

## Analysis

### Department of Revenue

#### Tax Compliance and Tax Compliance Strategies Report

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**Analyst:** John Borden

**Request:** Acknowledge receipt of a report on tax compliance and strategies to address.

**Recommendation:** Acknowledge receipt of a report.

**Analysis:** The budget report for SB 5538 (2013), the primary 2013-15 budget bill for the Department of Revenue (DOR), included the following budget note:

The Department of Revenue shall submit a report to the Legislature during the 2014 session that describes the cause of non-compliance in the personal and corporation tax programs, including a discussion of tax gap estimates. The Department shall create a specific, systemic plan to reduce the tax gap including performance measures, benchmarks, and timelines, and report progress from this plan to the Legislature in 2015. Where possible, the Department shall incorporate the results of the work performed for the Enforcement Revenue Budget Note in 2011.

DOR estimates Oregon's Personal Income *net* tax gap at \$1.1 billion, which translates to a compliance rate of 82.2%. The Corporate Tax gap is estimated at \$70 million, which translates to an 85.9% compliance rate. Both estimates are based on tax year 2010. In a report to the Legislature in 2009, DOR estimated the net Personal Income tax gap at \$1.3 billion, based on tax year 2006.

DOR qualifies these estimates by noting that they are highly speculative since compliance is unobservable and that comparisons over time and across states are "not meaningful" due to differences or changes in tax law, enforcement efforts, and other issues. Additionally, the agency points to research that suggests "...only a small portion of the tax gap is collectable."

During the legislative session in 2007, the Joint Committee on Ways and Means, General Government subcommittee expressed interest in developing more accurate estimates of the amount of potential tax revenue that is not collected due to compliance issues.

During the special legislative session in 2008, SB 1082 was passed that directed DOR to report on the level of taxpayer compliance, behaviors affecting taxpayer compliance, processes and procedures for updating the Department's taxpayer compliance estimates, and for measuring the effects on compliance attributable to changes in taxpayer behavior; identify tools for increasing taxpayer compliance; and make recommendations to improve taxpayer compliance. In a very detailed response with recommendations, DOR reported its findings to the Legislature in 2009.

This budget note report is mostly a reiteration of past studies and reports with little new or updated information being provided, other than the revised tax gap estimate and other information provided in the appendix of the report.

The strategies the agency pursues have remained relatively unchanged over the preceding years, with the agency believing "... that noncompliance is best addressed through a balanced approach that begins with supporting voluntary compliance." The one notable exception, which has yet-to-be placed into production, is the Legislature's investment in the modernization of agency's information technology infrastructure, known as the Core System Replacement project (CSR). The CSR project may be viewed as an investment in reducing future tax gaps.

The report did not include any new recommendations or a follow-up on past recommendations, other than its brief mention of the CSR investment.

The report noted that the agency is proposing revisions to its existing compliance-related performance measures.

The lack of specificity related to DOR's tax compliance strategy suggests that the agency may have difficulty providing a progress report to the Legislature in 2015, as directed by the budget note.

The Legislative Fiscal Office recommends acknowledging receipt of the report.