

## **Frequently Asked Questions on Sales Tax**

In an effort to help local governments better understand their sales tax distributions from the Revenue Department (DOR), we have developed this memorandum that will highlight several of the questions we have heard from various counties, cities and school systems about their tax distributions.

### **Why each month's distribution does not represent one calendar month's sales proceeds.**

The Department distributes local sales taxes around the 20<sup>th</sup> of each month from sales tax collections received from returns, assessments and audit collections that were processed in the last 30 days. These proceeds are primarily from a sales period two months prior to the distribution month since the normal reporting process goes like this: sales from June are reported to DOR by July 20<sup>th</sup> and processed by August 20<sup>th</sup>. However, some of the revenue in each distribution consists of assessment and audit collections from sales periods ranging from 3 months to 3 years prior. Another recent impact on this are the electronic returns which are processed virtually as soon as they are received; meaning they represent sales from only one month prior to the distribution. More on this is addressed in a later question.

### **Why gross sales data is not very meaningful to a jurisdiction.**

Gross sales data reported to the Department reflects the taxpayer's statewide sales or use, not gross sales by jurisdiction (i.e. county). The sales tax return form requires the taxpayer to report its gross sales and use, subtract its statewide exempt sales or use to derive the net taxable amount. This figure is then applied to the various sales tax rates (State and Local) to derive the total taxes due for each tax type (LOST, SPLOST, ELOST, HOST, MARTA, etc.). These "tax" amounts are then reported by jurisdiction (county or city) and type in order to make proper distribution to all local taxing authorities. Therefore the Department does not collect or maintain gross sales by county or city. A jurisdiction can derive their net taxable sales by dividing their tax distribution by .01, the local tax rate.

### **Why all retail sales originating in a jurisdiction (county or city) are not taxed by that jurisdiction.**

Sales tax distributions represent local taxes paid on retail sales of products delivered or used in a jurisdiction (i.e. county or City of Atlanta); not necessarily the point of sale or retail store. In Georgia, and in most other states, sales taxes are imposed on the consumer based on where the exchange of title and possession took place. In a typical retail transaction title and possession occur in the store or point of sale; however many taxable services and products are delivered to the customer's location and would be taxed in that jurisdiction, not the point of sale. The only point of sale data the Department receives from retailers is their "gross" statewide sales or use, therefore the Department cannot provide "sales" data specific to any one county or city. Additionally, retailers report sales tax collections by county (or the City of Atlanta) and we distribute those proceeds to those taxing jurisdictions; DOR does not make distributions based on zip codes.

### **Why a county's monthly distributions (SPLOST or ELOST) are not the same amount.**

Although each local sales tax is imposed at 1% the amounts distributed each month never equal. This is primarily due to the timing of collections, refunds and use taxes. The reality of tax collections is that not all taxpayers report and remit all their taxes timely. Therefore the Department will bill (or assess) the taxpayer for the under-reported or under-paid taxes. This, however, does not prevent the Department from processing and distributing those collections we did receive from that taxpayer. Therefore, one or more of the tax types may be short one month

and different from another local tax due that jurisdiction. Once the assessment is collected, we incorporate that collection into the next distribution, which will increase the previously short tax type over others. A similar impact occurs when audit assessments are collected, except that these are for a three year period and their impact can be more significant.

Taxpayer refunds are another cause for amount differences. For example, when a taxpayer over pays their taxes they are distributed to the local jurisdictions. If the taxpayer later files a refund claim, we confirm the validity of the claim, refund the taxes and interest to the taxpayer, and then adjust or subtract the amount previously distributed (plus interest) from the jurisdiction. This reduces that month's distribution of the affected tax type. If a SPLOST or ELOST wasn't in effect during the original over-payment, then that tax type would not have an adjustment and this would cause a difference among the distribution amounts.

Use tax occurs when a purchaser takes possession of the product in one location, pays the sales tax, and then transports the product to another location where it's used; such as construction companies buying materials and delivering them to several construction sites throughout the region or state. Since the purchaser took possession of the materials at the point of sale, the sales tax would apply in that jurisdiction. Where the sales tax rate in the origin location is lower than the destination site (where the product is used), then the higher tax rate would also apply, but only to the tax that had not already been paid as a sales tax. For example, the origin sales tax rate is 6% (SPLOST and ELOST) and the destination tax rate is 7% (SPLOST, ELOST, and LOST), then the Use tax of 1% would apply to the Local Option Sales Tax (LOST), but not the other two taxes because they were paid originally as a sales tax and distributed to the origin jurisdiction. The 7% jurisdiction would only receive revenue on 1 of their 3 local taxes; thus causing an amount difference among their taxes.

**What impact does electronic returns and payments have on local distributions.**

The major impact electronic returns have on distributions is that they are processed faster and more efficiently. However, there is an unintended consequence to faster processing; month-to-month local distributions can be more volatile. In July 2006 the Department required certain dealers to report their sales taxes electronically. Because these returns must balance before they are accepted by the electronic processing system, the taxpayers can not submit a return that is not mathematically correct. This eliminated many of the erred returns received by DOR and allowed the Department to process returns and payments much faster. In fact many returns are processed the same day they are submitted. Since the due date for these returns is the same as our processing close date (20<sup>th</sup> of the month), some taxpayers had two returns processed in the same distribution period (e.g. July and August). Local jurisdictions began noticing increased distributions in September, October, and November 2006 because of these doubled returns. In December the holidays reduced the number of processing days and with so many returns processed in those prior months, there were fewer returns available to process. This resulted in lower distributions for the month of December for the State and all local governments. So while local governments are getting their tax proceeds earlier than ever before, the monthly distributions are becoming less meaningful for trend analysis. Over a six month period, distribution trends are much more meaningful.

**What reports can DOR provide local governments that can assist them in understanding their revenue trends and projections?**

Because the Department is bound by current law to protect the taxpayer's confidential tax information, the Department cannot identify specific taxpayer information, even to local governments receiving these tax proceeds. However, the Department has developed a report that

compares tax distributions by county and major commodity sector for different periods. For example, we can report the amount of distributions for a six or 12 month period by commodity sector (Food, General Merchandize, Apparel, Automotive, Manufacturing, Lumber, Home Furnishings, Utilities, etc.). Comparing these amounts by economic sector can give a very good picture of your local economy. The Department can also provide a listing of each sales tax dealer registered in each county with name, address and Sales Tax Certificate number (FEIN and SSN would not be available).

**Who can I contact in the Department of Revenue to answer other Sales Tax questions?**

Hopefully this paper has answered many of your questions. The Department will publish this memorandum on the DOR web site under the Local Government Services Division page, Distributions Section <http://www.etax.dor.ga.gov/ptd/dis/index.aspx>, Sales Tax Information for Taxing Authorities. If you need more detailed information about some of these questions, we may also develop a special paper or bulletin and publish that on this web site. Other contact information is also available at this site.