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STATE AUDITOR OF MISSOURI

JEFFERSON CITY, MISSOURI 65102

MARGARET KELLY, CPA
STATE AUDITOR

April 3, 1986

(314) 751-4824

To All County Collectors and
County Treasurer Ex Officio Collectors
in the State of Missouri

RE: Distribution of additional
countywide tax on subclass 3
property

Dear Officials:

My office has been invited to speak at the collectors' training session to be held next week concerning the distribution of the additional countywide tax on subclass 3 property. This is the tax imposed for the first time in 1985 to replace revenue lost because of the exemption from taxation of merchants' and manufacturers' inventory. Enclosed herein is a copy of Article X, Section 6 of the Missouri Constitution and Section 139.600, RSMo relating to this replacement tax. To assist in the discussion at the training session, I thought it might be helpful to provide to you prior to the session an example of first year distributions and second year distributions in a hypothetical county.

The amount of this replacement tax received by January 31, 1986 is to be distributed based upon the revenue lost by each taxing authority. As was discussed at the county collectors' training session in March, 1985, the allocation among taxing authorities of the amount received by January 31, 1986 can be based upon the percentage each taxing authority's "lost revenue" is of the "total lost revenue" countywide. Attached hereto as Exhibit 1 is a hypothetical county's calculation of the distribution of the replacement tax received by January 31, 1986. For example, if City A's "lost revenue" was 4.4% of "total lost revenue" countywide, then City A is entitled to 4.4% of the replacement tax received by January 31, 1986 (after deductions for commissions and the Assessment Fund).

For replacement tax revenue received February 1, 1986 through January 31, 1987, the percentage to be distributed to each taxing authority may differ from the percentage used in making distributions of replacement tax revenue received by January 31, 1986. Attached hereto as Exhibit 2 is a hypothetical county's calculation of the distribution of the replacement tax revenue received between February 1, 1986 and January 31, 1987.

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A brief description of the procedure followed in Example 2 in computing the second year distributions may be helpful. First, you will need to determine the assessed valuation of subclass 3 property in each taxing authority for the years 1985 and 1986. This information will not be available yet for 1986. After this information is available, then you should compute the percentage the 1986 assessed valuation is of the 1985 assessed valuation. For example, if the county's assessed valuation of subclass 3 property in 1985 was \$32 million and in 1986 is \$36 million, then the 1986 assessed valuation is 112.5% of the 1985 assessed valuation. A similar computation is made for each taxing authority. Note the special statutory provisions in Section 139.600 relating to taxing authorities which have annexed additional property or have merged.

Next, multiply the 1985 lost revenue of each taxing authority (this information is shown in Column E of the form used by the county clerk in 1985 in computing the rate of the additional countywide tax on subclass 3 property) by the percentage computed above for that taxing authority. Continuing with our example, if the 1985 lost revenue for the county was \$6,300 and our percentage computed above is 112.5%, our adjusted lost revenue is \$6,300 times 112.5% which equals \$7,087. This procedure is repeated for each taxing authority using that taxing authority's 1985 lost revenue and that taxing authority's percentage previously computed.

You now have a column showing each taxing authority's adjusted lost revenue. Using these adjusted lost revenue amounts, you now follow a similar procedure to that used in the first year. Total the adjusted lost revenue amounts for all the taxing authorities. Compute the percentage that each taxing authority's adjusted lost revenue is of the total. For revenue received from the replacement tax between February 1, 1986 and January 31, 1987, each taxing authority gets its appropriate percentage of the total receipts (after deductions for commissions and the Assessment Fund). Continuing with the same example, the county's adjusted lost revenue is \$7,087. The adjusted lost revenue for all taxing authorities is \$69,620. The county's percentage of the total is 10.18% (\$7,087 divided by \$69,620 times 100 = 10.18%). If the total revenue received between February 1, 1986 and January 31, 1987 from the replacement tax after deductions for commissions and the Assessment Fund is \$51,000, the county is entitled to 10.18% of this amount which is \$5,192.

The statute provides little guidance on when the county collector is to make the second year distributions. Some taxing authorities are seeking monthly distributions even though it is impossible at this point in time for the county collector to compute the proper percentage of second year distributions to each taxing authority. On the other hand, some county collectors apparently plan to wait until early 1987 and distribute all the second year receipts at one time. In the absence of any statutory guidance, I believe the final decision rests with the county collector.

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For audit purposes, I do not intend to criticize a county collector who distributes second year receipts monthly. The amounts distributed during the early part of the second year will have to be distributed based upon the first year percentages since it is not possible to compute now the second year percentages. At some later time in the second year when the second year percentages can be computed, an adjustment can be made in the monthly distributions to correct for any differences between the first year percentages and the second year percentages. This approach will assist taxing authorities, particularly school districts, by enhancing their cash flow. On the other hand, a county collector who chooses to make one distribution in early 1987 of all the second year receipts would appear legally justified in doing so and will avoid any problems that might arise if significant changes occur between the first and second year in the percentages to which each taxing authority is entitled.

The training session should provide an excellent opportunity to discuss the problems you encountered in the first year of the replacement tax and the problems likely to be encountered in the second year. I hope you will be able to attend.

Sincerely,

A handwritten signature in cursive script that reads "Margaret Kelly". The signature is written in dark ink and is positioned to the right of the typed name.

Margaret Kelly, CPA
State Auditor

MK:ph
Enclosures

EXAMPLE
 SECOND YEAR DISTRIBUTION OF ADDITIONAL
 COUNTYWIDE TAX ON SUBCLASS 3 PROPERTY
 (Amounts received between February 1, 1986 and January 31, 1987)

Taxing Authority	1985		1986		1986 Property As Percent of 1985	Total Lost Revenue	Computation of Adjusted Lost Revenue	Percent To Each Taxing Authority	Distribution of Receipts 1 Between 2-1-86 and 1-31-87
	Subclass 3 Property	Subclass 3 Property	Subclass 3 Property	Subclass 3 Property					
State	32,000,000	36,000,000	36,000,000	32,000,000	X 100 = 112.5%	700	700 X 112.5% = 787	1.13%	1.13% X 51,000 = 576
County	32,000,000	36,000,000	36,000,000	32,000,000	X 100 = 112.5%	6,300	6,300 X 112.5% = 7,087	10.18%	10.18% X 51,000 = 5,192
School District A	8,000,000	14,000,000	14,000,000	8,000,000	X 100 = 175.0%	25,000	25,000 X 175.0% = 43,750	62.84%	62.84% X 51,000 = 32,048
School District B	24,000,000	22,000,000	22,000,000	24,000,000	X 100 = 91.7%	13,000	13,000 X 91.7% = 11,921	17.12%	17.12% X 51,000 = 8,731
City A	800,000	1,000,000	1,000,000	800,000	X 100 = 125.0%	2,200	2,200 X 125.0% = 2,750	3.95%	3.95% X 51,000 = 2,015
City B	1,200,000	1,500,000	1,500,000	1,200,000	X 100 = 125.0%	2,000	2,000 X 125.0% = 2,500	3.59%	3.59% X 51,000 = 1,831
Special District A	80,000	60,000	60,000	80,000	X 100 = 75.0%	500	500 X 75.0% = 375	.54%	.54% X 51,000 = 275
Special District B	200,000	300,000	300,000	200,000	X 100 = 150.0%	300	300 X 150.0% = 450	.65%	.65% X 51,000 = 332
							69,620	100%	\$51,000

1 Assume \$51,000 received between February 1, 1986 and January 31, 1987 (after deductions for commissions and Assessment

EXAMPLE
FIRST YEAR DISTRIBUTION OF
ADDITIONAL COUNTYWIDE TAX
ON SUBCLASS 3 PROPERTY
(Amounts received by January 31, 1986)

Exhibit 1

<u>Taxing Authority</u>	<u>Total Lost Revenue</u>	<u>Percent of Total</u>	<u>Distribution of December 1985 Receipts</u>	<u>Distribution of January 1986 Receipts</u>
State	\$ 700	1.40%	1.40% X 42,000 = 588	1.40% X 7,100 = 99
County	6,300	12.60%	12.60% X 42,000 = 5,292	12.60% X 7,100 = 895
School District A	25,000	50.00%	50.00% X 42,000 = 21,000	50.00% X 7,100 = 3,550
School District B	13,000	26.00%	26.00% X 42,000 = 10,920	26.00% X 7,100 = 1,846
City A	2,200	4.40%	4.40% X 42,000 = 1,848	4.40% X 7,100 = 312
City B	2,000	4.00%	4.00% X 42,000 = 1,680	4.00% X 7,100 = 284
Special District A	500	1.00%	1.00% X 42,000 = 420	1.00% X 7,100 = 71
Special District B	300	.60%	.60% X 42,000 = 252	.60% X 7,100 = 43
	<u>\$ 50,000</u>	<u>100%</u>	<u>\$ 42,000</u>	<u>\$ 7,100</u>

¹ The lost revenue shown in this column will be the same as shown in Column E of the form used by the county clerk in computing the additional countywide tax on subclass 3 property.

² Assume \$42,000 received in December 1985 (after deductions for commissions and Assessment Fund).

³ Assume \$7,100 received in January 1986 (after deductions for commissions and Assessment Fund).