

Memorandum

To : Ms. Cynthia Bridges
Executive Director (MIC 73)

Date: September 12, 2014

From : Jeffrey L. McGuire, Deputy Director
Sales and Use Tax Department (MIC 43)



Subject : **Board Meeting September 23, 2014**
Customer Service and Administrative Efficiency Committee
Compliance Program Update

Pursuant to direction from Board Member Betty Yee, the Sales and Use Tax Department will place the following item on the September 23, 2014 Sacramento Customer Service and Administrative Efficiency Committee Meeting calendar.

Customer Service and Administrative Efficiency Committee

2. Compliance Program Update – An update regarding the Sales and Use Tax Department's Compliance Program.

JLM:bem

I approve:



Cynthia Bridges
Executive Director

Attachment: Memorandum to Honorable Board Members

cc: Ms. Susanne Buehler (MIC 92)
Mr. Wayne Mashihara (MIC 47)
Ms. Karina Aguilar (MIC 47)
Mr. Bradley Miller (MIC 92)

M e m o r a n d u m

To : Honorable Jerome E. Horton, Chairman
Honorable Michelle Steel, Vice Chair
Honorable Betty T. Yee, First District
Senator George Runner (Ret.), Second District
Honorable John Chiang, State Controller

Date: September 12, 2014

From : Jeffrey L. McGuire, Deputy Director
Sales and Use Tax Department (MIC 43)



Subject : **Customer Service and Administrative Efficiency Committee**
September 23, 2014
Compliance Program Update

This memo provides an update on the Sales and Use Tax Department's (SUTD's) Compliance Program functions.

SUTD is committed to meeting the needs of our customers and maximizing voluntary compliance. SUTD continues to innovate and adapt to our rapidly changing world by providing taxpayers the tools, and education and outreach to more easily comply with the tax laws. However, we also realize that despite our best efforts to ensure voluntary compliance, there are instances where SUTD staff must take specific actions to gain compliance.

Update on Significant Compliance Program Efforts

Two specific areas of significance we have focused on include reducing the accounts receivable (A/R) balance, and reducing the number of delinquencies and revocations. As a result of the efforts we have taken, the A/R balance has been reduced from a high of \$1.92 billion in March 2013 to \$1.65 billion at the close of the last fiscal year. During this same period we saw collections of \$680 million compared to \$613 million over the prior 15 month period, an 11% increase in payments. Between August 2013 and August 2014, delinquencies have decreased from 116,000 to 73,000, a 38% reduction in delinquencies. Additionally, the percentage of delinquencies cleared within 180 days has improved from 16% in FY 2012/13 to 66% in FY 2013/14.

Reducing the Accounts Receivable Balance

With considerable increases in the A/R balance over the past several years, a plan to address this matter was implemented nearly 14 months ago with the primary focus on a Franklin Covey process called The Four Disciplines of Execution. This new process is a simple, repeatable, and proven formula for executing on the most important strategic priorities, in this case reducing A/R. The process involves weekly strategy planning meetings where collection assignments are prioritized. The results of their efforts are documented and shared with staff. This process has

kept staff engaged and focused on the priority cases, allowing us to gain taxpayer compliance. Some of the testimonials from staff on the new process include:

- Having a goal provides focus
- I know what is expected of me
- We're working better as a team
- Barriers or bottlenecks are identified and removed more quickly
- Provides meaning to my work

Other efforts we have implemented to assist in reducing the A/R balance include:

- Online Installment Payment Agreements (IPA) – This service provides taxpayers with outstanding liabilities the ability to request a payment plan online. If a taxpayer's request for a payment plan meets set guidelines, they are automatically approved. For those requests that are not approved, they are referred to staff to follow-up with the taxpayer. From December 2013 to June 2014, more than 10,000 IPA requests were received electronically with about half being automatically approved.
- Mobile Apps 1.2 – Use Tax Payments – The Mobile Application was extended to include the ability to make use tax payments. This functionality is part of the eRegistration process available on the Mobile Apps for iPhone and Android devices.
- Collector Negotiation Training Class (GameOn! Merchants) - This class for our collectors, is an online, interactive game-based strategy course that teaches negotiation and persuasive communication skills. The course goes beyond traditional negotiation classes in that it focuses on teaching students to ask follow-up questions to better understand the concerns and needs of the person they are assisting. This promotes improved communication and enables staff to more completely address and provide resolution to taxpayer requests.
- Take 5 Video Training - Take 5 videos are short, concise videos designed to provide training and guidance on everyday tasks, new processes and procedures, and introductions or overviews of tax program related issues. These videos can quickly provide staff with the information needed to assist a taxpayer or take a specific collection action. Examples include the recently posted video on how to prepare a compliance assessment and the upcoming video on writing a tax opinion.

Reducing the Number of Delinquencies and Revocations

With the move toward electronic self-service, where 99% of returns are filed online and 99% of taxpayers register online, we have been able to focus resources on clearing delinquencies and revocations. We have also streamlined and condensed the delinquency process to provide more timely notices to taxpayers with delinquent returns. With expedited return processing as a result of e-filed returns, the first delinquency notice is now sent via email to the taxpayer 14 days after

the return due date. The overall process that begins with notification and ends with revocation of a permit has now been shortened from 175 days to 100 days.

We also use the automated dialing system that makes outbound calls to remind taxpayers who were delinquent in filing prior period returns. The phone call plays an automated message reminding the taxpayer of the upcoming filing due. Since inception in October 2013, those taxpayers receiving a call reminding them to file responded at an 8% higher rate than those that were not contacted, thereby increasing the number of timely filed returns.

Reducing the number of delinquencies and effectively working delinquencies will also keep our A/R balance from growing. We have made significant efforts in this area and have seen substantial results.

Other efforts we have implemented to assist taxpayers to voluntarily comply include:

- Tax Resources - Providing taxpayers with the information they need to voluntarily comply with the sales and use tax laws is an essential component of maximizing voluntary compliance. Therefore, we have concentrated our efforts on providing quality, useful information to taxpayers. This information consists of new and revised publications, many of which are also available in foreign languages, industry specific webpages such as a page created for the Manufacturing and Research and Development Exemption, and participating in 100's of outreach events.

Future Compliance Program Efforts

Online Account Maintenance

Staff is currently working on implementing the new online account maintenance system that will allow taxpayers and representatives the ability to update certain account information. These updates include a change in the business location, add or change to the business name, change or add email or mailing address information, officer, member or partnership information, and telephone numbers. This project is expected to be completed by the end of this fiscal year.

New Permit Orientation Consultations

Getting new permit holders started on the right track will help us maximize voluntary compliance. New permit holders typically have the highest delinquency rate. We plan to proactively reach out to these new permit holders with a personal phone call to help them get on the right track. During this phone call we will remind them of how to successfully file and pay, explain basic tax issues related to their business, and answer any questions they may have about their sales and use tax responsibilities. We plan to implement this program before the end of this fiscal year.

Geospatial Information System (GIS) Account Registration

We will be expanding our use of the GIS tool to programmatically assign the appropriate tax area code for newly registered businesses. This will improve the tax allocation process when returns are filed. We plan to implement this new tool by the end of this fiscal year.

Treasury Offset Program

The Treasury Offset Program is a fully-automated centralized offset program that intercepts federal and state payments to collect delinquent debts owed to federal and state agencies. Participation in the Treasury Offset Program generally requires state legislation authorizing participation in the program. In May of this year, BOE conducted a test to determine the potential benefit for participating in the program. A test file submitted containing all BOE accounts with collectible debts which met the criteria for participation in the program would have resulted in offsets of 744 federal vendor payments totaling over \$31.5 million. An additional 4,331 accounts were partially matched and would have resulted in additional payments. Due to these potential results, we will be submitting a legislative proposal for your consideration in the near future to grant BOE the authority to participate in this program.

SUTD is proud of the efforts we are taking to maximize voluntary compliance, reduce the A/R, reduce delinquencies and revocations, and enhance the taxpayer experience. Please let me know if you have any questions.

JLM:bm

cc: Mr. Mike Gipson – 4th District
Ms. Shellie Hughes – 4th District
Mr. Joel Angeles (MIC 77)
Mr. Alan LoFaso (MIC 71)
Mr. Sean Wallentine (MIC 78)
Ms. Marcy Jo Mandel, State Controller's Office
Ms. Cynthia Bridges (MIC 73)
Mr. David Gau (MIC 101)
Mr. Randy Ferris (MIC 82)
Mr. Wayne Mashihara (MIC 47)
Ms. Susanne Buehler (MIC 92)