



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #658

Revenue Generating Positions (DOR -- Tax Administration)

[LFB 2005-07 Budget Summary: Page 433, #8]

CURRENT LAW

The Department of Revenue (DOR) has 117.90 office auditor positions and 157.10 field auditor positions. The Department is provided funding of \$18,546,200 GPR, \$1,045,300 SEG, and \$675,300 PR for salaries and fringe benefits.

GOVERNOR

Reallocate Department positions to generate additional tax revenues as follows: (a) \$200,000 annually by providing \$28,800 GPR to reallocate a position to create an ad valorem tax field auditor in the Division of State and Local Finance (SLF); (b) \$400,000 annually by providing \$30,100 GPR to reallocate a position to create a real estate transfer return auditor in SLF; and (c) \$500,000 in 2006-07 by reallocating a position from the Division of Processing and Customer Service to an auditor position. These actions would increase state tax collections by an estimated \$600,000 in 2005-06 and \$1,100,000 in 2006-07.

DISCUSSION POINTS

1. There are a total of 251.20 office and field auditors in the Division of Income, Sales, and Excise Taxes (ISE). All but one office auditor are located in DOR's Audit Bureau. The Bureau's activities include:
 - a. Technical Services -- Audit review and selection of field and office audits. There are 17.00 auditor positions assigned to this function.
 - b. Central Audit -- There are 91.10 auditor positions allocated to this function, which

involves auditing individual income tax, sales and use tax, corporate franchise tax, and fiduciary and estate tax returns

c. Field Audit -- Field audits are assigned 130.10 auditor positions and are conducted by large case units and district units. Large case units audit the largest multi-national corporations for sales and use tax and corporate franchise tax purposes. District units audit Wisconsin-based taxpayers for sales and use tax, corporate franchise tax, and individual income tax purposes.

d. Excise Tax -- There are 12.00 auditor positions assigned to this function, which is responsible for auditing motor vehicle fuel tax, cigarette and tobacco products tax, and liquor and beer tax returns.

There is also 1.00 auditor position allocated to the Compliance Bureau that adjusts delinquent income tax assessments, and evaluates information provided by taxpayers concerning liability.

2. The Division of Processing and Customer Services is assigned 12.80 auditor positions. The Processing Bureau has 5.80 auditor positions that are responsible for working on issues such as residency, taxes paid to other states, denied check and electronic funds transfer billings, estimated taxes, credit denials, amended returns, and negligence penalties. The auditors also plan, test, and implement business process changes, in response to prior year experiences, new technology, and law changes. The Customer Service Bureau is allocated 7.00 auditor positions that provide taxpayer assistance, interpret and research tax laws, and audit DOR employees and legislators.

3. The Division of State and Local Finance is assigned 11.00 auditor positions that audit ad valorem utility tax returns and real estate transfer fee returns. In addition, they audit general transportation aids financial forms, administer state aid and property tax credits, and certify equalized values.

4. In fiscal year 2003-04, the Department conducted about 1,800 field office audits which resulted in \$136.8 million in assessments and \$128.5 million in additional tax collections. For the same period, a total of 38,300 office audits resulted in \$101.7 million in assessments that generated \$44 million in tax collections. Of the total amount of field audit collections, \$47 million was collected through sales and use tax audits, and \$81 million was collected through corporate income and franchise tax audits.

5. The positions that were reallocated to create the ad valorem tax field auditor and the real estate transfer return auditor were property assessment technician positions in the Equalization Bureau. One of those positions was in the Madison district office and one was in the Fond du Lac district office. The Department based the estimated revenues that would be generated by each auditor position on historical audit collections data. Based on this historical data, it is estimated that the ad valorem tax field auditor would generate annual revenues of \$500,000 in motor fuel taxes and \$200,000 in general fund taxes. The real estate transfer return auditor would generate estimated

annual revenues of \$400,000 in general fund taxes and \$100,000 in revenues that would be returned to counties. (Eighty percent of real estate transfer fee collections are allocated to the state, while 20% are returned to the county where the real estate transfer occurred.)

6. A position in the Division of Processing and Customer Services would be reallocated to the Audit Bureau in ISE, beginning in 2006-07. Based on historical data, it would generate an estimated \$500,000 in additional general fund tax revenues.

7. With the current level of staffing, DOR is able to audit between 1% and 2% of all taxpayers in a year. Some would argue that the additional auditors would provide the Department with more staff to handle annual increases in tax filers and/or liabilities. For example, total real estate transfer returns increased from 229,500 to 265,900 (15.8%) between 2000 and 2004. During the same period, total real estate transfer fee collections increased from \$54.0 million to \$88.7 million (64.2%). The auditors would address the increasing complexity of state tax laws. The increased staff would also strengthen the Department's enforcement of tax laws. Since the tax system relies on voluntary compliance by taxpayers to pay taxes owed the state, the increased enforcement activities (audits) would encourage voluntary compliance with tax laws. Finally, audits promote more accurate future returns.

8. Opponents would argue that providing additional auditors would not necessarily generate additional revenues or improve compliance with the tax system. An audit does not always result in additional assessments. Audits can also generate refunds. Moreover, audits usually require the taxpayer to provide supporting documents and participate in meetings with Department staff. As a result, participation in an audit can disrupt the daily activities of the taxpayer. This can cause the taxpayer to resent the enforcement activities, and lessen public support for the tax system. Finally, audits can lead to litigation which can be costly to both the taxpayer and the state.

9. Assuming that each additional auditor position would generate additional revenue raises a significant budget issue. As noted, under the bill, each of the three auditor positions are estimated to generate between \$500,000 and \$700,000 in additional total revenues. However, at some level of staffing, the average amount of revenue that could be raised by each auditor would begin to decline until, eventually, the cost of each auditor would exceed the revenue the auditor could generate. Thus, at a certain number of auditors, each additional auditor position would raise less revenues than the cost of the position. However, currently, DOR is able to audit between 1% and 2% of taxpayers. At this level, it could be argued that the additional audit revenues would not quickly reach a plateau and begin to diminish.

ALTERNATIVES

1. Adopt the Governor's recommendation to convert 3.0 positions to auditor positions.
2. Adopt the Governor's recommendation to convert 3.0 positions to auditors but do not recognize additional revenues from the audit activities.

<u>Alternative 2</u>	<u>GPR-REV</u>
2005-07 REVENUE (Change to Bill)	- \$1,700,000

3. Maintain current law.

<u>Alternative 3</u>	<u>GPR-REV</u>	<u>GPR</u>
2005-07 REVENUE (Change to Bill)	- \$1,700,000	
2005-07 FUNDING (Change to Bill)		- \$117,800

Prepared by: Ron Shanovich