

Issue Paper Number 01-022



BOARD OF EQUALIZATION
KEY AGENCY ISSUE

- Board Meeting
- Business Taxes Committee
- Customer Services and Administrative Efficiency Committee
- Legislative Committee
- Property Tax Committee
- Other

Electronic Filing (E-Filing) Expansion

I. Issue

How should the Board of Equalization (BOE) expand the E-Filing Program?

II. Staff Recommendation

Staff recommends expanding the E-Filing Program as a component of a BOE, full service, “eGovernment” web site. The eGovernment web site would allow BOE taxpayers to register, add and drop sub-locations, participate in the maintenance of account information, file tax returns and make payments using the Internet. The e-filing component of this recommendation will first target the most receptive industry groups in order to take full advantage of the technology.

III. Other Alternative(s) Considered

Alternative 1:

Expand the E-Filing Program to allow the larger, more complex sales and use tax return filers to e-file through the use of third party service providers.

IV. Background

The BOE E-Filing Program currently provides the option for single outlet taxpayers to file sales and use tax return forms BOE-401-A (Schedule A only) and BOE-401-EZ and to pay amounts due electronically. At the March 2001 Customer Services and Administrative Efficiency Committee meeting, it was recommended that before an expansion of the program, staff conduct interested parties meetings and additional research on electronic commerce best practices. Staff findings would be used to develop a conceptual design for expanding the program. The Committee approved the staff recommendation.

Staff conducted focus group meetings during May 2001 in four districts and a survey of the BOE's larger taxpayers in June 2001 to determine taxpayer issues and needs in the area of e-filing. While few taxpayers attended, those who were able to attend indicated that they were not particularly interested in e-filing through a service provider. These taxpayers, the more complex filers, would rather use a direct e-filing method. Their concerns were twofold. First, the confidentiality and the amount of information that would be required to be input onto the tax return form and schedules is of concern. Second, these taxpayers would prefer a "no cost" means to file their tax returns and suggested that the BOE offer a cost break for frequent e-filers or absorb the third party service provider's fee. A summary of the results from the focus group meetings and the survey are provided in Attachment 1.

While conducting research related to e-services, staff reviewed the "eGovernment Business Needs Assessment Survey" conducted by The Survey Research Center, Institute for Social Science Research at University of California Los Angeles (Attachment 2). Various industry groups were sampled and responded to the survey (e.g., retail trade, manufacturing, wholesale trade, and construction). Overall, the survey found that businesses are receptive to the concept of conducting online transactions with the State and that the Internet is a desirable means by which to accomplish many of the day-to-day activities of the State. The survey also found that the most commonly requested business support is the ability to obtain regulations, codes, laws and business forms. BOE already provides these online services on its Website. Also, highly desirable were the operational services of being able to apply for or renew business permits, registrations, licenses, and certificates; and to initiate changes of business addresses. The survey results noted that only about half of the companies which responded were particularly interested in e-filing of business taxes.

To identify best practices, staff reviewed the Federation of Tax Administrators "Electronic Commerce Best Practices" report (Attachment 3). BOE's current E-Filing Program is already consistent with several electronic commerce best practices. These best practices include security, confidentiality, data integrity, customer service, and system availability. Additionally, any enhancements to the E-Filing Program will facilitate the incorporation of other electronic commerce best practices (Exhibit 1).

V. Staff Recommendation

A. Description of the Staff Recommendation

Staff recommends expanding the E-Filing Program as a component of a BOE full service “eGovernment” web site. The eGovernment web site would be constructed to allow BOE taxpayers to register, participate in the maintenance of account information, file tax returns and make payments using the Internet. The e-filing component of this recommendation would initially address the industry groups most interested in taking full advantage of the technology. For example, taxpayers in the fuel industry, which is required to provide a substantial amount of detail on transactions, have expressed a strong interest in and support for e-filing.

Based on the review of research and focus group findings, the larger, more complex taxpayers appear to be reluctant to use a third party service provider to e-file due to the cost and the confidentiality of the information being provided. In light of this, it is recommended that an eGovernment approach be developed to allow taxpayers to use the Internet to:

- Make sub-location and other registration changes either as part of the return filing process or independent of it.
- File more complex returns including those with local tax allocation and those with prepayments.

Many of the larger taxpayers operate from multiple outlets that may periodically change their locations. Over time, new outlets may be added and existing ones may be moved or closed-out. By providing the functionality to register and update account information using the Internet, taxpayers would be able to register a new location and/or change their business addresses online prior to filing their tax return. Taxpayers would also be able to access and provide updates to other account information as appropriate. These features are the desirable services that were noted in the “eGovernment Business Needs Assessment Survey” as well as having been mentioned in the focus group meetings.

The proposed approach would be designed and developed using electronic commerce best practices. However, due to the scope and complexity involved in developing the added functionality, a feasibility study report and budget change proposal would be required.

B. Pros of the Staff Recommendation

- No filing cost to the individual taxpayer.
- Provides a full complement of services to the individual taxpayer.
- Information remains confidential to BOE and the taxpayers.
- Consistent with findings in “eGovernment Business Needs Assessment Survey” and the BOE focus group meetings.
- Potential administrative efficiencies in the account maintenance and filing functions, in addition to those areas addressed by both solutions.
- Includes the larger, more complex sales and use tax return filers as well as other tax programs.

C. Cons of the Staff Recommendation

- State General Fund augmentation would be needed for BOE to develop the system.
- Involves extended implementation timeline.
- Resource requirements may compete with other BOE technology projects.

D. Statutory or Regulatory Change

None

E. Administrative Impact

As more electronic services are provided, the potential exists for improved administrative efficiencies in the mail, cashiering, data entry, account maintenance, and filing functions.

F. Fiscal Impact

1. Cost Impact

Costs will be justified in a Feasibility Study Report (FSR).

2. Revenue Impact

Payments of tax due amounts received electronically may result in minor revenue increases associated with an acceleration in the deposit of funds. However, any increase in revenue is dependent upon the number of taxpayers who actually use these electronic services and the amount of tax paid electronically.

G. Taxpayer/Customer Impact

- Provides additional online electronic services at no direct cost to the individual taxpayers.
- Provides electronic filing for the larger, more complex taxpayers.
- Convenient method for filing tax returns, registering, and reflecting account information changes.
- Supported by industry groups contacted.

H. Critical Time Frames

An FSR would need to be developed and submitted to the Department of Information Technology (DOIT) and the Department of Finance (DOF) in the Spring 2002. It is anticipated that a Budget Change Proposal (BCP) would have to be approved for fiscal year 2003-2004.

VI. Other Alternatives Considered

Alternative 1:

A. Description of the Alternative

This alternative would expand the existing E-Filing Program to accommodate the larger, more complex taxpayers that conduct business from multiple locations and those that are required to make monthly prepayments. This alternative would necessitate BOE's authorized service providers to modify their systems to allow for the entry and transmission of data for the additional schedules and prepayments. The interested service providers would be expected to provide these larger taxpayers with the capability to complete form BOE-401-A and file multiple schedules, including the schedules necessary for reporting on multiple locations. This e-filing enhancement would allow these larger taxpayers to file their returns in real-time over the Internet through a BOE authorized service provider.

As previously noted, many taxpayers may be reluctant to use a third party service provider due to the cost of using a service provider and the confidentiality of the information to be provided. Additionally, since many of the larger, more complex tax return filers already have automated systems in place to file paper returns, having to input the same information onto the forms and schedules provided by a service provider might be an inconvenience and duplication of efforts. To address this potential problem, implementation of this alternative would also provide BOE with the ability to accept tax returns and payments directly from taxpayers. In order to file returns directly with BOE, taxpayers would have to meet the system specifications for data transmission.

B. Pros of the Alternative

- Requires less time and staff effort for implementation

C. Cons of the Alternative

- Larger, more complex taxpayers have indicated that they would be reluctant to provide confidential information to third party service providers.
- Individual taxpayers would be required to pay a filing fee to service provider.
- Possible duplication of effort for taxpayers who already have tax reporting systems in place.
- Does not address industry needs and wants as revealed in the findings of the "eGovernment Business Needs Assessment Survey" and the BOE focus group meetings.
- Dependent on third-party service provider participation.
- Includes only the larger, more complex sales and use tax return filers and not filers in other tax programs.

D. Statutory or Regulatory Change

None

E. Administrative Impact

As the e-filing program expands, the potential exists for improved administrative efficiencies in the mail, cashiering, data entry, and filing functions.

F. Fiscal Impact

1. Cost Impact

Estimated Technology Staff Costs:

One-Time - 6,600 hours

On-Going - 40 hours per month

Assuming that the e-filing enhancements are made available in fiscal year 2002-2003, TSD staff may be able to absorb the one-time and on-going costs. If the availability of the e-filing enhancements are desired for fiscal year 2001-2002, TSD would need funding to procure the external contract support necessary to backfill the TSD resources which would be needed to complete this effort.

2. Revenue Impact

Payments of tax due amounts received electronically may result in minor revenue increases associated with an acceleration in the deposit of funds. However, any increase in revenue is dependent upon the number of taxpayers who actually use the E-Filing Program and the amount of tax paid electronically.

G. Taxpayer/Customer Impact

- Provides online electronic filing for the larger, more complex taxpayers.
- Convenient method for filing tax returns.
- Individual taxpayers would be required to pay a filing fee to service providers.

H. Critical Time Frames

None

Prepared by: Policy, Planning and Evaluation Division and the Technology Services Division.

Current as of: July 20, 2001

Electronic Commerce Best Practices

Best Practice	Current Capability	Future Enhancements
Interactive Filing Including Payment Information	X	
Filing Through a Third Party Service Provider	X	
ACH Debit Payment Method	X	
ACH Credit Payment Method		X
Warehousing of Payment Option	X	
Credit Card Payment Option		X
Acceptance of Direct Debit Cards for payment		X
Use of a secured socket layer (SSL)	X	
Direct In-House Filing		X
Business Web Portals	X	
Extensible Markup Language (XML)	X	
Aggressive Marketing		X
Electronic Record Keeping	X	