



CITY OF CAÑON CITY

City Council

City Council Chambers
128 Main St., Cañon City, CO 81212
(719) 269-9011 • www.canoncity.org

VISION COMMITTEE MEETING

April 22, 2020

5:00 p.m.

AGENDA

- 1. CALL TO ORDER: Teleconference**
- 2. ROLL CALL: COUNCIL MEMBERS DENNEHY, GONZALES, JAQUEZ, MEISNER, REED, B. SMITH, MAYOR PRO TEM HAMRICK, MAYOR SMITH.**
- 3. DISCUSSION:**
 - A. Use Tax**
- 4. ADJOURN The next scheduled meeting is May 20, 2020.**

**Posted pursuant to code on April 15, 2020
Cindy Foster Owens, City Clerk**



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TO: Mayor and City Council

FROM: Ryan Stevens, City Administrator *R.S.*

PREPARED BY: Tammy Nordyke, Director of Finance

DATE: April 22, 2020

RE: Sales and Use Tax Collection changes

In 2019, the Building Department and Finance Department approached Council with proposed changes to the collection of Use Tax. At that time the discussion centered around where the valuation came from and how the tax should be paid. After much consideration, we are requesting that Council remove the requirement for Use Tax to be paid at the time of building permit issuance.

Currently building permits are valid for six months but the use tax receipt is valid for one year. This means that potentially an individual who holds such a receipt, can purchase construction materials for six months after a project is completed without having paid the City's required taxes.

The use tax is calculated using a valuation established by the building valuation data provided by ICC, which is updated every six months. This valuation does not consider that the project may be using materials that are of higher quality and cost, therefore resulting in a loss of use tax revenue to the City. The City has been using this method since 2005.

By eliminating the collection of use tax at the time of permit issuance, we will be following a common practice throughout the south west region of Colorado. The change would require that sale tax be paid at the point of sale. Changes in the recent years require that sales tax be collected based on the destination in which goods are delivered. If a contractor purchases items outside City limits but has it delivered to the job site, we would still receive the sales tax. As part of this change, we would create an affidavit to be signed at the time of permit issuance stating that all required City sales tax will be paid and that the receipts are subject to audit by the City.

RECOMMENDED ACTION:

To authorize staff to work with legal counsel to make necessary code changes, develop language to be used within the affidavit, and the proper notification to all parties involved for

the change in the collection of sales and use tax as it relates to construction and building materials.



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FROM: Ryan Stevens, City Administrator *R.S.*

PREPARED BY: Tammy Nordyke, Director of Finance

DATE: April 22, 2020

RE: Sales Tax Collection changes

In early 2020 the State reached out to the Finance department to start discussions of the City becoming part of their program which would allow the State to collect sales tax on our behalf for online retailers. At that point Finance reached out to MuniRevs, the software vendor the State will be using, to determine what costs would be involved. Going this route, we have two options. The first is to pay an implementation fee and only be State collected for online retailers. The cost would be a one-time fee of approximately \$5,000. The second is to switch to MuniRevs and remain self-collected. The cost for this service is approximately \$20,000 per year. We felt that neither of the options would be the best for the City.

Finance continued talks with the State to see what the possibility of going State collected for sales tax would be. We were informed that the State allows municipalities to switch either January 1 or July 1. They require a 45-day notice to switch to them. Finance staff looked at the benefits and disadvantages of being State collected. The benefits outweigh the disadvantages. One positive is that there would not be any additional annual costs involved with having the State collect our sales tax. We can charge tax on items, that the State does not but we cannot have something exempt from tax if the State charges tax on it.

When looking at why we should switch to State collected, one of the first thing we asked was how many active sales tax licenses they show for businesses doing business in Canon City. Their number was significantly higher than ours. For physical locations the State shows nearly 600 active licenses locations. The City shows less than 400 active licensed locations. For non-physical locations the State is showing over 8,000 active licensed businesses. The City is showing slightly more than 1,200 active licensed businesses. This made it pretty obvious that the City is not receiving all the sales tax revenue that it is entitled to.

The State could not provide us data as to how much those locations generated in sales tax but could direct us to data that is available on their website for us to analyze. The data we could access showed the number of paid sales tax returns within Canon City for 2019 and the

revenue the State received for those returns. Finance compared the number of paid returns and revenue received to see the variance. The State received over 11,000 more paid sales tax returns for 2019 than the City received. This equates to lost revenue for the City.

We then looked at the revenue that was generated. If we based our revenue on the State net taxable sales, we collected approximately \$1.1 million more in revenue. But we tax items that the State does not. We asked for information regarding the amounts that were excluded by category but the information was not available. What was available was the total exemptions. Finance estimated that half of the exemptions would be subject to City tax. Using this, it is estimated that the City would have collected nearly \$400,000 more in sales tax revenue for 2019.

I spoke with the City of Alamosa who went State collected in July of 2019. The response was positive. They did see a slight increase in revenue within the first few months. Towards the end of 2019, the increase was larger. This could be attributed to a couple of things, one being State collected or more online retailers complying with the requirement to remit sales tax based on destination.

One negative is that the City would not be able to issue sales tax licenses and would no longer receive nearly \$30,000 a year in licensee fees. This loss would be offset by reduced costs of administering the sales tax program. The City would see a reduction in costs of nearly \$16,000 a year. This would result in a net revenue loss of \$14,000 a year. This loss assumes we would not gain any additional sales tax revenue from being State collected, which we believe is incorrect. Finance is estimating a gain in sales tax revenue by becoming State collected.


The existing full-time employee's responsibilities would change from data entry to an oversight role. The individual would monitor accounts that have been know problems in the past and notify the State of the issues. The employee would also be responsible for monitoring the sales tax collected on building permits. Finance would also look to train this employee to fill the vacant part-time payroll position which will further reduce the costs of the Finance department.

RECOMMENDED ACTION:

To authorize staff to work with legal counsel to make necessary code changes and implement the appropriate agreements with the State to move to becoming a State collected sales tax entity.

Sales/Use Tax Presentation
City of Cañon City

Tarla Dattiel, Accounting Manager, Revenue
Tahmy Nordyke, Director of Finance
Kathy Utah, Building Official

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Use Tax - Current

• **Construction or building materials**

- Estimated amount collected with building permit purchase: UTDR and Contractor's Packet
- File for a refund with a Self-Audit

• **STOCK or INVENTORY** originally purchased at wholesale by a person engaged in business in the City, but only to the extent that such item is removed from stock or inventory and consumed by such person for use or consumption by any means other than a retail sale. Remit on a sales/use tax return.

• **AUTOMOBILE** purchases – tax paid to Fremont County for the City

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Construction Materials - Current

Estimated Project Valuation (See Attached)

Valuation x 50% = Construction Materials Amount
 Construction Materials Amount x 3% (City's estimated tax collected)
 Construction Materials Amount x 2.5% (County's estimated tax collected)
 = Total Estimated Tax Collected

Estimated Tax

Estimated tax collected with building permit purchase
 Use Tax Deposit Receipt and Contractor's Packet
 File for a refund by providing a Self-Audit

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03.12.050 (m)

Use Tax - Proposed

- **Construction or building materials** – Proposed change
 - Not collected at the time of building permit issuance
 - Affidavit signed at time of permit issuance stating that sales tax will be paid at time of purchase
 - Subject to audit from City staff
 - Not collecting County Use Tax
- **STOCK or INVENTORY** – No Change
- **AUTOMOBILE** - No Change

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Construction Materials - Proposed

Construction materials will be subject to City of Canon City sales tax to be paid at the point of sale.

The permit applicant will sign an affidavit stating that regardless from where construction and building materials are purchased, it is agreed and understood that all applicable City sales and use taxes will be paid by the permit applicant. The applicant shall maintain records demonstrating payment of the applicable sales and use taxes. They further agree and understand that they shall be subject to an audit of these records. Any construction and building materials purchased in which the City sales tax was not paid shall be accessed and payable upon completion of said audit.

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What needs done

- Modify Code to reflect that a certificate of occupancy will be issued upon final inspection from the Building Department
- Modify other areas of the Code that may apply to Construction Sales and Use tax
- Notify Fremont County that we will not be collecting their use tax at the time of permit issuance
- Notify contractors of change in process and requirements for audit

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Sales Tax - Current

- Currently self-collected
- Program is not user friendly
- Filing periods require additional paperwork for businesses and City staff

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Sales Tax - Proposed

- State collected
- Aligns filing periods with the State
- Eliminates additional return for businesses to file
- Allows for the City to continue to collect from out of area businesses
- Reduces costs

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Pros and Cons

Pros	Cons
Aligns with Wayfair collection	Revenue deposited once a month
Reduces costs	Loss of license fee
Increased enforcement	
Potential revenue increase	

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What needs done

- Executed agreement with the State – deadline 45 days prior to July 1
- Code modifications to allow for filing periods to align with State

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Staffing

- Current FTE
 - monitor collections and report any accounts of concern to the State
 - Collection efforts on delinquent accounts prior to June 30, 2020
 - Monitor and audit sales tax collected on building permits
 - Train to process bi-weekly City payroll

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Sales Tax Program

- Current program to be eliminated by the end of 2020
- Lockbox to be closed
- Online payment portal to be discontinued

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