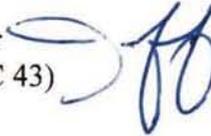


Memorandum

To: Ms. Cynthia Bridges
Executive Director (MIC 73)

Date: February 11, 2014

From: Jeffrey L. McGuire, Deputy Director
Sales and Use Tax Department (MIC 43)



Subject: **Board Meeting February 25-27, 2014**
Item P3 - SUTD Deputy Director's Report
Compliance Program Update

The Sales and Use Tax Department requests the following item(s) be placed on the Board's February 25, 2014 – February 27, 2014 Culver City meeting calendar under "P. Other Administrative Matters."

P. Other Administrative Matters

P3. Sales and Use Tax Deputy Director Report.....Mr. Jeffrey L. McGuire

1. **Compliance Program Update** - An update regarding the Sales and Use Tax Department's Compliance Program.

JLM:jg

I approve:



Cynthia Bridges
Executive Director

cc:

- Ms. Susanne Buehler (MIC 92)
- Mr. Bill Hain (MIC 40)
- Mr. Tom Gates (MIC 40)
- Mr. Gary Lambert (MIC 43)
- Mr. Brad Miller (MIC 92)
- Mr. Michael Lee (MIC 92)

Memorandum

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

Date: February 12, 2014

From: Jeffrey L. McGuire, Deputy Director
Sales and Use Tax Department (MIC 43)



**Subject: Board Meeting February 25-27, 2014
Item P3 - SUTD Deputy Director's Report
Compliance Program Update**

This memo provides an update on the Sale and Use Tax Department's (SUTD's) Compliance Program functions.

During the economic downturn and recent recovery, SUTD has remained committed to meeting the needs of our customers and maximizing voluntary compliance. SUTD continues to innovate and adapt to our rapidly changing world by providing taxpayers the tools, and education and outreach to more easily comply with the tax laws. In addition to focusing on increasing voluntary compliance, SUTD also added new compliance functions to ensure a level playing field for all businesses and continues our enhanced compliance efforts to address the tax gap. SUTD's efforts have resulted in increased efficiencies in our core processes of registration, return processing and collections, while maintaining a robust enforcement program.

SUTD strives to continually enhance the taxpayer experience with the goal of maximizing voluntary compliance. With the successful launch of our online registration system in 2012, taxpayers now have a convenient self-service method to obtain their seller's permit. Taxpayers who prefer full-service registration can still get that service in any field office. Sales and use tax e-filing participation has hit 99% of returns filed with over 72% of efiled returns also paid electronically. SUTD has also made a concentrated effort to reach out to taxpayers with self-service web and mobile device tools, simplified industry centric webpages, new publications and a variety of tax education opportunities. The cumulative results of these efforts help increase voluntary compliance and will result in fewer accounts requiring collection action moving forward.

Currently, SUTD's percentage of accounts receivable (A/R) to total program revenue collected is four percent. SUTD has seen a rise in A/R collections with an increase of more than 22 percent over the past four fiscal years and collections now exceeding \$500 million annually. SUTD's collection program benefit to cost ratio for FY 2012-13 was 14.3 to 1.

SUTD's A/R peaked in March of 2013 at \$1.92 billion and is now trending down. The A/R peak was primarily the result of the collapse of the U.S. economy which resulted in many business failures, bankruptcies, declines in real estate values and foreclosures, etc. Now that the economy has stabilized, SUTD is employing some new strategies and addressing overdue write-offs of uncollectible A/Rs.

The following is a summary of the various efforts SUTD is employing to reduce the A/R and maximize voluntary compliance.

Statewide Compliance and Outreach Program (SCOP)

The purpose of SCOP is to educate business owners regarding their sales and use tax reporting responsibilities, ensure businesses have the required permits and licenses, provide a field presence for the BOE and address the tax gap that exists between sales and use tax revenue due versus the amount reported and paid. Those businesses that comply with the law and pay their taxes are being competitively undercut by the underground economy.

Understanding that tax administration is a sensitive point of contact between citizens and their government, SUTD is dedicated to ensuring the highest level of uniformity and excellent customer service within the program. SCOP representatives receive specialized customer service training and all teams receive uniform training to ensure consistent program administration throughout the State.

In addition to verifying permits and licenses, SCOP staff also ensures taxpayers are reporting accurately and identify account updates (business activity, names, addresses, etc.) that are needed. SCOP representatives from the eight statewide teams visited or contacted 72,679 businesses during fiscal year (FY) 2012-13. Of those businesses, 1,121 (1.5%) were found to be operating without a valid seller's permit. In addition, 2,121 sub-locations (3%) were added to existing permits, which ensures the proper tax allocation for local governments. Furthermore, SCOP's contacts also generated 18,411 account maintenance updates and generated \$85.9 million in revenue. The SCOP program benefit to cost ratio was 6:1 for FY 2012-13.

Tax Gap Efforts

SUTD continues its efforts to close the tax gap (difference between sales and use tax revenue due and the amounts actually paid) through the continuation of the programs described below:

- *Qualified Purchaser Program* – Qualified Purchasers are required to register with the BOE and report all purchases subject to use tax as pursuant to Revenue and Taxation Code section 6225. For FY 2012-13 the program generated \$50.4 million in revenue.
- *Instate Service Business Program* – This program uses information from the Employment Development Department to identify specified service businesses that may be purchasing items subject to use tax. For FY 2012-13 the program generated \$25.8 million in revenue.
- *U.S. Customs Program* – This program receives U.S. Customs data for California destined purchases on imported items and pursues use tax collection thereof. The program generated \$14.7 million in revenue for FY 2012-13.

- *Agricultural Inspection Station Program* – This program created a partnership between the BOE and the California Department of Food and Agriculture (CDFA). As part of the partnership agreement, the BOE receives information from CDFA stations located in Needles, Hornbrook, Truckee and Yermo on trucks entering California. This information is used to issue sales and use tax permits to those that need them, contact taxpayers for outreach and education on use tax, and identify activities that warrant further investigation. During FY 2012-13 the program generated \$60.9 million.
- *Use Tax Educational Outreach Campaign* – This campaign is focused on a statewide media/marketing effort to educate taxpayers on the use tax laws to obtain more voluntary compliance. In addition, the campaign includes using third-party data sources to identify individuals that are likely to have purchases subject to use tax and provide them with educational materials, reporting requirements and methods, instructions for the use tax look up table on the Franchise Tax Board income tax return, as well as an individual use tax return for self-reporting their use tax liability. During FY 2012-13, this campaign generated \$3.6 million.

The five programs above have an overall benefit to cost ratio of 6:1 for FY 2012-13.

Reducing the Accounts Receivable (A/R)

While having an A/R is part of any revenue program, SUTD has recently implemented the following significant efforts to most effectively manage the A/R:

- 1) Enhanced Delinquency and Revocation Process – This newly implemented process, which complements online filing, provides for more notices to taxpayers before returns are due and notifies delinquent taxpayers sooner than the old delinquency process that was based on paper return processing timelines.
- 2) Proactive Outreach Manager (POM) – The POM is an automatic dialing system that makes outbound calls to taxpayers. In October 2013, the POM began making outbound calls to a group of taxpayers who were delinquent in filing their second quarter 2013 return, and reminded them to file their third quarter 2013 return on or before the due date of October 31, 2013. Those taxpayers that were contacted by the POM responded at a 7% higher rate than those that were not contacted. As results continue to be evaluated, SUTD plans to expand and modify the use of the POM to increase its effectiveness.
- 3) Online Payment Agreements – On December 9, 2013 the BOE expanded its online services to provide taxpayers with outstanding liabilities the ability to request a payment plan online. Taxpayers' requests for a payment plan meeting set guidelines are automatically approved. Requests not meeting the auto-approval criteria are referred to collection staff to follow-up with taxpayers.
- 4) Simplified Communications – Earlier this year SUTD focused on using simplified language on our notices. SUTD continues to apply this new approach as notices are revised. In addition, SUTD is testing new notices and letters to identify approaches that will improve voluntary compliance.

- 5) New Publication 54-A – Our new publication 54-A, *Behind on Your Payment? What You Need to Know*, is now included with our final billing notices. The publication provides the same collection information and resources provided in publication 54, *Tax Collection Procedures*, in a simplified, more concise format.
- 6) Streamlined Write-Off Process – Recognizing the reality of the economic downturn and the relatively low number of write-offs the past few years as staff concentrated primarily on collections to assist the state's budget, a write-off workgroup was formed to streamline and improve our write-off process and procedures. While recommendations are still being evaluated, a few steps have been implemented to reduce the steps in the process and shorten the internal processing time required to complete a write-off. These changes will assist in accelerating the write-off of certain aged receivables that are no longer economically feasible to pursue.
- 7) Increase of Field Calls – Collectors in the district offices are increasing their field calls to meet with taxpayers one-on-one. This type of contact helps taxpayers better understand their responsibility and encourages faster resolution to their liability.
- 8) Financial Institution Records Match (FIRM) - Implemented in March 2013, this program matches tax debtors' record files against accounts held at financial institutions (banks, credit unions, insurance and brokerage companies). The FIRM information is available within our Automated Compliance Management System for use by collection staff as needed to resolve collection cases.
- 9) Top 500 - Each quarter SUTD publishes the top 500 tax debtors on the BOE website. State governmental licensing entities are also required to withhold issuance or renewal for applicants whose names appear on the list on or after July 1, 2012. We also publish an interactive map of the locations of each of these debtors on our website, which has proven to be very popular with the media.

SUTD is proud of the efforts we are taking to reduce the A/R, maximize voluntary compliance and enhance the taxpayer experience. Please let me know if you have any questions.

JLM:jlm

cc: Mr. Mike Gipson – 4th District
Mr. Joel Angeles (MIC 77)
Mr. Alan LoFaso (MIC 71)
Ms. Maria Delgado (MIC 71)
Mr. Sean Wallentine (MIC 78)
Ms. Marcy Jo Mandel, State Controller's Office
Ms. Cynthia Bridges (MIC 73)
Mr. Randy Ferris (MIC 82)
Mr. David Gau (MIC 63)
Mr. Jaime Garza (MIC 86)