

# Local Option Sales Tax

## History and Administration by the Department of Revenue and Finance

### History

#### Local Option Sales and Services Tax

- ◆ Established in 1985
- ◆ Two jurisdictions and \$11,941 collected in 1986
- ◆ **60 counties, encompassing a total of 663 jurisdictions collected \$151 million in FY 2001**

#### School Infrastructure Local Option Sales and Services Tax

- ◆ Established in 1998
- ◆ Ten districts imposed the tax in FY 99 and collected \$9.8 million
- ◆ **15 counties, encompassing a total of 126 districts will collect an estimated \$120.5 million in FY 2001.**

**All of the 15 counties having School Infrastructure Local Option Sales and Services Tax also have Local Option Sales and Services Tax.**

In the past five years the number of jurisdictions imposing either the regular or school local infrastructure local option sales and services tax has increased by 114.2% and the amount collect has increased by 161.5%.

### Administrative Services Provided to Local Jurisdictions

- ◆ Estimates potential revenues if tax is imposed and on an annual basis for all jurisdictions.
- ◆ Notifies sales tax permit holders in affected jurisdictions.
- ◆ Audits returns.
- ◆ Provides educational services and local training sessions for new jurisdictions.
- ◆ Prepares fiscal year estimates of the amount of tax that will be collected and distributed.

**Note: The above services have been eliminated effective December, 2000.**

- ◆ Reviews returns for accuracy
- ◆ Works with taxpayers to correct return errors

**Note: The above services may be reduced effective February, 2001.**

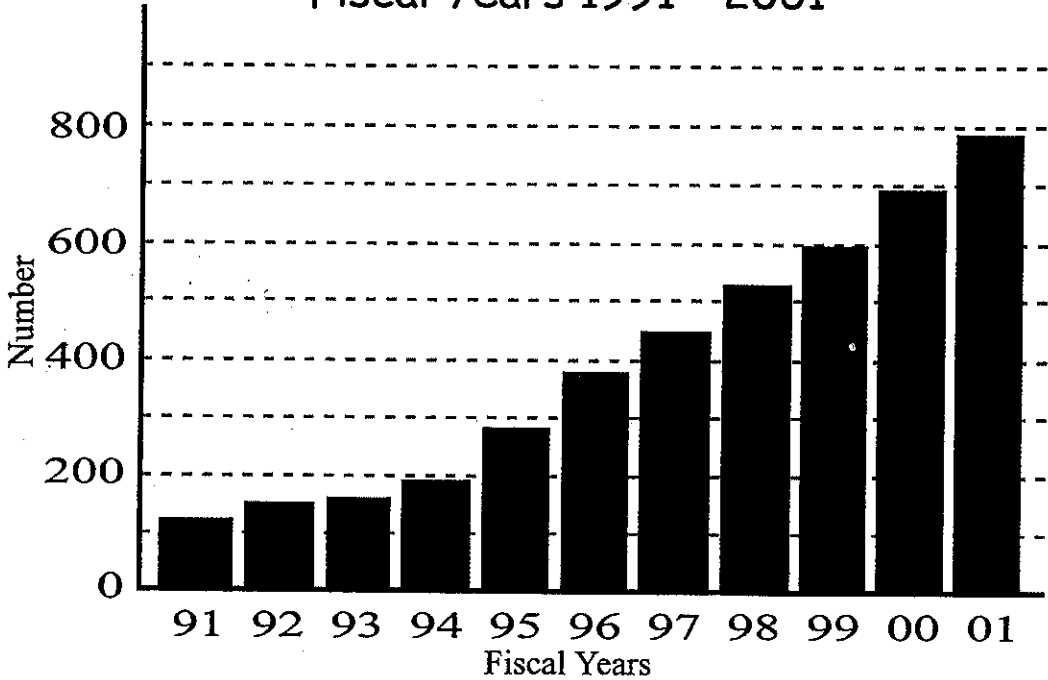
Of all local option returns received, 40% have errors. Although the department is making some programming changes to modify the way in which errors are resolved, reducing error resolution services would significantly impact the distribution to jurisdiction and additional revenue identified through the error resolution process.

- ◆ Collects and deposits tax payments
- ◆ Distributes tax proceeds to local governments and school districts on a monthly basis based on 95% of annual estimate

**Note: The above services must be continued regardless of the loss of funding.**

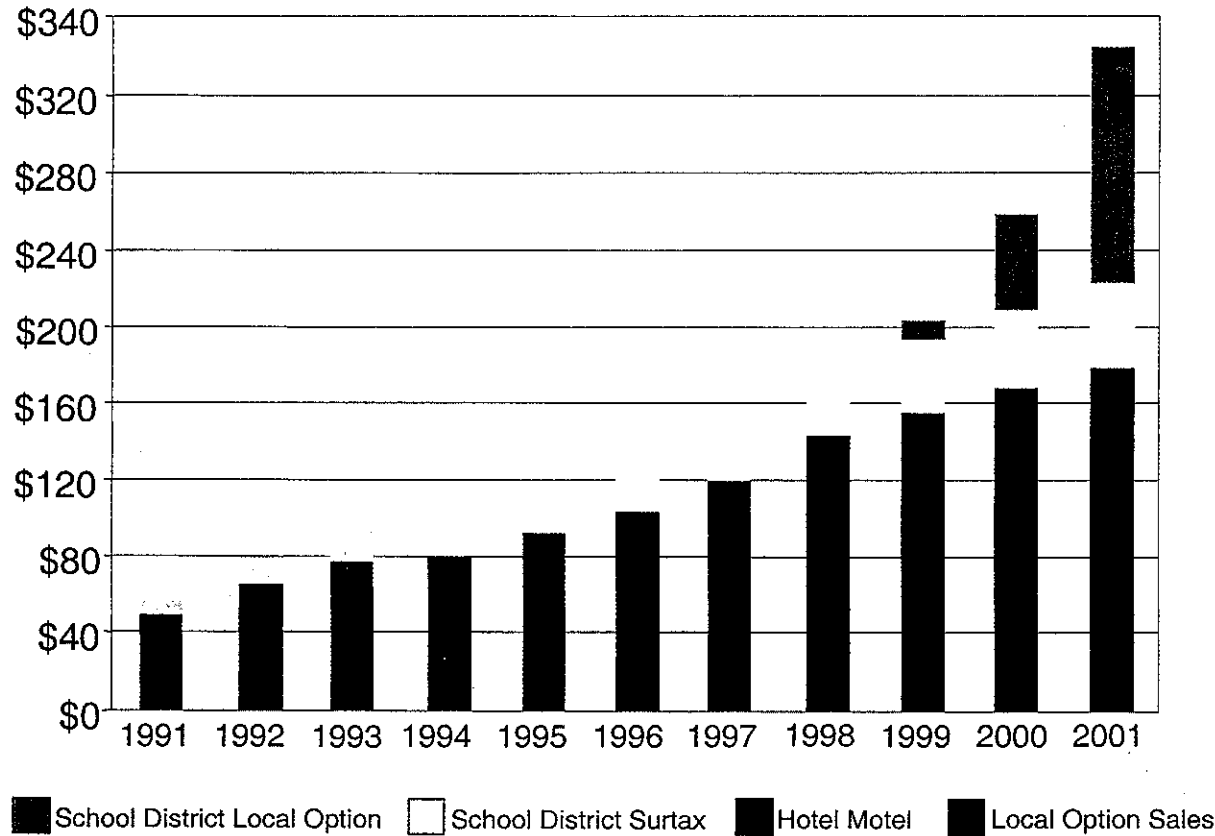
# Growth in Local Option Jurisdictions

Fiscal Years 1991 - 2001

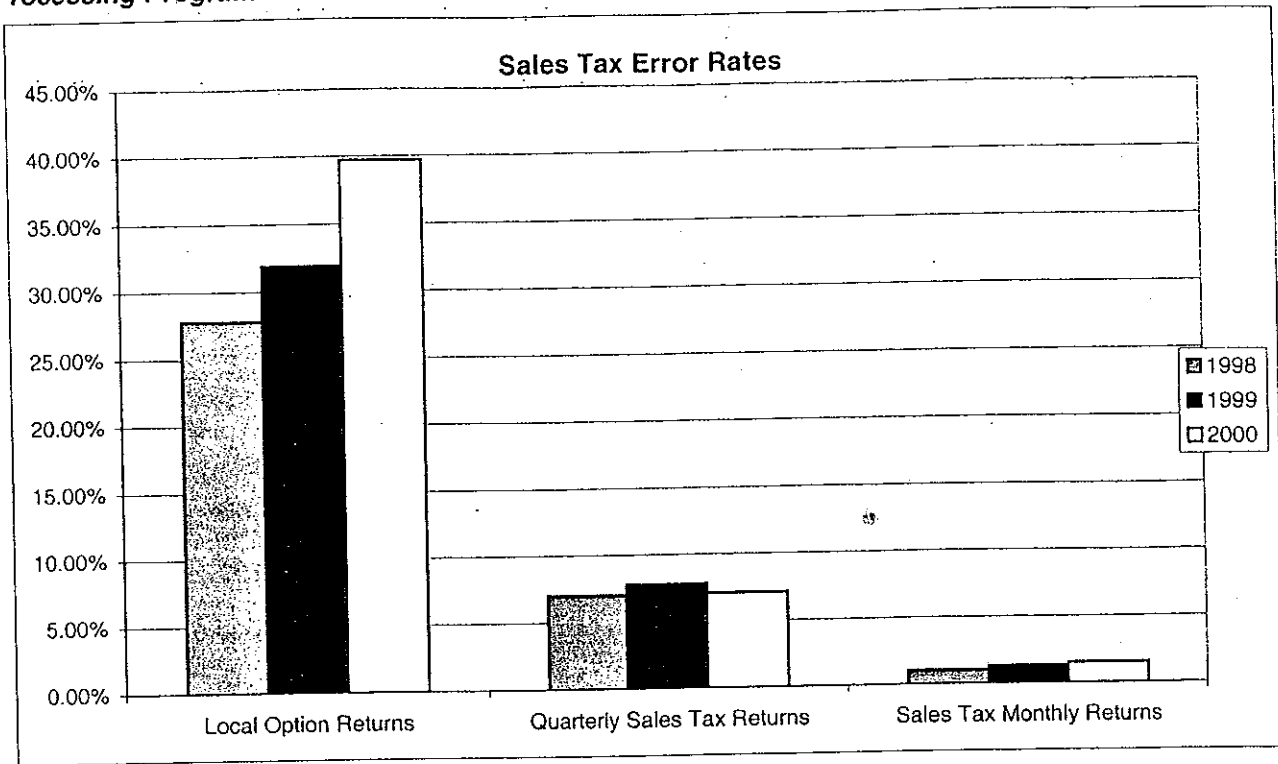


Jurisdictions	127	156	167	181	277	381	467	502	572	623	663
School Districts								10	28	76	126

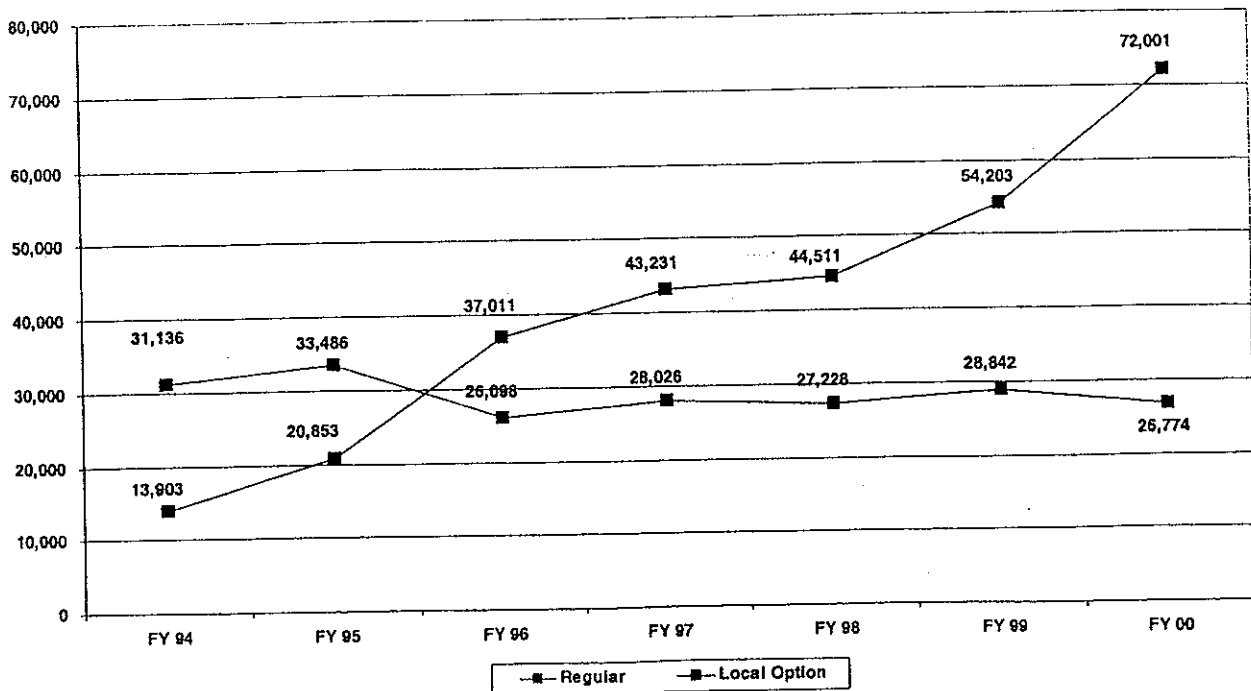
# Growth in Local Option Tax Collections



**Processing Program**



### Sales Tax Errors Regular vs Local Option



## **Iowa Department of Revenue and Finance Explanation of Local Option Expenses**

The calculations of costs related to local option expenses were based on tracking of hours spent on local option activities and time estimates in FY 2000. Following are the activities that occur in the Department that are related to Local Option taxes and how the direct cost was determined.

### **Compliance Division/Compliance Program**

#### **Taxpayer Services - \$68,000**

The Taxpayer Services Unit provides communication and educational services. There is a staff of Information Specialists who develop brochures that explain issues relating to local option taxes. It is estimated that 80 hours per year is spent maintaining the various documents relating to local option. Additionally, there is a staff of Taxpayer Service Specialists who travel throughout the state providing on-site educational programs concerning the "how to" of local option taxes and providing information to retailers. It is estimated that 300 hours of staff time is devoted to educational programs, and 400 hours for phone calls and personal assistance by these employees. Finally, within this unit there is a staff who is responsible for answering incoming calls from taxpayers, which include questions regarding local option issues. Calls coming in relating to local option result in approximately 2000 hours of time annually.

#### **Auditing - \$83,350**

This function involves auditing of tax returns. In each of the past two years, \$345,000 in additional local option revenue has been generated through audits. The department estimates that 4% of audit hours involve local option.

### **State Financial Management/Processing Program**

#### **Processing - \$188,000**

Costs incurred in this function are attributable to receiving and processing returns and remittances in the areas of error resolution, data entry and records. Through an internal time tracking system, \$70,388 was attributable to activities in the Customer Accounts area during the first half of FY 2000. A similar amount was calculated for the last half of the fiscal year. In Customer Accounts there are a number of activities that relate to local option costs. First, there are activities surrounding the review of returns that are reporting local option revenue but do not compute correctly for a number of reasons. This area is also responsible for distributing local option tax revenue to the jurisdictions on a monthly basis, tracking adjustments to the distribution to reflect audit revenue or refunds issued and performing the annual reconciliation.

Data entry costs are estimated to be \$30,000 annually. This was derived by calculating the percentage of sales and use returns against those reporting local option (for which three fields are keypunched and estimating the cost of those three fields. Finally, costs were included to represent the work of records staff who are responsible for pulling and re-filing the returns due to local option sales tax reporting errors.

### **Internal Resource Mgt. Division/Internal Resource Management Program**

#### **Estimation and Distribution - \$20,500**

This represents the cost of one third of the time of the Fiscal and Policy Analyst who is responsible for providing the estimates and analysis of local option payments.

#### **Printing and Postage - \$23,000**

The estimate of postage and printing costs were based on the normal calculation of cost per FTE. Using this calculation against the hours of staff time devoted to local option represents 1.2% of the total budget for postage and printing which translates to \$22,920.

Note: It is estimated that the addition of Polk County will increase costs in the Processing function by \$14,000 in FY01.

## Administrative Fees for Local Option Taxes

- Should all Iowa taxpayers be funding the service to administer local option programs when not all city, county and school jurisdictions have adopted local option sales tax and therefore are not receiving the service?
  
- Twenty-four states have adopted the fee concept.
  - Fees range from 1% to 3% of collections.
  - Only six states, including Iowa, charge no fees
  - Charges proposed by the Department represent 0.16% of the estimated amount of collection.
  
- Fees allow for maintenance of current service and improvements in service and technology to growing local option programs.
  
- Current fee charges existing within Iowa state government.  
For example in FY 1999 the State paid counties (or counties deducted from fund transfers to the State):
  - \$15.333 million for the titling of motor vehicles  
(4% of the total collection for each annual or semi-annual vehicle registration card or plate issued)  
(\$2.50 from each fee collected for the certificates of title)  
(40% of all fees collected for certified copies of certificates of title.)
  - \$0.527 million for the issuing of drivers licenses  
(Fee = \$3.75 per issuance)
  - \$1.826 million for processing real estate deed transfers.  
(Fee = 17.25% of the real estate tax transfer)

# Local Option Sales Tax Survey of State Administrative Charges

	State	Basis	Rate	Notes
1	Arkansas	Fixed Rate	3.00%	
2	Nebraska	Fixed Rate	3.00%	
3	Illinois	Fixed Rate	2.00%	
4	Texas	Fixed Rate	2.00%	
5	Wisconsin	Fixed Rate	1.50%	
6	Utah	Fixed Rate	1.50%	
7	Georgia	Fixed Rate	1.00%	
8	Missouri	Fixed Rate	1.00%	
9	Ohio	Fixed Rate	1.00%	
10	Pennsylvania	Fixed Rate	1.00%	
11	Wyoming	Fixed Rate	1.00%	
12	California	Fixed Rate	0.82%	
13	Oklahoma	Fixed Rate	Varies	
14	New Mexico	Fixed Rate	< 3.00%	
15	Washington	Fixed Rate	< 2.00%	
16	Alabama	Cost Formula	< 2.00%	Plus \$8,000 - \$10,000 for startup
17	Minnesota	Cost Contract		
18	Florida	Cost		
19	New York	Cost	1.30%	Estimated effective rate
20	North Carolina	Cost	0.50%	Estimated effective rate
21	South Carolina	Cost		
22	South Dakota	Cost		
23	Tennessee	Cost	1.10%	Estimated effective rate
24	North Dakota	Contract	1.30%	Less or 3.00% or \$35 per permit annually
25	Arizona	No Charge		
26	Colorado	No Charge		
27	Iowa	No Charge		
28	Kansas	No Charge		
29	Mississippi	No Charge		
30	Virginia	No Charge		
31	Alaska	Unknown		
32	Idaho	Unknown		
33	Louisiana	Unknown		

## **FY 2001 Interest Calculations and Current Results**

- Last summer the Department estimated the State General Fund would earn a maximum of \$375,000 in interest from local option tax collections for FY 2001.
- This estimate assumed that for new taxing jurisdictions much of the local option tax payments would not be received during the first year until the quarterly return is filed.
- Based on this assumption, the Department estimated \$66.612 million would be collected and \$64.269 million would be distributed for the first quarter of the fiscal year, or approximately 96.5% of collections would be distributed during the quarter.
- First quarter actual results show that the State actually collected \$62.599 million in local option taxes and distributed \$62.807 million, or 100.3% of collections.
- Since distributions were made on August 31, September 30, and October 31, and the majority of collections were not received until the quarterly due date, the State generally ran a deficit on local option taxes during the September 2000 quarter.



## **FY2001 Appropriation Time Line**

- February, 2000 Administration and Regulation Appropriations Sub-Committee raises the issue of charging a fee to local jurisdictions.
- April, 2000 Appropriations bill is passed by both the Senate and House that allows the department to collect a fee.
- June, 2000 Developed fee system and shared this information with representative associations.
- August, 2000 Administrative Rules to implement fee system are noticed.
- October, 2000 Administrative Rules Review Committee voted to delay the effective date of the filing until the adjournment of the 2001 legislative session.
- November, 2000 Department officials meet with association representatives to explain potential impacts of loss of funding for processing local option sales tax.
- January, 2001 Department reduces services to local jurisdictions in the areas of taxpayer assistance and education and preparation of estimates. To recover the loss of direct costs, the department still needs to seek further reductions.

# Department of Revenue and Finance - FY 2000 Contractor/Consultant Utilization

Vendor Name	FY 2000 Expenditure	Service Provided
American Computer	\$157,595	Information Technology consulting
Cap Gemini	\$245,594	Information Technology consulting
Norslan Consulting	\$513,084	Information Technology consulting
Analysts USA Comp	\$98,308	Information Technology consulting
Modis	\$139,648	Information Technology consulting
Talentlink	\$6,560	Information Technology consulting
Triple I	\$128,052	Information Technology consulting
Solutech	\$57,939	Information Technology consulting
Robert Half International	\$40,055	Information Technology consulting
Data Input Services	\$443,135	Data Entry Services
Heilman Data Services, Inc.	\$87,593	Data Entry Services
Deaf Action Center	\$120	Interpreter
Deaf Services	\$861	Interpreter
Crawford Johnson Group	\$5,000	Research Project
First Data	\$31,173	EFT Debits
First Data	\$55,532	Skip Tracing Services for Central Collections
Court Reporters	\$2,093	Court Reporters
Manpower, Inc.	\$1,653	Temporary Employees
Olsten Staffing Services	\$32,569	Temporary Employees
Outsource Consultants	\$70,300	Phone system monitoring/msg. Retrieval
Prairie Systems, Inc.	\$18,710	Fax -On-Demand System Administrators
Merit Resources	\$21,492	Professional Employment Organization
Renaissance Gov't Solutions	\$86,176	Administer telefile/webfile applications
Advanced Janitorial	\$50	Temporary Employees
HLJ Properties, Inc.	\$864	Janitorial Services
JR Cleaning	\$900	Janitorial Services
Management Cleaning	\$1,710	Janitorial Services
Midown Development	\$144	Janitorial Services
Midwest Janitorial Serv	\$7,907	Janitorial Services
Reeves Janitorial Service	\$1,260	Janitorial Services
Visual Difference	\$2,160	Janitorial Services
Taxnet Governmental	\$2,245	Fed/state e-file program
Credit Bureau	\$19,829	Collections
NCO Financial Systems	\$34,524	Collections
Verifications Incorporated	\$2,707	Background checks
Weyerhaeuser Paper	\$2,937	Paper shredding
American Payroll Institute	\$630	Training
American Management Assn.(AMS)	\$715	Training
Red Cross	\$158	Training
Career Track	\$195	Training
Drake University	\$10,680	Training
Enlightened Leadership	\$299	Training
FACT	\$340	Training
Fred Pryor Seminars	\$966	Training
IIA Aksarben Chapter	\$525	Training
Iowa Business Council	\$180	Training
Iowa Assoc. Of Assessors	\$3,180	Training
ISU	\$500	Training
Kirkwood	\$65	Training
N.E. Iowa Community College	\$680	Training
Novell Corp	\$995	Training
Pryor Resources	\$1,878	Training
Rockhurst College	\$1,481	Training
SAS Institute	\$2,430	Training
Schryver Training	\$5,015	Training
Strategies for Business and Govt.	\$75	Training
GFOA	\$150	Training
Skill Path	\$2,693	Training
Integrated Software	\$250	Training
Ia. State Bar Assn.	\$310	Training
Woods Quality Center	\$885	Training
NCRAAO	\$310	Training
American Media	\$620	Training
Comp USA	\$195	Training
Solutech	\$3,490	Training
<b>Total</b>	<b>\$2,340,369</b>	
<b>Reimbursable Contracts</b>		
OSI Collection Services	\$1,222,827	Private/Public Collections Partnership (0001-T03-CC06)
OSI Collection Services	\$19,737	Tax Gap (0001-931)
NCR	\$111,842	Tax Gap (0001-931)
RHI	\$98,204	Tax and Wage Reporting (0217-T18)
Integrated Business Solutions	\$261,195	Remittance processor upgrade (0217-T19)
Norslan	\$16,210	Remittance processor upgrade (0217-T19)
Renaissance Govt. Solutions	\$24,777	Telefile/Webfile Projects (0217-T20)
Solutech	\$109,888	Utility Replacement Tax (0001-T05)
Modis	\$7,347	Utility Replacement Tax (0001-T05)
Merit Resources	\$11,942	Utility Replacement Tax (0001-T05)
Powers Engineers	\$5,314	Litigation Expense Fund (0197)
Dillion, Bosch, Daw and Bock	\$181,064	Litigation Expense Fund (0197)
Crossell and Mevec	\$34,153	Litigation Expense Fund (0197)
Susan Fry and Assoc.	\$1,500	Litigation Expense Fund (0197)
<b>Total</b>	<b>\$2,106,000</b>	

## Comments for Joint Budget Subcommittee

Timothy S. Grieves, Superintendent  
Spirit Lake Community Schools  
January 31, 2001  
RE: LOSS Tax Apportionment

### Department of Revenue Curtails Services

On December 8, 2000, the Department of Revenue sent a letter to counties indicating that they will no longer mail paper copies of current local option rates by jurisdictions. They will curtail audits that insure compliance, and they will be unable to assist new jurisdictions with presentations to retailers and the public explaining how to comply with the local option taxes recently imposed. The letter also stated that there is a strong potential for additional cutbacks and services depending on the outcome of supplemental funding. They stated specifically that the recently passed local option taxes in Dickinson County would be immediately impacted. This denial of services has directly affected the ability of the Spirit Lake Community Schools to fund our additions to our schools.

### Problem for Local Entities that Pass LOSS

The Local Option Sales and Service Tax was passed in Dickinson County on September 26, 2000. The community was excited to be able to add needed facility space to our school buildings. A facility expansion was needed because we anticipate an increase in enrollment, a reduction of class size, an increase of technology and new programming.

The Spirit Lake Community Schools planned to sell sales revenue bonds worth \$5,785,000 on December 13, 2000, but received no bidders. The bidders refused to bid, because the rating agency did not rate the bonds, the insurance companies did not insure them, and the bidders did not feel confident in taking a risk on these bonds. The Department of Revenue's procedures and refusal to provide appropriate projections contributed greatly to no bids being offered.

### State Government Is Not Working

Researching this problem, I found that during the 2000 legislative session the Department of Revenue was not adequately funded. I doubt that there are any more important functions in state government than insuring the accurate and complete collection of taxes. If the department is not funded sufficiently, there could be long-term adverse consequences in our state. The apparent misunderstanding or miscommunication between members of the Governor's staff and the legislators in the waning days of last year's session has escalated to the current problem.

On January 16, 2001, I met with four representatives and two Department of Revenue staff to try to solve this problem. I was assured in the meeting that I would finally receive from the Department of Revenue verification of the tax collections in Dickinson County for FY2000. These collections were verified in a letter sent January 18, but the last paragraph in the letter stated the following:

"Finally, it should be noted the purpose the Department makes estimates of local option tax collects is for the sole purpose of determining the amount of monthly estimate payments it is required to make to cities, counties and school districts. These estimates are usually adjusted at least once during the course of the fiscal year in order to insure monthly distributions equal at least 95% of the total fiscal year collections. Therefore, the Department's estimate should not be used as the basis for public disclosures when local jurisdictions in school districts are preparing documents in support of bond issues."

If the Department's estimates are not to be used for public disclosure, I am at a loss as to where public entities are to go for documentation in support of bond issues and for projections.

### Ramifications for the Spirit Lake Community Schools

1. The Spirit Lake Community Schools now has a problem in that their bond rating reputation has been tainted. We are looked at as a poor risk when selling our bonds. Dickinson County is a very prosperous community that should be able to be represented fairly in the bond market. If Spirit Lake and Dickinson County cannot be looked favorably upon, then I believe the rest of Iowa will also be in the same situation. The lack of services for the LOSS tax will affect the bond rating of the entire state.
2. The Spirit Lake Community Schools may miss a building season.
3. We will need to buy or construct temporary classrooms.
4. We have additional attorney and consultant fees.
5. Additional time is being spent by the board and the superintendent, when we should be focusing on student achievement and educational issues.

### Solutions for Students Held Hostage

This lack of bond rating is holding our community and students hostage. I have hope that you will fix this problem. We need to solve this problem. We need to do one of the following:

1. Pass a supplemental appropriations bill for \$400,000. (HF 21)
2. Allow a fee that will generate enough revenue for the Department of Revenue to implement this tax structure,
3. Use the interest generated from the LOSS tax revenues to fund the Department of Revenue jobs instead of the interest going into the General Fund.
4. Allow the Dept. of Revenue to keep the first \$400,000 of tax revenue (as allowed in 1992, 1993, & 1994 - \$1million for increased collection).

### Larger Issue to be Solved

There is a larger issue out there. The issue is that the LOSS tax is inequitable for school districts. That is unfortunate, but the Spirit Lake Community Schools are playing by the rules and the law that the legislature has designed. You have given us this law, and the law should serve us appropriately. The larger problem must be addressed, yet you would still need to fix the Department of Revenue's lack of funds. **Time is of the essence for the children of the Spirit Lake Schools.**

# State of Iowa Receivables Report for the Quarter Ending September 30, 2000 Chart 2

## Outstanding by Agency and Age (\$ in millions)

