



OFFICE OF THE
UTAH STATE AUDITOR

Auditor Alert – 2014-3

Subject: Tax Levy Revenue Recognition

Date: June 24, 2014

Purpose

We have noted instances where governmental entities do not recognize revenue for taxes imposed by the government because the taxes are distributed directly to another entity. GASB 33, paragraph 28, requires that, **the entity that imposes a tax recognize the tax revenue**. This conclusion is further supported by the Government Finance Officers Association (GFOA) Governmental, Accounting, Auditing, and Financial Reporting (GAAFR) or “Blue Book”, which on page 129 states,

*“Sometimes a government that imposes a sales tax (county) will remit all or a portion of the proceeds to a lower level of government (municipality). Such amounts are not sales taxes from the perspective of the recipient government. That is, **a tax is only a tax from the vantage point of the government that imposes it.** A government that receives the proceeds of another government’s taxes should treat the event as a government mandated or voluntary nonexchange transaction, depending upon the circumstances.”*

A government that imposes a tax is responsible for the proceeds and accountable to taxpayers. When tax revenue is not recognized in the taxing entity’s budget or financial report the activity is not transparent and the government avoids public oversight. Therefore, the government that imposes the tax should report *Sales Tax Revenue* or *Property Tax Revenue* as appropriate and the government that receives proceeds from another government should report *Contributions from Other Government(s)* or a similar description in the financial statements.

Common Revenue Recognition Errors

Redevelopment Agencies (RDA)

When a county collects tax increment it distributes the increment directly to an RDA; however, the RDA is not the taxing entity, it is the tax of the public entity that authorized the RDA to receive the increment. Therefore, the public entity (school district, local or special district, municipality, county, etc.) should record the property tax revenue and a corresponding transfer or expenditure to the RDA.

If the RDA is a blended component unit of a government, the primary government’s general fund should record the property tax revenue and a transfer out to the RDA. When the blended component unit RDA is combined with the primary government, the interfund activity should be eliminated. However, the property tax revenue should remain in the primary government’s general fund and the expenditure or expense should remain in the fund reporting the RDA activity.

Local Option Sales Taxes for Transportation

Utah Code 59-12-2208 allows a county, city, or town legislative body to impose a sales tax for transportation. One of the allowable uses of the tax is for a “system of public transit”. Some

local governments have elected to have the State Treasurer directly deposit these funds with the Utah Transit Authority (UTA) rather than having the funds flow through the county, city , or town and then to UTA. Regardless of the flow of funds, because the tax is imposed by the county, city, or town; **these funds should be recognized as a revenue and expenditure on the financial statements of the entity that imposed the tax.**