

Become
**Customer-
Centered**

Promote
Fair and
Effective
**Tax
Administration**

Franchise Tax Board

2005 FTB Performance Report

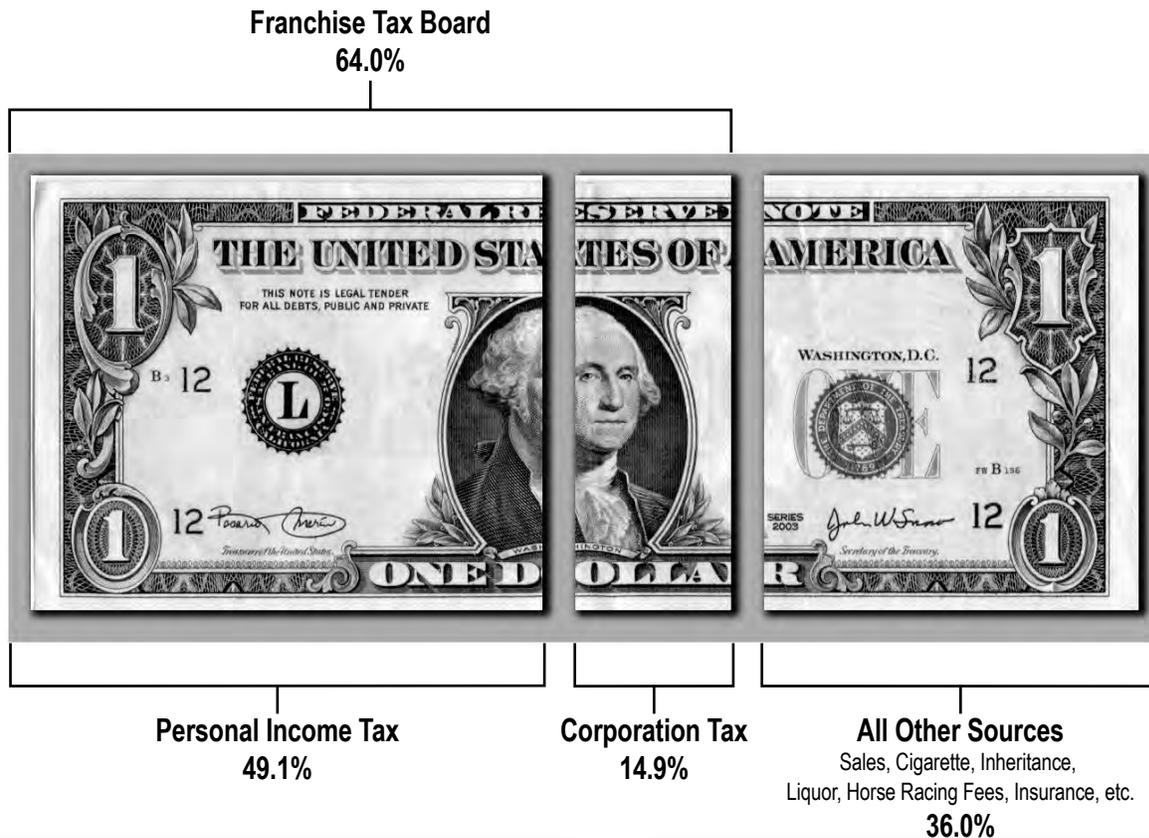
Build a
**Strong
Organization**

Deliver
Efficient and
High-Quality
**Business
Results**

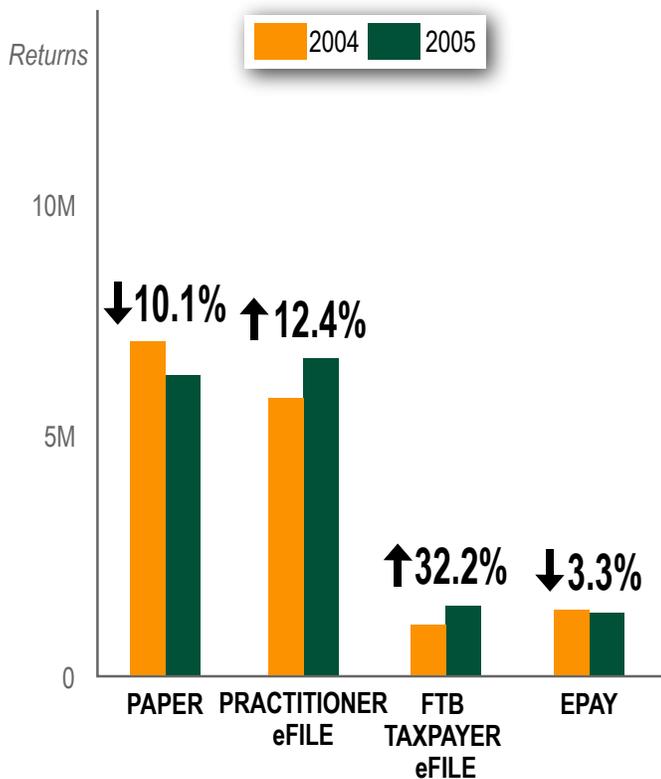
Protect
**Taxpayer
Privacy** and
Ensure Security
of **Taxpayer
Information**

KEY BUSINESS INDICATORS 2005

GENERAL FUND REVENUES 2005 Calendar Year

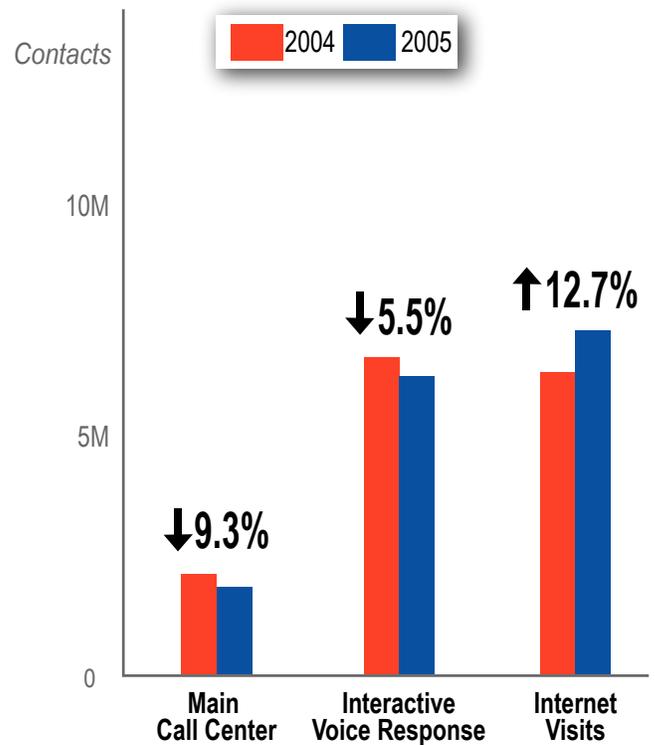


TAX RETURNS BY TYPE



Filing Method

PUBLIC CONTACTS



Contact Method / Process

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June 15, 2006

As new Executive Officer, I am proud to report on the progress we made during 2005 on all of our strategic goals. During a period of budget and staffing reductions, this was no easy task, proving again that we can meet the public's demand of government to "do more with less."

Last year we focused more attention and resources on the state's estimated \$6.5 billion tax gap. Toward that effort, last year's Tax Amnesty Program was a huge success, exceeding all expectations of projected revenue for California. We also worked to increase compliance through the appropriate balance of education, customer service, and enforcement. Our goal continues to be to efficiently administer the tax laws while making the filing and paying of taxes as easy and convenient as possible for citizens and businesses.

Here are just a few of the 2005 highlights of our success in serving our stakeholders:

- Collected more than \$800 million in the successful Tax Amnesty Program.
- Increased the use of e-file for individuals to 57 percent of all returns filed.
- Redesigned our Website to improve assistance through this 24/7 service channel.
- Implemented the *ReadyReturn* pilot to help reduce taxpayer's filing burden.
- Cracked down on abusive tax shelter transactions.

During 2006, we will initiate a new strategic planning effort that promises to be especially robust to help us continue to keep operating costs down while working more closely with our stakeholders and improving service to taxpayers. This report provides a high-level look at our accomplishments for 2005 as well as our plans for 2006.

I am proud to lead us into 2006 and beyond. The coming year promises to be another year filled with accomplishments. We are an excellent organization that I hope to make even better. While we will undoubtedly face challenges during the year, we will continue to strive for excellence and constant improvement, since that is what is required to remain a leader in tax administration. I look forward to leading us on that journey while working with the Board and our stakeholders.

Sincerely,

Selvi Stanislaus
Executive Officer

Introduction and Overview

Our Strategic Plan sets forth our strategic goals and supporting strategies in alignment with the direction set by the Board and the State and Consumer Services Agency. During 2005, we used the plan as a roadmap to help us identify areas for improvement as we worked to continually improve the quality of our services and meet our customers' needs.

During the past year, we focused on areas of the plan related to improving efficiency, increasing compliance, and building a stronger organization. This includes looking for ways to expand taxpayers' filing options while making tax return filing easier. In 2005, we introduced new Web applications as part of our movement to an electronic service-oriented environment and to encourage our external and internal customers to make the switch to electronic services. We also conducted usability testing to ensure our Web pages and online applications are easy to understand, easy to use, and reliable. We introduced several initiatives to strengthen and develop our workforce, while also managing several changes that took place throughout our department. Over the next year, we will revise our Strategic Plan to reflect changes in our leadership and environment and to help us map out future initiatives.

Our Strategic Plan sets five high-level goals:

1. Become Customer-Centered.
2. Promote Fair and Effective Tax Administration.
3. Build a Strong Organization.
4. Deliver Efficient and High-Quality Business Results.
5. Protect Taxpayer Privacy and Ensure Security of Taxpayer Information.

The remainder of this report describes our primary accomplishments with regard to each of our strategic goals in 2005 as well as plans for 2006.

STRATEGIC GOAL 1: BECOME CUSTOMER-CENTERED

Introduction

The goal of becoming customer-centered means providing taxpayers and tax professionals with convenient and accessible information and tools to easily self-comply with California's tax laws. We provide a variety of customer service options, including the Internet and telephone assistance through interactive voice response and customer service representatives. The Internet, our preferred service delivery channel, empowers taxpayers and tax professionals by providing them with access to the information they need and the capability to transact business 24 hours a day, using cost-effective self-service channels.

2005 Accomplishments

Maintained Call Center Service Levels Despite an Increase in Call Volume

Our call centers collectively answered more than 2.8 million calls with an average wait time of four minutes. The increase in call volume from 2.7 million calls in the prior year was the result of our Tax Amnesty Program, which ran from February 1, 2005, to March 31, 2005. We used our enterprise customer service platform to route calls from our main call center to other call centers in our department to provide optimal coverage and support the increase in call volume. The average call wait time remained consistent with prior years despite the increase in call volume.

Rolled-Out New Web Applications

In 2005, we implemented a Spanish-language version of our Check Refund Status application to better serve our Spanish-speaking population. This was the first application deployed in Spanish on our Website. Customers heavily used this application during the year, resulting in fewer phone calls from Spanish-speaking taxpayers checking the status of their refunds. As a result of this positive use, we will explore the feasibility of converting other electronic services to Spanish in the future.

We also implemented an application for taxpayers to order forms online for delivery through US mail. This addresses a segment of the population that have limited comfort levels using the Internet as a customer service channel, but who are willing to take that "first step."

Improved Franchise Tax Board's Website Through Usability Testing

To continue to improve taxpayer's online experience, we began the process of institutionalizing usability testing so that Web content and interactive applications are intuitive to the end user. To accomplish this we employed an outside consultant to provide an unbiased review of our Website, trained and certified staff in usability practices, and conducted user-based analysis. In January 2006, we launched a completely redesigned, usability-tested Website.

STRATEGIC GOAL 2: PROMOTE FAIR AND EFFECTIVE TAX ADMINISTRATION

Introduction

The goal of promoting fair and effective tax administration encompasses the strategies of providing services to taxpayers to make filing as correct and as easy as possible, while also ensuring that taxpayers pay what they owe. We offer taxpayers a variety of ways to file and pay the taxes they owe and are working to provide more. Also, to ensure the fairness of the tax system, we continue to focus on addressing the tax gap and abusive tax shelters.

2005 Accomplishments

Successfully Administered the FTB's Amnesty Program

Our Tax Amnesty Program provided an opportunity for taxpayers to resolve any unpaid tax balances from 2002 and prior years, in exchange for a waiver of penalties, fees, or criminal prosecution. The program was a huge success, generating over \$800 million dollars in revenue for the State of California, based on an estimate by the Legislative Analyst's Office and the Department of Finance. This amount includes revenue associated with protective claims filed to avoid the Amnesty penalties. The protective claim payments would have eventually been paid as a result of audits in future years, but acceleration of audits associated with protective claims will free up audit resources in future years.

Staff did an excellent job of administering the Tax Amnesty Program during our peak processing season, without any adverse impacts on timely processing of payments or issuing of refunds. Staff quickly established procedures to address the protective claims payments made in connection with the Amnesty Program. At the direction of the Board, we initiated new audit and legal processes that will enable us to complete the protective claim audits within 12 months and docketed protest cases within 20 months. These timeframes do not include cases requiring additional resolution time, such as pending federal determinations, abusive tax shelters and taxpayer requests to extend audit timeframes.

After the completion of the Amnesty period, the Legislature passed Assembly Bill 911 (Stats. 2005, Ch. 398) that addressed the unintended consequences of the Tax Amnesty Program. AB 911 made significant changes in how we manage and collect accounts including:

- Allowing underpayments for Amnesty-eligible years to be offset by overpayments from other years for purposes of computing the Amnesty penalty.
- Establishing a 20-year statute of limitations to collect income or franchise tax balances due from taxpayers.
- Allowing us to extinguish certain inactive taxpayer debts.
- Repealing the legal provision that requires taxpayers that participate in Amnesty to pay any tax due for the 2005 and 2006 taxable years to avoid having the benefits of Amnesty revoked and the Amnesty penalty imposed.

During 2005, we began to identify and implement the mandatory business and system changes required by the legislation.

Made Significant Efforts to Address the Tax Gap

In addition to the Tax Amnesty Program, we made progress on other items related to the tax gap. Staff attended several informational hearings on issues relevant to the tax gap, including tax evasion, abusive tax shelters, and the underground economy. We also convened the 2005 California Income Tax Gap Symposium. The symposium included speakers from the IRS and academia, with topics that focused on factors that increase tax compliance and strategies to address the tax gap problem, including increasing third-party information reporting, more aggressively pursuing offshore income diversion schemes, and providing incentives to reinforce positive taxpayer behavior.

In 2005, staff began to develop a long-term strategy to address the root causes of the tax gap. We invited tax gap experts to share their knowledge with staff and managers to help understand the causes and possible approaches to address the tax gap as part of a Tax Gap Strategic Plan.

The 2005 Budget Act included additional resources for tax gap enforcement measures. Implementing the tax gap enforcement measures will produce new revenue and accelerated revenues, but more importantly will encourage long-term behavioral changes in favor of self-compliance. We estimate these tax gap enforcement efforts will produce revenue benefits of \$34 million in fiscal year 2005-06, increasing to \$46 million in 2006-07, and nearly \$47 million in 2007-08. Some of the additional resources in the 2005 Budget Act will build on successful efforts discussed below in our efforts to combat abusive tax shelters.

Cracked Down on Abusive Tax Shelter Transactions

To improve the detection of abusive tax shelters we are working with federal and state tax agencies to share information about tax shelter promotions and audits. Staff testified before Montana's Senate Taxation Committee regarding their legislation to crackdown on tax shelters. Montana's legislation is modeled after California's 2003 tax shelter laws. Staff also made presentations at the Multistate Tax Commission meeting regarding model tax shelter legislation and the Federation of Tax Administrators' Compliance Workshops, where emerging tax shelter issues were discussed.

Over the last year, our Audit Division formed several new units to reduce the tax gap, including:

- The Abusive Tax Shelter Unit to identify returns with abusive tax shelters and to foster self-compliance.
- The Promoter Audit Unit to curtail and penalize promoters of abusive tax shelters.
- The Tax Gap Unit to address the various components of the tax gap.

Continued Substantial E-file Growth

Our Website allows taxpayers to submit their return electronically directly to us without cost, using our *CalFile* application. Our Website also has links to commercial online tax preparation Websites. Electronically filed tax returns are convenient for taxpayers and practitioners and reduce our costs. Depending on the method of filing used, each e-filed return reduces our costs to process a return by approximately \$1.00 to \$1.50. Electronically filed returns also produce related benefits, such as growth in electronic payments made with e-filed returns and a reduction in notices and bills due to e-file's greater return accuracy.

E-filing continues to increase each year. During the 2005 filing season, we received 8.2 million e-filed returns, representing 57 percent of all personal income tax returns. Our *CalFile* application experienced another strong year, growing by 45 percent over 2004. Since 1999, we have realized a cumulative savings from the e-filing program of 154 personnel years, which translates to approximately \$4 million.

Implemented *ReadyReturn* Pilot to Reduce Taxpayers' Filing Burden

In 2005, we piloted the *ReadyReturn* program. Under the program, we used wage information that we already had to complete simple tax returns on behalf of eligible participants. During the pilot, we sent invitation letters and completed returns to 50,000 taxpayers. Of those who were invited, almost 12,000 taxpayers filed a *ReadyReturn*. We conducted a survey of participants in the summer of 2005, which revealed that 99 percent of the survey respondents were satisfied with *ReadyReturn* and 98 percent would use *ReadyReturn* again. *ReadyReturn* is continuing as a pilot effort for the 2006 filing season.

Stepped-Up Actions against Unregistered Tax Preparers

Tax professionals prepare approximately 68 percent of the tax returns filed with us and are a key part of our voluntary compliance system. It is critical we detect and take action against tax preparers who do not meet the California Tax Education Council's current registration requirements. In 2005, our Fraud Team worked with the council to identify unregistered tax preparers. The Fraud Team conducted four trips to various areas of the state to identify unregistered preparers. Of the 405 tax preparers the team visited, 30 tax preparers did not meet the current registration requirements. The team met with these preparers and sent them follow-up letters stating the need to be registered. As of December 2005, 11 of the 30 tax preparers have registered with the council.

Established Installment Agreement Program for Business Entities

Previously, only individual taxpayers could enter into installment agreements with us. With the passage of Senate Bill 157 (Stats. 2005, Ch. 211), the installment agreement program expanded to include business entities. This agreement allows us to work with business entities to satisfy their liability within a specified time period to avoid involuntary collection actions.

GOAL 3: BUILD A STRONG ORGANIZATION

Introduction

The goal of building a strong organization reflects our commitment to improving the long-term viability of our organization through hiring the most qualified employees, training and development, change management and improved communication. We are continuing workforce planning efforts to ensure continuity and maintain critical knowledge and skills among our managers and staff.

2005 Accomplishments

Addressed Change Management Needs and Conducted Workforce Planning

We have an active change management program that has helped us become a more resilient organization. Some of our successes in change management over the past year included:

- The retirement of Gerald Goldberg after 25 years as Executive Officer was perhaps the most significant change. Moreover, we continued to see increased retirements in the ranks of management and staff. In 2005, we worked to address our future workforce needs by researching succession planning models and working with the Department of Personnel Administration in the development of their statewide model, which will be shared with all state departments. We also worked with the State Personnel Board on the development of a master services agreement to enable state agencies to contract for planning services.
- The move into the new Phase III buildings was another significant change for many employees. For the first time in many years, most employees are located at one central site in Sacramento. To help ensure a smooth transition, we developed a Website to educate employees on all aspects of the new facilities and provided a question and answer section to answer frequently asked questions.
- Staff and managers also successfully transitioned the authority for child support collections to the Department of Child Support Services. We continue to have a role in some child support collection functions including cashiering, financial institution data matching, and housing the information technology and program staff.

Completed Managerial Rotation Process

Close to 40 of our managers and supervisors took on new assignments as part of a rotation process, wherein they applied to rotate to a different job in another area of our department. The rotation process was designed to strengthen and develop our supervisors and managers and increase their breadth of knowledge. The process also helps improve communication and understanding across organizational lines, promote efficiency and effectiveness in every program area, and improve overall job satisfaction. Following the rotations, staff held facilitated sessions with supervisors and managers involved in the rotations to gather their feedback and ideas for improving the rotation process.

Strengthened our Analysts

Recognizing the importance that good completed staff work has on the quality of the organization's management decisions, we have embarked on a multi-faceted approach to strengthen our core analyst workforce. We formed a team to research current needs and provide recommendations to enhance analysts' skills and identify how we can best use skilled analysts. Key components of the effort include:

- Analyst skills focus groups.
- Management orientation on how to best use analysts.
- Training and development.
- Analyst networking.
- Analyst coaching and mentoring.

Sought Feedback From Employees Leaving FTB

Our Equal Employee Opportunity Office began administering an exit survey to gather feedback from our former employees. The information collected from the exit surveys will help us identify areas for improvement and will assist us in our recruitment and retention efforts.

Rolled Out New Departmental Values

In 2003, the Executive Officer asked our Mission & Values Team to review the values and determine whether updates were required. The team conducted more than ten sessions with more than 100 employees of all levels throughout our department, resulting in the adoption of updated values.

In 2005, senior managers and the Mission & Values Team rolled the updated values out to employees at all levels and locations through a series of town hall meetings. The team also publicized the updated values through a number of media, including email, badge cards with the values, posters, and articles. The team is working to ensure the values are meaningful to all employees through discussions about the values and what they mean in the workplace.

Achieved Significant Growth in Alternative Transportation

As one of the largest employer's on the Highway 50 corridor, we are a leader in the quest to reduce traffic congestion and improve air quality. The U.S. Environmental Protection Agency recognized us as a Best Workplace for Commuters for our innovative transit options and employee commuter benefits. Highlights of our transportation accomplishments include significantly increasing the number of employees riding Light Rail to work and increasing the number of vanpools by 50 percent.

STRATEGIC GOAL 4: DELIVER EFFICIENT AND HIGH-QUALITY BUSINESS RESULTS

Introduction

Reducing costs and increasing productivity remains a high priority due to budget and staffing reductions. We continue to make strong inroads in our efforts to identify and implement ways to improve efficiency and allocate resources based on their highest and best use. We also remain focused on automating services to the public and streamlining processes to deliver services more efficiently.

2005 Accomplishments

Continued Success on the California Child Support Automation System Project

The Version 1 configuration of California Child Support Automation System began implementation in October 2005. This implementation is having significant positive effects on child support program personnel, as well as on members of the public. Some custodial parents that were receiving payments from counties now receive payments from the State Disbursement Unit. The State Disbursement Unit is now processing payments received by the 11 counties included in the first group of counties phased into the unit's services. As of December 2, 2005, over \$14 million in total child support payments (94,207) have been disbursed to custodial parents while total collections (190,000) are nearly \$19 million.

The state and its business partners have already begun the education and outreach efforts to engage the local child support agencies, employers, and the courts in developing changes in child support business practices that will accompany the automation effort. More than 9,600 county child support caseworkers will be using the system when it is fully implemented. In addition, Department of Child Support Services staff will use the system to provide some centralized functions, and to monitor child support services, analyze statewide trends, and generate required state and federal reports.

Over the last year we began reaching out to custodial and non-custodial parents to inform them how the new system will affect them. We have let them know about new ways to access the system using the Internet or telephone. California has over two million child support cases so several million citizens may eventually access the system for case and payment information.

Version 2, scheduled for implementation in all 58 counties by September 2008, will expand the statewide services component, retire the local systems, and provide a single, centralized database. System testing of Version 2 has begun and will continue through June 2006.

Developed Plan to Manage FY 2005-06 Budget Cut of \$7.8 million

For fiscal year 2005-06, we sustained an unallocated budget cut of \$7.8 million. In the current year, the budget reduction is being managed by deferring operating expenses purchases, identifying one-time contract savings, ongoing lease savings from field office closures, and other expenditure reductions. We are currently working on the long-term plan to manage this cut, which will include identification of program efficiencies.

Streamlined the Hiring Process

A number of managers and staff throughout our department have been trained on a methodology to reengineer business processes. Using this reengineering methodology, we have begun to reduce time and red tape associated with processing new hires. By doing so, we hope to remain competitive in offering jobs on the open market, increase our efficiency and effectiveness, and save time.

Reduced Backlogs in Tax Clearance Workload

Process improvements, complemented by a staffing redirection, helped to reduce backlogs in our Tax Clearance Request workload. Monthly production increased by 40 percent, due in part to the automation of a portion of tax clearance processing. This automation has reduced the time needed to review an account and draft any necessary documents. Staff is developing a legislative change proposal to eliminate the tax clearance request process.

Saved on Facility Costs as a Result of Field Office Closures

In 1994, we started on a plan to reduce the number of field office locations, which involved the consolidation of staff into larger, more centrally located offices. The office closures include Bakersfield, Fresno, Long Beach, San Bernardino, Santa Rosa, Stockton, and Ventura. As of June 2006, three of these offices have been completely closed and leasehold savings are being realized at about \$316,000 per year. The consolidation of staff from these locations into larger offices has resulted in additional savings of \$100,000 per year in operational expenses. The remaining locations either have firm term leases that have yet to expire or were in Department of General Services owned buildings where rent continues until a backfill tenant is found. Eventually the leasehold savings from closure of these seven offices will be \$540,000 per year.

The adverse impact to staff in the closed offices was minimized to the extent possible. Staff was offered paid relocation, placement on State Restriction of Appointment/Surplus lists, hoteling at their personal residence, and transfers to larger field offices or Sacramento. No one in these offices was laid off.

Made Call Center Improvements

The procurement phase of the Enterprise-Wide Customer Service Platform II Project began in 2005. This project will implement a unified communication platform that uses Computer Telephone Integration technology to integrate Interactive Voice Response technology, Automatic Call Distributor call management software, and some agent desktop applications as a single package. The project will maximize our existing resources by more effectively routing our incoming calls to the appropriate agent for resolution, as well as providing more customer information to the agent at the time the call is received. This project is scheduled to be completed in September 2007.

We are also updating our existing call agent monitoring software. Current monitoring software has allowed us to significantly improve service to customers and the new software will allow us to analyze call patterns to improve outreach and communication efforts.

Replaced System Critical to Timely Processing of Returns and Payments

We replaced our cashiering system used in our manual data entry and cashiering process, which was nearing its end of life. The new system is more energy efficient, reduces costs, and ensures we can cashier, deposit, and data capture workloads without interruptions, delayed deposits, or delayed refund payouts to our customers.

Improved Enterprise Use of Activity-Based Management

During 2005, we successfully integrated our Activity-Based Costing process and activity structure with our automated time reporting and accounting systems. The new structure gives management and others more timely ongoing information related to the costs of producing our products and services. Because of our success in implementing and sustaining Activity-Based Costing, we were included in a nationwide survey with other best management practices organizations.

In 2005, we also improved the methodology used to identify and track the revenue stream data included in our Activity-Based Revenue information. When completely implemented, these improvements will enable us to use enterprise cost and revenue performance measures to more effectively and efficiently manage enterprise resources.

STRATEGIC GOAL 5: PROTECT TAXPAYER PRIVACY AND ENSURE SECURITY OF TAXPAYER INFORMATION

Introduction

Maintaining taxpayer privacy and safeguarding taxpayer information continued to be a fundamental consideration in the design and implementation of all our programs and services. Our high standards for privacy and security reflect our commitment to upholding a secure information environment.

2005 Accomplishments

Improved Intrusion Detection

In 2005, we upgraded our existing intrusion detection system. The new system successfully detects anomalous system activity enabling us to respond to intrusion attempts and prevent potential system misuse by internal and external sources.

Enhanced SPAM Blocking Capability

SPAM is unsolicited and unwanted email messages, many of which are designed to harm computer systems. During 2005, we significantly enhanced our overall SPAM blocking capabilities by implementing an appliance-based solution to inspect all incoming emails. During its first six months of operation, the SPAM blocking appliance stopped more than one million unwanted emails, each with a potential to cause harm. Related benefits include the elimination of staff time to manually review the unwanted email messages and freeing-up storage space previously used to store unsolicited emails.

Performed Security Assessments

We continued to apply the electronic security principals of “Defense in Depth” and used the same protocols as private industry, including electronic authentication of users, firewalls, protection from malicious code, and intrusion detection devices. We annually conduct independent security assessments to validate our electronic security posture and to identify potential areas for improvement. The 2005 security assessment focused on the Unix systems that support our most critical applications. The assessment resulted in a significant improvement to the overall security of the Unix systems.

In 2005, the IRS conducted a “Safeguard Review,” which is performed every three years at agencies receiving confidential IRS information. The review focused on the protection of confidential federal tax information and encompassed physical, as well as information security controls within our department. The 2005 review addressed mainframe computer systems housing IRS information and security controls in the Unix systems with IRS data. As a result of their review, we made technical improvements to existing information security parameters.

To assure the security and integrity of our Web applications, such as *CalFile*, we internally evaluated and certified all e-Commerce systems as meeting or exceeding our information security baseline standards prior to the 2004 tax filing season.

Improved Access Management

Under California statute and our policy, an employee can access confidential taxpayer information only when he or she has a business need for the information and the appropriate safeguards are in place. We convened a task force to review all access management processes, policies and procedures, identify any deficiencies in these areas and provide recommendations to further minimize the potential for unauthorized access to confidential taxpayer information. Based on the findings and recommendations of the task force, we are taking the following actions:

- Updating badges for all employees at the central office campus. This improves security by providing current employee photographs on badges and allowing employees physical access only to areas at our central and satellite offices the employees have a business need to access.
- Formulating and implementing a separate visitor badging process to enhance our ability to monitor visitors' physical access to the central office campus. System testing of the new visitor system is underway and implementation is expected by May 2006.
- Developing a policy defining the practices necessary to ensure standardized access management throughout our department.
- Creating a Website on the FTBNet2 to provide a standard process for access management.

PLANS FOR 2006

The following provides a brief overview of plans for 2006.

Enterprise Strategic Planning

One of the key areas of focus in 2006 will be setting direction for our department through enterprise strategic planning. Taking into account our current environment, our strengths, challenges, and opportunities, we will develop our vision for the future, goals, and strategies that will help us to achieve that vision.

Improving Outreach, Transparency, and Customer Service

During 2006, we will increase our outreach to stakeholders and use their input to become more responsive to their needs. Our plans include the following initiatives:

- Increasing our non-English language publications, so multicultural customers can more easily understand and comply with requirements.
- Increasing the accessibility of information. This includes putting more information on our Website such as legal decisions, chief counsel rulings, audit information, developing an area on the Website for customers to provide feedback, and putting more information online to help tax professionals complete clients' returns.
- Implementing Business Entities E-file for the 2006 filing season so corporations can efficiently e-file directly, and without cost to us. This will allow us to take the next step in converting all paper returns to e-file, while also fulfilling a request from the tax professional community.

Reducing the Tax Gap While Collecting the Right Amount of Revenue

We will build on our past successes in reducing the tax gap. During 2006, we will:

- Implement the California Tax Shelter Resolution Initiative. This initiative allows taxpayers who participated in the IRS tax shelter initiative to receive the same treatment for California income taxes and avoid certain penalties in exchange for self-assessing the correct amount of tax.
- Continue to pursue leads to combat abusive tax shelters and work on additional ways to detect abusive tax transactions.
- Finalize work on our first Tax Gap Strategic Plan. The plan is expected to present a holistic set of strategies to narrow the tax gap and increase compliance over the long-term.

Building a Strong Organization

We will look to address our impending retirements through effective planning and investing in employees as the managers of the future. In 2006, we will:

- Work to further develop our workforce planning efforts, to ensure we have the right people to get our work done.
- Implement a streamlined hiring process, which should allow us to more easily hire the most qualified new employees.
- Provide our middle managers with the training they need to succeed. Our Management Development Program will provide classroom training in areas such as creative problem solving, project management, negotiation skills, coaching, and mentoring from current senior managers.

Effective and Efficient Organization

In the coming year, we will continue to improve the efficiency and effectiveness of our business operations. Plans for 2006 include:

- Reaching a significant milestone for the California Child Support Automation System Project by bringing California relief from federal penalties imposed for failure to implement a statewide child support system. In September 2006, we expect to formally notify the federal government that the state has a statewide system that meets all of the requirements in the certification guide, including a State Disbursements Unit that is processing all of the required child support payments.
- Continuing to improve our Website and online applications through usability testing. By providing reliable and easy to use electronic services and applications, we are offering taxpayers more convenient and accessible ways to voluntarily comply with their tax obligations.
- Using our Activity-Based Costing and Activity-Based Revenue information to augment our current revenue workplans and develop an Enterprise Revenue Workplan. The workplan will allow us to more efficiently and effectively manage our resources by showing where we receive the greatest benefit to cost ratio across our programs.

