

COMMONWEALTH of VIRGINIA

Department of Taxation

ESTIMATED COST OF ADMINISTERING TAXES BASED ON NUMBER OF RETURNS FILED

*Prepared for the Joint Sub-Committee Studying the State Tax Code
Pursuant to HJR 685/SJR 387(2001)*

The Department of Taxation currently administers 30 different taxes. As the Department is organized according to function, not tax type, and uses an integrated system to process and collect all taxes, it is impossible to accurately determine the cost of administering each of these taxes.

The following chart allocates the Department's administrative and operating costs for the fiscal year ending June 30, 2000 based on the number of returns filed for each tax type.^{1,2}

Tax Type	Number of Returns Processed	Allocated Cost
Individual Income Tax	5,922,571	\$41,092,987
Corporate Income Tax	150,536	\$ 1,044,474
Sales & Use	1,200,000	\$ 8,326,044
Miscellaneous	234,000	\$ 1,623,579
Totals	7,507,107	\$52,087,084

Allocating the department's costs based on the number of returns received for each tax provides a general idea of the cost of administering each of the major taxes. However, for several reasons, its utility is limited. For example, the processing of returns varies greatly in complexity between the different tax types. In addition, using the number of returns to allocate costs does not accurately reflect the costs associated with customer service, audit and collection efforts that will also vary greatly according to tax type.

¹ The Department's administrative and operating costs were calculated by subtracting non-recurring costs (totaling \$4,618,188) from the Department's total General Fund appropriation (\$56,705,272).

² The allocated cost of administering each tax was determined by multiplying the total cost of administering all taxes by the following fraction for each tax:

$$\frac{\text{Number of Returns Processed for Tax Type}}{\text{Total Number of Returns Processed by the Department}}$$

DEPARTMENT OF MOTOR VEHICLES

Agency Revenue Collections and Associated Costs

<u>Agency Functions</u>	<u>Net Revenue Collected</u>	<u>Allocated Costs</u>
Motor Fuels & Rental Vehicle Tax Compliance	\$804,533,607.84	\$2,119,695.00
Vehicle Titling/Licensing/Regulation	693,840,658.68	56,455,802.00
Driver Licensing/Regulation	25,053,509.79	56,670,448.00
Customer Records	19,311,597.12	9,550,257.00
Dealer Services	572,553.31	653,641.00
Motor Carrier Licensing/Regulation	5,422,971.87	2,545,216.00
Transportation Safety	5,554,096.44	2,863,267.00
Vehicle Insurance Monitoring	12,148,671.45	4,353,065.00
Aid to Localities	33,563,531.48	46,508.00
Miscellaneous Activities Totals	1,203,768.42	2,287,959.00
Totals	\$1,601,204,966.40	\$137,545,858.00

Notes:

- o Source: ACYR 1671 and ACTR 1427, Commonwealth Accounting and Reporting System, as of June 30, 1999.*
- o DMV retains between eight and nine percent of all revenues collected for operating costs. The remainder of the collections are disbursed to other state transportation programs, to other states in accordance with reciprocal licensing/taxing agreements, and to localities for locally administered taxes and fees.*

Cost of Tax Administration Department of Alcoholic Beverage Control HJ685

Introduction

Senate Document #5, submitted to the General Assembly in January 1934, described many of the general principles that guide the Department of Alcoholic Beverage Control today.

"Temperance, social betterment and respect for law should be the prime objectives of any system of liquor control. Taxes should be levied as a method of promoting social control and not primarily for raising state or local revenues."

"...The system of liquor control should provide, so far as possible, for the sale of alcoholic beverages at such prices and under such conditions as will make it economically unprofitable and difficult for the bootlegger to compete with the lawful dispense of these beverages."

The recommendation of Senate Document #5 was the establishment of the Department of Alcoholic Beverage Control with a three member Board that would possess broad powers to regulate the alcoholic beverage industry (Code of Virginia, Section § 4.1-103). These functions include operating government stores, issuing permits and licenses, and promulgate regulations pertaining to the possession, sale, transportation and delivery of alcoholic beverages in the Commonwealth.

The Department has evolved into a significant source of revenue for the Commonwealth. In FY 2001, the Department generated \$41.1 million in profits and collected \$143.7 million in taxes. ABC collects the following taxes: state excise tax on spirits, sales tax, wine tax, malt beverage tax, and licensing tax. Three sections of the Department process these taxes, the ABC retail stores, the Tax Management Section, and the License Records Management Section. This report will describe these taxes, the revenue collected and the cost of administration of these taxes.

I. ABC Retail Stores

Taxes Collected

1. State Excise Tax (Section §4.1-235 A (2))

The Department collects a state tax amounting to 20% on distilled spirits and 4% on wine sold in all ABC stores. This is collected from stores and paid quarterly to the General Fund. The state tax collected in FY 2001 amounted to \$62,781,177.

2. Sales Tax (Section §58.1-628)

The Department collects sales tax of 4.5% on all retail sales of alcohol and remits collections monthly to the Department of Taxation. Sales tax collections in FY 2001 amounted to \$13,757,290.

Cost of Tax Collection in ABC Stores

While in theory, the entire wholesale/retail distribution system of stores, personnel, and warehouse operation support the collection of these two taxes, the stores exist because of statutes requiring a controlled distribution of alcoholic beverages. Therefore, no incremental costs at the store level are relevant to the tax collection issue.

The Division of Financial Management Services has three FTE positions in pay band 3, approximately \$122,346 in salaries, involved in the processing of the state excise tax and the sales tax.

II. Tax Management Section

Taxes Collected

1. Wine Liter Tax (§4.1-234:235)

The wine liter tax is collected on wholesalers' direct wine shipments based on monthly reports submitted to the Department. The tax rate is .40 per liter of wine and .08 per liter of cider. The wine liter tax collected in FY 2001 amounted to \$19,839,464.

Twelve percent of the wine liter tax is retained by the Department and reported as wine wholesalers' tax on the Department's financial statements. The remainder is paid to the General Fund quarterly. Of the liter tax paid to the General Fund, the Commonwealth subsequently transfers 50 percent to localities.

2. Malt Beverage Tax (§4.1.236:239)

Malt beverage tax is collected from Virginia beer distributors on orders from the manufacture. Beer distributors submit tax reports by the 10th or each month on inventory and pay taxes on these amounts. The beer distributor then collects the tax from the retailers. The malt beverage tax collected in FY 2001 was \$40,632,396.

These funds are deposited with the Treasurer of Virginia for credit to the General Fund, are not available to the Department to meet any current operating needs, and are not included in the financial statements.

Cost of Tax Collection in Tax Management

The Tax Management section operates with 7 FTE employees in the following pay bands: one tax supervisor senior, pay band 5; three tax examiners, pay band 4; three administrative and program specialists, pay band 2 for approximately \$252,710 in salaries.

Recourse for not paying one of these taxes is a violation before the ABC Board. Five special Agents (one in each region of the state) are assigned to do compliance audits as needed or required.

III. License Record Management

In Virginia, in order to sell or serve beer, wine or distilled spirits one must obtain a license. Licensing requirements are found in the Alcoholic Beverage Control Act under Title 4.1 of the Code of Virginia. In addition, Title 3 of the Virginia Administrative Code provides additional regulations for the distribution and consumption of alcoholic beverages.

Taxes Collected

1. Annual Tax on State Liquor License (Section § 4.1-231)

The Code of Virginia specifies the annual tax rate for a state liquor license and identifies 16 types of licenses and 24 different types of businesses all with different tax rates to obtain the license. The Department issued 17,777 licenses in FY 2001 resulting in \$6,238,190 in licensing taxes.

2. Banquet Licenses (Section §4.1-231)

The statute specifies four types of banquet or special event licenses for one-time events. In FY 2001, the Department issued 11,847 banquet licenses resulting in \$384,095 in licensing taxes.

3. Solicitor Salesman License (Section §4.1-212)

The statutes provide for licensing of wine, beer or spirits salesmen in the Commonwealth. In FY 2001, the Department issued 493 such licenses for tax revenue of \$97,925.

Cost Of Tax Administration License Record Management

To process an application for a liquor license there is a \$50.00 non-refundable fee attached to each application. Renewal applications do not require a fee. The application for a special event banquet license requires a \$15.00 non-refundable processing fee. In FY 2001, \$298,360 was collected for these application fees.

License Record Management has seven FTE employees to process license applications and renewals with salary costs of approximately \$241,464. The five regional offices of ABC process some renewals and applications, which would involve time of the administrative staff in each region.

Statutory and regulatory functions of the licensing process require each application to be reviewed by an ABC special agent. Special agents are involved in initial site visits, verification of license application, monitoring of licenses, annual monitoring visits, and enforcement of law violations. Tax revenues from the licensing process partially support the \$12.9 million appropriation for the statutory and regulatory enforcement functions of the Department.