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Title: AUTHORIZATION TO ENTER INTO A MODIFICATION TO THE INTERGOVERNMENTAL AGREEMENT WITH THE ARIZONA DEPARTMENT OF REVENUE REGARDING ADMINISTRATION OF TAXES
Staff Contact: Tom Duensing, Director, Finance and Technology

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AUTHORIZATION TO ENTER INTO A MODIFICATION TO THE INTERGOVERNMENTAL AGREEMENT WITH THE ARIZONA DEPARTMENT OF REVENUE REGARDING ADMINISTRATION OF TAXES

Staff Contact: Tom Duensing, Director, Finance and Technology

Purpose and Recommended Action

This is a request for City Council to waive reading beyond the title and adopt a resolution authorizing the City Manager to enter into a modification to the intergovernmental agreement with the Arizona Department of Revenue to provide for an interim method for disclosure of information and taxpayer auditing.

Background

In October 2008, the City Council authorized entering into an intergovernmental agreement (C-6636) with the Arizona Department of Revenue for taxpayer joint audits and the uniform method of administration, collection, audit and licensing of transaction privilege tax, use tax, jet fuel excise and use tax and rental occupancy taxes imposed by the State or Cities or Towns.

In June 2013, Governor Brewer signed into law House Bill (HB) 2111 with an implementation date of January 1, 2015. In 2014, HB 2389 adopted several statutory changes as a clean-up amendment to HB 2111. The intent of this legislation is to simplify and centralize transaction privilege (sales) tax administration for businesses operating in Arizona. Upon full implementation, responsibility for tax licensing, remittance, collection, and return processing will shift from the City to the Department of Revenue (DOR). In addition, this legislation includes provisions for sales tax auditing to be coordinated by the State and make changes to the taxability of Prime Contracting.

In October 2014, the implementation of portions of this legislation was delayed to January 1, 2016.

Nevertheless, the changes to auditing will move forward on the original implementation date of January 1, 2015.

This modification to the agreement allows the DOR to provide the City with information relating to transaction privilege tax, use tax, severance tax, jet fuel excise and use tax and any other tax collected by the Department of Revenue on behalf of any jurisdiction if the information relates to a taxpayer who is or may be taxable by a county, city or town or who may be subject to audit by the Department of Revenue pursuant to A.R.S. § 42-6002.

This agreement also sets forth new auditing provisions which include, but are not limited to, all audits shall be conducted in accordance with standard audit procedures defined in the Department of Revenue audit manual; the city may conduct an audit of a taxpayer that is engaged in business only in Glendale and notification shall be given to the Department of Revenue; the Department of Revenue shall conduct all audits of taxpayers that have locations in two or more cities or towns unless the Department of Revenue authorizes the City to conduct the audit; and the Department of Revenue shall issue all audit assessments on behalf of all taxing jurisdictions in a single notice to the taxpayer.

Analysis

This modification to the existing intergovernmental agreement with the DOR is required to allow the DOR to share taxpayer information with the city's tax and licensing staff in order for city auditors to conduct audits on behalf of the DOR and other municipalities. It is also necessary in order to implement the other audit provisions of this legislation, which was intended to simplify audits for taxpayers. With this modification, taxpayers will be subject to only one audit for all relevant jurisdictions. All audits will be standardized and auditors will follow the procedures defined in the DOR audit manual. Without this agreement in place, the City would be unable to conduct taxpayer audits. Information about the sales tax simplification tax reform bill (HB2111) was provided to Council on October 16, 2014.

Previous Related Council Action

In October 2008, the City Council authorized entering into an intergovernmental agreement (C-6636) with the Arizona Department of Revenue for taxpayer joint audits and the uniform method of administration, collection, audit and licensing of transaction privilege tax, use tax, jet fuel excise and use tax and rental occupancy taxes imposed by the State or Cities or Towns.

Community Benefit/Public Involvement

This agreement simplifies and centralizes the auditing functions for the Arizona businesses.

Budget and Financial Impacts

Financial impact is non-material.