

**TOWN OF PRESCOTT VALLEY
REQUEST FOR COUNCIL ACTION
Date: June 25, 2015**

SUBJECT: New IGA with ADOR for Transaction Privilege/Use Tax Administration

SUBMITTING DEPARTMENT: Management Services

PREPARED BY: Katie Pehl, Finance Manager
William E. Kauppi, Management Services Director

AGENDA LOCATION: Comments/Communications , Consent , Work/Study ,
New Business , Public Hearing , Second Reading

ATTACHMENTS: (a) Intergovernmental Agreement w ADOR, and (b) Appendices A, B, and C

SUMMARY/BACKGROUND: Since October 12, 1978, the Town of Prescott Valley has administered a Transaction Privilege/Use Tax Code as its primary source of independent revenue per ARS §9-240(B)(18). In 1984, a municipal sales tax study commission addressed concerns by the business community about inconsistency in tax administration among Arizona cities and towns, and efforts began to pre-empt local tax authority. In 1987, the Town (in conjunction with other Arizona municipalities) adopted a version of the Model City Tax Code established by the Arizona League of Cities and Towns in an effort to standardize local tax codes. And, in 1988 the Legislature formed the Model Sales Tax Code Commission (later the Municipal Tax Code Commission) to help administer the Model City Tax Code. In 1994 and 2000, local tax codes were amended to provide joint audit and other procedures in an effort to ward off further pre-emption efforts. But, in 2011 the Legislature adopted HB 2336 which transferred administration of the Model City Tax Code from the League to the Arizona Department of Revenue (beginning July 1, 2012). Then, HB 2111 (in 2013) and HB 2389 (in 2014) amended ARS §42-6001 to require ADOR to administer the transaction privilege and use taxes of ALL cities and towns (not just those previously in the state collection system). This required all cities and towns to enter into an intergovernmental agreement with ADOR to define their working relationship with regard to local TPTax administration (and cities and towns previously in state collection to have a new IGA).

Rather than have each city and town negotiate an IGA with ADOR, the League created a committee to negotiate a single version. The committee included a finance director, a tax administrator, and two attorneys. Also, attorneys and tax experts from many cities and towns reviewed the IGA draft.

The new IGA addresses confidentiality, including authorized handling of confidential taxpayer information, expectations for discreet use of taxpayer data to prevent unauthorized disclosure, and the process to follow in the event of a disclosure. It offers simplified guidance on the use of aggregated taxpayer data for public reporting and analysis. It includes direction on sharing general taxpayer license information, legal interpretations and written guidance, rate and fee tables, and other pertinent tax information that needs to be shared between cities and towns and ADOR. Importantly, it identifies which license and tax return data fields must be provided by ADOR and identifies in detail a series of new reports ADOR will provide.

In January 2015, cities and towns and ADOR began following new rules dealing with auditing. This IGA includes a commitment to audit for all jurisdictions whenever any audit is performed, provides continued authority for any city or town to perform an audit of a taxpayer engaged in business only in its jurisdiction, and provides that ADOR will lead all multi-jurisdictional audits (with an option for ADOR to

delegate actual audit performance to a city or town when circumstances indicate it would be the most efficient means of completing the audit).

The IGA provides guidance for handling voluntary disclosure by taxpayers and closing agreements in lieu of litigation, and sets out responsibility and authority for interpretations and protests. It also provides for a formal review process using the new "State and Local Uniformity Group" made up of four city and four ADOR tax experts to iron out conflicts between cities and towns and the State.

This IGA runs from July 1, 2015 through June 30, 2016 and renews automatically each year after that. Provisions are included for either party to reopen and renegotiate the IGA terms.

Upon approval, the following will be typed into this IGA form: (a) Town name and date of this Council action, (b) a contact e-mail address in Sections 2.1 and 3.1 to which ADOR will send a list of ADOR employees authorized to receive city/town taxpayer information and will direct any questions regarding town employees authorized to receive confidential information, (c), a contact mailing address in Section 19(a) to which notices will be sent, and (d) the name of the person in Section 31.2 who is authorized to sign the IGA. Staff will also place this information in an Excel spreadsheet provided by the League and return it to the League for its records. Two signed copies of the IGA will then be sent to:

Arizona Department of Revenue
Attn: City Unit
Division Code 16
1600 W. Monroe
Phoenix, AZ 85007

One signed copy will then be returned for Town records.

OPTIONS ANALYSIS: Council may approve this new IGA w ADOR recommended by the Management Services Director and Finance Manager, **OR** decline to approve this new IGA w ADOR.

ACTION OPTION: Motion to approve the new intergovernmental agreement with the Arizona Department of Revenue to provide for uniform administration, licensing, collection, and auditing of Town transaction privilege and use taxes, **OR** Motion not to approve this new IGA w ADOR. **VOTE.**

RECOMMENDATION: Staff recommends approving this new IGA w ADOR.

FISCAL ANALYSIS: The tax simplification process enacted by the Arizona Legislature will have some impact on the application and collection of local transaction privilege/use taxes in individual cities and towns throughout the state. However, since the Town has historically been part of the state collection system, Town staff believes the impacts should essentially be neutral.

REVIEWED BY:

Management Services Director _____

Town Clerk _____

Town Attorney _____

Town Manager _____

COUNCIL ACTION:

Approved Denied Tabled/Deferred Assigned to _____