

**ANALYSIS OF AMENDED BILL**

Author: Horton Analyst: Deborah Barrett Bill Number: AB 1418  
 Related Bills: See Legislative History Telephone: 845-4301 Amended Date: 04-12-2005  
 Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:**

Withholding On Payments For Goods & Services/Underpayment Penalty/FTB Compile Listing Of 250 Largest Tax Delinquencies & Make Public Record

**SUMMARY**

This bill will:

1. Require withholding by state agencies or local governments on contractual payments to a private entity or individual for goods and services.
2. Impose additional penalties on the underpayment of tax on a notice of proposed assessment based on the amount of the tax deficiency.
3. Require the Franchise Tax Board (FTB) to make publicly available, on an annual basis, a list of the top 250 tax delinquencies, as defined, that are due and owing to the FTB.

This bill includes provisions requiring the Board of Equalization (BOE) to make publicly available, on a quarterly basis, a list of the top 250 delinquent tax delinquencies, as defined, that are due and owing to the BOE. Additionally, this bill includes provisions to amend portions of the Unemployment Insurance Code. Both of these provisions do not apply to FTB and are not discussed in this analysis.

The three provisions of this bill noted above will be discussed separately within this analysis.

This is the department's first analysis of this bill.

**SUMMARY OF AMENDMENTS**

The April 12<sup>th</sup> amendments deleted the health care coverage provisions that were in the bill as introduced on February 22, 2005, and inserted the provisions described above under "Summary."

**PURPOSE OF THE BILL**

It appears the author intends to accelerate and increase revenue for the state and provide an incentive for delinquent taxpayers to resolve their accounts to avoid being publicly embarrassed.

**EFFECTIVE/OPERATIVE DATE**

The provisions relating to the withholding on payments for goods and services is effective on January 1, 2006, and would be operative for payments made on and after January 1, 2007.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Gerald H. Goldberg

4/27/05

The provision of the bill pertaining to the application of additional penalties is effective January 1, 2006, and operative on or after that date.

The provisions of this bill relating to the compilation of a tax delinquency list are effective and operative on January 1, 2006.

## **POSITION**

Pending.

## **1. WITHHOLDING ON PAYMENTS FOR GOODS AND SERVICES**

### **ANALYSIS**

#### FEDERAL/STATE LAW

Current federal law requires that any payments in the aggregate of \$600 or more that are made for services performed for a trade or business by a person not treated as its employee, i.e., independent contractor, are required to be reported to the IRS on a 1099-MISC form. A copy of the form is required to be provided to the recipient of the payment and the FTB.

Current federal law does not require withholding of tax for payments made to independent contractors, except in two instances. One instance is if the independent contractor is a foreign person performing personal services in the U.S. The second instance is when the independent contractor is subject to back-up withholding. Back-up withholding is required if the payee fails to furnish a taxpayer identification number or the payer is notified by the IRS that the identification number provided is incorrect. Federal law requires independent contractors to make estimated tax payments in lieu of withholding requirements on income.

Current federal law requires wage information to be reported on the federal Wage and Tax Statement, Form W-2, for employees that receive compensation from an employer. In addition to wage information, employers are required to withhold, report, and remit to the IRS, federal income tax and employee's social security tax and Medicare. Federal law requires employers to regularly deposit funds withheld with an authorized federal depository, generally a bank.

Current state law parallels the information return requirements and wage withholding and reporting requirements of the federal government. The 1099-MISC forms are filed with the FTB to report payments for services performed for a trade or business by an independent contractor. Payments to corporations are exempt from this requirement. The W-2 forms are filed directly with the Employment Development Department (EDD) to report wages paid to employees. EDD also processes the payments for tax as well as any other withholding employers are required to withhold from employees.

Current law requires state agencies and local governments to withhold 7% on payments to nonresidents for services provided in California. This withholding program is administered by FTB. Since a contract may include goods as well as services to be provided to the California withholding agent, the nonresident independent contractor can certify an allocation between goods and services. Therefore, certification of the allocation will only result in withholding on the services portion of payment, not the goods. In addition, a waiver process exists for nonresident contractors meeting certain conditions.

Also, FTB administers withholding on sales of California real estate by residents and nonresidents.

## THIS BILL

This provision of the bill would require that service recipients, defined as state agencies and local governments, that enter into a contract for goods and services, must deduct and withhold state tax on payments made to the contracting party in any calendar year. The amount of tax withheld will be allowed to the recipient of the payment for goods and services as a credit against tax owed by the payment recipient. EDD would be responsible for developing the form(s) required to implement these provisions.

The withholding rate would be established at 3%, and the following payments would be exempt from withholding:

- The first \$600 of payments for goods or services made to a contracting party within a calendar year,
- Payments to tax-exempt entities, other governmental entities, and foreign governments, and
- Payment of wages already subject to mandatory withholding.

This bill would require service recipients to remit the funds withheld on payments for goods and services to the EDD under similar procedures currently established for employers submitting wage withholding. Penalties applicable to wage withholding due to non-remittance or failure to remit electronically as required would also be applicable to service recipients.

This bill would require the service recipient to furnish to the contracting party during the calendar year or before January 31 of the succeeding calendar year a written statement that contains:

- The service recipient's name, business name, address, and telephone number,
- The service recipient's federal employer number, California state employer account number, social security number, or other identifying number as required by EDD,
- The name, address, and tax identification number of the person with respect to whom a return or statement is required,
- The aggregate amount of payments in the calendar year, and
- The amount withheld.

A duplicate of the annual statement is required to be filed with EDD.

## IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

Federal law requires state agencies to report payments for "services" provided by independent contractors on a 1099-MISC form, which is sent to the IRS and FTB annually. The requirement in this bill to provide an annual report of "payments for goods and services" may potentially cause double reporting of the same payment. A copy of the annual report under this bill is required to go to EDD. This may create confusion for service recipients to properly file their required reports without duplicating current reporting requirements.

It is unclear what the term "private entity" means. A definition of this term is needed to ensure the provisions of this bill can be implemented as the author intends.

It appears that the author's intent is to make the service recipient's withholding and remittance requirements to mirror the wage withholding requirements established for employers. However, the changes made under the applicable section are incomplete and inaccurate, and additional amendments to insert the term "service recipient" are needed to make the language consistent.

The author uses the terms "persons," "contracting party," and "service recipient" interchangeably, which creates confusion over which party the author intends the provisions to apply. For example, this bill requires withholding on any payment for goods and services made to the contracting party, however, the reports required under this bill request information on the liable person or persons. Consistent use of terms will prevent confusion in interpreting the requirements imposed by the provisions of this bill.

This bill does not specify whether the requirements are applicable to residents or non-residents and could create a problem for the agencies in trying to determine how much to withhold and where to remit the payment. Current nonresident withholding on payments for services in this state is at a 7% rate. It is unclear whether the author intends to replace that rate with a 3% rate, or apply the 3% rate in addition to the current rate, making the rate for non-residents 10%. Additionally, the nonresident withholding is sent to the FTB, while the withholding imposed under this bill is to be sent to EDD.

Individual California tax returns currently have two lines for withholding:; wage withholding and withholding at source. Withholding at source is currently verified with information on the withholding database maintained by FTB before the credit is allowed. If there were a new type of withholding for taxpayers to claim, we would need another line on the returns to facilitate allowance of the proper withholding credit.

## TECHNICAL CONSIDERATIONS

On page 16, lines 7 and 8, the term "social security number" should be deleted. The service recipients by definition are state or local government agencies and would not have a social security number. The taxpayer's "taxpayer identification number" should be inserted instead.

## **LEGISLATIVE HISTORY**

AB 1628 (Klehs, 2005/2006) was introduced to modify the failure to withhold penalty to increase its effectiveness in ensuring compliance with state withholding requirements. This bill has been referred to the Assembly Revenue and Tax Committee and is scheduled to be heard on April 25, 2005.

AB 1338 (Chavez, Ch. 528, Stats. 2004) revised withholding requirements for corporations with no permanent place of business in California to conform to the withholding requirements for individual transferors.

AB 1490 (Ackerman, 2003/2004) would have exempted withholding requirement on a sale of real property interest acquired from an individual if the real property that was being conveyed was the principal residence of the individual. This bill was held in the Assembly Revenue & Tax Committee.

**OTHER STATES' INFORMATION**

The states of *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York* were surveyed due to their similarities to California's economy, business entity types, and tax laws. With the exception of *Florida*, who does not administer a personal income tax, all of these states require withholding of tax on wages paid by employers to their employees. None of these states require withholding on payments for services to independent contractors.

**FISCAL IMPACT**

The department's costs to administer this bill are contingent on how EDD decides to implement the form(s) and procedures the provisions of this bill would require. Changes to the state record keeping systems and practices would need to be implemented to capture and remit the withholding as required under these provisions. If an automated process cannot be developed and the department had to manually withhold and report on all contracted payments, department costs would be significant. Depending on the interpretation of the provisions of this bill, the use of the CAL-Card credit card payment method used by the state could be impacted. The Cal-Card program is essentially a state credit card that authorized users can use for expenses incurred while traveling, or securing goods for state use. Currently, Cal Card payments for services rendered fall under state and federal information reporting requirements. The use of a Cal Card for the purchase of goods could be considered a contract for the goods and services provided to the state.

A mechanism would need to be developed to obtain the withholding credits deposited with EDD to be available to match with tax returns. Currently, EDD programs do not capture withholding from sources other than wages. The department relies on paper forms attached to returns to capture additional withholding from other sources of income. Withholding captured on an additional form created under this bill may require another attachment to the tax return. Additional withholding may also require another line on the return to report the withholding, which would increase return processing and storage costs for paper filed returns.

**ECONOMIC IMPACT**

Revenue Estimate

Based on a department study, the revenue gain from this bill is as follows:

Estimated Revenue Impact of AB 1418				
<i>Proposal #1</i>				
Effective Tax Years BOA 1/1/2007				
Assumed Enactment Date After 6/30/05				
(Millions)				
	2005/06	2006/07	2007/08	2008/09
Compliance Effect		\$1	\$2	\$2
Acceleration Effect		\$13	-\$1	-\$5
Total	n/a	\$14	\$1	-\$3

### Revenue Discussion

In 2004, the State Reportable Payments Program mailed approximately 28,000 1099-MISC forms. Assuming that this program includes half of all the payments that would be subject to withholding under this proposal, there would be 56,000 payments subject to withholding. According to data developed for FTB's Independent Contractor Withholding Report, the average payment amount is approximately \$26,000 per 1099-MISC form, the anticipated increase in compliance is 6% of the amount of payments, and the average tax rate on these payments is about 2%. Thus, the estimated compliance revenue gain from this proposal is \$2 million per year ( $56,000 \times \$26,000 \times .06 \times .02 = \$2$  million).

In addition to the compliance effect, there would be an acceleration effect on revenues. For taxpayers that make insufficient estimated tax payments, withholding would accelerate tax payments to the time the withholding is remitted rather than the time the tax return is filed. Taxpayers who make adequate estimated tax payments, but fail to reduce these payments at the onset of withholding would have excess prepayments. The excess prepayments would offset future liabilities or be refunded, but the time lag between prepayments and the future payment activity represents an acceleration of revenue. At a 3% withholding rate, the amount of withholding will be approximately \$44 million ( $56,000 \times \$26,000 \times .03 = \$44$  million). The estimates presented assume that taxpayers can adjust other payments to compensate for about half of their over withholding and that this adjustment process would take about three years to phase in. The estimates also are adjusted for fiscal year cash flows.

### **ARGUMENTS/POLICY CONCERNS**

The amount of withholding should be equal to the tax ultimately due on the payment generating the withholding. If withholding rates are too high, the government will collect more money than is due and will eventually refund the overpayments to the taxpayer. From a policy standpoint, over withholding is undesirable because it amounts to an interest-free loan from taxpayers to the government. The financial hardship imposed on a taxpayer by this loan may be particularly harsh for low-income taxpayers. A recent report by FTB assessing the feasibility of initiating an Independent Contractor Withholding Program determined that even at a 2% withholding rate, over withholding could be expected on this population, which did not include consideration of goods. Assessing a 3% withholding rate on payments for goods and services may lead to over withholding, as the independent contractor is usually able to reduce the taxable amount of that payment by the costs of goods provided.

The penalty provisions apply to government agencies in this case. In essence, the state would be penalizing its own state and local governments. The penalties would be paid from other government revenues. In effect, essentially just passing dollars from one government fund to another. This may be a poor use of government resources.

## **2. IMPOSING ADDITIONAL UNDERPAYMENT PENALTY**

### **ANALYSIS**

## STATE/FEDERAL LAW

Under current state law, an underpayment penalty is assessed when a taxpayer or business entity fails to pay the amount of the tax due by the original due date of the return. The underpayment penalty is calculated at 5% of the unpaid tax, plus a monthly penalty of  $\frac{1}{2}\%$  (.005) of the unpaid tax for each month the tax remains unpaid for up to 40 months. The total unpaid tax is the amount of tax shown on the return, or required to have been shown on the return, reduced by the amount of any credit against the tax or payments of tax made on or before the due date of the return.

Under existing federal law, an underpayment penalty is assessed in the same manner, however the monthly rate is calculated at 5% (.05) of the unpaid tax for an aggregate maximum of 25% of the unpaid tax.

Under current state law, a notice of proposed assessment (NPA) is issued to inform a taxpayer or business entity of the FTB's intent to assess tax, penalties, interest, and fees. An NPA is issued to notify the taxpayer of the following adjustments:

- Additional tax due based on an audit of an original or amended return.
- Adjustments to tax based on Internal Revenue Service information.
- Failure to furnish information penalties.
- Failure to file a return after demand notification.

## THIS BILL

This provision of the bill will impose an additional penalty on an underpayment of tax based on the amount of the underpayment. The rate of the penalty is determined by the amount of the underpayment reflected on the NPA. The underpayment of tax is defined as the amount by which any tax imposed exceeds the amount shown as the tax by the taxpayer on the return.

The penalty will be assessed when the amount proposed on an NPA meets the following criteria:

- For an underpayment in the amount of \$10,000 or less, the penalty is an amount equal to 1% of the underpayment amount,
- For an underpayment in the amount greater than \$10,000, but less than \$100,000, the penalty is an amount equal to 2% of the underpayment amount,
- For an underpayment in the amount greater than \$100,000, but less than \$1,000,000, the penalty is an amount equal to 5% of the underpayment amount, and
- For an underpayment in the amount of \$1,000,000 or greater, the penalty is an amount equal to 10% of the underpayment amount.

These provisions are not applicable to any portion of an underpayment on which a fraud penalty has been imposed.

## IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

The bill contains a mix of terminology that makes it difficult to understand what the penalty is attributable to. The bill uses the term underpayment, but uses the IRS definition of an underreporting deficiency. The bill applies the penalty on the underpayment of tax "proposed on a Notice of Proposed Assessment, however, an NPA only "proposes" the assessment and until it has gone final, there is no true underpayment for which to apply the penalty. As written, the penalty rate has nothing to do with what the taxpayer will actually owe after protest and appeal. Until it is clear what the penalty will be based on, the department is unable to determine the extent that this new penalty implementation will impact departmental systems used to assess the NPAs.

It is unclear whether this penalty is intended to be applicable to all open years or only for taxable years beginning on or after January 1, 2006.

It is also unclear whether interest is applicable on this penalty and whether the penalty or interest is applicable from the original due date of the return or from a later date.

## **LEGISLATIVE HISTORY**

AB 1601 (Frommer, Ch.654, Stats. 2003) enhanced the accuracy related and late payment penalties imposed for underpayment of tax with respect to tax avoidance and abusive tax shelters.

## **OTHER STATES' INFORMATION**

The states surveyed include *Illinois*, *Massachusetts*, *Michigan*, *Minnesota*, and *New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Research does not indicate that *Illinois* imposes an underpayment penalty.

*Michigan* imposes an underpayment penalty of 10% of the unpaid tax, or 25% if the underpayment was intentional, or up to 100% of the tax if the underpayment was a result of fraud.

*Minnesota's* underpayment penalty is 10% of the unpaid tax.

*New York's* underpayment penalty is ½ of 1% for each month the payment is late, up to a maximum penalty of 25%.

## **FISCAL IMPACT**

Implementation of the provisions of this bill will require substantial program changes to update new functionality of existing systems, the development of new computer display screen notices, and synchronization of existing systems impacted by the changes. Departmental costs will be developed as the bill progresses through the legislative process.

## **ECONOMIC IMPACT**

### Revenue Estimate

Based on a department data, the revenue gain from this bill is as follows:

Estimated Revenue Impact of AB 1418 <i>Proposal #2</i> Assumed Effective 1/1/2006 Assumed Enactment after 6/30/2005 (Millions)		
2005-06	2006-07	2007-08
\$10	\$25	\$25

### Revenue Discussion

Based on historical department data, final NPAs issued for fiscal year ending 03/04, per the ranges of underpayment dollar amounts provided in this bill, was provided for both personal income and business entity taxpayers. According to these ranges outlined in the proposal, assessment percentages were applied to the total number of final NPAs issued. NPAs were grown by 2% annually and limited to an anticipated collection rate of 32%. Possible revenue gains of \$22 million for fiscal year 05/06 is limited to 50% based on the effective date of 1/1/2006. All other remaining years are represented in full fiscal years.

## **POLICY CONCERNS**

To be consistent with other penalties imposed under the Revenue and Taxation Code, the author may want to consider adding language that would provide for a waiver for reasonable cause in cases where the taxpayer can demonstrate that the underpayment of tax was due to reasonable cause and not willful neglect.

## **3. COMPILING PUBLIC LIST OF TOP 250 TAX DELINQUENCIES**

### **ANALYSIS**

#### FEDERAL/STATE LAW

Current federal and state law provides that returns and tax information are confidential and may not be disclosed unless authorized specifically by statute. Any FTB employee or member responsible for the improper disclosure of federal or state tax information is subject to criminal prosecution. Improper disclosure of federal tax information is punishable as a felony and improper disclosure of state tax information is punishable as a misdemeanor.

Current state law permits disclosure of tax return information to other state tax agencies, the Multistate tax Commission, and tax officials from other states and Mexico. All exchanges of tax information with these entities carry strict confidentiality rules and is prohibited from being released to the public, unless authorized by statute. Current state law also prohibits the telephone numbers and home addresses of elected or appointed officials to be made public.

THIS BILL

This provision of the bill would require FTB to compile, and make publicly available, an annual list of the 250 largest tax delinquencies exceeding \$100,000. Tax delinquency is defined as an amount owing the FTB that is based on a final determination of an NPA or a jeopardy assessment and has been recorded as a Notice of State Tax Lien in any county recorder's office in the state. Tax delinquencies that would not be on this list include the following:

- A delinquency that is under litigation in a court of law,
- A delinquency for which a taxpayer has filed a petition for redetermination,
- A delinquency for which payment arrangements have been agreed to by both the taxpayer and the FTB, and the taxpayer is in compliance with the arrangement, or
- A delinquency under which the taxpayer has filed for bankruptcy protection.

Prior to making a tax delinquency a matter of public record, FTB would be required to provide a preliminary notice to the person or persons liable for the tax by first-class mail and a return receipt would be required. If the person does not make arrangements to satisfy the liability or remit the tax due within 30 days of receiving the preliminary notice, the tax delinquency would be included on the list.

The annual list is required to contain the following:

- The telephone number and address of FTB office to contact if a person believes placement of his or her name on the list is in error,
- The total number of persons that have appeared on the list who have satisfied their delinquencies in their entirety,
- The total dollar amounts that have been paid that are attributable to those delinquencies, and
- The following information on each delinquency:
  - The name and last known address of the person or persons liable for payment,
  - The amount of delinquency including any applicable interest or penalties,
  - The length of time for which payment has been delinquent, and
  - The type of tax that is delinquent.

FTB is required to remove a taxpayer's name from the list within five days if any of the following occurs:

- The person liable for the tax delinquency contacts FTB and resolution of the delinquency is being arranged or has been arranged.
- FTB verifies that an active bankruptcy proceeding has been initiated that involves the tax delinquencies.
- A bankruptcy proceeding has been completed and FTB verifies that there are no assets available to pay the delinquent amount or amounts.
- Tax delinquencies that the department has determined are uncollectable.

If a person's delinquency appears on the list and that person satisfies the delinquency in whole or in part, that person may request FTB to include in its annual list any payments made to satisfy the delinquency. Upon request, FTB must include those payments on the list.

## IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

- Requiring notification of the taxpayer by return receipt instead of just first-class mail delivery may allow taxpayers to refuse to sign the return receipt, thereby never initiating the 30-day period in which the taxpayer must resolve their liability to avoid appearing on the list. The author may want to consider revising the language to begin the 30-day period as of the date of mailing rather than the date of receipt, which is the standard for notification of tax issues for the department. Additionally, the post office does not provide return receipts "required"; it does provide return receipts "requested" documentation.
- While this list is supposed to be made available annually, the ongoing maintenance requirements prevent this from being an annual list. The provisions that require revisions to the list and recording payments received for individuals on the list requires an accounting platform that is different from a list. The constant updating will require this list to be ongoing, as opposed to an annual compilation.
- The author qualifies delinquencies that are a result of NPAs or jeopardy assessments to appear on the list. However, there are additional tax delinquencies that may be eligible for this list based on the top 250 requirement, but would be excluded if the basis of the delinquency did not meet this criteria. The author may want to include all tax delinquencies, not just NPAs and jeopardy assessments.
- Current state law prohibits the home addresses of elected or appointed officials from being made public. If any of the top 250 delinquencies are also elected or appointed officials, this list will violate the prohibition. It is unclear whether the author intends the list to treat elected or appointed officials that may qualify to appear on the list different from other taxpayers that may have qualifying delinquencies.
- By definition, the outstanding delinquencies on this list could be comprised of multiple tax years with multiple liens securing the liabilities. It is unclear whether the author intends the delinquencies to be the total amount due on a particular taxpayer account, such as all open years, or whether the qualifying amount would be a delinquency on a single year. A lien could have more than one year on it, and all years may not meet the \$100,00 threshold, while the total amount would. The bill identifies "the 250 largest tax delinquencies in excess of \$100,000." It is not clear if a list consisting of 10 taxpayers that owe the state 25 different amounts that are the largest unpaid deficiency assessments would be sufficient. Clarification is needed to determine the level of information that will be displayed on the list.
- The requirement to remove a taxpayer from the list when the taxpayer contacts the FTB and resolution of the delinquencies are being arranged is vague and may permit taxpayers to delay actually implementing a payment arrangement or other method of resolving the account. Removing one's name from the list is the motivation for the taxpayer to resolve the delinquencies. Removing the name off the list prior to actual resolution provides no incentive to continue the arrangements to fruition. The author may want to revise the language to reflect actual arrangements are in place prior to the removal of a name from the list.

- The author excludes delinquencies that are in litigation or have had a petition for redetermination filed. If these delinquencies have had liens filed, they have passed the stage of appeal and litigation, and are final assessments that are not eligible for additional hearings or actions. In addition, FTB does not have redeterminations of deficiency assessments available in the same way that BOE does. FTB assessments have protests, appeals, and hearings on appeals, which are not applicable if the deficiency has progressed far enough to have had a lien filed. This could be construed as providing additional remedies to a taxpayer, thereby minimizing the finality of a Board or court decision.

## LEGISLATIVE HISTORY

AB 1678 (Alquist, 1997/1998) would have established a delinquency list of the top 100 delinquent taxpayers that would have been made available to the public. This bill remained in the first house.

## OTHER STATES' INFORMATION

The state of *Connecticut* currently makes available the top 100 tax delinquencies after providing notice to those taxpayers who qualify to appear on the list. *Connecticut* has found that the threat of public exposure has encouraged many taxpayers to voluntarily resolve their delinquencies.

## FISCAL IMPACT

The department anticipates that one-time programming and information technology resources will be needed to develop the list. Resources will be needed to extract the delinquency data from departmental systems, verify the accuracy of the information extracted to avoid inadvertent disclosure, automate the issuance of notices, and maintain a web site to make the list publicly available. Ongoing costs will be required to maintain and update the list as required and to provide notification to taxpayers as required. Department costs will be developed as the bill progresses through the legislative process; however, the costs are expected to be minor.

## ECONOMIC IMPACT

### Revenue Estimate

Based on a department study, the revenue gain from this bill is as follows:

Estimated Revenue Impact of AB 1418		
<i>Proposal #3</i>		
Assumed Effective Tax Years 1/1/2006		
Assumed Enactment Date After 6/30/05		
(Millions)		
2005/06	2006/07	2007/08
\$ 1.5	\$ 1.5	\$ 1.5

### Revenue Discussion

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

According to an internal FTB study, the 250 largest taxpayer accounts owe approximately \$40 million. This study also projects that posting taxpayer's names will result in collections of 4% of this amount or approximately \$1.6 million in revenues.

### **ARGUMENTS/POLICY CONCERNS**

Embarrassing a taxpayer into compliance may have negative repercussions on the department's safety and security. Angering taxpayers in an already sensitive area may increase acts of retaliation that may put department employees and facilities at risk.

### **LEGISLATIVE STAFF CONTACT**

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