

REPORT HIGHLIGHTS



LOCAL SALES TAXES PERFORMANCE AUDIT, NOVEMBER 2015

DEPARTMENT OF REVENUE

CONCERN

The Department of Revenue (Department) can improve its administration of local sales taxes by developing geographic-information-system (GIS) resources to ensure that businesses are properly registered to the applicable local tax jurisdictions and to assist businesses in determining the amount of sales taxes that should be applied to sales in each location.

KEY FACTS AND FINDINGS

- The Department likely did not register 11,070 of the 103,836 retail business sites we reviewed (11 percent) to the proper local jurisdictions based on addresses provided to the Department on their sales tax license applications. Of these, about 3,750 sites were likely misregistered for jurisdictions where the Department collects sales taxes, which we estimate resulted in about \$3.3 million in over-collections and \$3.8 million in under-collections during Calendar Year 2014.
- The Department's system for coding and tracking tax jurisdictions was not complete for nine geographic areas in the state and uses place names that can be difficult to understand. Further, the Department's published forms providing information on taxing jurisdictions were not complete and accurate.
- The Department has not developed a map or other GIS-based tools to determine whether businesses are properly registered to the applicable taxation districts, which is essential for ensuring that they remit the appropriate amount of sales taxes.
- Database providers certified by the Department to provide businesses with tax jurisdiction look-up services based on addresses may not be fulfilling the General Assembly's intent under Section 39-26-105.3, C.R.S., to provide a means for businesses to accurately determine their sales tax liabilities. Specifically, the Department has not verified the databases' accuracy every 3 years as required, and lacked a reliable method for verifying their accuracy. In addition, the providers may be costly for some businesses, and according to the Department, some businesses are using non-certified providers.
- In our survey of local government administrators, 91 percent of respondents reported satisfaction with the Department's outreach efforts. However, we found that the Department receives a high volume of contacts from local governments and could improve the system it uses to track contacts and ensure timely responses.

BACKGROUND

- The Department is responsible for collecting and administering sales taxes for 223 local governments and combined authorities, such as counties, cities, and special districts.
- The Department uses the same process for local sales taxes as it does for the state sales tax and maintains a coding system to track the sales taxes that apply to each business location.
- Home-rule jurisdictions collect and administer their own sales taxes unless they have requested that the Department do so.
- During Calendar Year 2014 the Department collected \$1.3 billion in net sales taxes on behalf of local governments.
- The Department collected sales taxes from 91,303 businesses in Calendar Year 2014.

KEY RECOMMENDATIONS

The Department should:

- Develop GIS tools to assist its staff in registering businesses to the correct local tax jurisdictions, correct the registrations of businesses we identified to be registered in error, and conduct periodic reviews of registrations.
- Using GIS tools, ensure that its system for tracking local jurisdictions' boundaries and tax rates is complete, understandable, and accurately communicated to the public.
- Ensure that businesses have access to adequate resources for determining applicable sales taxes by evaluating the potential to create a state-managed database that would provide this information and ensuring that the process it uses to certify databases is reliable and conducted in accordance with statute.
- Develop an electronic tracking system for local government contacts to better analyze contacts and monitor its timeliness.

The Department of Revenue agreed with these recommendations.