



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #340

Authority for State Agencies to Disclose Information for Tax Administration (General Fund Taxes -- Tax Administration)

[LFB 2005-07 Budget Summary: Page 217, #1]

CURRENT LAW

Current law prevents state agencies from sharing certain information with the Department of Revenue (DOR) that may be pertinent to administering state taxes.

GOVERNOR

Authorize state agencies (including the Departments of Administration, Commerce, Regulation and Licensing, Financial Institutions, Health and Family Services, Natural Resources, Public Instruction, Workforce Development, and Transportation and the Office of the Commissioner of Insurance) to disclose information such as social security numbers, addresses, driver's license numbers, and signatures related to participation in public assistance programs, and from state licenses, certificates, permits, registrations, and similar items, to DOR for the administration of state tax laws and the tax refund setoff program.

DISCUSSION POINTS

1. The bill would allow certain agencies to disclose information to DOR for the purpose of administering state taxes. In some cases this information could also be used in administering DOR's tax setoff program, under which tax credits and refunds may be withheld from persons who owe debts to state agencies or to local units of government. The specific provisions of the bill are outlined below.

Department of Transportation (DOT). The bill would require DOT to disclose to DOR social security numbers and other information obtained from individuals applying for a certificate of title for the sole purpose of administering state taxes. In addition, DOT would be authorized, but not required, to disclose to DOR the following information obtained under the statutes relating to operator's licenses: (a) an individual's signature (or facsimile of a signature) for the sole purpose of investigating tax fraud; and (b) social security numbers and other information, except medical information, obtained in an application for an operator's license or identification card for the purpose of administering the tax setoff program and for administering state taxes.

Public Assistance Programs. Under current law, in general, no person may use or disclose information concerning applicants and recipients of public assistance or child support enforcement services for any purpose not connected with the administration of the programs. The bill would allow information concerning applicants and recipients of these programs to be disclosed to DOR for use solely in administering state taxes.

Municipalities and Counties. Under the current tax setoff program, when a municipality or county certifies a debt to DOR, the municipality or county must furnish to DOR the name and social security number of each individual debtor and the name and federal employer identification number of businesses and other debtors that are not individuals. For debtors that are individuals, the bill would require the municipality to furnish either the debtor's social security number or driver's license number to DOR at the time of certification.

Department of Regulation and Licensing (DR&L) and Other Licensing Agencies. Under current law, a person's occupational license or credential may be revoked or denied if DOR certifies that the person is delinquent in the payment of state taxes. In enforcing this provision, licensing departments may request an individual's social security number or a business' federal employer identification number. Licensing departments may not disclose such information to any person except DOR for the sole purpose of requesting certifications of tax delinquencies or to DWD for the purpose of collecting unpaid child support. The bill would also allow licensing agencies to disclose such information to DOR for the purpose of administering state taxes.

2. DOR indicates that the information from DOT is necessary to ensure that taxes paid to DOT are credited to the correct accounts and that the correct persons are contacted if an audit is initiated. In addition, social security numbers and signatures provided by DOT would be helpful in establishing residency of persons in income tax non-filer cases, because the signatures are an admission of residency. The provision allowing municipalities and counties to provide debtors' driver's license numbers to DOR would be used to obtain the debtor's social security number from DOT in order to improve administration of the setoff program for local traffic fines and other debts. Under current practice, local governments sometimes obtain an individual's driver's license number, rather than social security number, as identification.

3. As noted, DR&L and other licensing departments currently may disclose the social security numbers of holders of professional credentials to DOR for the purpose of certifying tax

delinquencies. The bill would allow this information to also be disclosed to DOR for the purpose of administering state taxes. DOR would like to obtain an electronic data file annually, which contains names, addresses, and social security numbers of credential holders to help assess and collect taxes in situations where the Department needs additional information to correctly identify taxpayers.

4. Information provided by DOR indicates that the provisions regarding public assistance programs are intended to allow the Department of Workforce Development (DWD) to release information from the kids information data system (KIDS) to assist DOR in identifying individuals for the purposes of tax administration. The KIDS system is the statewide data processing system for child support enforcement. As drafted, the bill would modify a provision in Chapter 49 of the statutes to specify that "the Department" could release information regarding public assistance programs, but "Department" is not defined in that subchapter of the statutes. The Committee could adopt a technical modification to specify that "Department" would mean DWD for purposes of this provision in order to reflect the administration's intent.

5. The administration believes the information disclosures permitted under the bill would help DOR to identify non-filers and individuals who under-report their income for state tax purposes. The budget bill incorporated an estimated state revenue increase of \$2.5 million annually as a result of the new provisions. However, DOR staff indicate that the \$2.5 million figure includes both a state revenue increase of \$1.75 million and increased local revenues of \$0.75 million per year (from enhancements to the tax setoff program). Therefore, the amount of state tax revenues estimated under the bill should be reduced by \$0.75 million in each year. The state revenue estimate primarily reflects anticipated tax payments by non-filers who are identified as a result of the new provisions, and is based on previous non-filer projects conducted by DOR.

6. Although the disclosure of additional information to DOR would help collect additional taxes, and in administering the tax setoff program, there may be concerns that the provisions of the bill would erode the privacy protections accorded to individuals and businesses under current law. However, it should be noted that social security numbers already may be disclosed to DOR for the purpose of certifying whether credential holders are delinquent in the payment of state taxes, and to DWD for child support enforcement. The provisions of the bill would allow additional disclosures, but use of the information would be limited to administering state taxes and the tax setoff program.

7. The provisions regarding disclosures by DOT are nearly identical to the provisions of AB 68, which was introduced on February 1, 2005, and referred to the Assembly Committee on Government Operations and Spending Limitations. However, AB 68 does not include the other disclosures recommend by the Governor in AB 100.

ALTERNATIVES

1. Approve the Governor's recommendation to authorize additional disclosures of information to DOR for the purposes of administering state taxes and the tax setoff program.

Reestimate the amount of additional state tax revenues that would be generated as a result of the new provisions at \$1,750,000 annually, which is lower than the amounts used in the bill by \$750,000 in each year.

| <u>Alternative 1</u> | <u>GPR-REV</u> |
|----------------------------------|----------------|
| 2005-07 REVENUE (Change to Bill) | - \$1,500,000 |

2. In addition to Alternative 1, amend the bill to specify that only the Department of Workforce Development could release information relating to public assistance and child support enforcement programs to DOR.

3. Delete provision.

| <u>Alternative 3</u> | <u>GPR-REV</u> |
|----------------------------------|----------------|
| 2005-07 REVENUE (Change to Bill) | - \$5,000,000 |

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