

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: SB 1104

SPONSOR: Senator Sullivan

SUBJECT: Certified Audits

DATE: February 1, 2002 REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Fournier</u>	<u>Johansen</u>	<u>FT</u>	<u>Favorable</u>
2.	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
3.	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
4.	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
5.	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
6.	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

## I. Summary:

Senate Bill 1104 extends the Department of Revenue's Certified Audit Program through July 1, 2006. Under current law this program is repealed July 1, 2002.

This bill substantially amends, creates, or repeals the following sections of the Florida Statutes: 213.053, 213.21, and 213.285.

## II. Present Situation:

The Certified Audit Program is a cooperative pilot effort between the Florida Department of Revenue and the Florida Institute of Certified Public Accountants. This program gives taxpayers the opportunity to hire, at their own expense, qualified CPA firms to review their tax compliance. As an incentive to incur the cost of a certified audit, penalties are waived and interest abated if tax is owed as a result of the audit. Additionally, except in cases of fraud or misrepresentation, the Department will not audit taxpayers for the same period or tax covered by the certified audit period. The program was enabled by section 213.285, Florida Statutes. The pilot program is for Florida sales and use tax and local option taxes.

There are many advantages to businesses that participate in the Certified Audit Program. The most important are these:

- Taxpayers receive a statutorily guaranteed waiver of all penalties, abatement of the first \$25,000 of interest and an additional 25% of any interest liability in excess of the first \$25,000. (These incentives do not apply where tax was collected but not remitted.)

- o Once the Certified Audit Report is approved by the Department, the taxpayer is removed from the audit pool for sales and use tax for the period covered by the audit, unless it is later determined there was misrepresentation or fraud.
- o The cost of hiring the CPA firm is deductible as an ordinary and necessary business expense.

As of December 15, 2001, 139 CPAs have participated in the Certified Audit Training Seminar, and 108 have taken and passed the examination to become certified in Florida sales & use tax. As of December 15, 2001, there are 98 Certified Audits at various stages in the program, of which 39 have been completed.

The table below shows that the program has experienced healthy growth since its inception, especially in the current year.

**Certified Audit Program Activity**

	Assessed	Collected	Refunded
FY 1999/2000	\$ 249,555	\$ 236,652	-0-
FY 2000/2001	\$1,044,608	\$ 822,406	\$25,483
FY 2001/2002	\$5,290,107	\$2,591,687	-0-
Program Total	\$6,584,270	\$3,650,745	\$25,483

**III. Effect of Proposed Changes:**

This bill extends the statutory repeal of this program from July 1, 2002 to July 1, 2006.

**IV. Constitutional Issues:**

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

**V. Economic Impact and Fiscal Note:****A. Tax/Fee Issues:**

None.

**B. Private Sector Impact:**

This privatization program was created to increase voluntary compliance by taxpayers by offering them unique financial incentives to participate. Specific advantages to participants include:

- Taxpayers receive a statutorily guaranteed waiver of all penalties, abatement of the first \$25,000 of interest and an additional 25% of any interest liability in excess of the first \$25,000. (These incentives do not apply where tax was collected but not remitted.)
- Once the Certified Audit Report is approved by the Department, the taxpayer is removed from the audit pool for sales and use tax for the period covered by the audit, unless it is later determined there was misrepresentation or fraud.
- The cost of hiring the CPA firm is deductible as an ordinary and necessary business expense.

**C. Government Sector Impact:**

This program serves to decrease state involvement in business. The program also extends Florida's tax collection capabilities and permits more effective use of audit resources.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Amendments:**

None.