

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Appropriations

BILL: CS/SB 50

INTRODUCER: Finance and Tax Committee and Senator Gruters and others

SUBJECT: Sales and Use Tax

DATE: March 3, 2021

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>McMillian</u>	<u>McKay</u>	<u>CM</u>	Favorable
2.	<u>Gross</u>	<u>Babin</u>	<u>FT</u>	Fav/CS
3.	<u>Gross</u>	<u>Sadberry</u>	<u>AP</u>	Pre-meeting

Please see Section IX. for Additional Information:

COMMITTEE SUBSTITUTE - Substantial Changes

I. Summary:

CS/SB 50 requires out-of-state retailers and marketplace providers with no physical presence in Florida to collect Florida's sales tax on sales of taxable items delivered to purchasers in Florida if the out-of-state retailer or marketplace provider makes a substantial number of sales into Florida.

A substantial number of remote sales means conducting any number of taxable remote sales in an amount exceeding \$100,000 during the previous calendar year.

The Revenue Estimating Conference (REC) determined the bill will:

- Increase General Revenue Fund receipts by \$973.6 million in Fiscal Year 2021-2022 and by \$1.08 billion each year thereafter.
- Increase state trust fund receipts by \$0.3 million in Fiscal Year 2021-2022 and by \$3.3 million each year thereafter.
- Increase local government revenues by \$229.5 million in Fiscal Year 2021-2022 and by \$253.7 million each year thereafter.

Staff estimates that the provisions of the bill that relieve certain persons of liability for tax, penalty, and interest if they engaged in remote sales prior to July 1, 2021, will reduce the General Revenue Fund and local government revenue estimates by an indeterminate amount.

Except as otherwise provided in the bill, the bill takes effect July 1, 2021.

II. Present Situation:

Florida Sales and Use Tax

Florida levies a 6 percent sales and use tax (sales tax) on the sale or rental of most tangible personal property, admissions,¹ transient rentals,² and a limited number of services, and a 5.5 percent sales and use tax on commercial real estate.³ Chapter 212, F.S., authorizes the levy and collection of Florida's sales and use tax, and provides exemptions and credits applicable to certain items or uses under specified circumstances. Florida requires a dealer to add the tax to the sales price of the taxable good or service and collect it from the purchaser at the time of sale.⁴

In addition to the state tax, counties may levy local discretionary surtax. A county's total local discretionary surtax is comprised of separate surtaxes. Each separate surtax identifies the type of counties authorized to levy, the rates that may be imposed, and the purpose for which the proceeds may be expended.⁵ A surtax applies to "all transactions occurring in the county which transactions are subject to the state tax imposed on sales, use, services, rentals, admissions, and other transactions by [ch. 212, F.S.], and communications services as defined in ch. 202."⁶ The discretionary sales surtax is based on the tax rate imposed by the county where the taxable goods or services are sold, or are delivered. Discretionary sales surtax rates currently levied vary by county in a range from 0.5 to 2.5 percent.⁷

Remote Sales Tax Collection

As discussed above, sales tax is added to the price of taxable goods and the selling dealer is required to collect the tax from the purchaser at the time of sale.⁸ A dealer then remits the collected taxes to the Department of Revenue (department).⁹

For items sold by an out-of-state dealer and delivered to the in-state purchaser via mail (mail-order sales), states have relied on their use tax. Florida's use tax requires an in-state purchaser to remit to the department the tax owed on their purchase of an untaxed item.¹⁰ However, use tax compliance is notoriously low. Avalara reports that use tax compliance can be as low as 2 percent and is difficult to enforce.¹¹

¹ Section 212.04, F.S.

² Section 212.03, F.S.

³ Section 212.031, F.S.

⁴ See ss. 212.07(2) and 212.06(3)(a), F.S.

⁵ Section 212.055, F.S.

⁶ Section 212.054, F.S.

⁷ Office of Economic and Demographic Research (EDR), The Florida Legislature, *Florida Tax Handbook*, 2020 Local Discretionary Sales Surtax Rates in Florida's Counties, 231-232 (2020), available at <http://edr.state.fl.us/content/revenues/reports/tax-handbook/taxhandbook2020.pdf> (last visited Jan. 22, 2021).

⁸ Florida Dept. of Revenue, *Florida Sales and Use Tax*, available at http://floridarevenue.com/taxes/taxesfees/Pages/sales_tax.aspx (last visited Jan. 22, 2021).

⁹ Section 212.15, F.S.

¹⁰ See s. 212.06, F.S.

¹¹ Gail Cole, *5 questions about use tax reporting requirements for non-collecting businesses*, *avalara.com*, Feb. 16, 2018, available at <https://www.avalara.com/us/en/blog/2018/02/5-use-tax-reporting-requirements-questions-for-non-collecting-businesses.html> (last visited Jan. 22, 2021).

One method of increasing compliance is to require out-of-state dealers to collect the state's sales tax at the time of sale and remit those taxes to the state. However, the U.S. Supreme Court has interpreted the Commerce Clause of the U.S. Constitution to require that a dealer have a "substantial nexus" with the taxing state before the taxing state may require the dealer to collect its sales taxes.¹² For decades, the U.S. Supreme Court has interpreted this substantial nexus requirement to require that the dealer have a physical presence (people or property) within the taxing state.¹³ The Court reasoned that it was an undue burden on interstate commerce to allow a taxing state to require an out-of-state dealer located outside of the taxing state to collect tax on behalf of the taxing state.¹⁴

Under the "substantial nexus" and "physical presence" standard, Florida, in 1987, adopted its "mail order sales statute," which defines a mail order sale to be the sale of tangible personal property, ordered from a dealer who receives the order in another state and then causes the property to be transported to a person in Florida.¹⁵ Although the statute describes dealers who "receive [orders] in another state," application of the statute was still limited by the U.S. Supreme Court's physical presence standard.¹⁶ In fact, much of the statute is written to only apply to dealers with a physical presence in Florida.¹⁷

Taxation of Mail Order Sales

Section 212.0596, F.S., establishes when a dealer¹⁸ who makes a mail-order sale is subject to Florida's sales tax. A "mail-order sale" is a sale of tangible personal property, ordered by mail or other means of communication, from a dealer who receives the order in another state of the United States, or in a commonwealth, territory, or other area under the jurisdiction of the United States, and transports the property or causes the property to be transported to a person in Florida.¹⁹

Every dealer as defined in s. 212.06(2)(c), F.S., who makes a mail-order sale is subject to the power of Florida to levy and collect the tax imposed by this ch. 212, F.S., when:

- The dealer is a corporation doing business under the laws of Florida or is a person domiciled in, a resident of, or a citizen of Florida;
- The dealer maintains retail establishments or offices in Florida;
- The dealer has agents in Florida who solicit business or transact business on behalf of the dealer;
- The property was delivered in Florida in fulfillment of a sales contract that was entered into in Florida when a person in Florida accepted an offer by ordering the property;

¹² See *Complete Auto Transit, Inc. v. Brady*, 430 U.S. 274 (1977).

¹³ *National Bellas Hess, Inc., v. Illinois*, 386 U.S. 753 (1967); *Quill Corporation v. North Dakota*, 504 U.S. 298 (1992).

¹⁴ *Quill Corporation v. North Dakota*, at 314-315.

¹⁵ See s. 212.0596(1), F.S.

¹⁶ See p. 3, *infra*, 'Taxation of Mail Order Sales' for further discussion of what activities subject a dealer to the levy and collection of tax pursuant to ch. 212, F.S.

¹⁷ See s. 212.0596(2)(j), F.S. (requiring dealers to collect tax on mail order sales if the dealer owns real property or tangible personal property that is physically in this state...).

¹⁸ Section 212.06(2)(a), F.S., defines "dealer" as every person, who manufactures or produces tangible personal property for sale at retail; for use, consumption, or distribution; or for storage to be used or consumed in Florida.

¹⁹ Section 212.0596(1), F.S.

- The dealer, by purposefully or systematically exploiting the market provided by Florida by any media-assisted, media-facilitated, or media-solicited means, creates nexus with Florida;
- Through compact or reciprocity with another jurisdiction of the United States, that jurisdiction uses its taxing power and its jurisdiction over the retailer in support of Florida's taxing power;
- The dealer consents, expressly or by implication, to the imposition of the tax imposed by ch. 212, F.S.;
- The dealer is subject to service of process under s. 48.181, F.S.;
- The dealer's remote sales are subject to the power of Florida to tax sales or to require the dealer to collect use taxes under a statute or statutes of the United States;
- The dealer owns real property or tangible personal property that is physically in Florida;
- The dealer is a corporation that is a member of an affiliated group of corporations and whose members are eligible to file a consolidated tax return for federal corporate income tax purposes and any parent or subsidiary corporation in the affiliated group has nexus with Florida; or
- The dealer or the dealer's activities have sufficient connection with or relationship to Florida or its residents of some type, other than those described above, to create nexus empowering this state to tax its mail order sales or to require the dealer to collect sales tax or accrue use tax.²⁰

Section 212.0596, F.S., also imposes a duty on dealers to cooperate in the collection of taxes. The department is required to enforce these provisions in other jurisdictions when the other jurisdiction consents. The law specifies that sales tax required under this section is to be collected and any amount unreturned to a purchaser that is not tax but was collected from the purchaser under the representation that it was tax constitute funds of the State of Florida from the moment of collection.²¹

A dealer who makes a mail order sale into this state is exempt from collecting and remitting any local option surtax on the sale.²² The department may establish rules for collecting the use tax from unregistered persons who, but for their remote purchases, would not be required to remit sales or use tax directly to the department.²³

Currently, a purchaser who remits use tax on an item imported into Florida for use or consumption is not required to include in the remittance any local discretionary sales surtax.²⁴

The Wayfair Decision

On June 21, 2018, the U.S. Supreme Court decided *South Dakota v. Wayfair*.²⁵ *Wayfair* involved a new South Dakota sales tax collection statute and Wayfair, Inc., a large online retailer with no physical presence in South Dakota, which sells and ships tangible personal property to customers all over the United States.

²⁰ Section 212.0596(2), F.S.

²¹ Section 212.0596(5), F.S.

²² Section 212.0596(6), F.S.

²³ Section 212.0596(7), F.S.

²⁴ *Id.*

²⁵ *South Dakota v. Wayfair, Inc.*, 138 S. Ct. 2080 (2018).

The *Wayfair* decision overturned the “physical presence test,” thereby expanding the states’ abilities to collect sales taxes; however, the foundational constitutional requirement (substantial nexus) remains in place. Thus, the extent of states’ authority is largely unknown at this time.

The facts involved in *Wayfair* provide the only situation currently known to satisfy all constitutional requirements for a remote seller without physical presence in the taxing state to collect and remit a states’ sales and use tax. For example:

- The South Dakota law only requires remote sellers with \$100,000 of sales or 200 individual transactions into South Dakota to collect tax. The law effectively has a “small seller exception” allowing small retailers—theoretically the ones most burdened by remote sales tax collection—to avoid collection responsibilities.
- The South Dakota law does not apply retroactively.
- South Dakota is a member of the Streamlined Sales and Use Tax Agreement.

State Reactions to Wayfair

After the *Wayfair* decision, 43 states and the District of Columbia enacted laws requiring remote sellers to collect the sales tax, and 38 states and the District of Columbia have enacted laws requiring a marketplace provider/facilitator to collect the sales tax.²⁶

Fees for Emergency Services

Enhanced 911 Fee

The Emergency Communications Number E911 Act established a comprehensive statewide emergency telecommunications number system to provide users of voice communications services within this state rapid direct access to public safety agencies by accessing the telephone number “911.” To accomplish this purpose, the Legislature authorized the levy of a reasonable fee on users of voice communications services. The fee is bifurcated by non-prepaid wireless service²⁷ and prepaid wireless service.²⁸

The fee imposed on prepaid wireless services is currently 40 cents and is collected by a seller for remittance to the department. Revenues derived from the fees levied on prepaid wireless services, less the costs of administration, are deposited by the department into the Emergency Communications Number E911 System Fund²⁹ and then distributed to the various counties for specific purposes and costs attributable to providing E911 service.³⁰ In Local Fiscal Year 2019-2020 counties received approximately \$15 million of prepaid wireless services fees.³¹

²⁶ National Conference of State Legislatures, Remote Sales Tax Collection, (March 13, 2020), available at <https://www.ncsl.org/research/fiscal-policy/e-fairness-legislation-overview.aspx#Marketplace> (last visited Jan. 22, 2021).

²⁷ Section 365.172(8), F.S.

²⁸ Section 365.172(9), F.S.

²⁹ Section 365.173(1)(b), F.S.

³⁰ Section 365.173(2), F.S. and s. 365.172(10), F.S.

³¹ EDR, *Enhance 911 Fee (Data Source: DMS), County Distributions: LFY 2014-2020* (Oct. 22, 2020), available at <http://edr.state.fl.us/Content/local-government/data/data-a-to-z/a-f.cfm> (last visited Feb. 15, 2021).

Fees for Waste Tires and Lead-acid Batteries

Waste tires and lead-acid batteries are considered “special wastes” that require special handling and management³² and must be disposed of accordingly.³³ Each new tire sold at retail is subject to a \$1 waste tire fee³⁴ and each new or remanufactured lead-acid battery is subject to a \$1.50 lead-acid battery fee.³⁵

The proceeds from the waste tire fee are deposited into the Solid Waste Management Trust Fund and a portion is used to fund the waste tire abatement program.³⁶ The proceeds from the lead-acid battery fee are deposited into the Water Quality Assurance Trust Fund.³⁷

III. Effect of Proposed Changes:

Taxation of Remote Sales and Marketplace Sales

The bill requires out-of-state retailers and marketplace providers with no physical presence in Florida to collect Florida’s sales tax on sales of taxable items delivered to purchasers in Florida if the out-of-state retailer or marketplace provider makes a substantial number of sales into Florida.

Section 1 amends the definition of “retail sale” in s. 212.02, F.S., to include a remote sale and a sale facilitated through a marketplace.

Section 2 amends s. 212.05, F.S., to apply the sales and use tax to remote sales.

Section 3 substantially amends s. 212.0596, F.S. The bill changes the catch line to refer to the taxation of remote sales, removes references or requirements related to a “mail order sale,” and provides that a person who makes a substantial number of remote sales is a dealer for purposes of ch. 212, F.S.

The bill defines “substantial number of remote sales” to mean conducting any number of taxable remote sales in an amount exceeding \$100,000 during the previous calendar year.

Section 4 creates s. 212.05965, F.S., which provides for the taxation of marketplace sales.

The bill defines:

- “Marketplace” to mean any physical place or electronic medium through which tangible personal property is offered for sale.
- “Marketplace provider” to mean a person who facilitates a retail sale by a marketplace seller by listing or advertising for sale by the marketplace seller tangible personal property in a marketplace, and who directly, or indirectly through agreements or arrangements with third

³² Section 403.703(40), F.S.

³³ See s. 403.717, F.S., and s. 403.708(12), F.S., encouraging “all persons who sell lead-acid batteries at retail” to “accept used lead-acid batteries as trade-ins for new lead-acid batteries.”

³⁴ Section 403.718, F.S.

³⁵ Section 403.7185, F.S.

³⁶ See s. 403.7095, F.S.

³⁷ Section 403.7185, F.S.

parties, collects payment from the customer and transmits all or a part of the payment to the marketplace seller, regardless of whether the marketplace provider receives compensation or other consideration in exchange for its services.

- “Marketplace provider” to exclude: (1) any person who solely provides travel agency services; (2) a delivery network company, unless the delivery network company is a registered dealer that notifies all local merchants that sell through the delivery company’s website or mobile application that the delivery network company must remit taxes in the same way as a marketplace provider; or (3) a payment processor business whose sole activity with respect to marketplace sales is to handle payment transactions between two parties.
- “Marketplace seller” to mean a person who has an agreement with a marketplace provider and who makes retail sales of tangible personal property through a marketplace owned, operated, or controlled by the marketplace provider.

Marketplace providers with a physical presence in Florida, or those making or facilitating a substantial number of remote sales into this state, are subject to the requirements imposed on dealers by ch. 212, F.S., for registration and for the collection and remittance of taxes. A marketplace provider must certify to its marketplace sellers that it will collect and remit the tax to the department.

A marketplace seller may not collect and remit sales tax when the marketplace provider certifies that it will collect and remit the tax. A marketplace seller must exclude sales made through the marketplace from the marketplace seller’s tax return. A marketplace seller with a physical presence in Florida, or that makes a substantial number of remote sales must register, collect, and remit sales tax on taxable sales made outside of the marketplace.

A marketplace provider must allow the department to examine and audit its books and records. If the department audits a marketplace provider, the department may not propose a tax assessment on the marketplace seller for the same retail sales unless the marketplace seller provides incorrect or incomplete information to the marketplace provider.

The marketplace provider is relieved of liability for the tax, and the marketplace seller or customer is liable for the tax imposed under this chapter if the marketplace provider demonstrates that it made a reasonable effort to obtain accurate information related to the retail sales facilitated through the marketplace from the marketplace seller, but the failure to collect and pay the correct amount of tax imposed under this chapter was due to incorrect or incomplete information provided by the marketplace seller to the marketplace provider.

The bill defines:

- “Delivery network company” as a person who maintains a website or mobile application used to facilitate delivery services, the sale of local products, or both.
- “Delivery network courier” as an individual who provides delivery services through a delivery network company website or mobile application using a personal means of transportation, such as a motor vehicle as defined in s. 320.01(1), F.S., bicycle, scooter, or other similar means of transportation; using public transportation; or by walking.
- “Delivery services” as the pickup and delivery by a delivery network courier of one or more local products from a local merchant to a customer, which may include, the selection, collection, and purchase of the local product in connection with the delivery. The term does

not include any delivery requiring more than 75 miles of travel from the local merchant to the customer.

- “Local merchant” as a kitchen, restaurant, or a third-party merchant, including a grocery store, retail store, convenience store, or business of another type, which is not under common ownership or control of the delivery network company.
- “Local product” as any tangible personal property, including food, but excluding freight, mail, or a package to which postage has been affixed.

Section 5, effective April 1, 2022, amends s. 212.05965, F.S., to allow a marketplace provider and a qualifying marketplace seller to agree contractually to have the marketplace seller collect and remit the taxes for sales on the marketplace. To qualify for this treatment a marketplace seller must have annual U.S. gross sales of more than \$1 billion, including the gross sales of any related entities, and in the case of franchised entities, including the combined sales of all franchisees of a single franchisor.

The bill also requires, effective April 1, 2022, a marketplace provider, at the time of sale, to collect and remit the prepaid wireless E911 fee,³⁸ the waste tire fee,³⁹ and the lead-acid battery fee, on applicable sales.⁴⁰

Section 6 amends s. 212.06, F.S., to specify that the term “dealer” includes a retailer who transacts a remote sale or who is a marketplace provider.

Section 7 amends s. 212.12, F.S., to (1) remove the authority given to the executive director of the department to negotiate a collection allowance with a dealer who makes mail order sales and (2) delete language that kept dealers who made mail order sales from participating in the state’s 2.5 percent collection allowance.

Section 8 makes conforming changes to s. 212.18 F.S., to change the term “mail order sale” to “remote sale.”

Section 9 amends s. 212.20(4), F.S., to include sales taxes collected as provided in s. 212.05965, F.S., as a tax for which if found unconstitutional requires the department to issue a refund to any person who paid such tax in the amount of tax paid.

Section 10 amends s. 213.27(5), F.S., to clarify that s. 213.27(5), F.S., relating to the departments authorization to conduct audits, applies to a person making or facilitating remote sales under s. 212.0596, F.S. or s. 212.05965, F.S.

Section 11 provides that this act first applies to remote sales made or facilitated on or after July 1, 2021, by a person who made or facilitated a substantial number of remote sales in calendar year 2020.

³⁸ Section 365.172, F.S.

³⁹ Section 403.718, F.S.

⁴⁰ Section 403.7185, F.S.

Section 12 grants relief of liability for tax, penalty, and interest to the following persons upon registration with the department: any person who conducted remote sales prior to the effective date of the bill, regardless of that person being found to have had a physical presence in this state; a marketplace seller for those sales made before the effective date of the bill; and a marketplace provider with a physical presence in this state is relieved of liability on those sales the marketplace provider facilitated on behalf of marketplace sellers.

This relief does not establish a right to a refund of taxes already paid.

Section 13 authorizes the department to adopt emergency rules to implement the bill. The emergency rulemaking grant is authorized upon the act becoming a law, and expires July 1, 2022.

Section 14 provides that, if any provision of the bill is found to be invalid, the invalidity does not affect other provisions or applications of the act which can be given effect without the invalid provision or application and, to this end, the provisions of this act are severable.

Section 15 provides that this section take effect upon becoming a law, and except as otherwise provided, the bill takes effect July 1, 2021.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

Not applicable. The bill does not require counties and municipalities to spend funds, limit their ability to raise revenue, or reduce the percentage of a state tax shared with them. Therefore, the mandates provision does not apply.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. State Tax or Fee Increases:

Article VII, s. 19 of the Florida Constitution requires new or increased taxes or fees to be passed by a two-thirds vote of the membership of each house of the Legislature in a separate bill that contains no other subject.

Since 1990, Florida has required dealers who transact mail-order sales to collect Florida's tax when the activities of the dealer have sufficient connection with this state to create nexus under the U.S. Commerce Clause.⁴¹

⁴¹ Section 212.0596(2)(1), F.S.

The bill neither imposes a tax where none was due before, nor does it increase the amount of a current state tax. Rather, the bill updates Florida's mail-order statute to align with U.S. Commerce Clause limitations, as redefined by the U.S. Supreme Court in *Wayfair*. As such, the bill does not appear to implicate the requirements of Article VII, s. 19 of the Florida Constitution.

E. Other Constitutional Issues:

The facts involved in *Wayfair* provide the only situation currently known to satisfy all constitutional requirements for states to require an out-of-state retailer to collect and remit a state's sales and use tax. The U.S. Supreme Court did not decide the constitutionality of marketplace providers to collect and remit a state's sales and use tax on behalf of retailers who sell on a marketplace.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

The Revenue Estimating Conference (REC) determined the bill will:

- Increase General Revenue Fund receipts by \$973.6 million in Fiscal Year 2021-2022 and by \$1.08 billion each year thereafter.
- Increase state trust fund receipts by \$0.3 million in Fiscal Year 2021-2022 and by \$3.3 million each year thereafter.
- Increase local government revenues by \$229.5 million in Fiscal Year 2021-2022 and by \$253.7 million each year thereafter.

Staff estimates that the provisions of the bill that relieve certain persons of liability for tax, penalty, and interest if they engaged in remote sales prior to July 1, 2021, will reduce the General Revenue Fund and local government revenue estimates by an indeterminate amount.

B. Private Sector Impact:

More remote sellers and marketplace providers will have to collect and remit Florida's sales tax, and consequently the bill reduces the burden on purchasers to remit use tax on such sales.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill substantially amends the following sections of the Florida Statutes: 212.02, 212.05, 212.0596, 212.06, 212.12, 212.18, 212.20, and 213.27.

This bill creates section 212.05965 of the Florida Statutes.

IX. Additional Information:**A. Committee Substitute – Statement of Substantial Changes:**
(Summarizing differences between the Committee Substitute and the prior version of the bill.)**CS by Finance and Tax on February 18, 2021:**

The CS:

- Grants relief of liability for tax, penalty, and interest to Florida customers, out-of-state dealers, and marketplaces on remote sales that occurred prior to the effective date of this bill.
- Retains a provision of current law allowing the department authority to waive the local option surtax on Floridians' purchases of items in another state that they transport into this state.
- Clarifies that marketplace providers must collect tax on sales made on behalf of marketplace sellers regardless of how much of the sale proceeds are transferred back to the marketplace seller.
- Effective April 1, 2022:
 - Requires a marketplace provider to collect and remit the E911 fee, waste tire fee, and lead-acid battery fee.
 - Authorizes a marketplace provider and large retailer to agree to have the large retailer collect and remit the tax on sales made on a marketplace. A large retailer is one that has gross U.S. sales of more than \$1 billion. The retailer must be registered with this state and notify the department that the retailer will collect and remit all taxes and fees.

B. Amendments:

None.