

## *Memo*

***Date:*** May 23, 2002

***Memo To:*** David Manning

***From:*** Kim McDoniel

***Regarding:*** Results of State Tax Audit

We have substantially completed an audit of certain state taxes. The work began in October 2001, and this represents the first time Metro has performed this type of work. In performing this audit, we retained Situs Tax Consultants, Inc. to work under our direction. The results of that work is presented as attachments A, B and C to this report and are summarized below.

The objective of the work was to review Tennessee Department of Revenue (TDOR) reports of taxpayers by jurisdiction (situs) for the cities and counties surrounding Davidson County and the satellite cities within Davidson County to ensure that those jurisdictions were not receiving tax revenues for taxpayers who are actually located in Davidson County but not in one of the satellite cities. The scope of work included sales taxes (Attachment A), Hall income taxes (Attachment B), and mixed drink taxes (Attachment C). The general methodology applied was to request TDOR reports for the surrounding counties and cities and satellite cities and review those reports for taxpayers included in those reports in error, determined by analytically reviewing the reports and by doing additional work as considered necessary, including directly observing the taxpayer location. Errors can occur for a variety of reasons, including postal boundaries that are inconsistent with jurisdictional boundaries, multiple business locations, taxpayer unfamiliarity with jurisdictional boundaries, use of post office boxes in different jurisdictions, and human error.

When a situs error for a taxpayer is discovered and reported to TDOR, they in turn notify the jurisdiction that has the taxpayer included in their report. Once the jurisdiction agrees that the taxpayer was misclassified, TDOR corrects the records and issues a check to the correct jurisdiction for the previous twelve months of tax revenue collected in the case of

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sales and mixed drink taxes, or for the 2000 calendar year in the case of Hall income taxes. The discrepancy is withheld from future TDOR payments to the other jurisdiction. In the case of satellite cities under Davidson County's jurisdiction, since Metro would have already received approximately half of the revenues attributed to the satellite cities, Metro would only be collecting the remaining half.

It should be noted that if errors were discovered where Davidson County was receiving all of the revenues associated with a taxpayer located in one of the satellite cities, those corrections were also reported to TDOR. Such instances are included in the attachments as negative amounts, since the revenues due to the satellite cities were transferred from Davidson County to those jurisdictions by TDOR.

The results of this work are as follows.

	Number of Taxpayers <u>Corrected</u>	Amount <u>Recovered</u>
Sales tax	339	\$2,039,587
Hall income tax	1,122	297,897
Mixed drink tax	5	<u>26,516</u>
Total amount recovered		<u>\$2,364,000</u>

Once corrected by TDOR, the amounts recovered related to the sales and mixed drink taxes would result in annual increases in tax revenue to Metro. However, taxpayer locations are reentered with each annual Hall income tax filing, and those situs reports should be reviewed annually.

Please contact me if you have any questions or would like additional information.

Copy: Mayor Bill Purcell  
Karl F. Dean, Director of Law  
Eugene Nolan, Associate Director of Finance  
Metropolitan Council Audit Committee  
Richard Norment, Director of County Audit  
KPMG, Independent Public Accountant