WISCONSIN LEGISLATIVE AUDIT BUREAU
AUDIT SUMMARY

Report 01-10

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Administration of the County Sales and Use Tax

County governments in Wisconsin are authorized by statute to impose a sales and use tax of 0.5 percent on the same goods and services that are taxable under the State's general sales tax. In calendar year 2000, 53 county governments imposed the tax, from which they received $215.2 million in revenues. The Department of Revenue has responsibility for processing tax returns, enforcing the tax, and administering monthly payments to counties. In exchange for these services, statutes currently require the Department to retain 1.75 percent of its collections as an administrative fee.

Like the state sales and use tax, the county tax applies to retailers and individuals. Retailers making sales subject to the 0.5 percent county tax must collect 5.5 percent on purchases at the time of each sale—the sum of the state and county sales tax rates—and file an annual, quarterly, or monthly return with the Department of Revenue. Typically, county sales and use tax revenues are distributed to county governments within 45 days of the retailer filing deadline. However, in June 2000, the Department made a delayed distribution of $13.0 million that had been overlooked in January and February 2000. This delayed distribution raised concerns among county officials about both the accuracy and the timeliness of the Department's distribution process.

The Department Has Developed Measures to Reduce Inaccuracies in Distributions

The Department's delay in recognizing its processing error and determining the cause occurred because the Department did not at the time have adequate mechanisms to ensure that all tax returns were fully processed and included in distributions to counties. Since then, the Department has developed measures to reduce the likelihood of overlooking data in the future, such as automating components of the file retrieval process and verifying the number of returns entered into the sales tax system and the number of returns reflected in the distribution.

When distribution of tax revenues is delayed, county governments can lose potential revenue from interest earnings. For example, had the $13.0 million that was delayed until June 2000 been distributed normally and invested in the Local Government Investment Pool within the State Investment Fund, we estimate that the counties would have earned approximately $240,000 in interest. Even though the payment was delayed considerably compared to the Department's normal 45-day processing practice, the payment was made within the 180-day period specified in statutes. This 180-day maximum processing period is longer than the processing periods allowed by surrounding midwestern states and was established in 1969, before today's processing technologies existed. We include a recommendation for the Legislature to reduce the time period specified in statutes to better reflect existing processing capabilities. The Department has agreed that a maximum of 75 days would be reasonable.

The Administrative Fee Generates More Funds than Are Used to Administer the Tax

The administrative fee retained by the State is established in statute and was increased from 1.5 percent to 1.75 percent in the 1999-01 biennial budget, in part to help fund the Department's development of new tax processing computer software, including new software for processing county sales tax returns. In FY 1999-2000, the 1.75 percent fee generated $3.9 million. Of this amount, the Department expended $3.0 million and lapsed $931,600 to the State's General Fund, prompting county officials to argue the fee is set too high.

Determining the actual cost of processing county sales tax returns is difficult because retailers report both state and county sales taxes on the same reporting forms, and the same staff process both taxes. The Department has estimated that processing the county tax requires the equivalent of 33.25 full-time positions, and it charges salaries, fringe benefits, and associated supplies and services expenses for that number of positions to the fee account. The number of positions included in the Department's estimate has remained the same since fiscal year (FY) 1996-97.

Department staff are required to keep records of the amount of time they spend processing each type of tax. In reviewing the Department's time-reporting system, we found that in FY 1999-2000, the county sales and use tax administrative fee funded 10.38 more full-time equivalent positions than were reportedly used to administer the tax. The Department indicates that additional instruction was provided to staff, and that time reports for FY 2000-01 are closer to the Department's estimate of 33.25 positions.

The administrative fee is also used to partially fund the Department's new Integrated Tax System (ITS), which will combine 30 separate state and local tax systems. The Department anticipates the new system will increase revenue collection, expand Internet tax filing capability, and provide faster refunds. Implementation of the entire ITS is two years behind the original timetable and is now expected in FY 2006-07, at a total cost of $78.0 million. The phase of ITS related to the sales and use tax, but that also includes development of accounting, registration, and data warehousing functions, is expected to be operational in FY 2002-03 at a cost of $27.2 million. The $8.8 million that will be charged to the administrative fee represents 32.4 percent of the costs for this phase.

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