

Memorandum

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

Date: July 12, 2011

From : Jeffrey L. McGuire, Deputy Director
Sales and Use Tax Department 

Subject : Overview of the 2002-03 Penalty and Interest Reprieve Program

At the May 25, 2011 Board meeting, the Board asked staff to provide a summary of BOE's prior Penalty and Interest Reprieve program (P&I Program).

Approved as part of the 2002-03 California budget, Revenue and Taxation Code section §7093.8 authorized the BOE, under certain circumstances, to cancel penalties and interest if the tax liability was paid in full. This eight month program was limited to unpaid tax liabilities that BOE determined to be a high-risk collection account. In general, these accounts were written-off, or about to be written-off. BOE identified accounts and sent letters and applications advising taxpayers that they were either eligible for the program or that they might be eligible and encouraged them to apply for relief. Other taxpayers were made aware of the program by the BOE website or from collectors working cases.

Received applications were reviewed and if the application was approved, the tax liability had to be paid in full by June 30, 2004. This was not an amnesty program as the BOE had to determine that it was in the best interest of the State to include the liability in the program.

Program results:

Notices sent: 24,000
Applications received: 1,641
Applications approved: 964
Total received as a result of the program: \$7.3 million
Total penalty & interest adjusted off: \$10.8 million
Personnel: 6.5 PYs

The 2004 BOE legislative suggestions included a proposal to reinstitute the reprieve as an ongoing program, but the proposal was not adopted by the Board Members. Staff notes, however, that in 2004 the Legislature approved a tax amnesty program that allowed taxpayers to apply and receive relief of penalty for sales and use tax liabilities prior to January 1, 2003.

The issue of whether BOE should propose a new penalty and interest reprieve program was discussed at the June 2011 Tax Gap stakeholder meetings. Staff is evaluating those suggestions and our recommendation for a new effort will be included as part of the Tax Gap presentation at the August Board meeting.

JM:lw

cc: Ms. Regina Evans
Mr. Louis Barnett (MIC 77)
Mr. Alan LoFaso (MIC 71)
Mr. Sean Wallentine (MIC 78)
Ms. Marcy Jo Mandel
Ms. Kristine Cazadd (MIC 73)
Ms. Diane Olson (MIC 81)
Ms. Susanne Buehler (MIC 92)

*Item deferred to
August Board Meeting*

*July 27, 2011
Diane J. Olson*