

House Revenue Committee -- February 21, 2013 – Compliance Discussion

HB 2460 Tax Compliance as a condition of issuing or renewing state grants

HB 2467 Tax Compliance in determinations of eligibility for public services (car registration, hunting/fishing licenses; student financial aid; occupational licenses)

HB 2464 DOR to report out-of-state tax shelters

What the bills do:

Two of the bills require recipients to be in tax compliance to receive certain state dollars or services. There is a similar bill, HB 2871, which would require a tax compliance check before issuance of an occupational license.

What tax compliance means:

Returns are filed when required, income and expenses properly reported and the tax is paid (includes a payment plan).

Compliance Background:

There are many factors that influence compliance with tax laws.

It's no secret that involving third party reporting increases compliance, this body has embraced that theory with some legislation:

- Non-resident real estate withholding (314.258)

- Non-resident pass-through entity withholding (314.781)

Some comes from our partnership with the IRS:

- Audit adjustments

- 3rd party matching (1099's)

- Filing information

Within DOR...

In general, every return subject to certain compliance checks when processed. For example, if the standard deduction is \$1,000, our system won't allow any more than that to be claimed on a return.

We also look for different ways to approach to have a positive effect on compliance

- Writing administrative rules, clear instructions

- Focus on tax gap issues (cash intensive businesses)

- More recent years (files more accessible)

The second prong of compliance is collections:

- Focusing on new debt

 - Nearly 45% of our Personal Tax A/R is self-assessed (tax return filed without payment)

 - Goal is to make first contact with taxpayer within 30 days

 - Resolution in 90 days (paid, payment plan)

- Better utilizing Private Collection Firms

 - Sending more debt

 - Not waiting for the required year to pass

 - Allowing PCF's to keep debt longer



Legislative Testimony

Summary

Revenue is neutral on these bills. Requiring tax compliance to qualify for certain state resources may have a positive effect. We saw some of that with the licensing pilot project. It would take some work to get there. HB 2460 calls for an on-line system; that is critical to a compliance check process. And, though short, the bill is broad, it does not limit the tax programs. HB 2467 is also broad, applying to all occupational or trade licenses (similar to HB 2781, which is up for public hearing on Monday).