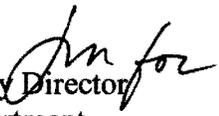


Memorandum

To : Honorable Betty T. Yee, Chairwoman
Honorable Judy Chu, Ph.D., Vice Chair
Honorable Bill Leonard
Honorable Michelle Steel
Honorable John Chiang

Date: March 2, 2009

From : Randie L. Henry, Deputy Director 
Sales and Use Tax Department

Subject : **Electronic Transition Plan Update**
March 2009 – Customer Service and Administrative Efficiency Committee

This is an update on the activities of the Board of Equalization's (BOE) Electronic Transition Plan (ETP). The ETP is currently underway and realizing initial success. Under the ETP, sales and use taxpayers are transitioned from paper to electronic filing (eFiling) by no longer mailing paper returns. Nearly all sales and use tax accounts will be transitioned one group at a time based on account type and reporting basis by the end of 2009.

The initial success of the ETP is indicated by the substantial increase in overall eFiling participation. In October 2008, the first reporting period under the ETP, 104,628 returns and prepayments were eFiled. This trend continued in January 2009, with 160,379 eFiled returns and prepayments. Even though the majority of taxpayers remain to be transitioned, 23% of all expected returns were eFiled in January 2009. The attached chart displays the dramatic increase in eFiling participation under the ETP.

ETP Participation

Initial eFile projections for the ETP ranged from 25% to 50%, however, the first three groups to transition have met or exceeded this projected rate as shown below.

Group 1 – New Seller's Permit Holders

Beginning July 1, 2008, all new eFile eligible taxpayers that register for seller's permits are prescribed to eFile. Beginning with the first filing period due October 31, 2008, this group eFiled at a rate of 43%. Overall, the group has eFiled at 43% from October 2008 thru January 2009.

Group 2 – Quarterly Prepayment Accounts

Approximately 90,000 single location quarterly prepayment accounts also transitioned to eFiling with their third quarter return, due October 31, 2008. Sixty-six percent eFiled their third quarter return. Overall, 69% of eligible returns and prepayments were eFiled from October 2008 through January 2009.

Group 3 – Monthly Accounts

Approximately 17,000 single location monthly accounts transitioned to eFiling with their December 2008 return due February 2, 2009. Preliminary numbers indicate an eFiling participation rate of 53%.

A number of taxpayers continue to file returns by paper. Approximately 5,000 taxpayers have requested and received an exemption from eFiling and continue to receive a paper return mailed from the BOE. Although relatively few exemptions have been requested, some taxpayers continue to file paper returns prepared by tax professionals, downloaded from our website or prepared on their own software.

The number of taxpayers under the ETP not filing by any means, paper or electronic, is being closely monitored. We understand that discontinuing mailing paper returns could potentially cause an increase in delinquent returns. The delinquency rate of our first filing period under the ETP, October 2008, indicates no negative impact due to eFiling.

Group 1, the new seller's permit holders, were delinquent at a rate of 30% for this initial reporting period. This rate of delinquency is not unusual for new seller's permit holders with their first return due. A similar group of new seller's permit holders prior to the ETP had a delinquency rate of 29% with their first return due in the same period of 2007.

Group 2, the quarterly prepayment accounts were delinquent at a rate of 7%. This delinquency rate is an increase of 3% compared to the same group of filers for the same period in 2007. However, this increase is consistent with an overall 3% increase in delinquencies for all filers between October 2007 and October 2008.

Overall, taxpayers, tax preparers and BOE staff have embraced this new method to file returns. The majority of taxpayers and tax preparers have discovered the benefits of eFiling and find the system convenient and easy to use. Messages have been received from taxpayers and tax preparers praising the eFiling system.

“...I was truly impressed with your eFile system....I cannot thank you enough, GREAT JOB!!!! A work of art.”

“...I file sales tax returns in almost every state and by far, your system is the easiest to use.”

“I just want to say THANK YOU again and again for how quick and easy you made the sales tax eFile program....”

Cost Savings

Due to the increase in eFiling participation, the BOE is now achieving the benefits inherent in doing business electronically. BOE's budget was reduced by \$1.4 million in fiscal year 2008-09 in anticipation of these savings. Tracking of current participation indicates we will achieve this level of savings. An additional cost savings of approximately \$1.26 million are projected for fiscal year 2009-10 as the remainder of sales and use tax accounts are transitioned.

Our initial estimated range of savings in the Electronic Transition Plan Summary (attached) places our current projected savings for fiscal year 2009-10 in the estimated range. As workload has decreased in most return processing areas within BOE, we have experienced some increased workload in two primary areas due to eFiling.

First, the Taxpayer Information Section (TIS) workload increased due to the large volume of calls received during the first filing period under the ETP. TIS received approximately 20,000 more calls during October 2008 than October 2007 and approximately 30,000 more calls during January 2009 than January 2008. This was an increase of about 50%. TIS hours were also extended during these peak times to provide taxpayers flexibility in obtaining eFiling assistance. Additional equipment was also purchased to enable employees from other headquarters units to assist TIS during these peak filing periods.

In addition, processing of payment vouchers (i.e. e-filers who paid by paper check) reduced the anticipated savings for some of the return processing units. In January 2009, 40% of eFiled returns were paid by paper checks.

Cost saving estimates have been offset to account for the increased calls to TIS and the processing of the paper checks and vouchers.

Change Management

Our Administration Department is taking the lead and working with SEIU on a change management plan. The plan will be designed to assist employees who are impacted by the reduction in paper return processing. BOE is committed to assisting employees to prepare to voluntarily transition into other positions. All personnel savings will be achieved through attrition.

Lessons Learned

With the first three groups already transitioned, lessons learned sessions have been conducted and needed adjustments are in progress to ensure the continued success of the ETP.

We anticipated an increase in phone calls to the Taxpayer Information Section (TIS) requesting eFiling assistance. Employees (remote agents) from the Sales and Use Tax Department, Headquarter Operations and Tax Policy Divisions were trained to assist taxpayers with eFiling and provide additional support to TIS by answering calls to the 800 number during peak filing times. Based on the higher than expected volume of phone calls during October 2008 additional assistance was requested for January 2009. Preparations have been made for the remainder of 2009 to ensure adequate staffing is available to provide eFiling assistance for peak filing periods.

In addition, TIS staff, remote agents and district office staff are being surveyed to determine the reasons eFilers call for assistance. The results from the survey will be evaluated and we will make needed adjustments to the eFile system, the BOE website or other forms of outreach to taxpayers and tax professionals.

The payment voucher method of payment has increased tremendously with the increase in eFiling participation. Approximately 40% of eFiled returns/forms in January 2009 were paid by paper check with a payment voucher. Since payment vouchers are not received in a BOE payment envelope, these vouchers were processed as white mail. Initially this created some processing delays in the Cashier Unit. In response, the mail room now reads the new 4 digit extension on the zip code for payment vouchers to separate them from white mail. These envelopes are sorted and batched for quick processing.

To minimize the number of paper checks, further outreach efforts will be made to educate taxpayers on the benefits of making payment electronically.

ETP Next Steps

By the end of 2009 nearly all sales and use tax accounts will have transitioned to eFiling. Following are the remaining groups of sales and use tax accounts to transition.

<u>Taxpayer Base</u>	<u>Prescribed Effective Date</u>	<u>Number of Accounts</u>
Quarterly 401EZ Accounts	1 st Quarter 2009 Return	121,000
Quarterly 401A Accounts	2 nd Quarter 2009 Return	138,650
Fiscal Yearly Accounts	Fiscal Year 2008-09 Return	166,500
Multiple Location Accounts	3 rd Quarter 2009 Return	40,429
Electronic Funds Transfer	4 th Quarter 2009 Return	37,862
Calendar Yearly Accounts	2009 Return	240,499

BOE staff has played a vital role in facilitating a smooth transition to eFiling by adapting quickly to internal changes and assisting taxpayers. Designated eServices liaisons in each district office keep staff informed with the latest eFile information and provide BOE headquarters staff suggestions and input from a taxpayer perspective.

District office staff are key promoters of the benefits of eFiling and provide needed guidance and clarification to taxpayers. Return filing classes for new taxpayers demonstrating eFiling are offered regularly in district offices. Beginning in February 2009, district office staff are conducting eFiling seminars for taxpayers with various northern and southern California community partners.

In addition, BOE district offices provide eFile Clinics (i.e. return assistance) during peak filing periods. During the month of January, staff assisted nearly 3000 taxpayers in these clinics with over 98% of these taxpayers e-filing.

We view the initial transition to eFiling as a great success and are encouraged that the majority of our taxpayers were willing to make this move with us. Since the first ETP notification was sent in late June 2008, eFiling participation has increased at record levels. Already, participation has increased over 500% this fiscal year with five months still to go. The success of the ETP has put BOE on the fast track to realize the benefits of doing business electronically while still maintaining a voluntary system that meets the needs of all our taxpayers.

Thank you for your continued support of the ETP and our eServices programs. If you have any questions regarding the information provided, please feel free to contact me at (916) 445-1441 or Mr. Jeffrey McGuire at (916) 324-1825.

RLH:lk

Attachment

cc (all with attachments)

Mr. Steve Shea, Board Member's Office, Fourth District

Mr. Alan LoFaso, Board Member's Office, First District

Ms. Barbara Alby, Board Member's Office, Second District

Mr. Michael Richman, Board Member's Office Third District
Ms. Marcy Jo Mandel, Deputy Controller

Mr. Ramon J. Hirsig (MIC 73)
Mr. David J. Gau (MIC 63)
Ms. Liz Houser (MIC 69)
Ms. Anna Brannen (MIC 26)
Ms. Anita Gore (MIC 86)
Mr. Jeffrey L. McGuire (MIC 92)
Ms. Michelle Maciel (MIC 92)
Ms. Kari Hammond (MIC 19)

bc: Ms. Freda Orendt (MIC 47)
Mr. Steve Rudd (MIC 46)
Mr. Kevin Hanks (MIC 49)