

Department of Revenue Income Tax Programs

Joint Committee on Ways and Means
Subcommittee on General Government

March 13, 2017

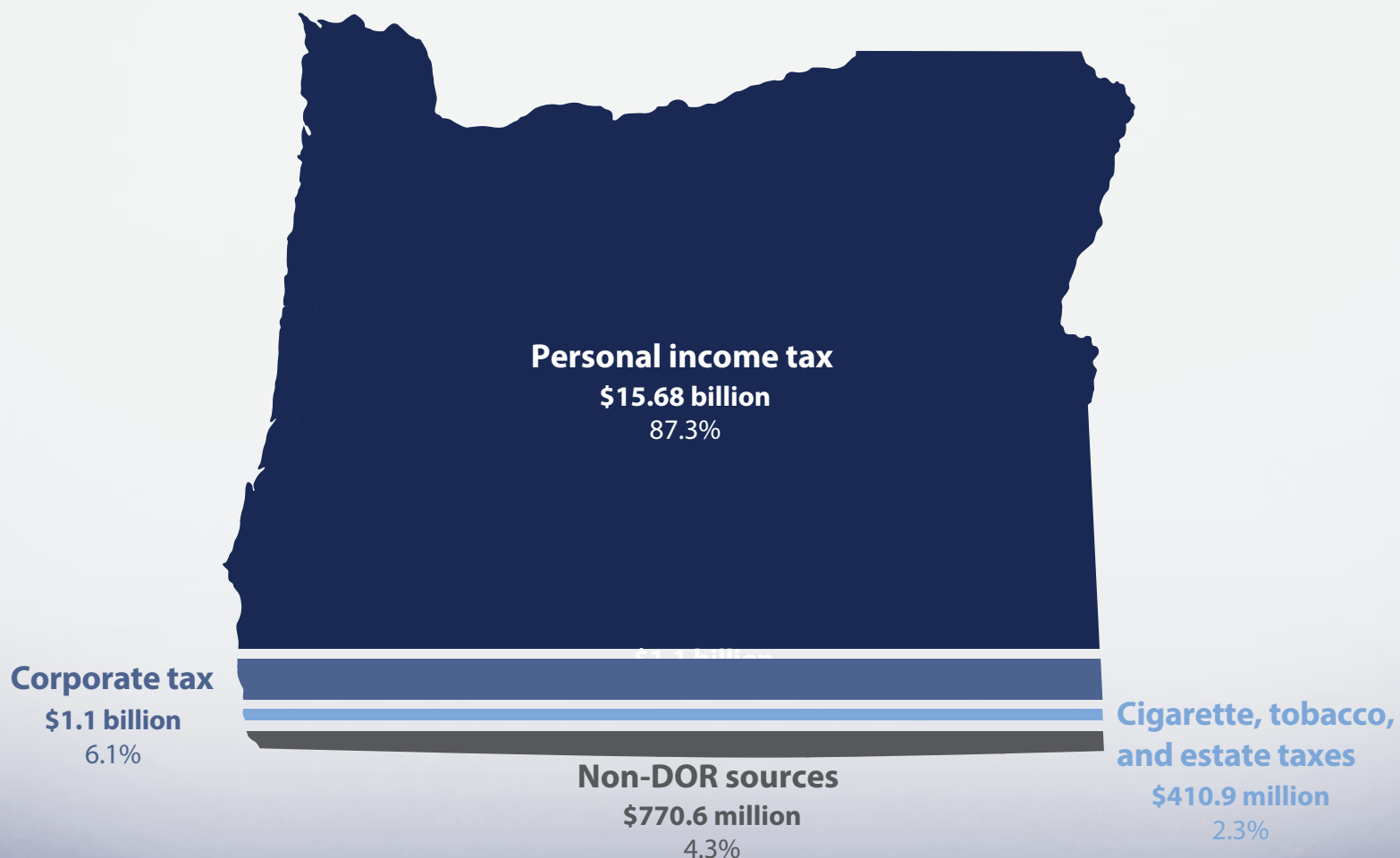


Day two agenda

- Income tax overview.
- Voluntary compliance.
- Enforcement.
- Employee engagement.
- Customer experience.
- Equity and uniformity.
- Conclusion.



Income tax revenue



2015-17 biennium

Source: Office of Economic Analysis, December 2016 Revenue

Forecast

150-800-550 JCWMSGG Income programs (3-17)



Income program overview

Income tax program functions

Outreach and
assistance

Processing,
verification,
and validation

Enforcement,
audit, and
collections

Reporting and
accounting

Agency outcome areas

Voluntary
compliance

Enforcement

Employee
engagement

Customer
experience

Equity and
uniformity



Voluntary compliance—PTAC

Personal Tax and Compliance (PTAC) overview:

- Approximately 2.1 million returns filed annually.
- Approximately 63,000 partnership returns filed annually.

\$15.68 billion—personal income tax revenue in 2015-17.

\$71.4 million, 422.81 FTE—division budget for 2015-17.



Voluntary compliance



Fiscal year 2016
Source: DOR Research Section

Voluntary compliance—PTAC

Processing and verification

How we receive returns:

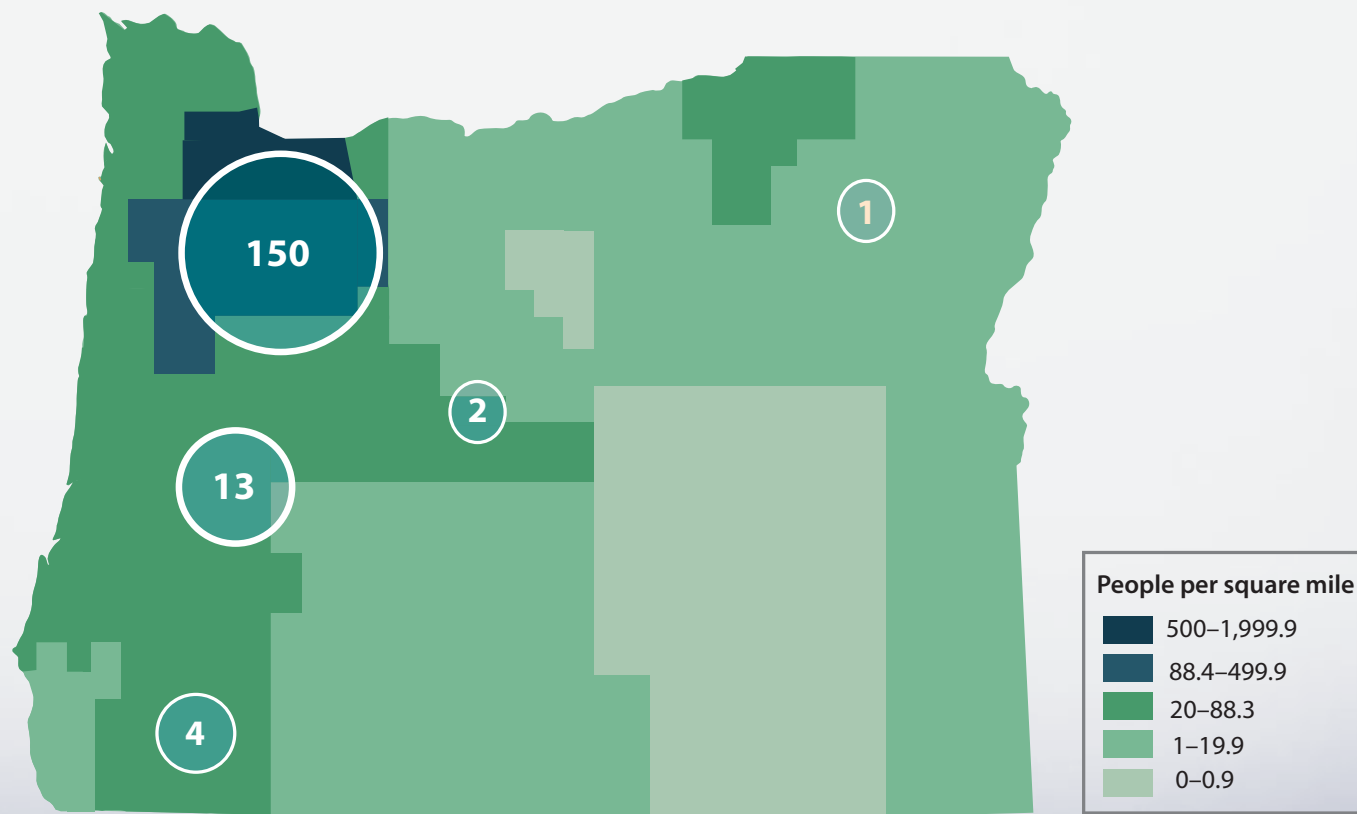
- Electronic filing—87 percent of returns are e-filed.
- Paper returns—13 percent of returns are filed on paper (includes those with 2-D barcode).

Verification Process:

- Business Rules.
- Edits.
- Manual review (fraud or suspended).



Outreach and assistance



Source: U.S Census Bureau and DOR Personal Income Tax and Compliance and Business divisions

150-800-550 JCWMSGG Income programs (3-17)



Voluntary Compliance—BUS

Personal Income Tax—Withholding (FY16):

- \$6.5 billion in employer withholding payments.
- Over 130,000 filers.
- Over \$300 million for Tri-Met and Lane Transit.

Combined return streamlines filing and payment for businesses.

- Oregon Employment Division (OED) processes returns.
- DOR processes payments.

Oregon Business Registry.



Voluntary Compliance—BUS

Corporate Tax:

- \$609 million in revenue (FY 15-16).
- 90,800 returns filed (2014 tax year).
 - 61,400 S-corporations.
 - 29,400 C-corporations.
- Top 3 percent of filers pay over 80 percent of tax for C-corporations.
- Minimum tax:
 - Less than \$500,000 in Oregon sales = \$150.
 - Graduated up to \$100 million Oregon sales = \$100,000.
 - S-corps and partnerships = \$150.



Voluntary Compliance—BUS

Estate Transfer Tax

- \$262 million (2017-19 OEA forecast)
- Number of returns varies—usually over 1,000/year.

Business Division 2015-17 LAB:

- \$38.2 million.
- 211.74 FTE.

Marijuana, OAA and SPA programs, too.



Enforcement—PTAC

Enforcement activities:

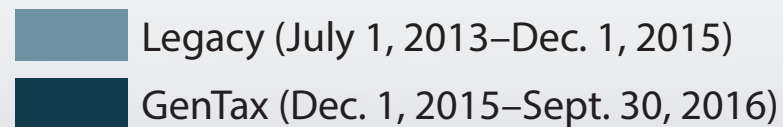
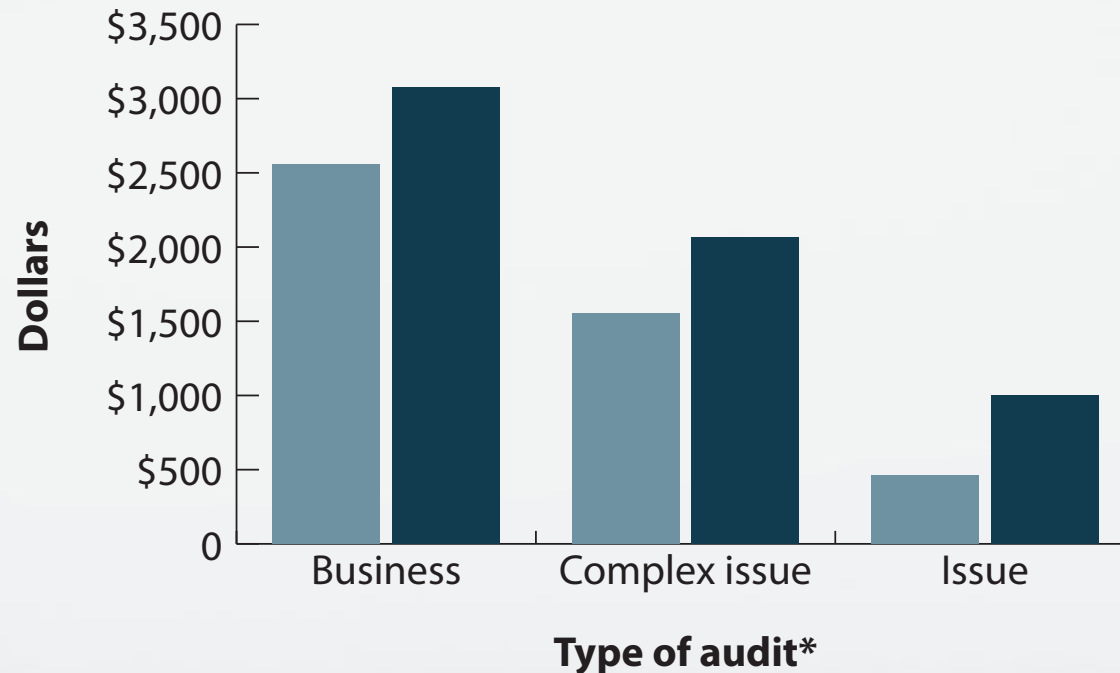
- Auditing—inspecting both personal returns (schedule C, F, etc.) and pass through entities (partnership/S-corp/Domestic C).

New system provides a discovery module:

- Enhances our audit leads.
- Lead scoring—did not have prior to January 1, 2016.
- Non-filer leads are now matched with federal and other data.
- For tax year 2013 we sent 57,000 demand-to-file notices.



Enforcement



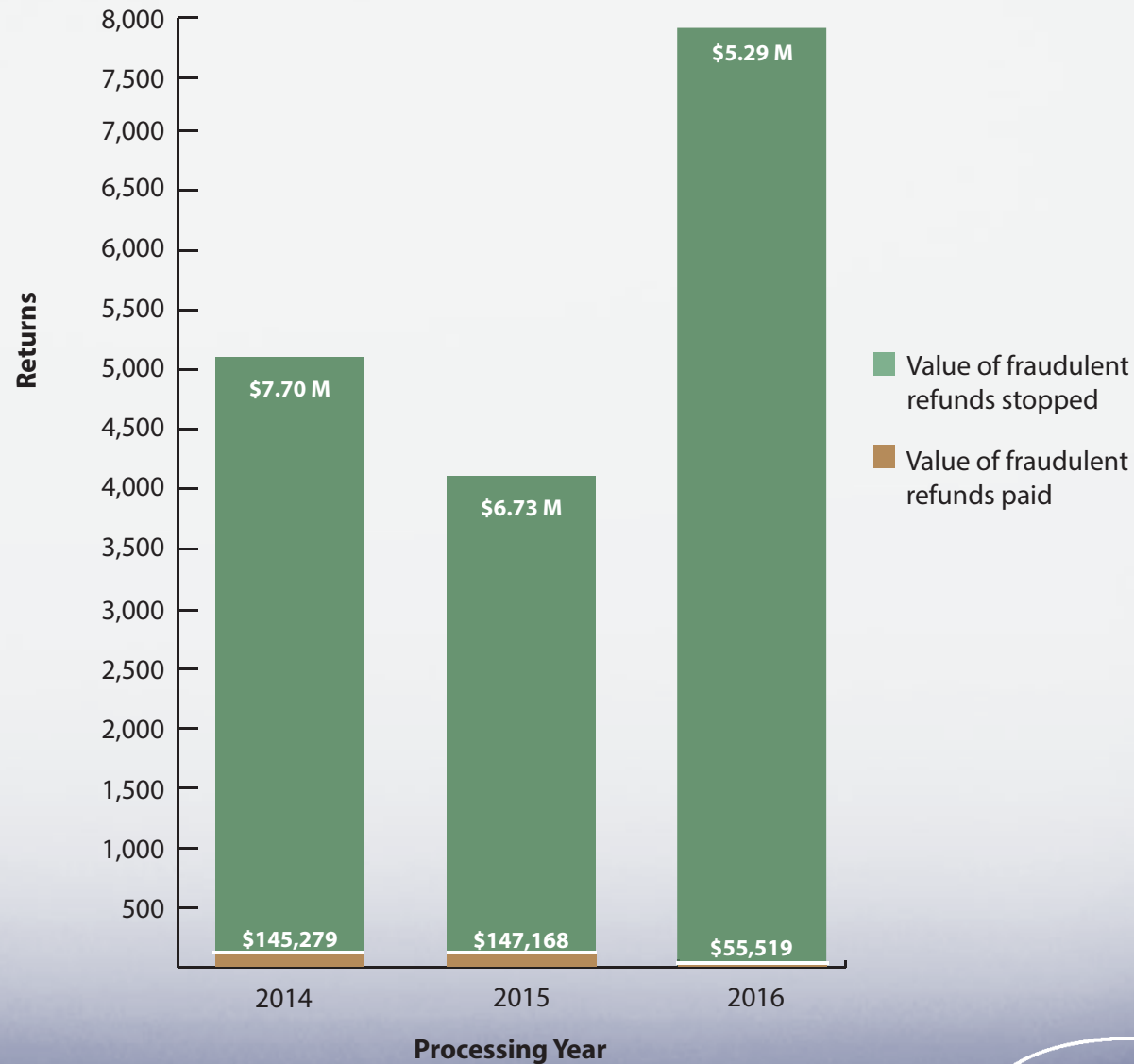
***"Issue" audits are those audits where there is generally only one issue with the return. "Complex issue" audits involve multiple issues on a return.*

Source: DOR personal income tax program

150-800-550 JCWMSGG Income programs (3-17)



Fraud detection



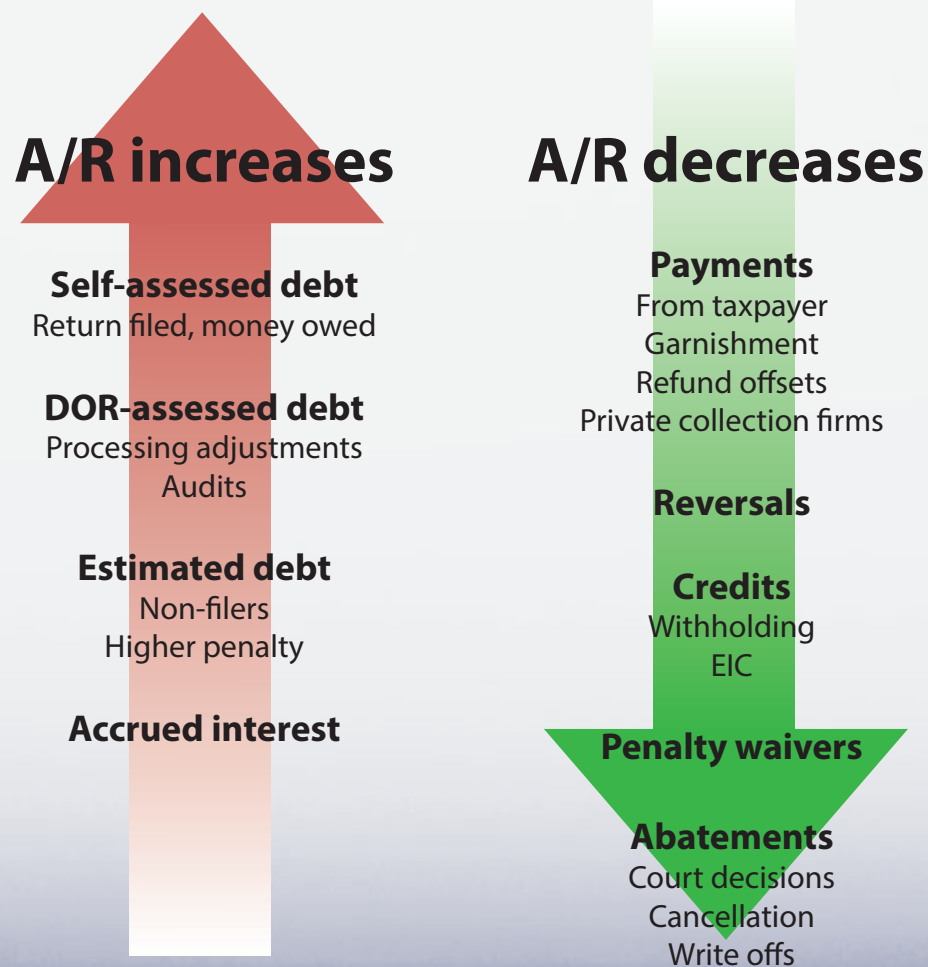
Note: Paid amounts reflect unrecovered refund amounts.

Source: DOR personal income tax program

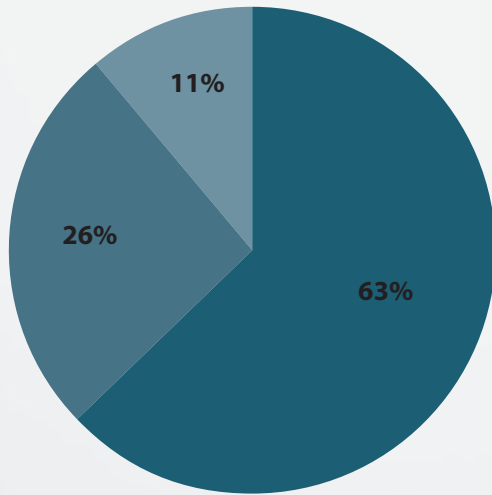
150-800-550 JCWMSGG Income programs (3-17)



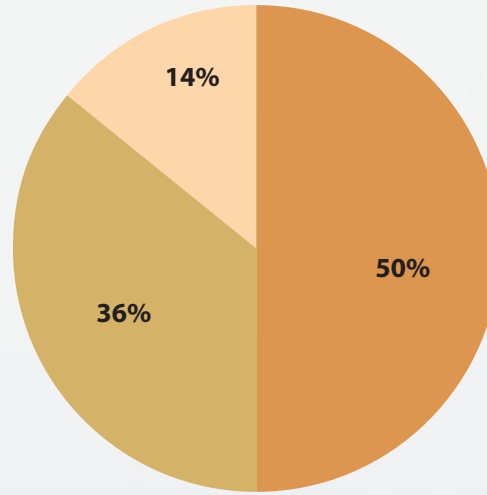
Enforcement—Collections



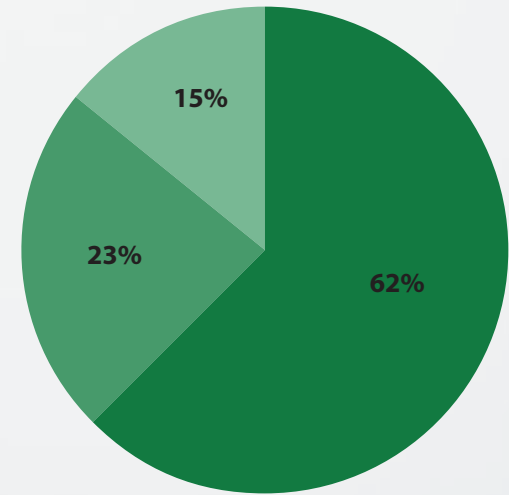
Composition of accounts receivable



- Personal income taxes
- Withholding
- Corporate taxes



- Failure-to-file assessments
- Other (mostly self-assessments)
- Audits



- Tax
- Penalty
- Interest

As of February 2, 2017
Source: DOR Research Section

Enforcement—Collections process

Normal billing issued (Months 1-3)

Self-assessment or deficiency notice issued.

Taxpayer pays tax.

Taxpayer enters into payment agreement.

Taxpayer exercises appeal rights.

Active collection by DOR (Months 3-12)

Send legal collection notices.

Call taxpayer.

Locate assets—income, property.

Garnish assets—income, property.

Visit taxpayer.

Use advanced collections options—suspend professional license, seize assets.

Private collection firms (12+ months)

Used to collect when:

The debtor lives out of state.

They haven't made a payment in 12 months.

The account has a small balance.

Accounts are companionated (accounts already at PCF).



Enforcement—Withholding

Monitor non-compliance and visit job sites.

- Stop-filer, non-filer, under reporting.
- Investigate “cash under the table” businesses.
- Get businesses to start filing and paying voluntarily.

Interagency Compliance Network (ICN).

- Misclassified employees.
- Partnership with OED, DCBS, and others.
- OED and DOR conduct audits on behalf of the other.

GenTax automation:

- Able to send all non-filer notices at once.
- Increases A/R.
- Increases need for taxpayer assistance.



Enforcement—Corporate

Compliance strategies consider risks for C-corps:

- Over 80 percent of revenues paid by 3 percent of returns.
- Cycle audits typical.
- Past behaviors often aren't corrected.

Third party information not as useful for C-corps:

- State-only issues are primary drivers.
- Oregon unlike many states (no sales tax).
- Data matching for leads more challenging.

Appeals often take years to resolve because issues are often unique and complex.



Employee engagement

Annual survey monitors engagement.

Change leadership (during project) helped.

Opportunities:

- Training for soft skills (e.g. customer service, communication).
- Technical training.
- New system training.



Customer experience

New self-service features:

- Revenue Online
 - More features—pay plans, appeals, document exchange.
 - Many more programs can be accessed.

Customer service and experience:

- Key Performance Measure 4 shows poor performance.
- Challenge with data collection.
- OSU Surveys.
- Customer Service Project:
 - Develop a tool for broader data collection.
 - Identify training opportunities.
 - Develop a system to analyze feedback and take action.



Equity and uniformity

New tools help to be more uniform:

- Audit management and review.
- Refund review.
- Penalty waivers.
- Partnerships facilitate uniformity:
 - Multi-state Tax Commission—model statutes and rules.
 - Federation of Tax Administrators—forums for information sharing and education.



Challenges

Challenges:

- Changes in business operations.
 - Reorganization in some business areas.
 - Balancing opportunities to automate with increased work load or new work.
 - Learning to use and refine business rules.



Conclusion

- Needed to replace our systems to sustain revenues - thank you for supporting that need.
- Driving to be as effective as we can be to administer our programs.
- Still in the learning mode and shaking down many new processes.
- Automation opportunities are nice, but they're creating additional work (need to find the right balance).
- We'll be in good shape for years to come if we keep resources/funding needed to keep system current.



Questions?

If you have additional questions after today please contact:

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