Changes to Taxation of Amusement and Recreation Activities

John Wack
Tax Information Specialist
Topics

1. Overview of new law (HB 1550)

2. Municipal facilities providing fitness and recreational activities – community centers
   • General approach
   • Is it an athletic or fitness facility (AFF)?
   • Rental of facilities to third party contractors

3. Questions and answers
What is DOR Providing for Guidance on HB 1550?

- Web page – Retail recreational services and athletic and fitness facilities
  - Web page – Local government physical fitness classes
  - Updates to the local government page added soon
- WAC 458-20-183 – Amusement, recreation, and physical fitness services rule is being updated
  - Comments welcome
Overview of HB 1550
Overview of HB 1550

- Changes to RCW 82.04.050 effective January 1, 2016
- Replaced two sections
  - Amusement and recreation services
  - Physical fitness services
- New sections
  - Section 3(g) – Athletic or fitness facilities (AFF)
  - Section 15 – Retail recreational services
Athletic or Fitness Facilities (AFF) Defined

Indoor or outdoor facility or portion of a facility that is primarily used for:

- Exercise classes
- Strength and conditioning programs
- Personal training services
- Tennis
- Racquetball, handball, squash, or pickleball
- Yoga
- Boxing, kickboxing, wrestling, martial arts, or mixed martial arts training
- Other activities requiring use of exercise or strength training equipment
  - Treadmills, elliptical machines, Pilates equipment, weightlifting equipment, etc
Old vs. New

Physical fitness services (old) vs. AFF (new)

• Physical fitness services were taxable based on the activity

• An AFF is established based on the availability of:
  
  o Activities

  o Facilities

  o Equipment
Characteristics of an AFF

• An AFF is established when a facility or part of a facility is primarily (more than 50%) used for:
  o AFF activities
  o AFF facilities
  o AFF equipment

• AFF established all charges for use of facility and associated charges are retail sales, including instructional lessons
Exclusions from Retail Sales

AFF exclusions from retail sales

- Yoga, tai chi or chi gong classes held at a community center
- Separately stated charges for certain uses of AFF or other services
Retail Recreational Services

Subject to

✓ Retail sales tax
✓ Retailing B&O tax

• List of activities defined as retail sales
• Specific activities and some more general
• Specific exclusions from retail sales

Web page available: Recreational Services at a Glance
Retail Recreational Services

- Amusement park, theme park, and water park facility
- Air sports
- Batting cages
- Bowling
- Bungee jumping, zip lining, and riding inside a ball, inflatable or otherwise
- Climbing on artificial climbing structures
- Day trips for sightseeing purposes
- Fishing
- Go-karting, bumper cars, and other motorized activities
- Golf
Retail Recreational Services (continued)

- Horseback riding
- Hunting
- Paintball and airsoft activities
- Playground activities, indoor and outdoor
- Shooting sports and shooting activities
- Skating
- Snow sports and activities (with or without snow)
- Swimming – recreational and fitness swimming that is open to the public
- Table games
- Water sports and activities
Non-retail Recreational Services

- Dancing
- Day camps
- Gymnastics
- Running, triathlon, and bicycling events
- Sports leagues
- Sports venues – not including an athletic or fitness facility
- Video game/arcade game trucks
- Yoga, tai chi, chi gong
Non-retail Recreational Services

• Physical fitness activities provided at AFF are retail sales

• Includes non-retail recreational services:
  o Dancing
  o Gymnastics
  o Running, triathlon, and bicycling events
  o Sports leagues

• Charges for space by AFF to 3rd party providing physical fitness activities are retail sales
Local Government

Local government physical fitness classes

• Retail sales tax exemption under RCW 82.08.0291 for physical fitness classes provided by local governments unchanged
  
  o Retailing B&O tax applies

• AFF classes may qualify for exemption

• Retail recreational services do not qualify

Web page available: Local government physical fitness classes
Opportunity to Dance

- Temporary exemption made permanent
- Not subject to retail sales tax
- Taxable under Service and other B&O tax

Web page available: Opportunity to Dance
Municipal Facilities Providing Fitness and Recreational Services - Community Centers
General Approach - Community Centers

Two part test:

1. AFF as a whole
   • Entire community center treated as AFF
   • Physical fitness activities are retail sales

2. AFF in part
   • Part of community center treated as AFF
   • Physical fitness activities in AFF are retail sales
AFF as a Whole

Presume entire community center is AFF if:

• More than 50% of the revenues are from AFF activities and facilities

• Community center has substantial fitness center and/or racquet center

Result: Charges by the community center for “physical fitness activities” considered retail sales unless exclusion applies
AFF as a Whole

Physical fitness activities

• Activities that involve physical exertion for the purpose of improving or maintaining participants':
  
  o General fitness
  
  o Strength
  
  o Flexibility
  
  o Conditioning
  
  o Health
AFF as a Whole

Exclusions from retail sales at an AFF

• Separately stated charge
• Not subject to retail sales tax
• Subject to service and other B&O tax
AFF as a Whole

Exclusions from retail sales at an AFF

- Yoga, tai chi, and chi gong classes
- Use of community center for purpose other than engaging or receiving instruction in physical fitness activity
- Use of discrete portion of community center, other than a pool, where portion of facility does not by itself, meet definition of an athletic or fitness facility
AFF as a Whole

Exclusions from retail sales at an AFF (continued)

• Use of the facility for
  • Advertising
  • Massage
  • Nutritional consulting

• Does not include personal training services or instruction in physical fitness activity

• Physical therapy provided by a licensed physical therapist prescribed by authorized health care practitioner

• Cover charges for dances

Web page available: Opportunity to Dance
Exemption from Retail Sales Tax

- Physical fitness classes provided by a community center

- Characteristics of a physical fitness class
  - Group exercise (not one-on-one)
  - Group instructor or leader provided
  - Set days and times
  - Limited number of participants
  - Registration is in advance or before beginning class

Web page available: Local government physical fitness classes
Community Center Part AFF?

Community center is part AFF when

• Has revenues from AFF activities and facilities 50% or less of total revenues, and

• Does not have a substantial fitness center and/or racquet center

Department will presume community center as a whole is not an AFF

Community center must determine if a portion of the facility is an AFF
Two Part Test

1. Is there a separate / discrete area (e.g., a room) that is “primarily used” (> 50%) as an AFF?

2. Is there a separate/discrete charge for the use of this (room) area?
   - If answer to 1 and 2 is yes, separate room (or area) is AFF and any charges to use the AFF are retail sales.
   - If answer to 1 or 2 is no, then no portion of community center is AFF
Two part test – Assumptions

1. In buildings look at entire room (area) to determine if separate area should be considered an AFF and no splitting of rooms

   o Example: City A has a neighborhood community center that is not an AFF as a whole. One room in the community center has a couple stationary bicycles in a corner. There is no charge for the use of the stationary bikes. The remainder of the room has no exercise equipment and is primarily used for dance classes and meetings. The Department will not view this room to be an AFF when there is no separate charge for use the exercise equipment.
Two part test – Assumptions (continued)

2. **Outdoor areas** look at primary activity performed to determine if outdoor area qualifies as AFF

   - *Example*: City X has a community center with an outdoor tennis court, an outdoor basketball court, and a softball field that are side by side. The use of any of the outdoor areas requires the payment of a fee. In this situation each area is a distinct area. The tennis court is an AFF; while the softball field and the basketball court are not AFFs.
Two part test – Assumptions (continued)

3. Department presumes the following rooms within a community center are not AFFs when the facility as a whole is not an AFF:
   - Gymnasiums
   - Multi-purpose rooms
   - Classrooms
   - Meeting rooms
   - Pools
   - Outdoor basketball courts
   - Outdoor ball fields (soccer, football, baseball, etc.)
Two part test – Assumptions (continued)

4. “Primarily used” means more than 50%
   
   To determine if area (room) is “primarily used” as an AFF, the schedule of room use for a charge will determine whether it is primarily used as an AFF. Idle or unscheduled time will not be a part of the calculation.
Application of taxes

- Room (or area) at community center is AFF then:
  - Any charges to use that room for physical fitness activities are considered to be a retail sales unless an exclusion applies
  - All charges to engage in or receive instruction in physical fitness activities in the AFF portion of the community center are retail sales (the exemption from retail sales tax for physical fitness classes may apply)
Community Center is not an AFF

Recreational services

- **Retail** recreational services subject to retail sales tax and income subject to B&O tax under Retailing classification

- **Non-retail** recreational services subject to B&O tax under the service and other classification
  - Retail sales tax does not apply on charges to participants
  - Includes charges for activities otherwise treated as AFF activities
AFF Facility Rental

Renting AFF facility used for a physical fitness activity

• Community center collects retail sales tax from third party contractor

• Income received by community center subject to B&O tax under retailing classification
AFF Facility Rental – Examples

Rental of Rooms/Facilities to 3rd Party Contractors

- Example 1: A rock climbing instructor not employed by the community center reserves two hours each week on the community center’s climbing wall to teach a class on climbing techniques. The community center must collect retail sales tax from the instructor because the class is considered a physical fitness activity.

- Example 2: An art instructor rents a room to hold an art class. The community center does not have to collect retail sales tax from the instructor because the art class is not a physical fitness activity.

- Example 3: A dance instructor rents the gymnasium at the community center for a ballroom dance class. The community center must collect retail sales tax from the instructor because the class is considered a physical fitness activity.
Non-AFF Facility Rental

Rental of Rooms/Facilities to 3rd Party Contractors

• Community center does not collect retail sales tax
  
  o Example 1: A rock climbing instructor not employed by the community center reserves two hours each week on the community center’s climbing wall to teach a class on climbing techniques. The community center does not have to collect retail sales tax from the instructor because climbing wall is not considered part of an AFF.

  o Example 2: A dance instructor rents the gymnasium at the community center for a ballroom dance class. The community center does not have to collect retail sales tax from the instructor because the gymnasium is not an AFF.
Questions?
Break
Protecting Confidential Tax & Licensing Information: Ten Things You Need to Know

Kristal Wiitala
DOR Information Governance Manager

Marta Carlo
DOR Public Records Officer
1. Most DOR Information is Confidential

Information your jurisdiction receives from Revenue is confidential and cannot be re-disclosed.

Before giving out information ask yourself:

“Is this confidential taxpayer (CTI) or licensing Information (CLI)?”
2. Information is exempt from disclosure

Public Records
  - RCW 42.56.230(4)

Excise Tax
  - RCW 82.32.330

Business Licensing Service
  - RCW 19.02.115

Property Tax
  - RCW 84.08.210
  - RCW 84.40.020
  - RCW 84.40.340
### 3. Limited Information is Public

<table>
<thead>
<tr>
<th>Confidential</th>
<th>Public *</th>
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<tr>
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<td>Name and registration number</td>
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<td>If sales were reported</td>
<td>Trade Name or d.b.a.</td>
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<td>Account status and open/closed dates</td>
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<td>Licensing information created or obtained by DOR about applicants or license holders not made public</td>
<td>License, UBI or dealer number</td>
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<td>Governing people</td>
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* List not for commercial purposes
4. Data-sharing or Partnership Agreements Protect Confidentiality

- Sharing of information is for official purposes only
- Know and understand limitations on use of information
- Do not share (re-disclose)
- Safeguard the information at all times
5. Tax and License Confidentiality Affidavits Required

Tax and License Confidentiality Affidavit

This form must be completed and signed by every individual (including mayor, councilmember, treasurer, city manager, etc.) with access to confidential tax or licensing information.

An individual who discloses confidential information to an unauthorized person is guilty of a misdemeanor. See RCW 82.37.330(6) and 19.02.115(5)

Acknowledgement of Confidentiality

I ___________________________ (Print name) employed by ___________________________

swear or affirm that I have read and understand the requirements regarding the protection of tax and/or licensing information provided by the Department as stated in RCW 82.37.330 and 19.02.115. I further understand that this information is privileged and confidential, and therefore shall not be disclosed to any person not entitled to knowledge of such information. I understand that my use or disclosure of confidential tax information may be further restricted by an information-sharing agreement.

Dated: ____________ (Signature)

SUBSCRIBED AND SWORN TO before me this ______ day of ______________________, ______

____________________________ (Signature of Notary Public)
6. Process for Tax and License Confidentiality Affidavit

- Agree to keep confidential information confidential
- Assure understanding of laws and penalties for violation
- Signed by
  - Each employee authorized to access confidential information
  - Authorized by: Finance Director, Treasurer, City Manager, or Mayor
- Complete before getting access to confidential information
- Keep it on file at local jurisdiction and send copy to DOR
7. Data Security Requirements Apply

- Maintain system and network security, data integrity and confidentiality
- Common security standards help ensure an effective and secure environment
- Remember:
  - Print only information you need
  - Copy or download electronic data only as needed
  - Do not communicate confidential information via unsecured e-mail or text messages
  - Secure all data – electronic or paper – while in transit, in use, “at rest” and during disposal
8. Let us know if there’s a breach

• Information about taxpayers is sensitive

• Businesses may need to know if there is a breach in order to protect themselves

• DSA requires notice of a breach to DOR

• State law requires notification of breaches of personal information held by government agencies in RCW 42.56.590

• Better to report than to find out the wrong way
9. Penalties for Breach of Confidentiality Are Severe

RCW 82.32.330 & RCW 19.02.115

- Misdemeanor sanctions include:
  - Up to $1,000 fine
  - Up to 90 days in jail
  - Loss of job
  - Barred from employment by state or local government for two years
10. Help is available!

DOR Public Records Office

(360) 705-6647

DORPublicRecords@dor.wa.gov
Questions?
Taxation of Spec Builders & Subcontractors

Jason Sayer
Tax Information Specialist
Speculative Building – Landowner

- Landowner builds on own land
- Real estate excise tax (REET)
  - No B&O tax on sale of real estate
- Pays sales tax on:
  - Materials, hired contractors, and temporary labor
- Sales tax sourcing
- Can’t use reseller permit
  - Will not generally be eligible for reseller permit
- May not need to be registered with DOR
- Use tax/deferred sales tax liability
Contractors Hired by Spec Builder

- Must be registered with DOR
- Considered prime contractors
  - Owe retailing B&O tax
  - Collect and remit retail sales tax from speculative builder
    - Sourced to job site
- Purchases for resale (use reseller permit)
  - Materials
  - Subcontractor services
  - Temporary labor
Land Ownership

- Speculative building - based on land ownership
- Owner generally holder of recorded title
- WAC 458-20-170 list 4 attributes of real estate ownership:
  - The intentions of the parties in the transaction;
  - The person who paid for the land;
  - The person who paid for improvements to the land; and
  - How all parties, including financiers, dealt with the land.
Pre-Sale Agreements

• Prospective buyer not owner by signing pre-sale agreement

• Spec builder sells property under construction, only work completed after the sale is prime construction

• Work prior to sale is speculative building

• Retail construction does not occur until after closing
Road Construction on Spec Projects

• Road dedicated to city or county, construction is taxable as public road construction

• No retail sales tax due on charges to a speculative builder for the road construction

• Contractor pays
  o B&O tax under Public Road Construction
  o Retail sales tax or use tax on all materials
    ✓ Includes materials provided by the speculative builder, unless the speculative builder paid retail sales tax

• Road must be dedicated within 1 year
Questions?
Break
Department of Revenue Sales
Suppression Program

Audit Division
WA Sales Suppression Team

- Sales Suppression Audit Core Team
  - Bryan Kelly
    ✓ Leading effort with Audit selection, training, implementation and communication with all levels of DOR
  - Mike Chertude
    ✓ National subject matter expert
    ✓ Presentations at conferences around the country
    ✓ Participate on conference calls with states and other countries to share experiences
  - Jerome Salido
    ✓ Working directly on investigations
    ✓ Assisting auditors
      ➢ Data conversions
      ➢ Taxpayer meetings
Current States with Law or Pending Legislation

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As of December 16, 2015 (* Pending)
US Sales Suppression Cases

- **Connecticut** - $17 million by a grocery store (1994 – Stew Leonard’s Dairy)
  - Uncovered by IRS during Income Tax audit
- **Michigan** - $20 million over four years by a restaurant chain (2007 – LaShish)
  - 13 restaurants
  - CIA uncovered due to information from sister-in-law
- **Ohio** – $3 million by restaurant chain (IHOP)
  - Uncovered by FBI and Joint Terrorism Task Force
Under Cover Stings

• 1997 - Canadian Broadcasting Corporation set up a dummy store in Montreal.
  o ECR salesman approached CBC dummy store and explained and offered factory-installed suppression
    ✓ Company was subsidiary of a US ECR distribution business
    ✓ Salesmen actually gave interviews to CBC

• New York State Revenue set up a dummy store’s in different cities.
  o 70% of ECR / POS salesman offered suppression software
Two main Types of Software

- Constructed for manipulation [Phantom ware]
  - Installed in POS or ECR system
- Have software for manipulation installed [Zapper]
  - Thumb drive or other external drive
What is an ECR?

- Electronic Cash Register
- Mechanical or electronic device
  - Calculates and records sales transactions
  - Attached drawer for storing cash
  - Usually prints a receipt
  - Can be part of a POS system
Quebec Zapper
What is a POS System

• Point of Sale
  o Not only where transaction is completed, but also can be point of return or take a customer’s order

• Different Types
  o Stand Alone ECR
    ✓ May have multiple units
    ✓ Independent of each other
  o ECR based network systems
    ✓ Multiple terminals
    ✓ Arranged into a primary/secondary configuration
  o Controller Based Systems
    ✓ Terminals are connected to a computer
    ✓ Computer handles all the work
  o Cloud based POS
    ✓ Allows software as a service
    ✓ Just need an internet browser
    ✓ Use of iPads or smart phones
Problems

- Current technology solutions require a receipt
- Internet-based Suppression [Zapper-as-a-Service]
  - Six cases in Portugal
- Suppression have migrated into credit cards
  - United Kingdom, Portugal & Norway
- Tablets/phones/hand-held devices
New Updates in Sales Suppression

- Software Downloaded from the Internet
  - Link could be provided
- Sales can be suppressed with Credit Card sales
  - Look to 1099-K forms from IRS – Payment Card and Third Party Network Transactions (filed by CC Co.)
- Belgian Fiscal Devices effective July 1, 2013
  - Labor side – Putting time cards through encryption system
Quebec’s Efforts

• According to a study by RQ for 2002:
  o Percentage of restaurant operators who hide income: 48.4%
  o Percentage of hidden income relative to declared income: 51.9% (for those who hide income)

• According to Revenu Québec’s estimates for 2008-2009:
  o Tax losses (Quebec laws only): $419 Million:
  o $136 Million of QST charged by restaurant operators but not remitted to the government.
Quebec’s Efforts

- An original approach in terms of tax audit:
  - Sales recording module (SRM) combined with an inspection process
  - Will generate additional revenues of over $2 billion for the Quebec government by 2018-2019
Quebec’s Efforts

• **Sales Recording Module**
  
  o What is a sales recording module (SRM)?
    
    ✓ It’s a microcomputer;

    ✓ When connected to an electronic cash register or POS system, the SRM receives transaction data (customer checks, cash register receipts, credit notes), retrieves relevant information such as sales and tax amounts, and saves it in a secure memory;

    ✓ Once it has saved the data, the SRM generates a digital signature, which it sends to the printer, along with the information required to print a customer check/invoice
Quebec’s Efforts

• Results
  o Data from the SRM
    ✓ Over 400,000 periodic sales summaries received and processed;
    ✓ Data collected by the SRM are compared with those of the data warehouse of Revenu Québec;
  o Restaurant owners who fail to declare part of their income more easily detected
  o Inspections
    ✓ From September 1, 2010 to March 31, 2012:
      ➢ Number of inspections: 8,518
      ➢ Number of statement of offence: 2,568
Quebec’s Efforts

- Significant additional revenue
  - 2011-2012 project generated over $160 million in additional revenue
    - $60 million more than expected
    - Ensures profitability of the project which involved implementation costs of $34.4 million and costs related to subsidy of $60 million
Quebec’s Efforts

- $100 Million spent for setup of SRM’s in restaurants
- Estimates show . . .
  - Initial investment made back in 9 months
  - Estimate $2.3 Billion additional tax gain by 2018
More SRM Results

• Quebec – Tax revenue increase 1st year €117 million (15% VAT rate) – US Dollars = 132,771,600

• Sweden – Tax revenue increase per year €355 million (25% VAT rate) – US Dollars = 402,854,000

• Hungary – Tax revenue increase 1st year €210 million (27% VAT rate) – US Dollars = 238,308,000

• Belgium & Turkey – Passed law to start using them
WA Sales Suppression Timeline

2009
- Started research on topic
- Corresponded with Canada

2010
- Contacted Richard Ainsworth
- Continued in-state discussions/research
- Started first undercover audit

2013
- State law passed

2016
- First case to be prosecuted under WA law
Program Overview - Washington

• 2008 - 2009
  o Started with research – Richard Ainsworth
  o Articles from internet
  o BC suppression cases
  o IRS materials on POS systems

• 2010
  o Attended restaurant training seminars
  o Based on previous cases, selected an audit that fit our criteria
Program Overview - Washington

• Law Passed – SB 5715 (July 2013)
  
  o Making the possession, sale, or use of zappers a class C felony
  
  o $10,000 fine and / or 5 years in prison
  
  o It is unlawful for any person who has been convicted of violating this section to engage in business, or participate in any business unless:

  ✓ All taxes, penalties, and interest lawfully due are paid, and

  ✓ Enters into a written agreement with the department for the electronic monitoring of the business's sales, by a method acceptable to the department, for five years at the business's expense.
Program Overview - Washington

- Designated a Suppression Implementation Team due to new law
- Three Audit Division employees
- Continuing our work effort including:
  - Communication/Presentations
  - Pilot program in 4 in-state offices
  - Meetings with outside partners
    - AG’s Office CLU
    - IRS Criminal Investigation Unit / DOJ
    - WA State Patrol
    - CA Board of Equalization – Training classes
Program Overview - Washington

2014

• Created industry specific (POS & ECR based businesses) workpapers for auditors

• Purchased 2 POS systems for Auditor training
Concentrate on “High Risk” Businesses

• Not
  ✓ If Mom or Pop runs the cash register
  ✓ If publicly held enterprise

• Yes
  ✓ If multiple locations with a remote but actively engaged owner [La Shish (Detroit); Ronan (Australia)]
  ✓ Employees are paid wages under the table
  ✓ Unusual ratio of cash-credit transactions
  ✓ Unusual ratio of sales - wages
Business Types

- Auditing businesses utilizing POS systems
  - Not just restaurants, anyone utilizing a POS is a possibility
  - Nail Salons
  - Gas Stations / Mini Marts
  - Grocery Stores
  - Liquor stores
  - High cash Businesses that use a POS or ECR system
Under Cover Buys

How Revenue Quebec found its first “Zapper” in 1997

- Auditor visited a restaurant before opening an audit, saved her receipts, and looked for records in the daily sales files (z tape) of the ECR / POS system.

- Requires some luck

- How Washington found our first zapper

CA purchases 6 meals before contacting the taxpayer for audit. (PA = 12, Canada = 10)
Audit Process

• Research performed prior to audit selection
• Possible buys
• Pre Audit Meeting
  o Restaurant questionnaire
  o More understanding of what auditors are doing will benefit future auditors in knowing what to look for
• Collect information on each POS System
• Perform Ratio Analysis – Cash to Credit or Wages to Sales
Audit Procedures - Ratio Analysis

• Cash to Credit

• Analysis of Costs
  o Restaurant Industry Operations Report
  o Compare wages to sales
    ✓ Salaries and Wages = 28.5% - 33.6%
  o Compare food & beverage costs to sales
    ✓ Cost of Food and Beverages = 31.5% - 33.7%

• Other Factors
  o Neighboring Businesses
    ✓ Does it make sense?
  o Lifestyle
    ✓ Living within means?
Cash to Credit Analysis

In-Store Payment Preference (by Merchant Category)

- Grocery Store: Debit - 48%, Credit - 26%, Cash - 19%
- Drug Store: Debit - 44%, Credit - 25%, Cash - 20%
- Discount/Warehouse: Debit - 42%, Credit - 33%, Cash - 20%
- Gas Station: Debit - 39%, Credit - 37%, Cash - 22%
- Restaurant: Debit - 38%, Credit - 34%, Cash - 27%
- Department Store: Debit - 44%, Credit - 14%, Cash - 11%
- Fast Food: Debit - 55%, Credit - 15%, Cash - 9%
- Coffee Shop: Debit - 33%, Credit - 13%, Cash - 7%
- Cinema/Theater: Debit - 36%, Credit - 6%, Cash - 5%
- Transit: Debit - 15%, Credit - 5%, Cash - 5%
Washington State Cases

• Case 1 – Retail restaurant
  o Cash to Credit = 25%
  o POS System = Prosecuted Canadian Company
  o Daily sales detail was obtained for three of the six dates meals were purchased.
  o One of the days there was evidence meals were suppressed from the POS system.
  o Based on available information it appears that two sales were deleted from the point of sale system.
Receipt – Suppressed Meal #1

Date: Jun 23, 2010  Time: 12:22PM
Server: Lunch Server  # Guest: 3
Bill: 42759  Table: 407

1  RED CURRY CHIC COMBO  7.95
1  PEPSI  1.95

Subtotal  9.90
Tax  0.99

Total  10.89

Open Time: Jun 23, 2010 11:52AM
THANK YOU

Date: Jun 23, 2010  Time: 12:22PM
Server: Lunch Server  # Guest: 3
Bill: 42759  Table: 407

1  CASHM CHINE COMBO  7.95

Subtotal  7.95
Tax  0.80

Total  8.75

Open Time: Jun 23, 2010 11:52AM
THANK YOU

Suppressed Sale
*** Reprint (1) ***

Date: Jun 23, 2010  Time: 12:55PM
Server: Lunch Server  # Guest: 2
Bill: 42759(2 Splits)  Table : 407

2 CASHEW CHICKEN COMBO 15.90

Subtotal 15.90
Tax 1.59

Total 17.49
Cash 17.49

Open Time : Jun 23, 2010 11:52AM

THANK YOU

Member Tel no.#

received $10.00 Certicate, and
chance to win trip to Las Vegas
Ask your server/manager for more detail.
Restrictions may apply.
Receipt – Suppressed Meal #2

Date: Jun 23, 2010  Time: 12:46PM
Server: Lunch Server  # Guest: 3
Bill: 43109  Table: 403

1  GARLIC CHICKEN COMBO  7.95

Subtotal  7.95
Tax  0.90

Total  8.75

Open Time: Jun 23, 2010 11:58AM
THANK YOU

Suppressed Sale

Date: Jun 23, 2010  Time: 12:46PM
Server: Lunch Server  # Guest: 3
Bill: 43109  Table: 403

1  LL CASHEN CHIC  8.95

Subtotal  8.95
Tax  0.90

Total  9.85

Open Time: Jun 23, 2010 11:58AM
THANK YOU

Date: Jun 23, 2010  Time: 12:46PM
Server: Lunch Server  # Guest: 3
Bill: 43109  Table: 403

1  CASHEW CHICKEN COMBO  7.95

Subtotal  7.95
Tax  0.80

Total  8.75

Open Time: Jun 23, 2010 11:58AM
THANK YOU
**Receipt – Suppressed Meal #2**

---

**Reprint (1)**

- **Date:** Jun 23, 2010  
  **Time:** 12:54PM  
  **Server:** Lunch Server  
  **# Guests:** 2  
  **Bill:** 43109 (2 Splits)  
  **Table:** 403

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 CASHEW CHICKEN COMBO</td>
<td>7.95</td>
</tr>
<tr>
<td>1 LL CASHEW CHIC</td>
<td>8.95</td>
</tr>
</tbody>
</table>

**Subtotal:** 16.90  
**Tax:** 1.69

**Total:** 18.59  
**Cash:** 18.59

**Open Time:** Jun 23, 2010 11:56AM  
**THANK YOU**

---

received $10.00 Certificate, and  
chance to win trip to Las Vegas  
Ask your server/manager for more detail.  
Restrictions may apply.
Washington State Cases

- Case 2 – Retail Restaurant
  - Inconsistent numbering found – Purchased meal ticket
  - Cash to Credit ratio is low
  - Wages to sales are also low
  - Possible to assess tax based on average cash sales for industry
  - POS Company
    - Called company and spoke to representative (person who answered phone)
    - Offered software ??
Washington State Cases

- Case 3 – Retail Restaurant
- ACL Software used in Analysis
  - Cash tips in POS were flat (did not vary as % of sales)
  - Bank deposits consisted almost exclusively credit card sales.
  - Cash to Credit ratio flat and low
Washington State Cases

• Case 3 – Retail Restaurant

  o Results

  ✓ Based on inconsistent records, it was decided to estimate cash sales up.

  ✓ Schedules were presented. Prior to deadline, taxpayer stated assessment was too high. Stated that there were a second set of records.

  ✓ Owner demonstrated how to adjust sales by using an external flash drive that was not part of the main POS.

  ✓ This will be the first case prosecuted under our law!
Washington State Cases

- Case 4 – Retail Restaurant
  - 10 undercover buys
  - 2 sales receipts were missing (voided)
  - Next slide shows one sale correctly posted and one sale voided
### Washington State Cases

- **Case 4 – Retail Restaurant**

<table>
<thead>
<tr>
<th>Invoice_Number</th>
<th>Total_Price</th>
<th>Total_Tax1</th>
<th>Grand_Total</th>
<th>Amt_Tendered</th>
<th>Amt_Change</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>251649</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.71</td>
<td>V</td>
</tr>
<tr>
<td>251650</td>
<td>7.75</td>
<td>0.74</td>
<td>8.49</td>
<td>20</td>
<td>11.51</td>
<td>C</td>
</tr>
</tbody>
</table>

**ORDER #: 49**  
**CHECK #: 251649**  
**DATE/TIME: 3/12/2014 10:19:54 AM**  
**CASHIER: 100101**  
**STATION: 02**

**Chicken-teriyaki**  
- 1 x $7.75 = $7.75

**Katsu-teriyaki**  
- 1 x $8.95 = $8.95

**Subtotal**  
- $16.70

**Tax**  
- $1.59

**GRAND TOTAL**  
- $18.29

**Cash**  
- $18.29

**Amt_Tendered**  
- $20.00

**Change**  
- $1.71

**DATE/TIME: 3/12/2014 10:18:47 AM**
Washington State Cases

- Case 5 – Retail Restaurant
  - 6 Undercover Buys
  - 1 ticket altered – 2 of 3 splits missing
  - Next slide shows the 3 splits and database entry
## Washington State Cases

- **Case 5 – Retail Restaurant**

<table>
<thead>
<tr>
<th>TxnID</th>
<th>BillNum</th>
<th>Total</th>
<th>Subtotal</th>
<th>Tax1</th>
<th>ItemDesc1</th>
<th>PayAmount</th>
<th>Tender Desc1</th>
</tr>
</thead>
<tbody>
<tr>
<td>91411</td>
<td>33</td>
<td>11.77</td>
<td>10.75</td>
<td>1.02</td>
<td>Special SMALL</td>
<td>20</td>
<td>Cash</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1. Pho (SML)</td>
<td>-8.23</td>
<td>Cash</td>
</tr>
</tbody>
</table>

---

**Receipt 1:**
- Date: Jul 26, 2013, Time: 01:29PM
- Server: Guy
- Table: 5

<table>
<thead>
<tr>
<th>Item</th>
<th>Qty</th>
<th>Price</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special LARGE</td>
<td>1</td>
<td>11.75</td>
<td></td>
</tr>
<tr>
<td>Prawn Roll (x)</td>
<td>1</td>
<td>1.75</td>
<td>1.75</td>
</tr>
<tr>
<td>Bubble Tea</td>
<td></td>
<td></td>
<td>1.28</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>13.50</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>14.78</td>
<td></td>
</tr>
</tbody>
</table>

**Receipt 2:**
- Date: Jul 26, 2013, Time: 01:29PM
- Server: Guy
- Table: 5

<table>
<thead>
<tr>
<th>Item</th>
<th>Qty</th>
<th>Price</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special SMALL</td>
<td>1</td>
<td>10.75</td>
<td></td>
</tr>
<tr>
<td>Coffee</td>
<td></td>
<td>1.75</td>
<td>1.75</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>12.50</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>13.89</td>
<td></td>
</tr>
</tbody>
</table>

**Receipt 3:**
- Date: Jul 25, 2013, Time: 01:29PM
- Server: Guy
- Table: 5

<table>
<thead>
<tr>
<th>Item</th>
<th>Qty</th>
<th>Price</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special SMALL</td>
<td>1</td>
<td>10.75</td>
<td></td>
</tr>
<tr>
<td>Prawn Roll (x)</td>
<td>1</td>
<td>1.75</td>
<td>1.75</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>10.75</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>11.77</td>
<td></td>
</tr>
</tbody>
</table>
Additional Efforts

• Joint efforts with other States and Countries
• Quarterly conference calls for field auditors dealing with this topic
• Learn through working more cases!
Thank You!

- Please feel free to contact us with any additional Questions
  - Danielle Grindle – Audit Program Manager
    - danielleg@dor.wa.gov
  - Bryan Kelly – Audit Regional Audit Manager
    - bryanke@dor.wa.gov
  - Mike Chertude – Senior Revenue Specialist
    - michaelc@dor.wa.gov
  - Jerome Salido – Computer Audit Specialist
    - jeromes@dor.wa.gov
Questions?
2016 Property Tax Legislation

Pete Levine
Personal Property Supervisor
Passed Bills – Property Tax

SHB 2519
Allowing nuisance abatement cost recovery for cities.

HB 2842
Financing of improvements for state-owned lands to be transferred for private development.

SSB 5767
Revising local government treasury practices and procedures
Passed Bills – Property Tax

ESSB 6206
Authorizing the growing of industrial hemp.

SSB 6211
Concerning the exemption of property taxes for nonprofit homeownership development.

SSB 6337
Disposing tax foreclosed property to cities for affordable housing purposes.
2016 Tax & Administration Legislation

Joanne Gordon
Legislative Coordinator
Passed Bills – Tax & Administration

SHB 2539
Relating to the inheritance exemption for the real estate excise tax

HB 2565
Reducing the frequency of local sales and use tax changes

EHB 2959
Relating to local business tax and licensing simplification
Passed Bills – Tax & Administration

E2SSB 5109
Relating to infrastructure financing for local governments

ESSB 6328
Relating to youth vapor product substance use prevention, and vapor product regulation, without permitting a tax on the sale or production of vapor products
Passed Bills – Marijuana

HB 2520
Concerning the sale of marijuana to regulated cooperatives

ESSB 6206
Authorizing the growing of industrial hemp
Questions?
Business Licensing Service (BLS)

Janet Shimabukuro
Assistant Director, Taxpayer Services
About Business Licensing Service (BLS)

• BLS is the clearinghouse for business licensing – offering hundreds of endorsements from 10 state agency partners and 67 city partners

✓ Agriculture
✓ Ecology
✓ Employment Security
✓ Health
✓ Labor & Industries
✓ Liquor Control Board
✓ Licensing
✓ Lottery
✓ Revenue
✓ Secretary of State
Current and Queued Partners

More than 30% of cities that license businesses work with BLS
Cities in queue to join BLS
Combined Licensing Process

A new convenience store in Olympia submits a business application.

- DOH: Sell medication
- SOS: Profit corporation
- DOR: Register for tax
- LCB: Sell beer
- LNI: Hire a minor
- ECY & AGR: Sell gasoline
- ESD: Hire staff
- LOT: Sell lottery
Benefits of BLS to City Partners

- BLS handles all registrations and renewals
- Reduced printing/mailing costs
- Reduced city staff time
- Local regulatory control
- Increased compliance
My DOR – launched June 6th

• Benefits for WA businesses:
  o Streamlined business application
  o Secure, online updates of accounts
  o Account view for trade names, corporate registrations and locations
  o Online application or renewal for almost every endorsement
  o City limits locator (GIS) to ensure appropriate local licensing
  o New, improved Business Licensing Wizard
  o More robust Business License Search

Now available from business.wa.gov/BLS
New Business Licensing Wizard

Business Licensing Wizard

1. Ownership/Employee Information

Ownership/Employee Information

Begin by answering the questions below. Once the questions are answered click "Next" to continue to the next step.

What will your ownership type be?

What type of employees will you have?

Required

Business Licensing Wizard

1. Ownership/Employee Information

Ownership/Employee Information

Begin by answering the questions below. Once the questions are answered click "Next" to continue to the next step.

What will your ownership type be?

SOLE PROPRIETORSHIP

A Sole Proprietorship is one individual or married couple in business alone. Sole proprietorships are the most common form of business structure. This type of business is simple to form and operate, and may enjoy greater flexibility of management, fewer legal controls, and fewer taxes. However, the business owner is personally liable for all debts incurred by the business.

The Unified Business Identifier (UBI) number will be assigned upon receipt of a completed Business License Application.

Business Licensing Wizard

Cancel

Now available from business.wa.gov/BLS
## New Business License Search

### BUSINESS LICENSE LOOKUP

Search for business license endorsements issued through the Washington State Business Licensing Service.

<table>
<thead>
<tr>
<th>General search</th>
<th>Trade name search</th>
<th>Governing people search</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business name</td>
<td>Street address</td>
<td>County</td>
</tr>
<tr>
<td>UBI/Account ID</td>
<td>City</td>
<td></td>
</tr>
<tr>
<td>License no.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endorsement type</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### OTHER RESOURCES

- Professional Licenses (DOL)
- Contractor, Electrician, or Plumber (L&I)
- Business Records (DOR)
- Corporations Registration Data (SOS)
- Health Care Provider Credential (DOH)
- Worker's Comp Premium Status (L&I)
- Suspect Fraud (DOR)

### RESULTS

<table>
<thead>
<tr>
<th>1 - 50 of 839</th>
<th>1 of 18</th>
<th>1 of 18</th>
<th>1 of 18</th>
<th>1 of 18</th>
<th>1 of 18</th>
<th>1 of 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Name</td>
<td>Local Name</td>
<td>UBI</td>
<td>Business ID</td>
<td>Location ID</td>
<td>City</td>
<td>State</td>
</tr>
<tr>
<td>&quot;TTT&quot; AUTO SALES</td>
<td>BLUE CHIP MOTORS, L.L.C.</td>
<td>593-181-022</td>
<td>001</td>
<td>0002</td>
<td>SPOKANE</td>
<td>WA</td>
</tr>
<tr>
<td>2 BROKE GUYS AUTO REPAIR</td>
<td>COUNTRYMAN, ADAM</td>
<td>603-226-439</td>
<td>001</td>
<td>0001</td>
<td>SPOKANE</td>
<td>WA</td>
</tr>
<tr>
<td>2 WAY AUTO SALES</td>
<td>NOTSHE, INC.</td>
<td>601-437-458</td>
<td>001</td>
<td>0001</td>
<td>SPOKANE VALLEY</td>
<td>WA</td>
</tr>
<tr>
<td>4PLAY AUTOMOTIVE</td>
<td>HANSEN, RON D</td>
<td>601-977-958</td>
<td>001</td>
<td>0001</td>
<td>MEAD</td>
<td>WA</td>
</tr>
<tr>
<td>5 MILE AUTO CENTER</td>
<td>HOERNER, RODNEY J</td>
<td>609-140-987</td>
<td>001</td>
<td>0004</td>
<td>SPOKANE</td>
<td>WA</td>
</tr>
<tr>
<td>520 AUTO GROUP</td>
<td>THE HERMANN GROUP, L.L.C.</td>
<td>602-953-128</td>
<td>001</td>
<td>0001</td>
<td>DEER PARK</td>
<td>WA</td>
</tr>
</tbody>
</table>
My DOR – Login

Register
Enter your contact information

Name

Email

Confirm email

Create a User ID and password

User ID

Password

Confirm password

Secret question

What city were you born in?

Secret question answer

powered by

Need assistance? Contact us
Forgot your User ID?
Forgot your password?
Activation code?
My DOR – Business Licensing Home

Business Licensing Home

I WANT TO...
- File Business License Application
- Update My Profile
- Add Access to a Business

USER INFO
John Smith
lisac@dor.wa.gov

REQUESTS
MESSAGES
Last 3 Years
All

LAST 3 YEARS
<table>
<thead>
<tr>
<th>Confirmation #</th>
<th>Title</th>
<th>Period</th>
<th>Submitted</th>
<th>Processed</th>
<th>Account Id</th>
<th>Account Type</th>
<th>Status</th>
<th>User ID</th>
</tr>
</thead>
</table>

View Support ID  Log Off
My DOR – Online Business Application

Application

Purpose of Application

You are submitting an application to open a new business location under the UBI listed below. Please fill out all of the required information, the request will not be processed until you click “Submit” after you enter your payment information.

Customer Information

Customer Name: APPLES TO APPLES INC
UBI: 603-002-210

Filing

Do you want to file a separate excise tax return for this location/activity?

Yes
No

Use Our Wizard To Figure Out What You Need

The Business Licensing Wizard helps you determine the endorsements you need for your business. Step through the wizard and use the reference code to transfer the information to your application. Click here to use the Business Licensing Wizard.

If you have a reference code from the Business License Wizard, enter it here:

Wizard Reference Code
My DOR – User Help

• Help information page on business.wa.gov/BLS

• “How To” videos available on:
  o Setting up your login
  o Adding access to your business
  o Adding attachments
New Partner Portal

• New system simplifies our partners’ licensing work
  o Fewer steps to update endorsement statuses
  o Enhanced searches, including wildcards (*)
  o City limits locator (GIS) to ensure appropriate local licensing
  o View license and other images directly in the system
  o Robust reporting on licensees and endorsements
New Partner Portal – Viewing Customers
Questions?
Miscellaneous Updates & Closing

Patti Wilson
Local Government Liaison

Evaluations will be sent via email, please provide feedback