Local Sales and Use Tax Audit Program

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Problems

- Taxpayers are confused
- Local revenue is being misallocated
- State Tax Department has little incentive to address issues

Why are taxpayers confused?

- Unique arrangement of cities and counties in the Commonwealth
- Crossover of mailing addresses and ZIP Codes
- Some localities have the same or similar names

How is the tax revenue misallocated?

- Regular sales tax dealer (one location)
  - Registers to incorrect locality
  - Revenue is automatically allocated to that locality
- Consolidated sales tax dealer (5+ locations)
  - Each location has its own registration; returns are filed under one "parent" account
  - Taxpayer assigns sales to each locality
- Use tax dealer (out-of-state)
  - Taxpayer assigns use tax to each locality

Why isn't the Tax Department Doing More?

- Limited audit resources
- Focus on identifying unreported/uncollected revenue; bring "new" money in to the Commonwealth
- Not in their best interest to expend resources allocating existing revenue

Solutions – Old Programs

- New Dealer Reports
  - Generated monthly by TAX
  - Verify correct address, locality, license
  - Request other locality reports
- Step in Business License/BPP Audit Program
  - Retailers verified on STARS as registered for sales tax
  - Locality code verified on STARS

Solutions – New Sales Tax Programs

- Monthly Comparison of Reported Tax
  - Consistently large dealers
  - Research significant variances in reported tax
  - Watch for no distribution in a particular month
    - Late posting
    - Taxpayer error
    - Tax Department error

Solutions – New Sales Tax Programs cont'd

- Annual Match of Business License Gross Receipts to Gross Sales on Sales Tax
  - Large dealers
  - Variance should be reasonable
- Review all monthly distributions; look for negative amounts
- Boundary areas

Solutions – New Use Tax Programs

- Contractors
  - Deemed final user; owe tax on purchases
  - On big projects, check for use tax paid to your locality by contractors making large installations

    (steel, landscaping, HVAC…)
- Leasing Companies
  - Out-of-state companies only
  - Must collect use tax on gross receipts from lease
  - Use data on business personal property returns

Solutions – New Use Tax Programs cont'd

- Retailers
  - Mail order/catalog companies
  - Pay attention to dealers making commercial sales unique to your area; avoid manufacturers

    (data processing companies buy a lot of computer equipment; look at their potential suppliers)
  - Compare to other localities; determine reasonable amount

Mechanics

- STARS screens
  - 2-01 data for one tax, name & address, locality code, begin and end dates
  - 2-02 name search, legal or trade, can limit
  - 2-03 general co. data, all taxes, physical & mail address
  - 2-17 FEIN search
  - 3-01 assessments and payments by locality
  - 3-23 monthly distribution by locality
  - 5-03 sales tax return, can total by year, can detail each locality

Mechanics cont’d

- Prior to requesting an adjustment, write other locality
  - Mail certified, allow 60 days, per Danny Payne
- Write taxpayer, explain error, what they do and do <u>not</u> need to do
  - Especially important for consolidated dealers
- Statute of Limitations is three years from due date of return

Results

- Taxpayer's confusion alleviated
  - Better understanding of boundaries
  - Process of filing accurate return simplified and explained
  - Potentially increased compliance on other taxes
- Increased cooperation with the Department of Taxation

Results cont'd

- Revenue
  - 2000 old programs $240,659

    2001 new programs $640,835

    2002 new programs $2,660,057

    2003 new programs $953,121
  - Revenue received from adjustment multiplied, potentially many times over, from accurate returns filed in the future

Results cont’d

- Audit efficiency and effectiveness increased
  - Identify problem accounts on which to expend resources, rather than hit or miss
  - Cover all major types of sales and use tax accounts
  - Revenue per audit has increased from $3,300 using the old programs to an average of just over $20,000 in the first three years of the new program