

House Bill 3082

Licensee Tax Compliance Project, Phase II



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Introduction

Chapter 576, Oregon Laws 2009 (enrolled House Bill 3082), authorized the Department of Revenue to conduct a pilot project to determine the effectiveness of requiring tax compliance as a condition for occupational and professional licensing. This report reviews Phase II of the pilot project.

Phase I Review

We conducted Phase I of HB 3082 in 2009 and 2010. It focused on licensees who must pay individual personal income tax. Phase I included two projects.

In the first project, we worked with three licensing boards to provide tax compliance information to licensees. A licensee who was out of compliance (hadn't filed required tax returns or hadn't paid tax) could have had their license suspended by their board.

Combined compliance rate for boards of Phase I, Project 1:

- Baseline: 93.12%
- End of project (December 2010): 96.45%
- As of May 2012: 97.10%

In the second project, we worked with three other licensing boards to provide only tax compliance status information to licensees. A license wouldn't be suspended if the licensee was out of tax compliance. The purpose of the project was to determine if simply telling a taxpayer about their compliance status was enough to change or sustain behavior.

Combined compliance rate for boards of Phase I, Project 2:

- Baseline: 95.05%
- End of project (December 2010): 97.24%
- As of May 2012: 96.89%

We concluded that although the sample we used was small, the results indicate that making tax compliance a condition for professional or occupational licensure could be an effective tool for licensees subject to the personal income tax program.

Phase II Overview

Phase II started in September 2011. Due to limited resources, Phase II was an information-only project similar to the second project in Phase I. We focused only on licensees subject to Oregon's withholding tax program and purposefully limited the number of licensees in this phase.

The participating two state boards and one state agency were:

- Department of Consumer and Business Services and the Plumbing Board (1,489 Plumbing Business Contractors)
- Board of Architect Examiners (613 Registered Architectural Firms)

- Department of Agriculture. 4,494 licensees from:
 - Christmas Tree Growers
 - Commercial Pesticide Operators
 - Retail Food Establishments (a sample of small, medium, and large establishments)
 - Retail Nursery Dealers
 - Retail Seed Dealers

Each board or agency sent us a list of licensees. We determined the compliance status of the licensee and sent a letter and informational brochure to specific licensees. Since this was an information only project, a license wouldn't be suspended if the licensee was out of compliance. However, we're following up with out-of-compliance licensees through our regular enforcement processes.

Tax compliance for Phase II was defined as:

- The past three years (12 quarters) of required withholding tax returns are filed (2008, 2009, and 2010); and
- Any balance owed is paid in full; or
- The licensee or registrant is following the terms of an approved payment plan with us.

Phase II Results

There were 6,596 licensees from the three participating boards included in the Phase II project. As of February 2012, we determined 3,457 licensees were subject to the withholding tax program. Of those subject to the program, 116 or 3.4% of licensees were out of compliance with a total withholding tax amount owing of \$506,365.

As of July 31, 2012:

- 94 licensees paid \$271,404 in past-due withholding taxes.
- 95 past-due withholding tax returns had been filed.
- 3,490 licensees were subject to the withholding tax program
- Of those, 131 or 3.75% were out of compliance

Conclusions

Phase II was an opportunity to expand the pilot project into the Withholding Tax Program. With a different tax program, we were presented with unique opportunities, insights, and challenges. For example, we had to manually conduct the compliance checks because limited Information Technology resources kept us from completing programming required to automate the process. Other resources were also limited during the project so we limited the scope mid-way through the project. This resulted in mailing only 2,157 letters to licensees out of 6,596 we originally planned.

We found that the licensing boards and agencies do not capture or require a common/consistent identification number for business licensees. It required manual work to match a business identification number, federal identification number, or social security number to our system records.

We also found that since the withholding tax program returns are usually filed quarterly, we have more opportunity to work with taxpayers than the personal income tax program.

Lastly, we often found that the business names were inconsistent. We realized with these challenges, a common/consistent business identification number would be required in order to fully expand a tax compliance requirement for business licensees.

Both Phase I (project I and II) and Phase II projects resulted in past due tax payments and receiving delinquent tax returns. The data supports the conclusion that when a professional or occupational license may be suspended or when tax compliance information is provided to licensees, there is an impact to compliance.

Since we evaluated two different tax programs, we are unsure if these results are comparable. We believe there is additional work to be done on researching the value of a professional or occupational license and to determine if an invalid license prevents licensees from working. Before we can advise the legislature on the full value of a tax compliance requirement, we also need to determine the implementation costs.

Based on this, we recommend that the pilot project be continued to measure the effect of a compliance requirement on compliance rates and to assess our readiness for a larger licensee population. We will continue our research on what other states and cities are doing to require tax compliance for professional or occupational licensing. Since Phase I, we have found that there are additional states and cities that are using tax compliance as a tool for delinquent returns and unpaid taxes.

Next Steps

We believe there is value in continuing the pilot project to include a larger licensee population. In addition, we plan to automate the compliance check process for licensees, which will reduce project timelines, more efficiently use project resources, and increase the accuracy of compliance checks. We plan to start Phase III in November 2012.

The first and second phases of the pilot project allowed us to recognize opportunities for improvement throughout the entire tax compliance process. We recommend that the Legislature take no action at this time, and that we report to the Seventy-ninth and Eightieth Legislative Assemblies (2013 and 2014) on the results of our continued study.

If you would like additional information on the results of the first or second phase of the pilot project, please contact our Director's Office.