

Local Sales Tax Collection Information: Part 1

Understanding and evaluating local sales tax collections can be a complicated matter to say the least, but some information is available if you know where to look and who to ask. This is the first in a series of three articles.

By Paul Young, League staff

In most cases, city officials encounter frustration when they attempt to obtain useful information to understand and evaluate trends and fluctuations in local sales tax collections. This is primarily a consequence of two factors. One factor is the statutory wall of confidentiality that presumes that any collection information that can be identified with a retailer or other entity will somehow be harmful or produce a competitive disadvantage to the related party. Any change in this policy has been strongly resisted by business interests despite the legitimate interest of a taxing authority in having a satisfactory understanding of the factors affecting its revenues.

The other limiting factor is the local tax collection system itself, which is a multi-step process and affected by a variety of complications along the way. Such complications include rebates and refunds of taxes previously distributed that can produce significant unexpected reductions in monthly revenues. Another complication is destination sourcing, mandated by the interstate compact to facilitate sales tax collection on Internet sales. Destination sourcing will shift tax collections from the location of a retail merchant to another taxing jurisdiction where an item is actually delivered for use.

Credit is due to the Excise Tax staff at the Department of Finance and Administration (DF&A) for the efforts they have made under the current system to provide useful information. However, in order for satisfactory improvements to occur, statutory changes will be required that are based on reasonable compromises in the confidentiality rule that can protect business interests while satisfying those of local governments. Such changes will also include more direction and specific detail about the type of information that must be produced and made available by DF&A. Such information should be adequate for a local government to fully understand any material factors that affect the amount and timing of revenues.

In today's world of technology resources, the details of tax collection information should be available and accessible at any time, so that a local government can easily understand how initial collections and required adjustments ultimately produce the amount received at the local level. In addition to supporting figures, information should also be made available to provide justification and

reasonable assurance that any prior period adjustments are appropriate.

This article is the first in a three-part series intended to: (1) identify information that is currently available from the state related to local sales tax collections; (2) illustrate how the available information can be used to evaluate historic collections and budget future collections; and (3) highlight examples of how this matter is dealt with in other states and possible legislative changes for improvement.

In this first article we provide a listing of information currently available from the DF&A, the State Treasurer's office and contact information. Next month, we will discuss how to use this information, particularly the business code collection information.

Sales tax collection information

State Treasurer

The primary regular information cities receive about sales tax collections is the monthly City Sales and Use Tax Funds Distribution report received by mail from the State Treasurer. Similar county tax information will be received if a city receives a portion of a county tax. The State Treasurer has also made this information available online.

In addition, a supplemental letter is provided that shows the amount of any rebates to taxpayers of tax paid as authorized by state law. Rebates are available for tax paid on business equipment or expenses in excess of \$2,500 per single transaction. Nonprofit and governmental entities are also eligible. Generally, rebates are available if a claim is filed with DF&A within six months of payment.

Details of any adjustments of prior taxes that affect current collections, such as amended returns or audit adjustments, are not separately disclosed by DF&A or the State Treasurer. Such amounts are included in the monthly net deposit amount, and in general can occur within three years after a prior period return was filed.

Questions or requests for assistance about this information should be directed to Debbie Rogers in the State Treasurer's office. Call her at 501-682-9100 or email drogers@artreasury.gov.

Help!

The DF&A and the State Treasurer's office have people dedicated to assist with sales tax information requests and answer questions as permitted under current law.

At the DF&A

Andrew (Drew) Smith, Tax Auditor—Drew can help you obtain a list of businesses collecting sales tax and with quarterly business code information showing local sales tax information by business category. Contact Drew at 501-537-5646, or email andrew.smith@dfa.arkansas.gov.

Brian Sansoucie, Tax Auditor—Like Drew, Brian can also help you with business code information. He is also very knowledgeable about the state sales tax collection system. Contact Brian at 501-682-7118, or email brian.sansoucie@dfa.arkansas.gov.

Roberta Overman, Manager, Sales and Use Tax Section—Roberta can handle your questions about how to obtain specific sales tax information. She can also answer specific questions about sales tax collections, including the causes of unusual increases or decreases in monthly collections, such as rebates and adjustments. Contact Roberta at 501-682-7110, or email roberta.overman@dfa.arkansas.gov.

DF&A—Activity generating local sales and use tax

As a means of helping cities and counties understand the source of tax collections, DF&A makes available a quarterly listing of tax collections by business code. The business code information is not required by current law or DF&A regulation but is actually provided as an accommodation to cities and counties. Access and details of the information are governed by informal departmental rules. Currently, only a mayor or county judge (or their specific designee) can request the information. And, in order to prevent disclosure of specific taxpayer information, business code information is only provided if there are at least four businesses in a particular code.

There are limitations on the value of this information, such as the accuracy of the business code for each taxpayer and the general nature of some of the codes. However, the information will likely have some use if maintained and followed over an extended period of time. We will discuss the use of this information in the next article of this series.

If you are interested in obtaining your city's information, request the NAICS Quarterly information from Drew Smith or Brian Sansoucie at DF&A (see the contact information included in the sidebar).

You can find detail on business codes and descriptions of businesses under particular codes online at www.census.gov/eos/www/naics.

Tom Atchley, Administrator, Office of Excise Tax Administration—Tom can help you with administration and policy issues as needed. Contact Tom at 501-682-7200 or email tom.atchley@dfa.arkansas.gov.

In addition to the helpful people at the DF&A, the administration's website, www.dfa.arkansas.gov, has a wealth of information available for city leaders, including historical tax collection information, current city and county sales tax rates, local tax lookup for specific area codes, lists of sales tax exemptions, recent changes in local sales taxes, where to report suspicious activity, and more.

At the State Treasurer's office

Debbie Rogers, Manager, Local Government Services—Debbie is the State Treasurer's local government expert and can answer your questions about the monthly City Sales and Use Tax Distribution report, supplemental information on rebates, and more. Contact Debbie at 501-682-9100, or email drogers@artreasury.gov.

Listing of businesses collecting sales and use tax

ACA § 26-73-115 allows a mayor or county judge to obtain a quarterly report from DF&A listing businesses remitting sales and use taxes in the municipality or county. If you are interested in obtaining such a list, contact Drew Smith or Brian Sansoucie at DF&A.

Local Tax Distribution Report (10 years of information is available)

This information, available in the sales tax section of the DF&A's website at www.dfa.arkansas.gov, shows monthly gross sales tax collection figures for cities based on the month in which the tax was collected at the local level, tax collected by DF&A on motor vehicles, and any adjustments to add or subtract revenue due to destination sourcing. This information also includes any adjustments related to refunds and rebates. Each monthly amount shown is the basis for the funds distributed by the State Treasurer two months after collection at the local level. For example, the amount shown for July will determine what a city receives in September. The final amount distributed is also net of additional adjustments for allocated interest earned on the Local Tax Trust Fund and the three percent state collection service charge.



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Local Sales Tax Collection Information: Part 2

Good management of city revenues requires that city officials understand the factors that contribute to those revenues. This article—the second in a series of three—looks at information available from the state that may help monitor and project local sales tax revenues.

By Paul Young, League Staff

Last month, we provided an overview of local sales tax collection information that is available from the Arkansas Department of Finance and Administration (DF&A) and the State Treasurer's office. This article will primarily discuss how the quarterly listing of tax collections by business code can be used to monitor current collections and possibly budget for future periods. We also highlight some limitations of the information provided by DF&A. The next article in this three-piece series will offer possible suggestions for improvement.

NAICS Quarterly Business Code Report

Upon request, DF&A will provide cities a quarterly listing of local sales taxes collected that is grouped according to business codes established by the North American Industry Classification System (NAICS). NAICS is the standard used by federal agencies in classifying business establishments for the purpose of collecting, analyzing and publishing statistical data related to the U.S. business economy. DF&A makes this quarterly information available in Microsoft Excel spreadsheet format in the third month following the end of a quarter.

The release of business code information is not required by current law or DF&A regulation, but is actually provided as an accommodation initiated about 10 years ago to cities and counties when many were asking for information about the source of sales tax collections. Access and details of the information are governed by informal departmental rules. And, because of a very strong statutory requirement of confidentiality related to tax information, DF&A procedures are intended to prevent the release of any information that can be specifically identified with a particular taxpayer.

One note of caution: While the entry of an identifying NAICS business code is part of the tax filings submitted to DF&A, it is not required in the tax collection process and therefore not subject to verification and review as is other necessary information. Occasional

missing or inaccurate information in the NAICS report illustrates this limitation.

Under current procedures, only a mayor or county judge (or their specific designee) can request the information. This mirrors the requirement for obtaining a list of businesses remitting local sales tax that is authorized in ACA Sec. 26-73-115. And, in order to prevent disclosure of specific taxpayer information, business code information is only provided if there are at least three businesses in a particular code. (Note correction: Last month's article incorrectly said at least four.) For example, if Walmart were the only business located in a city with its business code, the sales tax collected by Walmart would not be reflected in the listing of tax collections. This could be true for other significant tax producers in Arkansas communities, creating a large "missing piece" in the business code listing.

Analysis of the NAICS information

Comparing the most recent quarterly data to the previous quarterly data can assist a city in forecasting revenue trends when they can be associated with a particular business category. Business activities that have the most significant variance from quarter to quarter could indicate a trend in consumer spending in your particular locality that could affect future collections.

A sample of the business code information with modifications discussed below appears on the opposite page for the four calendar quarters of 2010 for the City of Morrilton. A special thanks to Mayor Stewart Nelson for making this information available for use in this article. He has also provided valuable input and assistance in preparing this series. DF&A was also helpful in providing Mayor Nelson an entire year with four quarters of information, thus avoiding the need to "cut and paste" multiple reports together for comparison. The report from DF&A is often not generated in a consistent format from quarter to quarter, which can make merging information or comparisons difficult unless the user is fairly proficient in Excel and its analytical tools.

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| City of Morrilton NAICS Business Code Info. 2010 | | | | | | | | |
|---|--|--------------|------------|------------|------------|--------------|------------|--------|
| NAICS | NAICS Description | 1st QTR | 2nd QTR | 3rd QTR | 4th QTR | Total | % of Total | Cumm % |
| 45299 | All Other General Merchandise Stores | \$108,948.00 | 116,340.00 | 104,013.17 | 117,673.92 | \$446,975.09 | 31.36% | 31.36% |
| 72211 | Full-Service Restaurants | 39,223.96 | 40,888.12 | 39,397.78 | 39,701.99 | 159,211.85 | 11.17% | 42.53% |
| 44131 | Automotive Parts and Accessories Stores | 16,875.98 | 20,167.96 | 21,313.06 | 19,827.70 | 78,184.70 | 5.49% | 48.02% |
| 44711 | Gasoline Stations with Convenience Stores | 16,523.58 | 19,553.07 | 20,184.15 | 18,152.39 | 74,413.19 | 5.22% | 53.24% |
| 44511 | Supermarkets and Other Grocery (except Convenience) Stores | 16,158.83 | 16,632.29 | 17,138.53 | 22,036.91 | 71,966.56 | 5.05% | 58.29% |
| 44531 | Beer, Wine, and Liquor Stores | 13,261.00 | 16,010.00 | 15,412.00 | 15,681.01 | 60,364.01 | 4.24% | 62.52% |
| 44411 | Home Centers | 10,457.72 | 17,849.96 | 16,199.56 | 14,189.65 | 58,696.89 | 4.12% | 66.64% |
| 453991 | Tobacco Stores | 7,593.81 | 7,983.32 | 7,791.39 | 7,750.43 | 31,118.95 | 2.18% | 68.82% |
| 51331 | Wired Telecommunications Carriers | 11,534.93 | 7,398.93 | 5,382.97 | 4,990.97 | 29,307.80 | 2.06% | 70.88% |
| 42182 | Farm and Garden Machinery and Equipment Wholesalers | 5,021.00 | 9,951.00 | 6,882.00 | 4,964.11 | 26,818.11 | 1.88% | 72.76% |
| 45291 | Warehouse Clubs and Supercenters | 6,176.00 | 6,563.00 | 6,383.00 | 7,564.00 | 26,686.00 | 1.87% | 74.63% |
| 42183 | Industrial Machinery and Equipment Wholesalers | 4,771.61 | 6,459.25 | 6,502.71 | 5,758.88 | 23,492.45 | 1.65% | 76.28% |
| 22121 | Natural Gas Distribution | 12,640.98 | 3,933.20 | 1,851.00 | 3,844.99 | 22,270.17 | 1.56% | 77.84% |
| 811111 | General Automotive Repair | 4,322.36 | 5,168.25 | 6,128.87 | 4,805.82 | 20,425.30 | 1.43% | 79.28% |
| 443112 | Radio, Television, and Other Electronics Stores | 3,380.88 | 3,930.22 | 7,069.24 | 5,102.65 | 19,482.99 | 1.37% | 80.64% |
| 42291 | Farm Supplies Wholesalers | 4,029.88 | 5,563.88 | 4,441.00 | 4,433.00 | 18,467.76 | 1.30% | 81.94% |
| 53221 | Consumer Electronics and Appliances Rental | 3,458.42 | 2,814.23 | 3,113.94 | 3,610.56 | 12,997.15 | 0.91% | 82.85% |
| 44211 | Furniture Stores | 2,495.03 | 2,887.35 | 2,688.14 | 2,837.17 | 10,907.69 | 0.77% | 83.62% |
| 42142 | Office Equipment Wholesalers | 1,424.48 | 1,989.99 | 4,073.60 | 2,770.50 | 10,258.57 | 0.72% | 84.34% |
| 562998 | All Other Miscellaneous Waste Management Services | 2,472.28 | 1,975.00 | 2,885.46 | 2,545.05 | 9,877.79 | 0.69% | 85.03% |
| 532299 | All Other Consumer Goods Rental | 2,298.02 | 557.04 | 170.30 | 6,565.77 | 9,591.13 | 0.67% | 85.70% |
| 451211 | Book Stores | 2,818.45 | 1,321.37 | 3,087.00 | 1,796.45 | 9,023.27 | 0.63% | 86.33% |
| 81341 | Civic and Social Organizations | 2,083.49 | 2,060.46 | 2,020.94 | 2,042.02 | 8,206.91 | 0.58% | 86.91% |
| 44312 | Computer and Software Stores | 1,312.52 | 1,159.00 | 2,945.55 | 1,996.67 | 7,405.46 | 0.52% | 87.43% |
| 23511 | Plumbing, Heating, and Air Conditioning Contractors | | | 1,994.07 | 2,506.42 | 7,219.42 | 0.51% | 87.94% |

| | | | | | | | |
|--------|--|--------|---------|--------|-----------|-----------|---------|
| 44821 | Shoe Stores | 25.34 | 34.22 | | | 0.01% | 100.23% |
| 45114 | Musical Instrument and Supplies Stores | | 73.00 | | 73.00 | 0.01% | 100.24% |
| 54181 | Advertising Agencies | | | 33.00 | 39.00 | 72.00 | 0.01% |
| 313311 | Broadwoven Fabric Finishing Mills | | 62.21 | | | 62.21 | 0.00% |
| 48711 | Scenic and Sightseeing Transportation, Land | | | | 31.13 | 31.13 | 0.00% |
| 811212 | Computer and Office Machine Repair and Maintenance | | | | 29.05 | 29.05 | 0.00% |
| 312112 | Bottled Water Manufacturing | | | 24.00 | | 24.00 | 0.00% |
| 23531 | Electrical Contractors | 191.91 | -889.41 | 79.64 | -3,174.32 | -3,792.18 | -0.27% |
| 811412 | Appliance Repair and Maintenance | | | 151.00 | 42.00 | 193.00 | 0.01% |

| Quarterly Sales Tax Revenues per NAICS Listing (1) | 1st QTR | 2nd QTR | 3rd QTR | 4th QTR | Total |
|--|------------------|----------------|----------------|----------------|--------------------|
| | \$ 339,265 | 363,349 | 356,432 | 366,269 | \$1,425,315 |
| Percentage of Annual Total | 23.80% | 25.49% | 25.01% | 25.70% | 100.00% |
| Local Net Tax Distribution Report at DF&A website | | | | | |
| Jan/April/July/Oct | 132,243 | 142,313 | 135,808 | 145,093 | |
| Feb/May/Aug/Nov | 129,755 | 146,455 | 149,526 | 136,111 | |
| Mar/June/Sept/Dec | 141,205 | 149,646 | 144,162 | 149,071 | |
| Total (2) | \$403,203 | 438,414 | 429,496 | 430,275 | \$1,701,388 |
| Unidentified by NAICS Listing - (1) minus (2) | -\$63,938 | -75,065 | -73,064 | -64,006 | -\$276,073 |
| adjustment for 3% administrative fee withheld | -10,178 | -10,900 | -10,693 | -10,988 | -42,759 |
| Adjusted Unidentified by NAICS Listing | -\$74,116 | -85,966 | -83,757 | -74,994 | -\$318,832 |
| Percentage of Unidentified | 18.38% | 19.61% | 19.50% | 17.43% | 18.74% |

This is an example of analysis that can be done with NAICS business code information available from DF&A.

| Arkansas Department of Finance and Administration Sales and Use Tax Section | | | | | | | | | | | | | | |
|--|-------------------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| LOCAL NET TAX DISTRIBUTION REPORT PERIOD: 01/01/2010 - 12/31/2010 | | | | | | | | | | | | | | |
| Code | Name | Jan | Feb | Mar | Apr | May | June | July | Aug | Sept | Oct | Nov | Dec | Totals |
| 1400 | COLUMBIA COUNTY | 395,230 | 385,961 | 404,222 | 401,681 | 392,079 | 386,872 | 431,220 | 416,401 | 450,383 | 381,977 | 386,842 | 472,570 | 4,905,439 |
| 1403 | MAGNOLIA | 408,900 | 403,857 | 412,351 | 402,039 | 402,572 | 381,714 | 407,519 | 422,613 | 398,112 | 381,858 | 395,489 | 467,088 | 4,884,112 |
| 1404 | TAYLOR | 5,077 | 6,436 | 6,403 | 6,372 | 6,463 | 4,796 | 5,912 | 6,217 | 8,883 | 5,729 | 4,483 | 11,578 | 78,347 |
| 1500 | CONWAY COUNTY | 390,175 | 389,297 | 320,081 | 410,093 | 415,426 | 475,082 | 443,079 | 456,075 | 454,749 | 439,033 | 400,363 | 411,659 | 5,005,112 |
| 1501 | MORRILTON | 132,243 | 129,755 | 141,205 | 142,313 | 146,455 | 149,646 | 135,808 | 149,526 | 144,162 | 145,093 | 136,111 | 149,071 | 1,701,386 |
| 1502 | MENIFEE | 6,922 | 7,321 | 7,469 | 8,558 | 7,181 | 6,935 | 6,731 | 6,012 | 5,792 | 6,367 | 4,478 | 5,763 | 79,528 |
| 1503 | OPPELO | 2,608 | 2,515 | 2,438 | 2,989 | 3,327 | 3,218 | 2,504 | 2,665 | 2,203 | 2,297 | 2,055 | 2,549 | 31,367 |
| 1504 | PLUMERVILLE | 4,044 | 5,659 | 5,552 | 5,416 | 4,806 | 5,455 | 5,236 | 5,816 | 5,768 | 5,123 | 4,128 | 4,647 | 61,651 |
| 1600 | CRAIGHEAD COUNTY | 847,783 | 1,375,031 | 1,440,576 | 1,298,810 | 1,308,838 | 1,400,216 | 1,335,184 | 1,419,961 | 1,399,981 | 1,305,121 | 1,370,564 | 1,709,549 | 16,211,614 |
| 1609 | LAKE CITY | 18 | 16 | 33 | 0 | 207 | 0 | 0 | 0 | 2 | 13 | 0 | 0 | 224 |
| 1611 | JONESBORO | 938,276 | 1,175,212 | 1,238,005 | 1,122,221 | 1,124,103 | 1,245,758 | 1,190,107 | 1,245,015 | 1,218,683 | 1,159,556 | 1,234,571 | 1,553,048 | 14,444,554 |
| 1700 | CRAWFORD COUNTY | 524,282 | 486,232 | 527,492 | 547,598 | 559,178 | 569,421 | 456,013 | 529,864 | 509,728 | 509,686 | 504,729 | 534,054 | 6,258,277 |
| 1701 | ALMA | 184,178 | 179,866 | 189,967 | 194,473 | 199,128 | 195,863 | 196,320 | 188,778 | 166,331 | 185,098 | 180,306 | 192,665 | 2,252,975 |
| 1702 | VAN BUREN (CITY) | 289,983 | 258,423 | 310,682 | 311,655 | 307,347 | 317,648 | 300,098 | 293,518 | 284,004 | 284,710 | 281,710 | 328,744 | 3,568,520 |
| 1703 | MULBERRY | 18,034 | 18,423 | 29,387 | 22,421 | 23,951 | 23,614 | 26,112 | 28,443 | 19,007 | 23,025 | 18,628 | 23,888 | 274,935 |
| 1704 | MOUNTAINBURG | 14,568 | 14,921 | 25,069 | 13,116 | 13,208 | 23,387 | 17,235 | 12,694 | 8,912 | 11,484 | 11,672 | 19,044 | 185,310 |
| 1705 | KIBLER | 2,015 | 2,224 | 2,163 | 2,043 | 1,454 | 1,674 | 1,738 | 1,896 | 2,017 | 1,455 | 1,423 | 2,023 | 22,126 |
| 1707 | DYER | 1,596 | 1,164 | 1,252 | 1,206 | 1,317 | 1,143 | 1,387 | 1,408 | 1,411 | 1,164 | 875 | 1,513 | 15,436 |
| 1800 | CRITTENDEN COUNTY | 899,882 | 874,709 | 941,068 | 882,282 | 881,276 | 884,730 | 976,492 | 911,280 | 864,193 | 898,276 | 817,995 | 931,626 | 10,763,810 |
| 1801 | MARION (CITY) | 164,418 | 148,940 | 190,596 | 163,228 | 160,575 | 150,510 | 158,875 | 153,913 | 175,605 | 158,328 | 139,961 | 154,262 | 1,919,211 |
| 1802 | WEST MEMPHIS | 550,435 | 534,668 | 567,581 | 555,687 | 533,356 | 537,964 | 589,503 | 539,968 | 484,808 | 529,886 | 493,258 | 568,986 | 6,486,100 |
| 1803 | EARLE | 23,965 | 30,340 | 29,479 | 28,022 | 25,552 | 25,500 | 24,486 | 27,756 | 29,510 | 26,200 | 20,721 | 21,470 | 313,000 |
| 1806 | GILMORE | 508 | 382 | 357 | 793 | 217 | 231 | 261 | 354 | 400 | 270 | 283 | 310 | 4,366 |
| 1808 | JENNETTE | 218 | 158 | 158 | 810 | 102 | 90 | 72 | 149 | 126 | 86 | 96 | 218 | 2,283 |
| 1810 | SUNSET | 1,266 | 1,339 | 1,253 | 1,075 | 810 | 912 | 828 | 984 | 809 | 971 | 850 | 1,360 | 12,457 |
| 1811 | TURRELL | 7,460 | 6,352 | 6,813 | 6,086 | 5,479 | 6,118 | 5,703 | 5,312 | 5,314 | 5,967 | 5,367 | 5,689 | 71,659 |
| 1812 | ANTHONYVILLE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 61 | 76 | 303 | 440 |
| 1900 | CROSS COUNTY | 323,353 | 324,206 | 351,862 | 320,861 | 356,149 | 370,939 | 352,561 | 385,914 | 338,329 | 315,249 | 309,513 | 335,737 | 4,084,674 |
| 1901 | CHERRY VALLEY | 4,504 | 4,157 | 3,789 | 4,222 | 6,853 | 3,995 | 3,602 | 3,490 | 4,502 | 3,678 | 2,704 | 3,545 | 49,041 |
| 1904 | WYNNE | 11 | 23 | 12 | 0 | 23 | 12 | 12 | 12 | 3 | 0 | 0 | 0 | 108 |
| 2000 | DALLAS COUNTY | 136,587 | 135,602 | 140,344 | 142,792 | 129,411 | 129,933 | 139,284 | 140,933 | 138,453 | 147,189 | 128,239 | 153,761 | 1,662,529 |
| 2001 | SPARKMAN | 3,122 | 3,444 | 3,496 | 3,653 | 3,279 | 3,199 | 3,379 | 3,077 | 3,973 | 3,365 | 3,554 | 2,980 | 40,522 |
| 2002 | FORDYCE | 78,159 | 77,284 | 81,419 | 82,320 | 73,949 | 73,973 | 82,669 | 79,467 | 77,704 | 76,000 | 74,084 | 84,050 | 941,079 |
| 2100 | DESHA COUNTY | 194,382 | 216,446 | 216,333 | 207,832 | 196,003 | 230,679 | 216,513 | 218,108 | 258,766 | 201,312 | 192,210 | 205,982 | 2,554,565 |
| 2101 | MCGEHEE | 147,860 | 148,857 | 174,036 | 162,575 | 147,954 | 169,974 | 153,529 | 165,183 | 212,894 | 153,105 | 156,882 | 152,626 | 1,945,474 |

This chart presents the local net tax distribution for the cities and counties listed. A downloadable pdf of the complete report is available on the DF&A's website at www.dfa.arkansas.gov/offices/exciseTax/salesanduse.

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When the information is made available, it is usually sorted by business code and totals are not provided. For my sample analysis of the Morrilton information, I added quarterly and annual totals then sorted the listing by total annual figures, from highest to lowest. In addition, I added percentage calculations for the amount a category represented of the annual total and a cumulative percentage total of all categories through a particular level. "All Other General Merchandise Stores" at 31.36 percent is the largest category, with "Full-Service Restaurants" second at 11.17 percent. The total of the top 10 categories ending with "Farm and Garden Machinery and Equipment Wholesalers" represents almost 75 percent of the total.

In addition to the above steps, at the bottom of the worksheet I compared the quarterly totals per the NAICS report to the actual receipts by Morrilton in order to determine whether the NAICS report fully reflected the actual tax activity. The monthly receipts for Morrilton are actual receipts per the monthly notice from the State Treasurer. The same figures also appear on the DF&A sales tax website for "Local Tax Distribution 2010" which appears on page 30. (Reminder: The receipts per the NAICS report and the DF&A website are for the month collected at the retail level. Actual distributions to cities of those amounts by the Treasurer are made two months later.)

As shown by the calculations at the bottom of the worksheet, the sales tax collections not identified by the NAICS report are almost 19 percent of the amount actually received after adjusting for the 3 percent administrative fee withheld by the State and not considered in the NAICS amounts. In several cases we reviewed, the difference was significantly greater than for Morrilton, clearly indicating the potential limited reliability of this information as a management tool. As might be expected, the unidentified difference will likely be greater for small cities.

The following factors also affect the reliability of the NAICS code information:

1. Each code has a business description that typically groups businesses according to "primary business activity." The codes will have two to six digits. **Longer business codes will narrow the activity and possibly exclude certain businesses.** Therefore, to insure broadest coverage of local businesses, you should request that four digit codes be used by DF&A when generating a report.
2. With the passage of time, the figures reflected in the NAICS code information will change as

a result of any audit or amended return adjustments and rebates. Any such adjustments will affect future local tax distributions when they occur, producing potential differences with business code information for that period. The prior tax period that is actually affected is not identified. Therefore, **a NAICS report that is prepared when first available will be the most likely to reflect figures that approximate local tax receipts for that period.**

3. DF&A does not currently have staff or resources dedicated to providing information to local entities. Work on this matter is now done based on available staff time not dedicated to other responsibilities.

Conclusion

Despite limitations, the business code information is the best "snap shot" currently available for the source of local tax collections. But anyone truly interested in analysis will be frustrated by the missing pieces and complications. Ideally, the report should be provided in a consistent usable format. Also, it should be presented in categories that are reliable and informative, permitting the user to understand what generates tax revenues and monitor trends, as well as facilitate a sound basis for budgeting future collections.

We will discuss alternatives for improvement that will require statutory authorization in the next article. Such authority exists in neighboring states that provides much greater access to sales tax information than we have in Arkansas while protecting the legitimate businesses interests of those that collect the tax. In order to be successful with any proposed legislative change, broad support of Arkansas local governments will be required.

If you have worked with the NAICS business code information provided by DF&A, please send me comments about your experiences by email to pyoung@arml.org for use in developing the suggestions for improvement.

In addition to Mayor Nelson, I want to also thank Little Rock Treasury Manager Scott Massanelli, Pea Ridge Mayor Jackie Crabtree, Hot Springs Finance Director Dorethea Yates and Pine Bluff Finance Director Steve Miller for their assistance with this series.



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Local Sales Tax Collection Information: Part 3

Some information is made available by the state, but it is simply not satisfactory to serve the legitimate interests of local governments. Good management of city revenues requires that city officials be able to monitor local sales tax collections and understand trends. This article—the third in a three-part series—makes recommendations for improvement.

By Paul Young, League staff

Cities have expressed for many years a need for detailed, historic sales tax collection information as a basis for budgeting future revenues. Also, many have experienced great frustration when they are faced with significant fluctuations in monthly collections without satisfactory explanation or a means of understanding the cause. Since local sales tax collections are “piggy backed” on the state sales tax system, cities have no part in the collection process and therefore have no access to taxpayer information. For the cost of administration, the state withholds 3 percent of total collections before the funds are remitted to cities and counties. The total amounted to almost \$28 million for 2011.

When I was previously working in public finance and handling sales tax bond issues for cities, I would often be asked by a rating agency for a list of the top 10 sources of sales tax receipts for a city. The question was intended to identify the overall economic stability of the tax and any risk inherent in the pledged revenue stream associated with concentration in a few sources. Cities have a similar interest in evaluating the reliability of tax revenues to support ongoing operations, but unfortunately no such information is currently available.

In the January and February issues of *City & Town*, we provided an overview of information available to cities (and counties) from the Department of Finance and Administration (DF&A) about local sales tax collections. The January issue provided a listing of specific information that cities can access online or by request, as well as specific staff contacts who are available to provide assistance. In the February issue, we provided an overview of information available from DF&A on a quarterly basis that provides a listing of local sales tax collections by business code according to the North American Industry Classification System (NAICS). This information has been provided as an accommodation by DF&A for the past 10 years but is not governed by written policy or procedures.

Sales tax revenues currently produce a significant portion of city revenues. As such, we believe that cities

levying local sales taxes are entitled to satisfactory information about their tax collections. That goal is currently not possible due to unnecessarily restrictive statutory provisions that prevent anyone outside DF&A from receiving tax information that can be specifically identified with a particular taxpayer. Additionally, DF&A does not currently have dedicated staff or information resources necessary to do the job. Staff members that currently assist cities with the business code listing do so on the basis of time available. In fact, individuals other than those previously provided by DF&A and mentioned in the January article have responded to inquiries since that time. Without specific procedures for the preparation of the listing of business code information, it tends to be prepared in an inconsistent manner. And a taxpayer’s business code is not required for the state collection system and therefore not subject to procedures to ensure accuracy. The impact of these problems is compounded by the lack of dedicated staffing and resources for this activity.

The solution to this problem will require statutory changes to modify the existing confidentiality restrictions while protecting the legitimate business interests of confidentiality. We recommend the following guidelines for specific information that should be available monthly in electronic worksheet or other suitable format to the chief executive officer or designee of a county, city or town that levies a local sales and use tax:

1. A schedule of net sales and use tax collections with totals for each taxpaying or collecting entity identified by account identification number, accurate NAICS code, legal name, business name and reporting address;
2. A schedule of sales and use tax rebates and refunds with totals for each taxpaying entity identified by account identification number, accurate NAICS code, legal name, business name and reporting address;
3. A schedule of tax collected related to automobiles and other personal property when the tax is paid by the purchaser when registered with the state in

- one amount for each separate category of personal property;
4. The combined totals of tax collections per the schedules above plus totals for any other collection source or expense for any month should agree or reconcile to—and provide supporting details for—the related total tax collections distributed by the State Treasurer to the particular county, city or town for that particular month;
 5. A schedule of total collections grouped by an accurate NAICS code category that agrees with the total reflected on the schedule described in item 4;
 6. Taxpayers with no tax due may be excluded from the report; and
 7. The above schedules will be updated as required by subsequent adjustments due to refunds, rebates, additional tax payments and any other adjustments to the tax collected for a particular period.

As illustrated by the accompanying table, authority exists in neighboring states (Missouri, Oklahoma and Texas) that would satisfy most of the goals and objectives listed above. We believe the Oklahoma model best serves our needs with two levels of information available. The initial level of information is similar to what is currently in place in Arkansas but more accurate and reliable. The higher level fully supports the goals listed above, including the ability to support and reconcile with actual

receipts as described in item 4, and is available if taxpayer specific information is kept confidential. The Oklahoma state tax structure is also similar to Arkansas's, which will likely make implementation easier. And their system is governed by an ongoing cooperative effort between the Oklahoma Tax Commission and the Oklahoma Municipal League. A similar arrangement in Arkansas should help the system work more successfully over time.

As stated in our previous articles, the ultimate goal would be to produce information that is reliable and informative, permitting the user to understand what generates tax revenues and monitor trends, as well as facilitate a sound basis for budgeting future collections. Also, it should be consistently prepared in a useful format.

Thanks to Cindy Frizzell of our staff whose experience in multi-state tax administration was invaluable in obtaining information about how neighboring states deal successfully with this issue. We welcome your comments and suggestions, as well as indication of your support for the legislative changes that will be required.



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Sales Tax Reporting for Local Governments Arkansas compared to surrounding states

| | Admin Fees | Information Format | Reconciliation Process | Frequency | Confidentiality Agreement Required | Confidentiality violation | Actual Business Details | Local Caps | Miscellaneous |
|--|------------|---|---|--|---|--|--|---|---|
| Arkansas (CURRENT) | 3% | Electronic Spreadsheet | No | Quarterly - Upon Request | Not required - Current law severely restricts access to information | N/A | No details- Grouped by NAICS Codes but not reliable or complete | Local cap of purchases over \$2,500 causes reporting issue of subsequent rebate payments | No staff or technology resources dedicated to support information for local governments |
| Arkansas (PROPOSED) | 3% | Electronic Spreadsheet or other useful format | Yes - Total Collections | Monthly | Yes, if agree to confidentiality - like Oklahoma | Oklahoma and Texas provide guidance for what would be appropriate. | Dependent upon whether a public report (no) or confidential report (yes) like Oklahoma | No change | Dedicated staff and resources to perform necessary tasks. |
| Oklahoma - Public Reports | 1% | Available on Public Website in table format | Yes - Total Collections | Monthly | No | N/A | No details - Grouped by SIC* codes by local Governments | No Local caps, thus, no issue on reporting of subsequent rebate payments | Similar to current Arkansas info but reliable and useful |
| Oklahoma - Confidential Reports | 1% | Electronic Spreadsheet | Yes - Total Collections | Monthly | Yes | Removed from office/job; fine and/or imprisonment | Business name, account number, address, SIC*, collections | No Local caps, thus, no issue on reporting of subsequent rebate payments | No serious breaches of confidentiality noted to date |
| Missouri | 1% | CD | Yes - Total Collections | Upon Request - Annually Free/Available Monthly for fee | Yes | Felony Conviction | Business name, account number, address, SIC*, collections | No Local caps, thus, no issue on reporting of subsequent rebate payments | A local government has access to all tax records |
| Texas | None | Electronic Spreadsheet | No - Only includes businesses that annually remit more than \$5,000 | Monthly | Yes | Misdemeanor Conviction | Business name, account number, address, SIC*, collections | At the point of sales tax collection, a maximum of 2% local tax is applied. No subsequent rebate payment to consider. | State tax structure relies heavily on property taxes. No serious breaches of confidentiality noted to date. |

*SIC means Standard Industry Code which is in the process of being replaced by NAICS.