

Fiscal Year 2009-10

TITLE OF PROPOSAL

Permanent U.S. Customs Pilot Program

DIVISION PRIORITY NUMBER

PROGRAM IMPACTED

Sales and Use Tax - U.S. Customs

SUMMARY OF REQUEST *(including impact if request denied)*

This proposal requests that the remaining 11.5 two-year limited-term positions authorized in fiscal year (FY) 2007-08 and assigned to the Sales and Use Tax Department (SUTD) be made permanent. 5.0 positions were previously established on a permanent basis in the FY 2006-07 Budget Act. With the permanent status of these 11.5 positions, the Board will continue to pursue opportunities to increase revenues for the state. Without staff to identify and investigate unpaid tax, the Board of Equalization (BOE) is dependent on purchasers to report to the Board the use tax due or voluntarily report and pay the use tax on their California Income Tax Return.

If this request is denied, the impact of the United States (U.S.) Customs leads not being worked by a full complement of team members would result in an estimated \$9.2 million loss of General Fund revenue to the state. This loss of revenue is based on the retention of 5.0 existing permanent positions working U.S. Customs leads.

BACKGROUND/HISTORY

The FY 2007-08 budget authorized 11.5 two-year limited-term positions, and provided for permanent continuation of 1.0 position due to expire June 30, 2007 and 4.0 positions due to expire June 30, 2008. The revenue recovery projection for the 5.0 permanent positions was \$7.2 million for the FY 2006-07. This revenue target was met. The revenue recovery projection for FY 2007-08, which included the full complement of team members (16.5 positions), was estimated at \$15.2 million. Based on current data through February 2008, billings of tax liabilities are at \$8.8 million. Due to delay in the enactment of the FY 2007-08 Budget Act and resultant delays in the hiring and training of the full complement of staff, FY 2007-08 revenues are trailing original estimates. After looking at the pilot data, we are comfortable that approval of this proposal will result in an incremental revenue increase of \$9,200,000 in FY 2009-10 and subsequent years.

STATE LEVEL CONSIDERATIONS *(including impact to other departments)*

If the additional positions are made permanent, there will be no impact to any other state agencies. All estimated costs will be included in the final version of the request for making these positions permanent. If the positions are not made permanent, it will result in a loss of General Fund revenue for the state.

JUSTIFICATION *(including link to Strategic Plan)*

SUTD is proposing to make the U.S. Customs Pilot Program a permanent use tax identification program. The value of establishing these 11.5 positions permanent is based on these positions generating an estimated incremental revenue increase of \$9.2 million. The revenue recovery to cost ratio for the 11.5 positions is 11.8:1 (\$9,200,000/\$776,700). The program continues to be evaluated by the revenue generated from leads, collections and audits. Working these kinds of cases helps reduce the competitive disadvantage that California retailers face when purchases are made from outside California for use in California, and helps educate the public about their responsibility to pay use tax for purchases made outside California for use in California. (Strategic Plan, Issue 2, Strategy 3)

COSTS AND BENEFITS (BUDGET YEAR ONLY – FISCAL YEAR 2009-10)

New funding Continuation Redirection

COST	REVENUE <i>(if applicable)</i>
\$ 776,700	\$ 9,200,000
POSITIONS <i>(if applicable)</i>	COST SAVINGS <i>(if applicable)</i>
11.5	\$ 0

PREPARED AND APPROVED

PREPARED BY Alan Giorgi	DIVISION CHIEF APPROVAL
AUTHOR'S TELEPHONE NUMBER (916) 445-3802	DATE

ACTION

Concept Approved Request Denied

EXECUTIVE DIRECTOR *(signature)*
