TOWN OF PRESCOTT VALLEY
REQUEST FOR COUNCIL ACTION
Date: August 18, 2016

SUBJECT: Modification to 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) Modification to Intergovernmental Agreement

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). The League created a committee to negotiate a single version, and the Town Council approved that IGA with ADOR on Jun 25, 2015.

The IGA ran from Jul 1, 2015 through June 30, 2016 and renewed automatically unless a determination was made to renegotiate terms. Recently, such a determination was made by representatives of municipalities and ADOR and they have proposed that a modification be adopted by each municipality (including the Town).

The Modification involves five proposed changes, as follows:

1) Addition of a new section 9.6 "Adjustments to Reported Taxes". In some cases, ADOR knows there is an error by the taxpayer in identifying which city or town is supposed to receive the tax, but there was no mechanism allowing ADOR to hold the distribution while the error is being corrected. As a result, there were instances when ADOR had to send funds to a city or town knowing it was incorrect, only to pull those funds back in a subsequent distribution after the error had been resolved. This change allows ADOR to avoid such incorrect distributions and recoveries when it is aware of a problem from the outset.

2) Addition of a new section 9.7 "Taxpayer Rulings and Uniformity" provides for municipal input in the drafting of rulings and interpretations that impact the Model City Tax Code (including interpretations of state statute that flow through to the MCTC because the Model language matches the state language). Under current statute, ADOR is responsible for addressing all taxpayer written requests for rulings, even when the question is based on the Model City Tax Code. This section allows municipalities to have some influence over issues raised by taxpayers that have a direct impact on local tax imposition and interpretation.

3) An amendment to section 10 "Financing Collection of Taxes" to clarify that even though TPT collection and administration efforts are financed through state general fund appropriations, municipalities must still pay their assessed financial contributions each year per legislation.

4) An amendment to section 28.1 dealing with the term of the IGA to remove reference to specific years and adding a provision that any agreed-upon changes that arise from the annual review in Section 28.5 are retroactive to July 1st of each year. The IGA automatically renews without any action unless there are modifications agreed upon in any given year.

5) An amendment to section 28.5 relating to annual review of the IGA to say the review period begins on June 1st rather than requiring the review to be completed by March 1st. The March 1st deadline was simply unrealistic given the legislative session responsibilities of many of the typical reviewers.

OPTIONS ANALYSIS: Council may approve the proposed Modification of the IGA with ADOR (as recommended by the Management Services Director and Finance Manager), OR decline to approve the Proposed Modification of the IGA.

ACTION OPTION: Motion to approve the Modification to the IGA with the Arizona Department of Revenue to provide uniform administration, licensing, collection, and auditing of Town transaction privilege and use taxes. **VOTE**.

RECOMMENDATION: Staff recommends approving this Modification to the IGA w ADOR.

FISCAL ANALYSIS: Modifications in Transaction Privilege Tax administration always have the potential to impact Transaction Privilege Tax collections. However, the Town has historically been part of the state collection system from the Town's beginning (and, now that all municipalities must be part of the system there is really no other alternative). Staff believes any impacts from this Modification to the IGA will be minimal.

REVIEWED BY:

Management Services Director _____

Town Clerk _____

Town Attorney _____

Town Manager _____

COUNCIL ACTION:

☐ Approved ☐ Denied ☐ Tabled/Deferred ☐ Assigned to _____