

House Interim Committee on Revenue

2009 House Bill 3082

Pilot Projects Update

September 13, 2012

Overview of House Bill 3082

- The 2009 Legislature enacted HB 3082 to authorize a licensee tax compliance pilot project
- Does mandatory tax compliance impact compliance rates?
- Department of Revenue, 3 licensing agencies, boards or commissions, and occupational/professional licenses
- License can be suspended, revoked or not issued if applicant is not in compliance with tax laws

* Repeal date - Jan 2, 2016



What is 'tax compliance'?

- **Filed** and **paid** last three years or 12 quarters
- **Approved Payment Plan** w/DOR
- **Verified**
 - Current bankruptcy
 - Settlement offer
 - Timely appeal of a Department of Revenue determination
 - Not required to file



Overview of Phase I Projects

Timeline – September 2009 through December 2010

Personal Income Tax Program Only – tax years 2006, 2007 and 2008

Project 1

- Three licensing boards, 6,137 licensees, 422 licensees out of compliance
- Licensees out of compliance could be subject to license suspension or non-renewal
- Compliance Rates:
 - Baseline (Jan 2010) = 93.12%
 - End of Project (Dec 2010) = 96.45%
 - May 2012 = 97.10%



Project 2

- Three different licensing boards, 25,079 licensees, 1,242 licensees out of compliance
- Tax compliance information only – a license was not in jeopardy
- Compliance Rates:
 - Baseline (April 2010)= 95.05%
 - End of Project (Dec 2010) = 97.24%
 - May 2012= 96.89%



Conclusion and Recommendation

- Requiring tax compliance and providing tax compliance information are effective compliance tools, they level the playing field for licensees, and DOR will continue with the Pilot Project

Overview of Phase II Project

- **Timeline** - September 2011 through July 2012
- **Withholding Tax Program** only (2008, 2009 and 2010)
- **Tax compliance information only** – no license suspension or non-renewal process
- **6,596 Licensees**
 - Board of Architect Examiners – 613 licensees
 - Plumbing Board – 1,489 licensees
 - Department of Agriculture – 4,494 licensees
- **Compliance Check Results**
 - Licensees subject to the Withholding Tax Program – 3,457
 - 3,341 licenses or 96.6% in Compliance Rate
 - 116 licensees or 3.4% out of Compliance Rate
 - Licensees where we could not determine subjectivity – 3,139*

* Out of state licensees, possible non-filers, licensee registered with board under one name but filing returns under a different name, licensee no longer doing business in Oregon, licensee filing incorrectly, etc.

Overview cont.

- **Letters and Brochures**

- **March 5, 2012** - letters and brochures were mailed to 2,102 Architect and Plumber licensees:

- 61 non-compliant licensees
- 744 unable to determine licensees
- 1,297 compliant licensees

- **March 15, 2012** - letters and brochures were mailed to 55 non-compliant Agriculture licensees.

Due to other agency priorities, only 2,157 letters and brochures were mailed.

- 613 to Architect Licensees
- 1,489 to Plumber Licensees
- 55 to Department of Agriculture Licensees (4,439 Agriculture licensees did not receive a letter.)

Project Statistics

Baseline - Licensees Subject to Program

3,457*

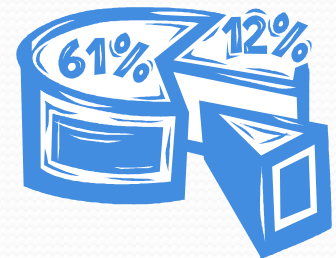
- Compliant licensees 3,341 or 96.6%
- Noncompliant licensees/rate 116 or 3.4%
 - Total tax dollars owed - \$506,365

July 31, 2012 - Licensees Subject to Program

3,490

- Compliant licensees 3,359 or 96.25%
- Noncompliant licensees/rate 131 or 3.75%

* Total Licensees in Project = 6,596
Total Licensees subject to the withholding tax program = 3,457
Total Licensees where we could not determine subjectivity to the withholding tax program = 3,139



Taxes Paid, Returns Filed, and Payment Plans

As of July 31, 2012

- Past Due Withholding Tax Paid **\$271,404**
- Past Due Withholding Returns filed **95**
- Payment plans set up **12**
- Additional Tax Due in Payment Plans **\$10,287**
- Tax Dollars Owed **\$551,251**



Project Costs

Letters **\$ 1,685**

(78.1 cents per letter for 2,157 letters. Cost includes letter, brochure, printing, envelope and postage)

Personnel Costs* **65,342**

Total Project Costs **\$67,027**

* Includes cost of six department staff working on manual compliance checks, taxpayer/licensee assistance, statistical analysis, project management, etc. from September 2011 through July 2012.



Lessons Learned

- **Licensing Agency/Board/Commission Licensee Information**

- **Licensee Identification Numbers**

- Oregon Business Identification Number (BIN)
 - Federal Tax Identification Number (FID) also known as the Employer Identification Number (EIN)
 - Social Security Number
 - Registry Number from Secretary of State's, Corporation Division
 - Or no identification number at all

- **Licensee Name**

- Christmas Trees, Xmas Trees
 - Robert's Shop, Bob's Shop
 - Eric Smith

- **Licensee Address**

- Street Address
 - PO Box
 - Multiple nonbusiness Addresses (power of attorney, payroll company, registered agent, etc.)

- **Withholding Tax Program compared to Personal Income Tax Program**

- More **contacts** with taxpayers – 4 returns per year vs. 1 return per year, quarterly vs. annually
 - Withholding Tax Program is **more automated**



Conclusions/Recommendations

Conclusions

- **Tax Compliance Information** does initially impact compliance (returns were filed, payments made, calls received to clarify tax compliance, etc.). Long term impact is unknown.
- There is value in continuing the Pilot Project in Phase III
- Unable to move forward with an automated non-personal income tax program

Why Phase III

- Continue with proof of concept and follow up on Phase I and II licensees
- Phase III uses DOR resources efficiently since licensees will contact us to obtain information on compliance, which opens the communications door with licensees
- Use of the Automated Call Distributor (ACD) for collections, use of our internal computer system for printing letters for non-compliant licensees
- Tax compliance for **new** licensees, not just renewing or retaining
- 20K licensees – volume
- A good mix of self-employed and wage earner licensees

Recommendation

- Legislature take no action at this time.

Phase III Pilot Project Proposal

- **Timeline** – November 2012 through September 2013
- **Personal Income Tax Program** only
- Tax Compliance Requirement to **obtain/retain/renew** license
- **DCBS, Insurance Division** – Insurance Producers/Agents
- **Tax Years** – 2009, 2010 and 2011
- **Automated Compliance Checks**
- **Est. Project Costs** - \$136,426
- **Est. Project Gross Revenue*** - \$1.0 to \$1.4 million



* Estimated gross revenue based on Phase I Project results

Additional Information



- **Federation of Tax Administrators 2012 Survey**
 - 13 states responded to a survey on license suspension programs:
 - 9 states had some type of program
 - More states are authorizing, requesting or considering this compliance tool
- **State of Kansas Model**
 - Since 2005
 - Not a license suspension or revocation program. It is a license **renewal** program

We will continue to monitor other states' interest in the connection between tax compliance and occupational or professional licensing.

Licensing Agencies and Board

Thank you!

- **Architect Examiners Board**
 - James Denno, Director
- **Plumbing Board, DCBS**
 - Patrick Allen, Director
- **Department of Agriculture**
 - Katy Coba, Director

End of Presentation

- Thank you for your time.
- Are there any questions?

