



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER 139751

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DATE: 11/22/2022

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE TAX
OFFICE, REVIEW OF SPECIAL INVENTORY TAX**

COMMISSIONERS COURT ACTION REQUESTED

It is requested that the Commissioners Court receive and file the Auditor's Report of the Tax Office, Review of Special Inventory Tax.

BACKGROUND

In accordance with the Local Government Code, the Auditor's Office performed a review of the Special Inventory Tax collected by the Tax Office during the period of February 1, 2022 through August 31, 2022. The Auditor's Office determined whether special inventory taxes were collected, recorded, and disbursed accurately and in accordance with relevant statutes.

FISCAL IMPACT

There is no fiscal impact associated with this item.

SUBMITTED BY:	Auditor's Office	PREPARED BY: APPROVED BY:	Kim Trussell S. Renee Tidwell
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November 10, 2022

The Honorable Wendy Burgess, Tax Assessor - Collector
The Honorable District Judges
The Honorable Commissioners Court
Tarrant County, Texas

Re: Auditor's Report – Review of Special Inventory Tax

SUMMARY

In accordance with the Local Government Code, we performed a review of the Special Inventory Tax collected during the period February 1, 2022 through August 31, 2022. Specifically, we determined whether special inventory taxes were collected, recorded, and disbursed accurately and in accordance with relevant statutes. In January 2022, the Tax Office implemented a new Special Inventory Tax (SIT) application to record amounts due and payments collected. During the seven-month audit period, the Tax Office collected approximately \$13 million in special inventory taxes. As a result of our audit, we observed no exceptions regarding the collection, recording, and disbursement of special inventory taxes. However, waivers granted for SIT penalties did not always comply with statute. We tested 20 waivers totaling approximately \$682,000 and determined the following:

1. Seventeen (17) applications were not received from the taxpayer within 30 days after the date the declaration was required.
2. Eighteen (18) waivers were granted on accounts for reasons not allowed by statute. All 18 accounts are either now current and/or have been settled.
3. Two (2) waivers were initially handled by the County's previous collection attorney. Specifically:
 - a. No documentation between the dealer and the attorney was made available to the Tax Office for one of the waivers. Therefore, the Tax Office accepted a settlement for amounts owed that should have been handled by the collection attorney. The agreed-upon settlement amount was paid in full by the dealer. This dealer has remained current on SIT since the settlement.
 - b. Another waiver was granted for an account involving the sale of a dealership and an issue between the selling and purchasing parties as to who would handle SIT for the purchase year. The Tax Office required that the dealer file all missing monthly statements and pay the SIT and late payment penalty. Only the late filing fees were waived. This dealer has remained current on SIT since the waiver.

The Tax Assessor-Collector has granted the Chief of Staff the authority to approve waivers. Per Texas Tax Code, Section 23.129(2)(b), a chief appraiser or collector may waive a penalty for the following reasons:

- (1) *the taxpayer seeking the waiver files a written application for the waiver with the chief appraiser or collector, as applicable, not later than the 30th day after the date the declaration or statement, as applicable, was required to be filed;*
- (2) *the taxpayer's failure to file or failure to timely file the declaration or statement was a result of:*
 - (A) *a disaster that made it effectively impossible for the taxpayer to comply with the filing requirement; or*
 - (B) *an event beyond the control of the taxpayer that destroyed the taxpayer's property or records; and*
- (3) *the taxpayer is otherwise in compliance with this chapter.*

We recommend that the Tax Office only grant waivers to taxpayers who have provided a written application by the 30th date after the monthly statement is due and for reasons allowed by statute. We discussed this issue with Tax Office management. Attached is the Tax Assessor-Collector's written response.

BACKGROUND

In Tarrant County, dealerships selling automobiles, boats, trailers, mobile homes, and heavy equipment file a *Dealer Motor Vehicle Inventory Declaration* form with the Tarrant County Appraisal District (TAD). On a monthly basis, dealers remit estimates of the property taxes due on their inventories to the Tarrant County Tax Assessor-Collector. These estimated funds are held in escrow by the Tax Office until a final annual property tax balance due can be determined for these inventories. The interest earned on these escrow funds is transferred into and accounted for in a special revenue fund maintained by the Tax Office. These are used to defray the cost of administration of the special inventory tax program.

CLOSING REMARKS

We appreciate the cooperation of the Tax Office staff during our review. Please call me if you have any questions regarding the contents of this report.

Sincerely,



S. Renee Tidwell, CPA
County Auditor

Attachment: Management's response

Distribution: Katherine Owens, Chief of Staff
Amelia Rice, Property Tax Manager
Leticia Garcia, Special Collections Manager

Audit Team: Kim Trussell, Audit Manager
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In God We Trust

WENDY BURGESS
Tax Assessor-Collector

November 11, 2022

Rene Tidwell, County Auditor
The Honorable District Judges
The Honorable Commissioner's Court
Tarrant County, Texas

Subject: Response to Auditor's Report – Review of Special Inventory Tax


The Tarrant County Tax-Assessor Collector's Office ("Tax Office") values its relationship with local motor vehicle dealers in ensuring the timely and accurate collection of Special Inventory Tax ("SIT"). In 2019, following the discontinuation of its contractual relationship with an outside law firm for the collection of these taxes, the Tax Office resumed this responsibility. A key component of the Tax Office's SIT success since that time is the prioritization of dealer compliance, which includes educating dealers about SIT and readily providing resources to ensure dealers fulfill their statutory obligations. The result of this compliance-seeking strategy was the Tax Office's NACO award-winning new dealer packet, attached hereto for the Court's review. The Tax Office welcomes the review of its SIT collection, record-keeping, disbursement, and waiver processes by the Auditor's Office. The Tax Office takes great pride in its SIT collection processes, as demonstrated by the Auditor's findings. That being said, the issues noted with respect to waiver of penalties warrant further discussion for the Court's consideration.

As the Commissioners Court and Auditor's Office are aware, motor vehicle dealerships vary greatly in their corporate structure, staff size, and available resources. In Tarrant County, there are currently 2,057 active registered dealerships. A majority of these dealerships are sole proprietorships and considered small businesses. In an effort to prioritize compliance over assessing potentially business-ending SIT penalties, in December 2019, the Tax Office instituted a practice of granting first-time waiver requests, along with sending the compliance-driven dealer packet to new dealers. This decision was directly responsible for keeping numerous small businesses operational by not subjecting them to overly burdensome fines during times of crisis, including the COVID-19 pandemic beginning in March 2020.

The Tax Office understands and appreciates the statutory requirements for waiver of SIT penalties and will adhere to these moving forward. The results of the audit provide an excellent opportunity to reconsider current processes; however, the Tax Office would be remiss in not bringing the benefits of this first-time waiver practice and repercussions of its discontinuation to the Court's attention. We will keep the Auditors informed of any changes.

We value and appreciate our strong relationship with the Auditor's Office. We welcome the auditors in our offices and encourage additional reviews.

Should you have any questions, please contact me or my Chief of Staff, Katie Owens.


Wendy Burgess, PCC, CTOP, PCAC
Tax Assessor-Collector – Tarrant County

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