Virginia Association of Local Tax Auditors

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Program

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Disclosure, Safeguarding and Confidentiality

- Taxpayers are increasingly concerned about the use and disclosure of confidential information
- The current, nationwide focus on confidentiality and security affects our every day business and we must continuously evolve in all areas and functions to meet the challenges of changing needs, threats, vulnerabilities, and related issues
  - House Bill 99 (2014 Session) increased the penalty for unauthorized disclosures of tax information from a Class 2 misdemeanor to a Class 1 misdemeanor
- Taxation’s Disclosure Office (established in July 2013) provides:
  - Guidance on protecting confidential taxpayer information,
  - Performs locality visits and inspections,
  - Serves as an IRS liaison,
  - Participates in internal and external security audits, and
  - Ensures compliance with state and federal laws

Disclosure, Safeguarding and Confidentiality

- Disclosure initiatives and issues affecting localities
  - More frequent and more in-depth reviews/audits of localities (e.g., access levels, need and use, compliance with trainings, record keeping, incident response, etc.)
  - Updates to forms, manuals, and training for clarity and brevity
  - Review processes and procedures to identify potential disclosure issues
  - Streamline procedures for requesting tax information
  - Continuously explore new ways of providing efficient services without compromising data security

Scope of Taxation's Operations

- 55 large scale and 57 small scale software products
- 220,000 database tables and 43 terabytes of data
- 455 servers and 4.3 million lines of code
- 750 system changes and 5,212 data base changes
- Selected examples of technology interactions with or for taxpayers (FY 2014)
  - 17.3 million website visits
  - 863,000 phone calls
  - 300,000 logins
  - 175,000 Live Chats
  - 2.4 million pieces of correspondence system-generated
  - 19.5 million images captured/stored

Locality Transfer Request Updates

- VATAX currently uses a manual process for handling Locality Transfer Request
  - Request are logged on a spreadsheet.
  - Review and research is conducted on the request for proper allocation.
    - Examples: Customer contact for information, case may be referred to a Field Agent or Audit Unit for compliance visit… etc.
  - An internal excel report identifies all transfers that have not been resolved
    - Follow-up is completed to assist in the resolution of the transfer
  - Corrections are entered in IRMS using two methods
    - A return adjustment is keyed to correct the return and locality (Will be displayed in the IRMS tax account periods online and Report 004D, Locality Distribution Detail Information)
    - A transfer is entered to correct the locality (Will be shown in Report 003.A, Locality Transfer Report)
  - It is estimated VATAX receives up to 400 requests annually to process

- Correction of local sales tax distribution
  - Prior to July 1, 2012, VATAX could correct errors in distribution of the local sales tax in **<u>six</u>** monthly increments
  - After July 1, 2012, the correction of local sales tax errors was reduced to **<u>two</u>** monthly increments under 58.1-605(F) of the Code of Virginia

Online Tracking Application

- VATAX researched an Online Tracking Application
  - Request submitted to VATAX Technology Office – complete
  - High level requirements gathered – complete
  - Estimated Level of Effort – complete
  - Cost Analysis – complete
  - Decision made – not cost effective to develop the online tracking capability

Unassigned Revenue

- Each locality in Virginia receives a portion of the monthly distribution of the "Unassigned" (0300)
  - The distribution of the Unassigned and the Administration Fee is a computation within IRMS. The unassigned distribution amount and the administration fee changes each month
- Integrated internal system controls to prevent any instate Sales Tax Vendors (tax type 10 accounts) to allocate to 0300
- The 0300 account averages $400K to $600K each month
- On occasion, unassigned revenues have to be "loaned" to other localities to meet shortfalls. The funds are replenished in subsequent months.

Unassigned Computation

- The total dollar amount of the distribution for all 133 localities is used to compute a ratio for each locality
- Each locality's total dollar distribution amount is divided by the total distribution dollar amount for all localities to obtain a percentage.
  - Total unassigned dollar amount is multiplied by each locality's percentage to obtain the portion of the unassigned that will be distributed to each locality.
- Example:
  - Locality dollar distribution amount = 270,459 divided by 107,426,489 (Total dollars distributed) = .002518
  - Then .002518 multiplied by 705,582 (Total Unassigned dollars) = 1,776
  - Locality would receive 1,776 in Unassigned distribution
  - $\frac{270{,}459}{107{,}426{,}489} = .002518$ $.002518 \times 705{,}582 = 1{,}776$
- The sum of all 133 ratios will equal 100% each month
- This same equation is used to calculate the Administration Fees for each locality

V NUMBERS

- DEFINITION:
  - A temporary Taxpayer Identification Number (TIN) assigned by VATAX that enables a customer's return and/or payments to be processed. V-Numbers are typically assigned when a taxpayer has applied, but has not yet received a TIN from the applicable federal issuing agency
    - Some businesses aren't required to have a FEIN, so the V number could be a permanent account number. Such as Sole Props or one member LLCs

- To update a V number to the FEIN the <u>customer</u> must
  - Complete Form R-3 Registration Information Change Request
  - Customer sends the federal documentation to show the FEIN

- The customer can Fax the completed form to Customer Services at (804) 254-6111

- The customer can mail the completed form to Customer Services
  - Virginia Department of Taxation
Office of Customer Services
P.O. Box 1115
Richmond, VA 23218-1115

Locality Support – Pre Distribution

- A flex analysis is performed from the 25^{th} to the 6^{th} of each month
  - An Internal Variance Report is utilized to perform the analysis
    - Review and identify any high or low variances
    - Validate payments and localities are accurate
    - Verify the top business vendors have filed and payments processed
    - The Unassigned 0300 is reviewed for accuracy

HINT: The Pre Distribution window in IRMS can be sorted by name and amount

Local Reports

Sales Tax Reports

Report 003.A	**– Locality Transfer Report**
Report 004D	**– Locality Distribution Detail Information Report**
Report 018.D	**– NAICS Taxable Sales Detail Report**
Report 061.1	**– Registration Tax Type Activity by Locality for the Month**
Report 147.0	**– Updated Business Registration Report**
Report 148.0	**– Gross Receipts for Localities Report - cumulative**
Report 280.0	**– Gross Receipts for Localities Report - monthly**
Report 243.0	**– New Sales Tax Dealers Monthly Report**

Motor Vehicle Rental Tax

Report 075	**– Vehicle Rental Tax Distribution Report**

Communications Tax

Report 248.T	**– Communication Tax Distribution Report**

Report Tips

NOTE: If you download the report in excel, always unmerge the spreadsheet cells prior to working with the report

<u>Distribution Report 004.D</u> – Report provides information on the distribution of the local sales, use and vending tax money to Virginia localities.

- Create your own Local Reports
  - On a calendar year basis, combine the Excel versions of the monthly distribution report into one spreadsheet and sort by taxpayer name or account number.
    - For research purposes, it is much easier to see what a particular account has paid to your locality looking at the spreadsheet rather than going return by return in IRMS
- Customize your Local Reports
  - Sort the combined distribution report by dollar amount and review the negatives (money taken away from locality). Verify that money taken away was actually received in a prior distribution by checking under that account for the same tax period
- Locality Large Dollar Accounts
  - Verify that a distribution is received every month and there are no significant fluctuations.
  - Focus on large dollar revenue to minimize staff time
- Compare the local sales tax distribution to the business license gross receipts.
  - Some classifications have significant sales-tax-exempt sales that have to be deducted in making the comparison

Tips Continued

- **<u>Monthly Gross Receipt Listing Report 280.0</u> – Report provides the gross receipts of local sales, use and vending tax money to Virginia localities**
  - Compare TAX's dealer identifying information to your business license data to verify all accounts registered with TAX as being in your locality are properly licensed there
  - Localities that impose Food and Beverage Tax
    - Compare the gross sales amounts in the column entitled FD to your local monthly meals tax submissions
    - Minimize staff time by sorting the report in descending order using Column labeled FD

- **<u>Cumulative Gross Receipt Listing Report 148.0</u> – Report provides the gross receipts of local sales, use and vending tax money to Virginia localities**
  - Compare gross sales reported to TAX to reported business license gross receipts
    - Some classifications have significant sales-tax-exempt sales that have to be deducted in making the comparison
    - Consider deducting the "Personal Use" from the "Total Taxable Sales" and comparing the result to the locally reported BPOL gross receipts
    - The March or April report should approximate the gross receipts reported locally for current BPOL tax purposes
    - Minimize staff time by cross-referencing the FEIN/SSN in Report 280.0 to Report 148.0

- **<u>Monthly New Dealer Report 243.0</u> – Report displays Sales Tax Dealers that have opened, re-opened or have closed a location in a particular locality during the month**
  - Verify that new businesses registered to your locality are actually located there (sort the Excel version of the report by Zip Codes and find any Zip's that do not belong to your locality)
  - This will minimize the impact of paying more money for distribution that your locality shouldn't have received if found quicker
  - Verify that new businesses registered to your locality are properly licensed
  - Review the beginning and ending (BLD/ELD) liability dates for business license purposes

Tips Continued

- **<u>Registration Tax Type Activity 061.1</u> – Report list totals of registration activity, such as additions, modifications and deletions by tax type**
  - Review any change a business in your locality has made such as a name change or a FEIN change

- **<u>Locality Transfers Detail 003.A</u> – Report provides information on the revenue transferred between localities**
  - Review transfers made to and from your locality to make sure corrections you were expecting are received and money moved out is explained and accurate
  - Transfers that will take 2 months to receive or repay can be monitored in the IRMS application on-line under the dropdown of "Locality Pending Transfer In Progress"

- **<u>Helpful Hints</u>**
  - A lot of the negative figures are explained by an amended return or an audit. (These can be viewed in the IRMS application). These negatives usually leave at least a smaller amount of money in the tax account period than what was originally distributed. If all the money for a tax account period is removed, or if the money was not received in the first place, have TAX research the case.
  - Use Tax and Consumer's Use Tax accounts (Type 12 and 14) are likely to have fluctuations; the Sales Tax accounts (Type 10) usually should not.

VATAX Contacts

	VATAX Contact Information for Localities	
Category	**I need help with….**	**Contact**
Locality Home Page	General Information ➢ Recent Updates ➢ Forms and Instructions ➢ Training Links	Locality Home Page http://www.tax.virginia.gov
Locality Hotline (for localities only)	General tax related questions, account specific inquiries	**Phone: (**804) 367-9286
IRMS Support	IRMS specific questions and issues (not found in other resources)	**E-mail:** irms.support@tax.virginia.gov
Tax Return Processing	Return Processing and Administration	**Howard Overbey** **Phone**: (804) 367-1129 **E-mail**: Howard.Overbey@tax.virginia.gov
Safeguarding TAX Information	Access Questions, Data Breaches, Unauthorized Inspections or Disclosures of Tax Data or Compromised IRMS Passwords	**Phone: (**804) 404-4029 **E-mail:** Michael.Palmer@tax.virginia.gov
Sales and Use Tax Distribution	Locality distribution and administration	**Phone**: (804) 225-4254
Communications Tax Distribution	Communications Tax distribution and reports	**Phone**: (804) 404-4195
Motor Vehicle Rental Tax Distribution	Motor Vehicle Rental Tax distribution and reports	**Phone**: (804) 404-4180

Questions

Thank You!