



# City Council Report

**Date:** September 6, 2016  
**To:** City Council  
**Through:** Mike Kennington, Chief Financial Officer  
**From:** Edward Quedens, MPA, C.P.M., CPPO, Business Services Director  
Mickey Tait, Tax Administrator  
**Subject:** Modification to the Intergovernmental Agreement with the Arizona Department of Revenue for the Administration of Local Transaction Privilege Tax (Citywide)

## Recommendation

Council is requested to approve the modification of the Intergovernmental Agreement dated June 15, 2015 between the City and the Arizona Department of Revenue (“ADOR”) regarding the uniform administration, licensing, collection, and auditing of Transaction Privilege Tax, use tax, severance tax, jet fuel excise and use tax and rental occupancy taxes (collectively referred to as “TPT” herein) imposed by the State or cities or towns.

## Purpose and Recommendation

Local TPT administration is governed by ARS § 42-6001. This statute requires ADOR to administer the TPT imposed by all cities and towns and to enter into a new IGA with each city and town to define the working relationship between ADOR and the cities and towns in the collection/administration of their TPT.

The State Tax Simplification project began in 2012. Auditing under ADOR rules and supervision went live in January 2015 and is working reasonably well. Staff from the cities and ADOR are working very hard to transition to ADOR doing license renewals later this year. Staff is also working to transition tax filing and collections to ADOR very early in 2017. Progress has improved with the new administration though there have been some bumps, primarily related to communication between the cities and ADOR due to the complexities and detail of municipal tax administration.

The IGA covers all aspects of local tax administration including confidentiality and the use of taxpayer data for public reporting, sharing of data between the cities and towns and ADOR, license and tax return data fields that must be provided by ADOR, data and reports ADOR will provide to the cities and towns, how agencies will conduct audits, guidance for handling voluntary disclosure by taxpayers, closing agreements in lieu of litigation, sets up the responsibilities and authorities of both parties in terms of

code or statute interpretations, legal support for protests, and a new "State and Local Uniformity Group" to iron out any problems or conflicts between the cities and the State.

The current term of the IGA runs on an annual basis from July 1 through June 30 and it renews automatically each year. The IGA requires an annual review of the terms and conditions by representatives of ADOR and the municipal taxing jurisdictions. This year's annual review resulted in suggested modifications to the IGA that were negotiated by the League of Arizona Cities and Towns on behalf of the cities/towns and ADOR.

There are five sections of the IGA being updated in the requested modification.

1. Clarifies that ADOR will temporarily hold funds if they determine that the taxpayer has identified the incorrect city or town to receive payment until a correction is made.
2. Defines that two representatives from the municipalities will be included in a group that will provide uniform taxpayer rulings related to the Model City Tax Code.
3. The IGA states that the costs incurred by ADOR to administer tax for the municipalities are financed through the State general fund. An additional sentence was added to the IGA clarifying that this provision does not relieve the municipality of any charges to the municipality by statute (the annual ADOR assessment to the City).
4. Modifies to remove the specific years in the dates of the term of the IGA and instead makes the term July 1 through June 30 with automatic renewal. It also clarifies that modifications agreed upon by the annual review committee (see below) will be incorporated into the IGA and such modifications will be effective in the term identified by the review committee.
5. The IGA is reviewed annually by a committee made up of equal parts representatives of ADOR and the cities/towns. This year's IGA update changes the initiation date of the committee's annual review, moving it from March 1 to June 1 of each year.

### **Fiscal Impact**

None

### **Alternatives**

If the Council does not approve the IGA modification, Mesa will not have any of the rights provided in the IGA, including the right to audit taxpayers and participate in any audit resolution processes. All TPT administration would default to ADOR. It is worth noting that, to City staff's knowledge, all of the cities/towns are planning on signing the modification.