



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	04/05/06	Bill No:	AB 2098
Tax:	Administration	Author:	Liu
Related Bills:			

BILL SUMMARY

This bill would allow all state agencies, including the Board, to receive and make electronic payments through a comprehensive electronic payment system established by the Department of Technology Services (DTS). This analysis is limited to the effect the bill would have on the Board's electronic payment services.

ANALYSIS

Current Law

Electronic payments received. The Board is responsible for collection of state and local sales and use taxes and a variety of special taxes and fees. Accordingly, there are various Revenue and Taxation Code sections that authorize the Board to receive payments from tax or fee payers by electronic funds transfers (EFT). In general, certain tax or fee payers are mandated to file by EFT while others can participate in the EFT program voluntarily.

Additionally, current Government Code section 6163 (a)(1) requires that all state agencies accept payment made by means of a credit card or other payment device. Government Code section 6163 (a)(2)(A) provides that a state agency may request that the director grant an exemption from subdivision (a)(1) if the agency determines that its acceptance of payments by credit card or other payment device would have any of the following results: (i) It would not be cost-effective; (ii) it would result in a net additional unfunded cost to the agency; or (iii) it would result in a shortfall of revenues to the State of California.

Electronic payments made. With respect to payment methods used by state agencies, the Prompt Payment Act (Government Code section 927) requires state agencies to pay undisputed invoices within 45 days of receipt or late payment penalties will be incurred. State agencies primarily use two payment methods when buying goods and services. One method is a typical paper process, which requires state agencies to go through many administrative functions and results in processing numerous individual invoices. The second method is a state charge card process, which allows state agencies to pay vendors at the point of sale and to receive payment performance and sales volume rebates for those purchases. The Department of General Services (DGS) has entered into an agreement with U.S. Bank allowing state agencies to make procurement transactions for goods and services through the purchase card system known as CAL-Card.

Proposed Law

This bill would add section 11002.5 to the Government Code to provide that the DTS shall construct an electronic payment system by January 1, 2008 which would allow all state agencies to receive and make payments through various electronic payment methods.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the State Controller's office and the California Small Business Association. The purpose of the bill is to create a comprehensive, single portal system allowing all necessary payments to the state to be received or made electronically. The sponsors anticipate that the state would enjoy several benefits, including: consolidating the state's bargaining power for credit card services to negotiate lower fee rates; decreasing processing costs of electronic payments; sending payments more promptly to vendors; and improving business relationships.
2. **The Board utilizes various electronic payment mediums.** The Board accepts credit card payments from the Discover Network, MasterCard, Visa and American Express. The Board subscribes to the DGS Master Service Agreement that negotiates the terms of the credit card payment program contract. Currently, the fee associated with accepting credit card payments is 2.5 percent of the transaction amount and is paid to the credit card processing vendor. The fee is not paid to, or charged by, the Board.

Electronic funds transfers are received by automated clearing house (ACH) debit and ACH credit as well as Fedwire transfers. Those taxpayers that utilize the ACH debit process first contact the State's data collection service and provide the payment information. The State's bank will then debit the authorized amount from the taxpayer's account. The state pays the cost to report a debit transaction. The taxpayer pays any fees that their financial institution may charge. For ACH credit payers their first contact is with their own bank to instruct them to transfer the payment to the Board's bank account. The taxpayer is responsible for any fees charged by their financial institution.

Certain payments to vendors, up to a specified amount, are made through the CAL-Card program. The DGS administers this program which allows participating state agencies to make procurements up to \$50,000 per transaction. The CAL-Card program is flexible enough to allow participants to tailor the program to meet their individual card needs. The Board will soon be implementing this program and taking advantage of certain cost savings associated with the state's Master Purchase Agreement.

3. **The Board may not realize full cost savings.** Currently, about 80 percent of the total revenue for sales and use taxes and the special taxes and fees are paid by EFT. The author's office suggests that state agencies may realize cost savings from processing electronic payments and may also realize increased revenue by decreasing the "float time" of payments. However, with the Board already receiving a large part of the taxpayer's payments electronically the Board is currently realizing reduced payment "float time."

Additionally, the major processing costs for the Board result from processing paper tax returns rather than the payments. With the exception of electronically filed tax returns which include electronic payment, taxpayers who currently pay through an electronic medium must still file their paper tax returns. Costs for processing paper returns are the same whether paid by cash, check, EFT or credit card.

4. **Does the bill require participation?** The current language of the bill would “allow” state agencies to receive or make electronic payments through the comprehensive electronic payment system. Board staff is available to work with the author’s office to draft language to support the author’s intent.

COST ESTIMATE

To the extent that the Board would be required to participate in the comprehensive electronic payment system, some costs would be incurred. These costs would include programming changes to the Board’s electronic systems that communicate with the current payment processing vendors. A detailed estimate of the workload impacting payment file transfers, verification, and data matching is pending.

REVENUE ESTIMATE

The bill would not affect the revenues collected for the state by the Board.

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