

# Tax Compliance

## Update to 2006 Evaluation Report

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### Problems Identified

- **Mixed Results Targeting the \$600 Million Income Tax Gap.** The Department of Revenue (DOR) made significant progress auditing individuals who do not file tax returns, but it had problems collecting taxes due from these nonfilers. DOR made less progress auditing self-employed individuals who underreport their income, in part due to high turnover among the DOR staff needed to conduct complex audits.
- **Unproductive Audit and Collection Practices.** While income and sales tax audits, overall, yielded \$5 to \$7 per dollar spent, some audit projects found little noncompliance. Also, DOR did not make effective use of some data—including W-2 information—that would help identify noncompliance. Collection of past-due payments was inefficient, and DOR did not focus its resources on collecting high-dollar debts. Limitations in DOR information systems undermined the effectiveness of some audit and collection practices.
- **Insufficient Assistance to Taxpayers.** DOR did not adequately ensure prompt, accurate responses to taxpayers who called or wrote with questions, and it did not provide sufficient help to taxpayers with limited English proficiency.

### Changes Implemented

- **Increased Audit Productivity.** By the end of 2006, DOR had eliminated an unproductive sales and use tax audit project, completed the first phase of an income tax audit project evaluation, and streamlined some debt collection processes.
- **Improved Taxpayer Assistance.** By February 2007, DOR will have implemented additional staffing, flexible work hours, and new call routing procedures aimed at answering a greater proportion of income taxpayers' calls. DOR also expanded Spanish-language assistance for small business owners.

### Action Needed

- **Improve Data and Technology.** The Legislature should require businesses to electronically file W-2 forms, and it should support DOR information system improvements that would allow better tracking of data from tax returns, audits, and collection of delinquent tax payments.
- **Provide Competitive Pay for Auditors.** To help alleviate high turnover, the Legislature should address public-private sector pay disparities for tax auditors.
- **Redirect Additional Audit and Collection Resources.** DOR should continue evaluating audit productivity and redirect resources as needed. DOR should also identify collection techniques best suited to specific debt or debtor characteristics.