



**REVIEW OF
RETAIL SALES AND USE TAX COLLECTION
AND
DISTRIBUTION PROCESSES**

SEPTEMBER 2013

Review Summary

In accordance with Section 30-133.2 of the Code of Virginia, we performed a review of the collection and distribution of the Retail Sales and Use Tax with a focus on the collection and distribution of local sales and use taxes. We conducted this review in multiple phases and we issued an interim report based on the initial phase of our review in November 2011.

In fiscal year 2012 the Commonwealth collected approximately \$4.9 billion in retail sales and use taxes. Over \$1 billion of these revenues were distributed to localities as a one percent local option tax. The Department of Taxation (Taxation) collects the tax and determines the local portion which is distributed to the locality where the sale or activity occurred.

Overall, the sales and use tax distribution process requires a joint effort between Taxation, localities, and businesses. There are a number of controls and processes in place to help ensure that locality distributions are accurate and made to the correct locality. When an error is detected, Taxation processes an adjustment to correct the distribution and transfer the funds to the correct locality.

Over the last several years, Taxation has implemented some new controls to reduce the number of locality distribution errors and improve the process. As a result, the error rate in the locality distributions has been steadily decreasing and was well below 1 percent in fiscal year 2012.

Error Rate for Local Sales Tax Distributions			
	2010	2011	2012
Local Distribution Amount	\$ 979,588,558	\$ 1,010,204,536	\$ 1,052,521,923
Errors Identified and Corrected	\$ 11,663,142	\$ 8,655,713	\$ 5,725,742
Error Rate	1.19%	0.86%	0.54%

Business registration errors continue to be the primary source of most locality distribution errors. Taxation has taken steps to reduce business registration errors; however, some may still occur. Any changes to the business registration process need to consider the impact on businesses, and changes that could increase costs for businesses or complicate the registration process may not be viable options.

Timely identification and correction of distribution errors is important to minimize the fiscal impacts on affected localities. The process for identifying distribution errors is highly dependent on localities reviewing information provided by Taxation. The level of effort and resources dedicated to this process varies and is directly related to the size and characteristics of the locality.

While we found the overall process to be sound, we recommend that Taxation consider automating all or parts of the distribution transfer request process and the reconciliation process for localities. In addition, Taxation should continue efforts to reduce business registration errors and enhance communication and training opportunities for localities.

As required, we are also recommending annual benchmarks Taxation should use to measure the effectiveness of the local sales and use tax distribution process. We recommend Taxation continue to calculate an annual error rate for local retail sales and use tax distributions. Based on our analysis of the error rates, we recommend 1 percent as a reasonable threshold, meaning if the error rate exceeds 1 percent in any given year, Taxation should perform additional analysis to determine the causes of the errors and if further actions are required.

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Section 1: Project Background

We performed this review as required by Section 30-133.2 of the Code of Virginia. This section requires the Auditor of Public Accounts to perform a review of the collection and distribution of retail sales and use taxes with an important focus on the collection and distribution of local retail sales and use taxes. This requirement was added as a result of legislation from the 2011 General Assembly and is included in Appendix A of this report.

The Code of Virginia permits localities to impose a one percent local retail sales and use tax; however, the statute prohibits localities from directly collecting these funds. Localities rely on taxpayers and Taxation to ensure accuracy in retail sales and use tax collection and distribution and this review focuses on these processes.

We conducted this review in multiple phases and issued an interim report based on the initial phase of our review in November 2011. This is our final report; however, there is some work that we will perform on an annual basis as part of our audit of the Department of Taxation going forward. The objectives and scope of our review and the various phases are discussed in more detail below.

Objectives

We divided this review into multiples phases although we have modified our planned phases since our interim report was issued in November 2011. The objectives related to each phase of the review are as follows:

Interim Phase

This phase of the review covered tax collections and processes in effect through the fiscal year ending June 30, 2011. We reported on this work in our interim report issued in November 2011. The objectives of work in the interim phase were to:

- Gain an understanding of Taxation's policies and procedures for the collection and distribution of the local retail sales and use tax;
- Evaluate the audits performed by Taxation on retail sales and use tax collection and distribution;
- Evaluate Taxation's procedures for identifying the proper county or city for distributions of local retail sales and use taxes; and
- Gain an understanding of procedures employed by local officials to identify entities that have not paid retail sales and use taxes, and how Taxation could coordinate and assist or work with local officials to collect and accurately distribute these collections.

Final Phase

This phase of the review covers tax collections and processes in effect through December 31, 2012. The objectives of work in this phase of the review are listed below and the results of this work are included in this report.

- Review Taxation's coordination and work with local officials to determine what information both groups can share and how they coordinate activities to enhance the collections and accuracy of distribution of local retail sales and use taxes;
- Provide recommendations to improve and enhance the Department of Taxation's and the local officials' policies and procedures for the collection and distribution of retail sales and use taxes; and
- Determine annual benchmarks for evaluating the effectiveness of the Department of Taxation's local retail sales and use tax collection and distribution process.

As discussed earlier, our annual audit of Taxation will include an evaluation of Taxation's local retail sales and use tax collection and distribution process in relation to the benchmarks. This will begin with the annual audit for fiscal year ending June 30, 2014.

Scope

Virginia levies multiple sales and use taxes on businesses and individuals within the Commonwealth, as well as out-of-state entities engaging in business within the Commonwealth. Taxation collects most of the Commonwealth's sales and use taxes through three separate and mutually exclusive taxes: sales tax, use tax, and consumer's use tax. Each of these taxes includes a one percent local portion that Taxation distributes to the locality. Our review looks at the collection and distribution of these taxes with an important focus on the collection and distribution of local portions of these taxes.

Methodology

We interviewed Taxation staff and reviewed the agency's policies and procedures to gain an understanding of the registration, collection, processing, and distribution of retail sales and use taxes. We employed similar procedures to gain an understanding of the audit procedures performed by Taxation to include both field audits on taxpayers and internal audits performed to assess effectiveness of the agency's collection and distribution procedures.

We reviewed Taxation's 2009 report to the Senate Finance and House Appropriations Committees titled *Incentive and Penalty Options to Encourage the Correct Allocation of the Local Retail Sales and Use Tax*, which outlines potential incentives for taxpayers who accurately report the local retail sales and use tax by locality, as well as penalties for those who erroneously report the tax. We also reviewed the 2011 Internal Audit report on Taxation's sales tax distribution process, which the Internal Audit Department performed to determine the adequacy of key controls and compliance with established policies and procedures.

We interviewed and surveyed local officials, including local Commissioners of the Revenue, to determine what procedures localities have in place to identify and correct errors in local retail sales and use tax distributions. Additionally, we analyzed financial information from Taxation's systems for overall retail sales and use collections as well as adjustments to local distributions. We

also reviewed supporting documentation for adjustments to local distributions in fiscal years 2011 and 2012 to gain an understanding of the general causes for adjustments and to identify any trends.

Summary of Results from Interim Review

Our interim report, issued in November 2011, provided background information on the retail sales and use tax collection and distribution process and discussed current practices employed by Taxation and localities to ensure accurate local distributions. In our interim report, we also made the following observations:

- Retail sales and use tax collection and distribution is an evolving process that requires active participation by Taxation, localities, and taxpayers to ensure accurate distributions. Communication and coordination between the entities is critical to ensure the process is effective in minimizing distribution errors.
- In recent years, Taxation has implemented a number of internal controls and procedures to address and help reduce both business and agency errors in the business registration process as well as the tax collection and distribution processes. Based on available data, both the number and dollar amount of adjustments required to correct erroneous local distributions has steadily decreased over the last three fiscal years. In fiscal year 2011, adjustments to correct erroneous distributions totaled \$8.6 million, which is less than one percent of total local distributions of over \$1 billion.
- Sales tax distribution errors do not impact all localities equally; therefore, any recommendations for improvements must undergo an evaluation of the cost effectiveness of the change.

We recognize that any recommendations for improvement must consider their potential impact on businesses. Suggested improvements that could result in increased costs for businesses or complicate the business registration process may not be cost-effective solutions.

Section 2: Virginia Sales and Use Taxes – Background Information

Our interim report issued in November 2011 provided background information on the collection and distribution process and discussed practices employed by Taxation and localities to ensure accurate local distributions. We have repeated some of this information below to provide the reader with an understanding of sales and use taxes and related processes that are relevant to this review.

Description of Sales and Use Taxes

Taxation collects most of the Commonwealth's sales and use taxes, including the state and local portions of the retail sales and use tax. Virginia's state and local retail sales and use tax encompasses three separate and mutually exclusive taxes: *retail sales tax, use tax, and consumer's use tax.*

- **Retail Sales Tax** – a tax imposed on gross receipts from retail sales of tangible property. Retail sales include sales to a consumer or to any person for any purpose other than resale. Both individuals and business are subject to retail sales tax when making purchases of tangible personal property; however, only the dealer that sold the property is responsible for collecting the tax and remitting the funds to Taxation. The dealer collects the tax from the customer by separately stating the amount of the tax and adding it to the sales price or charge.
- **Use Tax** – a tax imposed on the storage, use, or consumption of tangible property within Virginia for items purchased from dealers outside of Virginia. Every entity outside of Virginia that engages in business as a dealer and has nexus in Virginia must collect and remit the tax on sales to Virginia customers. The primary purpose of this tax is to prevent the sales tax from placing Virginia merchants at a competitive disadvantage with out-of-state retailers.
- **Consumer's Use Tax** – a tax applicable to both businesses and individuals, the Consumer's Use Tax applies to the use, consumption, or storage of tangible personal property in Virginia when the purchaser did not pay Virginia sales or use tax at the time of purchase. The consumer's use tax applies to purchases made tax-free outside of Virginia and brought back for the use within the Commonwealth.

Taxation collects additional sales taxes, such as aircraft sales and use tax, motor vehicle wholesale fuels sales tax, communications sales and use tax, and watercraft sales and use tax. Other state agencies also collect additional sales taxes, such as the motor vehicle sales and use tax (collected by the Department of Motor Vehicles). These taxes do not, however, include a local portion, and the distribution of these taxes does not fall into the scope of our review.

How Sales and Use Taxes are Allocated

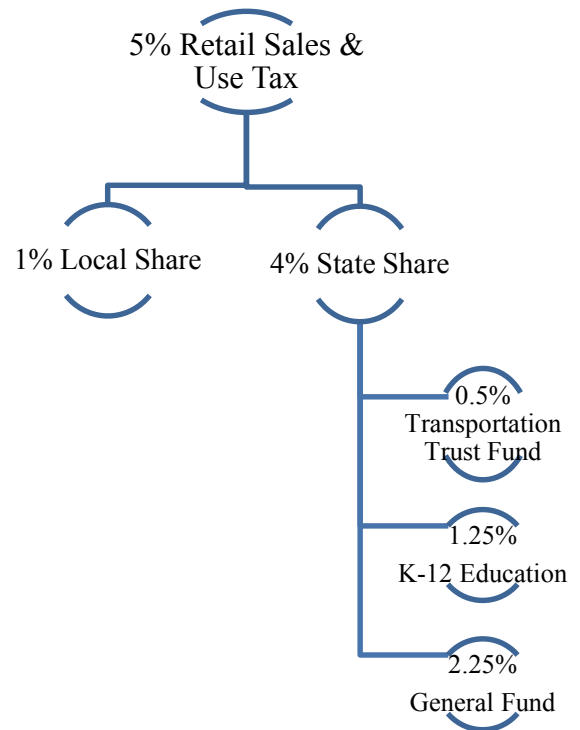
The allocation for retail sales and use tax and consumer's use tax is set forth in the Code of Virginia. The general sales and use tax rate in effect through June 30, 2013, was five percent, of which the Commonwealth retains four percent, and Taxation distributes one percent to the locality where the consumer purchased or used the tangible personal property. The remaining portion of the state's share is allocated between the Transportation Trust Fund, public education, and the General Fund of the Commonwealth as shown in the chart. A portion of the K-12 Education allocation is also transferred back to localities, but this allocation and distribution process is not performed by Taxation.

It should be noted that the sales and use tax rate applied to certain food purchases is less than the general sales and use tax rate discussed above. The tax rate applied to food purchases for home consumption is two and one-half percent. Of the two and one-half percent, the Commonwealth retains one and one-half percent, and Taxation distributes one percent to the locality where the consumer purchased or used the food, similar to general sales and use tax. The Commonwealth also distributes one percent of the state's one and one-half percent share back to localities for public education, while the remaining state portion goes to the Transportation Trust Fund.

Additionally, the Appropriation Act allows Taxation to retain a portion of local retail sales and use taxes collected as a fee for the administrative costs related to the collection and distribution process. On a biennial basis, Taxation estimates the amount of administrative costs necessary to accurately collect and distribute local sales and use taxes, and Taxation withholds these administrative fees from the amount distributed to localities. In fiscal year 2012, Taxation administrative fees were \$5.8 million. At year-end, the State Comptroller transfers the administrative fees from Taxation to the General Fund of the Commonwealth in accordance with the Appropriation Act.

The following table shows retail sales and use tax collections for fiscal years 2010-2012, including detail of collections by state and local revenue sources. The "1% local option" amount represents the one percent local tax, while the "K-12 Education" amount represents a portion of the 2004 one-half percent increase in state sales and use tax, which the Commonwealth collects as local revenues under the Public Education Standards of Quality/Local Real Estate Property Tax Relief Fund.

Retail Sales and Use Tax Allocation (Effective through June 30, 2013)



Retail Sales and Use Tax Collections					
(in millions)					
Fiscal Year	General Fund	Transportation Trust Fund	K-12 Education	1% Local Option	Total Collections
2010	\$ 3,082.5	\$ 490.7	\$209.4	\$ 979.6	\$ 4,762.2
2011	\$ 3,012.4	\$ 477.3	\$204.0	\$ 1,010.2	\$ 4,703.9
2012	\$ 3,121.5	\$ 503.1	\$214.1	\$ 1,052.5	\$ 4,891.2

Source: Virginia Department of Taxation Annual Report – Fiscal Year 2012

Taxation annually reports sales and use tax collections each year by locality and we have included this information for fiscal year 2012 in Appendix B of this report. This information, taken from Taxation’s annual report, shows the 1% local option for each locality as well as each locality’s share of the state share of the tax.

It should be noted that the 2013 General Assembly approved changes to the sales and use tax rates and the allocation of taxes to transportation. Effective July 1, 2013, the statewide retail sales and use tax rate increased from 4 percent to 4.3 percent. Additionally, in the Northern Virginia and Hampton Roads regions, the state imposed a 0.7 percent increase to the state and local sales and use tax for transportation and economic infrastructure development. These changes did not impact the 1% local option allocation or the processes for allocating this portion of the taxes to the localities.

How Businesses Register

Every new business in Virginia must register with Taxation for all taxes that may apply to the operation of the business. Depending on the business entity type, a business may also need to register with the State Corporation Commission and/or the Virginia Employment Commission. A business can mail the application to Taxation, or it can complete the registration process electronically through Taxation’s website. When an in-state business submits an application to Taxation and indicates that it will collect sales tax or remit use tax, the business also must provide identifying information regarding each of its business sites. Taxation later uses this information to properly allocate retail sales and use taxes to localities. When an out-of-state business submits an application, the business does not indicate which locality their future sales will take place in. In this situation, Taxation relies on the tax return to determine the locality for the sales.

Taxation assigns each business a Virginia account number, which the business must include on all of its returns. For businesses that remit sales and use taxes, Taxation uses the Virginia account number along with locality Federal Information Processing Standards (FIPS) codes to determine the appropriate distribution of sales and use taxes to a locality each month. If an in-state business changes localities or adds additional locations in other localities, the business must notify Taxation of these changes to allow Taxation to update its records, or a business can update its registration information through Taxation’s online system.

At the local level, the business registration process varies depending on the locality. There are differences in what information localities collect as part of the registration process as well as

applicable local fees or taxes. Many localities in the Commonwealth impose a Business, Professional, and Occupational License (BPOL) tax, which the locality may base on gross receipts or the Virginia taxable income of the business. Many localities that do not impose the BPOL tax require that businesses complete a registration form or file with the Clerk of the Court to notify the locality of existence and provide business information, which enables the locality to properly assess other business taxes. Still, some localities do not impose such requirements and use only a process of discovery to identify any new businesses.

How Businesses and Individuals Remit Sales and Use Taxes to Taxation

Retail Sales and Use Tax:

A business collects retail sales tax from the consumer when they make a sale, and the business later remits these funds to Taxation. Taxation places all newly registered accounts on a monthly filing status for the first year of reporting. After that time, if the business's average monthly liability is below \$100, Taxation automatically changes the business's filing frequency from monthly to quarterly. The retail sales and use tax return shows the amount due for general sales and use taxes, qualifying food sales and use taxes, the local portion, exemptions, and any penalties or interest due. A business must pay the amount of taxes due, either by check or electronic funds transfer (EFT), when filing the return.

Consumer's Use Tax:

A business that collects retail sales and use taxes can remit consumer's use tax on its monthly retail sales and use tax return. Otherwise, the business remits a separate consumer's use tax return on or before the twentieth day of the month following the period in which the use tax liability was incurred.

Individuals may be liable for consumer's use tax when they purchase goods, other than magazines or newspaper subscriptions, from businesses that do not collect the Virginia sales and use tax. An individual must report these purchases and pay consumer's use tax on the total amount of all untaxed purchases from all sources during the calendar year. When filing a separate return, the individual must pay the tax due at the time he files, either by check or money order. Alternatively, an individual can report this tax as part of his Virginia income tax return, and payment can be made via check, EFT, debit/credit card, or overpayment deduction.

Types of Filers:

There are multiple types of retail sales and use tax filers, and the filer type determines how the entity remits taxes to Taxation.

- **Single or Combined Filers** – A business with only one location is a single filer, while a combined filer has multiple business locations in a single locality. Since these businesses operate in only one locality, the business does not need to allocate its sales taxes to a specific locality on the return.

- **Consolidated Filers** – A consolidated filer has multiple business locations in multiple localities, which are known to Taxation prior to a return being filed. Since these businesses operate in multiple localities they must complete a Schedule of Local Taxes with the return each month to allocate sales and use taxes to the appropriate localities.
- **Non-Fixed Filers** – A non-fixed filer travels from locality to locality to sell tangible personal property (e.g., traveling artists, antique dealers). Since these businesses operate in multiple localities they must complete a Schedule of Local Taxes with the return each month to allocate sales and use taxes to the appropriate localities. The locations of a non-fixed filer are not known to Taxation until the return is filed to designate the locations.
- **Direct Pay Filers** – A business with a direct payment permit can purchase items without paying sales tax. Once the business determines the use of the item and how much of that is subject to tax, the permit holder must report and pay the applicable sales and use tax directly to Taxation themselves. A Schedule of Local Taxes is included as part of the return. Taxation does not know the locations of direct pay filers until the business files the return.
- **Out-of-State Filers** – A dealer that sells tangible personal property to Virginia residents and businesses from locations outside of Virginia and ships these purchases into Virginia must remit use taxes on the Out-of-State Dealer's Use Tax Return, which includes a Schedule of Local Taxes. Taxation does not know the locations of out-of-state dealers until the business files the return.
- **Vending Machine Filers** – A dealer reports sales made through vending machines using the Vending Machine Dealer's Sales Tax Return, which includes a Schedule of Local Taxes. Taxation knows the locations of vending machine filers ahead of when a business files their return based on how the business registered.

For a single or combined filer, Taxation records the business location, based on FIPS code, in its financial system, Integrated Revenue Management System (IRMS), upon receipt of the business's application. When Taxation processes the sales and use tax return for that business, the business account number on the return matches to the business account number stored in IRMS, and the location information associated with the business in IRMS identifies the appropriate locality for receipt of the local taxes reported by the business.

If the business is a consolidated or vending machine filer, Taxation records the business location, based on FIPS code, in IRMS, upon receipt of the business's application. The business's return includes a Schedule of Local Taxes, which indicates the gross sales and taxable local sales attributed to each locality, identified by the FIPS code. Taxation processes this information through IRMS, and IRMS assigns the appropriate amount of local tax to each locality. If sales are reported for a locality that the business has not pre-registered for, the return is suspended for manual review to correct either the registration information or the reporting information.

If the business is a non-fixed filer or an out-of-state filer, the business's return includes a Schedule of Local Taxes, which indicates the gross sales and taxable local sales attributed to each locality, identify by the FIPS code. Taxation processes this information through IRMS, and the system assigns the appropriate amount of local tax to each locality. There is no efficient way to validate whether the business is reporting the correct FIPS code. The Code of Virginia permits an out-of-state dealer that is unable to accurately assign a shipment to a particular city or county to remit the local use tax without making such assignment. In this instance, the dealer may identify the use taxes as "unassigned."

How Taxation Processes and Distributes Sales and Use Taxes

Taxation processes various types of returns in both paper and electronic formats. For paper returns, Taxation either scans the return to electronically capture data from the return using data capture software, or an employee keys data into one of Taxation's systems from a scanned image of the return. Taxation processes electronic returns using its Web Upload, eForms and iFile applications. All online applications interface with IRMS, so they transmit data directly from the application to IRMS.

Taxation distributes the local portion of sales and use taxes to localities on a monthly basis. Taxation calculates the amount to distribute to each locality based on information from the businesses' retail sales and use tax returns. Distributions are based on payments and returns processed between the 6th day of the previous month and the 5th day of the current month. The distribution also includes the locality's proportionate share of use taxes reported for unassigned localities, minus the administration fee retained by Taxation. These unassigned taxes are allocated in proportion to the locality's assigned revenues.

How Distribution Errors are Identified and Corrected

Taxation and localities work together to identify and correct sales and use tax distribution errors. Localities identify errors or discrepancies using various methods, such as comparing local records to Taxation-provided reports. Taxation provides every locality with inquiry access to the Advantage Revenue (AR) portion of its financial system, IRMS. This access allows localities to view tax records related to businesses within their locality. Taxation also makes several reports available to localities to aid in the monitoring of sales and use tax distributions. These reports include the following, among others:

- **Registration Tax Type Activity by Locality for the Month Report** – Lists registration activity, such as additions, modifications and deletions by tax type. This is currently for sales and use and corporate taxes.
- **Gross Receipts for Localities Report – Cumulative** – Shows the gross receipts for each locality to assist the Commissioner of the Revenue to determine if the correct amount of tax has been paid for the taxpayers' business license.

- **Gross Receipts for Localities Report – Monthly** – Shows the gross receipts for each locality for the previous month in the current tax year.
- **New Sales Tax Dealers Monthly Report** – Displays sales tax dealers that have opened, re-opened or have closed a location in a particular locality during the month.

Localities use these reports as the primary means of identifying errors and discrepancies in the sales and use tax distribution process. Localities will reconcile information on these reports to various locality records to identify discrepancies or errors in the distribution of the sales tax.

When a locality identifies a distribution error, they must mail or fax a Locality Transfer Request Form to Taxation. The Locality Transfer Request Form includes all information necessary for Taxation to begin investigating the error. The requesting locality mails the transfer request form to the other affected locality, which then has 60 days to respond to the notification. If there is a disagreement between the localities, Taxation recommends that the appropriate officials from each locality meet to resolve the issue.

Internally, Taxation also may identify errors in distributions through such means as audits, locality inquiries, or additional information provided by the business. When Taxation identifies an error, the agency's units work together to research and correct distributions. There are several units within Taxation involved in the error identification and resolution process, including the Registration Unit, the Error Resolution Unit, the Special Taxes and Services Unit, the Finance Unit, and Field Audit. Taxation also regularly communicates with localities to ensure proper distributions.

For in-state businesses, Taxation uses Trillium global locator software to identify or verify a business's location using the physical address that the business provides at the point they register with Taxation. This software can also add the additional four digits to a five digit ZIP code and normalizes addresses to conform to the United States Postal Service. The Trillium software includes geo-coding, which assigns latitude and longitude coordinates to a location. This allows Taxation to more accurately determine the correct FIPS code for a business.

Taxation's Registration unit also manually reviews consolidated returns every month to ensure accuracy of location information. The unit reviews a report that compares the consolidated return to the business registration information to confirm that the number of business locations within a locality on the return agrees to the information maintained in Taxation's financial system. The Registration unit follows up on any discrepancies.

Lastly, in January 2011 Taxation implemented a new online service, called FIPS Code Lookup, which allows a business to research the appropriate FIPS code for a specific address. In-state dealers can use this service to identify the proper FIPS code for their business locations, while out-of-state dealers can use the service to identify the appropriate FIPS code associated with the destination locality of items sold. Accurate FIPS codes help ensure that Taxation distributes local retail sales and use taxes to the appropriate locality.

Taxation maintains supporting documentation for agency and locality-identified errors and the corresponding adjustments. The Code of Virginia allows Taxation to process sales tax adjustments up to three years from the date of discovery allowing for any time to research and resolve the error. For example, if a locality discovers that a business has been registered in the wrong locality for the last five years, and the locality just discovered the error, Taxation can only transfer the amount of sales and use taxes that the business has paid for the past three years.

Section 3: Analysis of Distribution Errors and Transfers

While there are a number of controls and processes in place to ensure accurate distributions of the local sales and use tax, some errors are inevitable. Errors can occur in a number of different situations and both localities and Taxation have processes to identify these errors. In this section, we will analyze distribution errors and discuss issues that hinder accurate distributions, as well as procedures that Taxation and localities have implemented to address these issues.

Analysis of Distribution Errors

Distribution errors include any inaccuracy in the amount of local retail sales and use tax that a locality receives. When Taxation identifies or is notified of distribution errors, Taxation records adjustments in IRMS to correct the error and transfer amounts between localities. As part of our review, we analyzed the number and amount of adjustments/transfers over the last four fiscal years as shown below.

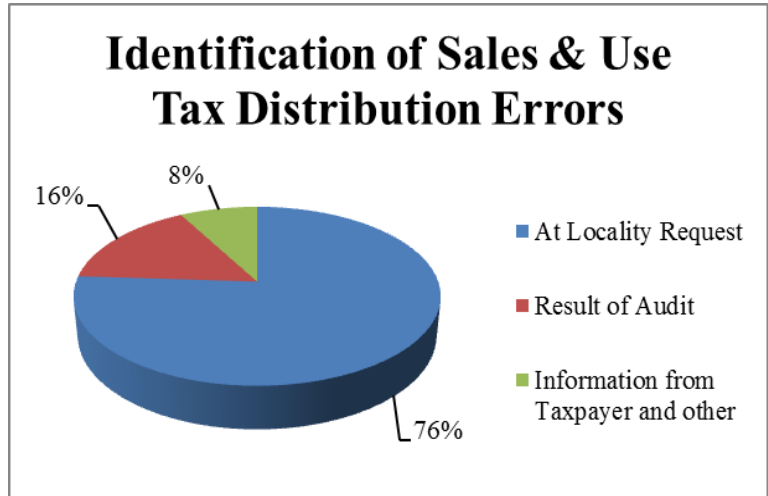
Error Rate for Local Retail Sales and Use Tax Distributions				
	2009	2010	2011	2012
Number of Returns	938,780	932,080	924,061	928,896
Number of Adjustments	937	643	342	390
Local Distribution Amount	\$ 1,010,847,125	\$ 979,588,558	\$ 1,010,204,536	\$ 1,052,521,923
Amount of Adjustments	\$ 17,705,666	\$ 11,663,142	\$ 8,655,713	\$ 5,725,742
Error Rate (Amount)	1.75%	1.19%	0.86%	0.54%

Source: Taxation's Integrated Revenue Management System

Both the number of adjustments and the overall error rate have decreased over the last several years as shown above. Some of this decrease is attributable to a number of procedures and controls that Taxation has implemented. The combination of the Trillium software and FIPS Code Lookup application has allowed Taxation to more accurately identify the locality a business is physically located in and reduce potential distribution errors.

Although Taxation tracks statistics on the number and amount of adjustments made, they do not analyze the cause of an adjustment. To gain a better understanding of the reasons for the adjustments, we reviewed supporting documentation for all adjustments processed between July 1, 2011, and December 31, 2012. This documentation included transfer request forms submitted by localities as well as research and correspondence from Taxation employees to identify and correct inaccurate distributions. These adjustments included those requested by localities as well as those initiated by Taxation.

Based on our review of adjustments, we determined that over 76 percent of all transfers processed by Taxation during this period were at the request of a locality. The main reason for these requests was to correct the registration of a business. These corrections were due to businesses initially registering in the wrong locality, and businesses moving to a new locality and not updating their registration with Taxation.



Inaccurate registrations occurred more frequently in localities with similar names (e.g. Fairfax County, City of Fairfax) and localities that share ZIP codes (e.g. City of Waynesboro and Augusta County). When a business submits its application or registers online with Taxation and indicates that it will collect retail sales and use taxes, it may provide an incorrect address which automatically assigns all subsequent payments to the wrong locality. A business may unintentionally register under the wrong locality or provide incorrect information on their return, simply because of confusion. This may be especially true for out-of-state businesses that are unfamiliar with Virginia locality boundaries and names.

Approximately 16 percent of the transfers processed were the result of an audit performed by Taxation. During the course of a business audit, Taxation auditors review the sales and use tax returns and ensure that the Schedule of Local Taxes correctly allocates the tax to the correct localities. Taxation selects audit candidates from various sources, such as taxpayer complaints and tips from localities, and audits larger businesses every three years. In some instances, an audit resulted in a refund to the business, so Taxation processed adjustments to transfer sales and use tax funds from a locality account in accordance with the audit refund. Additionally, Taxation may determine that a business has improperly registered or erroneously allocated sales and use taxes to the wrong locality. In such instances, the auditors work with other units within Taxation to research and correct any previously inaccurate local distributions.

As discussed earlier, the Code of Virginia allows for adjustments to be processed up to three years from the date of discovery. We further analyzed adjustments processed between July 1, 2011, and December 31, 2012, to gain an understanding of how timely the distribution errors are identified and corrected. The earlier a discrepancy is identified, either by Taxation or a locality, the less fiscal impact on the affected localities.

The following table shows the number of months each transfer represents. For example, if a locality identifies a business in its jurisdiction has been incorrectly registered in a neighboring locality for the past two years, and it takes two months to investigate the error and for Taxation to process the transfer, the final adjustment will include all sales and use taxes paid by the business for the past 26 months.

Length of Time Before an Error is Identified and Corrected		
	Number of Transfers	Percent of all Transfers
Over 3 years	73	25.52%
2-3 years	61	21.33%
1 -2 years	74	25.87%
1 year or less	78	27.27%

Source: Taxation's Integrated Revenue Management System

transfers processed and 82 percent of all funds transferred. Before Taxation processes a transfer, the system compares the total transfer amount to the average monthly distribution received by the locality. If it is determined that the transfer will adversely impact a locality, the system will spread the transfer out over multiple months to lessen the fiscal impact on the locality.

Approximately 25 percent of all transfers processed by Taxation during the period were for a period of three years or more. The time it takes for Taxation to research and process the adjustment varies depending on the complexity of the transfer, the length of the transfer period, and the level of assistance from the business involved. Ultimately this results in adjustments being processed for a period of time greater than three years.

Transfers for a period of over two years accounted for almost 47 percent of all

Section 4: Results of Locality Survey and Feedback

Generally, a locality's head of finance is responsible for tax collection, including oversight of local retail sales and use tax distributions from the Commonwealth. Depending on the locality's executive structure, a Commissioner of the Revenue or Director of Finance performs this oversight, and these local officials employ varying degrees of procedures to identify and correct erroneous local retail sales and use tax distributions.

As part of this review, we collected information from localities to gain an understanding of their procedures as well as issues they were facing related to sales and use tax distributions. We performed an initial survey in the interim phase of this review and conducted an additional statewide survey in the final phase of our review. Additionally, we discussed the sales and use tax monitoring process in more detail with several localities that had significant transfer activity during fiscal year 2012.

Locality Survey Results

We conducted an anonymous statewide survey of Virginia localities and received 69 responses. The respondents are a representative sample of all localities because the distribution of our respondents by population is similar to the population distribution of all localities in Virginia. The following table shows the breakdown of survey respondents based on the population of the locality.

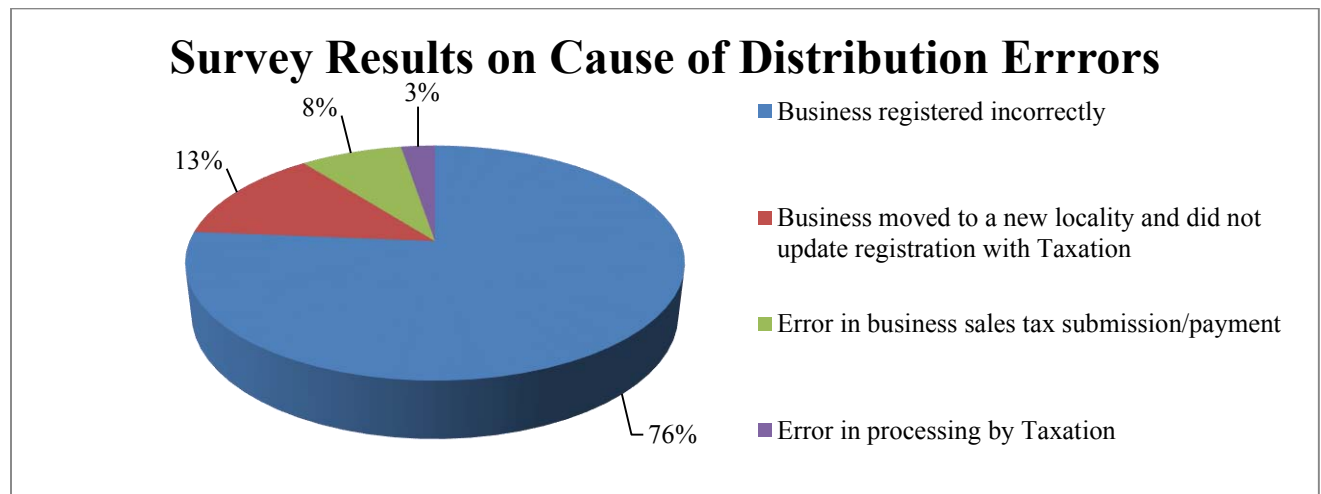
Survey Respondents by Population of Locality		
	Number of Localities (Respondents)	Percentage of Total Respondents
Population < 25,000	37	54%
Population between 25,000 and 50,000	16	23%
Population between 50,000 and 100,000	9	13%
Population > 100,000	7	10%
Total respondents	69	100%

We surveyed the localities to determine if they had identified errors in sales and use tax distributions and if so, what the main causes of the errors were. We also gathered information on each locality's approach to identifying and resolving errors to gain an understanding of how many resources they were devoting to this activity. Lastly, we asked about the timeliness of Taxation's response when errors were identified and also solicited any recommendations to improve the process.

Of the 69 localities who responded to our survey, 58 percent had identified errors or discrepancies in the sales and use tax distributions administered by Taxation during the prior 18-month period. Approximately half of these smaller localities had identified errors or discrepancies

while all of the localities with a population over 100,000 that responded to our survey had identified errors.

Of the localities that had identified errors in the sales and use tax distributions, the majority of these errors were the result of incorrect business registrations. These types of errors accounted for over 75 percent of the errors identified as shown below. This information was consistent with our earlier analysis of distributions errors discussed in the previous section.



The impact of inaccurate distributions varies widely across the Commonwealth. Larger localities adjacent to localities with similar names may experience numerous errors during a year, while smaller localities with few local businesses may encounter few, if any, erroneous distributions.

Based on our survey results, over 56 percent of all responding localities have staff where at least part of their responsibilities is to monitor the sales and use tax distributions. There is a clear correlation between the size of the locality and the amount of resources that are available for monitoring distributions. The majority of smaller localities devote no staff or resources to this process, or only devote resources when made aware of an error or discrepancy. Conversely, most of the larger localities have staff and resources available to monitor the distributions on at least a part-time basis.

Finally, we asked for feedback related to how the localities view Taxation’s response to correcting errors or discrepancies. Over 70 percent of localities that had identified errors and reported them to Taxation felt that the response from Taxation was timely. Additionally, we asked each locality for suggestions for improving the distribution process and we have summarized some of their recommendations below. We considered this feedback in developing our conclusions and recommendations for this review and these are discussed in the next section in this report.

- *Multiple localities felt that additional training from Taxation related to IRMS and the standardized reports made available would be helpful.*
- *Several localities expressed a desire for Taxation to provide guidance on how to identify errors or discrepancies in the sales and use tax distributions.*

- *Localities would like more access to the sales and use tax records of neighboring localities. They believe with more access to the system and reports, they would be able to monitor the distributions for neighboring localities and potentially identify errors and discrepancies.*
- *Localities would like to be able to notify Taxation of transfer requests electronically. As discussed earlier, this current process for notifying Taxation is primarily a manual process.*

Discussion with Localities

We also discussed the locality sales and use tax monitoring process in more detail with two localities to get an understanding of problems they are encountering. The first locality, which has a population of approximately 21,000, has limited resources and staff to monitor the distribution process. Additionally this locality shares zip codes with two neighboring localities which results in business registration errors. This locality began regularly monitoring the distributions in 2011.

The locality has one employee who is responsible for monitoring the sales and use tax distributions along with her other unrelated job duties. The locality's approach to the monitoring process is to perform one large audit each year to review the Gross Receipts for Localities Report. It is estimated that this audit takes approximately one week with one staff while still performing other job responsibilities. Additionally, the locality reviews the Registration Tax Type Activity Report and the New Sales Tax Dealers Report each month. They estimated the monthly review of reports takes approximately one day for the one staff to complete. Both the monthly and annual reviews are done manually with little or no automation due to the format and information included on each report.

They also stated that they have seen an improvement in the distribution process administered by Taxation and have identified fewer errors in the past couple of years. When asked for recommendations for other smaller localities to improve the monitoring process, the locality suggested starting with a big audit of the Gross Receipts for Localities Report (Cumulative) and also developing a monthly review process of Registration Tax Type Activity and New Sales Tax Dealers monthly reports. The large audit will help identify errors with current businesses, and the monthly review will help identify errors with new businesses in the locality. The locality has developed a good relationship with their neighboring localities, which helps with the resolution of errors and discrepancies.

The second locality (population of over 500,000), has more staff and resources available to monitor the sales and use tax distributions. However, due to the size of the locality, their approach relies heavily on sampling as they are unable to review every report in detail each month. The locality estimates they devote approximately 20 hours each month monitoring the distributions and reports, plus additional time to resolve errors and discrepancies. Over the last several years, the locality has reduced the amount of time they devote to sales and use tax distributions due to fewer

errors being identified and fewer transfers to request. The majority of transfers the locality requests are due to business registration errors resulting from shared zip codes with neighboring localities.

The locality felt that to be able to monitor the distributions more closely they would like to have access to more detail regarding consolidated filers and business that are filing unassigned returns. Currently the information on the reports related to consolidated filers is not detailed enough for the locality to do a thorough reconciliation. Additionally, the locality would like to see the Taxation reports include additional identifying information and be made available in a format that could potentially lead to the automation of the reconciliation process. By automating the monthly reconciliation process, the locality would be able to perform a complete reconciliation each month instead of relying on sampling. Additionally, the automation process will allow the locality to identify and resolve errors in a timelier manner.

Locality Access to Taxation Reports

As discussed earlier in the report, Taxation provides every locality with inquiry access to the Advantage Revenue (AR) portion of its financial system, IRMS. Through this access, Taxation makes several reports available to localities to aid in the monitoring of sales and use tax distributions. Localities use these reports as the primary means of identifying errors and discrepancies in the sales and use tax distribution process, thus a timely review of the reports is critical for identifying and correcting distribution errors.

As part of our review, we analyzed recent report activity to determine how timely localities, in general, are accessing these reports. Taxation collects information on the reports including when they are accessed by each locality. While simply accessing a report is not a definite indicator that the locality used the information, it was our best indicator for evaluating how timely localities were at least attempting to use the information.

In April 2013, we reviewed the activity for the January and February 2013 reports to determine which localities had accessed and opened the respective reports. We have summarized the results of this review in the table below. As shown below, almost one-third of all localities had not opened any reports made available for January or February 2013.

Timeliness of Accessing Taxation Monthly Reports by Localities		
	Number of Localities	Percentage of all Localities
Opened all reports for January and February 2013	60	44%
Opened some, but not all, reports for January and February 2013	32	24%
No reports opened for January and February 2013	43	32%

Source: Department of Taxation (as of April 12, 2013)

Timely review of the available reports is necessary to reduce the fiscal impact of any potential transfers between localities. The more quickly distribution errors can be identified and

resolved, the less fiscal impact on the affected localities, and the less administrative time to research and correct the error.

Section 5: Conclusions and Recommendations

Based on the results of this review, we offer the following conclusions about the local sales and use tax distribution process as well as some recommendations for consideration. In addition, in accordance with the Code of Virginia requirements for this review, we have included some recommendation for benchmarks to measures the effectiveness of the process in the future.

Conclusions

Overall, the sales and use tax distribution process requires a joint effort between Taxation, localities and businesses. There are a number of controls and processes in place to help ensure that locality distributions are correct. Taxation has implemented several new controls over the last several years to continue to improve the process and reduce the number of locality distribution errors. The error rate has been steadily decreasing over the last four year and was well below one percent in both fiscal years 2011 and 2012.

Business registration errors continue to be the primary source of most locality distribution errors. Taxation has taken steps to try and reduce the business registration errors; however, some may still occur. Any changes to the business registration process need to consider the impact on businesses, and changes that could result in increased costs for businesses or complicate the registration process may not be viable options even though they might reduce distribution errors.

The timely detection and correction of distribution errors will minimize fiscal impacts on affected localities, thus it is critical for localities to review reports timely and notify Taxation of distribution errors. The level of effort to identify and report distribution errors by localities varies and is directly related to the size of the locality as well as the likelihood of errors based on the characteristics of the locality.

Recommendations

Continue Efforts to Reduce Business Registration Errors

As discussed previously over the past few years Taxation has implemented Trillium global locator software and the online FIPS Code Lookup service. These two services have allowed Taxation to reduce the number of business registration errors and ensure that new businesses are registering in the correct locality. Taxation should continue their efforts to minimize the business registration errors. By identifying and correcting business registration errors before collecting sales and use taxes, Taxation can reduce the number of future error corrections and transfers.

Automate Transfer Request Process

Taxation should consider automating the transfer request process. Currently the only way for a locality to request a transfer to correct an incorrect distribution is to mail or fax a form to Taxation. By allowing electronic transfer requests, Taxation will be able to better capture and analyze the

transfer information. Taxation can potentially analyze the requests and transfer data to determine if there are any common factors that they could address to reduce future transfer errors.

An automated process might also allow localities the ability to check on the status of a request and easily provide additional information to Taxation if necessary. If the transfer information is stored in a secure on-line database that is available to all localities, a locality could also view the requests of other localities which might help them identify potential errors in their own locality.

Certainly, an on-line system or process automation would come at a cost. Taxation should consider options for automating all or part of this process and perform a cost benefit analysis to determine the feasibility of implementing an on-line transfer request system.

Enhance Communication Between Taxation and Localities

As previously discussed, both Taxation and the localities have an important role in ensuring proper collection and distribution of sales and use taxes. Increased communication between these two entities can help identify and reduce distribution errors. Taxation should consider providing additional training resources on the sales and use tax distribution process and available reports to localities. With increased training and education, localities will be better able to identify and report distribution errors in a timelier manner.

In addition, the current manual review and/or reconciliation process performed by localities is time-consuming and susceptible to error. Localities should communicate to Taxation the information they require to automate the monthly reconciliations. Taxation should communicate with the larger localities, where a complete manual review is not feasible, and determine if there is any additional identifying information available on Taxation's system that could potentially be used to automate the review/reconciliation process. By automating the localities' reconciliation process, the individual localities will be able to more easily identify distribution errors in a timelier manner.

Recommended Benchmarks

As required by the Code of Virginia for this review, we are recommending annual benchmarks Taxation should use to measure the effectiveness of the local sales and use tax distribution process. We recommend Taxation continue to calculate an annual error rate for local retail sales and use tax distributions. This error rate would be calculated based on the dollar amount of adjustments to correct distributions errors and the total amount of local distributions in a year.

We have presented information on this error rate for the past four years earlier in this report. Based on these error rates, we recommend one percent as a reasonable threshold, meaning that if the error rate exceeds one percent, Taxation should perform additional analysis to determine the causes of the errors and whether further actions are required.



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 6, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have reviewed Taxation's procedures for the collection and distribution of retail sales and use taxes with an important focus on the collection and distribution of local retail sales and use taxes and are pleased to submit our report entitled **Review of Retail Sales and Use Tax Collection and Distribution Processes**. We conducted this review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Exit Conference and Report Distribution

We provided a copy of this report to Taxation's management on September 6, 2013, for their review. Management's response to the report is included in the section titled "Response from Department of Taxation." We did not audit management's response and, accordingly, we express no opinion on it. We also provided copies of this report to representatives of the Commissioners of Revenue Association.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

LCW/alh



COMMONWEALTH of VIRGINIA

Department of Taxation

October 11, 2013

Ms. Martha S. Mavredes
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Ms. Mavredes:

The Department of Taxation (TAX) values the opportunity to comment on a draft of the Retail Sales and Use Tax Collection and Distribution Process report. I appreciate the report's acknowledgement that TAX has implemented several new controls and the process error rate has decreased to below one percent for fiscal year 2011 and 2012. A short summary of Taxation's plans to address the report findings follows:

Continue Efforts to Reduce Business Registration Errors

TAX will continue our efforts to minimize business registration errors.

Automate Transfer Request Process

TAX will perform a cost benefit analysis to determine the feasibility of implementing an on-line transfer request system by March 31, 2014 and depending upon the results, will implement a solution soon thereafter.

Enhance Communication between Taxation and the Localities

TAX will schedule a meeting with representatives of the Commissioners of Revenue Association and other local representatives by December 31, 2013 to determine how localities and TAX can work together to achieve our mutual goals.

Recommended Benchmarks

TAX will calculate an annual error rate for local retail sales and use tax distribution within 60 days of year end. If the error rate exceeds one percent, TAX will perform an additional analysis to determine the causes of the errors and whether further actions are required.

Again, thank you for the opportunity to review and comment. Please let me know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Craig M. Burns".

Craig M. Burns
Tax Commissioner

c: The Honorable Richard D. Brown, Secretary of Finance

Appendix A: Chapter 614 of the 2011 Acts of Assembly

CHAPTER 614

An Act to amend the Code of Virginia by adding a section numbered 30-133.2, relating to the Auditor of Public Accounts reviewing the distribution of collections of retail sales and use taxes.

[S 1271]

Approved March 25, 2011

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding a section numbered 30-133.2 as follows:

§ 30-133.2. Annual review of the collection and distribution of retail sales and use taxes.

As part of the annual audit of the Department of Taxation, the Auditor of Public Accounts shall perform a review of the collection and distribution of the Retail Sales and Use Tax (§ 58.1-600 et seq.), with an important focus being the collection and distribution of local retail sales and use taxes. In addition to all other responsibilities and duties required under law, the Auditor of Public Accounts shall, promptly upon completion of the annual review, issue a report to the Chairmen of the House Committee on Appropriations, the House Committee on Finance, the Senate Committee on Finance, and the Commissioner of the Department of Taxation. All actions or requests for tax information by the office of the Auditor of Public Accounts for the purpose of conducting the review shall be deemed to be performed in the line of duty for purposes of § 58.1-3.

2. That for the Commonwealth's fiscal years ending June 30, 2011, and June 30, 2012, the review to be performed by the Auditor of Public Accounts pursuant to the provisions of this act shall include but shall not be limited to the following:

- a. A review of the Department of Taxation's policies and procedures for the collection and distribution of the local retail sales and use tax pursuant to Chapter 6 (§ 58.1-600 et seq.) of Title 58.1 of the Code of Virginia;
- b. A review of procedures employed by local officials to identify entities that have not paid retail sales and use taxes and how the Department of Taxation could coordinate and assist or work with local officials to collect and accurately distribute these collections;
- c. An evaluation of the audits performed by the Department of Taxation on retail sales and use tax collection and distribution;
- d. An evaluation of the Department of Taxation's procedures for identifying the proper county or city for distributions of local retail sales and use taxes;
- e. A review of the Department of Taxation's coordination and work with local officials to determine what information both groups can share and how they coordinate activities to enhance the collections and accuracy of distribution of local retail sales and use taxes; and

f. Recommendations to improve and enhance the Department of Taxation's and the local officials' policies and procedures for the collection and distribution of retail sales and use taxes.

3. That beginning with the Commonwealth's fiscal year ending June 30, 2013, and thereafter, in furtherance of the review required pursuant to the provisions of this act, the Auditor of Public Accounts shall recommend annual benchmarks for evaluating the effectiveness of the Department of Taxation's local retail sales and use tax collection and distribution process to the Chairmen of the House Committee on Appropriations, the House Committee on Finance, the Senate Committee on Finance, and the Commissioner of the Department of Taxation.

Appendix B: Local Retail Sales and Use Tax Distributions by Locality Fiscal Year 2012

County	Share of State Tax	Local Option	Total Amount	County	Share of State Tax	Local Option	Total Amount
Accomack	\$ 5,194,180	\$ 3,702,272	\$ 8,896,452	Gloucester	\$ 5,281,308	\$ 3,713,138	\$ 8,994,446
Albemarle	12,235,459	12,293,218	24,528,677	Goochland	2,392,167	2,252,200	4,644,367
Alleghany	2,341,981	836,126	3,178,107	Grayson	1,846,401	396,013	2,242,414
Amelia	1,424,705	617,193	2,041,898	Greene	2,538,541	1,569,052	4,107,592
Amherst	4,365,426	2,395,899	6,761,325	Greensville	1,196,780	504,005	1,700,785
Appomattox	1,771,820	1,190,925	2,962,745	Halifax	5,053,383	3,367,708	8,421,091
Arlington	16,069,059	38,543,633	54,612,692	Hanover	15,775,615	16,853,773	32,629,388
Augusta	9,880,234	4,555,627	14,435,861	Henrico	41,592,475	57,651,707	99,244,182
Bath	538,098	783,024	1,321,122	Henry	6,617,492	3,889,175	10,506,666
Bedford	7,946,705	4,018,960	11,965,666	Highland	255,109	108,319	363,428
Bland	703,988	233,444	937,433	Isle of Wight	5,290,369	2,507,268	7,797,637
Botetourt	4,627,504	2,233,280	6,860,784	James City	8,490,380	9,296,477	17,786,857
Brunswick	1,923,770	711,856	2,635,626	King and Queen	795,298	176,471	971,769
Buchanan	2,670,277	2,100,640	4,770,918	King George	3,339,415	1,693,841	5,033,255
Buckingham	1,770,426	621,236	2,391,663	King William	2,410,289	940,251	3,350,540
Campbell	7,513,857	4,293,820	11,807,677	Lancaster	1,206,539	1,652,146	2,858,685
Caroline	4,054,555	1,560,274	5,614,829	Lee	3,108,005	1,374,522	4,482,526
Carroll	3,064,789	1,680,046	4,744,836	Loudoun	49,714,132	60,397,459	110,111,591
Charles City	733,263	448,734	1,181,998	Louisa	4,120,075	2,895,317	7,015,392
Charlotte	1,610,809	528,518	2,139,328	Lunenburg	1,444,222	352,853	1,797,074
Chesterfield	45,226,031	40,413,177	85,639,208	Madison	1,700,725	833,334	2,534,058
Clarke	1,735,576	978,372	2,713,948	Mathews	1,096,410	415,432	1,511,842
Craig	642,651	151,212	793,863	Mecklenburg	3,667,013	4,498,987	8,166,000
Culpeper	6,273,862	6,098,089	12,371,950	Middlesex	1,067,832	869,749	1,937,581
Cumberland	1,313,182	380,159	1,693,341	Montgomery	9,563,091	10,653,069	20,216,160
Dickenson	1,886,828	878,662	2,765,490	Nelson	1,863,827	980,596	2,844,423
Dinwiddie	4,023,887	1,332,689	5,356,575	New Kent	2,429,109	1,105,143	3,534,252
Essex	1,252,542	1,800,848	3,053,390	Northampton	1,568,988	1,274,987	2,843,975
Fairfax	142,077,419	164,789,361	306,866,780	Northumberland	1,269,270	667,969	1,937,240
Fauquier	10,757,083	7,111,786	17,868,869	Nottoway	1,989,290	1,280,149	3,269,439
Floyd	1,719,544	732,551	2,452,095	Orange	4,081,042	2,262,914	6,343,956
Fluvanna	2,872,412	1,196,689	4,069,102	Page	2,709,310	1,736,300	4,445,610
Franklin	6,607,036	3,975,822	10,582,858	Patrick	2,270,886	984,468	3,255,354
Frederick	11,313,304	10,561,878	21,875,181	Pittsylvania	7,849,820	2,021,618	9,871,437
Giles	2,174,000	1,478,127	3,652,127	Powhatan	3,800,841	1,313,975	5,114,816

Appendix B: Continued

County	Share of State Tax	Local Option	Total Amount	County	Share of State Tax	Local Option	Total Amount
Prince Edward	\$ 2,494,628	\$ 2,946,169	\$ 5,440,797	Southampton	\$ 2,355,225	\$ 562,284	\$ 2,917,509
Prince George	5,083,354	1,936,045	7,019,400	Spotsylvania	20,979,553	15,052,915	36,032,468
Prince William	58,541,869	51,850,307	110,392,176	Stafford	21,029,042	10,931,623	31,960,665
Pulaski	3,862,875	3,501,539	7,364,415	Surry	855,241	569,308	1,424,549
Rappahannock	875,455	436,422	1,311,877	Sussex	1,047,618	865,096	1,912,714
Richmond	976,523	1,178,998	2,155,520	Tazewell	4,752,968	6,133,038	10,886,005
Roanoke	14,021,917	10,570,658	24,592,575	Warren	4,846,368	3,973,855	8,820,223
Rockbridge	2,470,233	2,366,538	4,836,771	Washington	6,053,604	7,387,833	13,441,436
Rockingham	10,504,066	5,590,948	16,095,014	Westmoreland	1,653,327	896,499	2,549,826
Russell	2,969,995	1,939,774	4,909,769	Wise	5,474,382	3,200,259	8,674,641
Scott	3,039,000	1,470,371	4,509,371	Wythe	3,533,883	3,675,588	7,209,470
Shenandoah	4,932,101	3,903,578	8,835,679	York	11,074,923	9,358,398	20,433,321
Smyth	3,930,486	2,231,224	6,161,710	Total Counties	\$737,070,348	\$680,247,797	\$1,417,318,144

City	Share of State Tax	Local Option	Total Amount	City	Share of State Tax	Local Option	Total Amount
Alexandria	\$ 9,130,242	\$24,877,932	\$34,008,175	Manassas	\$ 5,417,226	\$ 7,177,282	\$ 12,594,508
Bedford	628,710	826,423	1,455,134	Manassas Park	1,909,830	1,470,010	3,379,840
Bristol	2,018,565	3,930,167	5,948,732	Martinsville	2,433,291	1,903,465	4,336,755
Buena Vista	738,839	375,187	1,114,026	Newport News	27,832,637	21,530,826	49,363,463
Charlottesville	3,769,475	9,938,329	13,707,804	Norfolk	27,070,099	29,242,894	56,312,993
Chesapeake	35,624,604	33,499,520	69,124,124	Norton	670,532	1,917,610	2,588,142
Colonial Heights	2,382,408	6,988,385	9,370,794	Petersburg	3,586,856	3,665,733	7,252,589
Covington	570,858	1,266,203	1,837,061	Poquoson	1,862,433	522,402	2,384,835
Danville	5,922,564	8,126,807	14,049,372	Portsmouth	12,494,750	6,652,236	19,146,986
Emporia	861,515	1,452,370	2,313,885	Radford	1,073,408	903,642	1,977,050
Fairfax	2,469,536	10,204,973	12,674,509	Richmond	24,263,903	30,173,911	54,437,815
Falls Church	1,896,587	3,983,135	5,879,722	Roanoke	10,945,278	18,859,840	29,805,118
Franklin	1,129,867	1,687,129	2,816,996	Salem	3,041,091	5,878,806	8,919,897
Fredericksburg	2,378,226	10,248,222	12,626,448	Staunton	2,399,834	3,576,314	5,976,148
Galax	913,094	2,024,969	2,938,063	Suffolk	13,081,639	7,886,030	20,967,669
Hampton	18,427,072	14,003,919	32,430,992	Virginia Beach	65,409,590	53,214,889	118,624,479
Harrisonburg	3,908,879	10,863,833	14,772,711	Waynesboro	2,687,005	4,808,752	7,495,758
Hopewell	2,774,133	1,817,079	4,591,212	Williamsburg	774,387	4,106,059	4,880,447
Lexington	401,483	805,947	1,207,429	Winchester	3,283,653	8,482,838	11,766,492
Lynchburg	8,109,808	13,380,056	21,489,864	Total Cities	\$314,293,908	\$372,274,126	\$686,568,034

Source: Virginia Department of Taxation Annual Report – Fiscal Year 2012