

2015

Oregon Department of Revenue

Presentation to the Joint Ways and Means General Government Subcommittee

Responses to Questions from Committee Members

March 11, 2015

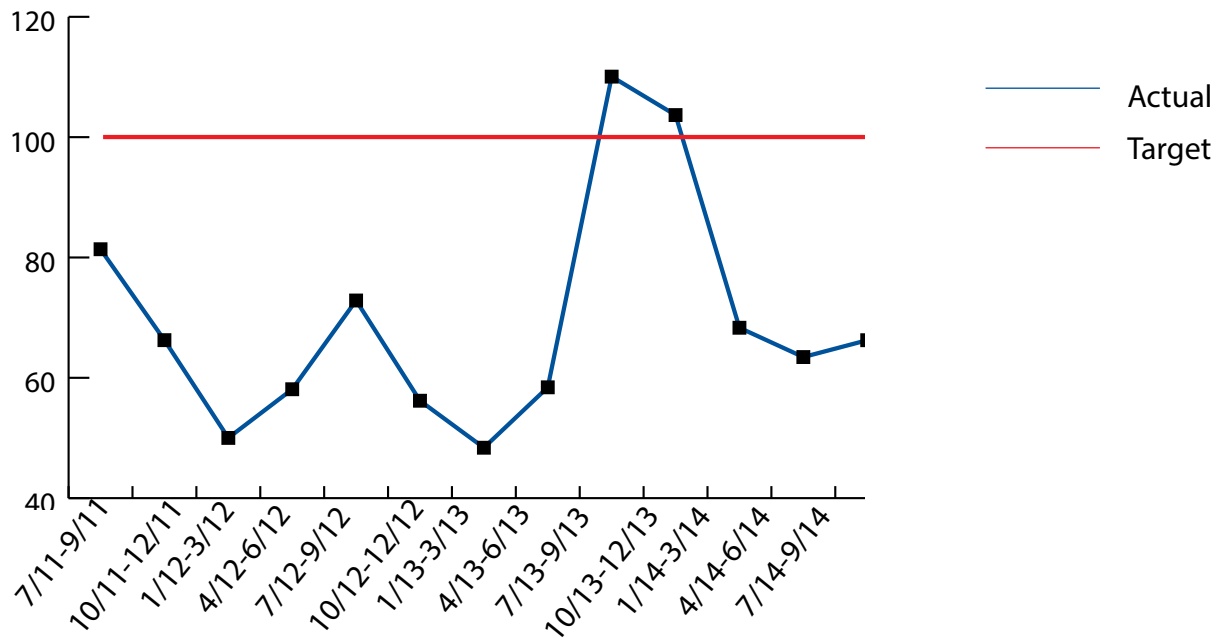


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The Business and Personal Tax and Compliance Divisions developed a series of internal performance measures to be used in conjunction with the agency's key performance measures to gauge the efficacy of our enforcement strategies and initiatives.

The information below provides additional data and information related to the four performance measures discussed during our March 11, 2015 presentation, as requested by the subcommittee.

Non-filers acted on (PIT and Corp)



Quarter (MM/YY)	Non-filers added	Non-filers acted on	% of non-filers acted on*	Dollars assessed (FY)
07/11-09/11	7,436	6,051	81.37	\$108,216,596
10/11-12/11	7,593	5,031	66.26	
01/12-03/12	11,328	5,665	50.01	
04/12-06/12	11,891	6,909	58.10	
07/12-09/12	8,747	6,372	72.85	\$136,222,493
10/12-12/12	8,551	4,805	56.19	
01/13-03/13	11,287	5,461	48.38	
04/13-06/13	8,434	4,927	58.42	
07/13-09/13	4,305	4,738	110.06	\$93,868,858
10/13-12/13	4,276	4,433	103.67	
01/14-03/14	4,836	3,304	68.32	
04/14-06/14	6,577	4,173	63.45	

*Percent of non-filers acted upon is the number of non-filers acted upon divided by the number of non-filers identified.

We use this performance measure for all identified leads added to our work buckets. "Acted on" means we have sent a request-to-file (RTF) notice. However, not all identified leads are appropriate candidates to be acted on. Our staff analyzes each lead to determine if the individual has a filing requirement based on income, residency, or past filing history.

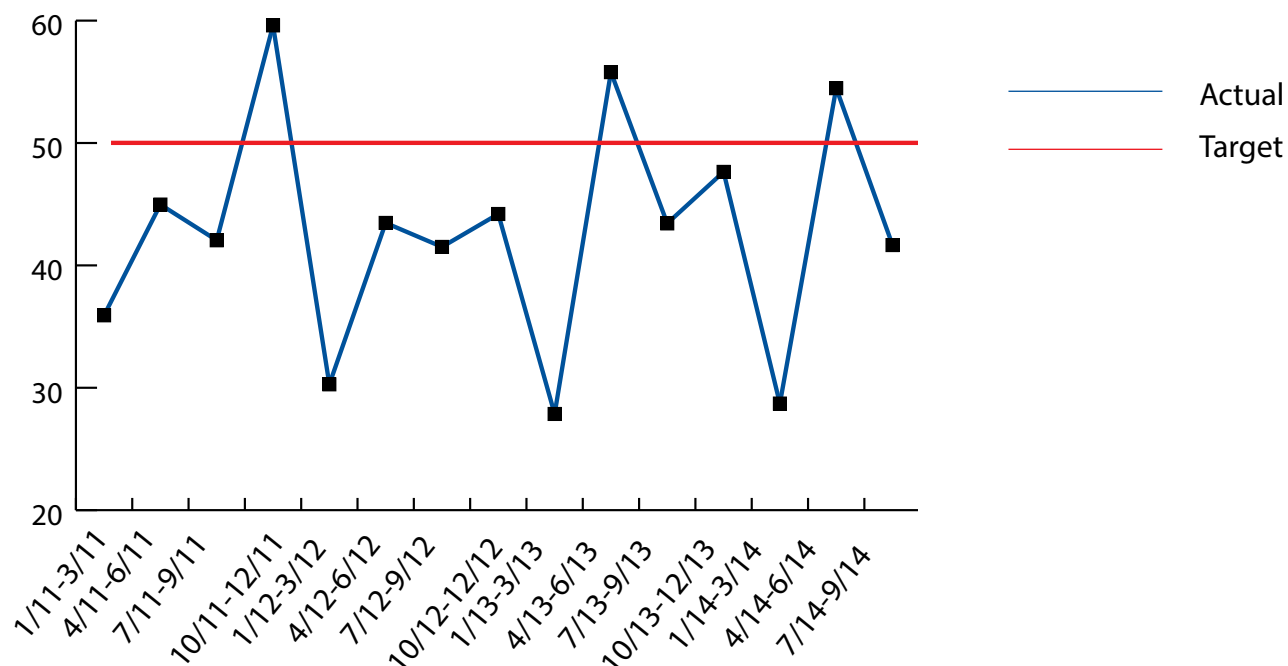
The graph shows how many leads were added to the work bucket and acted on each quarter. All leads not acted on are rolled over to the next quarter. As a result, a quarter's production may exceed the leads added to the work bucket, as we are acting on leads from both the previous and current quarters.

There are many reasons why this measure may dip below 100 percent. For example, we had unanticipated changes in filing enforcement staff (mid-2013 through 2014) due to retirements and promotions.

Filing enforcement dollars result from our compliance efforts on taxpayers who have not filed a return, but have a requirement to do so. This figure includes returns filed by taxpayers in response to a notice, and assessments based upon the best information available when there is no response to a notice. The latter may decline when a return is filed by a taxpayer and the total tax due is less than predicted.

We anticipate that GenTax will automate the ability to add and act on leads. This will allow us to leverage this metric in a more meaningful way.

Suspense effectiveness (PIT and Corp)



Quarter (MM/YY)	Total # of returns suspended (PIT and Corp)	# of returns suspended and adjusted (PIT and Corp)	% of selected returns adjusted* (PIT and Corp)	Dollars assessed (Calendar year) (PIT only)
01/11-03/11	77,792	27,945	35.92	Adjusted in taxpayer's favor: \$23.0 million Adjusted in state's favor: \$49.4 million Total adjustments: \$72.4 million Net adjustment in state's favor: \$26.5 million
04/11-06/11	83,840	37,699	44.97	
07/11-09/11	18,053	7,592	42.05	
10/11-12/11	20,964	12,497	59.61	
01/12-03/12	95,578	28,938	30.28	Adjusted in taxpayer's favor: \$23.7 million Adjusted in state's favor: \$42.4 million Total adjustments: \$66.1 million Net adjustment in state's favor: \$18.6 million
04/12-06/12	78,042	33,926	43.47	
07/12-09/12	16,858	6,997	41.51	
10/12-12/12	20,794	9,190	44.20	
01/13-03/13	89,075	24,814	27.86	Adjusted in taxpayer's favor: \$29.5 million Adjusted in state's favor: \$58.4 million Total adjustments: \$87.9 million Net adjustment in state's favor: \$28.9 million
04/13-06/13	76,914	42,912	55.79	
07/13-09/13	15,293	6,642	43.43	
10/13-12/13	17,701	8,432	47.64	
01/14-03/14	83,430	23,955	28.71	**See note
04/14-06/14	77,893	42,437	54.48	

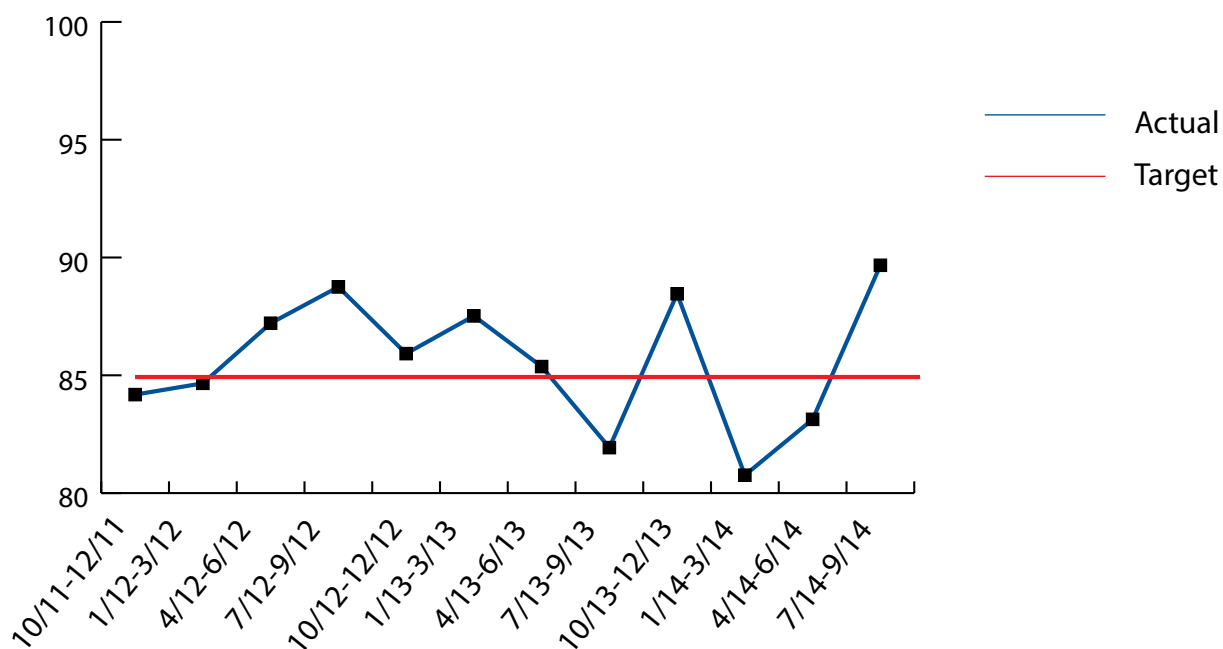
*Percent of selected returns adjusted is the number suspended and adjusted divided by the total returns suspended.

**Annualized adjustment dollars for 2014:
Adjusted in taxpayer's favor - \$26.5 million
Adjusted in state's favor - \$47.2 million
Total adjustments - \$73.7 million
Net adjustments in state's favor: \$20.7 million

We use this performance measure to monitor the effectiveness of our business rules for processing tax returns. Our goal is to adjust at least 50 percent of the returns suspended.

The adjustment rate is low as the tax season starts in January. We send requests for information on many of the suspended returns and the adjustment rate climbs as the information is received. Returns that suspend and are ultimately determined to be fraud are not counted as adjusted for this measure.

Audit selection effectiveness (PIT and Corp)



Quarter (MM/YY)	No change	Total audits	Change	Percentage	Dollars billed (FY)
07/11-09/11	N/A	N/A	N/A	N/A*	\$85,669,557
10/11-12/11	317	2,004	1,687	84.18	
01/12-03/12	235	1,532	1,297	84.66	
04/12-06/12	218	1,705	1,487	87.21	\$56,611,529
07/12-09/12	243	2,160	1,917	88.75	
10/12-12/12	343	2,436	2,093	85.92	
01/13-03/13	364	2,916	2,552	87.52	\$51,849,251
04/13-06/13	349	2,386	2,037	85.37	
07/13-09/13	609	3,370	2,761	81.93	
10/13-12/13	195	1,690	1,495	88.46	
01/14-03/14	294	1,528	1,234	80.76	
04/14-06/14	247	1,464	1,217	83.13	

*Data is not available for the first quarter of FY2012.

We use this performance measure to collect feedback on the effectiveness of our case selection processes. The measure looks at the total number of cases opened by auditors compared to the number of cases ultimately adjusted. The goal is to adjust a high percentage of opened cases because it indicates that our case selection process is accurately identifying appropriate cases for audit and we're using our resources most effectively. We have set our goal at an 85 percent adjustment rate.

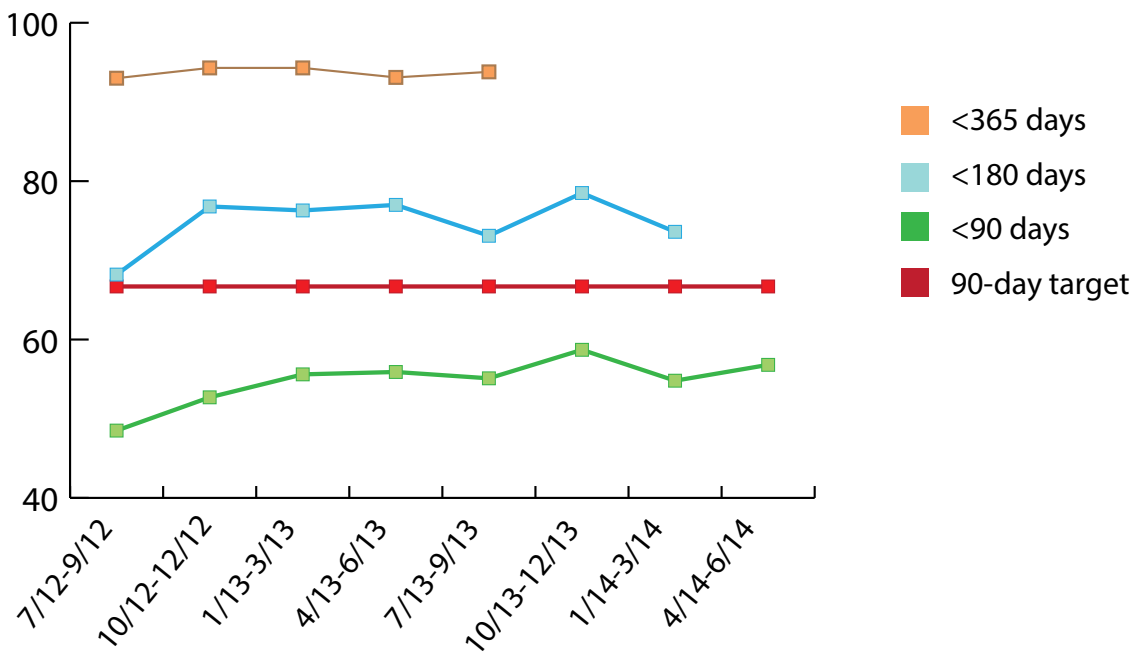
Over the past three fiscal years, this measure has been consistently above or near our 85 percent goal. The small dips correlate with times when our efforts are focused on "single issue" or simple audits. Because this type of audit is more focused in scope, there is less of an opportunity for an adjustment. If the single issue being examined on the return is supported

by information provided by the taxpayer, there is no adjustment. This type of audit also takes less time. As a result, we can complete many more single issue audits in a period of time than more complex audits.

The goal of our enforcement effort is to provide a balanced approach between simple and complex audits, however, there are times when we purposefully shift that focus to a specific type of audit. For example, when we hire new auditors, they are trained on simple audits. As they learn and gain experience, they work up to more complex audits. In May 2013, we hired a large group of new auditors and, as a result, the following quarter (7/13-9/13) shows the resulting dip in the volume of audit adjustments.

Audit dollars are gross billings that result from our compliance efforts on taxpayers who have filed returns but have not reported accurately. These billings may be reduced if the taxpayer appeals or provides additional information to the department.

Movement of accounts



Quarter (MM/YY)	# of liabilities	<90 days	<180 days	<365 days
07/12-09/12	84,639	41,057	57,709	78,725
10/12-12/12	50,303	26,507	38,608	47,435
01/13-03/13	46,853	26,048	35,471	44,172
04/13-06/13	43,517	24,347	33,526	40,494
07/13-09/13	94,991	52,323	69,476	89,123
10/13-12/13	55,341	32,503	43,427	
01/14-03/14	48,237	26,446	35,504	
04/14-06/14	42,163	23,945		

We use this performance measure to examine our efficiency in moving liabilities through the active collections process. It considers every liability in personal tax, corporate tax, and withholding tax that has entered the active collections process and tracks how long it took for each liability to be resolved. For the purposes of this measure, “resolution” includes a variety of results, including, but not limited to: small balance reversal, the receipt of a garnishment payment, the establishment of a payment plan, payment in full, initiation of bankruptcy proceedings, and assignment to a collection agency.

The active collections process starts when the debt becomes liquidated and delinquent. The 90-day line shows the percentage of liabilities that entered the active collections process and were resolved within 90 days. The 180-day line shows the percentage of liabilities that entered the active collections process and were resolved within 180 days. The 365-day line shows the percentage of liabilities that entered the active collections process and were resolved within 365 days.

A brief look at recidivism

For the purposes of our measures, recidivism is defined as the percentage of individuals who filed a return in response to an RTF notice who failed to file a return for a subsequent tax year.

Previous non-filers are retained in our database and this information is taken into account when we generate filing enforcement leads. If non-filers continue to reoffend, we continue to pursue them based on the criteria that is set for all filing enforcement leads. We also match federal information to our state data.

Additionally, for context:

- We limit our pool of filers to the Personal Income Tax (PIT) program only. The PIT program activities are generally greater in scale than other programs and tend to drive the measures.
- The numbers below reflect all individual filers who received a RTF notice in calendar year 2011 and who filed a return responsive to that notice by the end of calendar year 2012.
- We use several criteria to exclude individuals who may not have had a requirement to file:
 - We exclude all individuals who had moved out of state.
 - We exclude people who died.
 - We exclude people we can't confirm had \$5,000 or more in wages for tax years 2012 and 2013.

	Expected filer pool	Actual filers	Non-filers	Recidivism rate
Tax year 2012	3,192	2,431	57,709	23.8%
Tax year 2013	3,192	2,223	38,608	30.4%

Note: This recidivism study started with filing enforcement data from calendar year 2011 and then looks to see the effects on compliance in tax years 2012 and 2013. The numbers in the table are reflective only of the study sample, not of the broader population. The above numbers should not be seen to supersede any other metrics presented in this report.

How much of the tax gap does the department collect through its enforcement efforts?

The most recent estimate of the tax gap was provided in the report, *Compliance with Oregon's Personal and Corporate Tax Programs*, presented to the Ways and Means General Government Subcommittee January 2014.

That report estimated a gross tax gap before enforcement of \$1.285 billion for tax year 2010. Accounting for roughly \$148 million in revenue received from department enforcement activities results in a net tax gap of \$1.137 billion (17.8 percent of true liability). Based on these estimates, revenue resulting from audits and collections reduced the gap by about 12 percent (\$148 million/\$1.285 billion). This is in the same order of magnitude as the most recent IRS tax gap estimate stating that 14 percent of the \$450 billion federal gross tax gap for tax year 2006 was collected through enforcement or late payments.

There are numerous difficulties with tax gap estimates but it is generally accepted that a substantial portion of the gap is not collected.

Note that the \$188 million in personal income tax enforcement revenue for fiscal year 2014 reported in the budget presentation is a slightly different concept. Rather than representing a single tax year, as is the case with the gap estimate, it is comprised of payments received during fiscal year 2014 but involving multiple tax years and reflecting multiple years of enforcement activity.

The following table provides a breakdown of fiscal year 2014 personal income tax enforcement revenue associated with various tax years:

Tax year	Revenue (\$ million)	Share of total
2013	21.0	11.2%
2012	58.7	31.2%
2011	27.9	14.8%
2010	25.2	13.4%
2009	16.5	8.8%
2008	13.3	7.1%
2007	10.4	5.5%
Other	14.9	7.9%
Total	187.9	100.0%