

Government Guide

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Paying online sales tax is a good thing. Really! By Marilyn Mays, CPA, CGMA

When you shop online, you've probably noticed some of your purchases don't include sales tax. This is great for shoppers, but not so great for state and local government. The immediate savings a shopper receives (you!) means a loss of revenue by the states and cities/towns. A case about to go to the U.S. Supreme Court could mean you *do* have to pay sales tax online. Before you protest,

consider this – the growing loss of online sales tax revenues for state and local government could end up costing you more.

The U.S. Supreme Court is scheduled to hear oral arguments this month for *South Dakota v Wayfair, Inc.*, which is asking the Court to rule that state and local government may require retailers with no physical presence in the state to collect sales taxes. Currently, governments cannot require this of remote sellers because of long-standing precedent set by cases decided in 1967 and 1992 – before the first online purchase was ever made.

The Census Bureau of the Department of Commerce reported an estimated \$115.3 billion in U.S. retail internet sales in the third quarter of 2017. Although difficult to determine, some studies suggest the loss of revenues by state and local government is also in the billions. These governments derive 30% to 60% of their revenues from sales taxes. As online sales grow, thus reducing local sales and associated sales taxes, governments will be forced to eliminate critical services, positions and programs (which is already happening), or create new revenue sources such as imposing corporate/personal income tax, property taxes or other taxes.

Creating a new tax or adding to a current tax always presents unwanted challenges but may be the only option. Cities/towns could implement a household or local income tax and states could increase their rates on existing income taxes. Using current methods of generating revenue, governments could increase the local sales tax rate. But, implementing a higher local sales tax may drive more purchases to the internet, which would eventually lower the generation of local revenue. Another option would be to increase the property tax. No matter which option is chosen, citizens will feel like they're paying more in tax even if the generation of revenue for governments remains at the same level.

Lost sales tax revenue also means local economies suffer. With store sales shrinking, local retailers are being forced to close locations. Communities are left with fewer local places to shop and large, vacant buildings. As these buildings sit empty and deteriorating, surrounding property values could suffer, which would lead to reduced property taxes generated. Another consequence of stores closing is the loss of local jobs. Government efforts to bring in local jobs through community development becomes more limited by removing retail.

A U.S. Supreme Court decision in favor of South Dakota would allow governments to move forward in the 21st century, eliminate the need to create or increase another tax and level the playing field for local versus online shopping. An unfavorable decision suggests governments would need to find other sources of revenue. Either way, the consumer of goods will pay the price.

If you have any questions, Marilyn can be reached at (480) 839-4900 or MarilynM@hhcpa.com.

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Procurement fraud, abuse personality profiles By Cailee Lewis, CPA

Procurement fraud and abuse is something no organization wants to experience. It can sneak up on you and cause major financial losses. The good news is, there can be warning signs. Fraud Magazine recently outlined five common personality risk profiles of people who commit these acts of fraud and abuse.

Situational fraudster. This is an employee who often has a poor work attitude or is continually frustrated. These employees will commit fraud when the right occasion occurs, such as weak procurement internal controls. Typically, a work event, such as being passed up for promotion or being demoted, will trigger the rationalization of reasons they will commit procurement fraud or abuse.

Deviant fraudster. This is an employee who is always searching for opportunities to commit fraud. They are typically considered trusted hard-workers who take minimal days off and have their hands in every process within their department. They are generally very well-liked by co-workers and will have a following of advocates who will always stand up for them.

Multi-Interest abuser. These employees are the type of people who are not seeking any financial advantage. Instead, they are willing to manipulate the procurement process to advance their own interests or a friend's or family member's. For example, they will help ensure a contract is awarded to a friend or family member. The multi-interest abuser will justify the abuse because the organization is getting the service it needed anyway, so no harm has occurred. Or, the rationalization can be that the abuser is obligated or feels pressured to help a family member or friend.

Well-intentioned noncompliance employee. This is an employee who typically has been with the organization for many years and has a good working knowledge of the procurement processes and requirements. The fraud and abuse these employees commit can be harder to identify because they will create an indirect financial loss such as potential contract disputes, wasting resources or the risk of litigation. This employee knows how to "cut corners" in the process.

Disengaged noncompliance employee. This is an employee who is usually disgruntled or dissatisfied with the organization and therefore, they have no regard for their job responsibilities. They will often put little effort into their procurement process responsibilities which opens up the potential for fraud and abuse to be committed by someone else who knows there's little oversight from this employee.

Being able to identify and understand these personality risk profiles and the motivations behind them can help you prevent and detect procurement fraud and abuse within your organization.

If you have any questions, Cailee can be reached at (480) 839-4900 or CaileeL@hhcpa.com.



Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.