



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date:	02/24/12	Bill No:	Senate Bill 1419
Tax Program:	Business Taxes	Author:	Correa
Sponsor:	BOE	Code Sections:	GC 13943.1
Related Bills:		Effective Date:	01/01/13

BILL SUMMARY

This Board of Equalization (BOE) sponsored bill authorizes the BOE to extinguish an outstanding liability for the payment of any tax, fee, or other liability deemed uncollectible that is due and owing to the state under specified conditions.

ANALYSIS

CURRENT LAW

Under existing law, Government Code (GC) Section 13943.1 allows the Franchise Tax Board (FTB) to provide relief of liability to a taxpayer if those liabilities are discharged from accountability (deemed uncollectable) and if at least one of the following conditions is met:

- The liability is for an amount less than five hundred dollars (\$500).
- The liable person has been deceased for more than four years and there is no active probate for that person.
- The FTB has determined that the taxpayer has a permanent financial hardship.
- The liability has been unpaid for more than 30 years.

The FTB also has a 20-year statute of limitation (SOL) on collection. Revenue and Taxation Code (RTC) Section 19255 provides that, after 20 years from the date the latest tax liability for a taxable year becomes due and payable, the FTB may not collect the amount owed and the liability is abated. RTC Section 19255 also includes provisions related to the tolling of the statute of limitation, but in general, the 20-year SOL applies to liabilities that are due and payable before, on, or after July 1, 2006.

Under existing law, the BOE has no statutory authority to extinguish a tax liability when the debt has been discharged. An account that has been deemed uncollectable does not have the effect of relieving the taxpayer of the responsibility to pay.

PROPOSED LAW

This bill would amend GC Section 13943.1 to authorize the BOE to extinguish an outstanding liability for the payment of any tax, fee, or other liability deemed uncollectible that is due and owing to the state, if at least one of the following conditions is met:

- The liability is for an amount less than five hundred dollars (\$500).
- The liable person has been deceased for more than four years and there is no active probate for that person.

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- The BOE has determined that the taxpayer has a permanent financial hardship.
- The liability has been unpaid for more than 30 years.

This measure would begin to align the SOL on collections between the State's largest tax collection agencies. Existing SOL statutes allow a tax debtor to be relieved of the liability owing to FTB, under specified conditions, after the 20-year SOL period has expired. This bill would not alter the BOE's discharge criteria, nor would it allow tax debtors relief of liability without the BOE first having determined that the liability is uncollectable.

BACKGROUND

The BOE and FTB have similar organizational functions, responsibilities, Board Members, statutes, and policies. With respect to collections, the agencies share similar collection policies and procedures. The BOE operates in accordance with the Compliance Policy and Procedures Manual, Chapter 7, [Collections](#), while the FTB operates according to the [Collection Procedures Manual | California Franchise Tax Board](#). Both agencies rely on the same California statutes in the GC, Civil Code, and Code of Civil Procedures to enforce collections, and they operate under the same general statewide statutory provisions (i.e., Chapter 4.3 (commencing with Section 16580) of Part 2 of Division 4 of Title 2 of the GC, known as the Accounts Receivable Management (ARM) Act) and policies (i.e., the State's procedures for collecting delinquent accounts are detailed in the State Administrative Manual (SAM), Section 8776 et seq.).

Moreover, both agencies abide by the GC provisions related to discharge from accountability (discharge), which provides that when the agency is unable to collect the liability, or collection of the liability is not cost effective, the agency is to make an application for discharge to relieve the agency of the responsibility for collection, thereby removing the item from the accounts receivable (AR). The discharge provisions are as follows:

- Chapter 3 (commencing with 13940) of Part 4 of Division 3 of Title 2 of the GC allows an agency to make an application to the State Victim's Compensation and Government Claims Board (SVC GC) for discharge from accountability to relieve the agency of the responsibility for collection, thereby removing the item from the AR.
- GC Section 13943.2 provides the SVC GC with authority to approve state agency requests to discharge AR up to \$500, if the state agency's efforts have not resulted in payment and it would not be cost beneficial to pursue additional collection efforts.

Recently, the Governor signed legislation¹ that allows the BOE to utilize tax collection efforts that the FTB already had authority to use. These compliance tools include the BOE's ability to: (a) request a denial or suspension of a contractor's license for failure to resolve any outstanding BOE-related tax liability; and (b) use the new employee registry information for tax enforcement purposes. In addition, both the FTB and BOE were recently statutorily authorized² to (1) increase the list of the top 250 tax debtors to the top 500; and (2) require state governmental licensing entities to refuse to issue, reactivate, reinstate, or renew an occupations, professional, or driver's license or to suspend a license of a person on the top 500 debtor list.

¹ AB 1307 (Ch. 734, Stats. 2011). BOE analysis: [Uhttp://www.boe.ca.gov/legdiv/pdf/1307abenr.pdf](http://www.boe.ca.gov/legdiv/pdf/1307abenr.pdf)

² AB 1424 (Ch. 455, Stats. 2011). BOE analysis: [Uhttp://www.boe.ca.gov/legdiv/pdf/1424abenrstw.pdf](http://www.boe.ca.gov/legdiv/pdf/1424abenrstw.pdf)

According to the Delinquent Account Report prepared by the Department of Finance, for the fiscal years (FY) 2006-07 through 2008-09, the BOE has averaged 6,805 AR's discharged, worth an average of \$81.5 million per FY.³

COMMENTS

- 1. Sponsor and Purpose.** This bill is sponsored by the BOE and is intended to give the BOE the statutory authority to extinguish a tax liability when an outstanding debt has been discharged and to help reduce the burden of uncollectable tax liabilities placed on our state and California's taxpayers. Also, this bill would be a step forward in aligning the statutes of limitations on collections between the BOE and FTB, California's largest tax collection agencies.
- 2. The relief provided is not just about the status of the liability, but also the condition of the taxpayer.** This bill would provide that, if the BOE discharges a liability for an amount under \$500, or if the liability is unpaid after 30 years, then that liability is extinguished and the person is relieved of the liability. In most cases, no state tax lien would be in effect for these liabilities. In the case of a liability amount of \$500 or less, it is the BOE's policy to only file liens for delinquent amounts of \$2,000 or more; and, in the case of an aged account, a tax lien may only be extended for a maximum of 30 years.

With respect to the condition of the taxpayer, if the BOE discharges a liability because the liable person is deceased and there is no active probate or if the BOE determines the person has a permanent financial hardship, then that liability is extinguished and the person is relieved of the liability. It should be noted that, as opposed to the other two conditions, which are based on the age or amount of the liability and can apply to any type of taxpayer, these last two conditions, which are based on the taxpayer being deceased or being found to be in a permanent financial hardship, apply only to individuals – not to business entities.

- 3. What is a permanent financial hardship?** This bill would provide that, if the BOE discharges a liability after making a determination that the taxpayer has a permanent financial hardship, then that liability is extinguished and the person is relieved of the liability. With respect to the payment of taxes, a "hardship" is defined as the inability of the taxpayer, a person, to provide for the necessities of life. The BOE makes a "hardship" determination when the taxpayer provides reasonable documentation and disclosure of his or her financial condition. Typically this involves the taxpayer completing a BOE-provided financial statement and providing the information needed to document the claimed income and expenses. Since California is a community property state, the BOE typically requests information about household income and household expenses.

In order to determine if a person has a permanent financial hardship, the BOE would evaluate other factors, including the nature of the taxpayer's financial condition. Those additional factors would include, but are not limited to: the person's medical condition; age; potential for changed circumstances; type of income; nature of expenses; and other characteristics or factors that affect either payment or collection potential.

³ DOF Delinquent Accounts Report: [UReports and Periodicals - California Department of Finance](#)

- 4. The FTB also has a 20-year SOL; why is the BOE not also conforming to that provision?** As mentioned previously, RTC Section 19255 provides a 20-year SOL from the date the latest tax liability for a taxable year becomes due and payable. After the 20-year period, the FTB may not collect the amount owed, and the liability is abated.⁴ In general, the period in which FTB may collect is extended if there is a timely civil action filed or a probate claim is filed. The period does not expire until the liability is satisfied or becomes unenforceable. The 20-year statute of limitation is tolled, generally speaking: (a) during the period FTB is prohibited from collection related to child support delinquencies; (b) during the period that FTB is prohibited from collection by reason of a bankruptcy case; (c) for a specified period related to an installment agreement; (d) for periods during which collection is postponed due to combat service or presidentially-declared disaster or terrorist or military action; and (e) for any other period during which collection is suspended, postponed, or extended by action of law.

FTB's [bill analysis](#) of AB 911 (Ch. 398, Stats. 2005) indicates that the 20-year SOL provision was substantially more complicated and costly to implement than was the relief of liability for certain discharged accounts authorized under GC Section 13943.1. FTB identified implementation costs of \$1.7 million and an annual revenue loss of \$2 million related to the 20-year SOL. As discussed below, both the costs and revenue loss related to this measure are considerably less.

COST ESTIMATE

This measure would not alter the BOE discharge criteria, nor would it allow tax debtors relief of liability without the BOE first having determined that the liability is uncollectable. Therefore the BOE estimates costs to be absorbable.

REVENUE ESTIMATE

The BOE has averaged 6,805 AR's discharged, worth an average of \$81.5 million per FY for the FY's 2006-07 through 2008-09. Of this amount, only those accounts discharged that meet one of the specified criteria (under \$500, 30 years old, taxpayer deceased with no probate, or permanent financial hardship) would be affected by this bill, and, of that amount, based on collection experience and discussions with staff, it is estimated that this measure would result in an annual revenue loss of approximately \$227,000.

Analysis prepared by:	John Cortez	916-445-6662	03/29/12
Contact:	Margaret S. Shedd	916-322-2376	
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⁴ The 20 year SOL applies to liabilities that are due and payable before, on, or after July 1, 2006.

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