uncollected or consistently delinquent, (2) the availability and effectiveness of alternative methods of collection, including those employed in section 80 of this act, (3) the advisability of requiring more frequent remittance of said taxes, and (4) whether such methods are likely to reduce deficiencies and increase collections. The commissioner shall report, in accordance with section 11-4a of the general statutes, his findings and recommendations, if any, to the joint standing committee of the General Assembly having cognizance of matters relating to finance, revenue and bonding not later than February 1, 2014.

Section 1: Sales & Use Tax Overview

Retailers are required to collect and remit tax on the sale of goods and services made for consideration. Goods are taxable unless specifically exempted under state law. Services are only taxable if specifically enumerated under state law. Currently, the general rate is 6.35% with rates **of 7% for certain "luxury" purchases**, 9.35% on car rentals, 15% on room occupancy and 1% for computer and data processing services, which includes digital downloads. Generally, use tax is due from purchasers at applicable sales tax rates when taxable purchases are made but sales tax is not collected and the goods or services are **"used" in the state**.

Sales tax collected is held in trust by the seller until reported and remitted to the state.

Table 1 presents a 10 year history of Connecticut sales tax collections.

TABLE 1: Sales Tax Collections

Fiscal Year	Amount
2012-13	\$3,960,012,892
2011-12	3,885,744,824
2010-11	3,352,645,112
2009-10	3,203,680,405
2008-09	3,317,631,121
2007-08	3,579,125,030
2006-07	3,496,415,014
2005-06	3,402,590,111
2004-05	3,289,589,337
2003-04	3,152,592,451

NOTE: These amounts include Business Use Tax, Individual Use Tax and Room Occupancy Tax collections.

Sales and Use Tax Filing and Remittance

Sales Tax returns are filed by taxpayers on a monthly, quarterly or annual basis depending on the amount of tax liability from the prior year. Currently, returns are due at the close of the month following the required filing period. In the past, taxpayers could file and pay sales taxes electronically or by filing a paper return and paying by check. Effective with tax periods commencing

January 1, 2014, taxpayers with annual sales tax liability of \$4,000 or more must file and remit payments electronically using the DRS automated Taxpayer Service Center (TSC).

TABLE 2: 2013 Sales Tax Filing and Remittance

	Returns Filed	Amount Remitted
Electronic	605,053	\$2,349,420,608 (98%)
Paper	134,644	50,753,536 (2%)

Sales and Use Tax Delinquencies

Connecticut Sales Tax delinquencies can be measured in terms of net accounts receivable. Table 3 shows net Sales Tax accounts receivables, as reported on DRS GAAP statements, for the past ten fiscal years. Also, shown is what the net receivables represent as a proportion of total sales tax collections.

TABLE 3: Sales Tax Net Receivables

Fiscal Year	Net Sales Tax Receivables	Net Receivables as a % of Sales Tax Revenue
2012-13	\$169,482,565	4.28%
2011-12	162,281,117	4.18%
2010-11	167,015,314	4.98%
2009-10	152,426,109	4.76%
2008-09	148,025,096	4.46%
2007-08	147,533,275	4.12%
2006-07	124,633,132	3.56%
2005-06	105,885,424	3.11%
2004-05	106,527,221	3.24%
2003-04	97,867,476	3.10%

Challenges to Compliance

State taxation relies on high levels of voluntary compliance. In Connecticut, Sales Tax compliance exceeds 95% for registered sellers of goods and services. There are, however, a variety of challenges to sales and use tax compliance:

- **Failure to register.** Businesses may attempt to evade taxation by operating underground without valid sales tax permits.
- **Inconsistent business registration information or inconsistent inter-agency enforcement.** Required general business registration with the Secretary of the State (SOTS) is often inconsistent with DRS tax registration information. This is compounded by the fee that SOTS charges a business to notify the state that it is no longer in business. Similarly, there is no consistent practice of requiring tax compliance as a condition of doing business with the state, receiving state payments for services or permitting, licensure and other business approvals required by state agencies.
- **Cash sales or shadow bookkeeping.** Unreported or under-reported cash sales are a common way to frustrate taxation. **Businesses will even offer “cash only discounts” where the failure to collect tax on the cash transaction lowers the total price charged.** Similarly, sellers may attempt to evade taxes by keeping and disclosing shadow records that understate sales and taxes. Technologies, such as “zappers,” are available for fully automated point-of-sale (POS) systems that create a false record and are difficult to detect with the limited forensics usually available to tax agencies.
- **Non-reporting or under-reporting.** Sellers may simply fail to pay SUT taxes accurately and fully when due.
- **Lack of point-of-sales infrastructure.** While commonly used, merchants are not required to install, maintain, record transactions and pay taxes through automated point-of-sale systems in order to be in the business of making sales. There is no universal or even common infrastructure in place that could better facilitate Sales Tax compliance.
- **Out of state sales, on-line sales and other remote sales.** Due to the unsettled state of federal law under the Commerce Clause and to legacy state tax codes, states struggle to assert jurisdiction let alone collect sales taxes on remote sales. The exponential rise in on-line

sales of goods and services by remote sellers is perhaps the most significant current challenge to state sales tax collections. Governor Malloy took a big step by concluding an agreement with Amazon.com to collect and remit Connecticut sales tax as well as committing to a major investment in a Connecticut fulfillment center and hundreds of related new jobs. However, based on estimates provided by the National Council of State Legislatures, Connecticut is still losing over \$150 million annually from untaxed internet sales. While businesses and individuals are required to pay Connecticut use tax on otherwise untaxed sales, individual compliance is low.

- **Overall tax complexity.** Sales and use taxation is complex and can be obscure. Different states take very different approaches. Is the tax broadly or narrowly based? What sales, services or uses are and are not subject to tax? Who is and is not engaged in taxable business in the state? Conn. Gen. Stats. Chapter 219, case law and agency guidance can be unduly challenging to taxpayers and to tax collection. Notably, Connecticut is not now among and would be hard pressed to join the **ranks of “streamlined” sales tax compact states** without significant state revenue consequences.

Sales Tax Audits

DRS may examine the books, papers, records and equipment of any person or entity selling services or tangible personal property subject to sales tax as well as any person or entity liable for use tax. The purpose of an audit is to verify the accuracy of any return made or, if no return is made, to determine the amount of tax required to be paid.

Generally sales tax audits are conducted in the field near to the location of the taxpayer. DRS offices located in Bridgeport, Hartford, Norwich and Waterbury are responsible for conducting audits regionally as well as out of state. On average, DRS Sales Tax offices conduct 1,300 audits each year.

Advances in technology and the use of data analytics have allowed DRS to improve its ability to identify those taxpayers that are likely to be noncompliant and those most likely to be subject to successful collection. DRS employs a sophisticated data warehouse that contains elements from internal as well as external sources. DRS staff is able to analyze this data using specific criteria to develop a population of worthy audit candidates. Automated collection scoring and other data analytics allow the agency to increase efficiency, encourage compliance and maximize collections.

Criminal Enforcement

DRS has a Special Investigations Section (SIS) of sworn law enforcement officers that is responsible for initiating criminal sanctions under the state tax code. SIS Sales and Use Tax enforcement includes:

- **Failure to maintain valid permits.** Sales tax permits are required in order to engage in the business of selling goods or services in Connecticut. DRS may revoke, suspend or refuse to renew Sales tax permits. Operating without a valid permit is a Class C misdemeanor that imposes a maximum fine of \$500 or imprisonment for not more than 90 days, or both, for each offense.
- **Failure to file and remit.** Not filing or remitting is a Class A misdemeanor that imposes a maximum fine of \$1,000 and imprisonment for not more than 1 year, or both, for each offense.
- **Fraud.** Sales Tax fraud is a Class C felony which imposes a maximum fine of \$5,000 and imprisonment for no more than 5 years, or both.

DRS made 34 arrests in FY 2012-13 and 62 in FY 2011-12 for Sales Tax criminal violations.

Section 2: DRS Initiatives

Sales Tax Collection Pilot

In recent years, a veritable cottage industry has grown up in the businesses selling various products claiming to improve sales tax collections and compliance. In 2011 and 2012, two such businesses initiated discussions with DRS.

One vendor offers a tax escrow service in partnership with a national processor. Using this tax product, taxpayers are supposed to anticipate upcoming tax liability and automatically deposit a percentage of credit card sales accounts receivable into a third-party reserve account. In theory, this fiscal discipline helps taxpayers avoid the temptation to use the trust taxes collected as working capital but then come up short when the taxes are due and payable. At the time, the vendor was in a test phase but did not, as requested, follow up with DRS thereafter. More important, the ability of the taxpayer to reclaim amounts in escrow at any time prior to remittance is problematic. Also, at least one major national credit card company does not permit the payment splitting necessary to use this collection system.

The second vendor offers an algorithm-based system as well as more real-time collection and remittance for credit card, debit card and other electronically transacted sales. This product would be licensed to and required for processors servicing sellers. The product vendor would then be compensated through a transaction charge passed along to the sellers. Intended to expedite and more likely capture tax payments, this product was unfortunately problematic in several respects:

- In order to maximize income for the vendor, participation would be mandated for ***all*** taxpayers - not just those with tax deficiencies.
- Rather than actual taxes on actual sales or services, the algorithm only provided an ***estimated*** payment which would require a safe-harbor for taxpayers making good faith underpayments in reliance on mandated use of the product.
- All processors would have to meet some single set of technical specifications for data security, interface and audit with DRS that would also be consistent with existing general federal standards for such processors.

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- Only credit card, debit card and other forms of electronic payment would be covered

At this time, no tax jurisdiction mandates either of these two products.

During the 2013 legislative session, there was renewed interest in initiatives to improve Sales Tax compliance and expedite collections. As previously noted, the General Assembly enacted Public Act No. 13-184. Sections 80 and 81 of the legislation established a sales tax collection pilot and a modest amount of anticipated revenue was included in the biennial state budget.

Under the pilot, DRS would certify eligible payment processors. Deficient taxpayers notified by DRS would be required to choose a certified processor for covered transactions. Certified processors would then, either directly or through some other party, collect and remit Sales Tax payments.

The pilot authorized DRS to identify delinquent taxpayers (estimated to be about 4,500) who would be required to select a DRS-certified processor and submit sales tax payments within 48 hours of collection. The pilot would only apply to consumer credit card, debit card or other electronic payments. The pilot was targeted to begin by October 1, 2013 based on processor application and certification by DRS as well as notification of affected taxpayers.

Following enactment of the 2013 legislation, DRS immediately conducted a series of meetings and other information gathering in order to develop technical standards so processors could apply for and be granted certification. After vetting the feasibility of the proposed technical specifications internally and externally, DRS timely published a request for applicants on August 15, 2013. The processor application deadline was September 3, 2013. (See Exhibit A, ***Application: Payment Processor for Sales Tax Pilot.***) After the posting the technical specifications and application deadline, DRS staff responded to many inquiries. Those contacting DRS confirmed that the specifications were reasonable and feasible, but the agency received no applications. DRS did, however, benefit from helpful feedback. Information shared with the agency, especially comments from the national Electronic Transactions Association (ETA). (See Exhibit B, ***Letter from the Electronic Transactions Association.***) These comments indicate a number of significant problems with the proposed pilot and similar approaches. Among the most significant of these problems are:

- The required underlying POS systems and overlying processing are far from universally available in the marketplace, especially for the

typical profile of delinquent taxpayers. Putting the infrastructure in place would require a major capital investment by the businesses mandated to participate or by state financing.

- Processors and retailers would have to alter processing systems and break or amend existing contracts in order to add the additional parties or procedures required for servicing transactions. This would result in significant added cost for the affected processors, retailers and ultimate consumers. Such arrangements would also likely violate adherence to existing federal standards.

Permit Non-Renewal and Interagency Collaboration

Prior to 2013, DRS routinely renewed sales tax permits for 5 years and cigarette and tobacco products licenses annually - even if the taxpayer was delinquent. Based on newly enacted legislation initiated by the agency, permits are no longer renewed when back taxes are owed and sellers are advised of the legal penalties for operating without a tax permit. Permits will only be *conditionally* renewed if the taxpayer makes payment in full or maintains an approved payment plan. In addition, after 30 days of further non-compliance, the delinquent taxpayer and the case is referred to SIS for may result in arrest and prosecution.

To date, this initiative has resulted in over 2,000 taxpayers coming into compliance. Annually, added collections from this DRS initiative are expected to be in the range of \$3-7 million.

In addition, DRS and the Department of Motor Vehicles have entered into a joint enforcement protocol for automobile dealers and repair shops. A similar agreement is pending with the Department of Consumer Protection with respect to alcohol permits. Unfortunately, although DRS has tax collection clearance and offset payment protocols with some other state agencies, state law does *not* require tax clearance and offset payment generally when state agencies license, permit or provide funds to business entities and professionals.

Third Party and IRS Data Matching

Tracking third party data is helpful in flagging potential tax evasion. DRS obtains alcohol, cigarette and auto sales data that is then compared to reported taxable sales in order to produce audit leads. The agency is also

beginning a similar initiative using IRS 1099 federal credit card sales data to compare to state reported gross receipts.

Remote Sellers and Amazon.com

The National Council on State Legislatures (NCSL) estimates that Connecticut is annually losing some \$150 million due to sales taxes that are not collected and remitted by on-line retailers and other remote sellers. Legislation was enacted in 2011 that expressly requires remote sellers who utilize in-state affiliates to collect and remit sales tax on goods and services sold **in the state. Connecticut's law is equivalent to the state law in New York** that has been successfully defended in court all the way up to and **including the U. S. Supreme Court's denial of certiorari in *Overstock.com Inc. et al. v. New York State Dep't of Taxation and Finance*.**

In Connecticut, as in most states, Amazon.com (Amazon) was the premier on-line retailer not collecting and remitting sales tax. DRS put Amazon on notice and prepared to assess the company for estimated unpaid sales taxes. At the same time, acting on behalf of Governor Malloy, DRS raised with Amazon the prospects for settlement similar to settlements with other states. Consequently, Amazon entered into an agreement whereby the company would begin to collect and remit sales taxes starting in December 2013. Amazon also agreed to invest at least \$75 million in an in-state fulfillment center and create at least 350 new jobs in Connecticut. (DRS is now in the process of identifying and pursuing other non-compliant remote sellers for potential collections and enforcement.)

Connecticut is **also active with the National Governor's Association, the state's entire Congressional delegation, the national Federation of Tax Administrators and the Connecticut Retail Merchants Association** in supporting Congressional enactment of the Marketplace Fairness Act. The federal legislation would clearly authorize state taxation of remote sellers, subject to certain common taxation and collection processes that would minimize any burden for small businesses directly marketing or hosted on line. The legislation passed the U. S. Senate with an overwhelming bipartisan vote but has since stalled in the U. S. House of Representatives. This legislation is the necessary relief that the U. S. Supreme court invited in its 1992 *Quill* decision, ***Quill Corporation v. North Dakota***, in order to resolve lingering uncertainty about the scope of permissible state taxation under the federal Commerce Clause.

Prohibition of Zappers

In 2012, DRS requested and the Connecticut General Assembly enacted legislation setting criminal penalties for the sale or use of so-called **“zappers.” Zappers are a commonly available commercial product that sellers may install in POS systems to create difficult to discover parallel “official” records that deliberately understate sales and tax receipts.**

DRS agents do attempt matches of available third-party records of purchases and sales in order to detect evidence of possible fraud. However, zappers remain very difficult to detect without a whistleblower or sophisticated tax forensics that are usually not affordable for state tax agencies.

Tax Amnesty 2013

DRS implemented Tax Amnesty 2013 beginning on September 16th and concluding on November 15th. This tax amnesty (applying to all state tax types for nonfilers, underreporters, accounts receivables and including matters in audit as well as in civil litigation) was the broadest ever undertaken in Connecticut. The amnesty offered a 60-day window of opportunity for most individuals and businesses to pay back taxes in full in order to benefit from significantly reduced interest charges as well as avoid tax penalties and the risk of future civil or criminal enforcement. Taxpayers not taking advantage of the amnesty could face an additional 25% penalty on the amount of tax owed.

Overall, Amnesty 2013 collected nearly \$193 million – the most successful Connecticut state amnesty program ever. During the amnesty, sales taxpayers resolved back taxes totaling over \$61 million.

Expanded e-filing

For DRS and taxpayers, electronic filing is the fastest, most convenient, least expensive and most secure way to file. Business taxpayers have long asked that the state move more quickly to provide e-filing. E-filing is also expedites payment and improves tax compliance.

DRS put together a cross-agency e-filing project team. The project team is charged with reviewing each tax type and providing a strategic action plan that moves the agency toward the goal of electronic filing for all state taxes.

Effective for tax periods beginning on or after January 1, 2014, DRS has taken the needed step of requiring e-filing for all major business taxes – including sales taxes.

Section 3: Alternative Methods of Tax Collection

DRS also evaluated existing alternative methods of sales tax filing or collection already in use or under development.

Accelerated Payment Jurisdictions

A number of states have implemented some form of accelerated or advanced sales tax payment. Table 4 below presents a summary of the various ways that twelve different states take this approach.

TABLE 4: Payment Requirements in Other States

State	Threshold	Weighting	Frequency	Payments
California	\$17,000/month taxable sales	90%, \$135	Monthly but based on Quarter	2 monthly and one quarterly
Florida	\$200,000/yr sales taxes	60%	Monthly	1
Iowa	\$60,000/yr sales taxes	None	Semi-monthly	2
Kansas	\$32,000/yr sales taxes	90% of first 15 days or 50% of same month of prior year	Monthly	1
Michigan (ending 12/31/13)	\$720,000/yr SUT or \$480,000 withholding	50%	Monthly	3
Michigan (effective 1/1/14)	\$720,000/yr SUT or \$480,000 withholding	75%	Monthly	1
Minnesota	\$120,000/yr SUT or excise	90%	Annually	NA
Minnesota: phased-out	\$120,000/yr SUT or excise	90% or 67%	Monthly	2
Mississippi	\$20,000/mo avg. SUT or withholding	75%	Annually (June)	--
North Carolina	\$20,000/mo SUT (state and local)	65%	Monthly	1
Ohio	\$75,000/year SUT	75%	Monthly	1 or 2 (option)
Pennsylvania	\$25,000/3 rd quarter sales, use, hotel occupancy	50%	Monthly	2
Texas	Optional	90%	Monthly, Quarterly	2
Virginia	\$26M/year sales and purchases	90%	Annually (June)	--

FTA Listserv Responses

DRS surveyed state and other jurisdictions through the Federation of Tax Administrators (FTA) Listserv. The agency requested information as follows:

The state of Connecticut DRS is in the process of looking into alternative methods of collecting sales tax.

The following options are being considered:

- 1) Changing the date that sales tax is due and payable from the last day of the month following the filing period to an earlier date in the month.*
- 2) Requiring accelerated sales tax filing and payment for our highest remitting taxpayers; e.g., estimated prepayments.*
- 3) Requiring delinquent taxpayers to make sales tax payments on a more frequent basis.*

Has your jurisdiction implemented any of these options? If so, what have the results been?

Information gathered from the FTA Listserv survey are summarized in Table 5 below.

TABLE 5: FTA LISTSERV RESPONSES

State	Due Date	Accelerated Filing & Payment	Delinquent Taxpayers
California	The due date for sales tax in California is the last day of the month following the reporting period. The only change that has been made for due dates is to extend the due date to April 15 th for use tax that is reported on the state income tax return (prior to the change in law this tax was due on January 31).	Requires taxpayers averaging \$17,000 or more per month in taxable sales to be on a quarterly-prepayment filing basis. This requires the taxpayer to file a quarterly return that is due on the last day of the month following the quarterly reporting period in addition to filing two prepayments due on the 24 th of each month for the preceding monthly sales. Additionally, any taxpayer that averages \$10,000 or more per month in tax due is required to pay by electronic funds transfer (EFT). Historically, this allowed for the funds to be available to the state much sooner than if processing tax payments made by paper checks. With new electronic check processing, the gap between EFT payments and paper check payments has decreased.	Taxpayers that have a history of delinquencies may be switched from a quarterly reporting basis to a monthly reporting basis.

Florida	Returns are due the 20th day of the month following the end of the filing period (monthly/quarterly/annually)	Requires estimated payments for the current month's taxes from larger taxpayers.	Has not considered this initiative
Illinois	Due the 20 th day of the month following the end of the filing period (monthly/quarterly/annually)	Requires accelerated payments for the larger taxpayers – the largest are actually mandated EFT and the money must be in IDOR's account by the weekly due date. If the Average Monthly Liability is greater than \$20,000 for the preceding four calendar quarters, then the taxpayer is required to make payments on the 7th, 15th, 22nd, and the last day of the current month and file the return on the 20th day of the following month.	Has not considered this initiative
Iowa	Returns are due the last day of the month following the end of the filing period (monthly/quarterly/annually)	Filing frequency based on amount of tax due. No estimated payments.	Has not considered this initiative
Kansas	Returns are due on the 25th of the month following the reporting period	New registrations are assigned a business category type and must initially file according to the default frequency for that category. Kansas' system annually evaluates the frequency based on the cumulative annual amount of tax reported and may accelerate according to thresholds below: Tax Liability/Filing Frequency/Return Due Date: <ul style="list-style-type: none"> • \$0 - \$80: Annual, January 25th of the following year; • \$80.01 - \$3,200: Quarterly, 25th of the month following the end of the calendar quarter; • \$3,200.01 - \$32,000: Monthly, 25th of the following month; and • \$32,000.01 and above: Pre-paid monthly where the first 15 days of the current month's liability is due on or before the 25th of the same month 	Kansas cannot increase the filing frequency due to delinquency. It can only be increased due to annual tax amounts previously shown. However, Kansas can require a business to post a bond to help protect the state's interest for businesses with repetitive delinquencies.
Kentucky	Kentucky's due date is the 20th of the month for regular filers and the 25th of the month for accelerated filers.	Kentucky has required accelerated filing and payment from its largest taxpayers for several years. Implementing accelerated filing provides a revenue bump in the 1st month it is in place as taxpayers make their first prepayment. There is no long-term revenue increase as each subsequent month the filers use their prior month's prepayment.	Kentucky has not implemented more frequent payments for habitually delinquent taxpayers.

Nebraska	Due date is the 20th of the month following the reporting period	Nebraska does not do this	On a case by case basis, Nebraska may require a taxpayer who qualifies for quarterly or annual filing to file on a more frequent basis.
New Mexico	Requires filing on the 25 th of the month after the period closes. Taxpayers who report an average of more than \$200 per month in tax to file monthly.	Taxpayers who file monthly are required to file electronically. Taxpayers who file more than \$25,000 in tax per month must pay electronically.	Has not been considered to date
New York	New York is in the preliminary stages of reducing the filing due date since more than 80% of taxpayers file electronically. They are also looking at eliminating quarterly filing and implementing true monthly filing to simplify the process and to accelerate the reporting of liabilities and receiving payments.	<p>New York's "PrompTax" program requires enrollment from certain taxpayers who make accelerated payments. Vendors with more than \$500,000 of sales tax due are mandated to participate as well as other high dollar vendors that are selected. Other vendors can also chose to join the program voluntarily.</p> <p>PrompTax enrollees must:</p> <ul style="list-style-type: none"> • Pay their tax electronically following a special accelerated payment schedule; • File a quarterly sales and use tax return that reconciles all payments for the previous fiscal quarter; • Pay using ACH Credit, ACH Debit, Fedwire, Emergency Fedwire or certified checks; and • Make one tax payment each month, due on the third business day after the 22nd day of the month. This payment covers liabilities accrued for two distinct periods: the period beginning on the 23rd day of the previous month through the last day of the previous month and, the period beginning the first day of the current month and ending on the 22nd day of the current month. 	<p>There is a pilot program for noncompliant sales tax vendors to remit weekly payments via a sales tax Segregated Bank Account Program. To bolster sales tax compliance, New York requires certain sales tax vendors to deposit sales tax into a separate bank account. The taxpayer also authorizes the Tax Department to debit the account for the sales tax owed.</p> <p>Taxpayers not in compliance may have to post a bond with the Tax Department and file monthly returns if they do not already do so. Their Certificate of Authority could also be suspended or revoked.</p>

Oklahoma	Higher paying tax payers are required to file once a month, but they are required to remit funds twice a month.	For sales from the first day through the fifteenth day of each month, the tax shall be due and payable on the twentieth day of the month, and remitted to the Tax Commission by electronic funds transfer. A taxpayer will be considered to have complied with the requirements of this paragraph if, on or before the twentieth day of each month, the taxpayer paid at least ninety percent of the liability for that fifteen-day period, or at least fifty percent of the liability incurred during the immediate preceding calendar year for the same month.	Not at this time
Vermont	Due date is the 25th of the month following the sale.	Filing frequency based on amount of tax due. No estimated payments.	On a case by case basis, when granted a conditional license in lieu of a bond or closing they have required weekly deposits of trust tax funds, but that is the exception.
Washington	Uses the 25th of the following month as a due date for monthly filers.	Washington has monthly, quarterly and annual fillers. Frequency is dependent on the average amount due. Monthly and quarterly filers pay electronically.	Washington does not automatically change the frequency of taxpayers based on their filing history or delinquency rate. Periodically, individual accounts that have a collection history have their frequency changed from Quarterly to Monthly by the Revenue Agent handling the case – this is only done on a case by case basis.

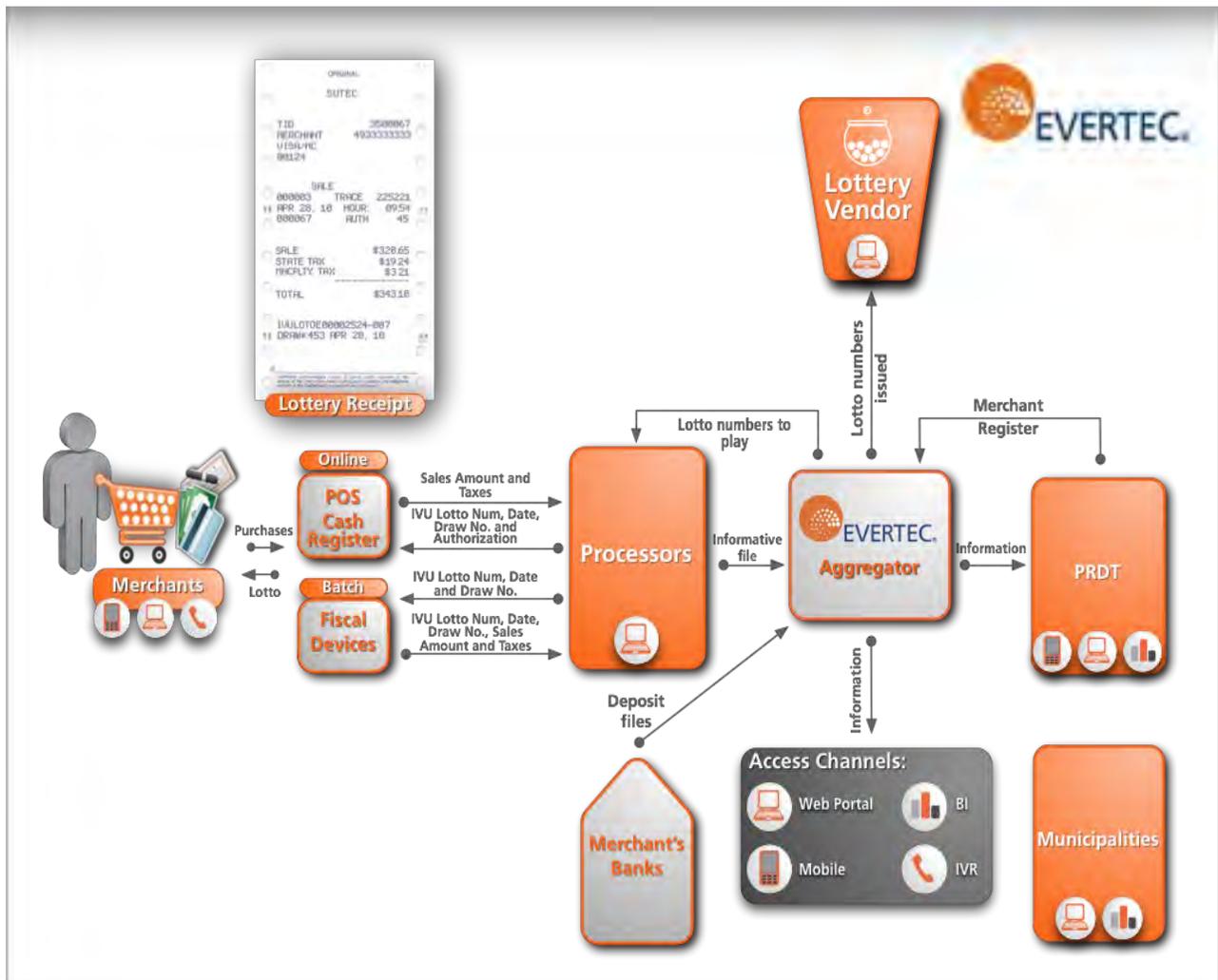
Puerto Rico POS

Puerto Rico is the only federal jurisdiction linking sales tax collection and merchant point-of-sales (POS) systems. DRS staff had extensive discussions with their counterparts in the Puerto Rico Department of Treasury (PRDT) in order to understand this initiative.

The sales tax was introduced to Puerto Rico in 2006. Compliance remains a significant problem. PRDT, working primarily with financial institutions rather than retailers and processors, has developed a mandatory POS transaction based system. At this time, the system is used for sales and tax data capture but not tax collection. System implementation began in the fourth quarter of 2010.

The initiative is referred to as **"IVU Loto."** **"IVU"** is the Spanish-language acronym for the sales and use tax. **"Loto"** refers to the customer lottery that is included as a means to induce merchant compliance. Frequent, low prize value lottery drawings are intended to incent customers to demand that merchants use the system in order to provide receipts that include the **"Loto" number.** PRDT holds semi-weekly LOTO drawings awarding one \$25,000 prize, one \$1000 prize and eight \$500 prizes in each drawing. LOTO prize money is appropriated through **the Commonwealth's general fund.**

The POS transaction-based process involves three components: Merchants (fiscal data capture), processors (data transmitters) and the aggregator (data storage and deployment). (See diagram on next page). Some merchants are expressly exempted from this POS-based system. These include certain utilities, such as telephone, CATV and internet providers; architects, engineers, attorneys; health and medical services; financial services; and insurance services. In addition, any merchant with less than \$50,000 in annual sales is exempt.



Non-exempt merchants are required to use and maintain “fiscal devices” certified in accordance with state standards for all POS transactions. Merchants are also required to provide a standardized customer receipt. On a daily basis, merchants transmit sales information to PRDT and distribute IVU Loto numbers to the **Commonwealth’s** lottery program vendor. Cash payments and taxes are also supposed to be part of the program, but are not part of the automated POS system and must be entered manually. PRDT may assess penalties of up to \$20,000 for the following merchant non-compliance:

- Refusing installation of a certified fiscal device.
- Not using the certified fiscal device.
- Disconnecting or removing a fiscal device.
- Obstructing inspections or other oversight.

Information contained in the merchant files that must be sent to PRDT includes: taxpayer identification number, sales tax amount, method of payment, date, processor certification number and POS entry mode. This information is useful in analyzing trends. More important, the data provides sales comparison data for audit selection purposes. By July 2014, PRDT plans to require auditable financial transaction records from merchants but this will require mandating that **all** merchants use a certified processor. Evertec, primary vendor for the project, has a strong presence in Puerto Rico and is heavily involved with the banking industry.

With several cost overruns, Puerto Rico has already spent \$14.5 million to implement its system. This cost includes publicly financing merchant hardware and software costs. PRDT believes that the IVU Loto initiative does increase sales tax compliance and collections. However, there is little hard evidence as yet and any offsetting gains have been more than overshadowed by the sales tax consequences of a severe and continuing general economic downturn. A widespread underground economy, merchant avoidance and cash transactions also continue to present major challenges.

Puerto Rico's exploration of standardized POS transaction-based sales tax reporting and collections remains unique among all federal jurisdictions. DRS will continue to monitor developments in Puerto Rico and believes there may be lessons to be learned. There are, however, emerging security issues. As evidenced by the recent experience of one major retailer, the U.S. Department of Homeland Security reported on January 2, 2014 that POS systems appear increasingly to be a target opportunity for sophisticated malware and cyber-crime. Statewide reliance and interconnection with a single, automated merchant-based POS transaction system could present a massive risk to state and taxpayer data security.

Certified Software Providers

States that have adopted the Streamlined Sales and Use Tax Act (SSUTA) and collaborate in standardized collections are already served by a number of national software providers. These providers are **not** processors.

Connecticut is not a SSUTA and it would require a major overhaul of the state sales tax code to qualify for participation. However, passage of the federal Marketplace Fairness Act will require all states to provide a common technological framework for remote sellers based on access to the services of certified software providers. Existing certified software providers include Avalera, Taxware and FedEx. These providers offer automated systems

that provide remote sellers with up-to-date tax calculation, tax collection and tax remittance for multiple taxing jurisdictions. The national Federation of Tax Administrators (FTA) and the Multistate Tax Commission (MTC) are exploring opportunities to bring all of this to scale in anticipation of the ultimate passage of the Marketplace Fairness Act.

DRS staff met with representatives of these certified software providers and the agency believes this may even be an area of real potential. Avalara, for example, offers four cloud-based POS software products for record keeping, collection, reporting, payment and audit. A merchant could link Avalara software through an iPad accounting software such as Quick Books and a credit card swiping mechanism such as Square or Intuit Gopayment. With this, Avalara could do POS informational reporting. This would include a list of daily transactions that could be sent to DRS. Avalara then uses ACH return payments to remit taxes derived from *actual* sales transactions.

These software providers offer relatively affordable volume-based services. However, hardware and software costs to connect and use the systems would be a major impediment for smaller businesses that use traditional cash registers and paper bookkeeping. Also, these providers do not yet offer, for example, daily collection and doing so would require systems improvements and added cost.

Section 4: DRS Recommendations

DRS continues to be innovative in state sales tax collections and appreciates this opportunity to consider a wide range of additional possibilities. The agency offers the following recommendations:

Recommendation 1: Enact new legislation expediting and enhancing collections.

Even small steps can make a difference. Based on the experience of several states, Connecticut should pursue two simple changes at this time. With **Governor Malloy's approval, DRS proposes that legislation be enacted during the 2014 session as follows:**

- All sellers will be required to file and pay by the 20th of each month for the prior period rather than the current requirement that returns and payments are due by the last day of the month following the filing period. This change tracks the trend in other states, reasonably reduces the period when businesses may hold the trust taxes and will modestly **improve both the state's cash flow and earnings on cash balances.**
- Delinquent taxpayers (currently estimated to be fewer than 4,500) will be required to file and remit directly through the DRS Taxpayer Service Center (TSC) automated system on a weekly basis for a period of 12 months and permanently if again delinquent thereafter.

See Exhibit C for a draft of the proposed legislation.

Recommendation 2: Consider future legislation expediting reporting and remittance by major retailers.

Large sales taxpayers, especially major global and national retailers with state nexus, are rarely deficient. The experience of several other states indicates that there may, however, be reasonable ways to expedite collections from the largest sellers of goods and services that also account for the vast majority of sales tax paid in Connecticut. DRS should continue its positive discussions to date with the Connecticut Retail Merchants Association (CRMA) and others to consider future legislation.

Recommendation 3: Continue consideration of certified software providers.

With or without federal enactment of the Marketplace Fairness Act, DRS should continue to explore the potential for a POS transaction based system using available certified third party software providers.

STATE OF CONNECTICUT
Department of Revenue Services



**Application: Payment Processor for Sales Tax
Pilot Program**

Kevin B. Sullivan
Commissioner

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Introduction

Recently enacted state legislation provides that the Connecticut Department of Revenue Services (“DRS”) may require certain delinquent taxpayers to participate in a pilot program for remittance of sales taxes on an expedited basis. Specifically, sales tax collected on sales paid for by consumer credit card, debit card or electronic transfer must be remitted through a payment processor. According to the legislation, a copy of which follows this Introduction, applicant payment processors will be reviewed. Then eligible processors will be listed by the Commissioner of Revenue Services as available to delinquent taxpayers for purposes of compliance with the new state law. This document sets forth the various requirements, information and certifications necessary in order to be listed as an eligible payment processor for purposes of the pilot program.

Section 1 – File Requirements

Section 1 specifies the technical requirements with which an eligible payment processor must comply:

File Transfer Requirements (Files 1 & 2): Eligible payment processors must be able to produce two files to send to the DRS with each electronic remittance of sales tax paid into the State of Connecticut’s bank account by Automated Clearing House (ACH) Electronic Funds Transfer (EFT).

- File Format (File 1) describes the format of the first file that must be submitted to the DRS -- a retailer tax reporting file. This file must include, among other things, the total amount of sales tax collected by each retailer, the retailer’s Connecticut Tax Registration Number under which the sales tax is to be reported and the tax period end date(s) associated with each remittance of tax.
- File Format (File 2) describes the format of the second file that must be submitted to the DRS -- a deposit reconciliation report.

Any questions about section 1 should be directed to Gary Galushko at Gary.Galushko@po.state.ct.us or (860) 297-4955.

Section 2 – Required Information & Certifications

Section 2 sets forth the information, documentation and certifications that must be submitted by a payment processor in order to be determined eligible by the Commissioner. As fully explained in section 2, applications must be received by the Commissioner not later than 4:30 p.m. on September 3, 2013.

Any questions about section 2 should be directed to Marilee Clark at Marilee.Clark@po.state.ct.us or (860) 297-5634.

Additional Information:

The Commissioner will review all properly completed applications and will notify each applicant by September 9, 2013. The Commissioner's determination is final.

Section 1
File Requirements

File Transfer Requirements (FILES 1& 2)

1. DRS will host all file transfers.
2. All payment processors must use the Connecticut Bureau of Enterprise Systems and Technology (BEST) secure file transfer system via Secure File Transfer Protocol (SFTP) for all file transmissions. A separate file transfer account will be created for each processor.
3. All files must be encrypted according to DRS encryption standards. PGP is the required encryption software.
4. The payment processor must push encrypted files to their BEST file transfer account. DRS will move the files at timed intervals for processing. This will prevent files from remaining in the transfer location for extended periods.
5. Files must be created and transferred daily, including weekends and holidays. Exact scheduling will be determined by DRS.
6. File naming standards are determined by DRS. The exact file name will be provided to payment processors once approved by the Commissioner. The file will be consistent with the following guidelines and parameters:

File Name Format:

nnntoDRS_SalesTaxPointOfSaleTransactions_RINTJ###_yyyymmddhhmmss

nnn = Payment Processor identifier will be provided by DRS

= job number will be provided by DRS

yyyymmddhhmmss = file creation date and time

Sample File Name:

XYZtoDRS_SalesTaxPointOfSaleTransactions_RINTJ123_20130717082503

7. For data recovery purposes, the payment processor must retain a backup copy of all transmitted transaction files for 60 days and must have the ability to retransmit such files within 24 hours. These files must be encrypted and stored securely.

**File Format
(FILE 1)**

File 1 must contain fixed length records in a text file format. Payment processors must use the file layout below:

DEPARTMENT OF REVENUE SERVICES						
FILE LAYOUT DESCRIPTOR						
Description: Sales Tax · Point of Sale Payments	Record Length	Media	Doc. Location:			
Module:	150					
Job Script:						
Revised By:						
Revision Date:						
Filename(s): nnntoDRS_SalesTaxPointOfSaleTransactions_RINTJ###_yyyymmddhhmmss nnn = Payment Processor Vendor identifier will be provided by DRS ### = job number will be provided by DRS yyyymmddhhmmss = file creation date and time					Comments:	
ITEM NAME	PICTURE	USAGE	1ST POS. OF FIELD	LAST POSITION	NO. OF BYTES	COMMENTS
SUT-POS-PAYMENT-RECORD						
SUT-POS-PAYMENT-FILE-HEADER REDEFINES SUT-POS-PAYMENT-RECORD						
SUT-POS-FILE-HDR-REC-TYPE	X(01)	DISP	1	1	1	VALUE = 0
SUT-POS-FILE-HDR-FILLER	X(06)	DISP	2	7	6	SPACES
SUT-POS-FILE-HDR-DT	9(08)	DISP	8	15	8	DATE THE FILE IS TRANSMITTED OR MADE AVAILABLE TO CT DRS FORMAT YYYYMMDD
SUT-POS-FILE-HDR-TOT-PAY-AMT	S9(11)V99	DISP	16	28	13	TOTAL AMOUNT OF ALL PAYMENTS IN THE FILE
SUT-POS-FILE-HDR-TOT-CNT	9(09)	DISP	29	37	9	TOTAL NUMBER OF ALL PAYMENT RECORDS IN THE FILE
FILLER	X(113)	DISP	38	150	113	SPACES
SUT-POS-PAYMENT-BATCH-HEADER REDEFINES SUT-POS-PAYMENT-FILE-HEADER						
SUT-POS-BATCH-HDR-REC-TYPE	X(01)	DISP	1	1	1	VALUE = 1

Exhibit A

SUT-POS-BATCH-HDR-TAX-TYPE	X(03)	DISP	2	4	3	TAX TYPE (one tax type per batch) VALUE = SUT
SUT-POS-BATCH-HDR-SEQ-NBR	X(06)	DISP	5	10	6	ALL ZEROS FOR BATCH HEADER
SUT-POS-BATCH-HDR-TOT-PAY-AMT	S9(09)V99	DISP	11	21	11	TOTAL AMOUNT OF ALL PAYMENTS IN THE BATCH FOR TAX TYPE
SUT-POS-BATCH-HDR-TOT-CNT	9(05)	DISP	22	26	5	TOTAL NUMBER OF ALL PAYMENT RECORDS IN THE BATCH FOR TAX TYPE
FILLER	X(124)	DISP	27	150	124	SPACES
SUT-POS-PAY-TRANS-INFO REDEFINES SUT-POS-PAYMENT-BATCH-HEADER						
SUT-POS-PAY-REC-TYPE	X(01)	DISP	1	1	1	VALUE = 2
SUT-POS-PAY-TAX-TYPE	X(03)	DISP	2	4	3	TAX TYPE (one tax type per batch) VALUE = SUT
SUT-POS-PAY-SEQ-NBR	X(06)	DISP	5	10	6	SEQUENCE NUMBER STARTING AT 1 AND INCREMENTING BY 1
SUT-POS-PAY-ID-TAXPAYER	X(10)	DISP	11	20	10	THE CT TAX REGISTRATION NUMBER OF THE TAXPAYER THAT WILL BE FILING THE TAX RETURN ASSOCIATED WITH THIS PAYMENT - left justified
SUT-POS-LOCATION-NBR	9(3)	DISP	21	23	3	ENTER THE LOCATION NUMBER OF THE TAXPAYER THAT WILL BE FILING THE TAX RETURN ASSOCIATED WITH THIS PAYMENT

Exhibit A

SUT-POS-PAY-DUE-DT	9(08)	DISP	24	31	8	TAX PERIOD END DATE THAT THIS PAYMENT IS ASSOCIATED WITH - YYYYMMDD
SUT-POS-PAY-DT-EFFECT						
SUT-POS-PAY-DT-MM	9(02)	DISP	32	33	2	TWO DIGIT MONTH OF THE PAYMENT EFFECTIVE DATE
SUT-POS-PAY-DT-DD	9(02)	DISP	34	35	2	TWO DIGIT DAY OF THE PAYMENT EFFECTIVE DATE
SUT-POS-PAY-DT-YYYY	9(04)	DISP	36	39	4	FOUR DIGIT YEAR OF THE PAYMENT EFFECTIVE DATE
SUT-POS-PAY-AMT	S9(08)V99	DISP	40	49	10	AMOUNT OF THE PAYMENT
SUT-POS-PAY-CD-REASON	9(03)	DISP	50	52	3	THREE DIGIT REASON CODE TO BE SUPPLIED BY DRS
FILLER	X(97)	DISP	53	150	98	ALWAYS SPACES

File Field Descriptions:

FILE HEADER RECORD		
FIELD	FIELD NAME	DESCRIPTION
1.	SUT-POS-FILE-HDR-REC-TYPE	This field must contain the value "0" which indicates that the record type is a file header record.
2.	SUT-POS-FILE-HDR-FILLER	This field must contain spaces.
3.	SUT-POS-FILE-HDR-DT	This field must contain the date the file is

Exhibit A

		transmitted or made available to DRS. The format of this field must be YYYYMMDD.
4.	SUT-POS-FILE-HDR-TOT-PAY-AMT	This field must contain the total amount of all payments in the file. The amount must contain 2 decimal positions and must be right justified and zero filled.
5.	SUT-POS-FILE-HDR-TOT-CNT	This field must contain the total number of all payment transaction records in the file. The field must be right justified and zero filled.
6.	FILLER	This field must contain spaces.

BATCH HEADER RECORD		
FIELD	FIELD NAME	DESCRIPTION
1.	SUT-POS-BATCH-HDR-REC-TYPE	This field must contain the value "1" which indicates that the record type is a batch header record.
2.	SUT-POS-BATCH-HDR-TAX-TYPE	This field must contain the value "SUT" which indicates that this is a batch of sales tax payments.
3.	SUT-POS-BATCH-HDR-SEQ-NBR	This field must contain all zeros.
4.	SUT-POS-BATCH-HDR-TOT-PAY-AMT	This field must contain the total amount of all payments in the batch. The amount must contain 2 decimal positions and must be right justified and zero filled.
5.	SUT-POS-BATCH-HDR-TOT-CNT	This field must contain the total number of all payment transaction records in the batch. The field must be right justified and zero filled.
6.	FILLER	This field must contain spaces.

PAYMENT TRANSACTION RECORD		
FIELD	FIELD NAME	DESCRIPTION
1.	SUT-POS-PAY-REC-TYPE	This field must contain the value "2" which indicates that the record type is a payment transaction record.
2.	SUT-POS-PAY-TAX-TYPE	This field must contain the value "SUT" which indicates that this is a Sales Tax payment.
3.	SUT-POS-PAY-SEQ-NBR	This field represents the payment sequence number within the batch. The first payment transaction record in each batch

Exhibit A

		must contain a value of 000001 and must increment by one for each additional payment transaction record in the same batch.
4.	SUT-POS-PAY-ID-TAXPAYER	This field must contain the CT tax registration number of the taxpayer that will be filing the tax return associated with this payment transaction record. The CT tax registration number must be left justified and space filled.
5.	SUT-POS-LOCATION-NBR	This field must contain the 3 digit location number of the taxpayer that will be filing the tax return associated with this payment transaction record.
6.	SUT-POS-PAY-DUE-DT	This field must contain the tax period end date that this payment is associated with and must be in the following format – YYYYMMDD.
7.	SUT-POS-PAY-DT-MM	This field must contain the two digit month of the payment effective date.
8.	SUT-POS-PAY-DT-DD	This field must contain the two digit day of the payment effective date.
9.	SUT-POS-PAY-DT-YYYY	This field must contain the four digit year of the payment effective date.
10.	SUT-POS-PAY-AMT	This field must contain the amount of the payment associated with this payment transaction record. The amount must contain 2 decimal positions and must be right justified and zero filled.
11.	SUT-POS-PAY-CD-REASON	This field must contain a 3 digit reason code which will be supplied by DRS.
12.	FILLER	This field must contain spaces.

File Format

(FILE 2)

In addition to File 1, each payment processor is required to submit a deposit reconciliation report in Microsoft Excel format. This report must be transmitted with the retailer tax reporting file (File 1) to the secure DRS FTP location.

This report must contain the following fields:

- **Connecticut Tax Registration Number** – The Connecticut Tax Registration Number of the retailer
- **Tax Type** – Input SUT, which is the DRS acronym for Sales & Use Tax

Exhibit A

- **Tax Period Ending Date** – The end date of the taxable period to which the payment will be applied
- **Business Name** – Business name of the retailer that is required to file the Sales & Use Tax return
- **Payment Amount** – Amount of sales tax remitted on behalf of the retailer to the State of Connecticut

The report must also include a total for all payments. **This total must be identical to the payment total shown in File 1 and to the payment made to the State of Connecticut.** The following is a sample of such a report:

Connecticut Tax Registration Number	Tax Type	Tax Period Ending Date	Business Name	Payment Amount
123456001	SUT	06/30/2013	ABC INC	1,541.00
123457000	SUT	06/30/2013	DEF LLC	4,630.00
123458001	SUT	06/30/2013	GHI CORP	1,218.00
123459000	SUT	06/30/2013	JKL	483.00
Total:				7,872.00

The payment processor is responsible for building an inquiry tool that would give authorized DRS personnel the ability to research payment transactions by Connecticut Tax Registration Number or Payment Amount.

Section 2

Required Information and Certifications

Required Information and Certifications

In order to apply for approval by DRS for inclusion in the Sales Tax Pilot Program established by Conn. Public Act No. 13-184, Section 80, a payment processor must submit the following application with all required documentation on or before September 3, 2013 at 4:30 p.m. to:

Louis P. Bucari
First Assistant Commissioner & General Counsel
Department of Revenue Services
25 Sigourney Street, 19th Floor
Hartford, Connecticut 06106

DRS will NOT accept a postmark date as the basis for meeting the application due date and time.

A signed, original application must be submitted with the following additional documentation:

1. Evidence of compliance with the most current version of the Payment Card Industry (PCI) Data Security Standard (DSS);
2. Completed Payment Processor Contact Information Forms; and
3. All applicable entity documentation set forth below.

If the payment processor is a corporation, the following documents must be submitted with the application:

1. Certificate of Legal Existence (or Certificate of Good Standing, as applicable);
2. Certificate of Incorporation;
3. Bylaws;
4. List of Board of Directors, including names and titles of officers; and
5. Certified resolution, duly adopted by the Board of Directors, approving and authorizing submission of the application that includes authorization of the person signing the application to act on behalf of the Board of Directors.

If the payment processor is a limited liability company, the following documents must be submitted with the application:

1. Certificate of Legal Existence (or Certificate of Good Standing, as applicable);
2. Articles of Organization;
3. Operating Agreement;
4. List of manager(s) and member(s), including names and titles of officers; and

Exhibit A

5. Certified resolution, duly adopted, approving and authorizing submission of the application that includes authorization of the person signing the application to act on behalf of the company.

Please be advised that all applications will be the sole property of DRS. Applicants are encouraged not to include any proprietary information in their applications because all documents received by DRS are subject to disclosure under the Connecticut Freedom of Information Act (FOIA). FOIA generally requires the disclosure of documents in the possession of DRS upon request of any citizen, unless the content of the document falls within certain categories of exemption. An example of an exemption is a "trade secret," as defined by Connecticut General Statutes Section 1-210(b)(5)(A). Confidential information must be separated and isolated from other material in the application and labeled CONFIDENTIAL and enclosed in a separate envelope. If so marked, DRS will endeavor to keep said information confidential to the extent permitted by law. DRS, however, has no obligation to initiate, prosecute or defend any legal proceeding or to seek a protective order or other similar relief to prevent disclosure of any information pursuant to a FOIA request. In no event shall DRS or any of its staff have any liability for disclosure of documents or information in the possession of DRS which DRS or such staff believes to be required pursuant to the FOIA or other requirements of law.

Exhibit A**DEPARTMENT OF REVENUE SERVICES
PAYMENT PROCESSOR APPLICATION FORM**

Legal Business Name:		Taxpayer ID# <input type="checkbox"/> SSN <input type="checkbox"/> FEIN			
Business Name, Trade Name, Doing Business As (If Different From Above):					
Business Entity: <input type="checkbox"/> Corporation <input type="checkbox"/> LLC <input type="checkbox"/> Partnership <input type="checkbox"/> Individual/Sole Proprietor					
Address:		Street	City	State	Zip Code
Website:					
Contact Information Name of Contact:					
Business Phone:		Cellular:			
Fax Number:		E-Mail Address:			
Certifications By signing below the Authorized Person certifies as follows: <ol style="list-style-type: none">1. The undersigned has the legal authority to submit this application.2. This application is executed with full knowledge and acceptance of the requirements and conditions set forth in the Application to be a Payment Processor for Sales Tax Pilot Program.3. The undersigned certifies that the applying payment processor meets all requirements set forth in the Application for Approval as Payment Processor for Sales Tax Pilot Program.4. The undersigned certifies that the payment processor will present any additional proof of experience, ability, technical capacity or financial standing that may be required by DRS to establish that the applying payment processor satisfies all requirements set forth or implied in the Application to be a Payment Processor for Sales Tax Pilot Program.5. The undersigned certifies that the applying payment processor is capable of acting as an approved payment processor for the entire period of the Sales Tax Pilot Program.					

Exhibit A

<p>6. The undersigned understands that application determinations are in the sole discretion of the Commissioner of Revenue Services and all decisions will be final.</p> <p>7. The undersigned understands that if determined to be eligible, the applicant payment processor will be required to provide services to retailers under an agreement to be negotiated between the retailer and the applying payment processor.</p> <p>8. The undersigned understands that the determination of eligibility as a payment processor will only be effective for the period of the Sales Tax Pilot Program and may not be assigned or transferred without the express written consent of the Commissioner of Revenue Services.</p> <p>9. The undersigned certifies that the applicant payment processor is not currently past due for any local, state or federal tax obligations.</p> <p>10. The undersigned understands that the applicant payment processor will not receive any monetary consideration from the State of Connecticut, its departments, agencies, or entities, or any of their officers, employees, designees, or agents for any activities undertaken in connection with the Sales Tax Pilot Program.</p> <p>11. The undersigned understands that determination of eligibility as a payment processor by the Commissioner in no way constitutes any endorsement, promotion or warranty of performance as between the payment processor and any taxpayer.</p> <p>12. The undersigned understands that nothing in this document or in any correspondence or notification will create any legally binding obligations on the State of Connecticut, its departments, agencies, or entities, or any of their officers, employees, designees, or agents.</p> <p>13. The undersigned understands that nothing in this document or in any correspondence or notification will confer any rights enforceable by the applicant or any third parties against the State of Connecticut, its departments, agencies, or entities, or any of their officers, employees, designees, or agents.</p> <p>14. The undersigned understands that nothing in this document or in any correspondence or notification may be construed to obligate the State of Connecticut, its departments, agencies, or entities, or any of their officers, employees, designees, or agents to any current or future expenditure of resources.</p> <p>15. The undersigned certifies that the statements contained in this application and any accompanying forms and documents are true to the best of his or her knowledge and belief.</p>	
Signature of Person Authorized to Sign on Behalf of the Processor	Date Executed
Name of Authorized Person	Title of Authorized Person

Payment Processor Contact Information Forms

Applying payment processors must complete the following Contact Information Forms:



**Sales Tax Pilot Program
Payment Processor Contact Information Form
*Implementation***

PRIMARY	Description: Please provide the information for the individual who will interact with the DRS Project Manager			
	Name:	Telephone:	Fax:	E-Mail:

SECONDARY	Description: Please provide the information for the individual who will act as the backup to the primary contact			
	Name:	Telephone:	Fax:	E-Mail:

IMPLEMENTATION TEAM	Description: Please provide the technical contact names of those who will work with DRS Technical contacts to develop, test and implement the file creation and file transfer processes			
	Name:	Telephone:	Fax:	E-Mail:
File Layouts:				
File Transfer & Encryption:				
Developer:				
Security Compliance:				
Other:				
	Business Specific Information:			

BANKING CONTACT	Description: Please provide the contact names of individuals responsible for banking relationships			
	Name:	Telephone:	Fax:	E-Mail:
Primary Contact:				



**Sales Tax Pilot Program
Payment Processor Contact Information Form
*Production***

HELP DESK/ FIRST POINT OF CONTACT:	Description: Please provide this information if you have a Help Desk area that will act as the first point of contact whenever DRS needs to contact your company. Please include any business- specific information that may be required, e.g. job names, file names, etc. When necessary, also include after-hours contact information, pager or cellular telephone numbers.
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Exhibit A

	Name:	Telephone:	Fax:	E-Mail:
	Business Specific Information:			

TECHNICAL SUPPORT	Description: Please provide contact information of individuals who support file content, file transfer and recovery issues			
	Name:	Telephone:	Fax:	E-Mail:
File Layouts:				
File Transfer & Encryption:				
Developer:				
Security Compliance:				
Other:				
	Business Specific Information:			



Sales Tax Pilot Program Payment Processor Contact Information Form *Banking*

BANKING CONTACT	Description: Please provide the contact names for individuals responsible for banking relationships			
	Name:	Telephone:	Fax:	E-Mail:
Primary Contact:				
Reversals Reclaim:				
ACH Contact:				

BANKING INFORMATION	Description: Please provide the following bank information	
	Bank Name:	Phone Number:



1101 16th Street NW
Suite 402
Washington, DC 20036
www.electra.org
1 800.695.5509
F 202.828.2635
F 202.828.2639

October 29, 2013

Commissioner Kevin Sullivan
State of Connecticut
Department of Revenue Services
25 Sigourney Street
Hartford, CT 06106

Re: Implementation of HB 6704

Dear Commissioner Sullivan,

2013 OCT -4 P 11:00 AM
COMMISSIONER
REVENUE SERVICES
STATE OF CONN

The Electronic Transactions Association (ETA) is an international trade association representing more than 500 companies that offer electronic transaction processing products and services. ETA members empower American businesses to accept electronic payments, processing more than \$4 trillion in consumer purchases in the U.S. each year. For American businesses, the ability to accept electronic payments is crucial to their economic viability as they obtain safe, reliable and convenient payment for their products and services.

As the Department of Revenue Services (the Department) prepares its recommendations to the legislature in 2014, per the requirements of the provisions of HB 6704, enacted in 2013, ETA appreciates consideration of its comments pertaining to an automated sales tax collection process borne by payment processors. The mission of ETA member companies is to enable and facilitate electronic payments and the flow of commerce for merchants. Payment processors have not acted as a tax collection arm for any state tax bureau, nor are their business operations structured to do so. This point is illustrated by the fact that in September 2013, no payment processors volunteered to participate in Connecticut's program for payment processors to collect and remit state tax from merchants.

Some of the reasons that we strongly oppose the inclusion of a payment processor-driven sales tax collection and remittance process in the Department's recommendations are as follows:

Payment processors do not collect individual state tax registration numbers for their clients. For a real-world example of the complexities involved in this process on a Federal level, we note the history of the implementation of Internal Revenue Code Section 6050W. Passed into law in July 2008, the Internal Revenue Service (IRS) has issued several delays in implementation and has even scuttled some of the reporting requirements over the past five years. The IRS recently announced another delay in implementation, until September 2014, for reporting done by payment processors. ETA worked closely with the IRS throughout the year to achieve this delay; there are myriad reasons why this delay was needed. Even though the IRS is attempting to implement a gross transaction reporting scheme for merchants at the Federal level, it does not mean that the process is portable to individual state or local jurisdictions. We would welcome the opportunity to brief you on these issues in more detail.

Payment processors do not capture the details of the goods purchased by consumers in a payment transaction, and thus would be unable to calculate the applicable state sales tax. Furthermore, payment processors do not know the taxing jurisdiction of a transaction or a particular good or service in an aggregated transaction. The electronic payments community has worked diligently for over 50 years to minimize the amount of information collected to execute a transaction. The payments industry prides itself on its advances in data security and is one of the most secure electronic ecosystems in the world. To begin to collect and store information on individual purchases for the purpose of calculating and remitting state sales tax on behalf of -- not themselves but a client -- would be a step backward for payment processors that have strived to make payment security, efficiency, and ubiquity their top priorities.

Merchants and card types have inconsistent cycle times. The full transaction process consists of initial authorization, clearing, and settlement between the two financial institutions on either side of the transaction. Varying card types have different authorization and settlement timeframes due to the legacy processes, risk management, and fraud mitigation tools. In addition, processors routinely have multiple settlement processes for merchants whereby settlement can entail multiple settlements throughout the day, withholding of certain transactions for risk management purposes, and inconsistent timing of different card types. Thus, for processors to implement any collection and remittance of sales taxes is inherently difficult.

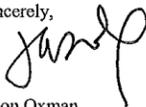
The scale of the reporting reconciliation infrastructure that would need to be created is daunting for all parties and would require material investments. Even if one were to assume that all of the aforementioned issues went away by the Department adopting some modified deposit system and the program were implemented, the reconciliation of tax remitted by multiple parties, at different times, on behalf of each retailer, will create the need for a complex and burdensome reporting system for all parties including the retailer, third party processors, networks, card issuers, and the Department. The costs incurred by such may well outweigh the expected benefits of the program. For example:

- a. The payment processor remitting the tax would need to inform each retailer of the specific transactions on which tax was remitted and the specific amount of tax that was remitted on each transaction. The retailer would then need to reconcile this tax remittance with its overall tax liability to ensure that it remits all tax that is properly due on a timely basis. Additionally, differences between Federal law (largely reporting and withholding of flat rates) and State law would create additional complexities. This would result in additional expense for the payment processor and for the retailer.
- b. The high volume of transactions that occur at a retail location on a daily, weekly, or monthly basis coupled with the volume of merchandise returns, chargebacks, and other adjustments would make accurate reporting challenging at best and would mean additional expenses for the payment processor and retailer.
- c. The Department would need to ensure the amount of tax is properly credited to each retailer's account, and reconcile those remittances with the tax the retailer remits on its returns. This would translate to additional expenses for the state.

In the United States, the payments ecosystem is extremely complex, with multiple participants, including merchants, card types, networks, POS hardware manufacturers, POS software developers, processors, and issuers. The payments industry in the U.S. has evolved over a 60-year span with a central objective by all parties – to ensure the efficiency, safety, and security of transaction. There are legacy systems and nuances throughout the entire U.S. infrastructure that involves thousands of different third-parties, excluding the merchants themselves, which pose challenges to implementing any new functionality or that make new functionality simply not feasible. For this reason, we believe a recommendation for payment processors to collect and remit sales taxes at the time of electronic payment transactions will not achieve the stated results the State seeks and will place an undue and unreasonable burden on all parties involved – including consumers, merchants, processors, networks, and issuing financial institutions.

We welcome the opportunity to discuss this in greater detail with you and your staff. Please contact Mary Bennett at 202-677-7403 or mary.bennett@electran.org if you have questions or would like to set up a meeting to discuss our comments.

Sincerely,



Jason Oxman
CEO

Exhibit C

Proposed Sales Tax Change Submitted to Finance

Sec. x. Section 12-414 of the general statutes is repealed and the following is substituted in lieu thereof:

(1) The taxes imposed by this chapter are due and payable to the commissioner monthly on or before the **[last] twentieth** day of the month next succeeding each monthly period except that (A) every person whose total tax liability for the twelve-month period ended on the preceding June thirtieth was less than four thousand dollars shall **remit tax [file returns]** on a quarterly basis[.] and (B) every person described in subparagraph (B) of subdivision (5) hereof shall, regardless of payment frequency otherwise determined hereunder, remit tax as prescribed by the commissioner under said subdivision. **"Quarterly"** means a period of three calendar months commencing on the first day of January, April, July or October of each year or, if any seller commences business on a date other than the first day of January, April, July or October, a period beginning on the date of commencement of business and ending on March thirty-first, June thirtieth, September thirtieth or December thirty-first, respectively.

(2) On or before the **[last] twentieth** day of the month following each monthly or quarterly period~~[,] or on the date or dates prescribed by the commissioner under subdivision (5) hereof,~~ as the case may be, a return for the preceding period shall be filed with the commissioner in such form as the commissioner may prescribe. For purposes of the sales tax a return shall be filed by every seller. For purposes of the use tax a return shall be filed by every retailer engaged in business in the state and by every person purchasing services or tangible personal property, the storage, acceptance, consumption or other use of which is subject to the use tax, who has not paid the use tax due a retailer required to collect the tax, except that every person making such purchases for personal use or consumption in this state, and not for use or consumption in carrying on a trade, occupation, business or profession, need file only one use tax return covering purchases during a calendar year. Such return shall be filed and the tax due thereon paid on or before the fifteenth day of the fourth month succeeding the end of the calendar year for which such return is filed. Returns shall be signed by the person required to file the return or by his authorized agent but need not be verified by oath, provided a return required to be filed by a corporation shall be signed by an officer of such corporation.

(3) For purposes of the sales tax the return shall show the gross receipts of the seller during the preceding reporting period. For purposes of the use tax, in case of a return filed by a retailer, the return shall show the total sales price of the services or property sold by him, the storage, acceptance, consumption or other use of which became subject to the use tax during the preceding reporting period; in case of a return filed by a purchaser, the return shall show the total sales price of the service or property purchased by him, the storage, acceptance, consumption or other use of which became subject to the use tax during the preceding reporting period. The return shall also show the amount of the taxes for the period covered by the return in such manner as the commissioner may require and such other information as the commissioner deems necessary for the proper administration of this chapter. The Commissioner of Revenue Services is authorized in his discretion, for purposes of expediency, to permit returns to be filed in an alternative form wherein the person filing the return may elect to report his gross receipts, including the tax reimbursement to be collected as provided for herein, as a part of such gross receipts or to report his gross receipts exclusive of the tax collected in such cases where the gross receipts from sales have been segregated from tax collections. In

Exhibit C

the case of the former, the percentage of such tax-included gross receipts that may be considered to be the gross receipts from sales exclusive of the taxes collected thereon shall be computed by dividing the numeral one by the sum of the rate of tax provided in section 12-408, expressed as a decimal, and the numeral one.

(4) Returns, together with the amount of the tax due thereon, shall be filed with the Commissioner of Revenue Services.

(5) (A) The commissioner, if he deems it necessary in order to insure payment to or facilitate the collection by the state of the amount of taxes, may permit or require returns and payment of the amount of taxes for other than monthly or quarterly periods.

(B)(i) Consistent with the authority provided to the commissioner under subparagraph (A) of this subdivision, the commissioner may require any taxpayer who is delinquent, as described in section 12-7a of the general statutes, to remit tax collected for a weekly period on a weekly basis. For purposes of this subparagraph, weekly period means the seven-day period beginning on a Saturday and ending the following Friday. Any person who is required to remit tax collected for a weekly period shall remit such tax to the commissioner on or before the Wednesday next succeeding the weekly period and shall do so in the manner and method prescribed by the commissioner. Except as provided herein, the requirement to remit tax on weekly basis does not impact or otherwise alter the filing obligations set forth in subdivision (2) hereof. To the extent that the end of a filing period and the beginning of the subsequent filing period fall in the same weekly period, each person required by the commissioner to remit tax under this subparagraph shall report all of the tax collected and remitted during such weekly period, along with the corresponding gross receipts, on the return covering the period that ended during said weekly period.

(ii) The commissioner shall send written notice to each person he requires to comply with the provisions of this subparagraph and shall do so in accordance with section 12-2f of the general statutes. Any person who the commissioner requires to remit tax on a weekly basis shall, upon notice from the commissioner, be required to remit tax on a weekly basis for a period of one year commencing from the date set forth in said notice. Said notice shall also contain information regarding the manner and method pursuant to which each person is required to remit tax to the commissioner.

(iii) Any person who fails to comply with the provisions of this subparagraph shall be subject to any and all penalties imposed under this chapter, including revocation of such person's permit.

(6) Except for payments required to be made under the provisions of subparagraph (B) of subdivision (5) hereof, the [The] commissioner for good cause may extend the time for making any return and paying any amount required to be paid under this chapter, if a written request therefor is filed with the commissioner together with a tentative return which must be accompanied by a payment of the tax, which shall be estimated in such tentative return, on or before the last day for filing the return. Any person to whom an extension is granted shall pay, in addition to the tax, interest at the rate of one per cent per month or fraction thereof from the date on which the tax would have been due without the extension until the date of payment.