

Memorandum

To : Honorable Betty T. Yee, Chair
Honorable Judy Chu, Vice-Chair
Honorable Bill Leonard
Honorable Michelle Steel
Honorable John Chiang
c/o Ms. Marcy Jo Mandel

Date: August 31, 2007

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



Subject : **Joint Compliance Behavior Study with Franchise Tax Board**

We would like to update you on an opportunity to partner with the Franchise Tax Board (FTB) in a joint Compliance Behavior Study. The proposed study seeks to explore the indirect effect, or change in taxpayer behavior, of various compliance activities.

Both agencies strongly believe our various compliance activities have a positive effect on the filing and reporting behavior of taxpayers. Historically, we have been very successful in measuring the direct effect of compliance activities, such as the amount of revenue collected from a particular audit program. However, no attempt is currently underway to measure the indirect effect, or change in taxpayer behavior, from various compliance activities.

This initiative would provide the means to conduct studies to measure the indirect effect of various compliance activities. Due to the complex nature of these studies, external consultants are needed for their specialized expertise in research methodology and analysis. We anticipate the studies will provide us with a better understanding of various compliance activities and will, therefore, result in both agencies being better equipped to address the Tax Gap in the long-term. Addressing the tax gap should increased tax revenue and provide for a more equitable tax system. The results of this effort will permit the agencies to better focus their resources on programs that are most effective in promoting taxpayer compliance to the state's tax laws.

A request for funding (currently \$100,000) for the Compliance Behavior Study is contained in FTB's Fiscal Year 2008/09 Tax Gap Budget Change Proposal (BCP), No. 6, scheduled for FTB approval on September 5, 2007. We are currently working with FTB to identify the funding level necessary to expand the project to a joint

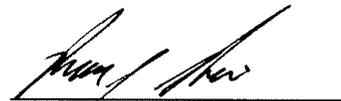
agency study and will provide an update for you at the September 12, 2007 Board meeting.

While funding would be appropriated through FTB's BCP, this study would be conducted in the same manner as the current joint agency Data Sharing consultant engagement. The Data Sharing contract was funded through FTB's budget, but implemented and coordinated by a joint team between the participating agencies.

The current version of FTB's BCP No. 6 (starting at page 57) is available at <http://www.ftb.ca.gov/law/meetings/attachments/090507/4b1.pdf>

If you have any questions, please contact me at (916) 445-1441.

Approved:



Ramon J. Hirsig
Executive Director

RLH:jlm

cc: Mr. Alan LoFaso
Mr. Steve Shea
Mr. Mark Ibele
Ms. Barbara Alby
Mr. Erik Caldwell
Mr. David Gau
Ms. Anita Gore
Ms. Margaret Shedd
Mr. Jeffrey L. McGuire