

# Colorado Tax Audit Coalition (CTAC) Self-Collection & Auditing

Sales and Use Tax Simplification Task Force meeting 8.15.17



Colorado Government Finance Officers Association



# Membership and Purpose

- ▶ Government and Associate Members
  - ▶ Government employees or appointed or elected officials
  - ▶ Any non-government individual, employee or official
- ▶ Provide educational opportunities to improve the practice of local government in the area of sales tax
- ▶ Network to form closer relationships and understanding among those concerned with sales tax in Colorado



# Educational Opportunities

- ▶ Solicit industry experts from our Associate Members to present on issues of importance to the business community
- ▶ While maintaining the confidentiality of our taxpayers, we discuss internal best practices, policies, procedures
- ▶ Training in specific areas including Auditor 101, Auditor 102 and Construction Use Tax Auditing



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**Jeff Cadiz, CFE, *Revenue Manager, City of Centennial***

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# Home Rule - Voter Approved Taxes

- ▶ People in specific jurisdictions voted for these services that are paid by our various taxes including the rate of sales and use tax in effect
  - ▶ TABOR allows voters to make exceptions to the law's basic limits on spending increases and taxes also known as “de-Bruce”.
  - ▶ 174 out of 178 school districts have voted to “de-Bruce”
  - ▶ About 558 municipal ballot measures to “de-Bruce” revenues have been sent to residents 482 were approved. That's is an 86.4% approval rate.
  - ▶ The taxpayers who have voted this in are the ones paying the sales taxes

# Importance of local control in Tax Compliance

- ▶ Ensure revenue streams voted in by the taxpayers are appropriately designated/received
- ▶ Ensure businesses in the community are appropriately licensed and remitting taxes collected
- ▶ Many tax license tie to other business permits and licenses to ensure compliance across zoning, construction, liquor licensing, etc.
- ▶ Efforts of tax compliance local departments allow for us to maintain low delinquency rates

# Local Home-Rule Cities Advantages

- ▶ Serve our residents and our voters
  - ▶ Local audits ensure taxes are properly reported and going to correct funds to pay bonds
- ▶ What makes our system more responsive to businesses
  - ▶ Able to perform street checks and verify licensing
  - ▶ Provide convenient local tax help and services
- ▶ Can ensure local flexibility to economy and business tax applications
  - ▶ Provide Education & voluntary compliance mechanisms.
  - ▶ Provide Economic Development Incentives
  - ▶ Local audits can better incorporate changes in the law and the application by the municipality



# Home Rule Ordinance Audit Provisions

- ▶ Home rule, self-collecting, municipalities commonly have a “coordinated audit procedure” option in their tax code
- ▶ This is an option, but not commonly requested by a taxpayer.
  - ▶ See *Denver Revised Municipal Code Section 53-5* for example
- ▶ Cities can do a 3 year audit or choose to do a limited scope compliance efforts.
  - ▶ Limited scopes can help correct taxpayer issues before 3 years of interest would be assessed for a standard period. These might include vdas, amended returns, penalty waiver requests.

# Per the State of Colorado Audit of the DOR

- ▶ The DOR audit of 2015 conclusion
  - ▶ that the administration could improve local coding by developing GIS tools
  - ▶ improve the proper locality coding
- ▶ Findings:
  - ▶ 11% or over 11,000 businesses are not likely to be registered to the proper local jurisdictions
  - ▶ 33% of the incorrectly coded entities are located in State-Collected jurisdictions and 67% were self-collected.
- ▶ The home-rule municipalities that self-administer and self-collect work hard to ensure the businesses are properly registered and licensed directly.

# Self-collecting Home Rule Responsibilities

- ▶ Sales and Use tax
- ▶ Most jurisdictions administer other taxes:
  - ▶ Other tax types (lodgers, special excise taxes, FDA, building use tax on permits)
- ▶ manage and ensure the revenue distribution of the voter approved taxes remains consistent and appropriately distributed to bonds.
- ▶ Address multiple compliance efforts and offer education and incentives for businesses and taxpayers.

# Address Hold Harmless Database

## ▶ Purpose

- ▶ Creation of a resource who provide address tax rate verifications for public and private consumption
- ▶ If a taxpayer can show they used the database at the time of sale and coded a sale based upon the output of the database, then if it turns out the database was incorrect, they would be held harmless for the tax coding error.

# Issues for local municipalities Home-Rule & State-collected using State's Hold Harmless providers

- ▶ Address Hold Harmless verified vendors sampling techniques:
  - ▶ only use business locations registered with the State GenTax system.
  - ▶ Residential areas are not included this is a huge concern in our growing state
- ▶ The legislative address hold harmless provision should
  - ▶ have a limited number of 3<sup>rd</sup> party vendors
  - ▶ access for local jurisdictions to provide all their addresses
  - ▶ Mechanisms to report new addresses
- ▶ This database being accurate is the key to get the appropriate sourcing from internet sales for a destination based state.

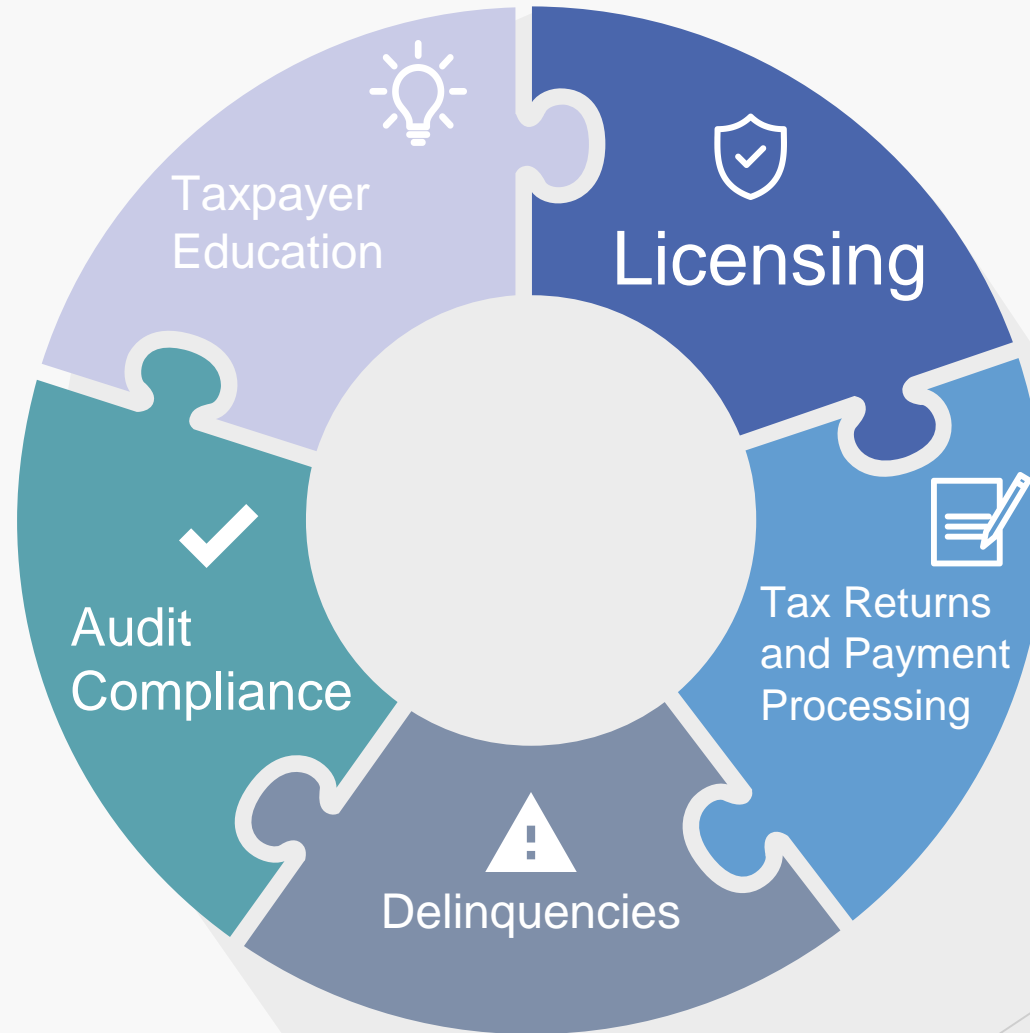
# Local Abilities with Coding

- ▶ Local home-rule jurisdictions currently have the GIS tools and verification procedures through local tax licensing, agent street checks and other where-with-all to ensure proper coding.
- ▶ Local home-rule audits and tax compliance efforts can help businesses be compliant and ensure the business is coded to the proper location for TIFs, PIFs, and mill levy zones.

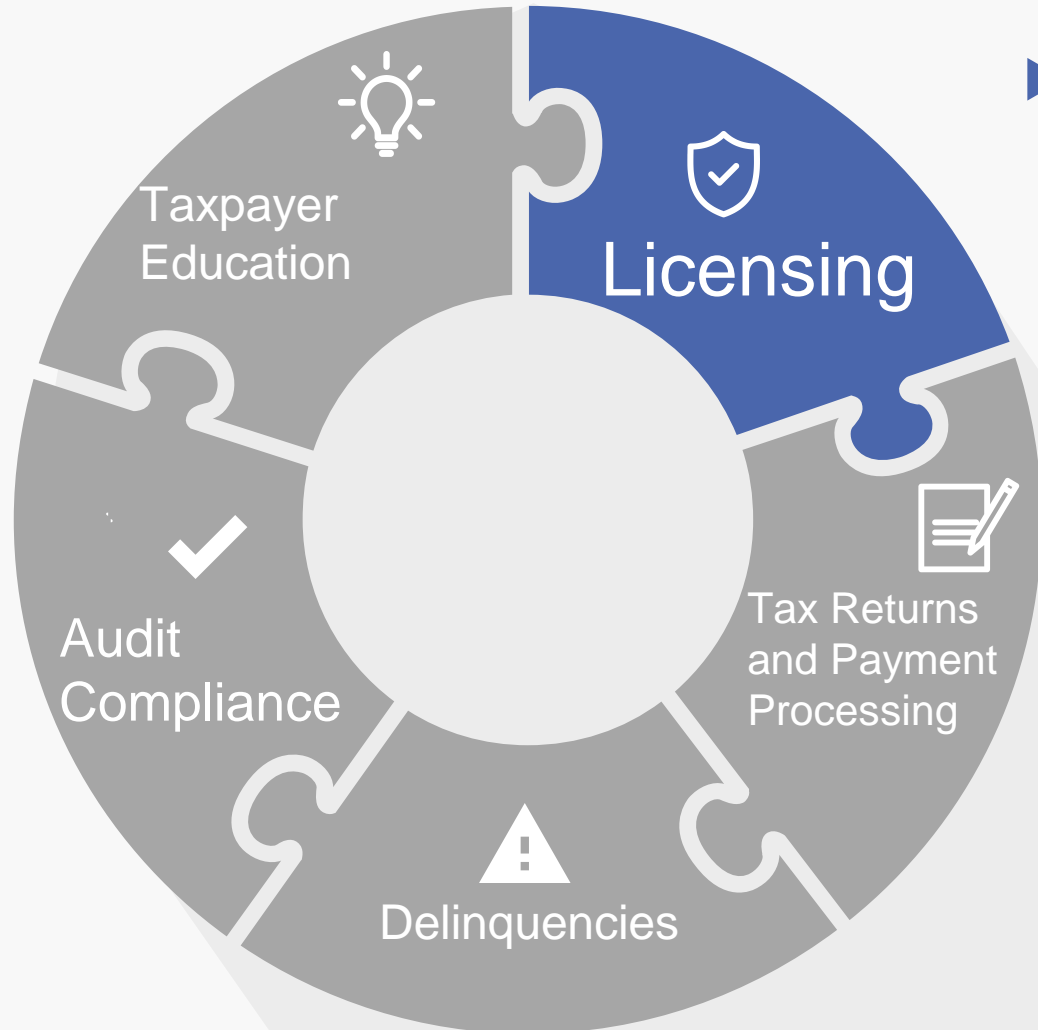
# Home-Rule Example - City of Centennial

- ▶ On September 12, 2000, voters approved the formation of the City of Centennial
- ▶ On February 7, 2001, the City of Centennial was legally established as a Colorado city
- ▶ On June 10, 2008, the citizens of Centennial voted to approve a Home Rule Charter by a large margin
- ▶ Self-collection of sales tax began on January 1, 2009

# Five major components to Centennial's Sales Tax Administration







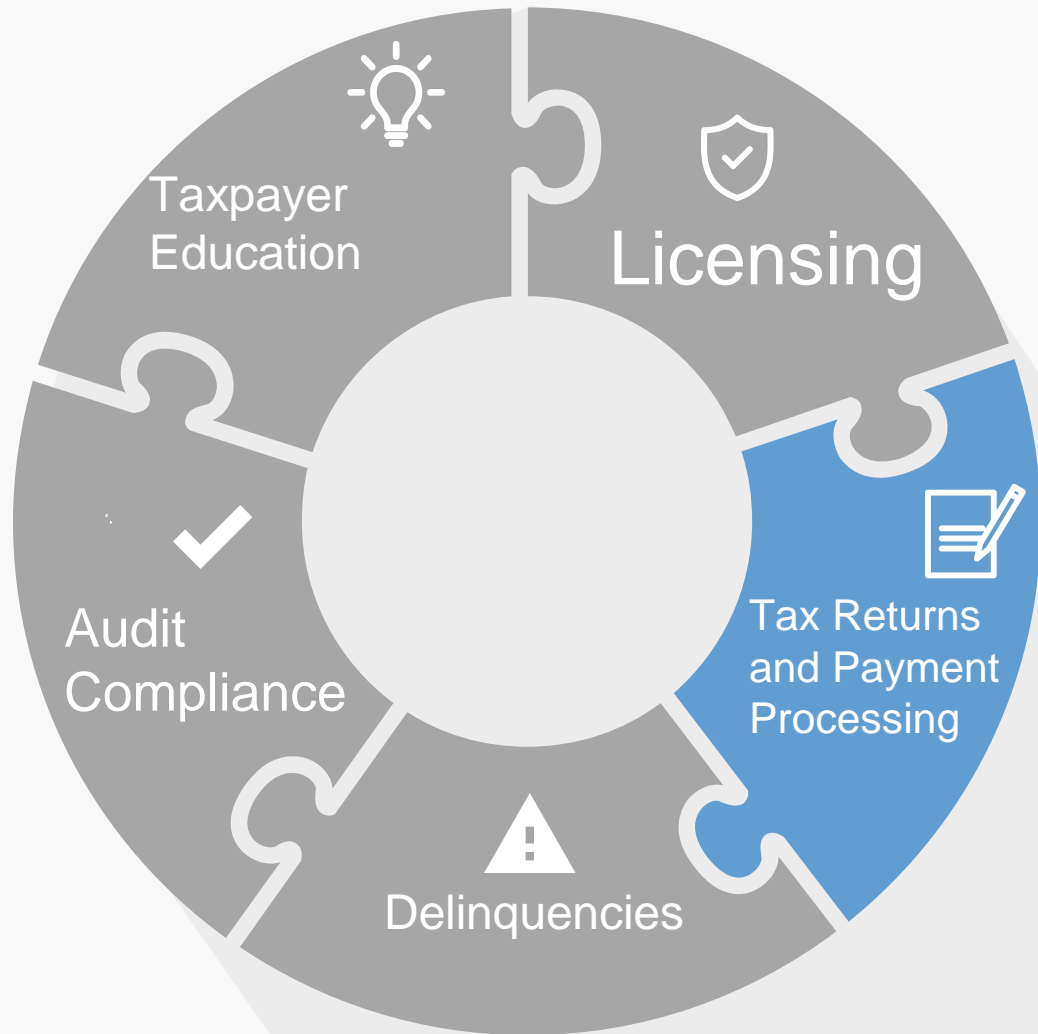
- ▶ Licensing

- ▶ In-City Retailers

- ▶ Licensing Project: 194, or 13%, of Retailers physically located in the City were not licensed

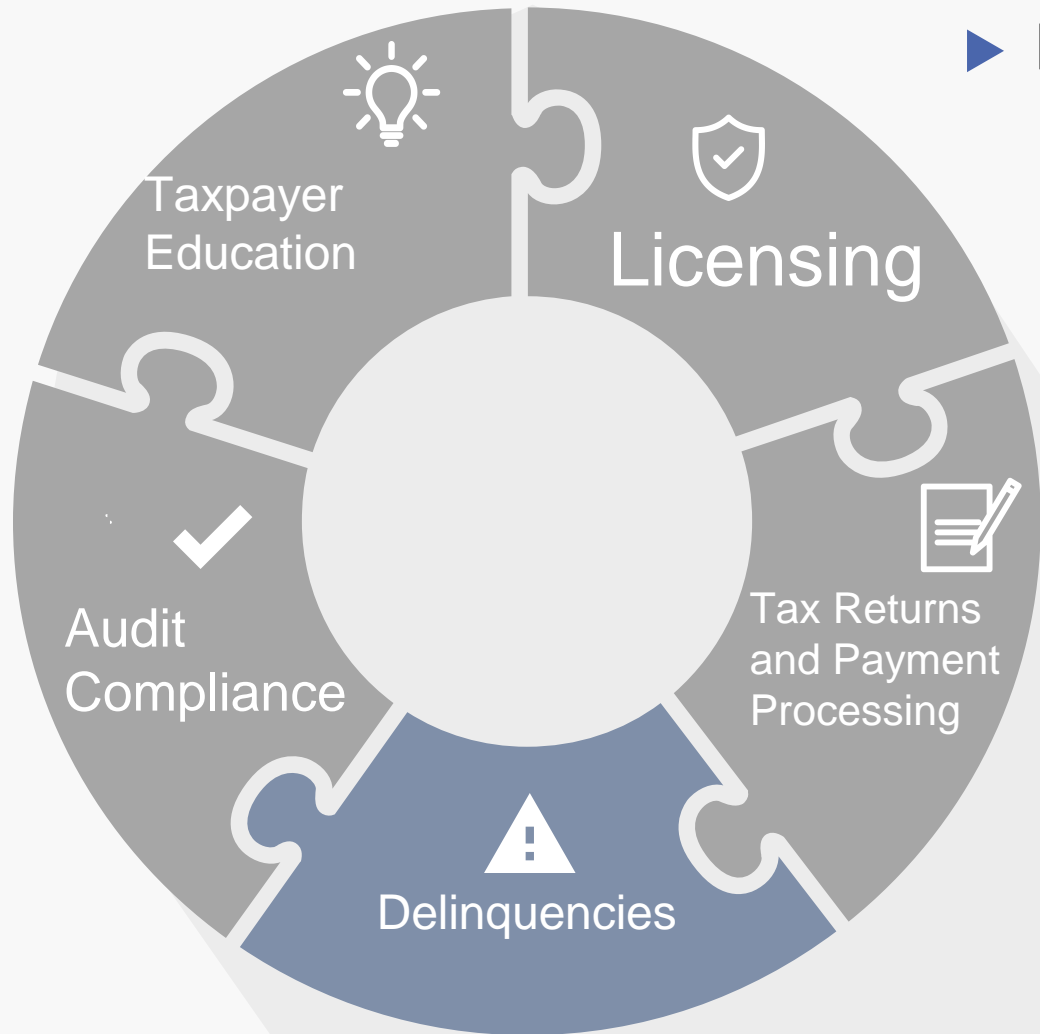
- ▶ Out-of-City Retailers

- ▶ 723 licensed, collecting and remitting through Colorado Dept. of Revenue in 2008
    - ▶ Currently, City has 2,565 licensed out-of-City



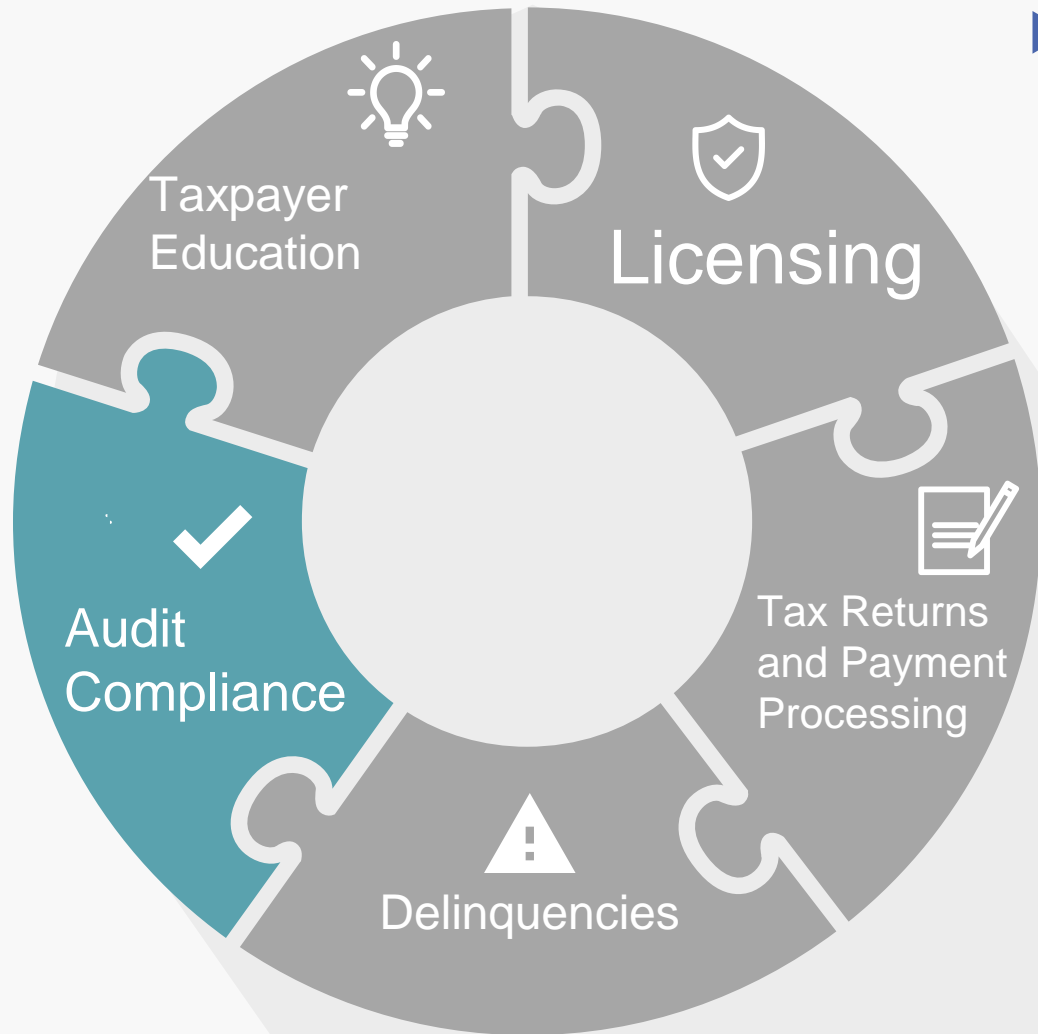
## ▶ Tax Return Processing

- ▶ Tax payments not disbursed to the City until 30-45 days after the end of the period
- ▶ No detail sales tax return data provided



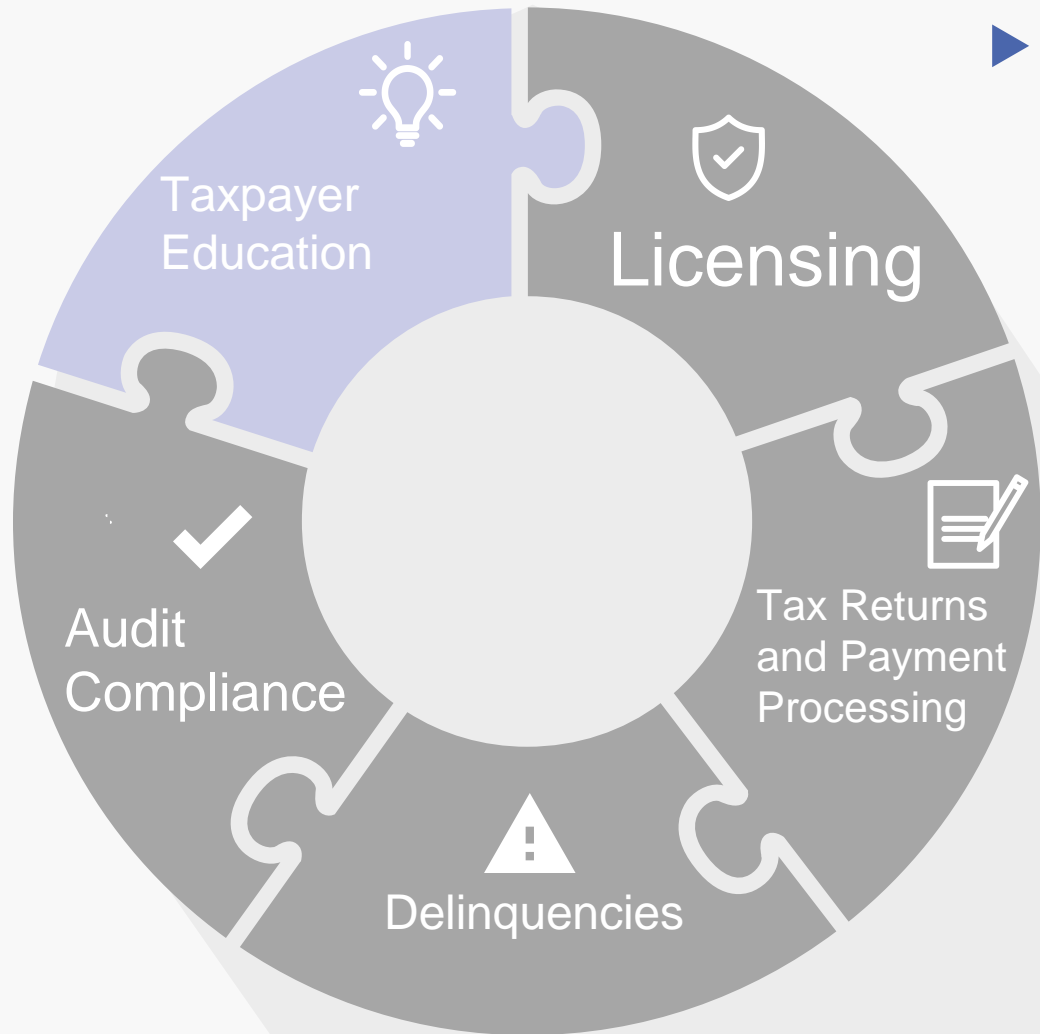
## ▶ Delinquencies

- ▶ Limited collection efforts on delinquencies - sometimes months before contact
- ▶ Immediate delinquency follow up: notices, phone calls, emails



## ▶ Audit

- ▶ 2.5 average audits per year during State-collection totaling ~\$75k per year
- ▶ Annual average, since Centennial audit program began: 68 audits per year, \$1.7M per year
- ▶ No Audit Reports received from the DOR
- ▶ Requested audits denied from DOR; too many requested, 109 requested in total
- ▶ City revised request to 88 audits, only 18 completed



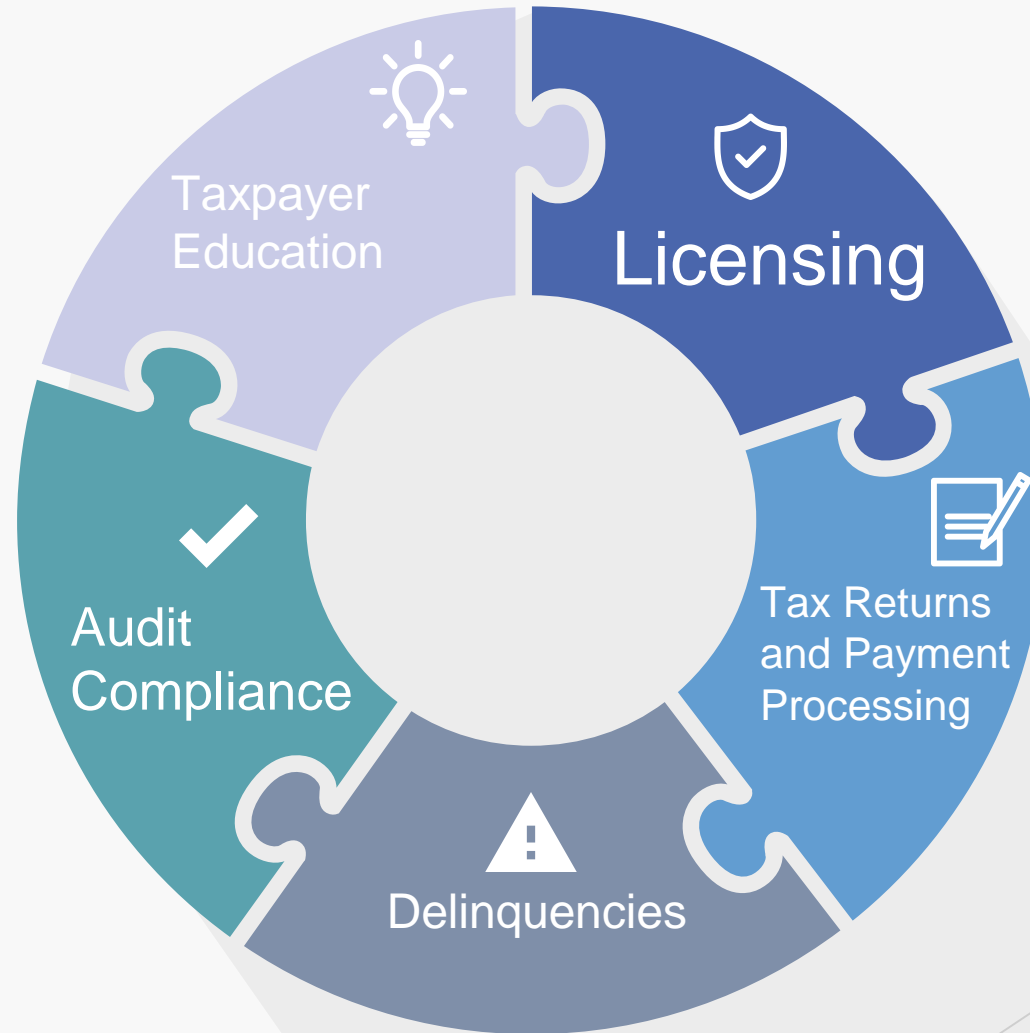
## ▶ Taxpayer Education

- ▶ Taxpayer education at the local level during all phases
- ▶ Site visit to all new Retailers in the City

# Five major components to Centennial's Sales Tax Administration

▶ 2008 - \$18.1M

▶ 2016 - \$38.7M



# Sales and Use Tax Simplification Task Force

“The Ultimate Authority Resides in the People Alone.”

*James Madison*

The citizens of the Town of Parker voted to become a home rule jurisdiction on February 7, 1984 and authorized self collection beginning July 1, 2003. Local control of sales and use tax is a priority for our voters. They have authorized the issuance of sales and use tax revenue bonds. They have authorized tax increases to fund parks and recreation in our community. Parker uses sales tax incentives to encourage local development through Tax Incentive Financing, Capital Project Grants, Town Assistance Program and Small Business Scholarships.

# Sales and Use Tax Simplification Task Force

The State of Colorado currently licenses over 135,000 businesses for sales tax. Over 91% of those businesses have one location. These businesses file a single return with the Colorado Department of Revenue. Approximately half of them are required to file in a self collected jurisdiction.



# Sales and Use Tax Simplification Task Force

## Cost of Self Collection

City and County of Denver	~0.5%
City of Centennial	~1.6%
Town of Parker	~1.0%

Note: Since the size and scope of our jurisdictions sales and use tax programs are so disparate we are presenting the cost of our programs as a percentage of sales and use tax collections.

# Sales and Use Tax Simplification Task Force

## Cost of Self Collection Town of Parker

	2016	2015	2014
Sales Tax - Expense	\$414,147	\$390,548	\$318,623
Sales and Use Tax Revenue	\$42,280,470	\$39,469,983	\$37,202,194
Cost of Self Collection	.98%	.99%	.86%

Note: The Town of Parker has a staff of five in Sales Tax. One sales tax administrator, one sales tax analyst and three sales tax auditors. We currently conduct around 100 sales and use tax audits annually. The expense total includes all expenses incurred by the sales tax division. Examples are salaries, training, bank charges, information technology charges and legal fees. Sales Tax is 41% of all revenue the Town of Parker receives.

# Sales and Use Tax Simplification Task Force

## Hold Harmless Database

25 of the 72 self collecting jurisdictions have adopted the Hold Harmless electronic database.

# Sales and Use Tax Simplification Task Force

## Impact of S.B. 16-050

Senate Bill 16-050 does not impact home rule, self collected jurisdictions.

However it does impact the 223 local governments and combined authorities the Department of Revenue collects for.

Note: Senate Bill 16-050 changes Title 39. Taxation Article 26 Sales and Use Tax, dealing with the state licensing and jurisdiction coding of vendors. Home rule jurisdiction require local licenses. Home rule jurisdictions must comply with Title 29. Government-Local Article 2. County and Municipal Sales or Use Tax.