



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

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Joint Committee on Finance

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Audit Bureau and Compliance Bureau Revenue Collection Personnel (DOR -- Tax Administration)

[LFB 2013-15 Budget Summary: Page 400, #1; Page 402, #2, Page 404, #3 & #4]

This paper includes information related to revenue generating activities performed by personnel in the Audit and Compliance Bureaus of the Department of Revenue (DOR).

Department of Revenue Audit and Compliance Functions

Audit Bureau. The Audit Bureau of DOR is responsible for auditing income, sales, withholding, motor vehicle fuel, and other excise tax returns, and for auditing homestead, earned income, and farmland preservation tax credit returns. The Bureau conducts field and office audits of tax returns and related documents and information. The audits may result in assessments, adjustments to refunds claimed, or refunds. The Bureau also provides taxpayer assistance and information, and stores over six million documents annually.

Adjusted base level funding and position authority for 2012-13 is \$27,268,000 GPR, 306.25 GPR positions, \$715,400 PR, 7.75 PR positions, \$1,315,800 SEG, and 13.75 SEG positions. Consequently, total base level funding for the Bureau is \$29,299,200 and the total authorized positions are 327.75. (The Bureau's base level funding would be reduced by \$806,200 GPR, and 3.0 GPR support positions would be eliminated under the bill.)

DOR is required to office audit individual and corporate income and franchise tax returns as it deems advisable. An office audit does not preclude the Department from making field audits of the books and records of the taxpayer or from making further adjustments, corrections, and assessments of income. DOR is required to conduct an income and franchise tax field audit whenever the Department deems it advisable to verify any return directly from the books and records of any person, or from any other sources of information. The Department is also statutorily authorized to conduct office and field audits of state sales, use, and excise taxes.

Typically, office audit programs are based on information generated from the data bases included in the Department's data warehouse. The data warehouse is linked to the Wisconsin income and tax processing system (WINPAS), and includes information from state and federal tax returns, other tax forms, such as 1099 forms, filed by employers and taxpayers, and information from other agencies, such as motor vehicle license data from the Department of Transportation. Examples of office audit projects would be comparing federal adjusted gross income to the amount reported on Wisconsin returns, or computer matching of alimony deductions to alimony income claimed on individual tax returns. Other programs would include comparing information reported by businesses on sales tax returns with the same items reported on federal and state income and franchise tax returns, and reviewing seller and buyer claims for refunds of sales, use, and stadium taxes.

The basic steps usually taken by DOR in conducting an office audit and in making an assessment or refund adjustment are:

- a. The Department examines returns and tax credit claims to check the correctness of the items reported.
- b. DOR may request more information or receipts to clarify or support certain items.
- c. The Department decides if an adjustment to the return is necessary, and if so, the taxpayer may owe an additional amount or receive a refund.
- d. The taxpayer is sent either an assessment explaining the amount due, or a notice of refund explaining the refund to be issued. The notices show the amount of tax, interest, and penalty (if any), or refund, and explain the taxpayer's appeal rights.

Field audits are often based on information generated from the data warehouse, including comparisons of corporate apportionment formula components, such as total sales, to similar items reported on federal returns. Field audits can also be initiated based on findings in office audits, referrals from field staff, Internal Revenue Service (IRS) staff or other sources, and on flaws identified in previous audits. DOR distinguishes between large case and district size audits based on a company's assets (\$50 million or more). The Audit Bureau reviews sales/use and franchise/income tax returns of the largest taxpayers, and determines whether a sales/use tax field audit is appropriate on a rotating basis (every four years). The Bureau may determine, based on reviewing returns and prior adjustments, that there are not significant compliance issues that warrant an audit.

The following procedure is generally taken by DOR in conducting a field audit and making an assessment or refund:

- a. DOR sends a letter notifying the taxpayer that the relevant tax returns have been selected for examination. The letter includes the date and time for the taxpayer's first meeting with the auditor. At the meeting, the auditor discusses the nature of the taxpayer's business or employment, the accounting or record keeping system used, and other related matters.

b. An auditor will examine the tax returns and the taxpayer's books and records to determine if the correct amounts were reported on the tax returns. If possible, the audit will be conducted at the taxpayer's place of business. In some cases, the auditor will obtain information from third-party sources.

c. After completing the examination, the auditor may determine that adjustments should be made that result in an amount due or a refund. The auditor generally discusses the proposed audit report in a final conference, and a complete copy of the proposed report is then given to the taxpayer and the taxpayer's representative. The taxpayer is requested to sign a Notice of Proposed Audit Report form indicating full or partial agreement, or total disagreement with the proposed adjustments.

d. The auditor's proposed field audit report and work papers are reviewed by the Department's central review staff for correctness, uniformity, and proper application of the law.

e. DOR notifies the taxpayer by mail of the results of the field audit. If there are adjustments, the taxpayer will receive an assessment or refund notice. The notice and report will explain the adjustments, the amount of tax, interest and penalty (if any), and the taxpayer's appeal rights. If the field audit results in no amount due and no refund, a letter of notification is sent to the taxpayer explaining that there is no change.

If a taxpayer disagrees with adjustments made to the tax return by DOR, the taxpayer has the following options;

a. Pay the full amount of the assessment without filing an appeal. The taxpayer may contest some or all of the adjustments at a later date by filing a claim for refund. A claim for refund of income and franchise taxes may be filed within four years from the date the assessment was issued. In general, the statute of limitations for refund of sales/use tax assessed in a field audit is two years. If the additional tax is based on the taxpayer's purchases, the statute of limitation is two years. However, if the additional tax is based on the taxpayer's sales, and is refunded to the customer, the statute of limitations is four years. Sales tax refunds must be passed on to customers based on their valid refund claims.

b. File an appeal with the Department of Revenue. The appeal must be made within 60 days after the date the taxpayer received the refund or adjustment notice.

A taxpayer has five levels of appeal that can be taken to contest DOR tax return adjustments. The levels of appeal, in order, that are available are: (a) the Department of Revenue; (b) the Wisconsin Tax Appeals Commission; (c) circuit court; (d) court of appeals; and (e) the Wisconsin Supreme Court.

Table 1 includes information about auditors and collection agents in the Audit Bureau. Specifically, the table shows, for 2012-13, the position classification, number of authorized positions, vacancies, average annual collections, and hiring costs per position. The table shows that, in general, revenue collection personnel in the Bureau generate substantially more in revenues than the hiring cost of the position.

TABLE 1**Audit Bureau Auditors and Collection Agents
2012-13**

<u>Position Description</u>	<u>Authorized Positions</u>	<u>Vacant Positions</u>	<u>Average Annual Collections</u>	<u>Per Position Cost to Hire</u>
Large Case Field Auditors	48.75	4.00	\$300,000	\$113,500
District Field Auditors	93.80	10.00	220,000	61,900
Office Auditors	105.50	10.00	1,100,000	61,300
Excise Tax Auditors	10.00	0.00	60,000	61,900
Revenue Agents/Tax Representatives	15.00	2.00	500,000	58,000
Revenue Tax Specialists	<u>11.00</u>	<u>2.00</u>	1,100,000	61,100
Total	284.05	28.00		

Large Case Field Auditors. Large case field auditors audit large multi-state corporations for corporate franchise/income and sales and use taxes, with a focus on underreporting of income and sales. These individuals audit corporate franchise/income tax returns for corporations that are identified as large enough for such audits, which are approximately 15% of corporations. Generally, large case field auditor positions are filled by district field auditors or other Bureau auditors. There is usually one to two years of on-the-job training, and it usually takes two to four years before the auditor is fully productive.

District Field Auditors. District field auditors audit small to medium sized corporations, pass-through entities, such as partnerships, and individuals for income, franchise, sales and use, and withholding taxes. These auditors also focus on underreporting of income and sales, and some specialize in nexus and work at identifying businesses that are not filing franchise/income and/or sales/use tax returns. More businesses are audited by district field auditors than large case auditors, because the time it takes to complete a taxpayer audit is significantly less than that required to complete a large case audit of a multi-state corporation. District field auditors have six months of classroom training, and six months of on-the-job training with an experienced district auditor. It takes from two to four years for the auditor to be fully productive.

Office Auditors. Office auditors primarily audit individual income tax returns, and focus on underreporting and non-filing and review refund claims for correctness. Certain office auditors review sales/use tax returns and refund claims, and others work on underreporting and non-filing by pass-through entities. Typically, office auditors receive two months of classroom training, and four months of on-the-job training with supervisors and reviewers. It usually takes one to two years for office auditors to be fully productive.

Excise Tax Auditors. Excise tax auditors are responsible for auditing motor vehicle fuel, cigarette, tobacco products, liquor, and beer tax returns, and the petroleum inspection fee. These individuals focus on underreporting of sales. Excise tax auditors receive six to twelve months of

on-the-job training with an experienced auditor, and it takes from two to four years for the auditor to be fully productive.

Revenue Agents/Tax Representatives. The functions of revenue agents and tax representatives are similar in that both positions address less complex tax compliance issues than auditors, and the positions are generally assigned to specific taxes. However tax representatives typically perform more support functions than revenue agents. Revenue agents focus on underreporting and non-filing, primarily for the individual income tax, but also work on franchise/income and sales and use taxes. These individuals adjust individual income tax returns for tax due, based on audit reports from the IRS, or information from other agencies or states. The agents and representatives also conduct simple audit projects selected through the data warehouse. The financial and audit skills of an auditor are not required to perform these activities. These staff also assist in processing tax returns, and provide customer service during tax filing periods. Revenue agents and tax representatives require two months of classroom training, and two months of on-the-job training with supervisors and reviewers. It usually takes six to nine months for revenue agents and tax representatives to be fully productive.

Revenue Tax Specialists. Revenue tax specialists operate in the Bureau's district offices and nexus unit. Revenue tax specialists in the nexus unit attempt to identify businesses that are doing business in Wisconsin, but not filing tax returns. Revenue tax specialists in the district offices provide taxpayer assistance, review tax returns and credit claims for processing errors, and follow up on adjustments made in federal audit reports and computer matching processes.

Table 2 shows permanent employee staffing for the Audit Bureau for fiscal years 2008-09 through 2011-12. The number of authorized permanent positions and the number of vacancies decreased between 2008-09 and 2011-12. Technical Services Section staff increased due to two reorganizations, which: (a) moved the Nexus Unit from Central Audit to the Technical Services Section; and (b) created a computer audit specialist unit. Both reorganizations moved existing positions. Offices Service staff decreased from 36.20 to 0 in 2011-12 due to a reorganization and elimination of some positions. The Records Management Services Section was eliminated because the Department's records were converted into paperless files. Clerical support staff (20.45 positions) were assigned to other audit units. Historically, the Bureau used limited-term employees (LTEs) primarily during and after the income tax processing season to assist with homestead tax credit review, and customer service in Milwaukee and Green Bay. However, use of LTEs has dropped significantly since paper tax files were converted to electronic files in 2009-10. Funding for LTEs declined from \$259,500 in 2009-10 to \$76,300 in 2011-12.

TABLE 2**Audit Bureau Staffing
2008-09 to 2011-12**

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Field Audit Section	147.70	147.70	147.95	138.70
Central Audit Section	119.95	119.95	119.80	129.48
Audit Administration	3.00	3.00	5.00	2.00
Audit Technical Services Section	20.00	20.00	20.00	42.70
Excise Tax Section	20.00	20.00	20.00	15.00
Office Services Section	<u>39.30</u>	<u>39.30</u>	<u>36.20</u>	<u>0.00</u>
Total	349.95	349.95	348.95	327.88
Vacant (included in total)	45.85	45.85	45.80	22.98

Table 3 shows assessments and actual collections (paid assessments plus refunds reduced or denied) from the Audit Bureau's activities for fiscal years 2008-09 to 2011-12. The total revenue effect of Bureau activities includes assessments, refunds, and refunds that are reduced or denied as a result of audit activity or return review and adjustment. The table shows the effect of the Bureau's activities including assessments and refunds. In fiscal year 2011-12, the Department conducted 1,484 field audits which resulted in \$187.0 million in assessments, and \$154.7 million in additional tax collections. For the same period, a total of 38,754 office audits resulted in \$93.1 million in assessments that generated \$44.9 million in tax collections. There were 166 excise tax audits that resulted in \$3.6 million in assessments and \$752,000 in collections. In addition, \$42.8 million of refunds were reduced or denied, and \$19.0 was collected through discovery and nexus actions, where the Department caused taxpayers to file or self-report.

Of the total amount collected through audits, \$130.0 million (65%) was corporate franchise/income taxes, \$49.5 million (25%), was sales and use taxes, and \$18.6 million (9%) was individual income taxes. The remaining collections were from audits of other taxes, such as excise and withholding, discovery and nexus actions, and audits of various tax credits. The amounts shown in the table may not accurately measure performance for a specific year because: (a) audit assessments may not be paid in the same year as issued; (b) some assessments are resolved over a period of years; and (c) assessments that are not paid within 60 days become part of the delinquent tax collection system.

TABLE 3

**Revenue Impact of Audit Bureau Activities-Paid
Assessments plus Refunds Reduced or Denied
2008-09 to 2011-12**

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Assessments	\$385,700,800	\$388,103,300	\$334,537,600	\$283,779,500
Paid Assessments	\$231,766,400	\$278,688,900	\$261,177,900	\$219,262,000
Refunds Reduced	<u>29,862,900</u>	<u>49,122,100</u>	<u>39,827,500</u>	<u>42,762,900</u>
Total Revenue	\$261,629,300	\$327,811,000	\$301,005,400	\$262,024,900
Percent of Assessments	67.8%	84.5%	90.0%	92.3%

A budget reduction provision included in the 2013-15 budget bill would delete \$806,200 GPR and 3.00 GPR positions annually from the Audit Bureau's budget. The deleted positions would not include auditors, but would reduce support staff.

Compliance Bureau. The Compliance Bureau is responsible for collecting all delinquent taxes. The Bureau provides full collection services for state agency debt through the statewide debt collection program (SDC), collects debts for state agencies, counties, and municipalities through the tax refund interception program (TRIP), and provides taxpayer assistance and information.

Adjusted base level funding and position authority for 2012-13 is \$12,522,900 GPR, 165.23 GPR positions, \$1,320,000 PR, and 9.50 PR positions. Total base level funding for the Bureau is \$13,842,900 and 174.73 positions. (As noted, under the bill, base level funding for the Bureau would be reduced by \$310,200 GPR annually and 2.00 GPR support positions would be eliminated.)

DOR considers a tax delinquent when the due date of a specific Department assessment has passed, and statutory appeal rights have expired. Once this has occurred, the assessment is certified as delinquent to the Department's delinquent tax system, and is subject to collection action. When an assessment is certified as delinquent, a delinquent tax collection fee is imposed on the account. The delinquent tax collection fee is equal to 6.5% of the balance or \$35, whichever is greater. Interest at the rate of 18% per year is charged on the balance of tax due. Twelve days after appeal rights have expired on appealable bills, any unpaid or partially paid liabilities are transferred to a collection case assigned to the Compliance Bureau. A Notice of Overdue Tax is sent to the taxpayer indicating that the delinquent tax collection fee has been added to their account, and warning the taxpayer of possible actions that could occur if the liability is not paid.

Most delinquent tax bills are assigned to DOR's Central Collection Section for administration. Specifically, the following are assigned to the Section: (a) income tax processing bills, audits, and estimated assessments; (b) out-of-state business tax bills; (c) occasional vehicle sales tax bills; (d) business tax registration fee bills; and (e) additional bills on accounts currently assigned to the Section. Many taxpayers respond to the Notice of Overdue Tax by requesting an installment agreement for paying the amount owed. Those who are unable to pay their total delinquent tax liability may petition DOR, at any time during the administrative process, to accept a compromise amount and work out a repayment schedule. Taxpayers who do not respond to the initial notice may be contacted by telephone or requested to meet with an agent to resolve the delinquency. The Central Collection Section revenue agent responsible for a delinquent account can also take involuntary collection actions, through wage attachments or through levies on the taxpayer's accounts in financial institutions, or by filing a delinquent tax warrant on an account, which places a lien on any real or personal property owned by the taxpayer in the county of record. If the Central Collection revenue agent is unable to resolve an account within six months, larger balance accounts are referred to the Intensive Collection Effort (ICE) unit, and smaller balance accounts are referred to a private collection agency. Accounts not resolved in the ICE unit are either referred to the Field Compliance Section or a private collection agency. Accounts to which in-state business tax liabilities have been added are referred to the Field Compliance section.

Accounts are immediately transferred to the Field Compliance Section after a collection case is created if the liabilities are for in-state businesses, or if previous liabilities have been referred to the Section. In the Field Compliance Section, new accounts for an in-state business are referred to the Field Initial Responders Team (FIRST) immediately after a collection case is created. If FIRST is unable to resolve the account in eight months, the account is referred to a field revenue agent for resolution.

Field revenue agents have the same involuntary collection tools to resolve delinquent accounts as other agents, including informal hearings, installment agreements, wage attachments, and levies on assets. The agents make field calls to delinquent taxpayers to arrange for payments or to obtain missing returns. Field Compliance Section revenue agents can also take the following delinquent tax collection actions: (a) garnishments initiated to seize the assets of the taxpayer that are in the hands of a third party; (b) warrant executions initiated to seize property held by the delinquent taxpayer; (c) revocation of sellers permits; (d) holding supplemental hearings before a court commissioner to identify assets that could be used to pay the delinquent liability; (e) officers of a corporation with responsibility to make tax payments may be found to have personal liability for the debts after investigation; and (f) referring the liabilities of inactive businesses or taxpayers that cannot be located to a collection agency.

Field revenue agents give priority to the accounts of active businesses. Agents are expected to contact newly assigned business accounts within 60 days of assignment. Field agents may negotiate installment plans that last up to one year with active businesses, and plans that last up to two years with individual accounts or inactive business accounts. Payment plans that exceed these limits must be approved by a supervisor.

Accounts can be moved to special assignments managed by the Central Collection Section including: (a) assignment to the Special Procedures Unit, if the taxpayer files for protection under federal bankruptcy law; (b) denial, revocation, or suspension of occupational licenses; (c) filing of probate claims in cases involving an estate; (d) referral to the Office of General Counsel for legal proceedings; and (e) issuance of levies against unclaimed property.

The Compliance Bureau also administers certain automated matching processes. Tax refunds, lottery prizes, vendor payments to delinquent taxpayers, and unclaimed property held in the name of the delinquent taxpayer by the State Treasurer's Office may be offset against the liability. The taxpayer's delinquent account may be posted on the Internet if the amount owed is over \$5,000, and a payment plan is not negotiated. Accounts that have aged past the new stage are periodically matched against the current quarterly wage file of the Department of Workforce Development (DWD) to identify employers for wage attachment

Table 4 includes information about Compliance Bureau revenue agents and tax representatives. Specifically, the table shows, for 2012-13, the position description, number of authorized positions, vacancies, average annual collections, and hiring costs per position. The table shows that, similar to Audit Bureau personnel, revenue collection personnel in the Bureau generally generate significantly more in revenues than the hiring cost of the position.

TABLE 4

**Compliance Bureau Collection Agents
2012-13**

<u>Position Description</u>	<u>Authorized Positions</u>	<u>Vacant Positions</u>	<u>Average Annual Collections</u>	<u>Per Position Cost to Hire</u>
Field Revenue Agents	64.00	1.00	\$1,000,000	\$58,600
Office Revenue Agents	82.93	13.00	2,600,000	58,000
Tax Representatives	<u>5.00</u>	<u>3.00</u>	N.A.	45,500
Total	151.93	17.00		

Field Revenue Agents. Field revenue agents focus on delinquent business taxes. Field work is often required to search for assets and take enforced collection actions. Field revenue agents require three months of classroom and intensive on-the-job training, followed by an additional six months of intensive training. These agents are usually fully productive after a year.

Office Revenue Agents. Office revenue agents concentrate primarily on income tax delinquencies and out-of-state delinquent accounts. Generally, the workload involves communicating and working with delinquent taxpayers. Agents in the Special Procedures Unit provide specialized collections activities and support to other revenue agents. Agents receive three months of classroom and intensive on-the-job training. An additional three months of training is also required. These staff are typically fully productive in nine months.

Tax Representatives. As the table indicates, three of these positions are vacant. Two of the tax representative positions are responsible for prorating of tax refunds, and responding to taxpayer questions related to the tax refund interception program. The other three positions are responsible for delinquent account adjustments, answering revenue agent questions about account balances, and ensuring that payments are posted correctly to delinquent accounts.

Table 5 shows Compliance Bureau delinquent tax system staffing, by function, for fiscal years 2008-09 through 2011-12. The table shows that the number of revenue agents has remained stable, while support staff has decreased substantially.

TABLE 5

**Compliance Bureau - Delinquent Tax Program Staffing
2008-09 to 2011-12**

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Field Revenue Agents	82.00	84.00	88.00	86.80
Central Revenue Agents	42.00	56.00	57.00	55.00
Support Staff	24.05	21.95	21.35	12.80
Applications Development Staff	1.30	1.30	1.30	1.30
Supervisory/ Managers	13.00	13.00	14.00	15.00
Analysts/ Network Coordinators	6.00	6.00	4.00	4.00
Collection Attorneys	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>
Total	170.35	184.25	187.65	176.90
Vacant (included in total)	16.00	23.80	35.00	16.80

Table 6 shows delinquent tax collections, refund offsets, and the year-end delinquent tax balance for fiscal years 2008-09 through 2011-12. Cash collections are revenues collected by delinquent collection staff. Refund offsets are tax refunds that are intercepted and applied to the accounts of delinquent taxpayers. Of the total delinquent balance at the end of 2011-12, \$67.6 million (7%) was corporate income/franchise taxes, \$509.6 million (51%) was individual income taxes, and \$268.1 million (27%) was sales and use taxes. Additional delinquent accounts are added and others accounts are written off during the year. Consequently, the starting balance minus total delinquent tax collections for the year will not equal the ending balance.

TABLE 6**Delinquent Tax Collections, Refund Offsets, and Year-End Balance
2008-09 to 2011-12**

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Starting Balance	\$1,032,017,800	\$1,144,390,000	\$1,004,614,000	\$933,909,900
Total Cash Collections	122,735,400	162,006,600	172,600,200	166,560,800
Refund Offsets	<u>30,400,400</u>	<u>30,911,100</u>	<u>30,067,700</u>	<u>31,670,300</u>
Total Collections	\$153,135,800	\$192,917,700	\$202,667,900	\$198,231,100
Ending Balance	\$1,144,390,000	\$1,004,614,000	\$933,909,900	\$998,219,800
Collections as a Percent of Starting Balance	14.8%	16.9%	20.2%	21.2%

The delinquent balance at the end of 2011-12 was \$998.2 million. However, for a number of reasons, the amount is not entirely collectible. The balance includes amounts that are owed by deceased taxpayers, amounts covered in an open bankruptcy claim, and amounts referred to collection agencies. Only a portion, if any, of these accounts are recoverable. In addition, approximately 41% of the delinquent balance is based on estimated assessments. Some of this amount will be uncollectible or adjusted to reflect the actual balance. The delinquent balance includes accounts that have aged. The Bureau estimates that 80% of receivables that are older than eight years will be written off as uncollectible. Other accounts have been thoroughly moved through the compliance process and have been determined to be uncollectible on a cost-benefit basis. These accounts include defunct corporations, accounts returned by collection agencies, and accounts determined to be uncollectible by supervisory personnel. DOR estimates that \$400.7 million, or 40% of the \$998.2 million delinquent balance is actually collectible. Table 7 shows the estimated collectible delinquent balance from 2008-09 to 2011-12.

TABLE 7**Estimated Collectible Delinquent Balance
Fiscal Years 2008-09 to 2011-12**

<u>Fiscal Year</u>	<u>Amount</u>	<u>% Change</u>
2008-09	\$473,128,300	
2009-10	358,673,600	-24.2%
2010-11	386,608,700	7.8
2011-12	400,712,800	3.6

2013-15 BUDGET

Under the 2013-15 biennial budget, DOR would be provided 61.0 additional positions and related funding for enhanced Audit and Compliance Bureau tax collection activities. The bill provides: (a) increased expenditure authority of \$739,300 PR in 2013-14, \$950,700 PR in 2014-15, and 15.0 positions for delinquent tax and debt collection activities; (b) \$1,578,100 GPR in 2013-14, \$1,975,300 GPR in 2014-15, and 33.00 GPR audit and compliance four-year project positions each year to increase enforcement of state tax laws based on federal audit reports; and (c) \$4,257,400 GPR in 2013-14, \$3,114,000 GPR in 2014-15, and 10.0 GPR positions in the Audit Bureau and 3.0 infrastructure technology support positions (including 2.0 four-year project positions) to prevent and reduce fraudulent refund and tax credit claims, under the individual income tax, the earned income tax credit (EITC), and the homestead tax credit (HTC). The bill would delete \$4,440,200 GPR and 28.95 GPR positions annually to reflect a permanent base level reduction in the Department's GPR appropriations and positions. (The bill also requires DOR to lapse \$1,383,400 each year.) The net effect of the position and funding changes would be to provide \$2,134,600 in 2013-14, \$1,599,800 in 2014-15, and 32.05 FTE positions beginning in 2013-14. Table 8 shows the net funding and position changes under these provisions.

TABLE 8

Department of Revenue Net position Changes 2013-15 Biennial Budget

	2013-14		2014-15	
	<u>Funding</u>	<u>Positions</u>	<u>Funding</u>	<u>Positions</u>
Delinquent Tax Collections	\$739,300	15.00	\$950,700	15.00
Federal Audit Reports Enforcement	1,578,100	33.00*	1,975,300	33.00*
Tax Fraud Enforcement	4,257,400	13.00**	3,114,000	13.00**
Permanent GPR Reductions	<u>-4,440,200</u>	<u>-28.95</u>	<u>-4,440,200</u>	<u>-28.95</u>
Total	\$2,134,600	32.05	\$1,599,800	32.05

* All are project positions.

** Includes 2.0 project positions.

For the pay period ending April 20, 2013, DOR had 34.65 FTE positions that had been vacant 12 months or more. Of these vacant positions, 19.95 would be deleted under the required base level GPR reduction, 2.0 are now filled, and 7.90 have been approved by the Secretary of Revenue to be filled. The remaining 4.80 GPR positions that have been vacant 12 months or more are GPR positions in the Division of Technology Services. According to the Department, there are no current plans to fill those positions. As an alternative, the Committee may wish to delete those positions and related funding of \$328,800 GPR. However, it should be noted that 35.0 of the new positions are four-year project positions that will expire after the 2015-17 biennium.

ALTERNATIVES

1. Delete 4.8 FTE GPR positions in the Division of Technology Services that have been vacant for 12 months or more.

ALT 2	Change to Bill	
	Funding	Positions
GPR	- \$657,600	- 4.80

2. Maintain the current funding and position authority regarding the 4.8 positions.

Prepared by: Ron Shanovich