Taxpayers' Bill of Rights

ANNUAL REPORT TO THE LEGISLATURE

Franchise Tax Board

October 1, 2002

This report is in response to the Taxpayers' Bill of Rights (Stats. 1988, Ch. 1573), Sections 21006 and 21009(a) of the California Revenue and Taxation Code. The report is divided into five parts.

Any questions regarding this report should be directed to Debbie Newcomb, Taxpayer Advocate, at (916) 845-4300. If you would like a transcript of the Taxpayers' Bill of Rights hearing, please call (916) 845-5249.

Gerald H. Goldberg
Executive Officer

EXECUTIVE SUMMARY

Revenue and Taxation Code Section 21006(a) requires Franchise Tax Board to report to the Legislature on October 1 of each year its findings with respect to recurrent taxpayer noncompliance. To satisfy the provision's requirements, we conducted a study using a sample of both corporation and personal income tax notices of proposed assessment. These proposed assessments are the result of Franchise Tax Board audits. Our staff also compiled information on taxpayers' filing errors detected during return processing.

Our audit programs focus primarily on those areas that are most cost efficient. The audit results show where we direct our audit resources.

The report found that:

1. For corporation taxes, during 2001 the largest cumulative dollar amount in proposed assessments resulted from allocation and apportionment audits.
2. For personal income taxes, during 2001 the largest cumulative dollar amount in assessments resulted from filing enforcement assessments.
3. Tax practitioners prepared approximately 65 percent of personal income tax returns. The percentage of taxpayers preparing their own returns was nearly 35 percent.
4. Taxpayer errors detected during return processing amounted to a taxpayer error rate of approximately 4.2 percent. Overall, the number of Return Information Notices issued to taxpayers decreased 16.9 percent compared to last year.

We continue our efforts to improve communications and services to taxpayers and tax practitioners. These efforts include:

1. Providing well-written materials for accurate filing.
2. Distributing tax products using methods that are convenient for taxpayers and tax practitioners.
3. Cooperating with other tax agencies and state departments on joint communication efforts.
4. Providing information on our department's Website.
5. Issuing statewide press releases to inform taxpayers of tax law changes and using *Tax News* to inform tax practitioners of the same.
6. Providing professional forums and Speakers' Bureau staff to inform tax practitioners and community groups of significant tax law changes, common errors, and major Franchise Tax Board issues and policies.
7. Maintaining and enhancing an Interactive Voice Response system.
8. Improving products and services to persons with disabilities.
9. Providing information and assistance to taxpayers and tax practitioners in languages other than English.
10. Marketing e-programs.
11. Continuing to gather input from our stakeholders.
12. Providing outreach through our Collections Program to help taxpayers and tax professionals understand and comply with tax laws.

PART I
SAMPLE DATA FROM THE AUDIT PROCESS

We used a statistically valid sample of corporation Notices of Proposed Assessment (NPAs) for this study. For individuals, we collected assessment information from the personal income tax NPA display file for 2001 final assessments. The volumes and dollar amounts shown represent the sample study numbers projected to the total universe of assessments. The results of the study are as follows.

Revenue and Taxation Code Section 21006(b)(1)(A) – “The statute or regulation violated by the taxpayer” and **Section 21006(b)(1)(B)** – “The amount of tax involved.”

The following table shows the distribution of NPAs by issue and tax assessed. In those cases where multiple issues are included in a single notice, we have categorized the notice under the issue that provides the majority of the tax change. Where there is no distinct primary issue, we have categorized the NPA as *Other.*

TABLE 1A
CORPORATION TAX LAW
Finalized 2001 NPAs Categorized by Primary Statute (Issue)

Issue	Number of NPAs	%	Tax Assessed Millions	%	Average Assessment Per NPA
Assess Minimum Tax	251	6	$ 0.2	0.0	$ 941
State Adjustments	670	15	28.1	5.1	41,945
Allocation/Apportionment	1,787	39	435.8	78.3	243,878
Revenue Agent Reports	1,681	37	80.2	14.4	47,690
Other	143	3	12.2	2.2	85,107
Totals/Average	4,532	100	$ 556.5	100.0	$ 122,790

NOTE: All tables in PART I of this report reflect tax increase assessments only. The assessments became final in 2001 and may have been issued in prior years but, due to being in protest status, were not resolved until 2001. The totals in PART I reflect rounded figures and may not compute exactly.

- *State Adjustments* reflect the differences between the Internal Revenue Code and the California Revenue and Taxation Code.
- *Allocation/Apportionment* involves corporations doing business within and outside of California.
- *Revenue Agent Reports* are copies of Internal Revenue Service tax change notices. These typically result when California conforms to federal law and a change to a taxpayer's federal tax return also applies to the taxpayer's California tax return.

TABLE 1B
PERSONAL INCOME TAX LAW
Finalized 2001 NPAs Categorized by Primary Statute (Issue)

Issue	Number of NPAs	%	Tax Assessed (Thousands)	%	Average Assessment Per NPA
CP2000	14,721	7	$ 6,901	1	$ 469
Filing Enforcement	148,215	70	838,025	90	5,654
Filing Status	28,881	14	22,665	2	785
Revenue Agent Reports	4,672	2	21,236	2	4,545
Other	16,692	7	43,978	5	2,635
Totals/Average	213,181	100	$ 932,804	100	$ 4,376

- The *CP2000* category results from the IRS comparing information documents that report income paid to individuals by third parties against income reported on their tax returns.
- *Filing Enforcement* refers to assessments issued to individuals who have failed to file a state income tax return after being notified of their filing requirement.
- *Filing Status* primarily reflects notices issued due to head of household adjustments.

RTC Section 21006(b)(1)(C) – "The industry or business engaged in by the taxpayer."

The following table categorizes the distribution and amount of NPAs according to the industry in which the taxpayer is engaged.

TABLE 2
CORPORATION TAX LAW
Corporations by Industry with Finalized 2001 NPAs

Industry	All Corporations 2000 Tax Year	%	Corporations with NPAs	%	Tax Assessed (Millions)	%
Manufacturing	44,207	9	368	19	$ 220.3	39.6
Trade	91,297	18	242	13	20.0	3.6
F.I.R.E.*	83,621	17	154	8	32.4	5.8
Services	194,441	39	260	13	15.7	2.8
Other **	84,278	17	907	47	268.1	48.2
Totals	497,844	100	1,931	100	$ 556.5	100.0

* Finance, insurance, real estate and holding companies
** Includes agriculture, construction, utilities, and other industries not classified in the sample

For corporations that are not filing via a combined report, we based the industry designation on the corporation's primary business activity in California. In the case of combined reports, the industry designation is based on the primary occupation of the group, not necessarily on the industry of the parent. However, if the parent is a holding company of a diverse group of subsidiary corporations, then it is grouped with *F.I.R.E.*

RTC Section 21006(b)(1)(D) – "The number of years covered by the audit period."

This section could mean either the taxable years for which we issued NPAs or the number of years for which a taxpayer receives notices of proposed assessment because of multiple taxable year audits during the same audit cycle. We issue a separate NPA to the taxpayer for each year included in an audit adjustment. For corporations, Table 3A shows the notices issued by taxable year and Table 3B shows the frequency of multiple NPAs issued at the same time to a single corporation. Table 4 shows this data with respect to individual taxpayers.

TABLE 3A
CORPORATION TAX LAW
Finalized 2001 NPAs Issued by Taxable Year

Average Taxable Year	Number of NPAs	%	Tax Assessed (Millions)	%	Average Assessment per NPA
1994 and prior	1,818	40.1	$ 494.3	88.8	$ 271,870
1995	377	8.3	21.2	3.8	56,101
1996	586	12.9	17.1	3.1	29,261
1997	783	17.3	14.3	2.6	18,244
1998	671	14.8	6.6	1.2	9,860
1999	258	5.7	2.2	0.4	8,498
2000	39	0.9	0.8	0.1	21,379
Totals/Average	4,532	100.0	$ 556.5	100.0	$ 122,790

The older years, in which the statute of limitations for assessing additional tax has passed, reflect final figures for those years.

Beginning with the 1993 taxable year, we sent notices to additional nonfilers who were identified through information provided by the Internal Revenue Service, Employment Development Department, and the Board of Equalization. Prior to the 1993 taxable year, we only sent filing enforcement notices to those corporations that had previously filed California tax returns, but had failed to do so for the year in question.

TABLE 3B
CORPORATION TAX LAW
Multiple NPAs for the Same Taxpayer – 2001

Corporations With…	Number of Taxpayers	Tax Assessed (Millions)	Average Assessment per Taxpayer
One NPA	811	$ 24.2	$ 29,802
Two NPAs	668	55.4	82,929
Three NPAs	195	54.5	279,330
Four or more NPAs	257	422.4	1,643,777
Totals/Average	1,931	$ 556.5	$ 288,185

TABLE 4
PERSONAL INCOME TAX LAW
Finalized 2001 NPAs Issued by Taxable Year

Taxable Year	Number of NPAs	%	Assessment Amount (Thousands)	%	Average Assessment Amount
1995 & prior	1,959	0.9	$ 15,336	1.6	$ 7,828
1996	857	0.4	5,708	0.6	6,660
1997	1,775	0.8	11,985	1.3	6,752
1998	19,800	9.3	26,522	2.8	1,340
1999	160,716	75.4	850,012	91.1	5,289
2000 & later	28,074	13.2	23,241	2.5	828
Totals/Avg.	213,181	100	$ 932,804	100.0	$ 4,376

Individuals typically have audit changes for just one year. More than 99 percent of the individuals who received NPAs during 2001 had audit changes for a single year.

RTC Section 21006(b)(1)(E) – "Whether professional tax preparation assistance was utilized by the taxpayer."

An in-house accounting department, or an accounting or legal firm prepares virtually all corporate returns. Therefore, we consider corporate tax returns prepared by professionals.

We consider that taxpayers prepared their individual tax returns in the absence of a paid preparer's signature.

TABLE 5A
PERSONAL INCOME TAX LAW
Resident Tax Return Preparation, 2000 & 2001 Process Years

PREPARER	2000 Returns Processed (Thousands)	%	2001 Returns Processed (Thousands)	%	% Change
Taxpayer	3,961	30.2	4,511	33.6	3.4
Professional	9,120	69.5	8,913	66.3	-3.2
VITA*	42	0.3	17	0.1	-0.2
Totals	13,123	100.0	13,441	100.0	

* Volunteer Income Tax Assistance. This is a program that provides tax return preparation assistance for the elderly, disabled, non-English speaking, and those with low incomes.

TABLE 5B
ELECTRONIC FILING AND PAYMENT STATISTICS

Activities	**July 31, 2001**	**July 31, 2002**	**% Change**
E-file	2,400,000	3,094,000	29.0
Telefile	265,000	234,000	-12.0
* Online Filing (a subset of e-file)	527,000	713,000	16.0
Direct Deposit of Refund	1,552,000	1,901,000	22.0
Direct Debit of Balance Due (e-pay)	82,000	88,000	7.0
Credit Card Payments (Average payment is $1,853)	35,000	36,000	3.0

* This volume is included in the volume for e-file.

RTC Section 21006(b)(1)(F) – "Whether income tax or bank and corporation tax returns were filed by the taxpayer."

TABLE 6
CORPORATION TAX LAW
Nonfilers Detected through the Automated Nonfiler System

Tax Year	NPAs	Returns Filed	Total Assessments (Millions)[1]
1994	12,671	7,708[2]	273.5
1995	15,601	3,772[2]	379.5
1996	16,790	5,014[2]	592.0
1997	16,019	8,170[3]	432.4
1998	12,473	8,516[4]	387.2
1999	0 *	0 *	0 *
2000	0 *	0 *	0 *

1. These amounts represent tax, penalties, and interest.
2. These results are extrapolated from a sample test performed in August of 1999.
3. This result is a cumulative total as of July 1, 2000.
4. This result is a cumulative total as of August 1, 2001.

* These figures are unavailable due to implementation of the Integrated Nonfiler Compliance system.

TABLE 7
PERSONAL INCOME TAX LAW
Nonfilers detected through the Automated Nonfiler System

Fiscal Year	NPAs Issued[1]	Returns Filed[2]	Total Assessments (Millions)[3]
1994/1995	369,307	266,687	$ 634
1995/1996	348,288	232,845	$ 857
1996/1997	404,509	241,649	$ 926
1997/1998	398,729	245,453	$ 953
1998/1999	420,679	241,294	$ 1,061
1999/2000	459,777	220,496	$ 1,188
2000/2001	87,647[4]	99,376[4]	$ 261[4]
2001/2002	294,216[4]	151,102[4]	$ 1,669

1. The total number of notices of proposed assessment mailed by the Personal Income Tax Nonfiler Program during the fiscal year.
2. The Compliance Automated Tracking System determines the “returns filed” volumes. The system tracks nonfiler accounts from the issuance of the demand for a return until the account is resolved.
3. The total includes tax, penalties, and interest assessed.
4. The totals are lower than normal due to the delay in implementation of the new automated nonfiler system, and a subsequent delay in mailing nonfiler notices.

PART II
TAXPAYER FILING ERRORS

The tables below reflect errors made by taxpayers on 2001 original tax returns processed between January 1, 2002, and July 31, 2002. We issue Return Information Notices to taxpayers who file returns with errors that result in a change of tax liability. We explain the errors in adjustment paragraphs within the notices. The total number of adjustment paragraphs we issue does not equal the total number of Return Information Notices we send, because many returns contain multiple errors, each error requiring an explanation.

TABLE 8A
INDIVIDUAL RETURN VALIDATION ADJUSTMENTS: 2002 PROCESS YEAR SUMMARY
Number of Adjustment Paragraphs Issued by Return Type

Adjustment Type	540A	540 2EZ	540	540NR	Grand Total	% of Total
Filing Status Adjustment	134	65	195	37	431	0.1%
Exemptions Adjustment	56,840	234	40,214	4,855	102,143	16.7%
AGI Adjustment	240	54	160	4,654	5,108	0.8%
Deductions Adjustment	14,142	53	10,526	1,818	26,539	4.3%
Tax Computation Adjustment	19,865	758	22,366	3,626	46,615	7.6%
Special Credits Adjustment	0	0	387	54	441	0.1%
Renter's Credit Adjustment	14,328	7,939	9,073	1,051	32,391	5.3%
Total Tax Adjustment	21,890	62,174	14,133	1,649	99,846	16.3%
Withholding Adjustment	1,617	1,213	4,201	2,976	10,007	1.6%
Estimate Payment Adjustment	17,690	2,209	129,973	6,653	156,525	25.6%
SDI Adjustment	9,901	1	29,512	1,159	40,573	6.6%
CDC Adjustment	11,791	0	18,506	1,105	31,402	5.1%
Nonresident Adjustment	2	1	6	13,465	13,474	2.2%
Miscellaneous Adjustment	12,687	7,294	25,237	1,853	47,071	7.7%
TOTAL	181,127	81,995	304,489	44,955	612,566	100.0%

TABLE 8B
INDIVIDUAL RETURN VALIDATION ADJUSTMENTS: 2002 PROCESS YEAR SUMMARY
Number of Adjustment Paragraphs Issued by Filing Method

Adjustment Type	E-File	Paper	Telefile	Grand Total	% of Total
Filing Status Adjustment	3	428	0	431	0.1%
Exemptions Adjustment	154	101,987	2	102,143	16.7%
AGI Adjustment	7	5,101	0	5,108	0.8%
Deductions Adjustment	831	25,708	0	26,539	4.3%
Tax Computation Adjustment	111	46,504	0	46,615	7.6%
Special Credits Adjustment	32	409	0	441	0.1%
Renter's Credit Adjustment	295	32,060	36	32,391	5.3%
Total Tax Adjustment	437	99,395	14	99,846	16.3%
Withholding Adjustment	1,438	8,491	78	10,007	1.6%
Estimate Payment Adjustment	21,163	135,166	196	156,525	25.6%
SDI Adjustment	6,391	34,182	0	40,573	6.6%
CDC Adjustment	3,069	28,333	0	31,402	5.1%
Nonresident Adjustment	162	13,312	0	13,474	2.2%
Miscellaneous Adjustment	1,742	45,329	0	47,071	7.7%

TOTAL	35,835	576,405	326	612,566	100.0%

Out of 13,445,650 current year original tax returns processed from January 1, 2002, through July 31, 2002, we issued 558,076 Return Information Notices. This is an adjustment rate of 4.2 percent. The adjustment rate for the same time period last year was 5.1 percent (671,355 Return Information Notices issued for 13,132,760 returns). In the preceding tables, we display the adjustments by return type and filing method.

The following analysis provides information regarding each adjustment type. We include a description of what typically causes each type of adjustment. During this time period, there were no significant form or legislative changes that would affect these adjustments. Overall, the number of Return Information Notices we issued to taxpayers decreased by 16.9 percent compared to last year. The decrease in adjustments was spread evenly over all error types, with some exceptions that we discuss below.

Filing Status (0.1 percent of all adjustments) – This adjustment occurs for two primary reasons: either a tax return is filed jointly, yet contains only one name, social security number, and signature; or a taxpayer claims the head of household filing status, but fails to include the name of the qualifying person. We adjust the return to reflect the single filing status, and recalculate the corresponding exemption, standard deduction, and tax amounts. We issue a Return Information Notice advising that additional information is required to allow the filing status claimed.

Exemptions (16.7 percent of all adjustments) – This adjustment occurs where taxpayers did not claim an exemption amount, claimed the incorrect personal, blind, or senior exemption amount, claimed a number of dependents that does not match the number of dependent names, or calculated exemptions incorrectly.

Adjusted Gross Income and California Adjustments (0.8 percent of all adjustments) – This adjustment occurs where taxpayers erroneously calculated California adjusted gross income, usually by improperly adding or subtracting the California additions and subtractions (Schedule CA) from the federal adjusted gross income amount.

Deductions (4.3 percent of all adjustments) –This adjustment occurs where taxpayers claimed the incorrect standard deduction amount for their filing status, claimed the incorrect filing status when they can be claimed as a dependent on another return, claimed an itemized deduction amount that is lower than the standard deduction amount, or left the deduction line blank.

Tax Computation (7.6 percent of all adjustments) – This adjustment occurs where taxpayers selected a tax amount from the incorrect row or column of the tax table, or calculated taxable income incorrectly.

Special Credits (0.1 percent of all adjustments) – This adjustment occurs where taxpayers claimed a credit for which they were not eligible, commonly due to income limitations, maximum credit amounts, or carryover limitations.

Renter's Credit (5.3 percent of all adjustments) – This adjustment occurs where taxpayers did not qualify for this credit due to filing status, or income limitations. The number of adjustments issued this year decreased.

Total Tax Liability (16.3 percent of all adjustments) – This adjustment occurs where taxpayers made calculation errors after the computation of tax, and before the application of prepaid credits (withheld tax, estimate payments, State Disability Insurance). The distinction between tax computation errors and this category is the tax return line location where the error is made.

Withheld Tax (1.6 percent of all adjustments) – This adjustment occurs where taxpayers claimed withholding amounts different from the allowable amount, which was determined from a variety of sources, including a database of Employment Development Department information.

Estimate Payment Credit (25.6 percent of all adjustments) – This adjustment occurs where taxpayers claimed estimate and extension payment amounts that didn't match payment amounts contained on our accounting system. This category does not include erroneous calculations of estimate penalties.

State Disability Insurance (6.6 percent of all adjustments) – This adjustment occurs where taxpayers claimed more excess state disability insurance than allowable. In processing year 2001, state disability insurance adjustments accounted for only 4.8 percent of all adjustments.

Child and Dependent Care Expenses Credit (5.1 percent of all adjustments) – This adjustment occurs where taxpayers have incorrectly claimed the Child and Dependent Care Expenses Credit. These errors include simple math errors, nonresident filers who did not maintain a California home for a qualified individual, and taxpayers filing as married filing a separate return. This was a new credit for tax year 2000, and in that year it accounted for 8.7 percent of all adjustments. Increased taxpayer and practitioner knowledge about the credit, and implementation of a new schedule to clarify eligibility rules decreased adjustments significantly this year.

Nonresident Only (2.2 percent of all adjustments) – This adjustment occurs where taxpayers made errors involving proration calculations and Schedule CA transfers. In addition to *Nonresident Only* errors, each of the other error types can occur on a nonresident return.

Miscellaneous Computation (7.7 percent of all adjustments) – This adjustment occurs where taxpayers made miscellaneous addition or subtraction errors. An example is making an error in subtracting an estimate credit transfer amount from the overpaid tax amount.

PART III
TAXPAYERS' BILL OF RIGHTS HEARING

Revenue and Taxation Code Section 21006(b)(2) – "Conduct an annual hearing before the Board itself where industry representatives and individual taxpayers are allowed to present their proposals for changes to the Personal Income Tax Law or the Corporation Tax Law which may further facilitate achievement of the legislative findings."

The annual Taxpayers' Bill of Rights hearing was held on Thursday, December 13, 2001, in Culver City, California. Six individuals presented proposals to the three-member Board.

Kathryn M. Jacques

<u>Issuing Notices to an Old Address</u>

Ms. Jacques raised concerns regarding issuing notices to an old address during the course of an audit.

Franchise Tax Board audit managers found that in this incident, human error and not a computer insufficiency, created the problem. New review functions are in place to preclude this situation from occurring again.

Richard E.V. Harris, representing the Coalition for Complete Audit File Access

<u>Complete Audit File Access</u>

Mr. Harris requested a directive requiring Franchise Tax Board to provide a complete copy of the taxpayer audit file, including review notes and reports.

Franchise Tax Board's former chief counsel, Brian Toman responded to Mr. Harris in a letter dated February 26, 2002.

Richard E.V. Harris

<u>California Public Records Act</u>

Mr. Harris addressed two matters, the California Public Records Act and the request for Franchise Tax Board to stop abusing privileges. He said that despite helpful comments from last year's hearing regarding the California Public Records Act, he is still experiencing problems with Franchise Tax Board staff withholding documents.

In a memo to Mr. Harris dated March 25, 2002, Taxpayer Advocate Debbie Newcomb indicated that Franchise Tax Board staff is doing a complete review of the entire disclosure process. Staff undertaking the assignment are reviewing and updating the disclosure procedures for clarity, and looking at the most effective and expeditious method to get this information to all Franchise Tax Board employees.

Roland A. Boucher

Revise the 540 2EZ for Seniors

Roland A. Boucher made comments regarding the 540 2EZ. He would like fewer restrictions, which would allow more seniors to file the simpler form.

A written response was sent to Mr. Boucher indicating that Franchise Tax Board was in the process of conducting surveys on taxpayer preferences and practices. The survey was completed and a report was submitted to the Legislature in April of 2002, entitled, California Tax Forms and Senior Taxpayers. While the report indicated that changes could be made to make some of the changes recommended by Mr. Boucher for senior taxpayers, they either increased the complexity of forms for other taxpayers or were too costly to make given the current budget crisis. We will continue to make changes when practical and cost effective to simplify tax forms for all taxpayers.

Marvin Klotz

California Revenue and Taxation Code Section 17145

Mr. Klotz addressed the code section that creates a qualification on the tax-exempt interest distributed to shareholders of a regulated investment company or mutual fund that derives income from federal debt obligations and municipal bonds. This code section states that such a company may distribute tax-exempt interest only if it holds at least 50 percent or more of its assets in the instruments that produce such interest. Mr. Klotz believed the code section to be unconstitutional.

Franchise Tax Board responded to Mr. Klotz in a letter dated March 18, 2002.

Al Shifberg-Mencher, representing California Society of Enrolled Agents

Conformity to Federal Legislation Dealing with Retirement Issues

Mr. Shiberg-Mencher was concerned about recent changes in the federal law regarding pensions and the fact that California law is not currently in conformity with those changes.

Franchise Tax Board staff responded in a letter to Mr. Shifberg-Mencher. This issue was included and resolved through a conformity bill.

Al Shifberg-Mencher on behalf of Gina Rodriquez, representing Spidell Publishing

Add Line to 540 for Individuals to Pay Use Tax

Ms. Rodriquez suggested Franchise Tax Board provide a line on personal income tax returns for individuals to report and pay their individual use tax liability.

Franchise Tax Board responded to Ms. Rodriquez in a letter dated March 25, 2002.

Teacher Retention Credit Clean up

Ms. Rodriquez suggested Franchise Tax Board sponsor legislation to correct and clarify provisions of Revenue and Taxation Code section 17052.2, Teacher Retention Credit.

Franchise Tax Board Legislative Services adopted a proposal in response to Ms. Rodriquez's suggestion. This issue was included in SB 1660 (Scott) (Stats. 2002, Ch. 487) signed by the Governor.

Maria Morrison, representing Ernst & Young

911 Relief for Fiscal Year Filers

Ms. Morrison expressed concern that information in a Franchise Tax Board press release did not address fiscal year filers. She asked if relief from the 911 disaster would apply to these individuals.

In a letter to Ms. Morrison dated March 25, 2002, Franchise Tax Board staff said tax relief for 911 does apply to fiscal year filers.

PART IV
COMPLIANCE

Revenue and Taxation Code Section 21006(c) - "The Board shall include in its report recommendations for improving taxpayer compliance and uniform administration, including, but not limited to, all of the following:
(1) Changes in statute or board regulations.
(2) Improvement of training of board personnel.
(3) Improvement of taxpayer communication and education.
(4) Increased enforcement capabilities."

STATUTES OR BOARD REGULATIONS

STATUTES

Each year Franchise Tax Board reviews areas of the law and proposes legislation in order to carry out its responsibility of improving taxpayer compliance and enhancing administration. Several areas of the law were identified during the review process for which legislation was proposed to facilitate the department's administration of its duties.

Chaptered Legislation

AB 2963 (Aroner) (Stats. 2002, Ch. 757) – This act allows unmarried parents the same eligibility for the California Child and Dependent Care Refundable Credit as divorced or separated parents.

AB 2979 (Assembly Revenue & Taxation Committee) (Stats. 2002, Ch. 374) – This act:
1. Amends the Government Code to delete an obsolete reference.
2. Addresses an administrative problem in the processing of the Child and Dependent Care Credit.
3. Conforms state law to federal law regarding certain penalties.
4. Makes nonsubstantive, technical changes to the Senior Citizens Homeowners and Renters Property Tax Assistance Laws (HRA).
5. Provides specific sourcing rules for the other state tax credit.
6. Increases the gross income and state income tax liabilities that would qualify for judicial relief of joint and several tax liabilities and inform the parties to a divorce proceeding of existing tax laws regarding divorce court orders.

SB 1445 (Alpert) (Stats. 2002, Ch. 258) – This Franchise Tax Board sponsored act makes two enhancements to Franchise Tax Board's authority to settle civil tax disputes to allow:
1. The Executive Officer and Chief Counsel to approve any settlement up to $7,500 and index that amount in future years to reflect inflation, and
2. Tax years to be completely resolved through a settlement agreement.

SB 1660 (Scott) (Stats. 2002, Ch. 487) – This act contains provisions, sponsored by Franchise Tax Board, to:
1. Correct an erroneous reference in the Joint Strike Fighter Credit, and
2. Repeal obsolete language with respect to original issue discount treatment.

SB 1875 (Karnette) (Stats. 2002, Ch. 399) – This act changes the documentation requirements for filing a claim under the Senior Citizens Homeowners and Renters Property Tax Assistance Law by eliminating a statutory requirement that claimants attach a copy of their annual property tax statement to their claim.

SB 2051 (Bowen) (Stats. 2002, Ch. 694) – This act:

1. Expresses the Legislature's intent that Franchise Tax Board will implement the current law that allows Franchise Tax Board to provide city tax officials with tax return information, and
2. Prohibits taxpayers from amending their income tax returns using the Information Practices Act of 1977 (IPA).

REGULATIONS

Regulation Section 17000.3 – Meetings of the FTB (Bagley-Keene Open Meeting Act)

Effective January 1, 2002, the Bagley-Keene Open Meeting Act was amended to require public dissemination of certain writings distributed to the Board members, when those writings relate to an open session agenda item on which the Board may take action at a noticed Board meeting. This new provision is Government Code section 11125.1, subdivision (c). On March 25, 2002, staff received permission from the Board to immediately commence a regulation project to establish new procedures because this new law is expected to require substantial changes in existing procedures relating to Board meetings. Staff expects to submit the text of the proposed regulation, the initial statement of reasons, and notice of hearing to the Office of Administrative Law toward the end of 2002. It is anticipated that a hearing will be held in January or February of 2003.

Regulations Sections 17053.36, 17053.37, 23636 and 23637 – Joint Strike Fighter Wage Credit and Joint Strike Fighter Property Credit

On December 19, 2000, staff received authorization to proceed with conducting a public symposium on Proposed Regulations 17053.36 and 23636 (Joint Strike Fighter Wage Credit) and Proposed Regulations 17053.37 and 23637 (Joint Strike Fighter Property Credit). Since the statute requires the amount of these credits to be reflected within the bid that forms the basis for the taxpayer's contract or subcontract to manufacture property for the Joint Strike Fighter, Franchise Tax Board staff was particularly interested in hearing from the defense contractor community concerning the Joint Strike Fighter contract bidding process. On July 13, 2001, a symposium was held in Culver City, California, to discuss the proposed regulations. Twenty-two individuals attended. Staff reviewed comments received at the symposium. A report of the symposium comments and discussion and the proposed revised draft regulations were mailed to the symposium participants, requesting that comments on the revisions be transmitted by August 31, 2001. One comment was received.

On March 6, 2002, staff received authorization from the Board to proceed with the formal rulemaking process. On September 13, 2002, a notice of Franchise Tax Board's intent to adopt these regulations was published in the Office of Administrative Law's weekly Notice Register. A hearing has been scheduled for October 29, 2002.

Regulation Section 19032 – Audit Practices

Staff held symposiums on December 1, 2000, and April 23, 2001, to solicit public comments concerning the draft regulation addressing the department's auditing practices and procedures. Public comments have been taken into account in revising the draft regulation. On March 6, 2002, staff received permission from the three-member Board to proceed with the formal regulation process concerning the remaining unresolved comments. On June 7, 2002, a notice of Franchise Tax Board's intent to adopt this regulation was published in the Office of Administrative Law's weekly Notice Register. A hearing was held on August 19, 2002. Three comments were received. Staff considered these comments and is waiting for Board approval to proceed with a 15-day notice.

Regulation Section 19133 – Failure to File After Notification and Penalty

Staff received authorization to proceed with the formal rulemaking process on this penalty on September 19, 2000. Franchise Tax Board's Filing Enforcement system identifies individual taxpayers who have not filed a personal income tax return when a return appears to be required based upon available information. Franchise Tax Board automatically sends a demand letter to these nonfilers. If the nonfiler does not file a personal income tax return upon notice and demand, Franchise Tax Board may add a demand penalty of 25 percent of the total tax liability before applying any payments or withholding credits. Franchise Tax Board does not impose the penalty where the nonfiler had reasonable cause not to file and the failure to file was not due to willful neglect.

The regulation will address Franchise Tax Board's practice, effective January 1, 2001, of not assessing a demand penalty against first-time nonfilers who have not received a nonfiler Notice of Proposed Assessment within one of the previous four years. Staff has drafted the proposed regulation to be submitted to Franchise Tax Board for approval to hold a symposium.

Regulation Section 23334 – Tax Clearance Certificate

Existing Regulation 23334 explains generally that in order to complete the dissolution, withdrawal, or merger process with the California Secretary of State, a corporation must obtain a tax clearance certificate from Franchise Tax Board and file it with the Secretary of State. Staff has determined that many corporations are unaware that they continue to remain subject to the minimum franchise tax until the actual completion of the dissolution, withdrawal, or merger process. As a result, staff believes that the existing regulation needs greater clarity.

Staff requested Board permission during 2000 to proceed with a rulemaking action to amend the existing regulation. Those proposed amendments were noticed and public comments were received, but due to additional changes staff believed were necessary at that time, they were unable to complete the project within the time period mandated under the Administrative Procedure Act.

Staff has now prepared the additional amendments and received approval from Franchise Tax Board to proceed with the revised language on March 25, 2002. The text of the proposed amendments, the initial statement of reasons, and the notice of hearing have been forwarded to and approved by the Office of Administrative Law, which published the notice on June 21, 2002. The comment period ended on August 5, 2002. Staff indicated in the notice that a public hearing would not be held unless requested at least 15 days before the close of the written comment period. No one requested a hearing, but a few comments were received. Staff considered these comments and is waiting for Board approval to proceed with a 15-day notice.

Regulation Section 24344(c) - Offset of Interest Expense Incurred for Foreign Investment

Staff received permission to proceed with the proposed amendments to this regulation on March 6, 2002. This regulation currently sets forth a definition of "commonly controlled group" that was based upon the prior version of Revenue and Taxation Code section 25105 and the case law decided under that. Revenue and Taxation Code section 25105 was amended in 1994 to incorporate the interpretations of what constitutes a "commonly controlled group" found in the case law. Additionally, Revenue and Taxation Code sections 24411 and 25110 and the regulations under that have been amended to refer to Revenue and Taxation Code section 25105 rather than to set forth a separate definition of a "commonly controlled group."

The amendments to this regulation would incorporate the definition of "commonly controlled group" as found in Revenue and Taxation Code section 25105 into California Code of Regulations, title 18, section 24344, subsection (c), and would correct the word "and" to "or" and make the requirements of California Code of Regulations, title 18, section 24344, subsections (c)(2)(A)1.a. and b., disjunctive rather than conjunctive.

On May 24, 2002, a notice of Franchise Tax Board's intent to amend this regulation was published in the Office of Administrative Law's weekly Notice Register. A hearing was set for July 22, 2002. Staff indicated in the notice that a public hearing would not be held unless requested by an interested person at least 15 days before the close of the written comment period. No one requested a hearing and no comments were received. The rulemaking file has been submitted to the Office of Administrative Law for approval and should be adopted this fall.

Regulation Section 25137-2 – Long-Term Contracts for the Manufacture of Tangible Personal Property

When a multistate taxpayer that manufactures or fabricates tangible personal property elects one of the methods of long-term contract accounting provided by Treasury Regulation 1.451-3 or Internal Revenue Code section 460 (as incorporated into the Revenue and Taxation Code by section 24673.2), the standard apportionment formula provided by Revenue and Taxation Code section 25128 may not fairly represent the business activity of the taxpayer in California relative to the income generated under the contract. This is because under the long-term contract methods of accounting, income is generally recognized in a year other than the year in which the performance required to earn that income occurred. Thus, there will be a mismatch between the factors used to apportion the income and the income being apportioned.

The existing regulation at California Code of Regulations, title 18, section 25137-2, provides for the use of an alternative formula when construction is performed under a long-term contract and the taxpayer has elected one of the long-term contract methods of accounting provided by Treasury Regulation 1.451-3 or Internal Revenue Code section 460. However, the regulation does not cover situations in which tangible personal property is manufactured or fabricated under a long-term contract.

On March 6, 2002, staff received permission from the Board to release draft proposed changes to the existing regulation. The proposed changes addressed the apportionment rules to be used when a taxpayer has elected to account for the sales of tangible personal property under the rules governing the long-term contract method of accounting. On March 14, 2002, a notice was published to inform the public of the proposed changes and to announce a symposium scheduled for April 29, 2002. The notice stated that if no public interest was voiced and no written comments were received by April 12, 2002, the symposium would be cancelled. No comments were received and no public interest was voiced.

Staff submitted the text of the proposed regulation, the initial statement of reasons, and notice of hearing to the Office of Administrative Law on September 9, 2002. A hearing has been scheduled for November 8, 2002.

TRAINING

The department strives to assure quality service to the public by developing the skills and abilities of its employees through ongoing training programs.

Filing Services

Basic training on our Taxpayer Information computer system is given to new employees in the Filing Services Bureau. These training classes introduce our Filing Services Bureau employees to Taxpayer Information account processing, effective use of the Taxpayer Information computer system manual, and practice on basic account transactions. In addition, we offer advanced Taxpayer Information computer system training to employees responsible for more complex and specialized account analysis and resolution.

Basic training on our Business Entity Tax System is given to employees assigned to work with business entity accounts. These training classes introduce Filing Service Bureau employees to Business Entity Tax System account processing, effective use of the system manual, and practice on basic account transactions. We offer advanced Business Entity Tax System training to employees responsible for more complex and specialized account analysis and resolution.

Basic training on the Accounts Receivable Collection System and the Integrated Nonfiler Compliance system is given to all Filing Services Bureau employees assigned to handle collection accounts. These training classes introduce employees to billing cycles and account analysis. We offer advanced Accounts Receivable Collection system training to employees responsible for more complex and specialized account analysis, resolution, and quality review.

Extensive training on tax laws, provisions of the Taxpayers' Bill of Rights, account analysis and resolution, security and disclosure, and telephone techniques are provided to new public service staff in the Filing Services Bureau. Because our public service staff are often the public's only contact with government, all classes include discussion of goals, including providing excellent service and resolution of each caller's issue with only one contact whenever possible.

Collections

All new employees in the Collections Program are given extensive training as part of the personal income tax, business entities and non-tax debt new hire training curriculum. Depending on which program they are hired from, Collections Program employees receive training in 14 to 21 mandatory modules, learning the procedures and practices of their specific jobs. Comprehensive classes in interacting with and protecting the rights of taxpayers are included in these mandatory training modules. In the Taxpayers' Bill of Rights course, students learn policy and procedures that ensure the rights, privacy, and property of California taxpayers are protected. Particularly emphasized in this training are sections relating to:

- Security and disclosure

- Installment agreements
- Involuntary collection action
- Information sources

New hires in the Collections Program also attend customer service training, which stresses the importance of quality customer service by training employees to listen, think and act with enthusiasm. This course discusses the division's business plan, which reflects the program's commitment to customer service through quality deeds and mutual respect and courtesy.

Journey-level Collections Program employees are encouraged to take advantage of over 21 training courses, either as refresher courses or for general learning. These ongoing technical and customer service training courses include customer service, Taxpayers' Bill of Rights, and telephone techniques. Other training courses include:

- Due process
- Filing requirements
- Penalty and interest computation
- Power of attorney

Audit

We provide professional training to our auditors. Auditors receive initial and ongoing support for their development throughout their careers. New auditors complete an up to six-week basic professional auditor series in an academy format to establish a baseline expertise. The series develops skills in the following areas:

- Organizational mission and orientation
- Intergovernmental relations
- Audit process
- Technologies and work systems
- Research methodologies
- Tax law
- Taxpayers' Rights
- Information security
- Policies and procedures
- Case management protocols
- Quality review
- Customer service
- Plain language guide

New auditors continue learning on the job throughout their probationary period. Technical training, academy developed programs and onsite college programs that address principles of accounting, changes in the tax law, scope of business practices, legislative initiatives, taxpayer education, and promotion of tax law compliance support this learning. We also support the professional development of our auditors with an education reimbursement program and support for preparation to achieve certified public accountant status. Under new guidelines, we now provide certified public accountants with continuing education credit for courses we develop and administer.

The development of an auditor's expertise supports our mission and "Statement of Principles of Tax Administration." These principles direct us to carry out tax policy by correctly applying the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions following legislative intent; and to perform this work in a fair and impartial manner. To assure continuity, the audit training staff evaluates auditor-training courses and conducts ongoing learning need assessments to determine how we can improve auditor training and what new topics we need to address.

TAXPAYER COMMUNICATION/EDUCATION

It is our goal to provide taxpayers and tax practitioners with the information they need to file their state tax returns completely, accurately and timely. Some of the strategies used to continually improve our communication with the public include:

1. Providing well-written materials for accurate filing by:
   - Ensuring that tax booklets contain forms and instructions that are clear and easy to understand.
   - Reviewing and revising our notices, forms, and publications to provide accurate information.
   - Developing new forms and filing methods that are designed to simplify the filing process.

2. Distributing tax products using methods that are convenient for taxpayers and tax practitioners. Our distribution efforts include:
   - Mailing tax booklets to taxpayers who used paper forms in the previous year.
   - Providing commonly used forms in banks, post offices, libraries, quick-print shops, Franchise Tax Board field offices, and other government agencies throughout the state.
   - Providing tax forms and publications on the Internet through the California Home Page at www.ca.gov or directly through the department's Website at www.ftb.ca.gov.
   - Providing advance drafts of tax forms to software developers, and maintaining standards and an approval process for the development of substitute forms generated by commercial software products.
   - Mailing information kits, prior to each filing season, to tax practitioners who participate in our e-file program.

3. Participating with other tax agencies and state departments to develop cooperative communication efforts:
   - Providing easy access to a variety of tax information through hypertext links from one site to another on the California Home Page and individual agency Websites.
   - Establishing joint field offices and investigating ways to provide service to taxpayers and tax practitioners through a single call, regardless of the tax agency called.
   - Participating in small business conferences with other state departments and agencies.
   - Developing and maintaining a joint e-file marketing program with the Internal Revenue Service to disseminate e-file related information, participation requirements and training to tax practitioners.
   - Educating specific groups in partnership with the Internal Revenue Service through the Volunteer Income Tax Assistance/Tax Counseling for the Elderly, VITA Military, and Homeowner and Renter Assistance volunteer programs. In addition, Franchise Tax Board has developed a brochure for the VITA/TCE and HRA programs that provides information on how to obtain free assistance in the preparation of tax returns and HRA claim forms, and how to sponsor a VITA/TCE or HRA volunteer site.

4. Providing information on our Website such as regulations, press releases, and frequently asked questions. Taxpayers and tax practitioners also can find information on the various e-programs such as e-filing, Telefile, electronic funds transfer, submission of partnership Schedule K-1s using magnetic media, customer service numbers, the closest e-file provider by city or zip code, online software providers, and a list of approved software vendors.

5. Issuing statewide press releases to inform taxpayers of changes to the tax law and using *Tax News* to inform tax practitioners of legislative changes, e-file updates, new programs, etc. An ongoing media effort is a major component in our goal to reduce errors.

6. Providing professional forums and Speakers' Bureau staff to inform tax practitioners and community groups of significant tax law changes, common errors, and our major issues and policies.

7. Maintaining and enhancing an Interactive Voice Response system, which provides automated telephone service to a large number of callers at a low cost. The Interactive Voice Response system provides recorded responses to the most frequently asked questions regarding general information and state taxes. The system also allows callers to:
   - Check on the status of their current year personal income tax and homeowner and renter assistance refunds.
   - Order state tax forms for the current year and prior two years.
   - Order homeowner and renter assistance claim forms for the current year.
   - Order current year federal tax booklets and resolve some filing enforcement issues.
   - Check personal income tax account balance information and verify various payments.
   - File personal income tax returns through the Telefile program.

   Future services that we may provide using the Interactive Voice Response system include allowing personal income taxpayers to make arrangements for payments and allowing business entities to verify receipt of estimated tax payments.

8. Improving products and services to persons with disabilities by:
   - Providing the personal income tax booklet in a large-print version and on audiocassette.
   - Improving the overall readability of the Homeowner and Renter Assistance Booklet and providing it on audiocassette.
   - Using a diagnostic software tool that analyzes Web pages, helping to increase Internet accessibility.

9. Providing information and assistance to taxpayers and tax practitioners in languages other than English.
   - Providing tax law change information in Spanish to non-English communities through Franchise Tax Board's Speakers' Bureau.
   - Partnering with agencies, organizations, and individuals to provide tax information and assistance in various languages to non-English speaking communities through

Volunteer Income Tax Assistance and Homeowner and Renter Assistance volunteer sites.
- Developing informational materials such as press releases, informational flyers, brochures, etc., in various languages.
- Maintaining and enhancing an IVR system that provides automated telephone service to a large number of Spanish-speaking persons.
- Providing information in Spanish on the Internet.

10. Marketing of e-programs by:
    - Conducting direct mail efforts to inform tax professionals and taxpayers about e-programs.
    - Requesting hyperlinks to our Website from other strategic Websites.
    - Participating in various tax professional organization events statewide.
    - Developing and co-sponsoring with the Internal Revenue Service e-file focused seminars for tax professionals.
    - Partnering with the State Controller's office to promote e-file to state employees through payroll inserts, posters, a global message printed on employees' paychecks and an article in employee newsletters.
    - Providing faster turnaround for correspondence received by e-mail or fax.

11. Continuing to gather input from stakeholders. This proves valuable so we can make decisions about modifying and enhancing our programs based on what our stakeholders truly want and need.

12. Providing outreach through our Collections Program to help taxpayers and tax professionals understand and comply with tax laws.
    - Providing information online including the Collections Procedure Manual, answers to questions about bills and notices, what taxpayers can do if they are unable to pay (offer in compromise, installment agreement and credit card payment), as well as phone numbers and addresses.
    - Maintaining a Collections Call Center staffed with collection experts to answer questions and assist taxpayers with collection problems.
    - Providing assistance directly to the tax professional community through the Tax Practitioner Liaison unit. Collection experts are available to answer questions via telephone, a FAX help line, or our "911 – Request for Relief From Hardship" form.
    - Providing presentations on the offer in compromise, installment agreement and collection programs.
    - Forming an Innocent Spouse Unit to develop and conduct outreach workshops in response to Taxpayers' Bill of Rights legislation changing Innocent Spouse Relief provisions. The unit also developed and will launch an interactive Web page dedicated to Innocent Spouse Relief on our Website.

ENFORCEMENT

Nonfiler Program

The goal of our Personal Income Tax and Corporation Nonfiler Programs is to identify and contact individuals and business entities that have a requirement to file a California tax return, yet have failed to do so.

Our Personal Income Tax Nonfiler Program focuses primarily on wage earners, self-employed individuals, individuals with unreported capital gains, nonresidents not reporting California source income, and individuals who have partnership income. Beginning with the tax year 1997, our program looked at individuals who paid a large amount of mortgage interest with no income source reported and no California tax return filed.

Our Corporation Nonfiler Program uses information from other taxing agencies (Internal Revenue Service, State Board of Equalization, and Employment Development Department) to identify potential nonfilers.

In May 2001, Our Nonfiler Program implemented a new system that integrated the Personal Income Tax and Corporation Income Tax Nonfiler Systems into one. The new system will:

- Identify an additional 100,000 nonfilers annually.
- Eliminate 50,000 “erroneous” taxpayer contacts annually.
- Generate an additional $80 million in revenue annually.

Audit

We are working with the federal government and other state agencies to identify new areas of noncompliance. Our Audit Division is currently focused on:

- Identifying individual and business entity filers involved with abusive trusts and sham tax shelters.
- Auditing business entity taxpayers, specifically large multinational corporations, pass through entities, and limited liability companies.
- Examining compliance issues unique to California law.

We have become more current in our audit workload encouraging better self-compliance. To emphasize our commitment to being a customer-centered organization, we have developed specific performance measures as part of the 2002/2003 Audit Division Business Plan for meeting the Taxpayers' Bill of Rights time frames for protests and claims, and guidelines for the completion of audits. We strive to improve customer service by adhering to the principles in the Taxpayers’ Bill of Rights and the Statement of Principles of Tax Administration.

Our Audit Division also held townhall meetings with practitioners throughout the country in 2000/2001 to identify best audit practices. We have incorporated many of these audit practices into pending audit regulation. We are developing a secure Electronic Communication project that will allow taxpayers expanded options in communicating with our auditors, while ensuring taxpayers their privacy.

In an ongoing effort to monitor and improve customer service, our Audit Division continues to conduct a taxpayer opinion survey addressing field examinations, and a correspondence opinion survey addressing desk examinations. We distribute the surveys to taxpayers and tax practitioners at the completion of the examinations. The latest surveys demonstrate that 83 percent and 74 percent respectively of those who responded were satisfied with how we conducted our audits.

Collections

Part of the vision of our Collections Program is to facilitate optimal compliance by:

- Preventing future delinquencies.
- Adopting voluntary cooperative payment solutions for people who incur delinquencies.
- Appropriately intervening when delinquencies are not resolved by voluntary cooperative payment solutions.

Our Collections Program philosophy is based on the premise that most taxpayers are "self-correcting" and want to comply with tax laws but may be hindered by circumstances or an incomplete understanding of compliance requirements. Our Collections Program offers numerous outreach and education efforts to help taxpayers and tax professionals understand and comply with tax laws. We give presentations on the Offer in Compromise Program, Installment Agreement Program, and our Collections Program upon request.

Our Collections Program strives to accommodate taxpayers' needs in paying their delinquencies. In recent years, we have simplified the installment agreement and offer in compromise payment options for taxpayers. Taxpayers can now request an installment agreement without being required to complete a financial statement. They can find the installment agreement form on our Website. Approval of most installment agreements is contingent on the taxpayer's agreement to use electronic funds transfer as the payment method. Since we established the electronic funds transfer requirement, the default rate has dropped to less than 3 percent from a default rate in the 40 percent range.

Our Collections Program has also adopted a new approach to wage garnishments and bank levies, which is to suggest that taxpayers institute installment agreements to release their levies. Installment agreements are less burdensome to employers and provide a less intrusive method for taxpayers to resolve their outstanding tax liabilities.

Our Offer in Compromise program is for taxpayers who do not have, and will not have in the foreseeable future, the income, assets or means to pay their tax liability. Taxpayers can offer a lesser amount for payment of their non-disputed final tax liabilities. Legislation signed in October 1999 provides us with the authority to accept a taxpayer's offer to compromise a final tax debt in a manner similar to the Internal Revenue Service. When taxpayers do not qualify, we suggest an installment agreement as an alternative method for taxpayers to resolve their delinquencies.

The Accounts Receivable Collection System was implemented two years ago for the personal income tax program and a year ago for the business entity program. The Accounts Receivable Collection System analyzes each account's collectibility and uses that information to select the most appropriate collection strategy. Collectibility is determined by assessing an account's risk level and its yield potential. Based on this analysis, we choose a customized collection treatment for each account.

The management of our tax account receivables is built on a combination of sophisticated automated systems and our highly trained collection professionals. Collectors are still a vital resource in resolving delinquencies. Many tools are available to assist them, from skip-tracing guides and interagency offsets to extensive records available through data-sharing agreements with the Internal Revenue Service, the Department of Motor Vehicles, State Contractor Licensing Boards, employer records including the New Employee Register, bank information and many other data sources.

Finally, we have a stringent quality insurance strategy for our Collections Program that sets standards for handling collection cases, measures success in meeting those standards and takes action if standards are not met. Our quality assurance is equally concerned with maintaining high standards of customer service and due process as well as meeting our collection goals in resolving delinquencies.

Legal

Legal Branch staff supports our enforcement effort by providing consultation and litigation support for positions developed in cooperation with the other enforcement programs. Support activities include representation in protests, appeal proceedings before the Board of Equalization, attorney general staff support in tax litigation proceedings in California and federal judicial proceedings, and representation in out-of-state bankruptcy proceedings.

PART V
EVALUATING FRANCHISE TAX BOARD EMPLOYEES

Revenue and Taxation Code Section 21009 – "(a) The board shall develop and implement a program which will evaluate an individual employee's or officer's performance with respect to his or her contact with taxpayers. The development and implementation of the program shall be coordinated with the Taxpayers' Rights Advocate. (b) The board shall report to the Legislature on the implementation of this program in its annual report."

We completely revised the employee performance evaluation and probationary reports after the adoption of the Taxpayers' Bill of Rights in 1989. Since that time, these forms continue to evolve. In the most recent revision, the term "Customer Service" occurs as a performance dimension in the evaluations for supervisors and employees. Employees are evaluated on how well they provide "quality customer service, while striving to exceed customers' expectations," their treatment of taxpayers, and providing "accurate, timely, and complete assistance."

Our staff also developed Mission and Value Statements that emphasize the commitment of management and employees to a job well done, continuously improving service to customers, and courteous, fair treatment of everyone. We created the Mission and Values team to promote an awareness of these concepts and to foster and encourage the achievement of a work environment reflecting them. The team consists of employees of all designations – managers, supervisors and rank and file from all areas of the department.