



Council Report

Date: March 23, 2017
To: City Council
Through: Michael Kennington, Chief Financial Officer
From: Ed Quedens, Business Services Director
Patti Oskvarek, Revenue Collections Supervisor
Subject: Transaction Privilege Tax Amnesty Program

Purpose and Recommendation

The purpose of this report is to propose a Tax Amnesty Program. The Tax Audit & Collection Division would administer an amnesty program that would run for a two-month period from June 1, 2017 through July 31, 2017.

The proposal was recommended by the Audit, Finance and Enterprise Committee on March 6, 2017.

Background

With the state Tax Simplification initiative, the collection of Transaction Privilege Tax, Transient Lodging Tax and Use Tax is being done by the Arizona Department of Revenue as of January 1, 2017. The City Collections Unit will continue to pursue collection of delinquent tax returns and tax accounts receivable balances from prior to January 1, 2017. A tax amnesty program will bring revenue in and clean up aging tax accounts receivable balances and clear delinquent tax returns.

Cities such as Tucson have been quite successful with their tax amnesty programs, where they waived all penalty and half of the interest due. Their first amnesty program was from May 1, 2009 through June 30, 2009 had 598 businesses that applied for amnesty and \$806,418.18 of the total \$928,241.58 billed which was paid to the City of Tucson. Their second amnesty program was from September 1, 2015 through October 30, 2015 and had 618 accounts were resolved and \$2 million was collected. They waived \$300,000 of penalty and \$71,000 of interest.

The State of Arizona's amnesty program in 2015 recovered more than \$55 million, where they were projecting only \$15 million recovery. Due to the success of 2015's tax amnesty the State of Arizona announced a 2016 tax amnesty program that ran from September 1, 2016, through October 31, 2016. ADOR waived all civil penalties and interest for tax liabilities that were or could have been assessed during a specific

period. The biggest change to the 2016 amnesty program was that ADOR allowed taxpayers to pay the tax over three years, if they paid 30% percent by October 31, 2016. It should be noted that taxpayers whose tax liability was the subject of an ADOR audit were ineligible for the State of Arizona's amnesty program.

Discussion

The proposed Mesa amnesty program is a waiver of 100% penalty and 50% interest. The tax due accounts receivable balance as of 7/31/16 is \$666,864.27, penalties due is \$1,653,522.74 and interest is \$605,171.14 for a total of \$2,925,558.15.

For demonstration, this program could result in the following fiscal impact on the tax accounts receivable balance:

While the amnesty program will not result in the collection of all the amounts due to the age of some of the outstanding liabilities, it is believed that we may be able to collect a significant portion.

• <u>Collections at 60%</u>	
Tax, interest and penalty	\$1,755,334.89
Less: Penalties and 50% interest waived	<u>\$1,173,664.99</u>
Amount Collected	\$581,669.90
• <u>Collections at 40%</u>	
Tax, interest and penalty	\$1,170,223.26
Less: Penalties and 50% interest waived	<u>\$782,443.32</u>
Amount Collected	\$387,779.93

Businesses with missing delinquent tax returns, outstanding account receivables and unlicensed businesses would be eligible for the amnesty program. Receivables created as the result of an audit will not be eligible for the program due to State of Arizona audit administration. Payment under the amnesty program doesn't prohibit Mesa from conducting an audit for those periods which were included in the program.

The amnesty program is being proposed to bring in tax revenue, to clear up tax accounts receivable balance and to smooth the transition to State tax administration. This program will also increase future revenue when taxpayers comply and are paying going forward.

Alternatives

Without an amnesty program, we will continue as we have been with collections personnel placing phone calls, sending letters, and visiting taxpayer's business locations in order collect past due tax returns and balances.