

**Joint Subcommittee to Study the
Impact of Collecting Remote Sales
Taxes on the Economy of the
Commonwealth**

HJR 176

**ADDITIONAL RETAIL SALES AND USE TAX
INFORMATION REQUESTED**

DEPARTMENT OF TAXATION

October 19, 2004

Additional Audit Data

Field Audit Data (All Taxes)

Revenue and Statistical Summary

Completed Audits: Number of Audits

Audit Selection	189	603	(414)	215	1,013	(798)
District Selection	3,058	2,772	286	3,373	2,624	749
Recurring Audit	336	373	(37)	290	635	(345)
Total	3,583	3,748	(165)	3,878	4,272	(394)

Hours:

Audit Selection	9,918.10	34,178.80	(24,260.70)	8,544.85	48,754.00	-40,209.15
District Selection	124,490.36	109,270.20	15,220.16	124,533.92	102,630.20	21,903.72
Recurring Audit	40,004.40	36,803.00	3,201.40	29,570.80	43,444.80	-13,874.00
Total	174,412.86	180,252.00	(5,839.14)	162,649.57	194,829.00	(32,179.43)

Assessments:

Audit Selection	\$ 9,752,102.13	\$ 16,500,931.00	\$ (6,748,828.87)	\$ 3,504,600.63	\$ 23,877,363.50	\$ (20,372,762.87)
District Selection	\$ 54,326,358.26	\$ 54,164,970.00	\$ 161,388.26	\$ 74,538,879.98	\$ 43,418,218.99	\$ 31,120,660.99
Recurring Audit	\$ 22,161,634.62	\$ 15,553,021.00	\$ 6,608,613.62	\$ 13,463,252.89	\$ 14,583,520.65	\$ (1,120,267.76)
Total	\$ 86,240,095.01	\$ 86,218,922.00	\$ 21,173.01	\$ 91,506,733.50	\$ 81,879,103.14	\$ 9,627,630.36

Dollar/Hour Statistics:

Audit Selection	\$ 983.26	\$ 482.78	\$ 500.48	\$ 410.14	\$ 489.75	\$ (79.61)
District Selection	\$ 436.39	\$ 495.70	\$ (59.31)	\$ 598.54	\$ 350.19	\$ 248.35
Recurring Audit	\$ 553.98	\$ 422.60	\$ 131.38	\$ 455.29	\$ 423.05	\$ 32.24
Weighted Dollar Per Hour	\$ 494.46	\$ 478.32	\$ 16.14	\$ 562.60	\$ 420.26	\$ 142.34

Audit In Progress Hours:

Audit Selection	9,002.60			9,158.80		
District Selection	138,959.00			128,107.43		
Recurring Audit	20,823.00			36,149.60		
Total	168,784.60			173,415.83		

Retail Sales and Use Tax Audits

- Similar to all audits conducted by TAX, some of the goals are:
 - Enforce Virginia tax laws
 - Educate Virginia taxpayers
 - Effectively provide General Fund compliance revenue
- Number of field audits conducted
 - 2,583 audits (Fiscal Year 2003)
 - 2,594 audits (Fiscal Year 2004)
- Selection of audit candidates
 - Audit Selection (automated process)
 - Extracts information regarding potential audit candidates from both internal and external sources
 - Cleans, validates and maps the data prior to loading data
 - Creates a single view of all sources found related to a potential audit candidate
 - Provides the ability to define, run, review results, and re-run selection programs
 - Recurring
 - Based on prior audit experience, taxpayer has been found to be underreporting tax liability
 - Generally taxpayers are kept on a 3-year audit schedule until compliance improves

- District Select
 - Taxpayers identified by local office as potential audit candidate
 - Auditors are part of local community and customers of local businesses
- Audit Measures
 - Audit candidates not necessarily stratified based on business size
 - More efficient use of auditors to concentrate on the types of audits that result in a higher measure of assessments per hour of audit time
 - Limited audit effort targeted to individual consumers
 - Furniture importers
 - ATV purchasers
 - Tractor and farm equipment purchasers

Resources Needed to Determine Local Revenue Sourcing Changes

Background

- Differences between origin sourcing and destination sourcing
 - Origin sourcing (Virginia)
 - Destination sourcing (Streamline)
- The impact of a change in sourcing is the potential shift in local sales tax revenue
- What other states have done
 - Texas and Washington
 - Both adopted Streamline without the local sourcing provisions
 - Both have been directed by legislature to determine fiscal impact of a sourcing change
 - Iowa, Kansas, Ohio, Tennessee, Utah
 - All have attempted sourcing switch
 - All have encountered in-state vendor complaints
 - All have had to delay effective date of sourcing changes or enacted temporary “relaxed enforcement” provisions

Washington Department of Revenue Study

- Most comprehensive study available
- Required by the 2003 Streamline legislation
- Attempted to determine “winners” and “losers” for all localities
- Department of Revenue was directed to use and regularly consult, a committee composed of city and county officials
- Took 6 months from date legislation required the study until first results were released
- Legislature appropriated \$50,000 for the survey
- Methodology employed:
 - Used existing data from the Departments of Revenue and Employment Security and data from a survey conducted by the Washington State University Social and Economic Sciences Research Center
 - The Departments of Revenue and Employment Security data included taxable retail sales by establishment, business location for each establishment, and business classification (industry)
 - The survey sample included approximately 2,400 businesses and was stratified by size and by industry classifications including:
 - Manufacturing
 - Printing
 - Transportation and warehousing
 - Wholesale
 - Furniture retailing
 - Electronics and appliances retailing

- Office supplies retailing
- Other retailers
- Businesses were asked questions in the survey about the percentage of sales made:
 - Remotely
 - From storefronts
 - From storefronts but delivered from a warehouse
 - To businesses
 - To households
 - To each county
- Businesses were also asked to break out their store-based delivered retail sales:
 - Within the city where the store is located.
 - Within a radius of miles (5, 10, etc.) of the store location.
 - Within the rest of the county.
 - Within the rest of the state.
- Survey was 7 pages in length
- Approximately 1,200 businesses responded to the survey.
- Survey responses were matched by Washington State University to data provided by the Department of Revenue and the Employment Security Department
- Survey results
 - Individual jurisdictions may incur net revenue losses if sales delivered outside their boundaries exceed the sales delivered inside their boundaries
 - An estimated 97 cities would lose revenues
 - Cities that would lose revenues generally contain businesses with warehouses or retail stores from which deliveries are made

- Smaller cities that serve as a local business hub to a larger community also tend to lose sales
- Almost all counties gain revenues (an estimated 34 out of 39), while two-thirds of the cities gain revenues (an estimated 184 out of 281)
- Jurisdictions that have a relatively high population base compared to their business base would tend to gain revenues
- Follow up
 - Many localities challenged results
 - Locality coding errors were discovered
 - Department of Revenue has spent the summer of 2004 “redefining” its report to address issues raised in the original report

Virginia Local Sourcing Study

- Premature to conduct study at this time
 - Sourcing still under consideration by SSTP
 - Ohio will propose a “small business” sourcing amendment to the agreement in November
 - Without a Governing Board, Virginia’s local sourcing has not been found to be “not in substantial compliance”

- Recommendations if a Virginia study is undertaken
 - Allow sufficient time to conduct the study
 - Mandate involvement by localities
 - Appropriate funding necessary to outsource the survey stage of the study
 - Timing of the study will impact TAX's ability to perform study and meet other commitments
 - Issue first study as "Draft" and expect to make revisions