

# 2014

## Oregon Department of Revenue

BUDGET NOTE RESPONSE

### PERSONAL AND CORPORATE TAX PROGRAMS 2013–15 STRATEGIC PLAN, PERFORMANCE MEASURES, & BENCHMARKS

#### EXECUTIVE SUMMARY

JANUARY 2014



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## **Introduction**

The 2013 Oregon Legislature included a budget note in the appropriation bill for the Department of Revenue (SB 5538) requiring a report during the 2014 session. The report is to include a description of noncompliance in both the personal and corporation tax programs describing the department's plans to reduce the tax gap through performance measures, benchmarks, and timelines. Progress from this plan will be reported to the 2015 Legislature.

Our response to the budget note consists of two reports; the report titled *Compliance with Oregon's Personal and Corporate Tax Programs*, and this companion report detailing the strategies and performance measures.

This executive summary provides an overview of our strategies and performance measures for increasing compliance with Oregon's income tax laws.

The goals of the report are to:

- provide a description of the department's strategies to address noncompliance;
- describe the differences between voluntary compliance and enforced compliance; and
- provide a high level explanation of the performance measures we use to evaluate the effectiveness of our strategies.

We know that taxpayers have varying motives and opportunities to be noncompliant. Using what we know about taxpayer behavior and noncompliance allows us to develop strategies to address the varying types of noncompliance. Our strategies focus on two outcome areas: voluntary compliance and enforced compliance. We use these strategies to deploy resources in the most effective and efficient way to have the biggest impact on compliance. We also use tools that are available to us to deter noncompliance and provide motivation to comply with the laws—which is dependent on whether the behavior is intentional or unintentional.

Voluntary compliance consists of all tax returns filed and payments received without contact from our staff in the form of audit, filing enforcement, or collection actions. Enforced compliance is the process of identifying noncompliance and taking action to correct it. Taxpayers have the responsibility to voluntarily report and pay their taxes. We use enforcement resources to verify accuracy of reporting and to collect known tax balances due.

## **Voluntary compliance**

Our two high-level strategies to increase voluntary compliance with Oregon's tax laws are: creating easier ways for people to comply and file; and assisting taxpayers and tax practitioners with their compliance. A few examples of the strategies include:

- Keep our website up-to-date.
- Provide on-going education and assistance.
- Make recommendations to clarify tax laws.
- Provide e-file options.
- Field offices for assistance in outlying communities.
- Partner with other Oregon state agencies and revenue departments in other states by participating in organizations such as the Federation of Tax Administrators and the Multi-state Tax Commission.

When developing strategies, the amount of the tax gap is not as useful as understanding the areas of noncompliance that create the gap. We developed our strategies based on things we've learned over time by analyzing taxpayer behavior. In the tax industry, measuring performance in the area of voluntary compliance is universal. There is no identified method to attribute revenue to education and assistance efforts. Other factors that create difficulty in this measurement are economic effects, tax policy changes, and the impact that enforcement actions have on voluntary compliance. All of these items influence taxpayers' ability and attitudes toward tax compliance.

### ***Enforced compliance***

There are three main types of noncompliance which we have developed enforcement strategies to address. They are: filing noncompliance, including taxpayers who should file an Oregon tax return but do not; reporting noncompliance, including taxpayers who file but underreport their tax due; and payment noncompliance, including taxpayers who file and report tax, but do not pay the full amount timely.

To address filing noncompliance we first use data analytics to identify non-filers. Staff learn from their behavior in order to recognize trends that lead to non-filing. Timely intervention is another strategy to address filing noncompliance. This has two impacts. First, it lets non-filers know we can find them; and second, when taxpayers are noncompliant for long periods of time it costs the state and the taxpayer more to get them into compliance.

One strategy we use to address noncompliance by underreporting is auditing to verify that certain information is reported correctly. We employ this strategy when an in-depth review is needed after the return has gone through the processing system that detects common and frequent errors.

We employ a variety of strategies, and a large number of staff, to address the portion of non-compliance related to unpaid delinquent debt. We deploy our resources towards accounts that are the most collectible. Collectability is determined by looking at various factors including the type of debt (self-reported vs. enforced), identifying assets owned by debtors, whether there is a source of income that can be garnished, and other financial information. We use information gathered through the collection process to learn what actions work and don't work on different categories of debt. We then apply what we've learned to new accounts in those categories.

### ***Performance measures***

We have proposed three agency key performance measures (KPM) that will be reported separately. They are cost-of-funds of direct enforcement dollars, cost of assessments, and cost-of-funds of collection dollars. In general, the KPM's measure efficiency and effectiveness in the areas of work that we are tasked with. In addition to the three high-level KPMs, we have a number of program performance measures. For example, we have identified four performance measures to evaluate success in the three areas of noncompliance described in this paper.

Our performance measure for addressing filing noncompliance is the percentage of identified non-filers that we act on (number of non-filers acted on divided by the number of non-filers identified). The agency KPM that this measure fits under is the cost of assessments, which measures the cost of performing suspense, audit, and filing enforcement functions.

There are two performance measures linked to underreporting because our strategies involve both verification during processing, and auditing tax returns. These measures also fit under the agency KPM of cost of assessments.

The performance measure for payment noncompliance is the percentage of liabilities (individual tax debts) resolved within 90 days from being liquidated and delinquent (number of liabilities resolved within 90 days divided by total liability count). This measure fits under the agency KPM of cost of funds of collection dollars, which measures the efficiency and effectiveness of our collection function.

These strategies are part of our Business and Personal Tax & Compliance Divisions' Strategic Plan for the 2013–2015 biennium. Each program area is developing initiatives and tactics in support of these strategies. We have developed automated reports to track the performance measures and are integrating them into our business processes by reviewing them on a quarterly basis and adjusting our strategies as needed.

# 2014

## **Oregon Department of Revenue** **BUDGET NOTE RESPONSE**

### **PERSONAL AND CORPORATE TAX PROGRAMS** **2013–15 STRATEGIC PLAN, PERFORMANCE** **MEASURES, & BENCHMARKS**

JANUARY 2014



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## **Background**

The 2013 Legislature included the following budget note in the Department of Revenue's appropriation bill (SB 5538).

"The Department of Revenue shall submit a report to the legislature during the 2014 session that describes the cause of noncompliance in the personal and corporation tax programs, including a discussion of tax gap estimates. The department shall create a specific, systemic plan to reduce the tax gap including performance measures, benchmarks, and timelines, and report progress from this plan to the legislature in 2015. Where possible, the department shall incorporate the results of the work performed for the Enforcement Revenue Budget Note in 2011."

There are two parts of our response to the budget note. This report is the second part of the response, and is intended to describe our strategic plan, performance measures, benchmarks, and timelines. This paper directly responds to the second sentence of the budget note, which asks for our plan to address tax compliance issues. We will discuss the overall strategies of our enforcement functions and how we measure our success.

The companion paper to this report, *Compliance with Oregon's Personal and Corporate Tax Programs*, provides a framework for how we view tax compliance. It describes the three main areas of compliance: filing on time; reporting complete and accurate information; and paying obligations on time. These areas are addressed here with the strategies and measures used by the business areas responsible for administering the personal and corporate tax programs. Strategies vary based on the type of tax being administered, the type of noncompliance (intentional vs. unintentional), and some common perceptions about why taxpayers don't fully comply with tax obligations.

These strategies are also appropriate in light of the department's mission, vision, and values. Our mission, vision, and values are:

### **Mission**

We make revenue systems work to fund the public services that preserve and enhance the quality of life for all citizens.

### **Vision**

We are a model of 21st century revenue administration through the strength of our people, technology, innovation, and service.

### **Values**

- Highly ethical conduct.
- Service and operational excellence.
- Fiscal responsibility.
- Quality in relationships.
- Accountability.
- Continuous improvement.

## **Addressing Noncompliance**

The companion paper regarding the causes of noncompliance states:

“DOR believes that noncompliance is best addressed through a balanced approach that begins with supporting voluntary compliance. For taxpayers that diligently attempt to file and report taxes correctly, education and assistance are the most effective means to promote voluntary compliance... After taxpayers have the opportunity to voluntarily report and pay their taxes, DOR uses enforcement resources to check compliance against third-party information sources, and to collect known tax balances due. Enforcement begins as returns are received by checking for math errors, legitimacy of certified tax credits, and other inaccurate reporting. After a return is processed it may be reviewed through one of DOR’s audit programs to ensure propriety of reported information. Third party and federal tax information is also used to identify people or corporations that did not file despite having a requirement to file.”

Following this model, our strategies focus on two main outcome areas: voluntary compliance and enforced compliance. We use these strategies to deploy resources in the most effective and efficient way to address areas of noncompliance. Voluntary compliance is considered all tax returns filed and payments received without contact from our staff in the form of audit, filing enforcement, or collection actions. In this paper we will discuss the overall strategies, specific objectives, and performance measures we will be using to evaluate our progress in each of these areas.

### **Outcome Area: Voluntary Compliance<sup>1</sup>**

There are many theories about the causes of noncompliance. These theories range from taxpayers simply not understanding their obligations and the rules regarding those obligations to taxpayers using sophisticated means to evade paying the correct tax due by law. Our companion paper lists many more factors that influence taxpayer behavior and reasons for noncompliance.

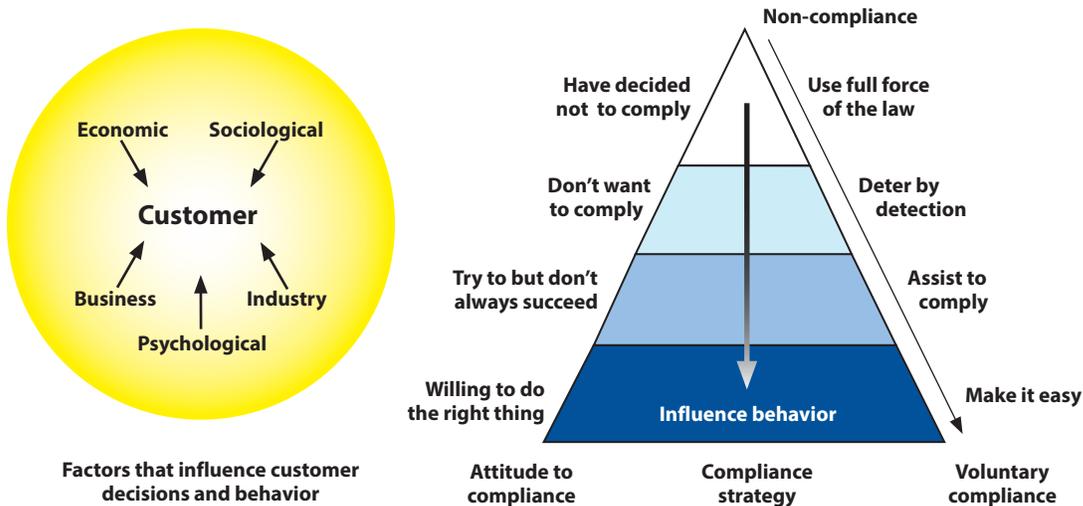
The following graphic (Chart 1) demonstrates the factors we believe influence taxpayer decisions and behavior; and the ways we believe we can have the greatest impact on taxpayer attitudes toward compliance depending on what stage of compliance individual taxpayers are in. In this way, the level of service we provide is dependent on taxpayer behavior. In other words, the way our strategies are used is dependent on whether the noncompliant behavior is intentional or unintentional as well as various other factors.

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<sup>1</sup> The term voluntary compliance includes the actions of taxpayers who choose to pay voluntarily and on time rather than risk the sanctions associated with noncompliance.

Chart 1: Influencing taxpayer behavior<sup>2</sup>

**Create an environment which promotes compliance**



**Strategies for Voluntary Compliance**

We pursue two high-level strategies to increase compliance with Oregon’s tax laws. The first strategy addresses how to meet the needs of today’s customer and make it easier for people to comply and file. Providing on-going education and assistance is imperative to enabling people to comply and is the basis of our second strategy. We have many specific objectives that lead our work in this area; some of them are described in the following paragraphs.

**Create easier ways for people to comply and file**

Our website is updated frequently to ensure that it provides tax information in a clear and understandable manner that is easily accessible to the public. The website provides detailed tax information such as forms and instructions which are reviewed annually to ensure that instructions are written clearly. Throughout the filing season, our staff provides feedback regarding questions they receive from taxpayers to identify areas that can be improved for the next year’s instructions.

The website is also used to communicate up to date information about tax law changes, court case decisions, and procedural updates through informational releases called Oregon Revenue Bulletins (ORB). These bulletins provide taxpayers and tax professionals insight into our interpretation of various areas of the law.

Electronic filing (e-file) is beneficial to us and taxpayers because error rates are lower and processing times are faster. We partner with the Internal Revenue Service (IRS) and software vendors to ensure e-file methods are accurate and secure. This work begins well before the filing season and continues into the season as software problems are brought to our attention. We continually work with our partners to ensure the best and most accurate information is being presented to taxpayers to enable them to make correct decisions regarding their tax obligations.

<sup>2</sup> This chart was adapted from the Inland Revenue Department of New Zealand’s business plan, *Our Way Forward: 2006 to 2011*.

We work to clarify tax laws by actively participating in the legislative process and developing administrative rules. As an example, during the 2011 legislative session we asked for changes to the research credit statute, ORS 317.152, to address the potential of a double benefit with the corresponding research expense that is deducted on the federal return. This change provided clarity to both us and taxpayers, making it easier for taxpayers to comply with the law. We also support the connection to federal definitions for personal and corporate taxes which makes it easier for taxpayers to comply because there is one set of rules for many aspects of taxable income. This also allows taxpayers and the department to leverage IRS information for tax assistance and education.

### ***Assist taxpayers and tax practitioners with compliance***

Our tax assistance call center provides the first line of contact with customers over the phone, through email, and in person. We recently updated our Interactive Voice Response (IVR) system so we can more efficiently handle a large volume of calls. The IVR ties into the Automated Call Distributor (ACD) system that is used by other areas of the agency. This allows calls to be immediately directed to those areas without the caller waiting for an operator to transfer a call. Callers can also listen to pre-recorded messages on specific tax topics and self-select the message they need.

We also have eight offices located throughout the state that provide education and assistance to taxpayers in their communities—Bend, Coos Bay, Eugene, Gresham, Medford, Newport, Pendleton, and Portland. This gives taxpayers who do not live near our main office the opportunity to receive face to face service.

We provide education even through our enforcement processes by increasing taxpayers' knowledge of specific tax laws that impact them. This is a focused strategy that provides personalized information to the taxpayers who need it and can assist them to be more compliant in the future. Audit and filing enforcement staff are trained on many aspects of the law to allow them to provide this service.

Studying and understanding behaviors that indicate compliance is part of our on-going business strategy. We utilize the most relevant information available to us at any given time and we continue to seek out new data sources as they become available. For example, if we know that taxpayers are intentionally noncompliant in an area of tax law, we will deploy additional audit resources to deter that behavior. On the other hand, if we believe that noncompliance is mostly unintentional we will focus our resources towards education and providing better information.

In order to gain a broader picture of compliance we analyze data from various sources, such as income and return information from the IRS and state tax returns. This allows us to tailor our education and assistance efforts towards areas we feel will have the greatest impact. For example, we track questions asked by taxpayers that require an auditor to assist with which allows us to identify areas of the law that have a high-level of misunderstanding. Once these areas are identified we can formulate objectives to provide better information to taxpayers and practitioners. This may include actions such as developing or revising an administrative rule or posting updated information on our website.

We represent the State of Oregon at the Multi-State Tax Commission (MTC) whose purpose includes promoting uniformity in tax systems and facilitating taxpayer convenience and compliance. The overall goals of uniformity are to create fairness and make it easier for taxpayers to comply with the laws. Being a member of the MTC and actively participating in their processes

also gives us contacts in other states and information about strategies other states are using or developing.

Increased third-party reporting and withholding of funds from income leads to more taxpayers meeting their tax obligations. Withholding taxes from income as it is earned makes it easier for taxpayers to comply as it removes the requirement to make quarterly estimated tax payments. In 2010, we developed iWire, a system for employers to submit employee wage and withholding information directly to us. We continue to improve and expand the way that employers report this information as well as how we use the submitted information.

Monetary penalties are one way to increase voluntary compliance; however they do not address taxpayers who have nonfinancial motives to not comply. House Bill 2464, from the 2013 Legislative Session, allows the department to assess penalties on employers who fail to file information returns (W-2s or 1099s) or file incorrect or incomplete information returns. We will assess \$50 per information return, up to a maximum of \$2,500, for employers who fail to file or file incorrect or incomplete information returns. Additionally, we will assess \$250 per information return, up to a maximum of \$25,000, for knowingly failing to file or filing incomplete, false or misleading information returns. It is too soon to analyze the effect these penalties will have on compliance.

Some of our customers, taxpayers and tax practitioners, need more technical assistance; our tax law experts provide this service to help them make informed decisions about their tax obligations. We communicate and refine processes to ensure that all employees understand how to triage questions in order to get the best results for our customers in an efficient and effective manner. Another way we provide education is by employees speaking to groups of tax professionals on a yearly basis to cover changes in federal and Oregon tax laws.

Providing secure account information to customers on our website allows them to experience ownership in resolving their questions and paying their tax. Involving the customer in this manner helps them to embrace voluntary compliance by making the process simple. Personal income tax payers may make payments, set up payment plans, or check the status of a refund online. Replacing our core systems, which is under way, will allow us to expand this service to others such as corporations and tax practitioners.

These strategies are best achieved through process improvements and education campaigns that are not easily measured. We have established a high-level performance measure to help determine our overall success at improving taxpayer compliance.

### ***Performance Measure***

As described in our companion paper, the amount of the tax gap is not as useful as understanding the areas of noncompliance that create the gap. In the tax industry measuring performance in the area of voluntary compliance is universal. There is no identified method to attribute revenue to education and assistance efforts. Other factors that create difficulty in this measurement are economic effects, tax policy changes, taxpayer attitudes towards taxes and the government, and the impact that enforcement actions have on voluntary compliance. All of these items influence taxpayers' ability and attitudes toward tax compliance.

## **Outcome Area: Enforced Compliance**

Enforced compliance is the process of identifying noncompliance and taking action to correct it. Through our enforcement actions we believe we are able to change the behaviors of those we contact leading to additional voluntary compliance in the future. Taxpayers have the opportunity to voluntarily report and pay their taxes. We use enforcement resources to verify accuracy of reporting and to collect known tax balances due.

Our companion paper points out that enforcement begins as returns are received and processed by checking for math errors, legitimacy of certified tax credits, fraudulent activity, and other inaccurate reporting. After a return is processed it may then be reviewed through our audit program. The audit process is used to ensure accuracy of information reported on the return, including verification through third-party and federal tax information. The same type of information is also used to identify people and businesses that do not file tax returns despite having a requirement to file.

There are three main types of noncompliance identified by the IRS. These categories are: filing noncompliance, including taxpayers who should file an Oregon tax return but do not; reporting noncompliance, including taxpayers who file but underreport their tax due; and payment noncompliance, including taxpayers who file and report tax due, but do not pay the full amount timely.

### ***Strategies for Enforcement***

The following high-level strategies address all three categories of noncompliance:

- Focus on greatest areas of risk in the taxpayer base.
- Leverage data and systems for enforcement activities.
- Utilize tools and opportunities to enhance enforcement efforts.

Department managers and analysts work together to understand the sources of and reasons for noncompliance. This allows us to determine which areas of noncompliance create the greatest risk to Oregon's personal income and corporate income tax revenue streams. We leverage what we know about sources of noncompliance, as described in our companion paper, to drive our enforcement strategies. We then implement specific objectives to maximize the impact of our resources to have the biggest impact on compliance. We quantify the results of our strategies with performance measures.

### ***Strategies to Address Filing Noncompliance***

To address filing noncompliance we first use data matching and analysis to identify non-filers, learn from their behavior, and recognize trends that lead to non-filing. This allows us to maximize our resources and take advantage of partnerships to gain and use third-party information that has already been provided to our partners. Examples of this include using IRS and Employment Department data to match against our database of filers.

Timely intervention is another way that we address tax non-filing. We focus our enforcement resources on recent years so that non-filing does not go unnoticed for long periods of time.

This has two impacts. First, it lets non-filers know that we can find them, and second, when taxpayers are non-compliant for long periods of time it costs us and the taxpayer more to come back into compliance. For example, if we intervene the first year a taxpayer doesn't file they

only have to prepare one return. If we wait until multiple years go un-filed the task of preparing multiple returns can be daunting even for a taxpayer who keeps good records.

### ***Strategies to Address Noncompliance by Underreporting***

Verifying the correct amount of tax is reported is a multi-step process. First, our processing systems detect common errors, areas of frequent noncompliance, and other inaccurate reporting. This means that some tax returns are temporarily removed from automated processing and require manual review to verify that certain information is reported correctly. This verification comes from both internal and external data sources.

Second, we focus our audits on areas of high noncompliance as well as areas of the tax law that are especially complex. Tax returns are selected for audit based on a variety of criteria that address those risks. This requires a balanced approach of assigning resources to audits of less complexity and those requiring in-depth examination.

This means that some of our resources are assigned to audits that require less time and result in a lower assessment; we identify these as issue or correspondence audits. Many more of this type of audit can be accomplished with the same resources used to complete in-depth audits that generally result in a higher assessment per case, these are generally business audits. The strategy here is to increase the odds of detecting noncompliance by auditing more taxpayers while staying balanced by also auditing more complex issues on a smaller scale. The secondary benefit of this strategy is that voluntary compliance is driven by the economic deterrence model described in our companion paper.

We recently received additional resources to address pass-through entities (PTE's) such as partnerships, S Corporations, and limited liability companies. PTE tax law is complex and is an area in which we see both intentional and unintentional taxpayer errors. Complex areas of tax law create noncompliance for two reasons. First, the laws and corresponding administrative rules and regulations are difficult to understand which causes unintentional noncompliance. Second, because of the complexity there are legitimate disagreements over the interpretation of the law. This ambiguity provides the opportunity to intentionally use these areas of tax law to reduce their overall tax liability in Oregon. Again, this topic is discussed more thoroughly in our companion paper. These areas of tax law are also the most likely to require a court to resolve the issue which increases administrative costs, this is another reason our strategies require balance in order to make the most effective use of our existing resources. Requesting legislative approval for additional compliance resources to address complex areas of tax law is one strategy we've used in the past to address noncompliance.

Some income tax credits lack third-party reporting, or are refundable, and may include calculations that are difficult to make. These factors make tax credits an area of high noncompliance for income tax returns. Refundable tax credits create an incentive for some taxpayers to mis-report; our strategy here is to verify correct reporting during the processing of returns which includes relying on the IRS reporting its processing adjustments to us as the tax impact for them is usually higher, which makes it more feasible for them to address. This strategy reduces the potential for incorrect refunds to be issued. PTE's and tax credits are just a couple of examples of audit issues that address underreporting.

We also address underreporting by educating tax practitioners so that they have the knowledge they need to prepare returns correctly. Because each tax practitioner prepares multiple returns, educating them has a larger impact on compliance. Almost one-half of Oregon full-year filers

used a tax preparer to file their 2012 Oregon tax return. Educating tax preparers and verifying they report their client's information correctly broadens our impact.

Specific audit strategies include focusing audits on the most recent tax year, instead of multiple years, assigning resources to taxpayers that report income which is not subject to third-party reporting, and allowing taxpayers to amend previously filed returns to correct errors we've identified. This allows us to audit a larger number of taxpayers.

Finally, we've significantly improved our process for selecting audit cases. Improvements include a centralized resource for case selection and evaluating results from audits and using that information to inform future case selection. Both the personal and corporate tax programs are using a small group of staff who develop queries against federal and state tax information. The results are evaluated for audit potential. The cases selected through this process are assigned to auditors based on a variety of factors including level of difficulty, and geographical location. This allows auditors to focus on being efficient and effective in their audits.

Tax program staff and managers regularly review the results of our audit activities, changes in tax law, changes in business structures, and other state best practices. We use this information to modify our compliance strategies and resource allocation plans.

### ***Strategies to Address Debt Resolution***

We employ a variety of strategies, and a large number of staff, to address the portion of non-compliance related to unpaid delinquent debt. Tax debt can be particularly difficult to collect for various reasons that are discussed more thoroughly in our companion paper. First, we deploy our resources towards accounts that are the most collectible. Collectability is determined by looking at various factors including but not limited to the type of debt (self-reported vs. enforced), identifying assets owned by debtors, whether there is a source of income that can be garnished, and other financial information. We analyze collection data, manage debt based on collectability, and modify our collection efforts based on taxpayer characteristics. Again, replacing our core systems will give us greater opportunity to segment accounts based on a variety of factors.

We use information that we gather through the collection process to learn what actions work and don't work on different categories of debt. We then apply what we've learned to new accounts in those categories.

A tool currently only in use for personal income taxpayers is online options to self-resolve their accounts. The system allows taxpayers to securely log into their account and view information about their debt, update their personal information, make payments, and even set up payment plans. We know our new core system will allow us to offer these services to other taxpayers. We will evaluate each group of taxpayers to determine which services to offer to them based on their needs.

Other strategies that we're developing or enhancing for future use:

- Maintain consistent contact with taxpayers who owe money to the state.
- Use public and private collection partnerships to increase debt collections. For example, we use information from other state agencies to locate taxpayers and their assets. We also have a process in place to send certain accounts to private collection firms.

- Evaluate current processes for opportunities to streamline and maximize the amount paid. For example, we are currently evaluating the process of writing off debt to enable us to focus on accounts that are more collectible by removing uncollectible accounts from our agent's work queues.
- Researching and adopting collection best practices from other states and private entities. We currently participate in the Treasury Offset Program where federal tax refunds offset to state debt. We are also exploring ideas from other states including matching debt with unclaimed property and the federal vendor offset program. We also participate in conferences held by the Federation of Tax Administrators. We were able to get statutory changes to garnishment requirements and streamline the process based on an idea from other states.

## ***Performance Measures***

We have proposed three agency key performance measures (KPM) for enforced compliance that will be reported separately. They are cost-of-funds of direct enforcement dollars, cost of assessments, and cost-of-funds of collection dollars. In general, these KPM's measure our efficiency and effectiveness in using budgeted resources to gain compliance with filing, reporting, and paying taxes. We have identified four performance measures to evaluate success in the three areas of noncompliance described in this paper. Each measure includes an explanation of what is measured, how the information helps us reduce noncompliance, and a link back to an agency KPM.

### ***Filing Noncompliance***

Our performance measure for measuring our efforts at addressing filing noncompliance is the percentage of identified non-filers that we act on (number of non-filers acted on divided by the number of non-filers identified). The agency KPM that this measure fits under is the cost of assessments which measures the cost of performing suspense, audit, and filing enforcement functions.

This measure informs us about our affect on filing noncompliance. In general we know that identifying and contacting noncompliant taxpayers provides us the highest potential to increase filing compliance. We strive to use available data and resources to identify as many non-filer leads as possible.

We're measuring the number of identified non-filers upon which the department took action to bring them into compliance. We define compliance as taxpayers who have filed a return and have paid or who are in an approved payment plan. If we are identifying more non-compliant taxpayers than we have resources to address, we can evaluate whether to allocate more resources to this function, find new tools to allow us to address more taxpayers, or develop better ways to prioritize this work.

### ***Noncompliance by Underreporting***

There are two performance measures linked to underreporting because our strategies involve both verification during processing and auditing. Both of these measures also fit under the agency KPM of cost of assessments.

The performance measure related to verification during processing is the percentage of returns suspended for verification that are adjusted (number of returns with adjustments divided by

the number of returns suspended). This measure informs us about the number and percentage of returns that are actually adjusted before processing is complete. This helps ensure we have the correct system verifications in place. The percentage should go up over time as we continue to develop more efficient and effective system edits. Because of the large volume of returns we receive it is important that we are only verifying information on returns with errors as it is not feasible to manually review every return.

The performance measure related to verification through audit is the percentage of returns selected for audit that are actually adjusted (number of returns with audit adjustments divided by the number of returns audited). This measure informs us about the number of audits that result in an adjustment to the amount of tax owed by the taxpayer. This measure along with the processing measure gives a complete picture of whether we are selecting the right cases for verification. We also expect this percentage to increase as we become more efficient and effective at identifying returns with errors.

### ***Payment Noncompliance***

The performance measure for payment noncompliance is the percentage of liabilities (individual tax debts) resolved within 90 days from being liquidated and delinquent (number of liabilities resolved within 90 days divided by total liability count). This measure fits under the agency KPM of cost of funds of collection dollars which measures the efficiency and effectiveness of our collection function.

The collection function works to resolve the identified but unpaid tax. The measure in this category informs us about the percentage of accounts that are resolved within 90 days of becoming eligible for collection action. For purposes of this measure, accounts are considered resolved when they have a collection action taken (i.e., debt is paid, debt is on a payment plan, debt is written off, etc.). It is generally understood that the sooner we contact a taxpayer for payment of the debt, the more successful we are at collecting. We use this measure to ensure that we have the right level of resources allocated to resolving new debt, which leads to collecting more dollars overall.

### ***Timelines and Benchmarks***

The strategies summarized in this paper are a part of our Business and Personal Tax & Compliance Divisions' Strategic Plan for the 2013–2015 biennium. Each of our program areas are developing initiatives and tactics in support of these strategies. We have developed automated reports to track the performance measures and are integrating them into our business processes. We also plan to apply the measures to previous year's data so that we can compare current and future performance. This data will be compiled throughout the year on a quarterly basis to enable us to modify our business where needed and report on our progress to the 2015 Legislature.

The benchmarks for improvement will be determined once we've established our baseline numbers. We expect to have our baselines, or historical data, compiled by March 2014 as well and our targets set by April 2014.