

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Dahle Analyst: Janet Jennings Bill Number: AB 1842
Related Bills: See Legislative History Telephone: 845-3495 Amended Date: April 1, 2014
Attorney: Bruce Langston Sponsor: _____

SUBJECT: BOE, EDD & FTB Collaborate IT Efforts to Conduct Feasibility Study on Development of Single Web-Based Portal

SUMMARY

This bill would require the Board of Equalization (BOE), the Employment Development Department (EDD), and the Franchise Tax Board (FTB) to conduct a feasibility study on the following:

- Development of a web-based portal that virtually consolidates the agencies, and
- Consolidation of forms, applications, and other documents where feasible.

RECOMMENDATION

No position.

Summary of Amendments

The April 1, 2014, amendments removed provisions of the bill related to property taxation, and replaced them with the provisions discussed in this analysis. This is the department's first analysis of the bill. This analysis only addresses the provisions of this bill that impact the department's programs and operations.

REASON FOR THE BILL

The reason for this bill is to ease tax reporting burdens, reduce duplicate submission of information, and facilitate tax compliance by providing taxpayers easy and up-to-date access to their tax accounts with the BOE, the EDD, and the FTB. In addition, according to the legislative findings contained in the bill, focusing on the taxpayers should be a core element of California's tax administration. Virtually consolidating the BOE, the EDD, and the FTB would provide a seamless online experience for taxpayers.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2015.

Board Position:
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Executive Officer	Date
Selvi Stanislaus	04/09/14

ANALYSIS

STATE LAW

Under state law, three separate agencies are involved in the administration of the majority of California tax laws:

- The BOE is a constitutional body that does not report to the Governor. The BOE administers property tax, sales and use tax, and special taxes including fuel tax, excise tax, environmental fees, insurance gross premiums tax, and electronic waste recycling fee. The five-member BOE includes the State Controller and four elected members.¹ The five-member BOE is vested with the authority under the Sales and Use Tax Law to “redetermine,” that is, administratively review, determinations made by the BOE with respect to tax programs it administers. In addition, the five-member BOE is authorized to hear and determine taxpayer appeals of the actions of the FTB on personal income tax, corporation income tax, franchise tax, and home owner’s and renter’s assistance matters.
- The EDD is a department within the Labor and Workforce Development Agency. The EDD’s Tax Branch administers the collection, accounting, and audit functions of California’s payroll tax program. The program consists of Unemployment Insurance and Employment Training Tax, which are employer contributions, and Disability Insurance and Personal Income Tax, which are withheld from employees’ wages.
- The FTB, a department within the Government Operations Agency, administers the Personal Income Tax Law (PITL) and Corporation Tax Law (CTL). The FTB collects taxes under the PITL and CTL through withholding from sources other than wages, generally from withholding a percentage of real estate proceeds and payments to nonresidents. The FTB also receives payment of estimated income taxes and other remittances such as payments made at the time of filing a tax return. If necessary, the FTB also collects delinquent balances due by recording property liens or issuing withholding orders on earnings or bank accounts. The FTB also administers non-income tax related programs including: collections of court-ordered debt, vehicle registration debts, and interagency intercepts; Political Reform Audit; and the Nonadmitted Insurer Tax program. The three-member Franchise Tax Board is comprised of the State Controller, the Director of the Department of Finance, and the Chair of the BOE.

PROGRAM BACKGROUND

The “California Fed State Partnership,” consisting of the BOE, the EDD, the FTB, and the IRS, works to streamline and improve taxpayer resources and educational programs. One result of the partnership was the development of the California Tax Service Center website, www.taxes.ca.gov. The goal of the website is to provide one-stop tax help to California taxpayers and guide them to the forms and services they need.

¹ For this purpose, the state is divided into four districts. One member is elected from each district.

The website provides information on income, payroll, sales and use tax, as well as other taxes and fees, and provides links to the appropriate forms, information, requirements, and payment options located on the BOE's, the EDD's, the FTB's, and the IRS' website. However, the website currently does not provide a single logon access to a taxpayer's BOE, EDD or FTB records.

The BOE, the EDD and the FTB also have a long history of working cooperatively to increase efficiencies and ease taxpayer burden. For example, to relieve some of the paperwork burden for taxpayers requesting an offer in compromise, the BOE, the EDD and the FTB developed a single offer in compromise application form for taxpayers to submit to any or all three of the agencies.

The Governor's proposed budget for fiscal year 2012/2013 included the potential consolidation of the FTB's and the EDD's tax administration functions into a Department of Revenue. After an initial study by the two departments, the creation of a Department of Revenue was withdrawn from consideration in the Governor's Reorganization Plan number 2 to allow for more diligent study by the departments to ensure all complexities with such a possible reorganization could be addressed. Upon further study, the FTB and the EDD did identify potential opportunities for enhancing the taxpayer experience, but to derive those benefits, a substantial investment would need to be made to allow the FTB and the EDD systems to talk and interact together. Due to the deliverables under the study, costs were not finalized but were noted to be in the tens of millions of dollars. The study also showed that with the various complexities of the supporting tax laws, different due dates for filings, and different data being provided, a single form approach sometimes caused more confusion than clarity for taxpayers and both departments raised concerns about impacting self compliance if forms were confusing. The FTB and the EDD study did document ongoing efforts to identify forms that made sense to consolidate and the FTB, the EDD, and the BOE have already worked together to develop a single form for taxpayers to use for Offer in Compromise requests and Installment Agreements. The FTB, the BOE, and the EDD continue this effort but have not found value in consolidating a significant amount of forms without potentially jeopardizing self-compliance.

In addition, SB 582 (Knight, Vetoed, 2013) was virtually identical to this bill. The Governor's Veto message stated in part, "Consolidation of the tax departments has been studied for decades. We don't need to conduct any further studies. I instruct the Secretary of the Government Operations Agency to determine if taxpayer service can be improved in a cost effective manner with a single state Webpage for all state taxes. If it can, my administration will work with the author to seek implementing legislation should it be needed."

THIS BILL

This bill would require on or before January 1, 2016, the BOE, the EDD, and the FTB to collaborate and focus current and future information technology efforts to conduct feasibility study on the development of a single web-based portal that would examine the following:

Virtually consolidating the agencies to enable online, self-service access through a single logon for taxpayers to:

- Electronically file returns,
- Submit forms or other information,
- Determine account balances and due dates of taxes,
- Remit amounts due, and
- Identify the status of any appeal, refund, request for relief of interest or penalty, and other information the agencies deem helpful to taxpayers.

The feasibility study would be required to be conducted within the BOE's, the EDD's, and FTB's existing budgets and delivered to the Legislature no later than six months after the study is completed.

IMPLEMENTATION CONSIDERATIONS

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

Implementing this bill in the near term could add complexities and pose risks to current revenue generating information technology efforts. Because this bill would require the BOE, the EDD, and the FTB to collaborate and virtually consolidate the agencies, the scope, roles, and duties of each agency must be determined before a complete analysis of this bill's impact to the FTB can be ascertained. As this bill moves through the legislative process, the BOE, the EDD, and the FTB would need to develop an implementation plan that establishes the scope of the virtual consolidation and each agency's roles and duties.

LEGISLATIVE HISTORY

For at least the last 15 years there have been numerous proposals that would have consolidated or transferred the duties of the BOE, the EDD, and the FTB. The most recent legislation is listed below.

AB 833 (Harkey, 2013/14) contained the same virtual consolidation requirements as this bill. AB 833 is currently held under submission in the Senate Appropriations Committee.

SB 582 (Knight Vetoed, 2013) contained the same virtual consolidation requirements to this bill. The Governor's Veto message for SB 582 stated in part, "Consolidation of the tax departments has been studied for decades. We don't need to conduct any further studies. I instruct the Secretary of the Government Operations Agency to determine if taxpayer service can be improved in a cost effective manner with a single state Webpage for all state taxes. If it can, my administration will work with the author to seek implementing legislation should it be needed."

AB 77 (Gorell, 2011/12) would have consolidated the FTB, the EDD, and the California Department of Insurance into the BOE. AB 77 was withdrawn from its first policy committee hearing by the author.

SB 1326 (Harman, 2011/2012) contained the same virtual consolidation requirements as SB 582. SB 1326 failed to pass out of the Senate Appropriations Committee.

SB 1554 (Strickland, 2011/12) would have abolished the FTB and transferred its powers and duties, along with the EDD's wage withholding duties to the BOE. SB 1554 was withdrawn from its first policy committee hearing by the author.

SB 1133 (Runner, 2009/2010) contained the same consolidation requirements as AB 77. SB 1133 failed to pass out of the Senate Revenue and Taxation Committee.

SB 274 (Dutton, 2007/2008) contained the same consolidation requirements as AB 77. SB 274 was withdrawn from its first policy committee hearing by the author.

OTHER STATES' INFORMATION

Since this bill requires a feasibility study of virtual consolidating of state agencies, a comparison to other states would not be relevant.

FISCAL IMPACT

The costs to implement this bill, although unknown at this time, could be significant. As indicated in the "Implementation Considerations" section, the scope, roles, and duties of the BOE, the EDD, and the FTB need to be identified before a complete analysis of this bill's impact on the FTB can be ascertained. As this bill moves through the legislative process and the BOE, the EDD, and the FTB develop an implementation plan, costs to implement this bill will be identified.

ECONOMIC IMPACT

This bill would not impact the state's income tax revenue.

SUPPORT/OPPOSITION

Support: None on file.

Opposition: None on file.

ARGUMENTS

Proponents: Some might say that this bill could ease taxpayer burden and facilitate tax compliance.

Opponents: Some might say this bill could increase taxpayer confusion because while the BOE, the EDD, and the FTB would be virtually consolidated by a single web-based portal, the continued existence of three separate taxing agencies may leave some taxpayers uncertain of their tax responsibilities specific to each department.

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