

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7040

BILL NUMBER: SB 608

NOTE PREPARED: Apr 30, 2013

BILL AMENDED: Apr 25, 2013

SUBJECT: State Gross Retail Tax.

FIRST AUTHOR: Sen. Kenley

FIRST SPONSOR: Rep. M. Smith

BILL STATUS: Enrolled

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: *Postage:* The bill provides a Sales Tax exclusion for postage that is separately stated on the invoice, bill of sale, or similar document. It also defines postage charges.

Direct Mail Sourcing: The bill revises the sourcing rules under the Sales and Use Tax for "advertising and promotional direct mail" and "other direct mail" by creating two distinct categories of direct mail in compliance with the Streamlined Sales and Use Tax Agreement (SSUTA). It also adds corresponding definitions.

Blood Glucose Monitoring Supplies: The bill removes a separate Sales Tax exemption for blood glucose monitoring equipment and devices. It also provides that the Sales Tax exemption for blood glucose monitoring supplies, including blood glucose meters, measuring strips, lancets, and other similar diabetic supplies, currently applicable to supplies furnished without charge also applies to the sale of the supplies.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR):* This bill could increase the DOR's administrative costs. DOR may need to amend Sales Tax forms and computer software to incorporate the bill's provisions. It is estimated that the provisions of this bill can be implemented within the DOR's existing level of resources.

Explanation of State Revenues: *Postage:* The bill excludes postage from Sales Tax if the postage is listed separately on the invoice or bill of sale. This provision is estimated to reduce Sales Tax revenue by approximately \$800,000 to \$850,000 annually. The revenue loss would begin in FY 2014. This revenue loss

estimate is based on annual shipping and package service revenue reported by the United States Postal Service (USPS). The national revenue total is allocated to Indiana based on Indiana's share of U.S. GDP. Estimates of shipping and package service revenue that could potentially be attributable to business are based on retail sector GDP.

The postage exclusion is not required to comply with SSUTA.

Direct Mail Sourcing: The bill distinguishes between "advertising and promotional direct mail" and "other direct mail" for purposes of the Sales Tax. The bill does not change the taxability or sourcing of direct mail, so the changes in the bill would not have a fiscal impact.

The changes relating to direct mail sourcing are required to comply with SSUTA.

Blood Glucose Monitoring Supplies: The bill repeals a current statute that provides a Sales Tax exemption for the sale of blood glucose monitoring equipment and devices regardless of whether the equipment or device is obtained with a prescription. (Note: A separate statutory provision unchanged by the bill provides a Sales Tax exemption for sales of durable medical equipment, including medical supplies and devices that are obtained with a prescription.)

The bill also extends the Sales Tax exemption for blood glucose monitoring supplies currently applicable to supplies furnished without charge to the sale of such supplies. Under this provision, blood glucose monitoring supplies includes blood glucose meters, measuring strips, lancets, and other similar diabetic supplies. Overall, the bill does not change the taxability of the devices or supplies, so the changes in the bill would not have a fiscal impact.

These changes relating to blood glucose equipment and supplies required to comply with SSUTA.

Background Information: SSUTA is an effort by 44 states, including Indiana, to simplify Sales and Use Tax collection and administration by retailers and states. Indiana is one of 24 states that has passed conforming legislation. Part of SSUTA's strategy to simplify Sales and Use Taxes is to require all member states to have uniform tax definitions, sourcing rules, and exemption administration.

Some remote retailers that are not currently required to collect Sales Tax in every state have agreed to collect Sales Tax for states that comply with SSUTA. In FY 2012, Indiana collected about \$9.8 M from 1,363 participating retailers that do not have nexus in the state.

Sales and Use Tax revenue is deposited in the state General Fund (99.848%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Explanation of Local Expenditures:

Explanation of Local Revenues: *Postage:* Local revenue could decrease because of the Sales Tax exclusion for postage to the extent that a local unit receives distributions from the Commuter Rail Service Fund or the Industrial Rail Service Fund.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Streamlined Sales Tax Governing Board, <http://www.streamlinedsalestax.org/>. Shane Corbin, Department of State Revenue. United States Postal Service Annual Financial Report, 2012. U.S. Bureau of Economic Analysis, National and Regional Economic Accounts tables. U.S. Census Bureau, County Business Patterns tables.

Fiscal Analyst: Lauren Sewell, 317-232-9586; Jim Landers, 317-232-9869.