

Trendsetter

BAROMETER™

News Release

Contact: Pete Collins
646-394-4496
pete.collins@us.pwc.com

visit our Web site:
www.barometersurveys.com

Fast-Growth Private Companies Wary of Sales Tax “Streamlining,” PricewaterhouseCoopers Finds

With Limited Familiarity of State Legislation or Federal Proposal, Nearly Half of Those Marketing in Five or More States Say New Law Will Affect Their Bottom Line

PricewaterhouseCoopers’ “Trendsetter Barometer” interviewed CEOs of 387 privately held product and service companies identified in the media as the fastest growing U.S. businesses over the last five years. The surveyed companies range in size from approximately \$5 million to \$150 million in revenue/sales.

NEW YORK, April 07, 2004 –The “Streamlined Sales & Use Tax Act,” now before Congress, and a corresponding “Streamlined Sales & Use Tax Agreement” already adopted entirely or in part by twenty states, would require collection of sales and use taxes by out-of-state sellers.

Private companies doing business across state lines—88 percent of those surveyed—would be subject to a multistate registration requirement, including those involved in mail-order commerce, Internet sales, and other cross-state commerce. The strongest impact would be among the two-thirds marketing in five or more states.

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“Today, 45 states and well over 7,000 smaller jurisdictions have some form of sales tax, and most have a use tax on out-of-state purchases. The model state legislation is designed to alleviate some of the burden of compliance with the sales and use tax laws in conforming states,” said Susan Haffield, a PricewaterhouseCoopers tax partner. “Even if the state streamlined system is never adopted by Congress, and registration remains voluntary, businesses that currently collect sales tax will have to learn and comply with changes in the numerous states that have already amended their laws to comply with the Agreement.”

Limited Familiarity—And Plans For Compliance

Despite the high percentage of respondents engaged in interstate commerce, few – only 28 percent of surveyed CEOs – had advance familiarity with either the “Streamlined Sales & Use Tax Act” before Congress or the legislation enacted at the state level. As might be expected, there was somewhat greater familiarity among those marketing in five or more states, 32 percent.

Only one in five CEOs familiar with the proposed federal legislation or state agreements claims to have compliance plans in place or in development. Therefore, among all surveyed companies, only four-to-five percent have compliance plans, and only five-to-six percent of those marketing in five or more states:

	<u>Total</u>		<u>Marketing in 5+ States</u>	
	<u>Familiar</u>	<u>Compliance Plans</u>	<u>Familiar</u>	<u>Compliance Plans</u>
• The “Streamlined Sales & Use Tax Act” Now Before Congress	25%	5%	29%	6%
• The “Streamlined Sales & Use Tax” Agreement Already Passed by 20+ States.....	<u>20%</u>	4%	<u>24%</u>	5%
Familiar (Net).....	28%		32%	

“While it should not be surprising that so few of these companies already have focused on compliance plans for multistate registration and remittance, it is imperative that companies stay abreast of the state law changes, as they are enacted,” Haffield said.

Multi-State Marketers Wary of Effect on Their Businesses

Among the 67 percent of surveyed companies marketing in five or more states, only one-third (34 percent) report having current difficulties and high administrative costs for fulfilling their sales and use tax obligations. In contrast, if the proposed federal legislation is ultimately passed—requiring these companies to collect taxes in all conforming states where they have sales—44 percent expect it will have a damaging effect on their company’s profit growth; only five percent say it will be beneficial.

However, these results must be squared with the low level of familiarity among the survey respondents. An additional 27 percent were uncertain or did not respond, and 24 percent said their company will not be affected, either because they believe that the law will not apply to them, or they are selling only tax exempt items.

“Even companies making exempt sales may have some compliance obligations under the streamlined system,” Haffield notes. “This survey highlights the need for increased education and preparation.”

	<u>Have Multi-State Sales</u>	
	<u>5+</u> <u>States</u>	<u>Less Than</u> <u>5 States</u>
	67%	21%
<u>New Legislation Will Be:</u>		
• Beneficial	5%	4%
• <u>Damaging</u>	44%	39%
Very Damaging	17%	12%
Somewhat Damaging	27%	27%
• No Impact.....	15%	21%
• Doesn't Apply/ Tax Exempt	9%	3%
• Not Certain.....	20%	26%
• Not Reported.....	7%	7%
	100%	100%

Companies claiming their profit growth will be damaged are expecting strong revenue growth—an increase of 22.1 percent over the next 12 months, compared to 17.9 percent for all others surveyed—or 24 percent stronger.

“It appears that the prospect of multistate sales tax collection is perceived as threatening by the most vibrant, fastest growing companies, the ones that are likely planning territorial expansion,” said Haffield.

“These companies may believe that sales tax collection will result in added record keeping and other compliance costs, and a potential diversion of their attention from their goal of high growth. An offset to this concern could be the use of a state-provided service provider, which is called for in the Agreement, as well as the expected inclusion of vendor compensation in the streamlined system.”

PricewaterhouseCoopers' "Trendsetter Barometer" is developed and compiled with assistance from the opinion and economic research firm of BSI Global Research, Inc.

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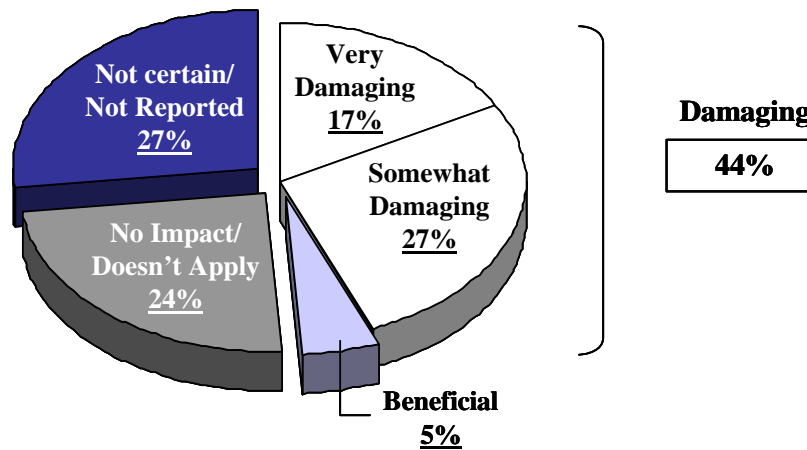
Chart attached

If you have a question about this "Trendsetter Barometer" survey, please contact Pete Collins, survey director and publisher, at 646-394-4496 or e-mail to: pete.collins@us.pwc.com

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Reaction To Sales & Use Tax Legislation
By The 67% Of “Trendsetter” CEOs Marketing In 5+ States

Impact on Profit Growth



Have Problems Administering Present Sales & Use Taxes

