



General Tax Cap Guidance for Remote Sellers

Introduction

Numerous ARSSTC member jurisdictions have provisions in their local sales tax code that limit the amount of sales tax that is due on a sale. This type of provision is commonly referred to as a “tax cap” or “maximum tax”. Some of these code provisions are in the form of a tax cap exemption. Others simply have language in the imposition section of their code that sets the maximum amount of sales tax that sellers should collect.

Discussion

Tax cap provisions operate on the principle of limiting how much of the sales price is subject to sales tax. For example, if a community has their cap set at \$1,000 that means only the first \$1,000 of the sales price should be taxed.

These tax cap provisions vary widely by community, both in the level of the tax cap and the scope of the tax cap. Following is analysis of some of the tax cap variances found across ARSSTC member jurisdictions.

Types of tax caps

Cap on the sale of a single item – for single item tax caps, the tax cap is applied on the purchase of a single item. If a purchase consists of multiple large ticket items, the cap may be applied to each individual item. A limited number of ARSSTC member jurisdictions only allow for a tax cap on a specific type of single item, such as a boat, automobile or ATV.

Cap on the sale of a single service – single service tax caps are similar in concept to single item tax caps. Although this type of tax cap is less commonly applicable for remote sellers.

Cap on a single transaction – For single transaction caps, the entire transaction total is considered for determining the tax cap. A single transaction may consist of one single item or service, or it may consist of multiple items.

Tax Cap Levels

For some background, municipalities with a tax cap have historically adopted a tax cap to protect local businesses. The theory was to limit the local business revenue caused by shoppers purchasing where the sales tax rate was lower, or non-existent.

The different challenges faced by communities across Alaska has led to quite the variance in tax cap levels. On the low end, some communities only tax the first \$300 of the sales price. On the



high end, multiple communities have a tax cap set at the first \$12,000 of the sales price. There are a variety of levels in between as well.

Customer Refunds on Tax Cap Transactions

Processing customer refunds can be challenging on transactions where a single transaction tax cap was applied. The main challenge is ensuring that sales tax is only refunded when appropriate. Here are two examples:

Refund Example #1 – No sales tax to be refunded

- Original transaction total of \$900.
- Community has a \$500 cap on a single transaction.
- The community's 3% sales tax was collected on the first \$500 of the sales price = \$15.00 tax collected.
- If the customer returns \$200 worth of product, no sales tax should be refunded to the customer since the transaction is still over the \$500 cap level. (\$900 original sale - \$200 return = \$700 sale)

Refund Example #2 – Some sales tax to be refunded

- Original transaction total of \$1,000
- Community has a \$500 cap on a single transaction.
- The community's 3% sales tax was collected on the first \$500 of the sales price = \$15.00 tax collected.
- If the customer returns \$700 worth of product, the sale only ends up being \$300 total, which is less than the \$500 cap.
- Sales tax of \$6.00 should be refunded to the customer since the transaction no longer exceeds the \$500 cap level.
 - \$1,000 original sale - \$700 return = \$300 sale = \$9.00 adjusted tax due on transaction.
 - \$15.00 original tax - \$9.00 new adjusted tax due = \$6.00 tax refund

If you have a transaction originally qualifying for a tax cap, and encounter a customer refund, feel free to contact the ARSSTC for assistance in determining the proper handling of any sales tax refund to the customer. Also, keep in mind that an amended return(s) may need to be submitted through the ARSSTC in order for you to receive credit for sales tax previously remitted on a tax cap transaction.



Resources

The ARSSTC maintains multiple resources to assist remote sellers in properly handling member jurisdiction tax caps.

1. Tax lookup portal - <https://alaska.ttr.services/>
 - a. Provides the tax rate, exemptions, and any tax cap information for ARSSTC member jurisdictions.
 - b. For tax caps, additional language is provided for additional information on the correct application of any tax caps for that community.
2. Tax Rate Sheets - <https://arsstc.org/business-sellers/tax-rates/>
 - a. Each month, updated rate sheets are posted to the above link.
 - b. The rate sheets have an additional worksheet showing each member jurisdiction, any applicable tax cap, and the maximum tax that should be collected.
3. Tax Cap Interpretations - <https://arsstc.org/interpretations/>
 - a. Interpretations 2020.01 and 2020.02 provide additional information on some specific situations that may impact tax caps.
4. Member Jurisdiction Points of Contact - <https://arsstc.org/jurisdiction-contacts-for-code-clarification/>
 - a. If you need any clarification on how a particular transaction may be impacted by a member jurisdiction's tax cap, the above link provides you with contact information for our member jurisdictions.