



*Presentation to the*  
**2017**

# **Ways and Means Committee**

Response to questions  
from committee members

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March 14, 2017



# Questions and Answers

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## How is the \$184 million in collections from direct enforcement split between audit and collection activities?

Because there is overlap between audits and collections, it is not possible to separate the two completely. After an audit, some taxpayers pay additional taxes without collector involvement while others pay after such involvement. A key reason it's difficult for us to provide further detail for the fiscal year 2016 pie chart specifically is because the data reported is from both our legacy system and our new system, GenTax.

However, based on prior years' experience, the relative magnitudes of enforcement revenue components are as follows:

- Of the \$184 million in enforcement revenue, payments related to audits represented about 22 percent (roughly \$41 million).
- The remaining 78 percent (roughly \$143 million) resulted from collection on self-assessed and filing enforcement debt.
- Of the \$41 million related to audits, roughly 28 percent (\$12 million) did not require collection activity, while the remaining 72 percent (\$29 million) was paid while in collection status.

## What demographic is most likely to not pay taxes?

The demographic information we work with is generally income-based because traditional demographic information isn't available from state tax returns. We see noncompliance across the spectrum of income-based demographics, regardless of the amount the taxpayer earns or whether they're wage earners or self-employed. In 2014, we submitted a report, [Compliance with Oregon's Personal and Corporate Tax Programs](#), which included sources of noncompliance and a discussion of the tax gap. This report is instrumental to understanding noncompliance and how we interact with those taxpayers.

Tax noncompliance can take three forms: not filing, not reporting, or not paying. Taxpayers are required to file tax returns in a timely manner, report accurate information on those returns, and pay the tax owed prior to the return's due date. For this discussion, we are going to focus on the requirement to file tax returns in a timely manner and accurately report information.

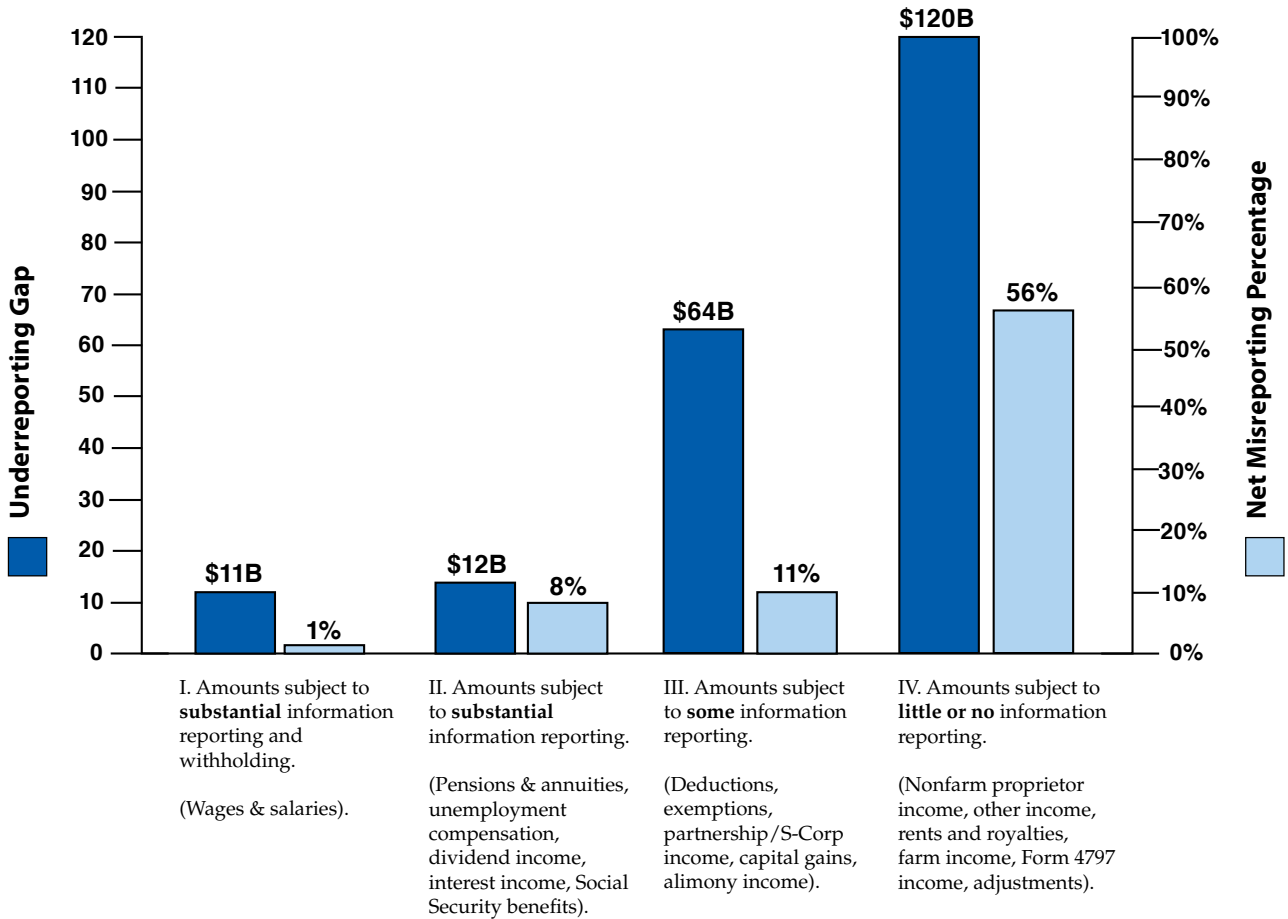
Income visibility provides an opportunity for noncompliance. Income sources that are reported through a third-party, such as Form W-2s, are much more difficult to hide than those that do not. For that reason, wage earners are more likely to file and report taxes than self-employed business owners. We can also pursue filing enforcement on wage earners more rigorously and effectively than we can on self-employed business owners. Please see the chart below for a graphical representation of the misreporting of income and underreporting gap.

With GenTax, we now have the ability to automate many filing enforcement functions. We can quickly identify those who had income reported by a third-party but didn't file and contact them to either help with the filing process or set up nonfiling assessments. In 2016, of the filing enforcement leads that we generated, 79 percent were on wage earners and 21 percent were on

self-employed individuals. This reflects the difficulty of identifying income without third-party reporting and the success of our automation on reported information. However, we continue to strive to identify all nonfilers and pursue enforcement if necessary.

### Effect of information reporting on taxpayer compliance

Tax year 2006 individual income tax underreporting gap and net misreporting percentage, by “visibility” category.



NOTE: Net misreporting percentage is defined as the net misreported amount of income as a ratio of the true amount. Internal Revenue Service, December, 2011.

Source: DOR Research Section

Other factors can also play a role in noncompliance. Taxpayers may be confused about how to report specific items on a tax return due to complex tax laws. Economic or personal hardship may prevent taxpayers from completing their returns or paying the tax they owe. We make every effort to work with taxpayers who want to meet their filing and payment obligation. Through education and outreach and our partnerships with tax practitioners and tax preparation software vendors, we try to make filing easier and more understandable. We also provide assistance in person at our offices throughout the state and by phone, letter, or email. We continually work to balance enforcement efforts with encouraging voluntary compliance.

### What percent of DOR employees are eligible for retirement?

As of September 30, 2016, 31 percent of our employees are eligible for retirement.