



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #670

### Revenue Agent Positions (Revenue -- Tax Administration)

[LFB 2023-25 Budget Summary: Page 542, #4 and #1 and Page 543, #2]

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#### BACKGROUND

The Department of Revenue (DOR) is statutorily authorized to supervise, administer, and enforce state tax laws. Under this authority, DOR administers a number of auditing programs within its Division of Income, Sales, and Excise Tax (IS&E). In 2021-22, DOR's Audit Bureau issued audit assessments of \$419.9 million, of which \$305.0 million was collected by the Audit Bureau. An audit assessment is considered unpaid by the taxpayer after 72 days, after which the assessment is transferred to DOR's Compliance Bureau as a delinquent tax bill. In 2021-22, DOR's Compliance Bureau collected delinquent tax revenues of \$290.3 million. The Audit Bureau's average front-line audit staffing level was 375 positions. The average front-line staffing level of delinquent tax collection agents in the Compliance Bureau was 161 positions in 2021-22.

Under 2013 Act 20, 33 GPR project positions were provided to DOR's Audit and Compliance Bureaus from October 1, 2013, through September 30, 2017, to increase enforcement of state tax laws based on a backlog of federal audit reports. Of these positions, 18 were provided to the Audit Bureau and 15 were provided to the Compliance Bureau. The day after expiration of the 33 project positions, 2017 Act 59 provided 38 new GPR project positions to DOR from October 1, 2017, through September 30, 2021, to increase auditing activity and improve tax collections. The 2019-21 biennial budget act (2019 Act 9) extended the expiration of these positions another four years, from September 30, 2021, to June 30, 2025.

#### DISCUSSION POINTS

1. The state and federal tax systems generally rely on voluntary compliance by individuals and businesses to timely and accurately report and remit taxes owed. Tax audits help establish and maintain tax compliance. Audits directly raise revenue through the assessment of additional taxes,

interest, and penalties on audited persons. In addition, the presence of effective audits in the state can positively affect an audited taxpayer's likelihood of complying in the future and the likelihood that non-audited taxpayers will voluntarily comply with tax law.

2. The 38 project positions authorized under 2017 Act 59 consist of: (a) 17 audit revenue agent positions and one supervisor position in the Division's Audit Bureau; and (b) 19 delinquent tax collection revenue agent positions and one supervisor position in the Division's Compliance Bureau. Compared to the 33 project positions that expired under 2013 Act 20 on September 30, 2017, Act 59 effectively extended this project position authorization and added an additional five positions within the Compliance Bureau. Expiration of these positions is estimated to reduce state tax revenues by \$39.3 million annually, beginning in the 2025-27 biennium.

3. Under AB 43/SB 70, the Governor recommends converting the 38.0 Act 59 project positions to permanent positions. Current funding of \$2,017,500 GPR for position salaries and \$842,100 GPR for fringe benefits, annually, would be maintained. The Governor also recommends providing \$677,300 GPR in 2023-24 and \$827,500 GPR in 2024-25 and 11.0 delinquent tax collection agents annually to enhance delinquent tax collection efforts. Enhanced tax enforcement activities that are performed by these 11.0 positions are estimated to increase general fund tax collections by \$4.0 million in 2023-24 and \$16.1 million in 2024-25.

4. This paper provides an overview of DOR's Audit Bureau and Compliance Bureau and a subsequent analysis of the provisions of AB 43/SB 70 that would affect staffing levels of auditors and revenue agents at these bureaus.

### **Audit Bureau**

5. DOR's Audit Bureau staffing is configured so that each revenue auditor and agent position focuses on a specific tax type. As of July, 2022, the Audit Bureau had 424 staff. Front-line audit staffing consisted of: (a) 98 individual income tax auditors and agents; (b) 106 sales and use tax auditors and agents; (c) 79 corporate income/franchise tax auditors; (d) 78 pass-through entity auditors and agents; and (e) 12 audit selection specialists and interns. The Audit Bureau also had 51 non-revenue generating positions in July, 2022, consisting of 40 supervisors and managers, eight automation specialists, and three support staff. Of the 18 Audit Bureau project positions provided to DOR under Act 59, one is a sales and use tax revenue agent and the remaining 17 are revenue agents located within the individual income tax section.

6. DOR indicates that revenue agents within the Audit Bureau address less complex tax compliance issues than auditors, and the positions are generally assigned to a specific tax. Revenue agents focus on underreporting and non-filing, primarily for the individual income tax, but also work on corporate income/franchise and sales and use taxes. These individuals adjust individual income tax returns for tax due based on audit reports from the Internal Revenue Service or information from other agencies or states. The agents also conduct simple audit projects selected through DOR's data warehouse. These staff assist in processing tax returns and provide customer service during tax filing periods. Audit revenue agents require four months of training, including two months of classroom training and two months of on-the-job training with supervisors and reviewers. DOR states that it usually takes six to nine months for revenue agents to be fully productive. The financial and audit skills of an auditor are not required to perform these activities.

7. Table 1 shows the average front-line audit staffing level and the annual amount of audit assessments and collections over the past six fiscal years. Between 2016-17 and 2019-20, audit assessments increased 83% and audit collections increased 75%. Although audit assessments and collections have been declining since 2019-20, DOR indicates that this decline is temporary, due to reduced audit activity during the COVID-19 pandemic, higher than usual turnover for auditor positions, and two large corporate income/franchise tax audits that significantly enhanced collections in 2019-20 and 2020-21. Despite recent declines, assessments and collections in 2021-22 were 10% and 23%, respectively, above 2016-17 levels. DOR indicates that the average front-line audit staff includes vacant positions, and attributes the decline in the number of front-line staff since 2018-19 to: (a) three positions that were moved to the Customer Service Bureau; (b) two positions that were moved to non-revenue generating positions in the Compliance Bureau; (c) two revenue tax specialists that were given new titles of staff development program specialists and are no longer included in the count of revenue-generating positions; (d) two positions that have been on loan to IS&E Administration since 2019-20; and (e) one position that was deleted as a vacant position in the 2021-23 biennial budget.

**TABLE 1**

**Audit Assessments and Collections: 2016-17 through 2021-22 (\$ in Millions)**

<u>Fiscal Year</u>	<u>Average Front-Line Audit Staff</u>	<u>Audit Assessments</u>	<u>Average Assessment per Auditor</u>	<u>Audit Collections</u>	<u>Average Collections per Auditor</u>
2016-17	374	\$382.3	\$1.02	\$247.2	\$0.66
2017-18	374	520.3	1.39	236.3	0.63
2018-19	385	587.1	1.52	288.1	0.75
2019-20	378	698.4	1.85	431.8	1.14
2020-21	375	683.6	1.82	385.9	1.03
2021-22	375	419.9	1.12	305.0	0.81

Source: Department of Revenue

8. Table 1 demonstrates that audit assessments exceeded audit collections in each fiscal year. One reason for this is that approximately 10% of assessments are appealed and can potentially be reduced upon appeal. Another reason is that some of these assessments are not paid on time and thus become delinquent taxes owed. The payment of delinquent assessments is credited to the Compliance Bureau upon collection.

9. Tables 2 and 3 provide additional detail regarding DOR audit activity by tax type. Both tables show that corporate audits have historically generated the largest share of audit assessments and collections, followed by sales and use tax audits, individual income tax audits, excise tax audits, and other audits. The "other" category represents estate, fiduciary, and withholding tax. As mentioned previously, DOR's reduced auditing activity during the COVID-19 pandemic mainly impacted individual income and sales and use tax audits, and can be observed in the decline in audits and collections from those categories since 2018-19.

**TABLE 2****Audit Assessments by Tax Type: 2016-17 through 2021-22 (Millions)**

<u>Fiscal Year</u>	<u>Individual Income</u>	<u>Sales and Use*</u>	<u>Corporate*</u>	<u>Excise</u>	<u>Other</u>	<u>Total</u>
2016-17	\$52.6	\$112.0	\$213.2	\$3.5	\$1.0	\$382.3
2017-18	56.5	115.0	344.2	4.4	0.2	520.3
2018-19	59.5	247.5	274.2	5.7	0.2	587.1
2019-20	48.6	178.5	463.2	7.4	0.7	698.4
2020-21	42.2	144.8	493.4	3.2	-	683.6
2021-22	45.6	125.4	245.4	3.5	-	419.9

\*Nexus audit assessments are included in "Corporate" and "Sales and Use" assessment data.

Source: Department of Revenue

**TABLE 3****Audit Collections by Tax Type: 2016-17 through 2021-22 (Millions)**

<u>Fiscal Year</u>	<u>Individual Income</u>	<u>Sales and Use</u>	<u>Corporate</u>	<u>Excise</u>	<u>Nexus</u>	<u>Other</u>	<u>Total</u>
2016-17	\$16.6	\$66.4	\$132.2	\$3.3	\$28.0	\$0.7	\$247.2
2017-18	21.0	83.0	87.0	0.7	44.4	0.2	236.3
2018-19	22.2	110.1	94.0	1.1	60.5	0.2	288.1
2019-20	15.5	76.1	285.0	2.6	52.2	0.4	431.8
2020-21	13.7	103.5	224.9	3.3	40.5	-	385.9
2021-22	14.7	72.0	167.8	2.1	48.3	0.1	305.0

Source: Department of Revenue

10. The large corporate income/franchise audit collections mentioned previously can also be seen in Tables 2 and 3, with large increases in corporate assessments and collections observed in 2019-20 and 2020-21, then declines seen in 2021-22. DOR indicates that it does not expect audit assessments and collections of this magnitude going forward. In the near term, DOR anticipates similar individual income and sales and use tax assessments and collections as was seen in 2021-22, but expects that assessments will increase once vacancies are filled and new auditors are fully trained.

### **Compliance Bureau**

11. DOR's Compliance Bureau is responsible for collecting all delinquent taxes and providing taxpayer assistance and information. According to DOR, as of July, 2022, the Compliance Bureau's delinquent tax collection staff totaled 197 positions, comprised of: (a) 19 field revenue

agents; (b) 112 office revenue agents; (c) 12 special procedures office revenue agents; (d) eight support staff positions; (e) 17 supervisor positions; (f) seven analysts, network coordinators, auditors, and trainers; and (g) 22 vacant positions. The Compliance Bureau also provides collection services for state agencies, counties, and municipalities through the statewide debt collection (SDC) program and the tax refund interception program (TRIP), which are described in greater detail under LFB Paper 671. The staffing levels above do not include positions attributed to the SDC program and TRIP.

12. Table 4 shows average delinquent tax revenue agent staffing levels, including vacancies, in the Compliance Bureau since 2016-17, as well as delinquent taxes collected by those positions. SDC revenue agents and collections are excluded from this table. Table 4 shows that delinquent tax collections and collections per agent have increased every year since 2016-17. DOR indicates that the reduction of seven revenue agents from 2017-18 to 2021-22 is explained as follows: (a) a revenue agent was converted to a non-revenue generating trainer position in the Compliance Bureau; (b) a revenue agent position was converted to a supervisor position in the Compliance Bureau; (c) four revenue agents were transferred to the IS&E Customer Service Bureau; and (d) a revenue agent position was transferred to DOR's Enterprise Services division to support departmentwide training initiatives.

**TABLE 4**

**Compliance Bureau Delinquent Tax Collections and Staffing Levels:  
2016-17 through 2021-22 (\$ in Millions)**

<u>Fiscal Year</u>	<u>Number of Delinquent Tax Revenue Agents</u>	<u>Delinquent Tax Collections</u>	<u>Collections per Agent</u>
2016-17	164	\$251.7	\$1.53
2017-18	168	254.3	1.51
2018-19	166	259.9	1.57
2019-20	163	263.1	1.61
2020-21	162	288.1	1.78
2021-22	161	290.3	1.80

Source: Department of Revenue

13. DOR has provided the following descriptions of each type of revenue agent included in Table 4 within the Compliance Bureau:

*Field Revenue Agents.* Field revenue agents spend most of their time out of the office to resolve cases involving all delinquent tax types, often on the most challenging cases. Advanced level field work is often required to locate and/or educate taxpayers, search for assets, and take enforced collection actions. Enforced collection activities include seizure of personal property, cash executions, and business closures. Field agents focus on debt resolution and customer education to obtain ongoing compliance. Field revenue agents require six months of classroom combined with intensive on-the-job training, followed by an additional six months of intensive

field training. These agents are usually fully productive after a year of training.

*Office Revenue Agents.* Office revenue agents collect all types of delinquent tax liabilities as well as SDC balances for debtors both in and outside of Wisconsin. Entry-level staff concentrate primarily on responding to customer inquiries regarding balances due, collection actions, and negotiating payment plans while educating customers about their responsibilities to become compliant in the future. The complexity of collection work and enforcement actions progressively increases as the agent develops experience and expertise. Advanced office agents perform in-depth investigation of highest risk individual and business debtors to obtain past due filings, locate collection sources, and seize assets, often in partnership with field revenue agents. Office agents in the Special Procedures Unit provide specialized collections activities and support to other revenue agents. Agents receive six months of classroom combined with intensive on-the-job training. An additional three months of supported development in DOR's training units follows the formal training. These staff are typically fully productive in nine months of training. DOR indicates that all of the 19 revenue agent project positions within the Compliance Bureau and the nine additional requested revenue agents are/would be office revenue agents.

14. Table 5 shows the average outstanding delinquent tax balance, the amount of new bills referred to the Compliance Bureau, the amount of delinquent taxes collected, and the amount written off as uncollectible. The balance of other agency debt and total outstanding debt is also shown because DOR states that it cannot delineate the amount of delinquent tax bills written off from the amount of other agency debt written off. The delinquent tax balance has remained relatively stable over the past six years. However, the number of new delinquent bills added each year has increased 91% since 2016-17, representing an increase in the overall case load for revenue agents.

**TABLE 5**

**Compliance Bureau Balance of Delinquent Debts: 2016-17 through 2021-22 (Millions)**

<u>Fiscal Year</u>	<u>Delinquent Tax Balance</u>	<u>Other Agency Debts*</u>	<u>Total Balance*</u>	<u>New Delinquent Bills Added</u>	<u>Delinquent Taxes Collected</u>	<u>Uncollectible Amounts Written off*</u>
2016-17	\$1,020.0	\$126.0	\$1,146.0	\$652.0	\$251.7	\$109.9
2017-18	1,037.6	219.6	1,257.2	573.9	254.3	96.9
2018-19	1,080.6	379.1	1,459.7	935.3	259.9	131.3
2019-20	1,137.3	472.1	1,609.4	892.1	263.1	166.1
2020-21	1,057.4	509.6	1,567.0	870.7	288.1	205.8
2021-22	1,052.2	470.0	1,522.2	1,242.2	290.3	137.1

\*Includes delinquent tax amounts and amounts owed other agencies under the SDC program.

Source: Department of Revenue

15. Table 6 shows the estimated collectible amounts out of the total delinquent tax balance and the percentage of taxes collected out of the collectible amounts. Each year, DOR estimates the

amounts collectible using a method that is based on accounts in bankruptcy, deceased taxpayers, defunct corporations, and other amounts under consideration for write-off. On average, amounts collectible represent approximately 40% of the total delinquent tax balance over the last nine fiscal years. Although the percentage of the collectible balance that is actually collected has varied from year to year, the actual amount of delinquent taxes collected has increased each year shown in Table 6. Despite increased collections, the collectible balance of delinquent taxes has grown 40% since 2016-17.

**TABLE 6**

**Compliance Bureau Estimated Delinquent Tax Amounts Collectible and Percent Collected:  
2016-17 through 2021-22 (\$ in Millions)**

<u>Fiscal Year</u>	<u>Tax Balance</u>	<u>Collectible Balance</u>	<u>Percent Collectible</u>	<u>Taxes Collected</u>	<u>Percent Collected</u>
2016-17	\$1,020.0	\$304.2	29.8%	\$251.7	82.7%
2017-18	1,037.6	370.5	35.7	254.3	68.6
2018-19	1,080.6	494.1	45.7	259.9	52.6
2019-20	1,137.3	497.0	43.7	263.1	52.9
2020-21	1,057.4	482.8	45.7	288.1	59.7
2021-22	1,052.2	425.4	40.4	290.3	68.2

Source: Department of Revenue

**Proposed Position Changes and Additions**

16. As noted, AB 43/SB 70 would make the 38 project positions within DOR's Audit and Compliance Bureaus permanent. These positions are scheduled to expire on June 30, 2025. DOR estimates that these positions generate \$39.3 million in delinquent tax collections annually. Therefore, the expiration of these positions would result in a reduction in general fund tax revenue, beginning in 2025-26, that is partly offset by a reduction in position funding of \$2,859,600 GPR. If the Committee wants to maintain DOR's current level of tax collections in future biennia, it could make these 38 project positions permanent [Alternative A1].

17. DOR estimates that the 18 revenue agent project positions (including one supervisor) within the Audit Bureau generate \$3.5 million of tax collections (average collections of \$190,000 per position), while the 20 office revenue agent project positions (including one supervisor) within the Compliance Bureau generate \$35.8 million in tax revenue (average collections of \$1.8 million per position). Much of the work of Audit Bureau revenue agents is to conduct office audits that help generate unpaid taxes to be collected, provide customer service, and process tax returns. However, often these amounts identified and assessed by the Audit Bureau are credited to the Compliance Bureau if collection occurs after the 60 day appeal period, which explains why more revenues are generated by Compliance Bureau revenue agents. Together, these 38 positions generate \$39.3 million of tax collections, or \$1.03 million per position.

18. Under state law, a project position is defined as a position which is normally funded for six or more consecutive months and which requires employment for 600 hours or more per 26 consecutive biweekly pay periods, either for a temporary workload increase or for a planned undertaking which is not a regular function of the employing agency and which has an established probable date of termination. State law specifies that project positions cannot exist for more than four years. Although the 38 project positions were created as new positions in 2017 Act 59, they effectively extended the expiration of the 33 project positions set to expire on September 30, 2017, and added an additional five positions within the Compliance Bureau. Further, when DOR requested the 38 project positions during the 2017-19 biennial budget, it indicated that authorizing project positions, rather than permanent positions, would provide the Department flexibility to review its staffing needs at the expiration of these positions to see if a future request is warranted and to what degree. These positions were extended for an additional four years (12 years total) during the 2019-21 biennial budget and are now being requested as permanent positions, which suggests that there is an ongoing need for the positions.

19. However, the Committee may not want to make these project positions permanent in this biennium and, instead, decide whether to provide positions as permanent positions in the next biennium. If the Committee chooses to delay the decision regarding the status of these positions, it could extend the expiration date of the positions from June 30, 2025, to September 30, 2025 [Alternative A2]. This option would avoid the potential that such positions would expire for a period of time and result in a revenue reduction if the 2025-27 biennial budget were not enacted by July 1, 2025.

20. The proposed 11 delinquent tax collection positions for the Compliance Bureau would consist of nine revenue agents, one revenue agent lead, and one revenue agent supervisor. According to DOR, additional staff are needed to distribute the current workload and attain its full collection potential of taxes owed. DOR estimates that providing these additional positions would increase general fund tax collections by \$4.0 million in 2023-24 and \$16.1 million in 2024-25 [Alternative B1]. DOR's estimate of additional tax collections is based on an estimate that each new revenue agent position would generate \$1.79 million in collections. This estimate is consistent with the average collection amounts per agent presented in Table 4.

21. As of January, 2023, 46 front-line auditor positions and five revenue agent positions within the Audit Bureau were vacant. Likewise, the Compliance Bureau had 29 vacant positions, including 27 revenue agents. All of the non-supervisory project positions that would be made permanent and the additional positions that DOR has requested would be revenue agent positions. According to DOR, revenue agent recruitment in the Madison location has been challenging. To address this issue, it has begun to recruit statewide, with newly-hired agents being headquartered in the nearest regional DOR office (Milwaukee, Green Bay, Appleton, Wausau, or Eau Claire). DOR indicates that it has hired, or is in the process of hiring, 34 new revenue agent positions for IS&E, sufficient to fill the current vacant revenue agent positions, and states that it has had success in hiring revenue agent positions since it began to recruit statewide.

22. Conversely, DOR indicates that it is currently struggling with employee recruitment and retention within its auditor classification, which explains the 46 vacant auditor positions. The



Department cites two issues contributing to its recruitment challenges: (a) a declining enrollment of university students into accounting programs; and (b) that wages DOR is able to offer for auditor positions are below the market rate for similar positions offered by other state agencies and in the private sector. However, AB 43/SB 70 would provide a general wage adjustment for state employees of 5% on July 1, 2023, and 3% on July 1, 2024. Such an adjustment could help bring DOR auditor salaries closer to the market rate, and therefore allow DOR to be more competitive in its recruitment efforts. Fully staffed auditor positions are needed to enhance audit assessments, which can later be referred to the Compliance Bureau for collection by revenue agents.

23. Due to high levels of auditor vacancies within the Audit Bureau, the Committee may decide to take no action on the proposal to provide 11.0 delinquent tax collection positions [Alternative B2]. Instead, DOR could choose to reallocate vacant auditor positions from the Audit Bureau to revenue agent positions within the Compliance Bureau. However, a revenue agent's ability to collect delinquent taxes is partly reliant on an auditor's ability to identify taxes to be collected. Without sufficient auditors, a revenue agent's impact could be limited.

24. Finally, under AB 43/SB 70, the Governor recommends transferring \$640,400 GPR and 6.0 positions from DOR's collection of taxes -- general program operations appropriation to its administrative services and space rental -- general program operations appropriation. The general operations appropriation under collection of taxes provides funding for the administration of income, franchise, sales, and excise taxes, primarily to support the operations of IS&E. The general operations appropriation under administrative services and space rental appropriates monies to generally support the operations of the Secretary's Office, legal staff, the Division of Research and Policy, and the Enterprise Services Division (ESD).

Of these transfers, three positions would be transferred from IS&E's Compliance Bureau to create the Office of Communications in the Secretary's Office. According to DOR, the purpose of the Office of Communications would be to align the Department's internal and external communications under one manager. The Department indicates that two of the positions are communications positions and the third position is a vacant revenue tax representative. DOR states that the transfer of these positions would support communications departmentwide, rather than only within IS&E, and would not impact tax enforcement activities within the Compliance Bureau, if approved by the Committee. However, the transfer would reduce total staffing within IS&E.

Three positions, two auditor positions within the Audit Bureau and one revenue agent position within the Compliance Bureau, would be transferred to create the Engagement & Strategy Section (ESS) in ESD. According to DOR, the focus of ESS would be on learning, engagement and retention, and promoting and supporting effectiveness, efficiency, and strategic success across the Department. Although the positions that would be transferred are revenue generating positions, DOR states that the vacant auditor and revenue agent positions would provide a placeholder for ESS recruitment of existing trainers and staff development specialist employees within IS&E, after which the newly vacant program trainer and staff development specialist positions could be reallocated as auditor and revenue agent positions. DOR states that this transfer would not reduce the level of front-line auditor positions in the Audit Bureau or revenue agents in the Compliance Bureau and is not expected to have an effect on state tax collections. However, the transfer would reduce total staffing within IS&E.

25. The Committee could approve the transfer of \$640,400 GPR and 6.0 positions from DOR's collection of taxes -- general program operations appropriation to its administrative services and space rental -- general program operations appropriation [Alternative C1]. Alternatively, the Committee could take no action on these transfers, in which case the funding and position authority would be retained within DOR's appropriation for IS&E [Alternative C2].

**ALTERNATIVES**

**A. Existing Project Positions**

1. Convert 38.0 GPR project positions to permanent positions and maintain current funding of \$2,017,500 GPR for position salaries and \$842,100 GPR for fringe benefits, annually.
2. Extend the expiration of the 38.0 GPR project positions provided to DOR under 2017 Act 59 from June 30, 2025, to September 30, 2025.
3. Take no action.

**B. Increase Delinquent Tax Collection Agents**

1. Provide \$677,300 in 2023-24 and \$827,500 in 2024-25 and 11.0 positions annually to enhance delinquent tax collection efforts. Estimate an increase in general fund tax collections of \$4.0 million in 2023-24 and \$16.1 million in 2024-25.

ALT B1	Change to Base		
	Revenue	Funding	Positions
GPR		\$1,504,800	11.00
GPR-Tax	\$20,100,000		

2. Take no action.

**C. Minor Transfers Between Appropriations**

1. Transfer \$640,400 GPR and 6.0 positions from DOR's collection of taxes -- general program operations appropriation to its administrative services and space rental -- general program operations appropriation
2. Take no action.

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