

Department of Revenue

Day 1: Revenue management and tax gap

Joint Committee on Ways and Means
Subcommittee on General Government

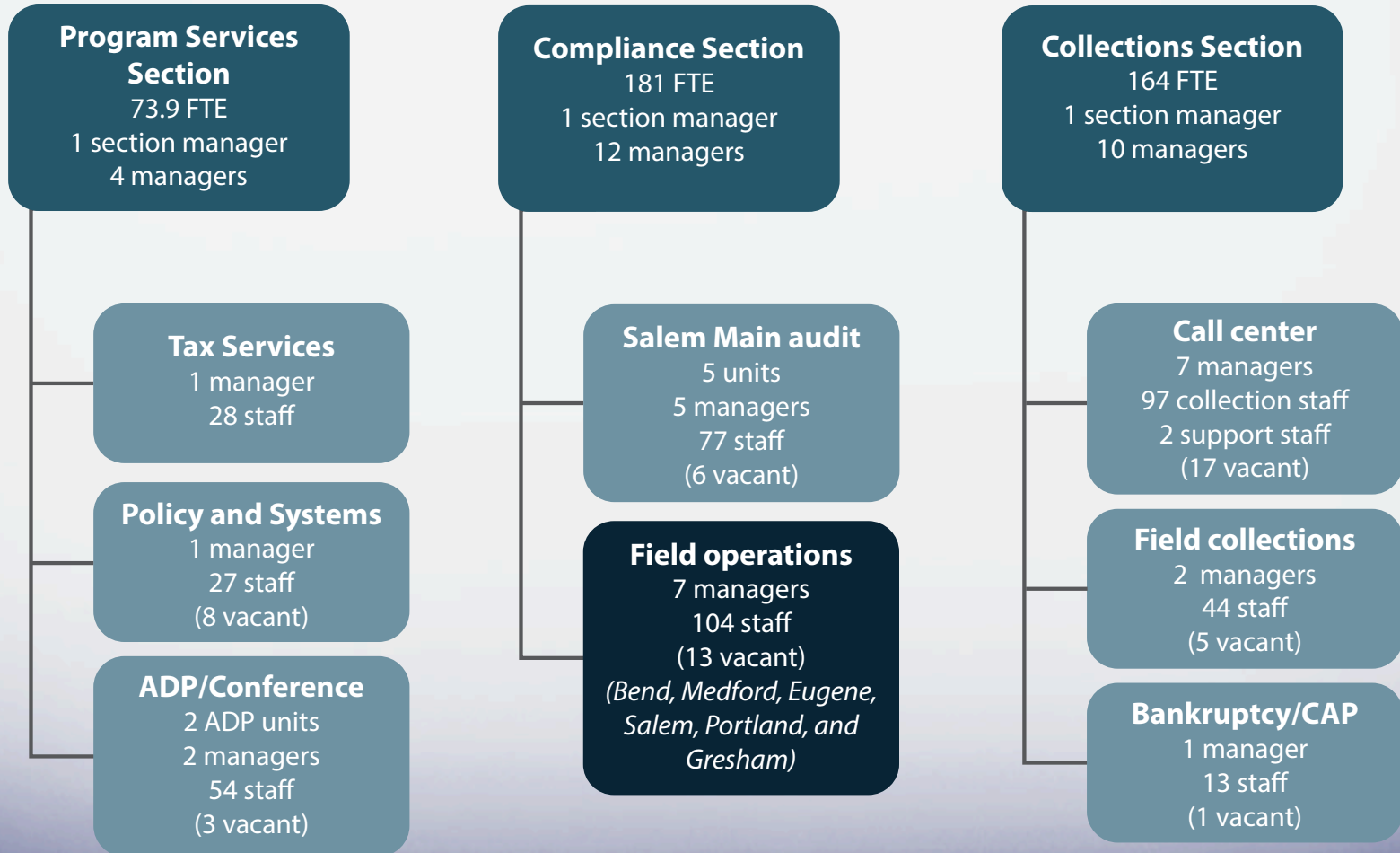
May 1, 2017



Personal Tax and Compliance Division



Division structure

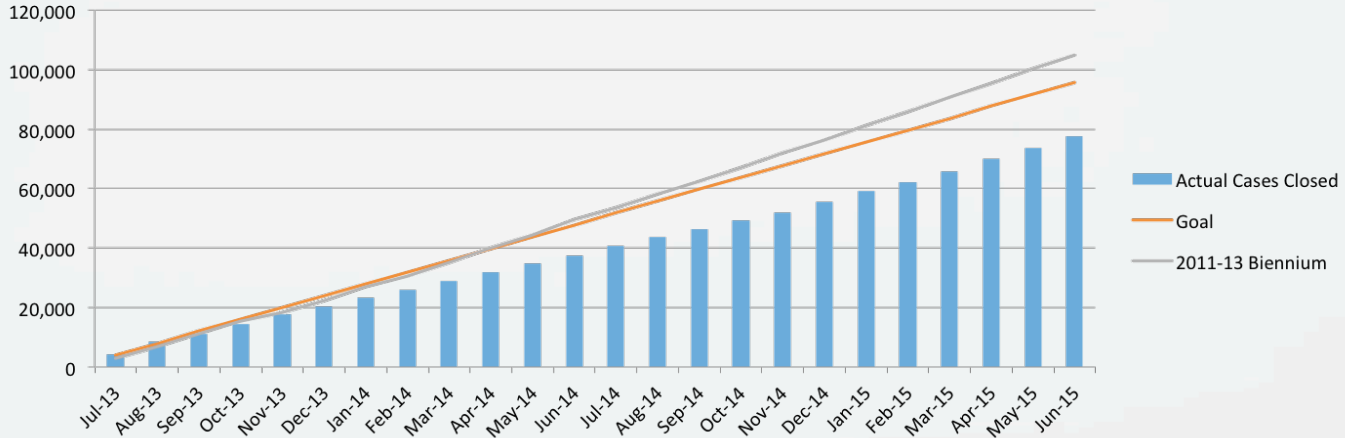


Resource allocation plan

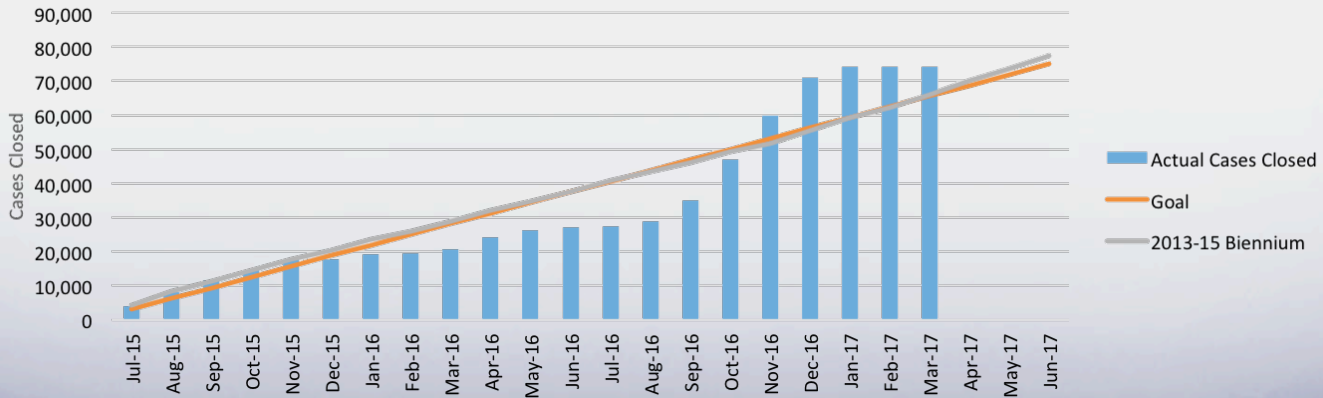
	Production total (est.)	2015-17 AFERAP	2017-19 AFERAP	Staff resources
		Low	High	
Simple issue	6,024	3,960	11,880	33 TA1s (same as complex issues)
Complex issue	5,586	7,920	15,840	33 TA1s (same as simple issues)
Business audit	2,112	4,224	6,336	44 TA1s (field staff)
PTE	2,006	1,824	2,592	31 TA2s
Total	15,728	17,928	36,648	

Operational metrics

Filing Enforcement Production 2013-15 Biennium



Filing Enforcement Production 2015-17 Biennium



Operational metrics

Program Services Section

- Respond to emailed questions.
- Response time on the practitioners' message line.
- Number of returns requiring manual review.
- Call wait times in Tax Services.
- Calls answered by Tax Services.
- Respond to practitioners' emails.
- Number of timely-filed returns processed by June 1.
- Number of returns that suspend.
- Number of returns appealed.
- Calls processed through IVR.

Compliance Section

- Days to complete an audit.
- Audit inventory report.
- Inactive audit report.
- Audits appealed.
- Audit lead statistics.
- Filing enforcement cases identified/acted upon.

Collections Section

- Calls taken through ACD.
- Payment plans established in Revenue Online.
- Payment plans established manually (>12 mos.).
- PCF assignments.
- Suspended collections application.
- Suspended collections cancelled/written off.
- ACD calls unanswered.
- Payment plans established manually (12 mos.).
- Monthly garnishment statistics.
- Accounts receivable tracking.
- PCF account volume.



Challenges and mitigation plan

Gaining proficiency in the new system.

- Continued training.
- Learning what reports are needed or need refining.
- Identifying new areas of work.
- Shifting staff to address workload changes.

Utilizing the system for automated collections actions.

- Balancing perception of easy efficiency with resulting impact to workloads and public perception.

Call volumes in Tax Services.

- Double-filled some positions.
- Piloted seasonal staff in 2017.
- Repurpose vacant positions in other areas to build up unit staffing when possible/most needed.

Identifying areas of noncompliance.

- Incorporate information from Research Section's work.
- Identify concepts that would help us address these areas without adding staff.



2016 filing season: Compliance impact

Refund processing times:

- **2016:** 22 days to process **2017:** 14 days to process (as of 4/25/17)

Manual review:

- **2016:** 59 days to issue **2017:** 29 days to issue (as of 4/25/17)

Shifting of staff:

2016

- Collection staff shifted to TSU.
- Business Division staff shifted to TSU.
- Audit staff shifted to address return-keying errors and written objections.

2017

- No major shifting of staff.
- Hired six seasonal staff in TSU (pilot program).



POP 813

Purpose: To enhance enforcement activities in our audit and collection areas.

POP goal: \$33.1 million of revenue generation.

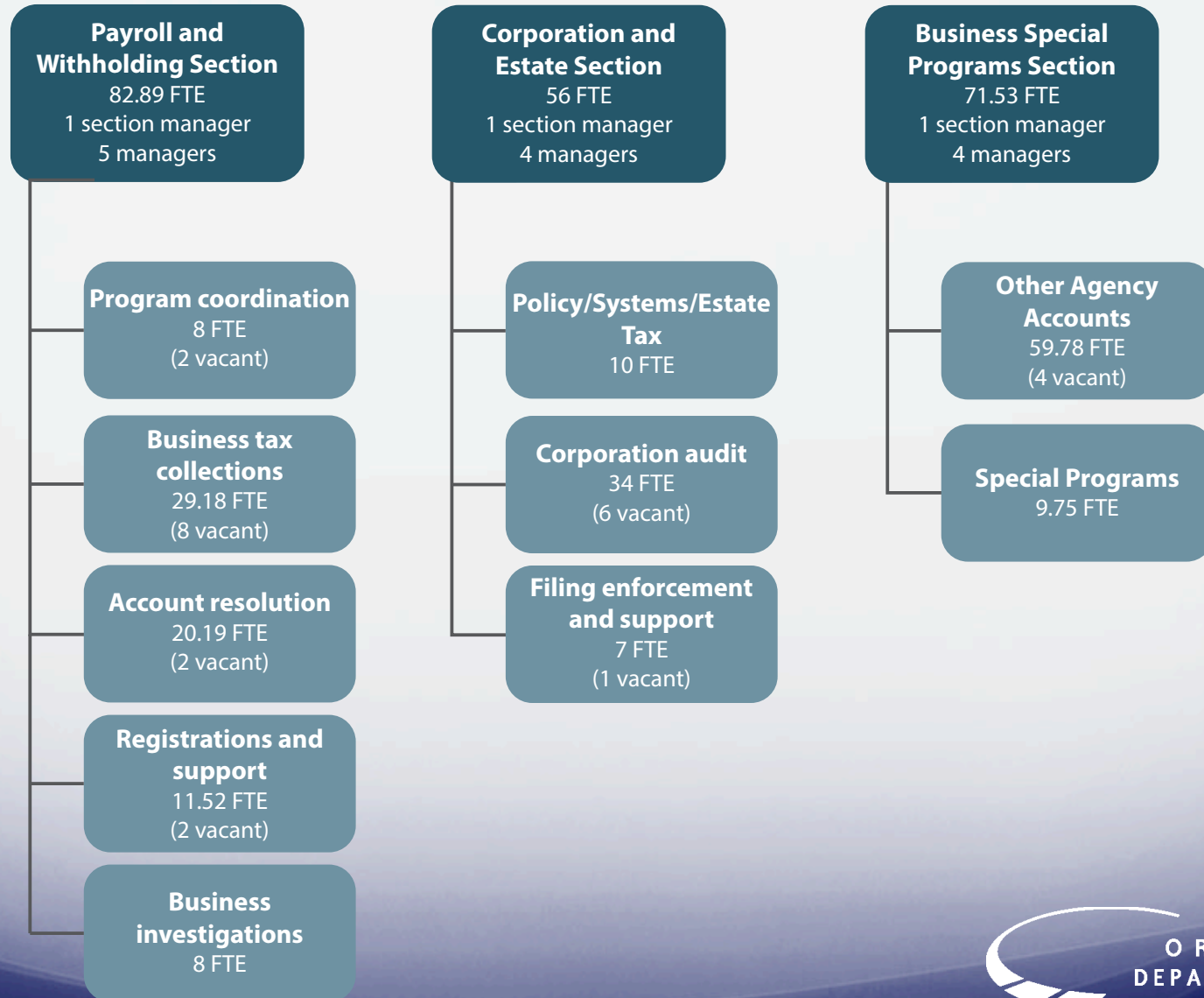
Result: \$36.9 million from enforcement and collection activities.

Majority of POP resources are still contributing to revenue generation today.

Business Division



Division structure



Operational metrics

Withholding and Payroll Tax Section

- Automated call distributor statistics.
- Accounts receivable tracking reports.
- Return and payment suspense.
- Registrations processed.
- Percent of filers that file and pay timely.
- Revenue collected.
- Liable entities established.
- Field investigations.
- Number of audits.
- Underreported wages.

Corporation Section

- Audit cases closed.
- Audit dollars billed.
- Audit breakdown.
- Filing enforcement cases closed.
- Filing enforcement cases billed.
- Number of returns suspended.
- Percent of returns suspended.

Special Programs Section—OAA

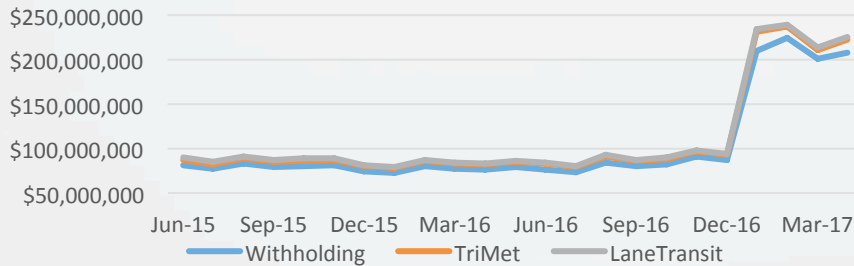
- Call wait time.
- Abandoned calls.
- Suspense rate.
- Suspense timely resolution.
- Payment plans established.
- Payment plans broken.
- Garnishments issued.
- Returned uncollectible.
- New assignments.
- Total inventory of accounts.
- Total payments.
- Fee vs. income.



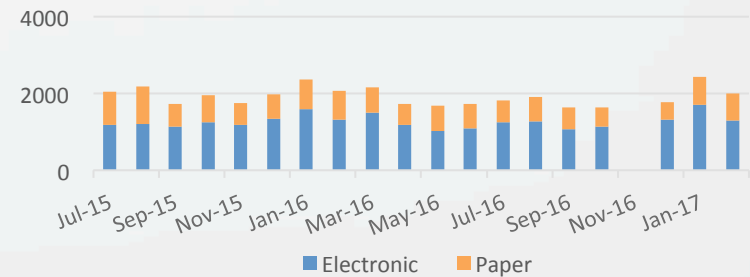
Operational metrics

Inventory management

Accounts Receivable

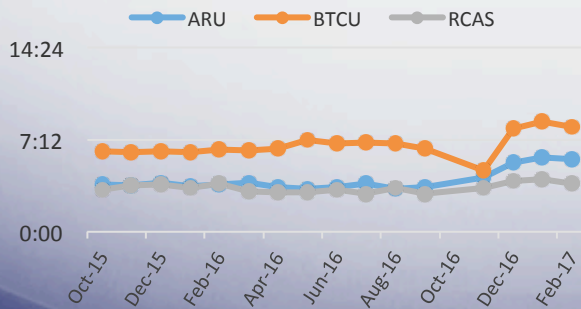


Registrations Processed

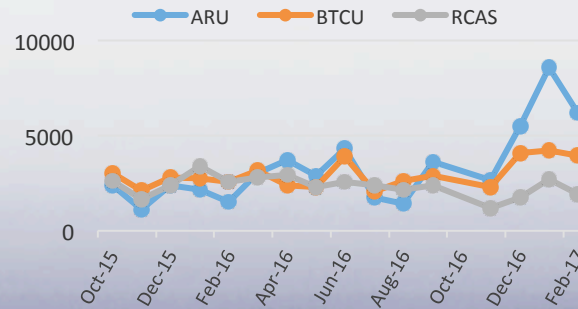


Automated call distributor statistics

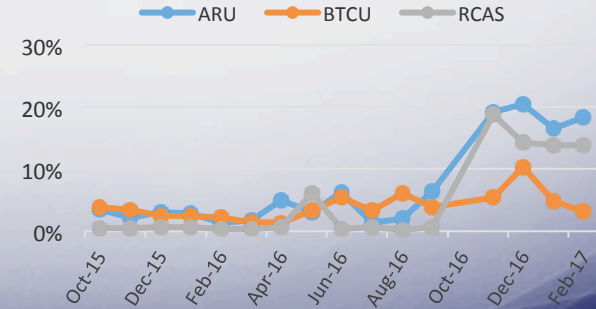
Avg Call Length



Calls Offered



Abandon Rate/Requeued Calls

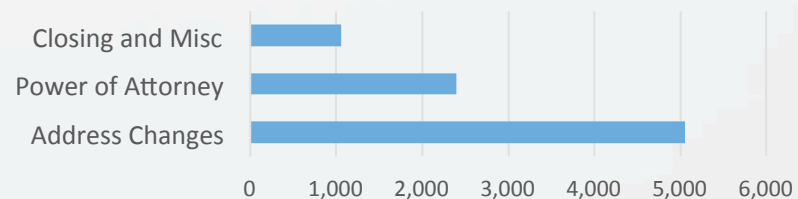


Operational metrics (workload impacts)

Administrative

- Taxpayers not properly notified when action is taken on account.
- Risk of disclosure.
- Mailing of inaccurate assessments.
- Additional expense for the agency.

Outstanding Work Items



Account Resolution

- Billings aren't sent timely.
- False request or demand-to-file could be sent to taxpayer.
- Bills could be issued on payments we have already received.
- Additional expense for the agency.

Outstanding Work Items

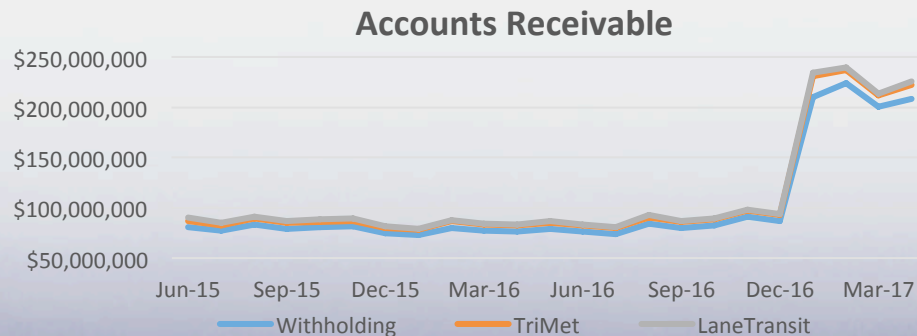


Automation impact on A/R

New core system will be able to automate many processes.

- Long term, this will help streamline workflow efficiency.
- To accomplish this, all automated processes must be fully functional and working in tandem for work to flow smoothly.
- When this isn't the case, one automated process is flooding the next process with tasks requiring manual intervention all at once .

Current mass-automation consists of identifying non-filers and setting up estimated returns that are then billed to the taxpayer. These are responsible for the sharp increase in the AR.



Challenges and mitigation plan

Proficiency using the new system.

- Understand and refine business processes. Change system or procedure.
- Continue training staff.
- Identify new areas of work based on automation of processes.
- Learn data structure and reports to better manage operations.
- Define and write procedures and expectations for new processes.
- Shift staff to address workload changes.

Losing expertise in Corporation programs.

- Multiple auditors assigned to highly complex audits and noncompliance issues.
- Share and document history, knowledge, and context.
- Increase cross-training of policy staff.

Increase in administrative work decreases capacity for compliance activities.

- Look for efficiencies in work.
- Use staff and resources differently.
- Consistency in processes.
- Focus on value-add work.



Noncompliance and the tax gap

Noncompliance: Not filing on time, not paying on time, or misreporting income or deductions.

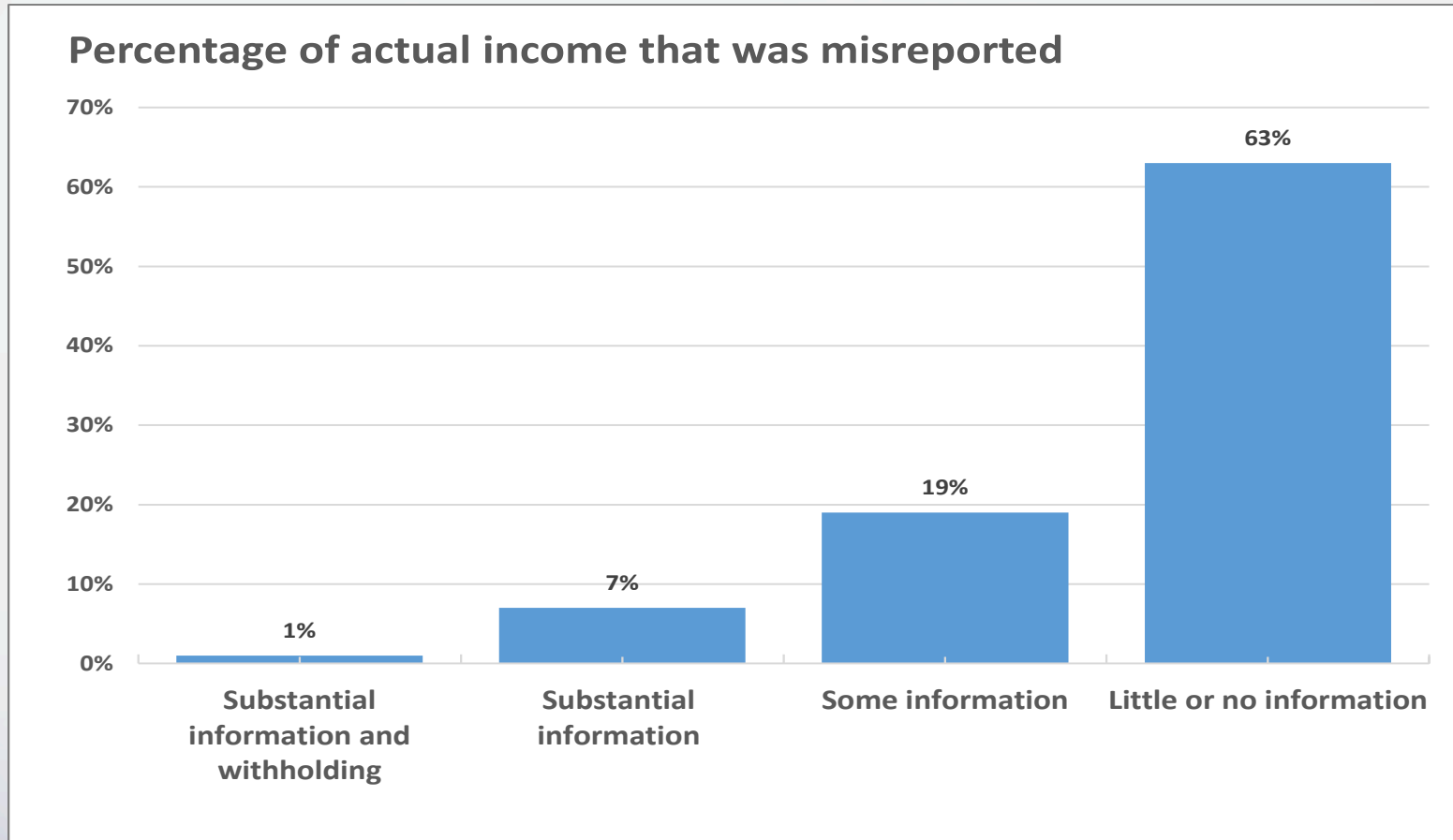
- Can be intentional or unintentional.
 - Related to income visibility (higher for wages, lower for proprietor income)
 - Complexity increases non-compliance.

Tax gap: The difference between taxes owed and taxes paid on time.

- Can't be measured.
 - Only taxpayer can know true liability.
 - Some don't know true liability. Some hide it.
 - If it could be directly measured, it would be much smaller.
 - Gap is inherent in voluntary reporting and nature of income tax. Smaller for some tax types (e.g. VAT, sales tax, property tax) and larger for others (e.g. use tax).
 - Mostly not detectable or collectible.
- Estimates are extremely rough.
 - But relative contribution to tax gap from different items is a good guide (e.g. small business income contributes more to personal income tax gap than wages).
 - Comparisons over time or between states are generally not meaningful.



Figure 1. Effect of Information Reporting on Individual Income Tax Reporting Compliance, Tax Years 2008-2010 (DOR adaptation of IRS presentation, April 2016)



Examples

- Wages and salaries

- Pensions
- Dividends/interest
- Unemployment compensation
- Social Security benefits

- Deductions
- S- Corp income
- Exemptions
- Capital gains
- Alimony

- Proprietor income
- Rents and royalties
- Farm income
- Other income



Misreporting by type of income

Misreporting Percentage and Estimates of Tax Gap by Income Component 2014 Tax Year

	Estimated Percent Misreported	Oregon Resident Tax Gap (\$million)	Part-Year/Non- resident Tax Gap (\$million)	Full Gap (\$million)	# Filers Reporting Income
Wages and Salaries	1.2%	\$74	\$6	\$80	1,528,000
Interest and Dividends	3.7%	\$12	\$0	\$12	629,000
Alimony Income	7.2%	\$1	\$0	\$1	9,000
Unemployment Income	11.1%	\$5	\$0	\$5	125,000
Pensions and IRA Income	4.1%	\$39	\$1	\$40	424,000
Business Income (Net)	57.1%	\$535	\$21	\$556	262,000
Farm Income (Net)	72.0%	\$105	\$6	\$111	31,000
Capital Gain (Net)	11.8%	\$80	\$9	\$89	344,000
Other Gain or Loss (Net)	64.4%	\$64	\$6	\$70	38,000
Rents, Royalties, Etc (Net)	51.3%	\$89	\$13	\$102	171,000
S-Corps, Partnerships, Trust, Etc	17.8%	\$173	\$25	\$198	116,000
Other Income (Net)	63.5%	\$249	\$8	\$257	126,000



Tax year 2014 tax gap estimates

Estimated 2014 Oregon PIT Gross Tax Gap (\$million)	
Nonfiling gap	\$158
Misreporting Gap	\$1,482
Underpayment gap	\$206
Total Gross Gap	\$1,846
Gross Gap as Share of True Liability	22%
Payments and Withholding Not Claimed on Returns	\$514
Net Gap	\$1,332
Net Gap as Share of True Liability	16%
Estimated 2014 Corporation Tax Gap (\$million)	
Misreporting Gap	\$99
Underpayment gap	\$21
Total Gross Gap	\$121
Delinquent and Enforcement Payments	\$26
Net Gap	\$95
Net Gap as Share of True Liability	15%



Additional information

Some related presentations/materials that may also be of interest:

- [Enforcement Revenue Identification and Modeling, January 2012](#)
- [Compliance with Oregon's Personal and Corporate Tax Programs, Sources of Noncompliance and Discussion of Tax Gap, January 2014](#)
- [Budget Note Response, Personal and Corporate Tax Programs 2013-15 Strategic Plan, Performance Measures, & Benchmarks, January 2014](#)
- [Budget Note Response, Audit Selection Processes, January 2016](#)



Questions?

If you have additional questions after today please contact:

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