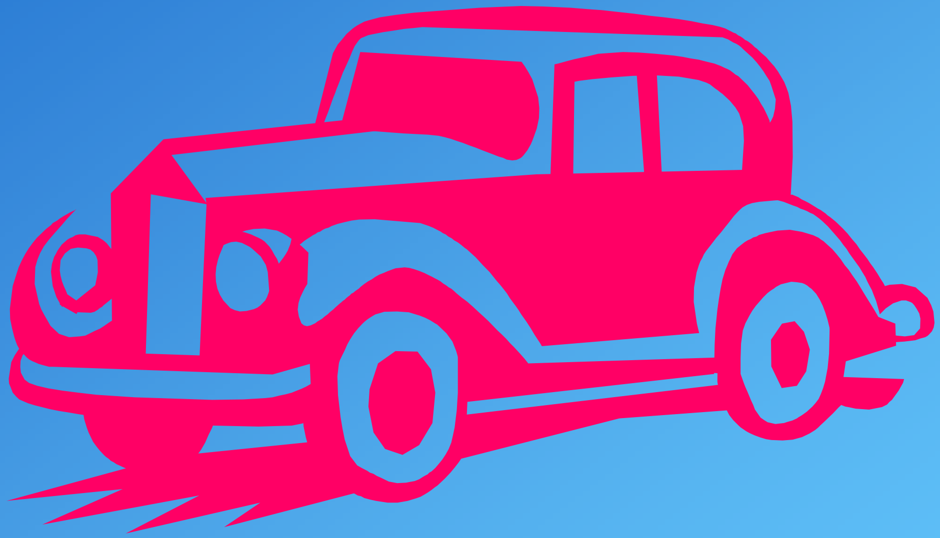
PPTRA AUDITING



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County of Henrico

Compliance Program Guidelines

- Guidelines focus on 3 areas
  - Taxpayer Education
  - Certification
  - Compliance

Taxpayer Education

Newspaper	Public Service Announcement on Cable	Internet
Posters in Public Areas	Accountants, Bookkeepers, CPA's	Car Dealers
Staff Education	Informational Meetings	Brochures

Which Media do I Use?

- Is it a requirement according to the Guidelines?
- What is the cost of dissemination in respect to how many taxpayers will be reached?
- Are the resources available?
- Who is my target audience?
- How much information is to be presented?

Which would you read?

Wordy information can affect whether or not a taxpayer will read it, skim it, or pitch it.

The Personal Property Tax Relief Act of 1998 provides tax relief for any passenger car, motorcycle or pickup or panel truck having a registered gross weight of less than 7,501 pounds.

To qualify, a vehicle must be owned by an individual or leased by an individual under a contract requiring the individual to pay the personal property tax and be used less than 50% for business purposes.

A vehicle is considered to be used for business if:

a)More than 50% of the mileage for the year is used as a business expense for Federal Income Ta x purposes

b)More than 50% of the depreciation associated with the vehicle is deducted as a business expense for Federal Income Tax purposes

c)The cost of the vehicle is expensed pursuant to Section 179 of the Internal Revenue Service Code

A vehicle leased by an individual and the leasing company pays the tax without reimbursement from the individual does not qualify for tax relief.

Motor homes, trailers and farm use vehicles do not qualify for tax relief.

Check the box if any of the following apply

- ❑ Motorcycle, trailer or farm use vehicle
- ❑ Weight of vehicle is 7,501 pounds or greater
- ❑ Leased vehicle where leasing company pays the property tax
- ❑ 50% or more of mileage is for business use
- ❑ 50% or more of the vehicle cost depreciated for Federal Tax Purposes
- ❑ 50% or more of the vehicle cost expensed under Section 179 for Federal Tax Purposes

If you checked any the boxes, your vehicle does not qualify for tax relief.

To qualify for car tax relief, a vehicle must be

- ✓ Owned by an individual
- ✓ Leased vehicle where individual pays personal property tax
- ✓ Used <50% for business purposes
- ✓ Under 7,501 pounds in weight

Vehicle does not include motor home, trailer or farm use vehicle.

Certification

- January 1, 2003, vehicle owners required to certify use of vehicle as either business or personal
- Required for any vehicle with a value >$1,000
- Annual Re-certification

How to Certify

Personal property return is required

- Certification when file tax return
- Application for issue of a decal
- Payment of personal property tax bill

File by Exception method

- Change in vehicle use on exceptions

And

- Payment of personal property tax bill

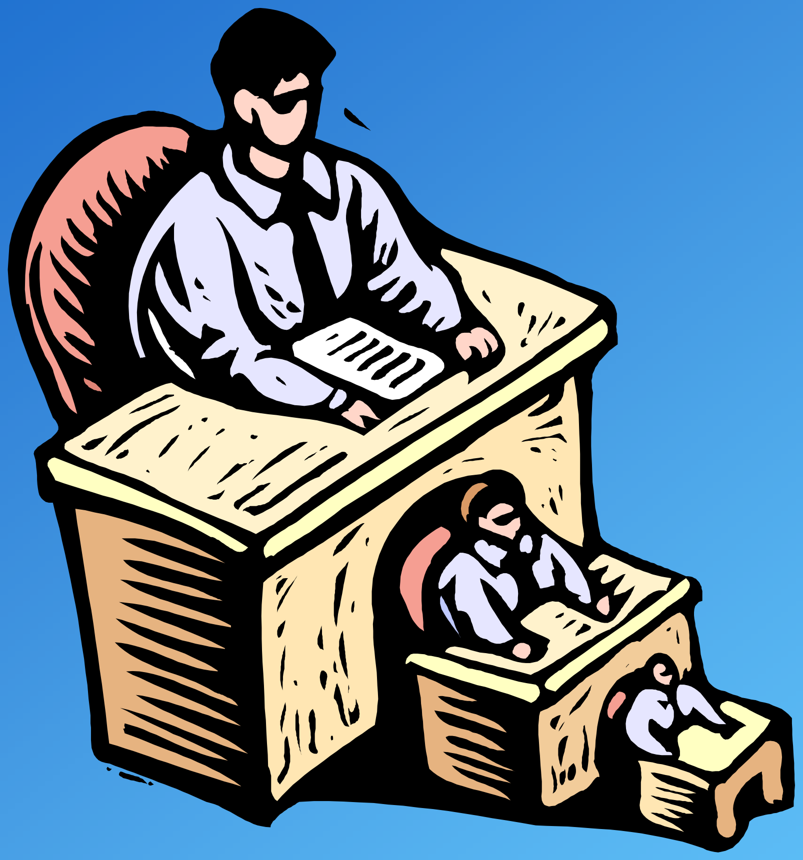
Or

- Application for issue of decal

Compliance Measures

- Beginning January 1, 2003, must develop, implement and document a compliance program
- Program should identify and audit likely cases of tax relief erroneously given by locality
- Considered your internal audit program

Which audit tool is right for my locality?



Consider

- Staff Availability
- Staff Qualifications & Training
- Computer Programming Support
- Assessment System

Pick the audit techniques that will accomplish the most for your locality!

Is Your Locality Compliant?

Income Approach to Auditing

FMI Fast, Minimal Income	WPI Working, Potential Income
FI Fast Income	WI Working Income

FMI
Fast, Moderate Income

- Taxpayers with FEID 54
- Business Account with Qualified Vehicle
- Referencing Business in Name
- Farm Use or For Hire Tags

WPI
Working, Potential Income

- Schedule C-Additional Information Needed
- Field Investigations
- Sole Proprietor Depreciated Vehicles from Business Reviews and Audits

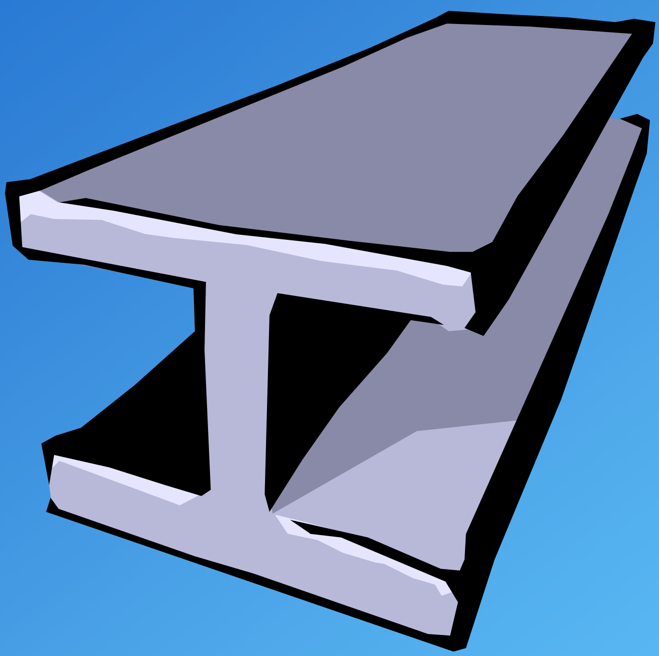
FI
Fast Income

- Schedule C-Vehicle Clearly Identified
- Programming Errors

WI
Working Income

- Schedule C-Business Use but need the vehicle identified
- Crossing vehicle accounts with business accounts

Industry Approach to Auditing



Examples:

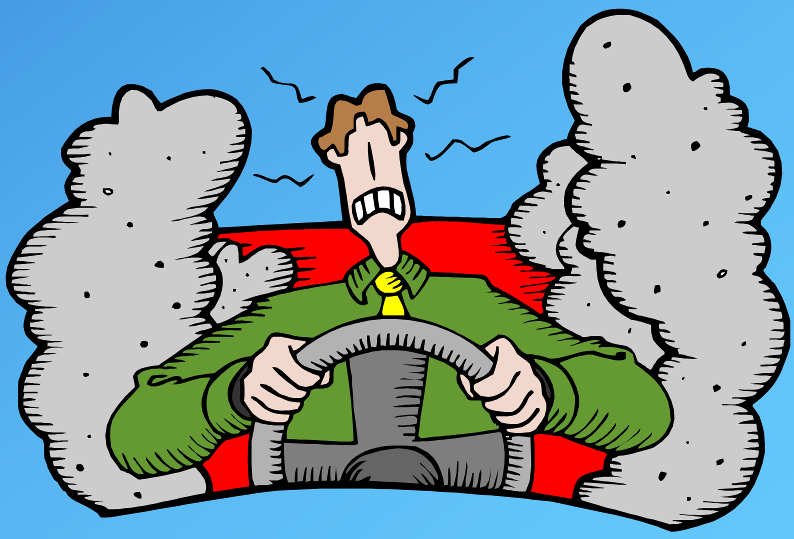
- Contractor
- Real Estate Agent
- Financial Advisor
- Ministry
- Consultant
- Salesman

Audit Program Objectives

- Qualified vehicles are registered to Qualified Owners
- Qualified vehicles are predominantly used for Non-Business Purposes
- Qualified vehicles have a registered Gross Weight not more than 7,500 pounds
- Qualified vehicles have been properly valued
- Reimbursements have been properly requested
- Staff are sufficiently educated in qualification procedures
- Available external resources have been used
- Tax payers have been informed of PPTRA limitations

Confirm qualified vehicles are registered to qualified owners

- Is vehicle registered under a social security number versus federal identification number?
- Is there unusual word in the owner name that may imply a business?
- Is the joint owner someone other than an individual?



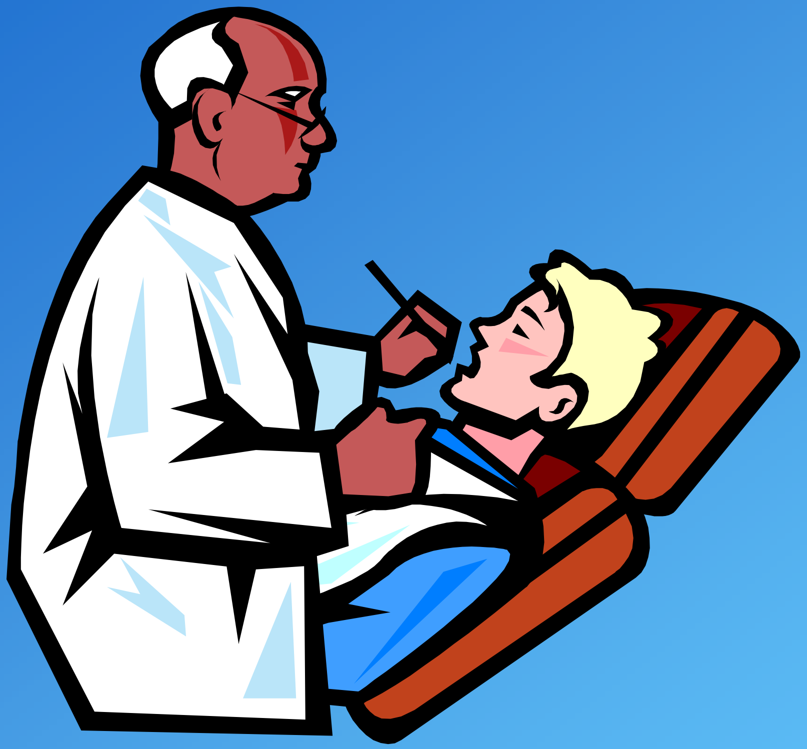
Leased Vehicles

- Contractually obligated to reimburse for personal property tax
- DMV reports and lease agreements held as back-up
- 3 staff members only key into lease maintenance file and require proper back-up
- Enter qualified lease flag (QL)
- Only method used to qualify lease vehicle

Account Number Check

- 4% of accounts beginning with 54, were business accounts
- Some clearly had the word Inc or Assoc
- Some appeared to be non-profit entities
- Look at key words and check against DMV
- Review all vehicles in statute
- Disqualified $11,544 of tax relief

Confirm all qualified vehicles are predominantly for non-business



- Is the vehicle titled with a for hire or farm use tag?
- Is the vehicle registered in a business name?

Schedule C's-Hard

- 100% of 2001 Schedule C's will be reviewed
- ½ completed by June 30, 2003
- Problem with Schedule C process: taxpayer response
- Success with Schedule C process: generated 37% of our disqualified income

Disqualified	310	51%
Personal Use	224	37%
Not Qualified	73	12%
	607	

Schedule C Procedures

- Key information into an Excel spreadsheet to determine what follow-up is needed
- If a personal use vehicle, Schedule C is filed
- Look at 3 remaining scenarios, send letter and follow-up
  - **Business Use and Vehicle Identified (BI)**
  - **Business Use and Vehicle Unknown (BU)**
  - **Additional Information Needed (I)**

Schedule C Procedures cont

- If business use and can identify vehicle, disqualify and send letter with a bill
- If business use and can not identify vehicle, send letter requesting taxpayer to identify
- If incomplete information, send letter requesting breakdown of mileage, depreciation schedule and identity of business vehicle

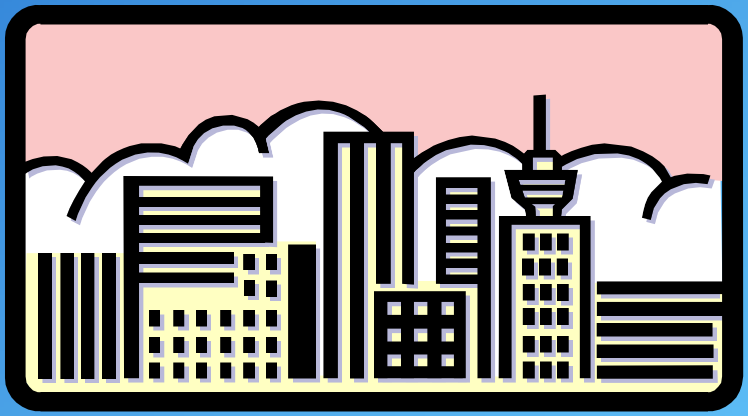
Reducing the Workload

- Upon completion of each step of audit procedures, complete a statistical analysis of the results and apply to future reviews to become more cost efficient in your audit program

Statistical Analysis Schedule C's

Business Mileage	% Personal Use	% Business Use
< 4,000	90%	10%
4,000-4,999	57%	43%
5,000-5,999	71%	29%
6,000-6,999	56%	44%
7,000-7,999	48%	52%
8,000-8,999	16%	84%
9,000-10,649	35%	65%
> 10,650	5%	95%

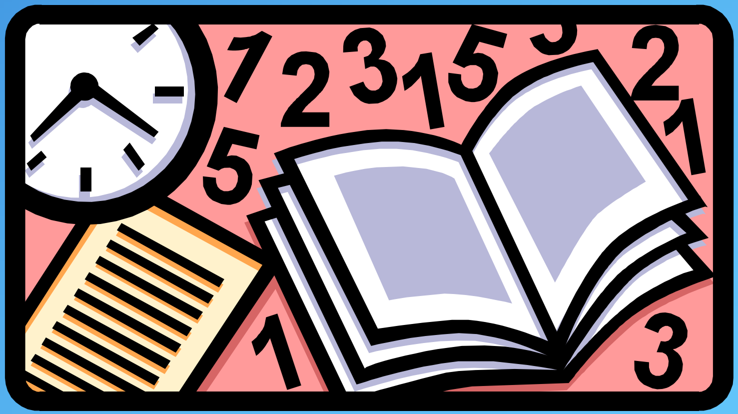
Field Inspections



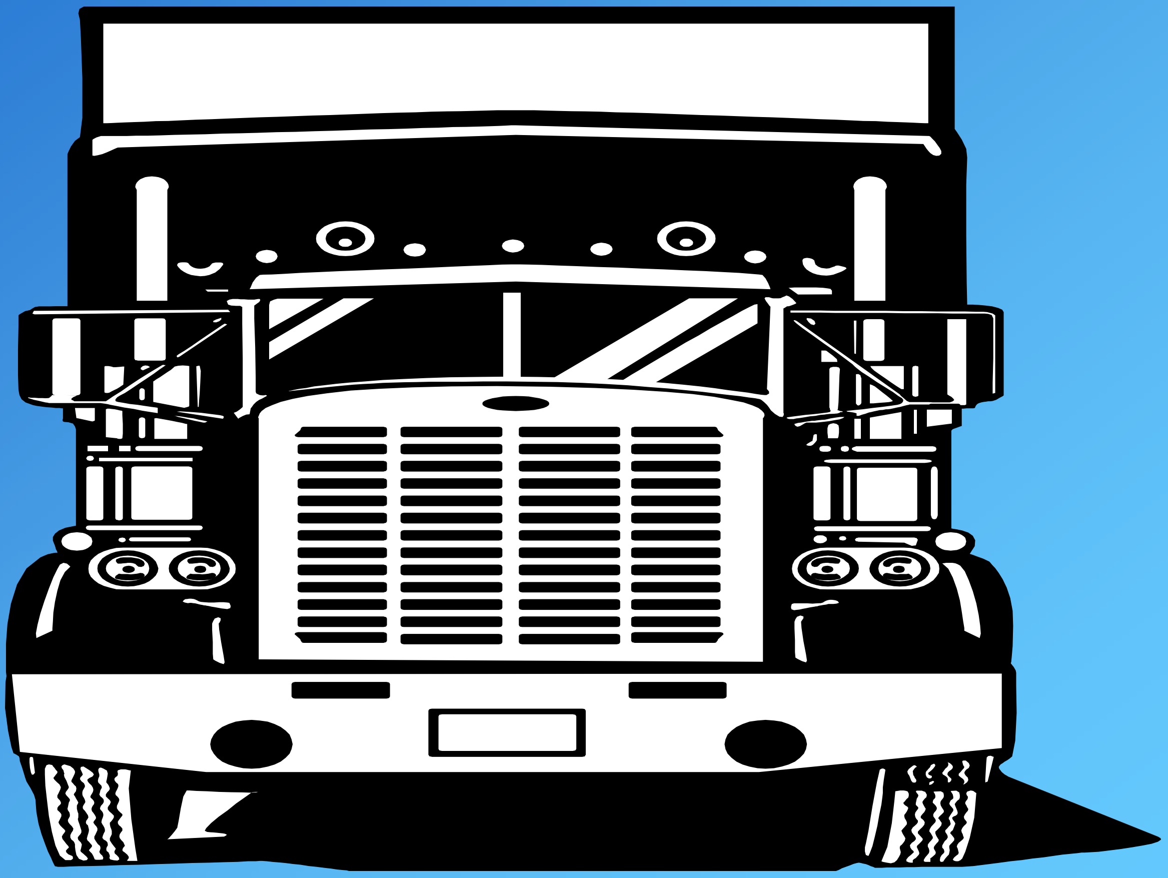
- Notice vehicles with magnetic signs, license plates, and permanent painting that indicates business name
- Business License and Vehicle Inspectors record license plate information
- If garaged in your jurisdiction, follow-up with certification of use

Help from Business Tax Area

- Provide copies of depreciation schedule of business depreciated vehicles
- Focus on Sole-Proprietors which have been identified as an "At-Risk" population



Confirm qualified vehicles have a gross weight <7,501



Henrico County Split Out of Disqualified Revenue

	Amount	%Total
Form 740	$ 1,181	1%
Personal Prop Tax Bill	$ 3,534	1%
Vehicle License Reg	$ 186	0%
Field Investigation	$ 0	0%
VA Income Tax Return	$ 114,015	37%
Internal Audit Report	$174,334	57%
Taxpayer Provide Info	$ 6,341	2%
Miscellaneous	$ 5,756	2%
Period End 6-30-03	$305,345	

Tax Year Breakout

- 2003 Revenue is low due to most adjustments being done prior to the billing
- Henrico included a projected savings in our programming just in case