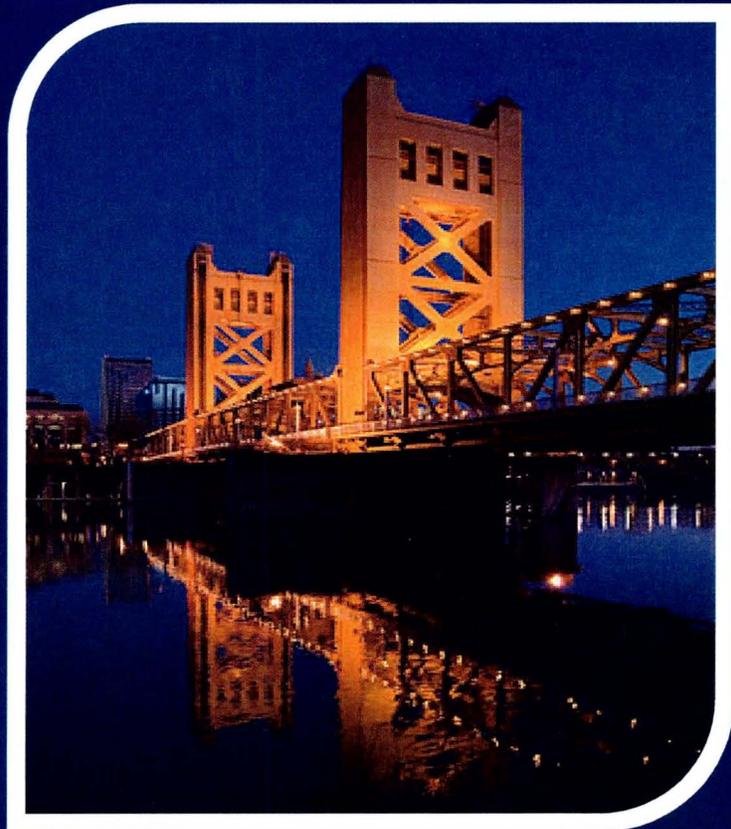


# Addressing The Tax Gap

**Fiscal Years  
2011-2012  
Through  
2013-2014**



California State  
**Board of Equalization**

# Addressing the Sales and Use Tax Gap – Plan 2

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## Introduction

The “tax gap” – or the difference between taxes owed and taxes paid – does not consist solely of tax evasion but also includes a significant portion of the unpaid taxes (e.g., use taxes), that are not reported because taxpayers are unaware of their liabilities. California’s tax system is based on the premise that each taxpayer will correctly determine the amount of taxes owed and will responsibly remit those taxes. Voluntary compliance is the most effective and efficient method of collecting tax, and is improved by implementing a tax program that is equitable, and committed to ensuring compliance.

The concepts and actions described in this plan include efforts that will improve voluntary compliance, will help to improve the competitive disadvantage of some California retailers compared to out-of-state sellers, and will increase revenues. Pending Board Member approval, staff recommends that a Budget Change Proposal (BCP) requesting 23 PYs and expenditures totaling \$3.1 million be prepared for consideration by Department of Finance to address the resource needs. We estimate that the revenues achieved will be approximately \$29.5 million as indicated in the attached Exhibit 2. Staff is proposing a total of six legislative initiatives for Board Member consideration.

## The Tax Gap

The Board of Equalization (BOE) administers 34 tax and fee programs 32 of which produce revenues of \$50.7 billion annually for the state. The sales and use tax is the largest tax program, comprising over 83% of the total revenues. This plan focuses on the sales and use tax gap. The Sales and Use Tax Department (SUTD) produced revenues of about \$42.2 billion in fiscal year 2009/10. We have estimated that the taxes paid amount to about 95% of the total taxes owed. The tax gap is estimated to be about 5% of \$42.2 billion, or approximately \$2.3 billion. There are three major components of the tax gap:

1. Use tax liabilities - businesses and individual consumers not required to be registered
2. Nonfilers/tax evasion
3. Registered taxpayers - under-reporting and non-payment

## Underground Economy

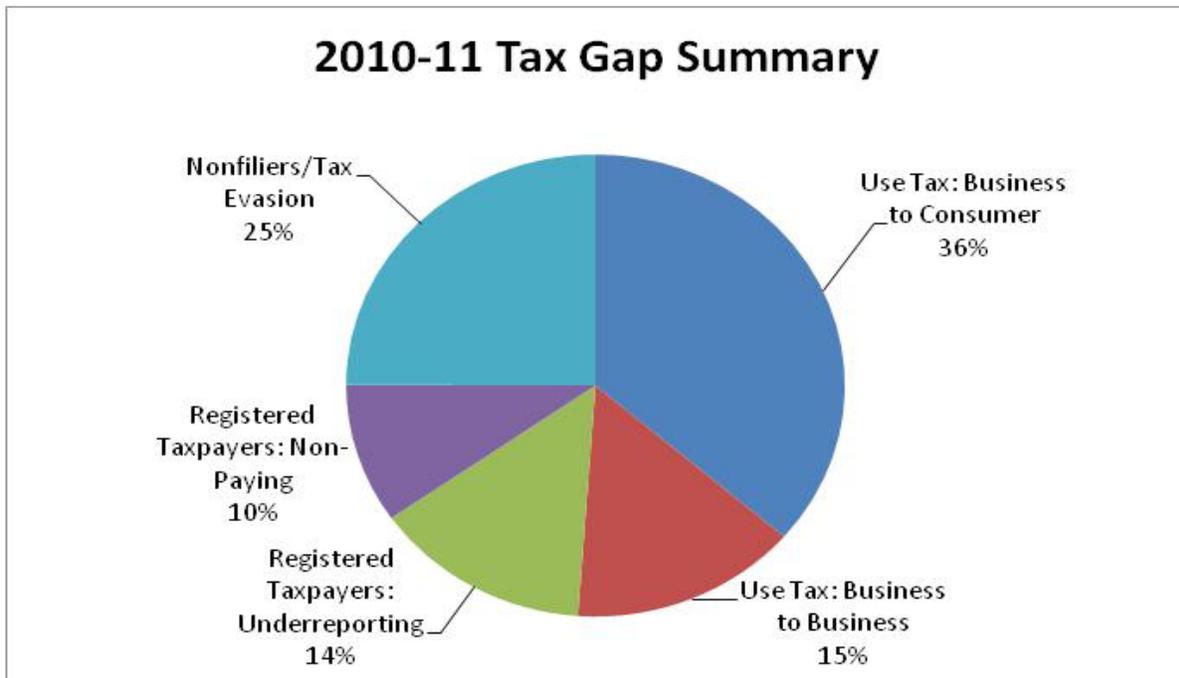
We note that our sales and use tax gap estimate does not include any taxes that should have been paid on sales relating to illegal activities that are part of the underground economy. Investigations Division will take the lead for BOE to prepare a future plan for the Board’s consideration to address California’s underground economy, which involves individuals and businesses that follow practices designed to conceal their activities and true tax liability from

government licensing, regulatory, labor, and taxing agencies. Current efforts, including the Joint Economic Strike Force (JESF) activities, help address some issues, but over \$7 billion in revenues from the underground economy continue to be lost each year. Staff believes any effective effort will require a centralized intelligence effort with other state agency partners that can marshal the resources, talent, and skills necessary to address the underground economy in a more comprehensive, effective and efficient manner.

### Components of the Estimated Tax Gap 2010/11

The following table shows each component of the tax gap with a breakdown for the average tax rate in California for fiscal year 2010/11.

	<b>State (6.25% Rate)</b>	<b>Local (2.86% Rate)</b>	<b>Total (9.11% Rate)</b>	<b>Percent of Gap</b>
Use Tax Liabilities	\$ 851	\$ 346	\$ 1,197	51.1%
Nonfilers/tax evasion	387	197	584	24.9%
Registered taxpayers	384	176	560	23.9%
<b>Total</b>	<b>\$ 1,622</b>	<b>\$ 719</b>	<b>\$ 2,341</b>	



Understanding that BOE cannot completely close the tax gap in a cost effective manner is important. Individual liabilities may be too small to justify collection efforts and in some cases

the tax liability may be identifiable, but is uncollectible because the taxpayer simply does not have the assets to pay it. This plan is designed to narrow the tax gap through cost-effective means of increasing compliance and enforcement under the state's tax laws.

## Tax Gap 1 Plan and Ongoing Efforts

In 2007, a Tax Gap Plan and Tax Gap 1 BCP for fiscal years 2008/09 – 2010/11 were proposed and approved, and several key initiatives were implemented:

- use tax related to in-state service businesses,
- audit and collection program improvements, and
- expanded bankruptcy and out-of-state collection efforts.

To date, these efforts have resulted in over \$191.3 million in revenue at a program cost of \$57.2 million. In addition, the BOE initiated other ongoing efforts that specifically address the tax gap. Examples include:

**US Customs Program** – desk review of Federal U.S. Customs data for California destined purchases to pursue use tax collection on items that are imported. Preliminary FY 10/11 Revenue \$14.4 M<sup>1</sup>.

**AG Inspection Stations** – identifies untaxed property brought into the state through the Department of Food and Agriculture border inspection stations and weigh stations. Preliminary FY 10/11 Revenue \$19.3 M<sup>1</sup>.

**Statewide Compliance and Outreach Program (SCOP)** – canvassing areas to identify and register businesses that do not have sellers permits or under-report sales and use taxes. Preliminary FY 10/11 Revenue \$58.4 M<sup>1</sup>.

**Use Tax Registration of Service Providers (ABX4-18)** – requires qualified purchasers to register and report use tax directly to BOE if the qualified purchaser received gross receipts of \$100,000. FY 10/11 Revenue \$58.5 M.

**Out-of-State Audit Registration Revenue (1032 Program)** – identify and investigate out-of-state businesses that may have nexus in California. Preliminary FY 10/11 Revenue \$20.3 M<sup>1</sup>.

**Voluntary Disclosure Program** – taxpayers afforded the opportunity to come forward to register and pay prior use tax liabilities to shorten look-back period from eight to three years. Since January 1, 2009, this program has provided for a total revenue of \$2.8 M.

**Enhancing Tax Compliance Program** – four elements: (1) Collection Program Enhancements which provided additional resources to address the increase in accounts receivables, (2)

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<sup>1</sup> The revenue cited is a preliminary number that will be subject to adjustment based on adjustments to taxpayer sales and use tax returns. Source: Sales and Use Tax Department

Alcoholic Beverage Tax Audit Program which provided additional resources to address the growth in registration and audit, (3) High Intensity Financial Crimes Area (HIFCA) Task Force is used to identify and address money laundering, (4) Southern California Appeals and Settlement Unit allows BOE to address appeals and settlements faster, thereby accelerating revenue. Total program FY 10/11 Revenue \$28.1 M.

In addition to the ongoing efforts to address the tax gap, BOE recognizes the importance of developing personnel and technology resources to compliment these efforts. As such, we continually promote the education and professional development of employees. We ensure that our employees have the appropriate tools to accomplish their jobs in an efficient and effective manner. The addition of third party data, funding the proposed rewards program, and implementation of the Centralized Revenue Opportunity System (CROS) are some of the tools that will assist employees in addressing the tax gap.

## **Tax Gap 2 Plan - 2011/12 through 2013/14**

Despite the comprehensive approach of using both traditional and innovative programs, the tax gap has increased by an estimated additional \$341 million since 2007. The current economic climate is likely a leading factor in the increase. As such, it is imperative that BOE continue to proactively address each area of the gap.

Staff began the process of refreshing the initial Tax Gap Plan in April 2011. These efforts included evaluating the current programs, soliciting BOE field and headquarter staff for their ideas on ways to narrow the gap, and obtaining ideas from the public. Stakeholders meetings were held in both Northern and Southern California in an effort to include the public, tax practitioners, and industry group representatives in developing ideas to address the tax gap. Staff received over 100 suggestions which were consolidated, posted on the BOE website, and shared in a [Tax Gap Suggestions – June 2011 Report](#) at a second stakeholder meeting. Staff will continue to meet and work with stakeholders on tax gap issues.

All ideas were considered and evaluated for implementation, based on: feasibility of implementation, impact to taxpayers (cost, privacy issues, additional burden), impact to external stakeholders, overall cost/benefit ratios, and availability of resources.

- Thirty percent of the ideas received were for education and outreach related to the sales and use tax program.
- About 25% were related to internal process improvements, which we will continue to consider on an ongoing basis.
- Other recurring themes included gathering data, and focusing more on specific areas of non-compliance, and expanding and improving the use of third party data.
- Thirty-five percent of the ideas will be analyzed further and if appropriate, implemented.

The Tax Gap 2 Plan is designed as a balanced plan that weighs ongoing initial efforts, the need for additional strategies, efficient use of limited resources, and our responsibilities to enforce the law. Our efforts are consistent with the Tax Gap Plan developed by the Franchise Tax Board. Both agencies have developed programs to address the gap with the focus on education, use of third party data, and addressing areas of non-compliance. As with BOE's prior plan, the Tax Gap 2 Plan is categorized into the three main components; the use tax gap, registered taxpayers and non-filers/tax evaders.

## **I. USE TAX**

Excluding illegal activities that are part of the underground economy, the largest portion of the tax gap is use tax liabilities. Use tax liabilities are created when taxable items are purchased from outside the state for use in California. For the most part, these are purchases made from out-of-state retailers either in person, by mail order, or over the Internet. The use tax gap associated with remote sales from out-of-state sellers (electronic and traditional mail order sales) is approximately \$1.2 billion annually. Of this total, \$851 million is estimated to be owed by consumers and \$346 million by businesses.

In the Tax Gap 1 Plan, we focused efforts on:

- In-state service business reporting of use tax
- Out-of-state sellers without nexus registering and reporting use tax
- Individual consumers reporting on the use tax line

These efforts address the core of use tax underreporting. We currently have two programs that are designed to increase use tax reporting in the next year:

### ***Use Tax Line on the Franchise Tax Board's (FTB's) Income Tax Return/Look-up Table***

Revenue and Taxation Code section 6452.1 was amended in March 2011, to provide eligible consumers the convenient option of using a look up table as an easy way to estimate their use tax liability on non-business purchases of individual items of tangible personal property each with a sales price of less than one thousand dollars (\$1,000). Section 6452.1 also requires the BOE to annually calculate the estimated amount of use tax due according to a person's adjusted gross income and provide such amounts to the FTB for inclusion in the income tax return instructions. Interested party meetings are planned in August and October 2011 to discuss the methodology used by BOE to annually calculate the estimated amount of use tax due according to a person's adjusted gross income (AGI) for calendar year 2012 and subsequent years and to discuss the format of the use tax table.

### ***Qualified Purchaser Program***

Beginning January 1, 2010, the Qualified Purchaser Program required certain California service businesses to register and report use tax directly to BOE. Discussed extensively at the tax gap meetings, both stakeholders and BOE staff suggested a number of ways to improve the

administration of the program. At the July 27, 2011 Board meeting, the Board approved the following changes:

1. Allow taxpayers to close their account if their gross receipts drop below the \$100,000 threshold for the last two consecutive years.
2. After three consecutive years of filing zero returns, BOE would automatically deregister the taxpayer's account.
3. BOE will no longer perform automated convenience registration of taxpayers solely because they met the \$100,000 gross receipts threshold. Instead, BOE will continue to identify taxpayers that meet the requirements of the statute and send informational notices explaining the requirements of the program.

These changes will allow staff to efficiently use allocated resources, analyze data, and ultimately focus efforts on businesses likely to have the highest levels of underreporting.

### **Use Tax – New Education and Outreach Efforts**

During our stakeholder meetings, 30% of the ideas submitted were specific to the need for education and outreach. The need for comprehensive education and outreach related to use tax has been an ongoing challenge for BOE. Under the Tax Gap 1 Plan, the BOE requested and Board Members approved first year funding of \$1 million to initiate an education campaign following with an additional \$2 million and \$4 million each year thereafter. Unfortunately, the funding was removed through the external budget approval process.

Given the recent enactment of ABx1 28, the timing for increasing education and enforcement is now critical. To be effective, a focused, comprehensive, ongoing program needs to be developed. Our educational plan includes partnering with BOE's External Affairs Department in the following areas:

- Undertaking a full advertising campaign around use tax. With Board Member approval, staff recommends that a BCP requesting a total of 5.5 PYs and expenditures of \$583,000 be prepared for consideration by Department of Finance (a \$2.5 million media campaign is requested in the first year totaling \$3.14 million in first year expenditures). We estimate revenues of \$9.65 million.
- Solicitation of volunteers from outside of the agency to participate in a Use Tax Advisory Group is currently under development, and will provide an external perspective and suggestions on tax administration, forms, outreach needs, etc.
- Distribution of an internally developed use tax survey to interested parties including taxpayer associations and tax practitioners, as well as to members of the public that participate in small business fairs and other outreach events. Information gathered from these surveys will be beneficial in understanding where further outreach efforts should be directed.

- Creation of use tax educational information distributed to CPAs, Enrolled Agents and other registered Tax Practitioners. Tax preparers may provide the information to their clients, either directly or incorporate into their own handouts, to assist with use tax filing.
- Creation of use tax educational information and registration materials for city and county business license departments to distribute to businesses that do not need seller's permits.
- Contact and work with tax preparation software vendors to include additional use tax information in tutorials and instructions (for professional tax preparers and self preparers).
- Creation of internet videos on use tax reporting and expansion of BOE's use of other social networking avenues (such as Twitter, YouTube and Facebook) to promote use tax reporting.

### **Use Tax - Third Party Data**

The use of third party data is critical in any tax program. Third party data includes, but is not limited to, information from other tax agencies, supplier information, industry reports, and public studies. The data allows us to make compliance decisions, verify information and assumptions, and provides necessary details about industries.

Our plan includes the use of new and existing third party data for education and outreach to promote voluntary compliance, and to initiate focused compliance programs in the following areas:

- Identify high income earners most likely to have purchases subject to use tax. Provide educational material on use tax, reporting requirements and methods, and the use and implication of the look-up-table. Provide a return for voluntary compliance. This mailer will be sent in December prompting recipients to pay special attention when making holiday online purchases and in time for record gathering at the end of the calendar year for income tax preparation.
- Pilot use of purchased public consumer marketing data, which is compiled from purchasers that have "opted in" to share their purchase information. Data may include specific purchase information or information provided through a survey.
- Pilot use of shipping records. Using records from shippers, send use tax information to those California purchasers that have received shipments of goods to their California address from out-of-state inventories.

In each of these areas, we will:

- Provide educational material on use tax, reporting requirements and methods, and the use and implication of the look-up-table.
- Provide a return for self-reporting.
- Conduct focused compliance efforts.

## Use Tax - Simplification

Improving voluntary compliance involves simplifying reporting. To make reporting easier for individuals and businesses that are not required to hold a permit with BOE, and do not file income tax returns, staff is in the process of improving the individual Use Tax Return (BOE-401-DS), and making it available separate from publication 79-B California Use Tax. These changes are being made based on suggestions received from our stakeholders. We will also improve our use tax page on the BOE website to make it easier to locate information and ensure the information is clear and concise.

## Use Tax – Long-Term Efforts

Our plan includes the following items, to be addressed between 2012-2014. Several of the proposals listed will require legislation and will be forwarded to BOE’s Legislative Committee. The legislative process will provide the opportunity for each of the suggestions to be fully researched, vetted, feedback solicited from stakeholders and presented to the Board Members for approval:

- Require CPAs, Enrolled Agents, and other licensed tax preparers that complete income and/or sales tax returns to complete a specified number of hours of their required continuing education in the Sales and Use Tax Law. *Legislation required.*
- Require tax preparers that complete income and/or sales tax returns to explain use tax and ask clients if they have use tax liability when preparing the client’s income or sales and use tax return. *Legislation required.*
- Require taxpayers that do not hold a BOE permit to report use tax on their income tax return, if they file income tax returns. *Legislation required.*
- Several stakeholder groups suggested the possibility of requiring local jurisdictions to contract for the purchase of tangible personal property with vendors or contractors that have a valid California Seller’s Permit or are registered with the BOE. This will promote the collection of sales and use taxes by retailers who do business with local government agencies. Similar to Public Contracts Code section 10295.1, an exception to this rule could be provided when necessary, to ensure the provision of essential contract services; ensure public health, safety, and welfare; and respond to an emergency. Feasibility of this suggestion would be fully vetted through BOE’s legislative committee process. *Legislation required.*

## II. REGISTERED TAXPAYERS (NON-PAYING/UNDERREPORTING)

SUTD performs four critical functions: registering accounts, processing returns, performing audits and collecting delinquent taxes. In fiscal year 2009/10, about one million accounts were registered to report sales and use tax. These accounts filed 2.3 million returns with revenues totaling \$42.2 billion.

Registered taxpayers include both retailers and those businesses and individuals that are registered to report sales and/or use tax directly to the BOE. The tax gap with respect to this

segment is comprised of those registrants that underreport, either knowingly or unknowingly, and registrants that report tax liabilities correctly but fail to pay amounts due. Underreporting amounts to \$331 million and failure to pay results in \$229 million of the estimated tax gap.

To supplement the current level of voluntary compliance, in fiscal year 2009/10, \$575 million in revenue was attributed to audits and field billing orders. During the same period, staff collected \$770 million of the outstanding accounts receivables.

Under the Tax Gap 1 Plan, specific efforts related to both audit and collection program improvements were approved. BOE began conducting one-year audits in an effort to address businesses that avoided audit through early close-outs. Data matching and analytical models were key components. Information was used to improve audit selection and create collection models to improve efficiencies related to dollars collected and focusing compliance efforts. The Tax Gap 2 proposals build on these prior successes and include the creation of three additional efforts: a desk audit program, an expanded bankruptcy program, and an ongoing penalty and interest reprieve program.

### **Registered Taxpayers – Desk Audit Program**

While third party data is already utilized for field audit selection purposes, staff proposes expanding its use to develop a desk audit program.

Working with industry to obtain third party data, we can use the information to compare amounts reported by taxpayers on their sales and use tax returns. An example of this process would be comparing sales data from liquor, beer, wine, and tobacco wholesale suppliers against sales reported by their customers (retailers). Another example is using data obtained from franchisors compared against sales amounts reported by franchisees (taxpayers) on their sales and use tax returns. These are new efforts that cannot be undertaken without additional resources.

In 2010, BOE staff piloted desk audit activities with the Consumer Motor Vehicle Recovery Corporation (CMVRC) Fee Data Program. BOE staff compared vehicle sales data received from the Department of Motor Vehicles' CMVRC program against sale amounts reported to BOE by vehicle dealers. Discrepancies on selected accounts were investigated and billings issued as needed. As of May 20, 2011, billings have been issued on 87 of the 102 accounts selected for examination with total tax billed of \$477,347. Our proposed desk audit plan also recommends continuation and expansion of this DMV desk audit activity. With Board Member approval, staff recommends that a BCP requesting a total of 9.5 PYs and expenditures of \$810,000 be prepared for consideration by Department of Finance. We estimate revenues of \$3.4 million.

### **Registered Taxpayers – Expanded Bankruptcy Program**

BOE expanded the bankruptcy program under the Tax Gap 1 Plan. This program has been productive; the preliminary revenue estimate through fiscal year 2010/11 is \$19.6 million. SUTD has programs available to work cooperatively with taxpayers who cannot pay their taxes in full. We work to expedite payments to the BOE to clear tax liabilities prior to bankruptcy filings.

Unfortunately, due to ongoing economic issues facing the business community, an increasing number of our registered taxpayers have filed bankruptcy. The workload has increased to a level that additional positions are necessary. With Board Member approval, staff recommends that a BCP requesting a total of 3.0 PYs and expenditures of \$297,000 be prepared for consideration by Department of Finance. We estimate revenues of \$1.9 million.

### **Registered Taxpayers – Top 500 Delinquencies**

Currently, BOE publishes the largest 250 sales and use tax delinquencies in California. Assembly Bill 1424 includes language that would expand the list to include the largest 500 sales and use tax delinquencies. If the proposed legislation is not enacted, BOE would pursue legislation.

### **Registered Taxpayers - Penalty and Interest Reprieve**

At the July 27, 2011 Board meeting, staff provided the Board Members with an overview of the fiscal year 2002/03 Penalty and Interest (P&I) Reprieve Program. That eight month program authorized BOE, under certain circumstances, to cancel penalties and interest if the tax liability was paid in full.

#### 2002/03 Penalty and Interest Reprieve 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 Personnel Years

Rather than suggest another short-term effort, staff recommends establishing a permanent program that would provide an on-going collection tool for high-risk collection accounts. The program would authorize BOE to waive penalties and interest on unpaid sales and use taxes owed by eligible taxpayers when the underlying tax liability is paid. This program would benefit taxpayers by allowing them the opportunity to pay a lesser amount and obtain complete relief from their sales and use tax obligations. BOE would receive a portion of revenue that would under normal circumstances be uncollectable. Implementation of a permanent program would require additional resources and legislation. With Board Member approval, staff recommends that a BCP requesting a total of 5.0 PYs and expenditures of \$414,000 be prepared for consideration by Department of Finance. We estimate revenues of \$5.0 million.

At the July Board meeting, the Board discussed the success of penalty and interest relief programs offered in other states. The programs mentioned were amnesty programs that covered several tax programs in those states. A sample of the types of programs and results from recent amnesties in other states are included in Exhibit 1.

Staff does not believe there has been sufficient time since BOE's 2005 amnesty program to develop a new program that would include enough new eligible accounts to be cost effective. In

addition, there are still \$64 million in unresolved amnesty payments from the 2005 program. Staff is not recommending BOE propose a new amnesty program at this time.

### **III. NON-FILERS/TAX EVASION**

The final component of the tax gap is comprised of individuals and businesses that conduct business transactions without being registered or otherwise in compliance with governmental rules and regulations.

While the numbers and receipts of unregistered retailers are difficult to measure, it is imperative that BOE take specific actions to educate and ensure that all businesses that need a sellers permit, acquire one and report accordingly. In addition, it is vital that BOE remain active and diligent when addressing those that intend to evade tax.

Under the Tax Gap 1 Plan, the BOE focused efforts on internet sales to address an area we knew non-filers and evaders were likely to be prominent. We continue to gather data and develop a small program in this area which may be expanding as a result of ABx1 28. In addition, our audit program continues to identify intentional underreporting/fraud and assess appropriate penalties. Our SCOP teams walk door to door in various geographical areas to identify business that may need a permit but do not have one. We also have an entire division dedicated to dealing specifically with evasion and other illegal non-compliance activities. The Investigations Division (ID) is responsible for dealing with non-filers and evaders that rise to the level of felony fraud. ID actively works to educate the community at large as well as working directly with specific industries wherein a high propensity for fraud is likely. ID works with other agencies to identify and deter fraud, and when necessary, with the judicial system to prosecute non-filer misdemeanors and felony tax evasion.

#### **Non-Filers/Tax Evasion – Fund Reward Program**

To further supplement our efforts in this area, staff is recommending we fund a reward program. Revenue and Taxation Code section 7060 authorizes the establishment of this program. While staff is not currently requesting new personnel resources to implement this program, if BOE receives a large number of unproductive leads, an additional workload would be created. We have not yet determined the cost of investigating these types of leads. We will monitor and request additional staffing through a BCP during fiscal year 2012/13. Staff's initial research to date indicates that Florida does have a similar reward program. We are conducting additional research to determine the related costs. With Board Member approval, staff recommends that a BCP requesting total expenditures of \$1 million be prepared for consideration by Department of Finance. We estimate revenues of \$10 million.

Following is the language in section 7060 (et seq):

The board, under regulations prescribed by the board, may establish a reward program for information resulting in the identification of underreported or unreported taxes due under this part. Any reward may not exceed 10 percent of the taxes collected as a result of the information provided. Any person employed by or under contract with any state or federal tax collection agency shall not be eligible for a reward provided pursuant to this section.

## **Conclusion**

Many of our proposals can be implemented with no additional resources. If the Board Members would like the BOE to further consider the five new efforts that do require resources as listed in Exhibit 2, a BCP can be presented at a future Board meeting. Some of the proposals included will also require new legislation. Those proposals will be forwarded through BOE's legislative committee for Board Member approval.

## Amnesty Results (Exhibit 1)

State	Liability period	Amnesty period	Last Prior Amnesty period	Taxes Included in the Program	Provisions	Collections
Illinois	7/1/02 – 6/30/09	10/1/10 – 11/8/10	10/1/03 – 11/17/03	All taxes administered by the Department of Revenue, excluding IFTA, property tax, estate taxes, and insurance taxes	Waiver of penalty and 50% of interest Failure to participate resulted in doubling of standard interest and penalties due	\$717M total  \$11M sales and use tax
Louisiana	7/1/01 – 12/31/08	9/1/09 – 10/31/09	9/1/01- 10/30/01	All taxes administered by the Department of Revenue, except motor vehicle fuels	Waiver of penalty and 50% of interest	\$303M total
Pennsylvania	Dels prior to 7/1/10	4/26/10 – 6/18/10	10/13/95 – 1/10/96	All taxes administered by the Department of Revenue	Waiver of penalties and 50% of interest Non-participation penalty of 5%	\$255M total  \$86 million sales & use tax
Washington	Tax owed prior to 2/1/11	2/1/11 – 4/30/11	none	Business and Occupation tax; state public utility tax, state and local sales and use tax	Waiver of penalty and interest  No installment payments	\$321M total
District of Columbia	Taxes prior to 12/31/09	8/2/10 – 9/30/10		Individual income taxes, business and franchise taxes, sales and use taxes, estate taxes	Waiver of penalty and interest and no criminal charges	Unknown
Massachusetts	Taxes prior to 12/31/09	4/1/10 – 6/1/10		All taxes administered by the department	Waiver of penalties only	Unknown
Michigan	Taxes prior to 12/31/09	5/15/11 – 6/30/11		Income tax, inheritance tax, business tax, motor fuel tax, Sales and use tax, Single business tax, oil and gas severance tax, tobacco products tax	Waiver of penalties only	Unknown

## Amnesty Results (Exhibit 1 - Continued)

### Board of Equalization Amnesty

In 2005, BOE offered an Amnesty Program (filing period 2/1/05 – 3/31/05) for sales and use tax liabilities due prior to January 1, 2003. The program allowed taxpayers to:

- 1) report and pay taxes not previously reported, and
- 2) pay tax liabilities that were previously reported but not paid.

Taxpayers that fulfilled all of the program requirements were relieved of penalties, avoided criminal prosecution, and avoided new amnesty penalties for failing to participate.

### 2005 Amnesty Results

- 11,682 taxpayers participated in the program
- \$594.8 million total payments received
- \$64.3 million of these payments are unresolved as follows:
  - \$17.3 million unresolved appeals cases
  - \$43.8 million claims for refund
  - \$3.2 million in audits not yet completed

## Exhibit 2 – Tax Gap Revenue and Cost Summary

	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>
<b>1. Use Tax Educational Outreach Campaign</b>			
PYs	5.5	5.5	5.5
Anticipated Revenue	\$9,650,000	\$9,650,000	\$9,650,000
Expenditures	\$3,140,000	\$583,000	\$583,000
<b>2. Registered Taxpayers – Desk Audit Program</b>			
PYs	9.5	9.5	9.5
Anticipated Revenue	\$3,400,000	\$3,400,000	\$3,400,000
Expenditures	\$919,000	\$810,000	\$810,000
<b>3. Registered Taxpayers – Bankruptcy Expansion</b>			
PYs	3	3	3
Anticipated Revenue	\$1,900,000	\$1,900,000	\$1,900,000
Expenditures	\$330,000	\$297,000	\$297,000
<b>4. Registered Taxpayers – Penalty &amp; Interest Reprieve</b>			
PYs		5	5
Anticipated Revenue		\$5,000,000	\$5,000,000
Expenditures		\$468,000	\$414,000
<b>5. Non-filers and Evaders – Reward Program</b>			
PYs			
Anticipated Revenue	\$10,000,000	\$10,000,000	\$10,000,000
Expenditures	\$1,000,000	\$1,000,000	\$1,000,000
<b>6. Total for All Efforts</b>			
PYs	18	23	23
Anticipated Revenue	\$24,950,000	\$29,950,000	\$29,950,000
Expenditures	\$5,389,000	\$3,158,000	\$3,104,000
<b>Benefit-to-Cost Ratio</b>	4.62	9.48	9.65