Potential Administrative Changes In Processing Local Sales & Use Tax Receipts

Current Process:

Taxpayers remitting sales and use taxes typically file returns with the Department of Revenue (DOR) each month. Those taxes are initially deposited into the state general fund (Fund 001). The next day, the local share of those taxes, minus a 1% administrative fee, is transferred from the state general fund to the Local Sales & Use Tax Account (Fund 034). At the end of each month, the collected monies are then distributed to local governments.

Typical Monthly Pattern (for all months): For economic activity that happens in January, taxpayers file returns in February. Those returns come in over the entire month with the bulk being received around February 25th, the statutory due date for returns. Each day in February, any return receipts are deposited into the state general fund. Each following day in February, based on return information, the amount of sales and use tax is transferred from the state general fund to the Local Sales & Use Tax Account. In addition, throughout the month as DOR is reconciling returns to transfers, funds in the Local Sales & Use Tax Account may be transferred back into the state general fund. Around March 20th, DOR finalizes all of the collection and distribution amounts and sends an electronic file to the State Treasurer which details the amounts due to local governments for that month. . The last business day of March, the State Treasurer distributes the amounts from February returns (January economic activity) to local governments.

What Would Change?

Instead of being moved over each day, the local share of sales and use taxes would remain in the state general fund until the same day distributions are made to local governments. At that time, based on the amount in the Local Sales & Use Tax Account, the precise amount needed to make that distribution to local governments would be transferred from the state general fund to the Local Sales & Use Tax Account.

In other words, DOR would make a single transfer each month from the state general fund to the Local Sales & Use Tax Account rather than make daily transfers.

With this change, local governments (the largest being counties, cities and transit) would effectively forgo interest earnings on undistributed amounts in the Local Sales & Use Tax Account. For example, using current and forecasted rates, this loss is estimated at approximately $250,000 in fiscal year 2013. Annual earnings to the State Treasurer's Service Account (a portion of which is transferred to the state general fund) would be expected to decline by $2.3 million and interest due to the general fund would increase by $2.5 million each year.

New Typical Monthly Pattern (for all months)

For economic activity that happens in January, taxpayers file returns in February. Those returns come in over the entire month with the bulk being received around February 25th, the statutory due date for returns. Each day in February, new returns are deposited into the state general fund. Around March 20th, DOR finalizes all of the collection and distribution amounts from the February returns (January economic activity). On the last business day of March, monies sufficient to make the distribution will be transferred from the state general fund to the Local Sales & Use Tax Account. Later that day, the State Treasurer will distribute to local governments the amounts from February returns (January economic activity) form the Local Sales & Use Tax Account.
This is a permanent change and is how the process would be handled each month.

What Is Not Changed?

There is no change made to the timing or manner of the distributions to local governments. There is no change to the distribution formula. The only change to distribution amounts would be forgone interest (discussed above).

This would not change the overall resources available within the concentration account (used by the Treasurer for cash management purposes). This change would not impact the calculation of the state debt limit, state expenditure limit, forecasted revenues or budget stabilization account transfers. There would also be no change to the information currently gathered and reported either by DOR or by the Economic & Revenue Forecast Council.

How Would This Benefit The State General Fund?

If these administrative changes are made, the general fund cash book balance (at the end of each month and biennium) would be improved. For the 2011-13 Biennium, this is expected to result in a $238 million adjustment by increasing resources on the budget balance sheet.

The item would be categorized for GAAP purposes and on the budget balance sheet as an adjustment to the working capital reserve. (Since the general fund cash balance is improved, the amount set aside for a working capital reserve could be reduced by the same amount). These monies would not be categorized as general fund revenues, rather as "due to" another fund or account.

Other

This is assumed to be a permanent administrative change directed in legislation. Because the change is permanent, it does not need to be "paid back" unless the administrative change was reversed. In that event, there would be an off-setting negative adjustment to the ending balance.