



City of Independence

Sales Tax Collection and Remittal

City Of Independence, Missouri

**Report to the Mayor and City Council
By the Management Analyst
March 23rd, 2015
Report No. 14-03**

City of Independence

City Council Office



March 23rd, 2015

Honorable Mayor and Members of the City Council:

This report was assigned by the Audit and Finance Committee in September 2014 and was initiated by the City Management Analyst pursuant to Chapter 1, Article 43 of the City Code of Ordinances. The report reviews the process by which sales taxes collected by Independence businesses are remitted to the City of Independence, Missouri. The report specifically focuses on businesses that are physically located near the geographic boundaries of a neighboring municipality in order to ensure sales taxes that are collected at these businesses are being remitted by the State of Missouri to the appropriate jurisdiction.

The report found no instances in which sales tax on taxable services at retail were not being collected, nor were there any instances found in which sales tax revenues were mistakenly remitted to a neighboring jurisdiction. Though this report found no such instances, it is recommended that the City's Finance Department conduct an annual review of the State of Missouri's Sales Tax Report in order to ensure compliance with State Statute and proper remittals.

Staff from the Finance Department reviewed a draft of this report. The draft report was also reviewed by the City Manager and City Counselor, and a response from the City Counselor is appended. Finally, members of the Audit and Finance Committee reviewed this report before it was finalized. The cooperation and courtesy of all who provided assistance is greatly appreciated.

Respectfully,

A handwritten signature in cursive script that reads "Zachary Walker".

Zachary Walker
City Management Analyst

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Introduction

Audit Objectives

This analysis of sales tax remittance has been conducted pursuant to Chapter 1, Article 43 of the City Code of the City of Independence, which outlines the duties of the City Management Analyst. This report has been designed to answer the following questions:

- What controls are in place to ensure that all tax revenues due to the City of Independence are being collected?
- How frequently are these tax records audited?
- Do opportunities exist to increase the reliability of proper sales tax remittance to the City of Independence?

Scope and Methodology

The audit was conducted in accordance with generally accepted government auditing standards as well as the City's audit policies and procedures. Audit methods included:

- Generating a list of businesses within the City of Independence and cross-referencing this list to the Missouri Department of Revenue's Sales Tax Remittal report to identify any potential discrepancies.
- Conducting interviews with staff from the Finance Department as well as staff from Missouri Department of Revenue.
- Researching similar audit reports from both regional and national cities that have explored sales tax remittal practices to compare and contrast current practices in the City of Independence.

No information was omitted from this report because it was deemed privileged or confidential.

Summary of Findings

The report contained one finding and made one recommendation to address this finding:

Finding: All sales taxes were found to be properly collected and revenues properly remitted. Frequent monitoring of sales tax remittals is needed by the City.

- **Recommendation:** The City's Finance Department should conduct its own annual independent assessment of licensed businesses that are providing a taxable service to ensure compliance and appropriate remittal.

Findings

All Sales Taxes Were Found to be Properly Collected and Revenues Properly Remitted; Frequent Monitoring is Needed by the City

The City of Independence currently levies six sales taxes on all tangible personal property or taxable services at retail establishments within the City of Independence. These sales taxes include a general City sales tax (1%), a Storm Water Control Sales Tax (0.25%), a Street Improvement Sales Tax (0.50%), a Park Sales Tax (0.25%), a Fire Protection Sales Tax (0.125%), and a Police Public Safety Sales Tax (0.125%). These sales taxes are collected by the State at the same time they collect the State and County sales tax. The State then distributes the City sales tax monthly after retaining a 1% collection fee. State statute has exempted or excluded certain taxable services from collecting sales taxes.

The audit research began by reviewing a report of the City's licensed businesses. Staff from the Finance Department reviewed this list and eliminated accounts that do not have retail sales in the City and should not be reporting sales tax revenue. The list of businesses was further filtered by eliminating accounts that were exempted or excluded by Missouri State Statute from collecting sales tax. The remaining businesses were then cross referenced against an annualized sales tax remittance report from the Missouri Department of Revenue's Local Tax Division. A total of 24 businesses were found on the City's business license report but did not appear on the State's sales tax report. This list was sent to the Missouri Department of Revenue's Local Tax Division with a request for further investigation.

Of the 24 businesses that were reviewed, no instances were discovered in which sales taxes had either failed to be collected by a business or in which the State had improperly remitted the sales tax collections. Instead, the State reported the following breakdown:

- 13 businesses which reported no sales in the previous year.
- 6 businesses which had closed in the previous year.
- 2 businesses with invalid addresses (businesses had relocated outside of the city limits).
- 1 business that files with the State on an annual basis (data had not yet appeared on the sales tax report being utilized for the audit).
- 1 business that had been remitted by the State to the City in the time that had elapsed since the original report was generated.
- 1 business that has its operations located in Kansas City, Missouri but has its parking lot located in Independence. The city limits run through the property, but the sales are located in Kansas City.

In summary, all businesses within the City of Independence that provide taxable services as defined by State Statute were found to be properly collecting sales taxes. Additionally, the State of Missouri was found to be remitting these sales tax revenues to the appropriate jurisdiction. The Department of Revenue Local Tax Division reported that they have several measures in place to ensure businesses are complying

with sales tax collection. For example, when a business is being formed, they complete paperwork and pay a bond before a sales tax identification number is issued. Once formed, the State conducts regular monitoring and requires certain reporting to ensure compliance. For example, if the State does not receive a return or a payment, the business is notified via letter that they haven't filed, which is then followed up with a telephone call. If the taxpayer fails to pay in a specified amount of time then their license to operate will be revoked. The State also allows businesses to set up a payment plan if the business would need that. Finally, the State reports that sales tax remittals are checked on a regular basis and are coded by Zip Code. Zip Codes that fall within one municipality but which located in a different municipality (i.e., an Independence business with a Blue Springs Zip Code) are watched particularly close

In order to provide clarification and certainty regarding this issue in the future, it is recommended that the City's Finance Department conduct its own annual independent assessment of licensed businesses that are providing a taxable service to ensure compliance and appropriate remittal.

Appendix A: City Counselor's Response

City of Independence

MEMORANDUM

Law Department

DATE: March 16, 2015

TO: **Zach Walker, Management Analyst**

FROM: Dayla Bishop Schwartz, City Counselor *DBS*



**SUBJECT: Report No. 14-03
Sales Tax Collection and Remittal**

I have reviewed the draft report for Report No. 14-03, Sales Tax Collection and Remittal. I am of the opinion that there is nothing contained within the draft report that would expose the City to a lawsuit. Furthermore, it is my opinion that the draft report would not qualify for an executive session discussion before either the Council Audit and Finance Committee or the City Council.

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