SNAPSHOT

Evaluation of Tennessee's Retail Accountability Program

October 2024

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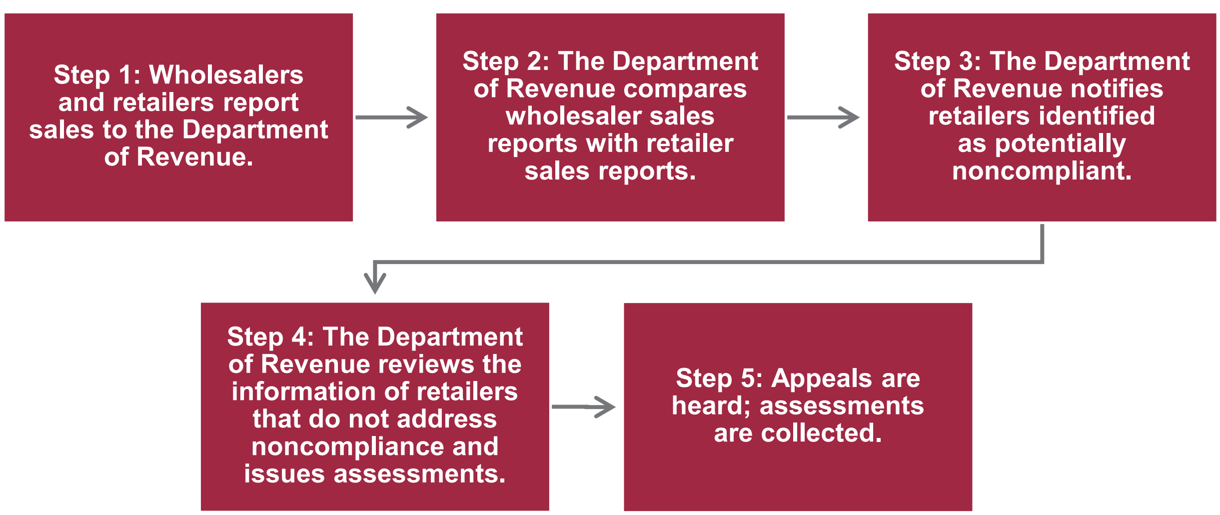
In 2012, the Tennessee General Assembly created the Retail Accountability Program (RAP) to improve sales tax compliance among retailers and wholesalers of certain products. The Tennessee Department of Revenue (TDOR) administers RAP.

RAP was initially limited to beer and tobacco products. In 2015, legislation expanded the program to include items such as nonalcoholic beverages (e.g., bottled fruit juice, bottled water), soft drinks, candy, and certain nonperishable foods, such as chips. Following the program's expansion, a legislative sunset was introduced for all items other than beer and tobacco. Originally set for 2019, the sunset was extended by the General Assembly to 2022, and then again to 2025.

A 2022 law requires the Comptroller of the Treasury to "determine the effectiveness and efficiency of the program." This evaluation explains how the program works, examines its financial impact, and presents feedback from the business community about the program. The evaluation includes six conclusions and one policy option.

RAP involves three primary stakeholders – retailers, wholesalers, and the Tennessee Department of Revenue (TDOR) – and includes five steps.

Exhibit 1: The Retail Accountability Program includes five steps



Source: Comptroller analysis of TDOR processes.

Conclusions

- **RAP collected $36.6 million in unremitted sales taxes, penalties, and interest from FY 2013 through FY 2023.** More than 70 percent of proposed RAP assessments come from unremitted sales taxes, with the remaining percentage coming from penalties and interest. Generally speaking, 67 percent of all dollars collected by RAP go to state government and 33 percent to local governments.
- **RAP has collected more money than it costs to administer the program.** RAP has collected $36.6 million in revenue while expending $3.9 million since the program began in FY 2013. In addition to revenues collected through RAP, it is likely that some retailers have increased their sales tax remittance to avoid being identified as noncompliant by the program. TDOR statisticians estimate $300 million in sales tax revenues have been voluntarily remitted by retailers over the past 11 years to avoid being identified as noncompliant by RAP.
- **Nonalcoholic beverages (e.g., fruit juice, water), candy, soft drinks, and other food items accounted for more RAP collections ($8 million) than beer and tobacco ($5 million) from FY 2017 through FY 2023.**
- **The precision of RAP in identifying potentially noncompliant retailers and calculating the amount owed in unremitted sales tax has increased over time.** Comptroller staff determined the number of adjustments to RAP assessments by TDOR decreased from over 2,000 in FY 2015 to 83 in FY 2023. In FY 2015, the total dollar value of adjustments was $4.7 million. By FY 2023, the amount had fallen to $411,179.
- **Opportunities exist for TDOR to improve the transparency of RAP's operations.** Leaders of wholesaler and retailer associations interviewed by the Comptroller's Office cited the lack of publicly available information about RAP, and the Comptroller's Office found that publicly available information regarding the program's steps and procedures was lacking or unavailable, as of July 31, 2024.
- **Opinions about RAP are not uniform among the business community, with some supportive and others critical.** Two business associations supportive of RAP indicated that the program has increased their members' confidence in a level playing field for all retailers of RAP products. Two other business associations were critical of RAP, describing the program as overreaching, unfair, and overly burdensome.

Policy option

TDOR could update and improve its public-facing information describing RAP's operations. Additional information could be added to the RAP website, or existing information could be revised, to address areas of concern among wholesalers and retailers, such as:

- a clear step-by-step breakdown of the RAP process for both wholesalers and retailers (including what may be required of them if discrepancies are identified or data is missing, as well as a list of common reasons for data inaccuracies);
- an explanation of the purpose and the goals for each step of the process;
- an explanation of the reasoning behind calculations used in the program (i.e., assumptions, rationale, etc.); and
- high-level data on revenues collected, retailers impacted by RAP, and other program results.

In addition, the number of distinct RAP webpages on TDOR's website could be reduced or consolidated for easier navigation.

To read the full report, visit the Comptroller's OREA website at **tncot.cc/orea**.