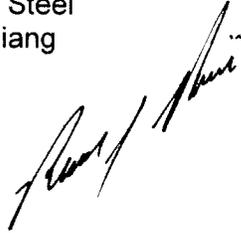


Memorandum

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

Date : April 13, 2007

From : Ramon J. Hirsig
Executive Director



Subject : **P1 Executive Director's Report – April 25, 2007**
2. Tax Gap Plan

Attached for discussion and approval is the latest version of the proposed three-year plan to address the Sales and Use Tax Gap, defined as the difference between taxes owed and taxes paid. This plan provides an overview of the tax gap, contains specific proposals designed to reduce that gap and compliments the Board's recently adopted Strategic Plan.

Specific costs and revenue estimates for elements within the plan will be developed upon approval of this document. Staff will also establish anticipated timelines and a more definitive identification of resource requirements.

This plan is a living document and will be updated periodically.

RJH:rar

Attachment

cc: Mr. Alan LoFaso
Mr. Mark Ibele
Mr. Steve Shea
Ms. Barbara Alby
Mr. Erik Caldwell
Ms. Marcy Jo Mandel

ADDRESSING THE TAX GAP

Fiscal Years
2007-2008
through
2009-2010



California State Board of Equalization

Letter from Chairwoman Betty T. Yee

I am pleased to introduce the Board of Equalization's (BOE's) Tax Gap Strategic Plan for the 2007-08 through 2009-10 fiscal years. This plan was developed at my request by a team of BOE staff in response to ongoing legislative and general public interest relating to fair, effective, and efficient tax administration.

Consistent with the broader Strategic Plan adopted by the Board last month, this document provides an overview of the tax gap problem, discusses the overall goals of the BOE in addressing this issue, and contains specific proposals designed to minimize non-compliance with the state's tax laws. Components of the plan include increasing taxpayer awareness through education, requiring additional reporting by individuals and businesses, sharing information with other state agencies, and implementing specific enforcement measures. The plan builds on the agency's established foundation of tax compliance and enforcement programs.

The BOE administers the sales and use tax, which is the second largest revenue source for the state General Fund. In 2005-06, the tax generated \$29 billion in state revenues, as well as \$15 billion in local government revenues. There is also a substantial amount of taxes that simply go uncollected. The difference between the amount owed by taxpayers and the amount actually collected is known as the "tax gap," which is estimated to be in excess of \$2 billion annually. The tax gap not only results in reduced revenues for important programs and services, but also means that some taxpayers are not paying their "fair share."

The Tax Gap Strategic Plan will aid in fulfilling the agency's ultimate mission of fair, effective, and efficient tax administration. I look forward to working with our stakeholders and California's taxpayers in the implementation of it.

Sincerely,

BETTY T. YEE
Chairwoman
State Board of Equalization

Addressing the Sales and Use Tax Gap

Executive Summary

The Board of Equalization's mission is to serve the public through fair, effective, and efficient tax administration. As stated in its Strategic Plan, the Board is committed to improving taxpayers' knowledge of the legal requirements for doing business in California. This includes providing new ways for them to understand and voluntarily comply with the tax and fee laws we administer.

California's tax system is based on the premise that each taxpayer will correctly determine the amount of taxes owed and will faithfully remit those taxes. Voluntary compliance is the most effective and efficient method of collecting tax, and it is improved by showing that tax administration is fair, equitable, and committed to ensuring compliance.

The "tax gap" – or the difference between taxes owed and taxes paid – does not consist solely of tax evasion. Much of the unpaid tax, such as use tax, is never reported because taxpayers are not aware of their liabilities. The Board will look to improve taxpayers' understanding of state laws, and provide new means for them to satisfy their tax obligations. This could include improved education and outreach and reducing the burden of complex filing and reporting requirements.

The Board's primary focus to date in addressing the tax gap is its compliance efforts and audit activities. Examples of the Board's efforts include the Retail Licensing program which involves visits to retail establishments focusing on unregistered taxpayers, and the U.S. Customs program which looks for potential use tax liabilities on purchases from out-of-state. The Board also supported legislation to reduce the tax gap, for example the prepayment of sales tax on gasoline and diesel fuel.

This plan involves Identifying areas of non-compliance, and then using both new and traditional approaches to address those areas. These approaches will include looking to industries that normally do not interact with the Board, utilizing enforcement tools to compliment discovery efforts, and maintaining a physical presence in the marketplace.

It will look outside the agency – to state and federal departments and public entities – to ensure that information sharing agreements are working properly and determine whether new channels of information need to be established.

The Board will also look at its own operations to make sure audit selection and collection methods are performing as efficiently as possible. The plan calls for the Board to find the best tools for collection efforts and to find innovative ways to use existing resources such as alternative auditing and collection practices.

In order to implement this multi-year plan and limit the tax gap in a sustainable manner, the Board will need additional resources to create new programs and processes to assist these compliance efforts. Implicit in this plan is the need to recruit and retain highly qualified staff to carry out the Board's efforts.

Leveling the playing field by improving sales and use tax compliance will insure that California retailers are not at a competitive disadvantage compared to out-of-state sellers. The actions described in this plan will result in the Board collecting unpaid taxes. The increase in revenue due to both enhanced enforcement efforts and improved voluntary compliance could be as much as \$400 million annually.

The Tax Gap

The Board of Equalization administers 25 tax and fee programs that produce revenues of about \$50 billion annually. The Sales and Use Tax is the largest tax program comprising over 88% of the total revenues. This report focuses on the Sales and Use Tax gap.

The Board of Equalization administers the sales and use tax, which produced revenues of about \$44 billion in fiscal year 2005-06. We have estimated that these payments amount to about 96% of the total taxes owed. The tax gap, the difference between the amount owed and the amount paid, is estimated to be about 4% or approximately \$2.0 billion.

The percentages of taxes owed are shown in the following chart.

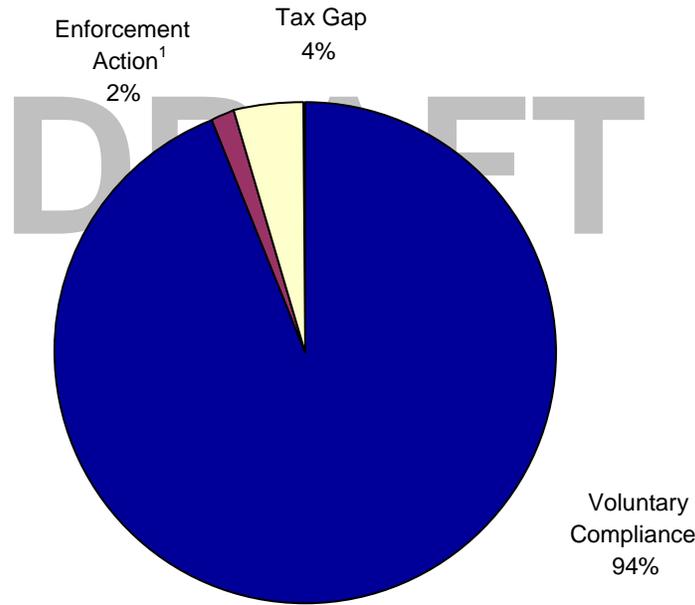


Table 1
Sales and Use Tax Gap Estimates

	STATE 5.25%	LOCAL 2.69%	TOTAL 7.94% ²	PERCENT OF TOTAL
(in millions of dollars)				
Total Sales and Use Tax Owed	\$30,619	\$15,688	\$46,307	
Paid Voluntarily	28,742	14,727	43,469	93.9%
Enforcement Efforts ¹	551	282	833	1.8%
Sales and Use Tax Gap	\$ 1,326	\$ 679	\$ 2,005	4.3%

¹ Enforcement efforts include normal audit and collection activities and special efforts such as the U.S. Customs program and the Retail Licensing Program.

² 7.94% is the average effective statewide tax rate.

There are three major components of the tax gap:

1. Use tax liabilities - businesses and individual consumers not required to be registered
2. Nonfilers/tax evasion
3. Registered taxpayers - under-reporting and non-payment

The percentage of the tax gap for each element is shown in the following chart.

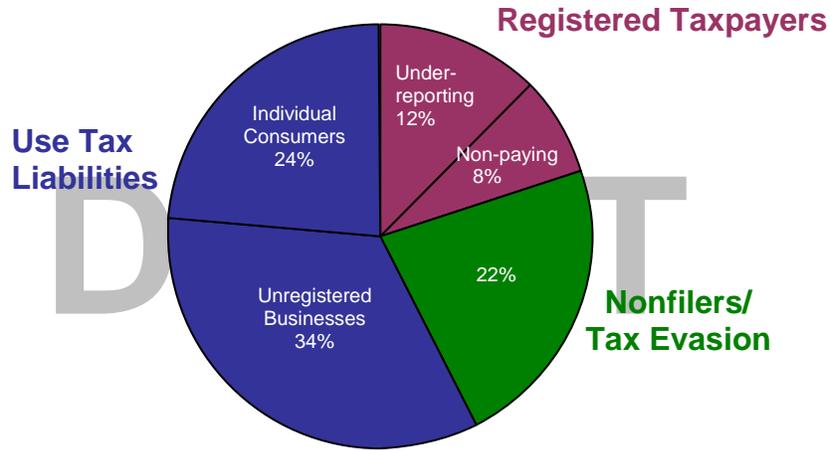


Table 2
Components of the Tax Gap

	STATE 5.25%	LOCAL 2.69%	TOTAL 7.94%*	PERCENT OF GAP
	(in millions of dollars)			
Use Tax Liabilities	\$ 764	\$ 361	\$ 1,155	57.6%
Nonfilers/tax evasion	298	152	450	22.4%
Registered taxpayers	264	136	400	20.0%
Total	\$ 1,326	\$ 679	\$ 2,005	

* 7.94% is the average effective statewide tax rate.

We will not be able to completely close the tax gap. A significant portion of the tax liability is spread among many taxpayers such that each individual liability is too small to justify collection efforts. For these liabilities, if the taxpayers do not voluntarily comply with the tax laws, it would not be cost effective to attempt to identify and collect the tax liability. In other cases, the tax liability may be identifiable, but is uncollectible because the taxpayer simply does not have the assets to pay it. While One hundred percent compliance is an admirable goal, it is not likely achievable. Rather, our efforts are directed towards narrowing the tax gap through cost-effective means of increasing compliance with the state's tax laws. In addition, we would note that our sales and use tax gap estimate does not include any taxes that should have been paid on sales relating to illegal activities.

Use Tax Liabilities

The largest portion of the tax gap is use tax liabilities. Use tax liabilities are created when taxable items are purchased for use in California, and the sales tax has not been paid to the Board by the retailer. For the most part these are purchases made from out-of-state retailers either in person, by mail order, or over the Internet.

We estimate that the portion of the state sales and use tax gap associated with use tax liabilities amounts to \$1.2 billion. The major portion of this amount is associated with purchases made by mail order or over the Internet. Below is a discussion of our estimate of these remote purchases.

Remote Sales

Taxable transactions that take place between an out-of-state seller and an in-state buyer create a use tax liability for the purchaser. If the out-of-state retailer is registered with the Board, it is required to collect and remit the use tax. If the in-state buyer is registered with the Board it is required to report and pay the use tax on its sales tax return. The difficulty occurs when neither the seller nor the purchaser is registered with the Board.

The majority of such purchases are made by mail order or over the Internet. For the most part, purchasers, especially individual consumers, are not aware that they have incurred a use tax liability. These remote sales transactions can be classified as being business-to-business sales or business-to-consumer sales. Our revenue estimate is:

Estimated Total California Electronic Commerce and Mail Order Revenue Impacts in 2005			
	MILLIONS OF DOLLARS		
	B-TO-C	B-TO-B	TOTAL
State loss (5.25%)	\$270	\$451	\$721
Local loss (2.00%)	103	172	275
District loss (0.69%)	36	59	95
Total	\$409	\$682	\$1,091

Remote sales to unregistered businesses

It is important to note that these business-to-business sales include only those sales where there is an out-of-state retailer that is not registered with the Board and the purchaser is a California business not required to register with the Board. These California businesses are not required to register with the Board because they are not making taxable sales. The items are purchased for use rather than for sale.

Businesses registered with the Board are required to remit the use tax they owe on their sales and use tax returns and use tax is one of the areas that the Board looks at in audits. Unregistered businesses, however, are similar to individual consumers in that they pay the sales tax for tangible personal property to the retailer when they purchase items from in-state retailers. In order to comply with their use tax liability, they would also have to determine which transactions are taxable and keep track of those transactions for which the tax has been collected by the out-of-state retailer and those transactions for which the tax has not yet been paid.

There are currently about 2 million businesses in California that are not registered with the Board. We estimate that these 2 million businesses have a total use tax liability of \$682 million. The average liability amounts to about \$335 per business. With such a low average liability it would not be cost efficient to attempt to register and collect the use tax from all 2 million unregistered businesses. The challenge is to find those industries with the largest use tax liabilities so that we can focus our enforcement efforts in the most efficient manner.

Remote sales to individual consumers

Consumers purchasing tangible personal property either by mail order or over the Internet from out-of-state retailers incur a use tax liability. Some out-of-state retailers are engaged in business in California and are required to collect this use tax. If the retailer does not collect the use tax, the liability remains with the consumer. For the past few years the state has included a use tax line on the personal income tax form to allow consumers to report and pay this use tax liability. More than 31,000 personal income tax returns in 2006 reported \$5.46 million in use tax.

The sales and use tax is normally collected and reported by the retailer. In those situations, the consumer, while aware of the tax, normally has no responsibility to determine or report his or her sales and use tax liability. The sales and use tax is a tax that is paid incrementally – with each purchase of tangible personal property. Most consumers simply pay the tax as determined by the retailer. Most consumers have no idea that they are incurring a use tax liability on purchases from out-of-state retailers. With some out-of-state retailers collecting the use tax and other not collecting it, the consumer would have to determine which purchases would be subject to the use tax (for example, a purchase of a music CD would be taxable while the purchase of the same music as an online download would not be taxable) and then determine whether or not the retailer has already collected the tax. They would have to do this for a year's worth of purchases and then remit the tax either with a use tax return or with their income tax return.

Non-filers/Tax Evasion

The second largest component of the tax gap is comprised of individuals and businesses that conduct business transactions by word of mouth and cash payments to avoid scrutiny by government officials. For instance, there are some businesses which are located in California, making taxable sales and are not registered with the Board. Some of these are itinerant vendors, such as sellers at swap meets, Christmas tree retailers, street corner merchants, etc. There are also those who have stores and are not registered. There are also some individuals who are registered with the Board and misuse resale certificates, buying property without paying the tax and then using it for personal use rather than for resale.

By its very nature, the number and receipts of these unregistered retailers are difficult to measure. However, based on preliminary results from the Board's Retail Licensing Sweep program, we believe that these unregistered retailers are costing the state and local governments hundreds of millions of dollars in lost sales and use tax revenues annually.

Under-reporting and non-payment by registered businesses

This portion of the tax gap consists of sales and use taxes owed but not reported by businesses registered with the Board. The major areas of taxpayer noncompliance found in audits are:

1. Untaxed purchases from out-of-state vendors
2. Unsupported sales for resale
3. Differences between recorded and reported sales
4. Reported sales lower than markup on purchases
5. Withdrawal from resale inventory for own use without payment of tax

The Board has a solid and extensive audit program in place. With current resources, we are able to audit about 60 percent of the sales and use tax base. Our audit program discovers tax liabilities of approximately \$360 million annually. Based on our current audit findings, we estimate that those businesses that we do not currently audit have an under-reported liability of \$250 million.

There are liabilities either self-reported or discovered by the Board's audit and compliance programs for which the taxpayer has not paid. The Board's collection program deals with these non-payments by a variety of collection methods. The Board's collections program is also successful in collecting revenue owed but not paid. During fiscal year 2005-06 our collections program collected more than \$800 million in outstanding liabilities. However, a portion of this liability is still uncollected, and about \$150 million is added to our outstanding accounts receivable balance each year. This plan is designed to address this growth.

Tax Gap Plan Goals

Goal 1: Develop new approaches and processes to address specific areas of non-compliance.

Tax administration in an ever-changing economic environment requires the application of new approaches and new processes to ensure the maximum level of voluntary compliance. The California economy is not static; new technology, new products in the marketplace and new methods of conducting business affect tax liabilities. Every year there are changes to either statutes or rules and regulations. Further, the demographics of California's diverse population are continually changing. All of these factors require the Board to constantly reassess its taxpayer education and public outreach responsibilities and to find new methods to address specific areas of non-compliance. Our strategies for accomplishing this goal include the following:

1. In the area of use tax liabilities for those businesses not required to register with the Board, we need to level the playing field for California business. Currently, those businesses that are registered with the Board are required to report use tax on any taxable purchases for which the sales or use tax was not collected. Those businesses that are not registered with the Board have the same liability regarding taxable purchases for which the sales or use tax has not been collected. We need to develop methods to inform these businesses of their use tax liabilities and find ways to determine and collect these liabilities.
2. We need to utilize effective enforcement tools to complement our efforts to discover tax liabilities.
3. The Board must maintain a physical presence in the marketplace so that taxpayers understand our commitment to full compliance by all taxpayers.

Goal 2: Increase information sharing with state agencies and other entities.

Information is the key to successful approaches to shrink the tax gap. There exists, at all levels of government, data that could be useful to the Board in its effort to collect revenues legally owed. The Board seeks to further develop the ability to access this data as well as the technology to efficiently analyze it.

1. In the area of use tax liabilities for California businesses not currently registered with the Board, we are looking at segments of the economy with which the Board has not historically dealt. The Board needs information from outside sources in order to focus our efforts.
2. The sharing of the information discovered by any of California's tax agencies will help the others in their pursuit of full compliance with all of California's tax laws.
3. We must collaborate with other governmental entities as well as our sister tax agencies to assist new taxpayers in determining which permits or licenses they are required to hold.

DRAFT

Goal 3: Improve audit and collection efficiencies.

The Board of Equalization is committed to developing ways to achieve the most efficient use of its resources. Currently the Board expends 68 cents for every \$100 it collects. We realize however, that efficiency is a moving target, and we need to continue to look for ways to increase efficiency in our processes.

1. We must be sure that our audit selection methods are as effective as possible.
2. We must make sure that our compliance staff is given all the enforcement tools necessary to be successful.
3. We must be innovative in our uses of existing resources, utilizing alternative audit and collection methods.

DRAFT

Implementation Plan

The following pages detail the Board's plan to address the tax gap. This implementation plan is designed to evolve over time as changes occur in taxpayer behavior and in response to results of different approaches. While the details of the implementation plan contain the Board's vision for effective ways to address the tax gap, it is imperative to recognize that elements of the plan must contain the flexibility to alter actions when a project is not successful, to extend programs that provide the most effective results, and most importantly, to apply the lessons learned towards new programs and projects.

The tax gap has a number of components and each is addressed in this plan. To be effective in minimizing the gap, the Board must devise and implement a comprehensive approach to each and every area of the gap.

This will be accomplished through traditional approaches, as well as improvements to the current program that affects the Board's core taxpayers. Additionally, it requires implementation of new approaches that address a whole new population where little information is known, (i.e., industries not currently registered with the Board).

The Board will need additional resources to identify potential areas of tax evasion and create new programs and processes.

The Board recognizes that voluntary compliance will be improved by efforts to enhance interaction with taxpayers. The Board's ongoing efforts to provide e-services to taxpayers will be another tool in addressing the tax gap.

It should be noted that elements of this plan involve data sharing and cooperation with other agencies and these proposals have not been approved by those agencies. This plan does however, provide an outline of how such data sharing can be beneficial to the state.

Tax Gap Implementation Plan

Goal 1: Develop new approaches and new processes to address areas of non-compliance.

Proposal	Actions	FY 2007/08	FY 2008/09	FY 2009/10	Requires Legislation	Requires Resources	Area Addressed
1.1 Identify segments of non-registered businesses with greatest areas of unpaid use tax liabilities and have them register with the Board	a) Identify those segments of non-registered business with greatest capital equipment expenditures.	X			No	No	Use Tax Liabilities
	b) Request information on businesses in these segments from FTB and EDD.	X			No	Yes	
	c) Send letters related to potential use tax liability and include a return to the largest businesses in these segments.		X		No	Yes	
	d) Audit returns to discover those businesses with ongoing use tax liabilities and have them register with the Board.			X	No	Yes	
1.2 Improve the results from the use tax line on the state income tax return	a) Seek legislation that would delete the sunset date for the use tax line on the FTB return, and require use tax reporting on income tax returns when use tax is not paid to the BOE during the preceding taxable year.	X			Yes	No	Use Tax Liabilities
	b) Establish a comprehensive media campaign to explain use tax liabilities and reporting requirements.		X		No	Yes	
	c) Seek legislation that would require use tax education for tax professionals.		X		Yes	No	
	d) Seek legislation that would support preparer penalties for negligence.		X		Yes	Yes	Use Tax Liabilities
	e) Seek legislation to require persons to itemize details for purchases of equipment over a specific dollar amount.			X		Yes	No

FY columns indicate which year a particular function will begin and become operational to the point that the following function may begin. The function itself may be ongoing throughout the following fiscal year.

Tax Gap Implementation Plan

Proposal	Actions	FY 2007/08	FY 2008/09	FY 2009/10	Requires Legislation	Requires Resources	Area Addressed	
1.2 Improve the results from the use tax line on the state income tax return <i>(Continued)</i>	f) Seek legislation that would require mandatory reporting on the use tax line of the income tax return, even when the amount is zero.		X		Yes	Yes		
	g) To minimize taxpayer record keeping burden, allow for the use of a table for reporting in place of maintaining receipts unless the amount requires itemized detailed reporting as suggested above.		X		Yes	Yes		
	h) Add detail to the signature block of the income tax return to include certification that of correct reporting of use tax. Currently only refers to income tax.			X		Yes	No	
1.3 Conduct both desk and field discovery audits on service industries	a) Using current and new data sources, including data from the income tax returns, to identify segments likely to provide the largest areas of non-compliance.	X			No	Yes	Use Tax Liabilities	
	b) Conduct desk audits – send letters and returns to those identified above explaining use tax application and requiring payment.		X		No	Yes		
	c) Once a segment has been identified as having a high degree of non-compliance and there is no response to inquiry letter, attempt additional contact (phone or field call) then if necessary conduct field audit.			X		No	Yes	Use Tax Liabilities
	d) Conduct random audits of selected industries.				X	No	Yes	

FY columns indicate which year a particular function will begin and become operational to the point that the following function may begin. The function itself may be ongoing throughout the following fiscal year.

Tax Gap Implementation Plan

Proposal	Actions	FY 2007/08	FY 2008/09	FY 2009/10	Requires Legislation	Requires Resources	Area Addressed
1.4 Clarify and/or address Nexus issues	a) Amend Regulation 1684, <i>Collection of Use Tax by Retailers</i> to clarify the nexus issue as it relates out-of-state retailers with California repair services so that repair service may establish nexus.	X			No (Regulatory Change Only)	No	Use Tax Liabilities
	b) Extend current program that enables us to forward leads obtained from one audit to establish a new audit. This will apply to the newly adopted service industry audit program.	X			No	Yes	
	c) Permitize and collect any back returns and taxes owed from businesses found to have nexus.		X		No	Yes	
	d) If complicated nexus issue, voluntary compliance not obtained, or underreporting may be an issue, perform audit.			X	No	Yes	
	e) Seek legislation that would deem an out-of-state retailer that is owned in whole or in part by a California retailer, engaged in business if that retailer sells a similar line of products as the retailer maintaining sales locations in California under the same or substantially similar business name.			X	No	Yes	
1.5 Work with on-line auctioneers to identify retailers that currently do not have a permit but need one	a) Request data on California sellers from on-line auctioneers.	X			No	Yes	Non-Filers
	b) Data match with permit database to identify non-filers.	X			No	Yes	
	c) For those that have a permit, match sales information to that being reported to determine if reporting is accurate.	X			No	Yes	

FY columns indicate which year a particular function will begin and become operational to the point that the following function may begin. The function itself may be ongoing throughout the following fiscal year.

Tax Gap Implementation Plan

Proposal	Actions	FY 2007/08	FY 2008/09	FY 2009/10	Requires Legislation	Requires Resources	Area Addressed
1.5 Work with on-line auctioneers to identify retailers that currently do not have a permit but need one <i>(Continued)</i>	d) For those with no permit, send letter and return explaining law, seek voluntary compliance.		X		No	Yes	
	e) If no voluntary compliance, initiate field call to cite, obtain past due returns and any taxes due.		X		No	Yes	
	f) If voluntary compliance still is not achieved or underreporting appears evident, perform audits.			X	No	Yes	
1.6 Increase involvement in Special Events such as swap meets, fairs, shows, auctions, etc.	a) Increase presence in all special events within California to determine if nexus exists.	X			No	Yes	Non-Filers
	b) Work closely with operators to ensure all special event participants are permitized.		X		No	Yes	
	c) Determine if out-of-state companies have nexus and require permit. If so, collect back returns.		X		No	Yes	
	d) Evaluate the event to determine if it appears the permitized businesses are accurately reporting.			X	No	Yes	Non-Filers
	e) Audit businesses that appear to be underreporting.				X	No	Yes
1.7 Extend to other areas of the state the Business License Inspection Project (BLIP), which is a pilot program where inspectors visit all businesses in a geographical area to ensure they have all required BOE permits.	a) Expand BLIP presence to other areas within California if appropriate based on results of the current pilot. Have BOE employees canvassing areas to ensure businesses that need permits have one.		X		No	Yes	Non-Filers
	b) Determine if there is use tax due from service industry businesses that are not required to hold a permit.		X		No	Yes	

FY columns indicate which year a particular function will begin and become operational to the point that the following function may begin. The function itself may be ongoing throughout the following fiscal year.

Tax Gap Implementation Plan

Proposal	Actions	FY 2007/08	FY 2008/09	FY 2009/10	Requires Legislation	Requires Resources	Area Addressed
1.7 Extend Business License Investigations Project (BLIP) to all areas throughout the state <i>(Continued)</i>	c) Estimate if sales tax reporting appears accurate for permitized businesses. If not, create an audit lead.		X		No	Yes	
	d) Audit businesses that appear to be underreporting as discovered through the BLIP program.			X	No	Yes	
1.8 Restrict issuance and renewal of state issued licenses when state taxes are not current or permit is not valid	a) Seek legislation that would prohibit the issuance or renewal of any state issued license if any state tax is delinquent or unpaid.		X		Yes	Yes	Under-reporting / Non-payment
1.9 Mandate third-party reporting	a) Seek various pieces of legislation that would require third-party reporting. For example, require alcohol distributors to periodically report all sales data in an electronic format or as successfully accomplished when we required gas distributors to pre-pay the sales tax.		X		Yes	Yes	Registered Taxpayers

FY columns indicate which year a particular function will begin and become operational to the point that the following function may begin. The function itself may be ongoing throughout the following fiscal year.

Tax Gap Implementation Plan

Goal 2: Increase information sharing between state agencies and other entities

Proposal	Actions	FY 2007/08	FY 2008/09	FY 2009/10	Requires Legislation	Requires Resources	Area Addressed
2.1 One-stop registration	a) Work with FTB, EDD, and Cities to create a common portal wherein through a series of questions it can be determined which permits/licenses a taxpayer needs. This will ensure all taxpayer are properly registered with every state agency when required and improve future data matching.		X		No	Yes	Non-Filers
	b) Taxpayer can submit information one time and all agencies will obtain the same registration information.		X		No	Yes	
	c) The information required by each entity would be transmitted and permit/license issued.				X	No	
2.2 Data matching to identify non-filers and taxpayers that we share in common with compliance issues. Any efforts to improve data matching between BOE, EDD, and FTB are directly supported by the LAO in the January 2007 "A Report on Tax Agency Information and Data Exchange"	a) Work with FTB, EDD, and IRS to data match all of our information to identify non-filers. Also identify taxpayers registered with one agency but not others.		X		No	Yes	Non-Filers
	b) BOE non-filers will need to be permitized, past due returns collected, and audits considered.		X		No	Yes	
	c) Work with FTB, EDD, and IRS to data match to identify taxpayers that have compliance issues with more than one agency.		X		No	Yes	
	d) Develop a work plan to address taxpayers indebted to more than one tax agency who may have either financial issues or be a consistent tax debtor.				X	No	

FY columns indicate which year a particular function will begin and become operational to the point that the following function may begin. The function itself may be ongoing throughout the following fiscal year.

Tax Gap Implementation Plan

Proposal	Actions	FY 2007/08	FY 2008/09	FY 2009/10	Requires Legislation	Requires Resources	Area Addressed
2.3 Utilize information obtained from EDD to identify unregistered out-of-state businesses that maintain warehouses in California thereby establishing nexus and require a BOE permit	a) Data match with current permit holders to identify those businesses without a permit.		X		No	Yes	Non-Filers
	b) Send questionnaire seeking information to determine if any reason nexus would not exist along with appropriate instructions and a permit application.		X		No	Yes	
	c) Permitize as appropriate and obtain past due returns.		X		No	Yes	
	d) If voluntary compliance is not achieved, evidence disputes what taxpayer claims, or underreporting appears evident, perform audits.				X	No	
2.4 Utilize State Assessee data to identify potential use tax liabilities and businesses that require a permit	a) Receiving information related to capital assets. Data match with current permit holders to identify which businesses hold permits and which do not.	X			No	Yes	Use Tax Liabilities
	b) Identify businesses that require a sales tax permit but do not have one or should obtain a use tax permit.	X			No	Yes	
	c) Send letter explaining the law and appropriate permit application. Follow-up to obtain any returns that are due.	X			No	Yes	
	d) Field call if need to obtain completed application and back returns. Determine if audit is appropriate.		X		No	Yes	
	e) If voluntary compliance is not achieved or taxpayer cannot prove tax paid on purchase of capital equipment, perform audit to determine if additional capital asset purchases have not been reported.				X	No	

FY columns indicate which year a particular function will begin and become operational to the point that the following function may begin. The function itself may be ongoing throughout the following fiscal year.

Tax Gap Implementation Plan

Proposal	Actions	FY 2007/08	FY 2008/09	FY 2009/10	Requires Legislation	Requires Resources	Area Addressed	
2.4 Utilize State Assessee data to identify potential use tax liabilities and businesses that require a permit <i>(Continued)</i>	f) Create checklist for property tax auditors to use to identify use tax liabilities during their audit.	X			No	No		
2.5 Obtain County building permit information and Contractors Licensing Board information.	a) Request information related to large construction jobs. Match with licensing and permit information.	X			No	No	Non-Filers	
	b) Research to identify prime and sub-contractors.		X		No	Yes		
	c) Data match to determine if they hold a permit. If dealing with fixtures and equipment, a permit is required.		X		No	Yes		
	d) Determine if a sellers permit is required and permitize if appropriate. Obtain back returns and payment.		X		No	Yes		
	e) If voluntary compliance is not achieved or contractor appears to not understand the correct application of tax, perform audit.				X	No		Yes
	f) If no permit is required, determine if use tax is due as they are consumers of material.			X		No		Yes
2.6 Expand current DMV pilot project	a) Data match DMV's listing of businesses with dealer's licenses with current permit holders.	X			No	No	Registered Taxpayers	
	b) Identify businesses that require a sales tax permit or should obtain a use tax permit.		X		No	Yes		

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Tax Gap Implementation Plan

Proposal	Actions	FY 2007/08	FY 2008/09	FY 2009/10	Requires Legislation	Requires Resources	Area Addressed
2.6 Expand current DMV pilot project <i>(Continued)</i>	c) Send letter explaining application of law and appropriate permit application. Follow-up to obtain any returns that are due.		X		No	Yes	Registered Taxpayers
	d) Field call if need to obtain completed application and back returns.		X		No	Yes	
	e) If voluntary compliance is not achieved or underreporting is apparent, perform audit.			X	No		

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Tax Gap Implementation Plan

Goal 3: Improve audit and collection efficiencies

Proposal	Actions	FY 2007/08	FY 2008/09	FY 2009/10	Requires Legislation	Requires Resources	Area Addressed
3.1 Improve audit selection	a) Use Clementine (an analytics tool) to build a new audit selection model with multiple variables to better refine the accounts selected for audit.	X			No	Yes	Registered Taxpayers
	b) Data Matching – pursue leads from outside data sources.	X			No	Yes	
	c) Conduct Random Audit study wherein we audit a number of accounts purely at random to determine how the results compare with the current audit selection process.		X		No	Yes	
3.2 Extend audit program	a) Audit more of the tax base. Current resources only allow us to audit percentage of the eligible population. With additional resources, that percentage can be expanded.		X		No	Yes	Registered Taxpayers
3.3 Implement alternative audit methods	a) Conduct one-year pilot audits rather than the standard three-year audit to cover a larger portion of the audit base.			X	No	No	Registered Taxpayers
	b) Further implement the use of cut-off techniques and line item audits.		X		No	Yes	
	c) Develop a formal desk audit function.		X		No	No	
	d) Have the auditors participate in the audit selection while in the field. They would look at the cost of doing business of a given area vs. gross sales reported and comparisons of like businesses in the area.	X			No	No	

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Tax Gap Implementation Plan

Proposal	Actions	FY 2007/08	FY 2008/09	FY 2009/10	Requires Legislation	Requires Resources	Area Addressed	
3.4 EFT for installment payment agreements	a) Implement the use of electronic funds transfer payments when taxpayers enter into a formal payment arrangement.		X		No	Yes	Registered Taxpayers	
3.5 Make permanent the 12 month test exemption for purchases of vehicles, vessels or aircraft	a) Seek legislation to make this law permanent	X			Yes	No	Use Tax Liabilities	
3.6 Modify current uses of collection tools	a) Implement the use of auto liens	X			No	No	Registered Taxpayers	
	b) Implement the use of auto levies	X			No	No		
3.7 Consider opportunities and cost benefit of contracting out a portion of collection accounts	a) Conduct an analysis to determine the viability, including opportunities, and a cost/benefit analysis relating to specific types of collection accounts (i.e. written-off accounts).	X			No	No	Registered Taxpayers	
	b) If beneficial, seek all required non-legislative approvals.		X		No	No		
	c) Seek legislation to obtain funding to recover funding incurred when cases referred to a collection agency.			X		Yes		No
	c) Pilot program				X	No		Yes

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