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LOCAL SALES TAX COLLECTIONS

ISSUE: Local Option Sales Taxes (LOST, SPLOST, ELOST, ESPLOST, MARTA, HOST) have become critical components of local government revenues. These taxes help pay for government operations and capital projects. Without the local option sales taxes local governments would have to place a much greater tax burden on their property owners. Local sales taxes help diversify the revenue base of local governments and spread the tax burden beyond property owners and local residents. To ensure this revenue source continues to be a viable component of the overall tax structure it is essential that it is collected in an efficient and effective manner. The tax gap (The difference between taxes owed and taxes collected) in our state must be reduced to avoid placing our compliant businesses at a competitive disadvantage and taxpayers at risk of paying higher tax rates.

BACKGROUND: Our State's sales tax code has become increasingly complex. Today there are approximately 86 special exemptions and in some cases the state exemptions are not the same as the local exemptions. Each county in Georgia can levy up to three additional local sales taxes on top of the state sales tax (City of Atlanta is the only exception with four). Sales taxes in Georgia are collected and allocated based on the point of delivery which means that the tax does not always go to the jurisdiction where the business is located. There also exists a use tax that works in conjunction with the sales tax to ensure that tax is paid on all taxable transactions. Many items purchased from businesses out of state are not subject to the sales tax but are subject to the use tax. As the complexity of the sales tax has increased, compliance has decreased. Most businesses that are out of compliance are not intentionally ignoring the law, but sometimes lack the accounting expertise and technology to ensure compliance. Our State Department of Revenue also lacks adequate resources to audit businesses and help them comply with the law.

State law mandates that the Department of Revenue (DOR) collect all local sales tax. An administrative fee equal to one percent of collections is charged, but this revenue (approximately \$48 million a year) goes into the state treasury and is not required to be appropriated back to the DOR to help pay the cost of collections and auditing. Georgia audits only one half of one percent of their sales tax accounts and has one of the lowest ratios of audits to sales tax accounts in the Southeastern United States. In fact, every new sales tax auditor generates more than a million dollars in new sales tax revenues.

Information available to local governments about their sales tax collections is very limited. The DOR will give a local government a *commodity code report* that breaks down the amount of collections by broad industry classifications. They can also tell the local government which businesses are reporting sales tax for their county and recently have started reporting the amount of sales tax attributed to an audit or a refund but that is about the extent of the information



available. Local governments are not allowed to review the amount of sales tax submitted by each local business. The amount received monthly by local governments is not a true representation of one month of collections.

ACCG POLICY:

Local Sales Tax Collections - Counties support maximizing sales tax revenues to help lower property tax rates. A lack of compliance in sales tax collections and payments penalizes the businesses that are following the rules and taxpayers who make up the revenue shortfall through higher tax rates. The Department of Revenue currently lacks adequate resources to enforce compliance. The ratio of audits to accounts is very low and has sometimes led to the perception that it is easy to avoid or misreport collections in Georgia without fear of penalty. Local governments receive very little information about their sales tax collections from the Department of Revenue and have almost no ability to assist the state with collection compliance.

ACTION NEEDED: ACCG asks the General Assembly to give counties three alternatives for collecting local sales taxes allowing them to collect and audit their sales taxes using county staff, a third party provider or contracting with the DOR.

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