

AGENDA ITEM SUMMARY

FORT COLLINS CITY COUNCIL

ITEM NUMBER: 16

DATE: October 20, 2009

STAFF: Mike Freeman
Chuck Seest

SUBJECT

First Reading of Ordinance No. 106, 2009, Amending Section 25-123(c) of the City Code Relating to the Vendor Fee for Collecting and Remitting Sales Tax.

RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading

FINANCIAL IMPACT

This Ordinance amends the City Code to eliminate the vendor fee paid to merchants who collect City sales and use tax. Elimination of the fee will result in the City receiving an additional \$300,000 per year in sales tax collections. These collections will be an ongoing revenue source.

The 2010-11 Budget that will be considered on First Reading on October 20, 2009, includes the assumption that this change to the vendor fee will be adopted. The additional \$300,000 per year in revenue is being appropriated in the budget ordinance.

EXECUTIVE SUMMARY

This ordinance will eliminate the City's current vendor fee for sales and use tax licensees. The proposed modification will result in **\$300,000** of ongoing additional revenue being available for General Fund uses. This change will not increase taxes or fees charged, but rather eliminate the amount of City sales and use taxes that vendors are allowed to retain in exchange for the service they provide in collecting City taxes. Currently, vendors are allowed to retain 1% of sales and use taxes collected, up to a maximum of \$45 per reporting period.

BACKGROUND

History

The vendor fee is a service fee that is retained by sales tax licensees in recognition of their work in collecting the City's sales and use taxes. The fee was originally established to acknowledge that merchants incurred a cost for collecting sales taxes, including accounting work and the completion of paper forms for remitting the sales tax collection. With increasingly automated accounting

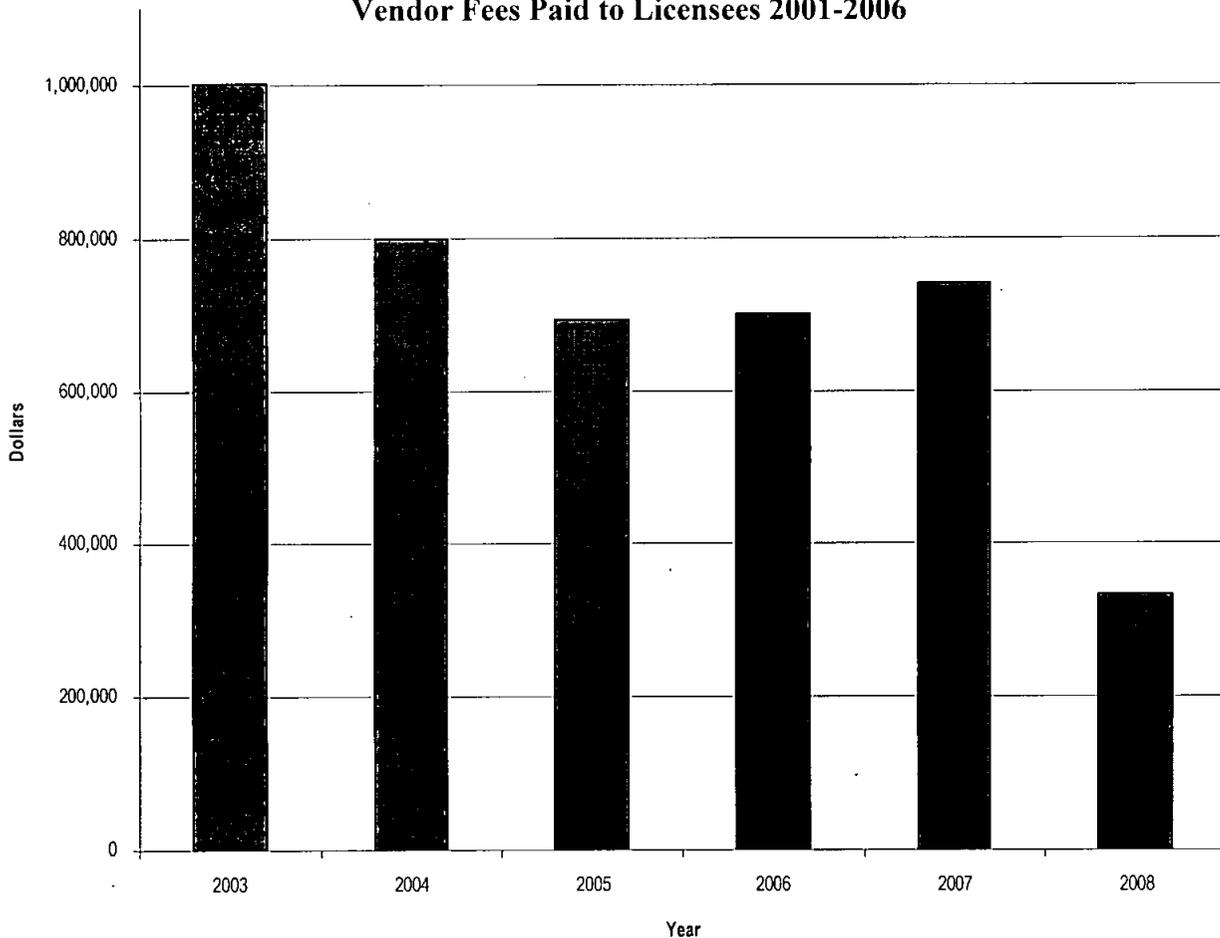
processes, the cost incurred by vendors has greatly diminished as their “point of sale” software makes these calculations for the vendor.

In the past, the vendor fee has been paid at different rates. The original vendor fee of 3% with no cap was first changed in 1989. The 1989 change limited vendors to 3% of the first \$3,000 in sales tax they collected, plus 1% of all taxes thereafter. The vendor fee was further reduced in April 2004 to the current formula with a cap of \$90 per reporting period.

The current vendor fee allows licensees to keep 1% (\$45) of the first \$4,500 of sales tax collected during each reporting period as a service fee for collecting the tax. The fee may be taken only if the return is filed and paid on time. There are approximately 9,800 active sales tax licenses. Less than 20% of vendors reach the sales volume needed to keep the full vendor fee each month.

Over time, the changes in the vendor fee have resulted in businesses retaining a smaller amount of City sales and use tax as a service fee. At this point, there is no further adjustment that would be feasible; rather, the vendor fee should be eliminated. The following chart illustrates the history of the vendor fee taken by businesses:

Vendor Fees Paid to Licensees 2001-2006



Comparison of Proposal to Other Municipalities

In reviewing the proposed vendor fees of other regional municipalities, elimination of the fee in Fort Collins would be consistent with a growing trend. Others have retained the vendor fee, but several neighboring communities (including the State of Colorado as of this year) pay no fee to vendors. The chart shows the vendor fees of comparable cities compared to the recommended vendor fee for Fort Collins.

Comparative Vendor Fees

	Entity	Vendor Fee	Vendor Fee Restriction
1	Denver *	0.50%	N
2	Colorado Springs	2.00%	Y
3	Aurora	0.50%	N
4	Lakewood	0.00%	N/A
5	Fort Collins	0.00%	N/A
6	Westminster	2.50%	Y
7	Thornton ~	3.00%	Y
8	Pueblo	0.00%	N/A
9	Arvada	3.00%	Y

	City	Vendor Fee	Vendor Fee Restriction
10	Centennial	3.00%	Y
11	Boulder	0.00%	N/A
12	Greeley	0.00%	N/A
13	Longmont	3.00%	Y
14	Loveland	3.33%	Y
15	Grand Junction	3.33%	N
1			
6	Wheatridge	0.00%	N/A
17	Golden	0.00%	N/A
1	State of Colorado	0.00%	N/A
8			

* Denver's 2010 budget letter indicates the .5% vendor's incentive fee for sales and lodger's tax returns will be eliminated.

~ Effective 1/1/2010, Thornton is reducing the vendor fee cap from \$150 to \$25.

ORDINANCE NO. 106, 2009
OF THE COUNCIL OF THE CITY OF FORT COLLINS
AMENDING SECTION 25-123(c)
OF THE CODE OF THE CITY OF FORT COLLINS
RELATING TO THE VENDOR FEE
FOR COLLECTING AND REMITTING SALES TAX

WHEREAS, Section 25-123(c) of the City Code authorizes retailers to retain one percent of the first \$4500 of the amount of sales tax they collect for the City (the “Vendor’s Fee”); and

WHEREAS, the Vendor’s Fee was originally adopted in recognition of the time and effort expended by retailers to collect the City’s sales tax from their customers; and

WHEREAS, current business practices include automated accounting processes that have significantly reduced the time retailers need to invest in collecting the City’s sales tax; and

WHEREAS, the total amount currently retained by retailers is approximately \$300,000 per year; and

WHEREAS, the loss of this amount of sales tax revenues has a significant negative effect on the City and its citizens given the recent budget constraints; and

WHEREAS, the City Council believes it to be in the best interests of the City to eliminate the Vendor’s Fee and to utilize the resulting savings to help defray City expenses.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS as follows:

Section 1. That Section 25-123(c) of the City Code is hereby amended to read as follows:

Sec. 25-123. Remittance of sales tax collected by retailer.

...

(c) Every retailer shall file a tax return each month with the Financial Officer on or before the twentieth day of each month for the preceding month and remit the tax due to the Financial Officer simultaneously therewith. ~~Every retailer may deduct one (1) percent of the first four thousand five hundred dollars (\$4,500.) of the amount of the sales tax to be remitted by him or her under this Article for the collection and remittance of the sales tax. However, if the remission of the sales tax by the retailer is delinquent, the retailer may not retain any amounts for collecting and remitting the sales tax unless the retailer demonstrates reasonable grounds for the delinquency acceptable to the Financial Officer.~~

Section 2. That this Ordinance shall become effective on January 1, 2010.

Introduced, considered favorably on first reading, and ordered published this 20th day of October, A.D. 2009, and to be presented for final passage on the 3rd day of November, A.D. 2009.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 3rd day of November, A.D. 2009.

Mayor

ATTEST:

City Clerk