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MEMORANDUM

TO: Irvin Corley, Jr., Executive Policy Manager-LPD
FROM: John Naglick, Jr., Chief Deputy CFO / Finance Director 
DATE: July 11, 2022
RE: OCFO Follow-up Responses to Review of the 2021 ACFR for the
City of Detroit (Part 2)

Please find attached responses to your remaining follow-up questions regarding the 2021 ACFR.

LPD's question #10: On page 23 of the FY 2021 ACFR, the General Fund had \$42.9 million and \$59.3 million increases in income tax assessments receivable and wagering tax receivable, respectively, compared to FY 2020. What are these increases due to?

OCFO's response: The wagering tax increase relates to the \$40.5M Hold Harmless Payment and adjustments to the annual Municipal Services Fee which account for the new wagering tax types (retail sports betting, online gaming and online sports betting). The income tax receivable is adjusted each year based on new assessments from the current tax year less collections from previous tax years. Additionally, in FY21, Treasury recorded an accrued receivable (in accordance with GASB/GAAP standards) in the amount of \$54.2M for future additions to the receivable balances that relate to prior years primarily due to ongoing compliance work.

LPD's follow up question: Please explain how the amount of \$54.2 million in income tax receivable booked in FY21 was derived. Does the \$54.2 million reflect the total universe of prior year income tax receivables that Treasury through ongoing compliance work could go after to collect? If not, what is the estimated total income tax receivable universe amount? Is all ongoing compliance work done in-house, or are there outside collection agencies utilized by the Treasury's Office to assist in the ongoing compliance work?

OCFO's follow up response: The \$54.2M was derived using historical receivable increases from previously completed compliance initiatives. Using tax year 2016 as an example, we determined the base receivable (at the end of the fiscal year) and the incremental increases that followed in future years. This percentage was then applied to the base receivables from all years to estimate the total expected increase in the various receivables. Based on the success of ongoing compliance initiatives and future initiatives, the estimate is subject to change to an undetermined amount. Compliance (audits, identifying non-filers/under-reporters, etc.) is done

in-house. A third-party collection agency is used to collect receivable balances that were generated through compliance or through normal return filings.

LPD's question #12: General Fund Income Tax Refunds Payable increased by \$29.4 million to \$70.3 million from the \$40.9 million in fiscal 2020. Is this increased due to estimated liability for nonresident remote work income tax refunds?

OCFO's response: In FY20, the income tax payable included an estimated remote work liability (\$23.5M), refunds pending processing/approval (\$10.7M), credit carry-forwards (\$1.9M) and an accrual related to the income tax extension (\$4.8M).

In FY21, the income tax payable included an estimate on all tax payments that could be subject to refund including withholding, individual and corporate (\$35M), refunds pending processing/approval (\$23.4M), estimated refunds from tax return extensions (\$9.6M) and credit carry-forwards (\$2.2M).

LPD's follow up question: For the FY21 income tax payable liability, please provide the final tax payments that were subject to refund including withholding, individual and corporate, refunds approved and processed, refunds from tax return extensions and credit carry-forwards to see if the refunds related to nonresident remote work has actually decreased as of June 30, 2021, which would hopefully reflect that more nonresidents are choosing to return to work in the City of Detroit proper.

OCFO's follow up response: Refund information is available in aggregate by tax type (individual, corporate, withholding) not payment type (i.e. extension or estimated payments). I've included the fiscal year refund totals by tax type below as well as the credit carry-forward total for FY21 (note, these totals represent monthly activity, not the actual flow of funds):

Fiscal Year 2021 - Withholding Refunds (\$)	
Refunds Paid	152,970.01
Refund Interest Paid	13,784.31
Total	166,754.32
Fiscal Year 2021 - Individual (\$)	
Refunds Paid (Resident)	5,492,280.24
Refund Interest Paid (Resident)	35,964.16
Refunds Paid (Non-Resident)	40,250,181.31
Refund Interest Paid (Non-Resident)	153,840.89
Refunds Paid (Part Year)	713,329.95
Refund Interest Paid (Part Year)	7,831.29
Refunds Paid (Not Defined)	128,207.45
Refund Interest Paid (Not Defined)	1,387.40
Total	46,783,022.69
Fiscal Year 2021 - Corporate (\$)	
Refunds Paid	5,309,087.53
Refund Interest Paid	43,755.54
Total	5,352,843.07
Fiscal Year 2021 - Credit Carry Forwards	
Individual	935,891
Corporate	1,278,500
Total	2,214,391