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May 13, 2003

Senate Taxation- SB 495

Mc Sweeneide

Chairman McGinness and members of the Committee.

For the record, name.

The Department of Taxation is concerned (perhaps confused) regarding this Bill, first from understanding the full intent for what is being proposed and then secondly of how to technically and logistically implement the intent within the current structure of the Department.

First is our understanding of the Bill; it appears there is an intent to permit and create various prospective islands of sales tax generators structured to entice tourists to come into these islands to buy at retail and thereby generate a source of revenue. The revenue generated would be used to pay off bonds for such island projects, supported by up to 75% of the amount collected. At least 25% or more of the tax collected would be distributed in the normal manner. Further, the retailers/businesses involved would also be expected to pay for infrastructure to include, I presume, things like police, fire protection and other activities that comprise infrastructure. I think there is also the presumption that these tax generation islands would be stand alone and also sufficiently prosperous to bring economic fortune to adjacent entities.

Some comments are appropriate:

-This is a major paradigm shift on how the state has conducted the tax assessing and collection process. Taxes are currently collected based upon County of origin; and that is all. Taxes are then distributed based upon formulas dependent both upon the sales tax collected and upon assessed valuation.

-As a matter of review, the total sales tax rate is comprised of several portions: the 2% rate which goes to the general fund; the Local School Support rate; the Basic City County Relief rate; the supplemental City County Relief rate and the 377A and 377B option rates. I note that this bill makes no reference to the option taxes which could make collection and distribution somewhat messier without some provision for the option taxes. Otherwise they would have to be collected in the same manner as other sales and use taxes statewide. I also assume that in creating these individual islands of tax collection and distribution there is no legal problem to earmarking revenue with respect to the 2% rate and in allocating something different to the general fund.

-There is no infrastructure in place to collect taxes from an island, to give back a percentage of those taxes to an island district and then to distribute a portion of what is left over (percentage) in a "normal" manner.

-There is no telling how many of these special islands would pop up. I am sure that the number could be several. As I see it, this would permit revenue bonds for an island project without affecting a county's bond indebtedness. I also think that a tax generation island could be created within a City.

Now that I stated my understanding of the concept, a few words are in order about the Departments ability or inability to collect under this concept. Of course sales and use tax are collected by sending out a filing form to a business who then reports the measure/sales, less exemptions by each of the 17 counties. The taxes collected would then be distributed as previously mentioned, general fund, LSST, BCCRT, SCCRT and option taxes. The distribution formula includes computations to consider relationships of assessed valuations. SB 495 would exclude up to 75% of the taxes and require that somehow the 25% or more would have to get into the distribution system. Our system for collection and distributing taxes is ACES. It would be unreasonable and technically unfeasible to establish a reporting requirement with economic islands within our ACES tax collection, reporting and distribution system. The Department could develop new technology for this to happen. It would be ideal to incorporate as part of a new integrated and unified tax system. If time was of the essence we could develop a quick desktop program to handle the collection part; and, rather than send out a tax filing/billing in the normal course of administration, we could instead send out a special tax bill to retailers identified as being located within these economic islands. If there was no further consideration of treatment of the option tax portion, then there would have to be a special provision for billing of these portions. Although we would be able to technically handle the 75/25 or whatever spilt, we would have no integrated way to get the 25% portion into the distribution module for ACES. We would therefore have to handle the distribution of the 25% through the desktop portion and manually incorporate distribution into a existing computerized system. This would delay the processing monthly and quarterly distribution to the state and in turn all other local governmental entities.. Finally, the downside to handling this distribution separately is, we would effectively negate any potential for ongoing and accurate statistical reporting.

I am sure there are other nuances we have not realized. With that I have no further comment.