

Board of Equalization

1) Accounts Receivable:

a) What is the magnitude of the current accounts receivable?

In fiscal year 2013-14, the BOE generated revenue of \$60,448,064,000. BOE's total accounts receivable balance as of December 31, 2014 is \$1,976,668,141.

b) What is the breakdown of the total accounts receivable amount by revenue source (e.g., Sales and Use Tax Law, Cigarette and Tobacco Products Tax, etc.)?

A summary of the accounts receivable balances by tax program is provided in the table below. For additional detail, see the table at the end of this document.

BOE – Accounts Receivables as of December 31, 2014

Program	Amount
Sales and use tax	\$1,703,308,717.62
Alcoholic beverage taxes	\$1,050,470.24
Childhood lead poisoning prevention fee	\$2,020,899.87
Cigarette & tobacco products taxes/license	\$178,300,221.22
Diesel fuel taxes	\$2,550,615.30
Hazardous substances taxes	\$4,022,013.37
Other special tax/fee programs	\$85,415,203.44
Total	\$1,976,668,141.06

c) What is the breakdown of the total accounts receivable amount by delinquency period (e.g., 30-days past due, 90-days past due, 1-year past due, etc.)?

Sales and Use Tax & Special Taxes and Fees As of December 31, 2014

	Amount
0 to 30 Days	\$45,455,626
31 to 60 Days	\$47,185,472
61 to 90 Days	\$46,744,810
91 to 120 Days	\$28,127,432
121 to 180 Days	\$62,653,634
181 to 1 Year	\$155,059,265
1 to 2 Years	\$233,159,694
2 to 3 Years	\$191,831,675
3 Years plus	\$1,166,450,533
Total	<u><u>\$1,976,668,141</u></u>

i) What is the average time an account receivable stays on the books if it is expected to be collected?

Each case is unique and, thus, some accounts receivables are deemed uncollectible sooner than others. An account receivable will remain on the books and will be pursued for collection until all avenues to collect the debt have been exhausted, as prescribed in law and BOE policy. Once it is deemed uncollectible, BOE staff will proceed with the “write-off” process, also known as discharge from accountability, authorized by Gov. Code Sections 13940-13944. While this process relieves the BOE of the responsibility to collect the liability, it does not relieve the taxpayer of the liability and statutory interest continues to accrue on any portion of unpaid tax or fee that remains due at the time of write-off.

ii) What is the average time an account receivable stays on the books if it is in a repayment plan?

On average, an account receivable is in a repayment plan for less than six months.

d) Does the BOE contract with any third parties for the collection of outstanding accounts receivable? If so, what criteria does the BOE use to determine which accounts are contracted out for collection

No.

e) How much of the total accounts receivable amount can the BOE reasonably expect to collect and when?

BOE can reasonably expect to collect 80% of total accounts receivable. Approximately 59% is collected in the first year, 7% in the second year, 4% in the third year and 10% over the remaining life of the liability.

f) What additional tools or resources would the BOE need to improve the collection of outstanding accounts receivable?

Centralized Revenue Opportunity System (CROS) – This system will replace the BOE’s legacy computer systems. We anticipate CROS will increase BOE’s effectiveness and generate an annual net increase of \$200 million in previously unidentified revenue. Integral to CROS will be an enterprise data warehouse which will provide BOE with the capability to perform modeling and analytics to support program intelligence and strategic planning.

eFile (Special Tax Programs) – Expanding BOE’s electronic services to allow the electronic filing (“eFile”) of tax and fee returns for additional special taxes and fee programs such as the California Tire Fee, Electronic Waste Recycling Fee, and the Underground Storage Tank Maintenance Fee. Using eFile, tax and fee payers will be able to remit return payments electronically, including a payment warehousing capability so that a tax or fee payer’s return is automatically paid on its due date. The payment warehousing feature has been well received by tax and fee payers of other BOE programs for which eFile is already available. We anticipate the payment warehousing functionality will reduce the number of returns filed without payment. Further, since eFile will allow BOE to process tax and fee returns more quickly and efficiently, BOE will be able to more quickly issue billings for those tax and fee payers that filed their returns without payment in full.

Secretary of State - The BOE is gathering information for a possible legislative change that will prohibit the Secretary of State from allowing corporations or limited liability companies to form when the former officers or LLC members have an outstanding liability with any of the revenue agencies.

g) What is the expected percentage of outstanding accounts receivables that will likely never be collected?

Approximately 20% of outstanding accounts receivable will likely never be collected.

i) Do the account receivables remain on the books in perpetuity, or are they written off after a certain period of time?

Accounts receivable do not remain on the books in perpetuity. See the response to question 1.c.i. for information regarding the “write-off” process for accounts receivable.

ii) Has BOE attempted to find ways of eliminating the account receivables?

The accounts receivable can be reduced but not eliminated. Provided below is a summary of BOE’s recent efforts to reduce its accounts receivable and/or enhance its compliance program. For discussion purposes, these efforts have been grouped into four primary areas: Direct Revenue, Education/ Outreach, Technology, and Efficiency.

DIRECT REVENUE

- **Financial Institution Records Match (FIRM)** – Implemented on March 26, 2013, this program matches tax debtors’ record files such as social security numbers (SSNs), federal employer identification numbers (FEINs) and/or names, against accounts held at financial institutions (banks, credit unions, insurance and brokerage companies) doing business in California. Financial information obtained through FIRM is available in BOE’s Automated Compliance Management System (ACMS). The revenue received for FY 13-14 was \$65.4 million.
- **Top 500** – Pursuant to RTC section 7063, the top 500 sales and use tax debtors are identified on the BOE’s website. State governmental licensing entities are also required to withhold issuance or renewal of applicants whose names appear on the list on or after July 1, 2012. The recent addition of a mapping feature which identifies the geographical location of each Top 500 tax debtor has increased media coverage of the list which, in turn, has increased compliance of large debtors. Revenue received for FY 2013-14 was \$1.9 million.

EDUCATION/ OUTREACH

- **Proactive Outreach Manager (POM)** – We currently utilize the POM, which is an automatic dialing system that makes outbound calls to delinquent and past due taxpayers. The BOE’s Sales and Use Tax Department (SUTD) has seen an 8% increase in the compliance rate from this effort. Special Taxes and Fees has seen a 4% increase in the compliance rate due to POM.

- **Simplified Communications** – SUTD began applying behavioral science techniques to its taxpayer letters and notices. For example, the BOE now notes on hard copy returns, that “98% of our taxpayers e-file, why not you?”
- **New Permit Orientation Consultations** – Starting new permit holders on the right track will help BOE maximize voluntary compliance. New permit holders typically have the highest delinquency rate. BOE staff reaches out to these new taxpayers with a personal phone call. During the conversations with these taxpayers staff remind them of how to successfully file and pay, explain basic tax issues related to their business, and answer any questions they may have about their sales and use tax obligations.
- **Publication 54-A** – SUTD includes publication 54-A, *Behind on Your Payment? What You Need to Know*, with final liability billings. The publication provides the same collection information and resources provided in publication 54, *Tax Collection Procedures*, in a simplified, more concise format. Special Taxes and Fees also used Publications 54-A by referring tax and fee payers to the online version on specific types of billings.

TECHNOLOGY

- **Online Payment Plans** – This service allows our tax and fee payers who cannot pay in full, the ability to request a payment plan online through the BOE website. Tax and fee payers meeting certain criteria are automatically approved. Accounts that are not auto-approved are routed to, and contacted by, a BOE staff member. This service became live on December 9, 2013. For FY 2013-14 there were a total of 10,106 payment plans received, of which 5,127 were auto-approved and 2,952 were approved after being routed to a staff member for review.
- **Communications Training**– This online, interactive, and game-based strategy course teaches collection staff negotiation and persuasive communication skills. The course goes beyond traditional negotiation classes in that it focuses on teaching staff to ask follow-up questions to better understand the concerns and needs of the person they are assisting. This promotes improved communication and enables staff to more completely address and provide resolution to a taxpayer’s unpaid liability or other request.

EFFICIENCY

- **Revamped Sales and Use Tax Delinquency and Revocation Process** – This new process gives more notice to the taxpayer before the due date of the return. The account is cited 55 days earlier, the account arrives on the collector’s work list 34 days earlier, and is canceled (revoked) 62 days earlier than under the prior process.
- **Streamlining the Write-Off Process** – A workgroup was formed to identify issues in the write-off process after recognizing the number of write-offs had diminished. We streamlined a portion of the process that reduced the length of time required to complete a write off. We continue to evaluate other proposals to streamline this process.
- **Strengthening Goal-setting** – BOE established a goal for all district offices to reduce SUTD’s total accounts receivable from \$1.8 billion to \$1.5 billion by June

30, 2014. As a result, the districts streamlined processes to allow more time for collection activities. At the end of FY 2013-14, SUTD's accounts receivables balance was \$1.65 billion.

- **Increased Field Calls** – Collectors in the district offices are increasing their field calls to meet with taxpayers one-on-one. This type of contact helps taxpayers better understand their responsibility and encourage faster resolution to their liability.

2) Revenue Collection:

a) How much revenue does the BOE collect per BOE employee?

In Fiscal Year 2013-14, the BOE collected \$13,334,818 per authorized position.
(*\$60,448,064,000/ 4,533.1 authorized positions*)

b) Are certain taxes more difficult to collect than others?

In general, tax or fee programs where the dollar amount of each liability is low and which have a large number of registrants pose the most challenge with respect to collections. Examples include the Fire Prevention Fee and Cigarette Internet programs.

Additionally, it can be more difficult to collect fees in programs that derive their registration from third-parties or outside agencies. For example, CalFire provides registration information to BOE for the Fire Prevention Fee program, while BOE bills the fee payer. Since registrants in this program are property owners and not business owners, many of them call BOE to discuss the new law and frequently request installment payment plans or information on how to appeal the fee.

BOE administers several programs that derive registration based on third-party data not through self-initiated registration. These programs typically experience higher rates of non-payment or delinquencies with the newly registered accounts but tend to level out after several filing/billing periods. Other non-business accounts are registered from third-party data, specifically copies of invoices obtained by the Attorney General's Office from out-of-state sellers showing purchases of cigarettes by CA consumers that we are required to bill excise taxes. The invoices are often aged three years or longer, but the tax is still billable under the statute. Aged data results in returned mail because of the frequency of taxpayers changing residences. Additionally, as the data ages, taxpayers frequently forget about the taxable transaction which, in turn, hampers voluntary compliance and payment of the liability.

c) What are the biggest obstacles that prevent the BOE from collecting account receivables?

The potential obstacles include:

- A taxpayer may be insolvent before BOE assesses a liability and attempts collection action.
- A taxpayer may have dissipated their assets before they are located.
- Legal collection avenues that are authorized in statute in CA do not extend to out-of-state jurisdictions. Voluntary payment is the primary method of collecting from out of

state taxpayers, and pursuing assets located out of state is particularly costly. It requires at least two court actions: one in California, and a second in the state where the property is located, before BOE can hire a third-party to pursue collection action out of state on behalf of the agency.

- Collection action in court, including the enforcement of liens, levies and wage garnishments, seizing property, or seeking orders to garnish spousal earnings are difficult to pursue due to lack of legal resources. Court actions require the expertise of collection specialists, BOE management, BOE counsel and the Attorney General's Office.
- Monitoring tax and fee payers in poor financial condition requires significant resources with little possibility of payment.
- Unsupported tax arguments, hardship claims and payment proposals delay and impede the effectiveness of prompt collection action.
- Corporations provide substantial protection for the officer's and their personal assets. Officers can shield their personal assets from being attached while the corporate structure is intact even when large liabilities are owed by the corporate entity and the liabilities remain unpaid. Summary collection can only be effected upon the assets of the corporation or held in the corporate name. Only after the corporation dissolves may the BOE pursue collection action from responsible persons, such as corporate officers.
- BOE's legacy computer systems do not support data analytics to assist with collection modeling. However, the BOE's CROS solution will provide an enterprise data warehouse which will allow for BOE to develop a comprehensive collection model for the purpose of improving the prioritization of collection cases.

d) What additional tools or resources would the BOE need to collect tax revenues that are currently going uncollected?

See response to question 1.f.

e) Has the BOE taken steps to improve the collection process?

Yes.

i) If not, why not?

N/A

ii) If yes, what are they?

See response to question 1.g.ii.

f) Do these tools differ depending on the tax or fee program in question?

BOE's collection tools can be utilized across programs as similar provisions authorizing liens, levies, etc., exist in the various statutes for the programs administered. However, not all of the avenues available are feasible or economical for every account or amount owed. There are also some differences in statutes among all of the tax and fee

programs. For example, the sales and use tax program has additional provisions that allow the department to issue billings to corporate officers (or other persons responsible for filing returns or paying taxes) under specified conditions as provided by RTC section 6829. Additionally, pursuant to RTC section 6812 a purchaser ("successor") of a business can be held liable for unpaid sales and use taxes of the predecessor if they fail to withhold from the purchase price the amount of sales and use taxes due. Similar statutes does not exist for the other tax and fee programs

g) What technologies does the BOE currently utilize to minimize the tax gap?

The tools currently utilized by BOE include:

Data Analytics - The BOE uses data analytics to review data in its legacy systems and to review a taxpayer's electronic records.

Statewide Compliance and Outreach Program (SCOP) – The purpose of SCOP is to educate business owners regarding their sales and use tax reporting responsibilities, ensure businesses have the required state tax and fee permits, provide a field presence for the BOE, and address the tax gap. SCOP staff in the field use tablets to access BOE data immediately while talking with taxpayers. Using the tablets, staff can access a taxpayer's account information which is invaluable in maximizing the outcome of a visit.

Taxpayer Outreach - The BOE also engages in a number of outreach activities to educate taxpayers and increase voluntary compliance including, but not limited to:

- Hosting town halls and webinars to answer taxpayer questions and provide tax and account information;
- Creating and maintaining industry-specific webpages on the BOE's website which help taxpayers obtain the information they need specific for their industry;
- Utilizing BOE staff to work directly in the communities to provide outreach to educate and assist taxpayers; and
- Fostering best practices used and shared by other agencies and states.

Point of Taxation - Many of the excise taxes programs administered by Special Taxes impose the taxes owed high up in the distribution chain, such as the manufacturer (beer, wine, distilled spirits, gasoline, diesel) or point of first distribution (cigarettes, tobacco, natural gas, telephone surcharge) rather than at retail. The major benefit to employing that point of taxation is that it limits the possibility for a tax gap.

h) How effective are the BOE's current auditing practices and how could they be improved?

The BOE's auditing practices are effective (see 2.i. below) but cash based businesses, the underground economy, and taxpayers that with limited or no business records continue to pose a challenge. Improvements to BOE's audit program are made on an ongoing basis, for example, the expansion of the Managed Audit Program (MAP) to additional tax and fee programs (AB 2009, Chapter 105, Statutes 2014). In the future, the BOE's CROS solution will provide an enterprise data warehouse which will facilitate advanced data analytics which will be used to improve the BOE's audit selection process.

i) What percentage of BOE audits reveal a material discrepancy between reported liability and actual liability?

Approximately 66% of BOE audits reveal a material discrepancy between reported liability and actual liability.

SUTD & STFD	Number of Cases
AUD/FBO Deficiencies	7,963
AUD/FBO No - Change	4,023
Total	11,986
% of Deficient AUD/FBOs	66%

j) How much money is generated annually as a result of audits?

BOE audit revenue for fiscal year 2013-14 was \$494,410,780.

SUTD & STFD	Revenue
Routine Audits	\$603,994,508.05
Discovery (FBOs)	\$41,042,917.04
Refund Audits	(\$75,803,112.45)
Refund Claims (FBOs)	(\$74,823,532.34)
Total Audit Activities	\$494,410,780.30

k) Does the BOE currently share any information with other tax agencies to identify taxpayers that are out of compliance? If so, what types of information are shared?

BOE shares a variety of information from registration and return information to audit reports with the Franchise Tax Board, Internal Revenue Service and Employment Development Department. In addition, the TOP 500 Debtors are shared with the following State governmental licensing entities as they are required to withhold issuance or renewal of licenses and permits to those applicants whose names appear on the list on or after 7/1/2012:

- Commission on Teacher Credentialing
- Department of Consumer Affairs
- Department of Motor Vehicles
- Department of General Services
- Alcoholic Beverage Control
- Department of Insurance
- Department of Housing and Community Development
- California Gambling Control Commission
- Bureau of Real Estate
- Office of Real Estate Appraisers
- Department of Business Oversight
- California Horse Racing Board
- Department of Toxic Substance Control
- California Highway Patrol

l) Is there information that the BOE is currently unable to obtain that it believes would be useful in closing the tax gap?

BOE currently receives data from numerous sources; effectively utilizing the data BOE currently receives is a greater problem than the need for additional data. At least two factors contribute to this problem:

- BOE's lack of an enterprise data warehouse. We anticipate this problem will be resolved with the implementation of the BOE's Centralized Revenue Opportunity System (CROS).
- Limited data analytic and technology staff resources.

m) What taxes and fees are currently outside the jurisdiction of the department that the department believes could be collected if it had jurisdiction over the tax and fee?

None.

Board of Equalization		
Accounts Receivables - As of December 31, 2014		
TAT	Sales and Use Tax Department	Total Amount
CTP	CIGARETTE/TOBACCO FLOOR TAX	12,127.68
SA	CONSUMER USE TAX, VEHICLES	27,015,208.81
SB	CONSUMER USE TAX, VESSELS	11,970,714.69
SC	CERTIFICATE OF REGISTRATION, USE TAX	25,664,579.08
SD	NON-RECURRING USE TAX	1,436,634.93
SG	SALES TAX PRE-COLLECTION ON MVF	386,387.66
SI	CONSUMER USE TAX, CUSTOMS	1,025.03
SP	CONSUMER USE TAX, AIRCRAFT	11,050,613.14
SR	SALES TAX REGULAR	1,592,184,515.35
SU	CONSUMER USE TAX, PERIODIC LIABILITY	5,056,115.63
FP	FUEL USER	28,530,795.62
	Subtotal SUTD	\$ 1,703,308,717.62
TAT	Special Taxes and Fees Department	Total Amount
ABM	ALC BEV-BEER MFG	176,511.10
ABW	ALC BEV-BEER & WINE	52,691.12
ADC	ALC BEV-DIST SPRTS COMM CARR	1,502.80
ADS	ALC BEV-DIST SPIRITS MFG	759,735.49
AWG	ALC BEV-WINEGROWER	60,029.73
	Alcoholic Beverage Taxes Subtotal	\$ 1,050,470.24
CA	CH LEAD-ARCHIT COATING	1,911,450.49
CL	CH LEAD-MVF DISTRIBUTOR	108,134.59
CO	CH LEAD-LEAD RELEASORS	1,314.79
	Childhood Lead Poisoning Prevention Fees	\$ 2,020,899.87
CP	TOBACCO PRODUCTS DSTRB	120,456,455.00
CR	CIGARETTE DISTRIBUTORS	54,517,842.53
CI	CIGARETTE/TOB INTERNET	2,962,307.65
LD	CIGARETTE DSTRBR LICENSE	1,190.00
LM	CIGARETTE MFG/IMPTR LICENSE	84,995.60
LR	CIGARETTE RETAILER LICENSE	96,406.20
TIM	TOBACCO MFG-IMPORTERS	4,569.61
UI	CIGARETTE/TOBACCO INTERNET	176,454.63
	Cigarette and Tobacco Products Taxes/Lice	\$ 178,300,221.22
DB	DIESEL-EXEMPT BUS	24,387.25
DD	DIESEL-SUPPLIER	2,307,127.15
DE	DIESEL-UNLICENSED TRUCKER	6,615.00
DH	DIESEL-HWY VEHICLE OPERATOR	28,966.60
DI	DIESEL-INTERSTATE CARRIER	151,606.81
DR	DIESEL-DYED FUEL ASSMNT	31,912.49
	Diesel Fuel Taxes Subtotal	\$ 2,550,615.30
EF	ENVIRONMENTAL FEE	2,159,447.61
HA	HW ACTIVITY FEE	640.87
HF	FACILITY FEE	572,748.25
HFU	HW TRNSPRTABLE TRTMNT FEE	22,255.05
HG	GENERATOR FEE	1,128,708.05
HGF	GENERATOR FEE (FEDERAL)	138,213.54
	Hazardous Substances Taxes Subtotal	\$ 4,022,013.37
AU	USE FUEL-USER	7,101.48
AV	USE FUEL-VENDOR	1,499.05
BF	BALLAST WATER MGMT	242,428.83
ER	E WASTE RECYCLING	992,925.53
EU	ELECTRICAL ENERGY	7,622.38
FF	FIRE PREVENTION FEE	27,549,854.83
IF	IFTA INTERSTATE CARRIER	22,125,810.74
OA	OIL SPILL PREVENTION/ADMIN	4,073.78
OL	OCCUPATIONAL LEAD	320,179.84
RB	CALIFORNIA TIRE FEE	2,221,914.88
TK	UNDERGROUND STORAGE TANK	25,025,722.77
TU	EMERGENCY TELEPHONE-SERVICE SUPPL	404,718.32
WD	INTEGRATED WASTE	7,146.23
WR	WATER RIGHTS	6,504,204.78
	Other Special Tax/Fee Programs Subtotal	\$ 85,415,203.44
	Subtotal STFD	\$ 273,359,423.44
	GRAND TOTAL	\$ 1,976,668,141.06