

Department of Tax Administration

LOB #107:

BUSINESS DISCOVERY AND AUDIT - PERSONAL PROPERTY AND BPOL (BUSINESS, PROFESSIONAL, AND OCCUPATIONAL LICENSES)

Purpose

The purpose of the Business Discovery and Audit LOB is to identify new and existing businesses in Fairfax County that have not filed/registered in Fairfax County. The purpose of the audit component of the LOB is to make sure that those businesses that filed, did so correctly, reporting gross receipts, computer equipment and furniture and fixtures accurately; and, to analyze and respond accordingly to complex assessment appeals.

This LOB is also responsible for other miscellaneous taxes such as transient occupancy tax (TOT), short term daily rental tax and bank franchise tax.

Description

LOB #107, Business Discovery and Audit, is comprised of Business Tax Specialist (BTS) field staff, each assigned a geographical territory within the County. Each BTS is responsible for canvassing all commercial areas in their assigned territory looking for new businesses that have not yet registered with the County. While in the field canvassing their areas, the BTS visits businesses that have not registered and discusses with them local licensing and personal property requirements. The business processing clerical staff are responsible for inputting all new business filing forms that the BTS staff collect, as well as all annual filing forms received from more than 40,000 businesses in Fairfax County. Additionally, the business processing staff is tasked with answering the business customer telephone calls.

BTS staff also audit annual business returns to ensure complete and accurate reporting. This is supplemented by staff auditors who conduct more detailed financial compliance audits to identify and resolve discrepancies between self-reporting data and information obtained during field surveys. Audit staff performs annual sampling audits of business personal property tax filings and engage businesses in record examinations to verify data and identify missing or erroneous property in the assessment records.

Additionally, auditors are randomly assigned business taxpayer appeal cases which are examined in great detail with the taxpayer to ensure the accurate assessment of their gross receipts and personal property. Appeal case determinations and corrected assessments are fully documented and peer reviewed. All audits are subject to appeal to the County Assessor, the State Tax Commissioner, and to the Fairfax County Circuit Court.

Administering the transient occupancy tax (hotel/motel tax), bank franchise tax and short term daily rental tax are also responsibilities of this LOB.

Benefits

In addition to legal mandates, this LOB allows DTA to educate the business community on local and state tax laws, to ensure that everyone is in compliance with all legal requirements and to ensure that everyone pays their fair share of taxes. This LOB also provides a mechanism for the business community to seek clarity on taxes assessed.

The revenue generated by this LOB provides Fairfax County funding so that the County can continue to effectively protect and enrich the quality of life for the people, neighborhoods and diverse communities of Fairfax County.

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This LOB contributes approximately \$335 million annually or almost 9 percent of all General Fund revenue. As a budget initiative in FY 2014, DTA abolished four vacant clerical positions and established them instead as Business Tax Specialists, with the four additional positions generating more than \$700,000 in additional revenue per year.

Internally, staff is also actively engaged in providing senior County management with frequent revenue forecasts to assist in the development and quarterly monitoring of the annual budget.

Mandates

This LOB is partially mandated.

The assessment of personal property tax is mandated by the Constitution of Virginia, Article X; the Code of Virginia, Section 58.1, Article 1, Chapter 31, Chapter 35, and Articles 1 & 5, Chapter 39; and Fairfax County Ordinance, Chapter 4 Article 17.1.

The assessment of the Bank Franchise Tax is mandated by the Code of Virginia, Section 58.1, Chapter 12, and Fairfax County Ordinance, Chapter 4, Article 8.

The assessment of BPOL is a Local Option tax adopted by the Board under Chapter 4, Article 7.2 of the Fairfax County Code; pursuant to Chapter 37 of the Code of Virginia.

The assessment of the Transient Occupancy Tax is a Local Option tax adopted by the Board under Chapter 4, Article 13 of the Fairfax County Code; pursuant to Chapter 38 of the Code of Virginia.

The assessment of the Short-term Daily Rental Tax is a Local Option tax adopted by the Board under Chapter 4, Article 21 of the Fairfax County Code; pursuant to Section 58.1-3510.1 of the Code of Virginia.

Trends and Challenges

Staff in DTA is still assessing the impact of a recent Virginia Supreme Court BPOL tax decision pertaining to the methodology to determine the BPOL tax basis. While the precise fiscal impact is uncertain, over the next several years the County may incur a significant refund liability depending on the number of businesses that file refund requests based on the new methodology. Under Virginia law, tax appeals can be filed for the current and three prior years. This issue was addressed in the Q&A Package for the FY 2016 Advertised Budget Plan. Additional information is available in the FY 2016 Q&A #20, http://www.fairfaxcounty.gov/dmb/fy2016/budget_questions/bos/bos_q.htm. In a tight economy and litigious world, the complexity and frequency of appeals in general continues to be a workload challenge which DTA must handle.

Metrorail expansion and development of areas in Fairfax County such as Tysons Corner, Reston Town Center, Springfield Mall and Mosaic District will likely increase workload for this LOB. Additional commercial and retail spaces creating expanded business presence in Fairfax County will require this LOB to increase area canvassing to ensure all businesses moving to these areas are properly licensed and paying their fair share of taxes. The challenge remains to continue to provide the best customer service possible while continuing to meet all statutory requirements and deadlines.

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Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
LOB #107: Business Discovery and Audit - Personal Property and BPOL (Business, Professional, and Occupational Licenses)			
FUNDING			
<u>Expenditures:</u>			
Compensation	\$2,521,838	\$2,587,002	\$2,738,121
Operating Expenses	504,843	512,040	464,080
Total Expenditures	\$3,026,681	\$3,099,042	\$3,202,201
General Fund Revenue	\$249,702	\$242,121	\$245,535
Net Cost/(Savings) to General Fund	\$2,776,979	\$2,856,921	\$2,956,666
POSITIONS			
<i>Authorized Positions/Full-Time Equivalents (FTEs)</i>			
<u>Positions:</u>			
Regular	43 / 43	43 / 43	43 / 43
Total Positions	43 / 43	43 / 43	43 / 43

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
# of new business discoveries	2,711	4,445	2,085	2,400	2,400
Total Amount of Discovery Assessments	\$6,935,095	\$9,905,649	\$7,628,481	\$7,800,000	\$7,800,000
% of business returns audited	13.90%	13.75%	12.12%	13.26%	13.26%

The metrics for this LOB show a surge in FY 2014 compared to the other fiscal years. Although the number of discoveries was considerably higher, the revenue jump in FY 2014 was attributed to a single large discovery that resulted in a high-dollar tax assessment. Based on performance in FY 2013 and FY 2015, this LOB should be able to yield approximately 2,400 new discoveries averaging more than \$7 million in revenue per year. DTA is also exploring a new case management tracking system in order to help improve the efficiency of staff case tracking and management reporting capabilities.