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Editorial Introduction

Welcome to the second edition of the ADP Sales Tax & VAT Newsletter. Without a doubt, it is an incredibly interesting time to be working in the field of transaction tax. The sheer volume of rate and product taxability changes, when coupled with technological developments in how products and services can be delivered, makes the job of helping to ensure that your business remains compliant a significant challenge.

In this edition, we are featuring three articles. First, authored by yours truly, provides a "State of the Union" update on affiliate Nexus and vendor notice laws. Second, penned by Richard Ainsworth, discusses taxation "in the cloud." The third and final article, by Anna-mary Geist, offers an informative walk through some of the complexities surrounding leasing transactions.

We hope the information provided in this edition is useful, informative, and even a little entertaining. Enjoy!

Chuck Maniace
Director – Tax Research

In This Issue

Affiliate Nexus and Notice Requirements

A Legislative Update

By Charles Maniace[1]

In the Inaugural edition of this newsletter, Charles Collins, ADP's Vice President of Government Affairs, provided a detailed analysis of the efforts of various state legislatures to enact legislation to help increase their sales tax revenue. This is being accomplished through either 1) more expansive nexus standards (otherwise known as "click through" or "affiliate" nexus) or by 2) enacting rules requiring remote sellers to notify their customers of their obligation to self assess and remit tax on those transactions where no tax is collected by the seller. Since the publication of Charles' article a few short months ago, the ranks of states joining this movement have expanded.

As has been widely reported, the first state to impose a tax collection obligation on remote sellers based upon their affiliate relationships was **New York** in 2008. **Rhode Island and North Carolina** followed in 2009. More recently, **Arkansas, California, Connecticut, and Illinois** followed suit.

States are generally following the New York blueprint, which imposes an obligation on those retailers that enter into agreements with state residents whereby those residents, for consideration, refer potential business to the retailer, usually through a web link. While California ultimately decided to delay the implementation of their new law until September, 2012, Connecticut accelerated the original July 1 effective date to May 4, 2011.

While not specifically enacting any new legislation, the **Commonwealth of Pennsylvania** issued Sales Tax Bulletin 2001-11, which indicates that their existing nexus laws create a registration obligation for remote sellers that have click through relationships with in-state affiliates. **Vermont** has also enacted an affiliate nexus law, but based upon requirements contained in the legislation, it likely will not go into effect for several years.

The situation developing in the **District of Columbia** bears special scrutiny. On June 29, the DC Mayor signed their Fiscal Year 2012 Budget into law which includes a provision entitled "The District of Columbia Main Street Fairness Act of 2011." While not specifically designed as an affiliate nexus law, the clear intent is to require remote sellers to collect and remit DC tax.

The law requires, within 120 days of its effective date, every remote vendor to collect and remit sales tax on sales made via the internet to purchasers in the District. However, as a necessary precursor, the District is required to enact substantial changes to its sales tax rules including:

1. Creating a system that allows for the registration of remote vendors,
2. A means for remote vendors to easily determine District sales tax rates and rules,
3. A small vendor exception, and
4. Simplified rules for bad debts, rounding, refunds, credits, restocking, discounts, as well as shipping and handling.

With this bill, DC is clearly anticipating the possible future passage of a Federal Main St. Fairness / Marketplace Equity / Marketplace Fairness bill, but that is a story for a future edition of this Newsletter.

Online retailers continue to contest the propriety and constitutionality of new nexus laws and often move to sever their affiliate relationships in those states that chose to enact such legislation. Further, it's clear that not all states are on-board with this movement. For example, an affiliate nexus law was debated and rejected in **Nevada.** In **Texas,** the Governor vetoed the New York-style nexus law which was passed by the Texas legislature in their regular session. However, legislation was enacted in their special session which provides that out-of-state sellers that have a substantial ownership interest in an affiliated Texas business, will have nexus in Texas under the following situation:

1. The affiliate is selling the same or substantially similar products and sells those products under a business name that is the same or substantially similar to the out of state seller;
2. The affiliate has facilities or employees in Texas that advertise, promote, or facilitate sales of the seller's products or help establish or maintain a marketplace in Texas for the seller, including receiving or exchanging returned merchandise;
3. The affiliate has a distribution center, warehouse, or similar location in Texas and delivers products sold by the seller to consumers

South Carolina took an entirely different approach and enacted a measure that provides a safe harbor for online sellers that utilize affiliate programs and establish distribution facilities within their state.

Several states have opted for a slightly different approach and have adopted new rules that impose notice and reporting requirements on remote sellers that make sales into their respective jurisdictions. This movement, to some extent, has been shaped by the proposed **Multistate Tax Commission Model Sales and Use Tax Notice and Reporting Act**. The Model Act provides that a person who sells or leases a product that is generally subject to tax but who does not collect and remit either such tax, shall provide the following:

1. Notice to the purchaser, at the time of the sale, indicating that tax has not been collected and that as a result, the purchaser may be required to remit tax directly to the Department of Revenue.
2. An annual report to each purchaser that includes a list of all products purchased during the year, their respective prices, as well as instructions on how to remit use tax to the state.
3. An annual report to the Department of Revenue that includes the name, address, and total purchases amount for each in-state customer. The Model Act does not require that the item itself be identified.

The Model Act allows for the imposition of penalties on sellers that fail to provide these reports. States that have adopted similar notice requirements this past year include **Colorado**, **South Dakota**, **Vermont** and **Oklahoma**. The Colorado law, which closely follows the Model Act, is currently enjoined from being enforced by the US District Court.

Without question, the tried and true paradigms surrounding what constitutes "physical presence" have undergone significant change in a number of jurisdictions. In this evolving environment, Vendors are constantly required to monitor legislative and regulatory developments and re-evaluate whether or not they have a sales tax collection obligation in a given state.

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Tax News from the United States

ALABAMA

Nexus and Out of State Retailers: The state was working on passing a bill that would extend a tax collection and remittance obligation on certain remote vendors as well as creating a requirement to inform buyers of their use tax obligation. HB 365 was approved in the House but is did not seem to succeed in the Senate. If approved as originally written, retailers selling taxable goods via the Internet or through catalogs would be required to inform purchasers located in Alabama about their obligation to pay use tax if such tax is not collected by the retailer.

Additionally, it would require those sellers to submit to their clients, a yearly summary stating all their internet or catalog purchases during the year. Other obligations introduced by this bill would require businesses selling more than $100,000 a year to Alabama residents, to inform their clients about their obligation to pay use tax prior to completing the sale and to retain proof of such acknowledgment.

Streamlined Membership: Alabama is giving some serious thought to joining the Streamlined Sales and Use Tax Agreement. In line with that purpose, they enacted HB355 that establishes a commission charged with studying the possibility of joining the agreement, including reviewing the law changes that would be a necessary precursor to membership.

ARKANSAS

Tax on Electricity Reduced: Concerned with the high cost of manufacturing and the high levels of unemployment, the state enacted emergency legislation reducing the sales and use tax applicable to gas and electricity consumed by manufacturers. Additionally, Arkansas enacted act 754, which is intended to decrease other excise taxes that apply to the sale of electricity and gas consumed by manufacturers. The sales tax rate applicable to such sales will be will be 2.625% rather than the 6% that applies to regular transactions.

CALIFORNIA

Nexus Extended and Suspended: California lawmakers approved a suspension, for one year, of the bill that would require any out of the state retailer selling goods or services to California residents through catalogs or the internet, to collect sales and use tax.

The click through nexus bill, ABX1 28 became effective on July 1, but after heated negotiations with online sellers, AB 155 was also enacted, which gives online retailers without physical presence in the California the ability to keep selling goods online without collecting tax for another year. ABX1 28 considers that "any retailer entering into agreements under which a person or persons in California for a commission or other consideration, directly or indirectly refer potential purchases, whether by an Internet-based link or an Internet website, or otherwise," has nexus with the state of California.

Potential Local Rate Changes: California approved Bill No. 686 that allows the Board of Supervisors of a county and the governing body of a city to levy increase, or extend a transaction and use tax at a rate of 0.125%, if approved by the local voters. This law substitutes a previous law that allowed such increase up to 0.25%.

COLORADO

Medical and Telecommunication Equipment: The state of Colorado had a very busy 2011 legislative session with several sales tax related bills being enacted. Several exemptions were approved for medical equipment as well as for machinery and equipment used in telecommunication. In line with these changes, House Bill 11-1109 expanded the right of state-administered localities to choose to exempt certain machinery or equipment used in telecommunications services. A taxing jurisdiction would have to make specific changes to their tax code to take advantage of this expanded right to enact exemptions. HB 1091 made substantive changes to the treatment of medical items in Colorado.

These changes, which became effective in August, included making both durable medical equipment and mobility enhancing equipment exempt with a prescription. Conversely the exemption for therapeutic devices was removed as well as the exemption for non-prescription wheelchairs and other items. Additionally the administrative code in relation to eyewear was updated. While this removed the requirement that eyewear be exempt it also added in the requirement that eyewear serve a therapeutic purpose.

The Ever Changing Taxation of Software and Other Items: Colorado also passed HB 1293. This bill reinstates the software exemption for state and state administered jurisdictions effective July 2012. This change exempts software delivered on other than tangible medium which is not governed by a tear-open license agreement.

Similar rules were originally put into place in 2007 through Special Regulation 7, but were rescinded by the legislature in March of 2010. This law change does not apply to non-state administered areas and historically. Many of these areas have continued to tax software during period where the state has provided an exemption.

HB 1005 reinstated the exemptions for agricultural compounds and pesticides which were removed during the 2010 legislative session. SB 184 created a tax amnesty in effect from October 10 to November 15, 2011.

CONNECTICUT

Retroactive Nexus Rules: The State of Connecticut requires that all out-of-state sellers collect sales and use tax if they are considered to have "significant presence" in the state through affiliates that receive a commission. The new nexus rules were made effective retroactively to May 4, 2011, even though they were not signed into law until June 21, 2011.

DELAWARE

Lease Tax Reduction: Under recent legislation, the leasing use tax rate decreases from 2.0736% to 2.0114%, effective January 1, 2012.

DISTRICT OF COLUMBIA

Security Services Taxable in 2012 and Main St. Fairness: With the approval of the 2012 budget, the District of Columbia began taxing some additional services, including armored car services, private investigation services, and private security services. The law also includes a "Main Street Fairness Act" which is designed to eventually require out-of-state vendors to register and collect DC tax.

GEORGIA

New 911 Wireless Fees: House Bill 256, enacted during the 2011-2012 legislative session, allows for the imposition, collection, and distribution of a new E 911 fee on prepaid wireless services of $0.75 cents per retail transaction, to be collected at the retail point of sale. The Georgia Department of Revenue clarified that the fee is being collected state-wide effective January 1, 2012.

HAWAII

Sales Tax Exemptions on Sales to the Federal Government Suspended: The state of Hawaii enacted laws 104 and 105 that temporarily suspends, until June 30, 2013, several exemptions applicable to sales to the federal government and other federally chartered entities, pollution control facilities, common carriers and to state chartered credit unions. As Hawaii imposes a general excise tax rather than a traditional sales tax, they take the position that the Supremacy Clause does not apply and transactions involving the government can be taxed.

Taxation of Rental Vehicles: In other developments, the state increased to $7.50 per day, the surcharge tax on rental of motor vehicles. This charge applies to rentals of motor vehicles for a period of six months or less. Prior to this change, the fee was $3.00 per day.

ILLINOIS

New 911 Wireless Fees: The Illinois Department of Revenue just issued FY 2012-01 which discusses the new prepaid wireless E911 fees that will go into effect on January 1, 2012. This surcharge is collected by the retailer from the consumer at the point of sale. A rate of 7 percent applies in the City of Chicago, and a rate of 1.5% applies in all non-Chicago locations.

The E911 Surcharge rate is only applied to receipts from prepaid wireless telecommunications service sales, and not to tangible personal property that may be sold in the same transaction. Note that exempt purchasers such as government agencies and charitable and religious organizations, are also exempt from paying this surcharge. The E911 Surcharge should be reported on Schedule B of Form ST-1.

KANSAS

New 911 Fee for 2012: SB 50 became law in this past session and is intended to apply a new 911 prepaid fee of 1.06% per retail transaction and a $0.53 per month, per subscriber account, effective January 1, 2012. The law gives the "911 Coordinating Council" the ability to raise or lower the fee depending upon whether certain funding obligations are met. Provisions of the bill apply to all modes of service, including telephone, cell phone, voice over internet protocol (VoIP), prepaid wireless, and other service capable of contacting a public safety answering point (PSAP).

LOUISIANA

Exemption for Breastfeeding Related Items and Motor Vehicles for Handicapped Individuals: Sales of nursing and breast feeding related items, including breast pumps, were made exempt from state sales and use tax in a recent law change. Additionally, sales of motor vehicles to legally handicapped individuals were recently made exempt from state tax. However, a bill that would have exempted bottled water was vetoed by the Governor.

Bill SB 21, approved by the Louisiana legislature, but vetoed by the Governor, was intended to exempt from state tax the sale of plain, carbonated, flavored and mineral water sold in jugs and bottles for home consumption.

Senate Bill 82 was signed into Act 331, and is intended to exempt from the state tax, the sale of breast pumps, replacement parts, storage bags and nursing bras.

Finally, legally handicapped persons that purchase motor vehicles that will be modified to meet the orthopedic disabilities or limitations of a person will be subject to a refundable exemption from the state sales and use tax.

MARYLAND

Tax Increases for Alcoholic Beverages and Exemptions for Solar and Wind Energy: Maryland increased the sales tax rate applicable to alcoholic beverages from 6% to 9% while the sale or use of electricity generated by solar energy, or residential wind generated electricity is now exempt from tax.

H1213 increased to 9% the sales tax applicable to beer, distilled spirits, wine and any spirituous, vinous, malt, or fermented liquor, liquid, or compound that one can drink and that contains 1/2 of 1% or more of alcohol by volume. The law became effective this past July 1.

Finally, HB 502 was signed into law to provide an exemption for electricity generated by solar energy or residential wind energy equipment for use in residential property and owned by an eligible customer-generator.

MICHIGAN

New fee for Fireworks: The state has approved a new fee applicable to the sale of fireworks. The new "**fireworks** safety **fee"** took effect on January 1 and is applied at a rate of 6%. In addition to the new fee, the legislation requires retailers selling fireworks to pay for an annual certificate fee that costs $1,000 for a retail location in a permanent building or $600 in a non-permanent location.

MINNESOTA

Ringtones Exempt: A new law approved last May was enacted in order to bring the state into compliance with the requirements of the Streamlined Sales Use Tax Agreement. One issue that was pending in order to bring the state into compliance with SSUTA related to the sale of ringtones. Under the new law, which took effect on October 1, ringtones became fully exempt from tax.

MISSOURI

Exemptions To Prescription Drugs Extended: Last July, the state approved Bill SB-284 that extends the exemptions provided to prescription drugs to include rentals of medical oxygen, home respiratory equipment and accessories, hospital beds and accessories, ambulatory aids, wheelchairs, scooters, reading machines, electronic print enlargers, electronic communication devices, and items used to modify motor vehicles for individuals with disabilities.

This act also creates a sales tax exemption for drugs that meet the Food and Drug Administration's over-the-counter drug labeling requirements.

Additionally, the Department of Revenue recently issued a Letter Ruling indicating that the annual back-to-school Sales Tax Holiday in August applies to the sale of iPads and similar devices, but not to the sale of e-readers.

NEVADA

New Nexus Rules For Out Of The State Sellers: The state of Nevada enacted legislation that enhances the state's ability to request that out-of-state sellers collect and pay the state sales tax.

Until last June, only retailers that maintained a place of business in Nevada were considered to have nexus with that state. Law S.B. 34 changed the provisions relating to collection and remittance of the sales tax that apply to every retailer whose activities have a sufficient nexus with the State such that they satisfy the requirements of the United States Constitution. The change was designed to more closely tie Nevada's nexus criteria to the federal requirements of physical presence as dictated by the Commerce Clause.

NEW MEXICO

New Rules to Prove Exempt Sales: The rules regarding the documentation that retailers and resellers need to provide when they make non taxable sales have been changed. Under the new procedure, if the retailer makes a non taxable sale to an exempt entity but does not keep the corresponding exemption certificate, the state provides the retailer a number of specific alternate avenues to document the exempt character of the transaction.

NORTH CAROLINA

Refunds of Over Collected Tax: North Carolina has enacted legislation which specifies that retailers who over-collect tax on a transaction may apply for a refund of tax. However, the ability to receive this refund is conditioned on the retailer forwarding the refunded amount to their customer.

The state of North Carolina approved Session Bill 2011-293 that requires retailers to provide a credit to their customers when the sales taxes have been over collected. Also, if the Secretary so authorizes, the over collected sales tax may be used to offset the sellers pending use tax liability.

NORTH DAKOTA

Exemption for Machinery and Equipment Used in Coal Production: Recently enacted North Dakota S.B. 2336 became effective on June 30, 2011. This bill exempts the sale of machinery or equipment used to produce coal from a new mine.

OKLAHOMA

Waste Tire Fees Increased: Effective July 1, 2011 the waste tire fee on tires 17.5 inches in diameter or less was increased to $2.50. The increase was signed into law under HB 1939. The fee increase applies to passenger

This surcharge is collected on each retail transaction regardless of whether the service or pre-paid telephone is purchased in person, by telephone, through the Internet or by any other method. The pre-paid E-911 surcharge is to be charged and collected by the retailer in addition to any other charges or fees and is not to be included for purposes of calculating sales tax.

RHODE ISLAND

New Affiliate Nexus Rules Remain: For the second time in less than two years, legislators in the State of Rhode Island tried to repeal the law that established affiliate nexus rules. Bill HB 5115 was introduced in the first quarter of this year, but in May the House Finance Committee recommended that the measure be held until further consideration**.**

In other legislative activity, the state repealed the sales tax exemptions provided to over-the-counter medicines, medical marijuana, and canned software. These provisions were enacted through HB 5894 of June 2011.

SOUTH CAROLINA

Maintenance and Warranty Contracts: Effective September 1, 2011, South Carolina eliminated their blanket taxability rule relating to maintenance contracts. This change did not mean that all maintenance contracts became exempt. Instead, the South Carolina Department of Revenue returned to a series of rules, communicated through Letter Rulings, which existed prior to the time the taxability statute was enacted. Under those rulings, the DOR took the position that maintenance contracts connected with the sales of taxable property were taxable, including software maintenance contracts. Only those contracts that are not associated with the sale of property or are associated with exempt property would be properly exempt.

These changes were enacted through South Carolina Senate Bill 36 that repealed S.C. Code Ann. 12-36-910(B) (6), S.C. Code Ann. 12-36-1310(B) (6) and S.C. Code Ann. 12-36-90(l).

Durable Medical Equipment: Effective July 1, 2011, the South Carolina sales tax rate for durable medical equipment paid for by Medicare or Medicaid decreased to 3.5%. However, in order to qualify for the reduced rate, there is a requirement that the durable medical equipment company have its principal place of business in South Carolina.

TENNESSEE

Web Hosting and Maintenance Services: The Tennessee Department of Revenue published a non-binding ruling clarifying that web hosting and related maintenance services are not subject to tax.

Ruling No. 11-22 specified that charges for services such as customer referrals, website advertising space and customer tracking services are not subject to Tennessee tax. In addition, the ruling provides that telecommunications services that are incidental to providing the above mentioned services and any monthly fees for providing website hosting are not considered taxable.

TEXAS

Sales Tax Holiday Dates Changed and Changed Again: The 2012 dates of the Annual Sales Tax Holiday for clothing and school supplies were changed so that this year the Holiday would run from July 27 to July 29. However, the legislature ultimately decided to repeal that change and keep the original dates of the holiday. As such, the Holiday will begin at 12:01 a.m. on Friday, July 17 and will end at midnight Sunday, July 19.

UTAH

Fuel Charges in Motor Vehicle Leases or Rentals: Effective February 9, 2012, the Utah State Tax Commission amended Utah Admin. R. R865-19S-32, "Leases and Rentals Pursuant to Utah Code Ann. Section 59-12-103," clarifying the taxability of fuel charges in a transaction involving a lease or rental of a motor vehicle. Based on this new rule, fuel charges in a transaction for the lease or rental of a motor vehicle are not subject to sales tax if the fuel charges are optional and separately stated on the invoice.

VERMONT

Notice Requirement: Out-of–state retailers, including internet sellers and auction houses, are required to notify in-state purchasers of their use tax liability. Vermont has not adopted the affiliate nexus laws approved in New York, Connecticut and many other states, but require those out of state retailers that do not have nexus in the state, to inform in-state purchasers about their obligation to self assess and remit use tax for the items that they have purchased online or via catalogs.

Multi states: Anti Zapper legislations. A number of states have recently introduced legislation to combat against "zapper" and "phantom-ware" fraud. "Zappers" consist of small software programs that are designed to falsify the records of electronic cash registers and other POS systems."Phantom-ware," consists of hidden programs that are later installed into an electronic cash register that create a virtual second till that eliminates or manipulates transaction records.

While it is difficult to ascertain the amount of such fraud in the United States, states are clearly beginning to see zappers and phantom-ware as significant threat. Georgia became the first state to implement anti-zapper legislation. Under the law, it is a felony to possess or use any automated sales suppression device. This legislation has served as a model for a number of states such as Michigan, Tennessee, Indiana, West Virginia, Oklahoma, and Florida. A few states have proposed anti-zapper legislation accompanied by an amnesty provisions. They include New York, Maine, and Utah.

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CLOUD COMPUTING

By Richard T. Ainsworth[1]

Cloud computing is the commoditization of computer services[2]. Getting IT from the cloud is no different than getting water and electric service from a local utility. Computing power is available on demand anywhere there is a laptop with internet access. In 2009 the global cloud computing market was worth $US 56 billion and growing fast. Year-on-year growth exceeds 22%. Not surprisingly States see many of the same sales tax issues in sales of computing services that they have seen with remote sellers of goods.

Although uniform answers are not available and rules are developing jurisdiction-by-jurisdiction, three major sales tax questions have come to the forefront of this matter.

- Taxability – are cloud computing transactions subject to sales tax?
- Sourcing – which state (or states) can tax a particular cloud computing transaction?
- Nexus – does an out-of-state cloud computing vendor have sufficient contacts with a state so that sales tax collection requirements can be imposed?

Taxability: Services (computer, data platform, and customer-specific programming services), leases (storage or data warehousing), and application program interface (API – the application that allows a customer to interface with multiple servers) are the aspect of the cloud that may attract a sales tax. Statutes can be broadly written to impose tax on all aspects of the cloud, but the key to the scope of the tax may be in a state's bundling rules. If data warehousing is subject to tax, but the provider bundles it with other services and API then the cloud will be very broadly taxed.

Sourcing: A minority of states use origin sourcing for the cloud (Arizona, California, Illinois, Mississippi, Missouri, New Mexico, Pennsylvania, Tennessee, Texas and Utah) with the rest using destination-based sourcing (although destination could be the place of actual use or the place of residence). Thus, the potential for double taxation is very real.

Nexus: Even if taxability and sourcing rules are determined, nexus may be very difficult to measure in the cloud. Physical presence is the standard[3], and the cloud is all about computing without physical presence. It is nexus that will ultimately determine whether or not a state will collect revenue from the cloud. Elements of the cloud can be sold and re-sold a number of times before reaching the consumer. As a result, even if a vendor is engaged in a *taxable sale* that is *sourced* in a state if that vendor does not have nexus, then the burden of collecting the tax falls on the buyer's willingness to self-assess (the use tax).

Thus, even though the cloud represents less that 5% of the remote sales economy, it is growing at a significant pace and it is almost inevitable that cloud computing will stretch the ingenuity of the states as they work to craft nexus formulas that fit the modern economy.

ADP is closely tracking developments in cloud computing for updating taxability and sourcing rules for our sales, use and value-added tax software. Most recently the *Digital Goods and Services Tax Fairness Act* of 2010 introduced in Congress has attracted the attention of our government affairs team. This act would prohibit a state or local jurisdiction from imposing multiple or discriminatory taxes on or with respect to the sale or use of digital goods or services delivered or transferred electronically to a customer. It also restricts the taxation of digital goods and services to retail sales.

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[2]Clouds include: Elastic Compute Cloud (Amazon EC2), Microsoft Azure, Logicworks, CloudCityHosting.com, FiberCloud, Skytap, and Jitscale.

[3]Quill Corp. v. North Dakota, 504 U.S. 298 (1992)

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Tax News From Around the World

Tax News CANADA

QUEBEC, CANADA

Quebec Sales Tax Harmonization: The province of Quebec and the Canada Department of Finance entered into a MEMORANDUM OF AGREEMENT CONCERNING A CANADA-QUEBEC COMPREHENSIVE INTEGRATED TAX COORDINATION AGREEMENT in September 2011, which commits Quebec to harmonize the Quebec Sales Tax (QST) with the federal Goods and Services Tax (GST).

The tax harmonization is set to be implemented on January 1, 2013. Pursuant to the Agreement, Revenu Québec will continue to administer and collect GST/HST and QST in Quebec. A key change under the agreement is the harmonization of the GST and QST tax bases.

Currently in Quebec, the tax base for QST includes the GST on the taxable supply. Once harmonized, there will no longer be tax on tax. Quebec will implement, under the QST legislation, any change that Canada makes under the GST/HST legislation. Other major commitments to harmonization include replicating in Quebec the federal place of supply rules and the GST/HST treatment of financial services, and phasing out Quebec's existing restrictions on input tax refunds for large businesses over a transitional period of no more than eight years. The Canada federal government will in turn make payments totaling $2,200 million to Quebec.

BRITISH COLUMBIA, CANADA

British Columbia De-Harmonization: A referendum on the Harmonized Sales Tax (HST) in British Columbia was held in 2011, and the majority of the voters voted to repeal the HST and return to the original Provincial Sales Tax (PST).

On February 21, 2012, British Columbia introduced its 2012 Budget, which confirmed to re-implement the PST on April 1, 2013. The Canada Revenue Agency published proposed transitional measures for the return to PST on February 17, 2012, and the British Columbia budget announced that provincial transitional rules will mirror the federal measures.

Currently in British Columbia, most supplies of goods and services are subject to an HST of 12%, combining a 5% federal portion and a 7% provincial portion, administered by Revenue Canada. The HST is a VAT type of taxation that is imposed on the entire chain of supplies, with input tax credit available for business costs. When de-harmonization is implemented, the 7% PST is a sales tax that applies only to the retail sale to end consumers, and services in general will be exempt from PST except where specifically designated as taxable under the relevant statutes.

The federal transitional measures propose the general principle that if tax becomes payable, or is paid without having become payable, before April 1, 2013, the HST would apply; and If tax becomes payable after March 31, 2013, without having been paid before April 1, 2013, the HST would not apply (only the GST would apply, and PST would apply to taxable retail sales in British Columbia).

MANITOBA AND BRITISH COLUMBIA, CANADA

New Recycling Programs: The Manitoba Household Hazardous Waste (MB HHW) program will start on May 1, 2012 with paint and fluorescent lamps only, followed by the other product categories later in the year.

British Columbia will launch Phase 5 of the electronics and electrical product collection and recycling stewardship program on July 1, 2012. The products subject to Phase 5 include large appliances; electronic and electrical tools; medical devices; automatic dispensers; lighting equipment; toys, leisure, and sports equipment; monitoring and control instruments; IT and telecommunications equipment; accessories for use with any e-waste products; and batteries used in Phase 5 products.

Tax News EU and EUROPE

BELGIUM

VAT on Cable TV Subscriptions Increased: The Belgian Budget Agreement for 2012 was finally approved. The budget included a provision which states that the Value Added Tax (VAT) rate on digital television subscriptions would increase from 12% to 21%.

CYPRUS

VAT Standard Rate Increase; VAT Exemption for First Time Home Buyers: The Cyprus Parliament passed a set of austerity measures on December 14, 2011. These measures include a 2.00% increase in the standard Value Added Tax rate which will caused the rate to increase from 15% to 17%. The VAT rate applicable on new homes by first-time buyers was reduced in Cyprus, effective October 1, 2011 to 5%. For the reduced rate to apply, the new home should be no bigger than 275 Mt2. In counting the total metrage of the house unit, certain areas can be excluded, such as the boiler, covered parking or storerooms.

CROATIA

VAT increase and Membership of the European Union. On February 17, 2012, the Croatian Parliament adopted Act VII-87/2012, increasing the standard VAT rate from 23% to 25%, effective March 1, 2012.

Croatia has signed the treaty that will allow it to become a member of the European Union. According to documents signed in a formal ceremony last December, the Croatian membership will begin in the summer of 2013, but prior to becoming a member; the treaty must be ratified by the current 27 Member States of the European Union.

CZECH REPUBLIC

Increase of the Reduced VAT Rate and Projected Unification of VAT Rates: Effective January 1, 2012, the 10% reduced VAT rate increased to 14%, as per enacted Law 377/2011, amending the Act on Value Added Tax, No. 235/2004 Coll. Additionally, as the law stands today, effective January of 2013, the country's standard rate, which is currently 20%, and the newly increased reduced rate of 14% will be unified in a single tax rate of 17.5%.

The only other country to have a single tax rate in the EU is Denmark. There have been some discussions in the Czech government to have a higher unified rate, but at this time the law provides for a unified VAT rate of 17.5% in 2013.

FINLAND

End of Exemptions for Certain Newspapers and Magazines: Certain newspapers and magazines distributed at least once a month, which were previously subject to a zero rate, became taxable at the rate of 9% effective January 1, 2012. The measure is estimated to increase tax revenues by EUR 90 million annually.

FRANCE

Electronic Books: Based on a law change in France, effective January 1, 2012 goods and services that were taxable at 5.5% became subject to a 7 % rate except (1) food, (2) gas and electricity subscriptions, and (3) goods and services to disabled persons. These items will remain taxable at 5.50% indefinitely.

In addition, the rate increase as it applies to traditional books will be delayed until April 1, 2012, in order to give the book industry more time to adjust. Therefore, physical books remain taxable at 5.50% for an additional three months. However, items that can be fairly categorized as the digital equivalents to books are now subject to the 7% rate.

GREECE

More Tax Increases: In response to its fiscal crisis, Greece increased the VAT rate applicable to food sold in restaurants from 13% to 23%. The National Association of Restaurants in Greece has warned the Tax Administration that they may refuse to pay the tax increase. Local travel agencies have protested this measure as discriminatory.

HUNGARY

The highest VAT rate: Per recently enacted Act CLVI of 2011, effective January 1, 2012 the standard VAT rate was increased from 25% to 27%, resulting in the highest standard VAT rate in the European Union.

ICELAND

VAT Rate On Electronic Books, Reduced: Effective November 1, 2011 the Iceland Parliament approved an amendment to the Icelandic VAT Act under which the VAT rate on the supply of electronic books and music (without images), including the sale of printed notes, is subject to a reduced rate of 7%. Prior to November 1, 2011, these items were taxed at 25.5%.

IRELAND

Standard VAT Rate increased and VAT On Tourist Related Services Reduced: Ireland increased their Standard Tax rate to 23% effective January 1, 2012.

The VAT rate applicable in the tourist sector was reduced from 13.5% to 9% effective July 1, 2011. The VAT applicable to services provided in restaurants, hotels, theaters and similar activities was reduced in Ireland despite budget tensions and the recommendations from the European Union. The reduction is intended to boost the creation of jobs in the tourist and entertainment industries.

Also now subject to the 9% rate are sales of magazines, journals, maps and other printed materials (except books), as well as hairdressing services.

ITALY

VAT Hike: The Italian Parliament approved a legal decree that increased the Italian standard VAT rate by 1%, to the new rate of 21%. The measure was read into the official gazette on Friday, September 16, 2011 and the rate change become effective the next day.

LITHUANIA

Publications and reduced tax rate: The 9% reduced tax rate applicable to sales of publications was set to expire on December 31, 2012. However the Lithuania Parliament has approved legislation that repealed the expiration. Under the current law, the 9% rate will remain indefinitely.

LUXEMBOURG

VAT on electronic publications, reduced: Based on a policy change in Luxembourg, effective January 1, 2012 a reduced rate applies to all electronic publications. On December 12, 2011 the Administration De L'Enregistrement Et Des Domaines (Luxembourg's VAT authority) published a new administrative circular which changes the VAT rate for electronic publications from 15% to 3%. This change aligns the VAT rate applicable to books in electronic format ("eBooks") with the rate applicable to traditional (paper) books.

MALTA

Partial tax amnesty: As announced in the 2012 Budget speech, the VAT Department may provide for a remission of administrative penalties and interest related to the submission of outstanding VAT balances due. For more information on this Amnesty Program in Malta, please refer to the Budget measures on the Malta VAT Department website at: http://www.vat.gov.mt/.

NETHERLANDS

No Preferential Treatment for Environmentally Friendly Cars: A recent court decision by a Dutch tribunal has triggered a modification of the preferential VAT regime for environmentally friendly cars.

Last June, a Dutch court held that the percentage of private use presumed in certain vehicles constituted a preferential VAT treatment of environmental friendly cars, and as such was considered discriminatory. Therefore, new measures were entered into effect in order to neutralize the preferential treatment on such vehicles.

NORWAY

Reduced rate increased; Nexus and Electronic Services: Effective January 1, 2012 Norway changed the reduced rate that applies to certain food products from 14% to 15%. This change was made pursuant to their recently enacted 2012 Budget Law.

Non-established vendors making sales of electronic services to private individuals located in Norway are now required to collect and pay Norwegian VAT. The new legislation, which became effective on July 1, also introduced a simplified registration process for such sellers.

Last July, new legislation became effective which requires vendors of electronic services located outside of Norway to collect and pay Norwegian VAT for sales made to individuals located in Norway. The new obligation to collect and pay Norway VAT only applies when sales are made to private individuals. Sales to corporations located in Norway will be subject to the corresponding reverse charge. The new rules and the simplified registration system are very similar to the rules that have been in force in the EU member states since 2003.

POLAND

VAT Changes: Effective January 1, 2012, the Polish VAT law was modified such that the tax rate applicable to the sale of certain medical products, clothing and footwear was increased from 8% to 23%. Similar increases were also approved for the supply of restoration and other public services that were previously exempt or subject to reduced rates. However, the management of voluntary pension funds became exempt from VAT.

PORTUGAL

Madeira to increase local VAT rates: The Portuguese island of Madeira has approved a general increase of their local VAT. Effective April 1, 2012, the 4% super reduced rate will be increased to 5%, the reduced VAT rate of 9% will increase to 12% and the standard VAT rate of 16% will increase to 22%.

ROMANIA

New Reverse Charge Rules: In order to reduce tax evasion on agricultural products, the government of Romania enacted a domestic reverse charge mechanism that applies to the delivery of the following categories of products: corn, wheat, rye, sunflower, rice, rapeseed, beetroot, soy, and barley. This new rule became effective on June 1, 2011.

Producers of cereals and seeds will no longer be required to collect VAT on their sales, but their invoices will need to include a message saying "reverse charge according to art. 160 al.2 lett.c."

EUROPEAN UNION

European VAT on the Horizon? Last June, the European Commission proposed the enactment of a Union-wide VAT across member states starting in 2014. The tax revenue would be collected by the member states and transferred directly to the EU during the next seven-year budget cycle (from 2014 to 2020.) The proposal has encountered substantial opposition from many European leaders, but others like the German Chancellor Angela Merkel seem interested in the idea.

Tax News: ASIA

JAPAN

New Taxes After the Tsunami: The Japanese government has proposed several ideas for temporary tax increases in order to fund the country's massive earthquake and tsunami reconstruction efforts.

In December, a tax panel headed by Finance Minister Jun Azumi presented three options for increasing taxes over a period of five to ten years. The first plan called for a mix of higher regional, income, and corporate taxes. The second option would comprise the elements of the first plan and a higher consumption tax on specific items, such as cigarettes and alcohol. The third option recommended raising the 5 percent consumption tax.

Currently, the formal proposal on the table, which will be debated by the government sometime in March 2012, is to increase the Consumption Tax rate to 8% on April 1, 2014 and further increase it to 10% on October 1, 2015. We note that even if agreed to, these rate increases may be suspended following consideration of the economic environment prior to implementation.

MALAWI

Newspapers and Certain Food Subject to VAT: Malawi’s government has announced that newspapers will have to pay 16.5% VAT in the 2011/12 financial year: however, in Malawi, tax changes are not exclusive to newspapers as the government is enacting a new tax regime that impacts many sectors of the economy.

Other goods that have also been taxed include water, ordinary bread, meat and edible meat offal, milk and dairy products, residues and waste from food industries, sawdust and wood waste, hessian cloth, machinery and mechanical appliances and spare parts, and fees, charges, commissions, and discounts on financial services.

Tax News the AMERICAS

BRAZIL

Tax Incentives Aplenty: Brazil has announced that the Contribution for the Financing of the Social Security (COFINS) and the Program for the Social Integration (PIS) will not apply to transfers of technology and know-how. Also, the government has approved new exemptions from the major federal indirect taxes for companies dedicated to the sale of tablet PC’s and certain motor vehicles.

The Federal Tax Administration of Brazil (Receita Federal) decided through an administrative act, that the PIS and COFINS are federal indirect taxes intended to finance the social security of Brazilian workers and are intended to apply only to retail sales and imports of goods and services. Sales of technology and know-how do not constitute either and accordingly are not considered subject to tax. In cases where the transfer of technology is provided in addition to the sales of taxable goods and services, the new regulations provide that the exclusion will apply only when the amount paid for the transfer of technology or know-how when such charges are sufficiently separated from the price paid for the other items. That exclusion was recently extended to the federal IPI (Imposto sobre Produtos Industrialisados) with respect to the transfer of technology and know-how to Brazilian aeronautical companies.

Finally, the Brazilian government approved significant reductions of the IPI, the COFINS and the IPI for companies that qualify for the benefits of a local program known as “Basic Production Process” when they are dedicated to the production of tablet PCs.

COLOMBIA

Exemptions for Scientific Experiments: Law 1450/2011 approved last July, exempts from VAT purchases of equipment and materials used in scientific experiments made by primary and secondary schools. Prior to this new law, the exemption was limited to universities.

MEXICO

Local Value Added Taxes, Halted: Last October, the Mexican Congress approved the Proposal of Economic Program for 2012, locally known as *Propuesta de Programa Económico 2012*. Among the changes approved by congress were provisions that granted the states the authority to levy a local VAT at a maximum rate of 5%, which would be in addition to the federal VAT. However after disagreements about how those revenues were going to be collected and distributed, the Congress refused to modify article 41 of the constitution which was a necessary precursor to these changes taking effect.

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Leasing Laws

How They Have Changed the Face of Automated Tax Calculation Systems

By: Anna-mary Geist[1]

The rapid growth of the leasing industry over the past 50 years, coupled with the growing complexity of the Sale and Use Tax laws surrounding leasing transactions throughout the United States, has caused an increasing interest in, and need for businesses to turn to, an automated tax system to sort out the legal nuances and calculate the sales and use tax consequences of each element of a leasing transaction. As a result, automated tax calculation engines have become very sophisticated and technologically advanced and have the ability to handle some of the most complex leasing situations. The following will take a very simplified look at how technology has advanced to keep up with these changes.

Dissecting a leasing transaction for tax purposes can be extremely difficult because of the many different issues that must be considered from the beginning to the end of the lease. Starting at the beginning, in the United States, upon entering the leasing arena, it is necessary to first determine the location where tax must be paid/collected. This is easy if all of the assets you are dealing with originate and terminate in the same location, but not as easy once you begin a multi-jurisdictional business, or if your assets are on wheels. In order to determine where to properly pay/collect tax, you must be familiar with each states’ individual sourcing rules, which if you have tried to do, you will realize is not an easy task by any means. These sourcing rules, which dictate where the tax obligation lies at all stages of the leasing transaction, may vary widely from state to state.

Recently, some states have attempted to make sourcing rules and lease tax obligations clearer by joining the Streamlined Sales Tax Project (“SSTP”). To date, there are twenty-two states that are full members of the project, which is a collaborative effort among member states to simplify sales and use tax collection and administration. In the area of leasing, SSTP has its own set of rules that member states must adopt regarding how a leasing transaction should be sourced. These rules are spelled out in the Streamline Sales Tax Agreement. One example of sourcing rules in the Agreement requires that leases of motor vehicles, trailers, semi-trailers, or aircraft that require recurring periodic payments be sourced at the primary property location for each periodic payment. Another rule states that short-term leases are sourced to the place of first use, usually the business location of the lessor. While uniformity in sourcing is an immense help, business are still faced with the situation where assets can move into states that are not members of SSTP. This is where automated tax calculation systems have had to really change and adapt in order to be a real benefit to the leasing industry. Advanced systems have incorporated the SSTP and non-SSTP state sourcing rules into their systems concurrently and allow users to pass normal transaction parameters throughout the life of the lease and come out with the right tax, in the right jurisdiction (at all levels), at the right time.

After determining the sourcing location of the leasing transaction, one must to look at the amount of tax that has to be paid and when during the life of the lease that the tax must be paid. In the U.S. there are multiple variations on the laws governing the mode by which sales and use tax can/must be paid. There is no single “U.S.” rule to follow; individual state laws dictate. Some states treat leases the same as any other sale of tangible personal property and require that tax be collected in full at the inception of the lease (these are known as upfront states). This results in the lease stream payments being exempt from tax.

Other states take a different approach and allow tax to be collected upon each lease payment (these are known as stream states). To add another layer to the complexity, some states also give the lessor the choice of collecting tax upfront or on the lease stream. Lastly, a few states, such as Maine, exempt leasing transactions altogether and require that the lessor pay tax when the asset is purchased. This does not preclude the lessor from passing the tax on to its customer down the line; however, it does not make the task of tracking everything any easier. For these reasons, tracking the leases and the tax can be an administrative nightmare if your company does business across many states.

Moving into the heart of the lease, we must take a look back to realize why rules and regulations have become so complex and why it is important for automated tax systems technologies to keep up with the changes. In the beginning, tax calculations with respect to leases were fairly simple. Most states taxed leasing transactions on the stream and it was very easy for companies to manually determine and track tax liabilities.

It was not until companies got ornamental with their categorization of what they define as a lease (possibly in order to get a tax advantage -- deferred tax payment, for example) that laws slowly became more and more complex to the point they are at today. The issue of how to tax the initial piece of the transaction arose, as well as how to track what has been paid, when, and by whom. This does not even account for the changes in tax requirements that may occur if an asset is moved across state lines during the term of the lease. There is not generally a problem if assets are moving among states that all tax leasing transactions on the stream, but what if the assets move from a stream state to a state that taxes upfront? Or, what if the asset moves to a state that has a completely different set of rules?

For example, in New Jersey, leases are generally taxed upfront. If a leased asset is moved into New Jersey, however, the state requires tax to be paid over the stream on the remaining lease payments while the asset is in New Jersey. A technical automated system should be able to cope with these complexities by allowing the lessor to pass a minimal amount of additional information regarding the transaction.

What happens when a lease comes to an end? If the leasing is a true operating lease, the answer is easy … the lessor takes the asset and goes along his/her merry way. But what happens when the lease ends because of an early termination, or if a buy-out option is exercised? If there is an early termination in a state that taxes the lease upfront, then should the lessee be entitled to a refund of the tax already paid? What about the next lessee, should they have to pay tax?

Looking at buy-outs, at first blush, it may seem simple; just tax the buy-out after the lease is over, the same way you would tax a regular sale of tangible personal property. Some states agree with this approach, but other states such as Wisconsin and Kentucky disagree. These two states actually say that buy-outs must be taxed at the initial inception of the lease. What if the lessee decides not to exercise the buy-out option? How about in Maine where leases are generally exempt from tax? Once a buy-out is exercised, tax must be paid on the buy-out amount, as well as on all lease payments made up to that point!

Imagine if you have hundreds of leasing transactions running in Maine and you have to track each individual one? With recent technology developments in automated tax calculation software, figuring out these transactions can actually be as easy as letting the system know that the transaction needs to be recalculated merely through passing information that indicates that the buy-out is being exercised. Based on the multitude of rules that each state can require, an automated system has to have the underlying logic that allows it to grow, change, and adapt itself to the ever-changing rules.

In short, there are many tax parameters to think about as you structure a leasing transaction and many more to think about as the lease continues to the point of termination. Things get even more complex if the assets relocate during the term of the lease. An advanced automated tax calculation engine that can technically adapt its functionality to keep up with the ever-changing scope of the laws surrounding leasing transactions may seem a little costly upfront, but will save you immeasurable amounts of time and human capital (never mind keep you sane) in the long run.

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Tax Oddities From Around the World

Cyclists in Maine Beware! A new bill proposed in Maine would impose a new tax on the sale of bicycles. The additional 2% bike tax was proposed as a means of financing the building and maintenance of bike trails. The Bicycle Coalition of Maine has opposed the bill arguing that it will discourage the sales of bikes.

Tax Lotto Does Not Please the Churches: Many religious councils and churches in Puerto Rico have serious concerns about the new system that requires businesses to issue a lottery-like ticket to their customers each time they make a sale. Religious leaders argue that the IVU-Lotto violates their religious rights and values by forcing its members to participate in a game of chance. They have asked the government to desist implementing the program. The Puerto Rico tax authorities are disappointed by the results of the program, which was designed as a tool to curb sales tax evasion.

Wholesalers of Fake Invoices: Argentinean tax authorities disarticulated a band that was dedicated to producing and selling extremely high volumes of false invoices. According to the official government news release, the band helped "taxpayers" avoid more than $24,000,000 in VAT by using these invoices.

First the Cyclone, Now the Tax: After suffering a number of natural disasters between 2010 and 2011, Australians have been forced to suffer a new wave of bad news: New taxes. This year the Temporary Flood and Cyclone Reconstruction Levy was approved which imposes additional income tax at a rate between 0.5 to 1 percent, on the income of all residents and non-resident Australians during fiscal year 2012.

New York Lottery Winners Beware: New York enacted new legislation requiring that the state lottery withhold any prize above $600 to individuals who have existing tax liabilities with the state. Under the new legislation, the Commissioner of Taxation will submit a list of the debtors whose liabilities are legally fixed, final, and not subject to further administrative or judicial review, to the lottery director. Effective last August, anyone who wins a lottery prize, will be subject to withholding to the extent of their tax debt. The state of Vermont adopted a similar measure which becomes effective in 2012.

High Compliance from Unexpected Places: Spanish tax authorities have been delightedly surprised by the relatively high level of VAT collected from so called "cannabis clubs." According to some reports, a single club paid more than 11,000 Euros in the first quarter of this year alone. Other, invitation-only similar clubs have shown a high level of compliance as well in spite that they otherwise may teeter on the edge of illegality. Tax officials from other European countries have also noticed the steadily increasing level of compliance from this particular business sector.

New Fat Tax in Denmark: This October, Denmark introduced what is believed to be the world's first fat tax. Any food that contains more than 2.3% saturated fat will be subject to the tax. The Danish government has argued that the tax is necessary since the Danish population is lagging behind their European neighbors because of its unhealthy eating habits. According to the law, the tax will apply at a rate of approximately $6.27 per pound of saturated fat. This new type of levy seems to be in fashion in Europe as France has announced that it will be imposing a similar tax shortly. Fiji is seriously considering imposing a similar tax as well.

"Google Tax *...Ça ne Marche Pas!*: In plain English, it does not work! The 2011 budget law of France included something unusual for the internet world: a 1% tax on the net consideration paid by France based purchasers of online advertising. That short lived tax, popularly known as the "Google tax" was designed as a tool to protect the French music industry and to ensure that search engines stop "profiting without any consideration" for music artists and book publishers. The tax generated a lot of controversy and above all, did not yield the expected results. Large companies with subsidiaries abroad could easily avoid the tax by purchasing the advertising aimed at French internet users outside the French territory. The tax was finally repealed last June.

All the News That's Fit to Tax: Texas exempts newspapers from its sales tax. By no means is this an unusual exemption. However, for Texas, the problems arise with the definition of what constitutes a newspaper. To be classified as a newspaper, the item must be distributed in short intervals of time, intended to provide news, and should not exceed the price of $1.50. Over the years, prices for newspapers have steadily increased. Recently, Dow Jones & Co., publisher of The Wall Street Journal, increased its cover price to $2.00. Accordingly, the Texas State Comptroller has held that The Journal is no longer entitled to the exemption. In response, Dow Jones contends that when you consider subscriptions, its average price is less than one dollar and therefore should be properly exempt. However, Dow Jones also argues that the Texas rule is violative of First Amendment as its applying its tax to various newspapers differently without sufficient basis.

Taxing Plastic Surgery: Usually VAT regimes are hesitant to tax medical services. However, with the European "crisis" at hand, countries have been looking for revenues from unusual sources. With that in mind, HM Revenue & Customs of Great Britain is proposing to apply VAT to unnecessary medical procedures performed exclusively for cosmetic purposes. They expect that such a tax would collect several million pounds a year. Attacks to what has been colloquially called the "boob tax" have come from all sides: Some special interest groups argue that such a proposal is an attack on women. The cosmetic industry and the British Association of Aesthetic Surgeons has said that the tax will be extremely difficult to enforce based on provisions that allow the tax to be circumvented if a doctor certifies that the surgery is medically necessary.

Accident Tax: Starting in 2012**,** Hungary will impose a 30% tax on mandatory car insurance purchased by motor vehicle owners. The tax will be collected by the insurance companies at the time the policy is sold.

Cows, Methane, and Global Warming: Rumors about imposing a tax on producers of greenhouse gases abound. Methane gas is considered to be significantly responsible for global warming. In fact, several studies conducted by private and government agencies have revealed that a single cow can emit between 26 to 53 gallons of methane through their burps and flatulencies. To curb the impact of this "emission," some governments have again started to consider imposing a tax on cows. In the US, the issue became a source of controversy some years ago when the Environmental Protection Agency released an Advance Notice of Proposed Rulemaking where it proposed to regulate greenhouse gas emissions by requiring farmers with more than 25 dairy cows or 50 meat cows, to pay for a permit that would cost between $87 and $125 dollars per cow per year. Fortunately for farmers, that tax never materialized. However some countries in South Asia and Europe are again talking about the necessity of imposing a pigouvian tax on cows.

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