

| Taxpayers'
Bill of Rights
Annual Report
to the
Legislature



State of California
Franchise Tax Board

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Executive Summary

The Taxpayers' Rights Advocate's Office prepares this report each year as required by the Taxpayers' Bill of Rights (Revenue and Taxation Code (R&TC) Sections 21006 and 21009). The report supports open government and transparency as it addresses taxpayers' concerns and Franchise Tax Board (FTB) systemic issues. We strive to further protect taxpayers' rights and ease their filing burden.

Before addressing this report, I must acknowledge Steve Sims and his tireless advocacy on behalf of California's taxpayers. Since assuming the role of Taxpayer Advocate in 2008, Steve revitalized and strengthened the Advocate's role. His enthusiasm, energy, and approachable personality will be missed by his coworkers, the tax professional community, and taxpayers.

As for the report, it addresses several important issues. FTB senior management thoroughly reviewed and acted upon the recommendations present in the report.

The Advocate's Address briefly discusses significant issues, concerns, and challenges to both taxpayers and the department, such as collections, late federal/state legislation, and claim for refunds.

The report also addresses the Taxpayers' Rights Advocate's responsibilities and contacts. For Fiscal Year (FY) 2013/2014 (July 1, 2013, through June 30, 2014), the Taxpayers' Rights Advocate's Office responded to over 20,700 contacts from taxpayers. The Taxpayers' Rights Advocate:

- Explains taxpayers' rights.
- Provides education services to taxpayers and tax professionals.
- Conducts the Annual Taxpayers' Bill of Rights hearing.
- Communicates with tax professional groups and industry representatives.

To satisfy the Taxpayers' Bill of Rights requirements, the Taxpayers' Rights Advocate's Office conducted a study using samples of both corporation and personal income tax *Notices of Proposed Assessment*. These proposed assessments result from FTB audits. The primary findings include the largest cumulative dollar amounts in proposed assessments:

- Corporation taxes—allocation and apportionment audits.
- Personal income taxes—filing enforcement assessments.
- Manufacturing industry—based on California's primary business activity.

The Taxpayers' Rights Advocate's Office compiled information on taxpayers' filing errors detected during tax return processing. We issued *Return Information Notices* to taxpayers who filed tax returns with errors that resulted in a change in tax liability. Advocate staff detected a taxpayer error rate of approximately 3.8 percent during tax return processing. They examined this data to identify and address some of the most common taxpayer errors.

Along with the Taxpayers' Rights Advocate, the department continues its efforts to make it easier for taxpayers to meet their obligations. We continue to provide information and assistance to taxpayers and tax professionals as issues arise.

Let me conclude by acknowledging that our Enterprise Data to Revenue Project (EDR) achieved a major goal 10 months ahead of schedule. In early summer, the project made its first \$1 billion in revenue.

It took many hands across the entire enterprise to arrive at this point so early and so successfully. My sincere thanks go to all the dedicated staff for embracing EDR and making it so successful. The state will see the benefits of the EDR program for years to come.

Thank you for the privilege to serve,



Selvi Stanislaus
Executive Officer

Advocate's Address

Members of the California Legislature:

I submit for your review the 2014 Taxpayers' Bill of Rights Annual Report to the Legislature.

The role of the Advocate is crucial in maintaining a balance between the Taxpayers' Bill of Rights and FTB's obligation to collect the proper amount of tax due. When I began as Advocate in 2008, I felt it was important to establish and clarify the role both internally and externally. In doing so, I outlined my involvement in various issues that impacted Franchise Tax Board (FTB). Over the past six years, I made many recommendations to improve in areas where I felt taxpayers' rights were affected. In this year's address, I would like to highlight some of my accomplishments, as well as my recommendations and the resulting outcomes. I also included a list in the back of the Advocate's Address which details my accomplishments as Advocate and provides outcomes to all previous recommendations made in my annual reports to you.

One of my most important achievements as Advocate is the creation of the Systemic Issue Management System (SIMS), a web-based application where taxpayers and tax professionals can report potential systemic issues to us for research and resolution. Systemic issues:

- Affect multiple taxpayers.
- Impact segments of the population locally, regionally, or nationally.
- Relate to FTB systems, policies, or procedures.
- Involve protecting taxpayer rights, or reducing or preventing taxpayer burden.

This system allows my staff to track and identify systemic problems and collaborate with program areas to recommend solutions. SIMS also generates reports for senior management. Since we released SIMS to the public in March of 2009, we confirmed and resolved eight systemic issues.

This year I am pleased to report that FTB implemented a significant recommendation made in both my 2012 and 2013 reports. Our technology advances have given FTB the ability to locate and identify more potential taxpayers who are out of compliance. As various areas of FTB increase the output of notices to the taxpayer, our customer service centers are struggling to keep up with the demand from taxpayers calling us for help in resolving their accounts. Customer service is a high priority and one of FTB's core values. My concern is with the subset of taxpayers harmed by their inability to timely respond to notices which sometimes lead to adverse actions against them. As a result of my concerns in this area, FTB created the Enterprise Notice Planning Team. This team developed a forecasting tool to track all notices to ensure that FTB customer service centers maximize their available resources to answer phones faster and thereby help taxpayers resolve their issues with us.

As in years past, I feel that interaction with the tax professional community and with taxpayers is crucial to the role of the Advocate. In FY 2013/2014, I personally made 35 presentations to a variety of tax professionals, community organizations, business groups, and government groups throughout California. My involvement in these events allows me to stay apprised of how law changes and FTB's policies, processes, and procedures affect taxpayers. Meeting with these groups allows me to gain firsthand knowledge on issues, concerns, and challenges taxpayers face. These presentations also allow me to see the impact legislation has on businesses in California and taxpayer compliance.

This is my last report to you as the Advocate and I would like to thank you, Selvi Stanislaus, and the three-member Franchise Tax Board for your support over the past seven years. I would also like to thank FTB management and staff for listening

to my suggestions and recommendations over the years and making adjustments where possible. In this final Advocate Address before my retirement, I would like to recommend that my successor continue to work closely with taxpayers and the tax practitioner community. Those relationships have given me invaluable insight into the issues and burdens that face our external stakeholders and taxpayers. I also would advise my successor to continue to challenge FTB internally on issues that affect taxpayers and practitioners and to address the issues and the concerns being raised by the Advocate on behalf of California's taxpayers.

Emerging Issues

Emerging issues I am currently watching closely:

1. Each year, FTB sends California nonfiler records to the Internal Revenue Service (IRS). If there is an adjustment or withdrawal of the notice, FTB does not notify the IRS of this change. This has the potential to cause taxpayers unnecessary burden to resolve an erroneous assessment with both agencies. I recommend that FTB consider notifying the IRS of any subsequent adjustment or withdrawal of our notice.
2. Assessments that are based on revenue agent reports must be issued within:
 - Two years, if the taxpayer or IRS notifies us of the federal change within six months of the final federal determination.
 - Four years, if the taxpayer or IRS notifies us of the federal change after six months of the final federal determination.

The date that we receive the notice by either the taxpayer or the IRS is not viewable in the taxpayer account. I have received concerns from taxpayers and practitioners that we are issuing these assessments outside of the statute of limitations and that it is difficult for taxpayers and FTB staff to determine the date FTB was notified of the federal adjustment. I recommend that audit review their processes to ensure that staff can clearly identify the date of notification and that assessments are properly issued within the statute of limitations.

In the following section, I discuss challenges and areas of concern that both taxpayers and FTB face.

1. Auditor Retention

In FY 2008/2009, I first reported on the issue of auditor retention. In that year, we saw the highest levels of attrition among audit staff (over 8 percent). Since then, attrition has decreased and has been around 5 percent for the last two fiscal years. In comparison, in 2013, the top 100 certified public accountant (CPA) firms reported average turnover rates of 14.8 percent, about the same as they had in 2008. Despite the fact that our attrition is below the industry average and has declined over the past six years, it still remains a concern for me as the Taxpayers' Rights Advocate. The Board of Accountancy reports estimated job growth of 13 percent for CPAs between 2012 and 2022. These firms hire our experienced auditors, sometimes offering signing bonuses and salary packages that can be higher than state salaries. In order to ensure FTB's ability to meet the standards as set forth in the Taxpayers' Bill of Rights, we must train our auditors to perform at the highest levels and also be able to retain them for the long term.

Currently, the audit division has nearly 75 percent of audit staff with more than five years experience. In 2009, I noted that it takes more than four years for a new auditor to be promoted to the program specialist I level and only 34 percent of audit staff had reached that level. I am pleased to report that this year the number of auditors who have reached program specialist levels is 51 percent of total auditors.

This is a step in the right direction; however, in order to retain qualified staff in auditor classifications, consideration should be given to higher staffing classifications as result of the complexity of work, length of time, and amount of training required to perform the work. Without the staff FTB needs to make the audit program successful, California's tax gap increases, taxpayers are frustrated, and revenue is lost.

Investing in training auditors will not only prepare them for promotional opportunities but will likely reduce taxpayers' burden by reducing the time it takes to complete an audit while improving the accuracy of the outcome. The training needs assessment completed by the Audit Division recommended a structured training development plan that focuses on common areas for all staff, such as research skills, while including an individual plan (IDP) to match staff's personal skill level. This year approximately 68 percent of auditors created an IDP, and of those staff, approximately 84 percent completed those plans last year. The main reason for not completing training plans was that staff was unable to find classes that met their individual needs. To help solve this issue, the audit division is exploring an external training program for the next fiscal year which provides a yearly subscription to staff. The external training program allows staff to select from a wide variety of training based on their individual needs. In addition, the new Talent Management System will better track IDPs and training, including on-the-job training courses.

I am pleased with the audit division's progress in implementing a traceable training program for individual auditors. I recommend mandatory use of the IDP system for all audit staff responsible for performing or reviewing audits. Training our auditors not only ensures the success of the Audit Division but helps staff to keep pace with an increasingly complex and evolving tax environment. Capable staff which performs at the highest levels helps the state maximize revenue sources and address a growing tax gap.

2. Collections

After reporting a decrease in accounts receivable (AR) in my 2012 Annual Report to the Legislature, I am concerned with an increase in AR for the second consecutive year. The overall AR inventory increased from \$8.5 billion to \$8.8 billion (4 percent) over the previous fiscal year. As we have seen in recent years, many taxpayers find it more difficult to pay their accounts in full. Taxpayers who previously paid their taxes now opt for installment agreements or are entering the collection system. As a result, installment agreement inventories have increased. At the end of FY 2013/2014, over 205,000 taxpayers were in an installment agreement. This amount represents a 5 percent increase over the previous fiscal year. In my 2012 Annual Report to the Legislature, I reported that 47 percent of ARs are the result of filing enforcement notices. Over a five-year period (2006-2011), the AR balance has grown by 60 percent. We attribute most of the growth to filing enforcement notices. During the past year, over \$125,000,000 of the AR increase was from notices that came back undeliverable. I commend FTB staff and management for continuously taking precautions to protect taxpayers from erroneous actions, and FTB responsiveness when errors are made. However, with the change in the AR composition, my concern is that the AR collectability has decreased which may place an increased burden on taxpayers that should not have received notices.

FTB is resolving its AR inventory by pursuing better data and enforcement tools, such as EDR, the Federal Treasury Offset Program (FTOP), Financial Institutions Records Match (FIRM), and the Top 500 program. We also continue to focus on improving our operations to make it easier for taxpayers to resolve their delinquent accounts. For example, we successfully implemented the credit card payment option for business taxpayers on May 1, 2014.

Financial Institution Records Match (FIRM)

As I mentioned in last year's report, beginning March 2011, the legislature granted FTB legal authority to conduct a record match between financial institution customer records and FTB delinquent debtor records. FIRM revenue for FY 2013/2014 is \$153 million, an increase of 37 percent over the last fiscal year.

I also mentioned my concerns about the number of filing enforcement (FE) and collection notices being sent to undeliverable addresses. I recommended that Collections track notice volumes sent to undeliverable addresses along with the associated dollar values in AR. Collections attributed the increase in notices to recent legislation, which expanded FTB's use of taxpayer data received from Financial Institutions through FIRM. Additionally, FTB is continuing to develop new functionality with the EDR Project that will continuously search for the best taxpayer address. FTB expects to implement this functionality in October 2014. The new functionality will use over 30 address data sources and feature logic to analyze and update the taxpayer's account with the best available address. The EDR Project will provide FTB access to the most up-to-date, available addresses for all taxpayer notification. Access to and use of this data enables FTB to have improved success in taxpayer noticing, which will increase customer service and the effectiveness of our collection and filing programs. Collections remains committed and focused on taking additional steps to ensure taxpayers receive notification prior to involuntary actions.

Personal Income Tax Filing Enforcement (FE) Collection Cases

I am pleased FTB has taken additional steps to reduce the possibility of taking involuntary action on incorrect taxpayer accounts. These actions include not submitting orders to withhold on taxpayers when notices are returned to us as undeliverable.

The information in the chart below depicts the number of new personal income tax FE collection cases and the dollar amount associated during each fiscal year listed. The chart below shows a 6.5 percent decrease in cases over last fiscal year.

Personal Income Tax Filing Enforcement Data		
Fiscal Year (FY)	Volume	Dollars
2009/2010	364,396	\$1.3 billion
2010/2011	352,747	\$1.2 billion
2011/2012	234,301	\$850 million
2012/2013	418,346	\$1.4 billion
2013/2014	390,953	\$1.3 billion

3. Conformity

Again, I raise concerns about the growing disparity between federal and California tax laws in my report. Each year, I raise concerns about how the lack of conformity to the Internal Revenue Code (IRC) increases the complexity for the taxpayer. Disparity between federal and California laws leads to low taxpayer self-compliance and greater costs to administer and enforce income tax laws. California needs to seriously discuss this matter. California's tax system should promote economic growth, be more efficient, reduce taxpayer frustration, and be understandable and transparent. Stakeholders often raise this matter asking us to seek out support for conformity legislation. The conformity issue reoccurs at our Taxpayers' Bill of Rights Hearing, where industry representatives and individual taxpayers are afforded the opportunity to voice their concerns. At our most recent Taxpayers' Bill of Rights Hearing, our stakeholders again raised the issue of conformity and suggested FTB pursue updating the specified date and actively work with the legislature to conform

to federal provisions that will help simplify California's tax system. While FTB has a general policy in favor of conformity, the process of developing recommended conformity legislation properly lies with state legislators.

In order to make informed decisions about state conformity to federal tax law, state legislators must understand how conformity occurs. More often this is done piecemeal with individual tax bills conforming to a particular federal change. This method is used since some federal changes may not be applicable for state purposes. Another way to achieve conformity is with one bill that adopts the federal law as of a certain date with specified exceptions. Although California has individual tax bills conforming to a particular federal change on a piecemeal basis, the last major piece of conformity legislation enacted that has brought California's personal income tax law into conformity with most of the provisions of federal law was The Conformity Act of 2010. The Conformity Act adopts the federal law (as enacted as of January 1, 2009). With either method, legislators have to consider the impact to the state's revenue if and when adopting federal law. Thus, it is difficult to achieve complete conformity with federal income tax rules and I applaud efforts that have occurred. Since The Conformity Act of 2010, Congress enacted numerous public laws that amended IRC provisions that apply to California tax laws. Each time Congress enacts new public law, the enacted changes often further the differences between California and federal law. These differences can cause a variety of problems for taxpayers. Taxpayers that are not aware that California does not conform to a particular federal provision are likely to calculate their income tax incorrectly, potentially subjecting themselves to penalties and interest. Differences often result in different tax attribute amounts for federal and California purposes. These differences can require taxpayers to keep two sets of records, one tracking federal tax attributes and the other state tax attributes, thereby requiring additional recordkeeping costs. Frequently, the need for multiple records results in taxpayers seeking professional assistance because of the complexity of the law.

The California tax system relies largely on self-assessment. FTB collects the vast majority of taxes through voluntary compliance from taxpayers who file and pay according to the law. Tax law should be simple so that taxpayers can understand the rules and comply with them correctly and in a cost-efficient manner. State conformity to a federal tax law advances simplicity in that a taxpayer only needs to understand one set of tax rules.

Conformity reduces the administrative burden for both taxpayers and the state. Without major ongoing conformity, complex tax laws continue to burden taxpayers and lead to increased errors, penalties, and tax return preparation costs. To promote continual improvement in our voluntary compliance system, tax laws need to be understandable through tax simplification. Tax simplification also helps to reduce the administrative costs by enabling California to rely on the information exchanges with the IRS. Without ongoing conformity, compliance efforts to ensure taxpayers are in compliance with California law become more costly. For taxpayers, state conformity to federal tax laws simplifies tax preparation, reduces the risk of mistakes, and eases compliance. Additionally, where the federal and state tax treatments align, it is easier for taxpayers to take tax issues into account when making business decisions.

Said differently, lack of conformity can hurt a state's business climate, particularly for businesses that operate in multiple states.

A growing number of studies find a negative correlation between tax burdens and economic performance. Many of these studies show that tax burdens have a bearing on overall growth and job creation. Today businesses are highly mobile. Conformity will encourage the formation and retention of California businesses, encourage new investment, increase employment opportunities in California, and improve the state's business climate.

While FTB recognizes the efforts to bring the state into alignment with federal law, and I commend your efforts, I reprise my call for tax simplification through conformity. I encourage FTB to continue efforts to provide the legislature all necessary research and analysis relating to conformity legislation in an effort to pass a timely, full conformity bill.

4. Late State/Federal Legislation

The passage of late legislation creates a burden on taxpayers, tax professionals, the tax filing industry, FTB staff, and businesses in California. Late legislation affects taxpayers' ability to be self-compliant. Also, late legislation significantly impacts FTB when FTB needs to conduct last-minute education and outreach efforts.

Whether at the state or federal level, late legislation leads to confusion, taxpayer errors, creates significant compliance costs, causes frustration, anxiety, decreases voluntary compliance, and increases administration costs.

The legislative mandate requires FTB to make tax forms available to taxpayers that are as simple as possible for taxpayers to prepare. The law states that these forms shall be designed to allow taxpayers to:

- Copy figures from their federal forms.
- Attach a copy of their federal tax return or portions thereof.
- Make any necessary adjustments.

When the legislature enacted the California Personal Income Tax Fairness Simplification and Conformity Act of 1987, it declared, that for most taxpayers in most ordinary circumstances, the burden of preparing tax returns could be greatly reduced. Simplification is offered here as "good government" that would increase taxpayer morale and compliance rates through improved transparency and comprehensibility. Simplicity requires that the individual income tax base be constituted by objective outcomes, not estimates or conjectures on when or if the law will change.

California's tax system has evolved into a complex method of conformity and late legislation. Overly complicated taxes discourage compliance and can also be costly to enforce. FTB is required to provide an annual report to the legislature on changes to the federal law and the estimated revenue impact of California conformity to the changes. Today's complex method of conformity and late legislation result in a significant need for FTB to identify and analyze pending and final federal legislation once it is passed into law. These reports can be quite lengthy and involve many revenue estimates due to the large number of federal changes that often occur.

When legislation that impacts taxpayers' income tax filing and planning is passed late, I believe there is a negative effect on businesses in California. It can influence taxpayer decisions on how many hours to work, whether to work, whether to work in California, and whether and where to start a business. Business owners need to plan for the future. Late legislation has both current and future implications on business plans, the capital available to fund expansion, and the hiring of employees. Business owners monitor tax law and act accordingly to improve their bottom lines. The tax system should not impede or reduce the productive capacity of business in California. The tax law should be simple so that taxpayers can understand the rules and comply with them correctly and in a cost-efficient manner. Businesses need to know what the tax rules are, when a tax is to be paid, how it is to be paid, and how to determine the amount to pay.

The Mortgage Forgiveness Debt Relief act is a good example of the difficulties taxpayers face with late legislation. Congress extended mortgage forgiveness debt relief on principal residences for federal tax purposes until December 31, 2013 (under the federal American Taxpayer Relief Act of 2012, approved on January 2, 2013). The federal act continued to exempt from taxation mortgage debt that is forgiven when

homeowners and their mortgage lenders negotiate a short sale, loan modification (including any principal reduction), or foreclosure. This year, California taxpayers were left to wonder about their California tax consequences. Although Congress extended debt relief at the federal level, the state exemption expired at the end of 2012, so forgiven mortgage debt remained taxable income in California. This is until California Assembly Bill 1393 (Chapter 152) signed into law on July 21, 2014. Assembly Bill 1393 retroactively extended California's modified conformity to mortgage debt forgiveness for one year, from January 1, 2013, through December 31, 2013.

While I applaud your efforts to provide much needed relief to California taxpayers, this relief came more than two years after Congress recognized the need to continue to allow this relief. More importantly, this law change was not effective in time for taxpayers to properly determine and pay their 2013 taxes on time. Requiring already negatively impacted taxpayers to either pay taxes on their debt cancellation by the due date or risk being subject to late payment penalties if the bill failed. In some cases these impacted taxpayers have incurred additional costs, including for example, the costs of an installment agreement to cover filed balance due tax returns and costs to file amended tax returns.

Law changes need to occur earlier than they currently do. This will make tax planning and compliance easier for most individuals. Taxpayers should know that a tax exists and how and when it is imposed. When there is later legislation, whether at the state or federal level, FTB has to reallocate resources to analyze and understand the legislative changes and the impact to California taxpayers. FTB then has to train staff and respond to taxpayer and tax professional inquiries within short time frames (in some cases, prior to the passing of state conformity legislation). In addition, FTB must allocate resources to reflect the late tax law changes in our processing, programming, and in revising tax forms, instructions, and publications. While FTB established avenues to inform taxpayers and tax professionals of late-breaking legislation or to clarify the impact of laws, these avenues have limited reach. FTB needs to continue to look for additional avenues to reach those taxpayers directly affected who need this information to be self-compliant.

I encourage you to consider the impacts of late legislation, not only on FTB, but on taxpayers and businesses in this state.

5. Tax Liens

In the 2010 Taxpayers' Bill of Rights Annual Report, I recommended the lien threshold be increased to \$2,500 due to the economic climate at that time and the negative impact a lien has on a taxpayer's credit report. In 2010, FTB's policy allowed for the filing of a lien on a tax year or aggregate tax years with a balance of \$1,000 or more. In certain circumstances, a lien could be filed on a lesser amount to facilitate compliance. For many years, FTB filed liens on balances of \$100 or more. The threshold was raised to \$250, then to \$500. In 1998 the threshold was raised to \$1,000 after an FTB study reported that it would reduce departmental costs, correspondence, and phone calls from taxpayers.

In December 2009, the National Taxpayer Advocate (NTA) released its Annual Report to Congress. In the report the NTA cited IRS lien filing policies as the second most serious problem facing taxpayers. The NTA stated that the IRS filed liens even when the taxpayer possessed minimal assets, and the lien had no effect other than damaging the taxpayer's credit, or their ability to obtain new credit. The NTA recommended, prior to filing a lien, the IRS determine if the benefits of filing a lien outweigh the harm to the taxpayer.

The NTA report raised some discussion at FTB. While the consensus was a lien is a valuable tool that can aid in the collection of delinquent liabilities, we questioned if the current threshold of \$1,000 does more harm than good in some cases. Should the threshold be raised to \$5,000, mirroring the IRS threshold? As a result of my

recommendation, Collections evaluated and reviewed the effectiveness of the lien program, including the impact of dollar amount guidelines to file liens. As a result of this review, FTB increased the general guideline amount for lien filing from \$1000 to \$2000 beginning July 2013.

Historically, my staff reviews the lien data for number of liens filed, liens filed in error, liens released as filed in error, and lien dollar amount ranges. In reviewing the number of liens filed in FY 2013/2014, I am concerned that liens are still being filed under the threshold. In FY 2013/2014, the number of liens filed below \$2000 was 1,480, and the number of liens filed between \$1000-2000 was 1,294. FTB continues to communicate with employees to ensure new guidelines are followed and that there is valid justification when liens are filed or extended when the balance is under \$2,000. For example, FTB may file a lien when a taxpayer is contemplating filing bankruptcy or extend a lien to keep secured priority in a bankruptcy case.

Again, I am pleased to report FTB continues to see a downward trend in the number of liens filed. As the chart below reflects, 38 percent fewer liens were filed in FY 2013/2014, however; 17.5 percent of liens were released as filed in error. This represents an increase in liens filed in error, even though fewer liens were filed. The fact that this percentage has increased constantly with both increases and decreases in liens filed gives me cause for concern as to the number of incorrectly filed liens.

Analysis of Liens Filed in Error						
Fiscal Year	Liens Filed	% of Liens Filed Increase/Decrease	Liens Released	% of Liens Released	Liens Released Filed in Error	% of Liens Released Filed in Error
2008/2009	267,745	33%	90,380	33%	17,036	6.4%
2009/2010	295,027	10%	103,959	35%	19,406	6.6%
2010/2011	264,138	-10%	112,280	42%	17,913	6.8%
2011/2012	240,550	-9%	143,645	59%	17,871	7.4%
2012/2013	187,945	-22%	125,131	66%	22,401	12.0%
2013/2014	116,034	-38%	127,089	109%	20,306	17.5%

I do want to take this opportunity to thank Collections for their efforts to address my concerns regarding tax liens over the past fiscal year. The steps taken are highlighted below:

- Conducting a pilot to evaluate the potential benefit of issuing a Notice of Intent to Record State Tax Lien. The notices are mailed after the Final Notice and prior to the issuance of a Notice of State Tax Lien. The language on the notice is very direct and informs the taxpayer that FTB will file a tax lien if we do not receive payment within 30 days. Our goal in this effort is to reduce the volume of liens filed by educating taxpayers on the impacts of liens. Our notice also provides information on how to resolve their tax liability.
- FTB is moving forward with proposing a new regulation that would authorize and establish specific procedures to allow FTB staff to release a lien under the discretionary language in R&TC Section 21019, subdivision (f). This regulation states that the released lien should be treated as though it was filed or recorded in error. Currently, Legal is drafting the regulation language.

- As a result of the Intent to Lien (ITL) pilot, FTB is moving forward with the full implementation of the ITL notice in the automated collection cycle. We are working on the Accounts Receivable Collection System (ARCS) design and communication plan for the December ARCS release. The notice is expected to be operational starting in January 2015.

6. Penalties

Penalties are an important and necessary part of voluntary tax compliance. However, penalties can significantly increase the amount a taxpayer owes as well as create personal liability for the tax professional or withholding agent.

A recent concern is that FTB incorrectly assessed certain penalties during the automated billing process.

During FY 2013/2014, our Legal Division discovered that a late filing penalty was automatically misapplied to certain single member limited liability companies (LLCs). Also, FTB discovered that our automated systems improperly dated timely payments made by some LLCs. This error resulted in an incorrect underpayment penalty assessment.

While FTB has properly abated and returned any applicable payments for these two occurrences, it does raise concerns about how other automatic systems assess penalties.

My staff has identified 36 penalties that may be automatically assessed when a specific action is not properly taken by the taxpayer or tax professional. For example, a penalty can be automatically assessed when a tax return, form, or payment is not submitted by the required due date.

In previous years, my staff created and currently maintains FTB 1024, *Penalty Reference Chart*, which outlines:

- 79 penalties.
- Applicable R&TC sections.
- Corresponding IRC sections.
- Reasons.
- Computations.
- Exemptions.

My staff also established that the majority of penalty assessments are correct with respect to FTB audits and can be educational tools for future taxpayer voluntary compliance.

As FTB undergoes increased enhancements to our automated billing system, I recommend increased efforts to monitor the impact of those enhancements on automatically assessed penalties.

7. Education and Outreach

I see a strong need to continue to educate, provide outreach to, and inform taxpayers and tax professionals. This need is due to California and federal income tax laws continuously changing, the passage of late legislation, the lack of federal and state conformity, and the reductions in taxpayer services. Without education and outreach efforts, taxpayers may not be properly informed of new law changes or the services available to them.

FTB continues to participate in tax education seminars, including business seminars sponsored by the Board of Equalization members and the State Controller's Office. My staff participated in over 124 presentations throughout California. Our education and outreach staff responded to over 1,250 inquiries from taxpayers and tax professionals. Also, our staff collaborated with the California Governor's Office of Business and Economic Development (GO-Biz) to help the phase out of the New Jobs

Tax Credit, and introduce the California Competes Tax Credit Program. In addition to seminar presentations, my staff extends education and outreach efforts to get our information to taxpayers. We make continuous improvements to FTB's website and we use other media methods, including *Tax News* and *Tax News Flashes*, to add new subscribers. FTB also uses YouTube to market programs like CalFile and provide tax tips and news releases on issues related to critical filing errors and available tax credits. FTB participates and conducts webinars on a variety of topics and maintains a presence on Facebook and Twitter. I commend FTB's continued diligence to provide cost-effective information and customer service to taxpayers.

In addition, FTB continues to use social media, Twitter, Facebook, and *Tax News Flashes* to communicate late-breaking information. *Tax News* continues to expand its video article library by partnering with the California Society of Enrolled Agents Educational Foundation.

I encourage FTB to creatively provide education and outreach through the use of social media and collaboration with our stakeholders to produce videos and webinars. As suggested in previous years, we created surveys to assess and evaluate the effectiveness of the information we provide and identify the needs of our audiences. Our survey results showed the audience found the information we provided was 100 percent useful. We also gathered suggestions for our presentations and various new topics to consider for future presentations.

8. Protests

For the past several years, I have raised concerns about the additional time and resources required for taxpayers to protest an assessment. A protest is the first level of appeal after an examination is completed. I am pleased that the focused efforts by our Legal and Audit Divisions to resolve older protests resulted in a 200 percent increase in the number of cases resolved, and an overall reduction of 12 percent in the total number of protest inventory cases.

Yet, for the business-entity docketed protests resolved by our Legal Division for FY 2013/14, only 47 percent of the tax at issue was sustained. This once again raises concern about the number of revisions to assessments that occur once a business entity taxpayer elects to file a protest.

Thus, the need remains for us to continue to follow this issue.

9. Customer Service

I am very pleased to report the accomplishments of the Enterprise Notice Planning Team (ENPT) as a result of my concerns expressed in the 2012 report. FTB considers customer service to be a high priority and its mission statement identifies customer service as one of its core values. ENPT's accomplishments support the high-priority goals of customer service and taxpayer centric service, which is present in the strategic plan. Based on my recommendation, FTB:

- Looked for ways to improve customer service from an enterprise-wide perspective.
- Committed resources towards the tracking of notice volumes and the impacts to our call centers.

In my 2012 report, I expressed concerns about FTB's efforts to administer its various programs by continuing to increase the volume of notices mailed without enterprise-wide perspective analysis of the impact these mailings had on customer service. As a result of my concerns, FTB formed and tasked the ENPT with improving the timely response to customer service requests, with the goal of providing high-quality customer service. The ENPT reviewed our noticing practices from an enterprise-wide perspective. The review recognized that higher notice and letter volumes impact our ability to provide customer service throughout our various enterprise call centers.

ENPT's review also considered the need to continually increase notice volumes. The team gathered and analyzed extensive data to develop information that now allows for enterprise-wide planned issuance of notices along with projected call center impact. As providing high-quality customer service is a central goal, the ENPT recommended implementation of a short-term solution this year to increase the Taxpayer Service Center's level of access (LOA). The ENPT recommended that the FE program change the timing of the current notice mail schedule for the remainder of the 2014 tax filing season.

The change in FE notice mailing that began in March 2014, contributed to a 22.3 percent decrease in Taxpayer Services Center Section (TSCS) calls. The LOA increased from 48 percent to 55 percent year-over-year (March – May 2013 compared to March – May 2014).

In addition, the ENPT developed a forecasting tool that tracks, from an enterprise perspective, notice mailings as well as call center staffing levels that respond to those notices. Each business area responsible for issuing notices can enter their respective information and receive a forecast on how their mailing will impact the customer service level of access at call centers. I believe the success of this tool will greatly improve each business area's ability to manage its resources.

I recommend FTB continue to dedicate resources to maintain the enterprise-wide tracking of notice mailing, response rates from notices, and the impact on customer service levels. I would also suggest looking into technology solutions to increase forecasting sophistication.

10. Claim for Refund

In my 2013 report, I expressed concern with amended tax return processing time frames and the lack of interest paid for California's use of taxpayer money. Primarily, my concern is with the negative effect the lack of compensation has on businesses in California when FTB does not process valid claims for the refund of overpaid taxes in a reasonable amount of time.

I am very pleased to report that during this last year FTB took steps to modify its corporate claim for refund process with a goal of reducing the time to process corporate refund claims. The steps the department took include reviewing how FTB manages its claim inventories including initial processing, case assignment, procedure changes, and new forms.

Recently implemented changes are starting to have a positive impact. The department holds fewer tax returns for audit which (when complex) can take between 24 to 30 months to process. The Audit Division estimates the change will reduce the number of these claims by 10 percent. However, the report for this year shows overall, amended tax returns are taking longer to process when the amended tax return is a corporate claim for refund (100X). A five percent increase in the volume of claims processed over the 2012/2013 average of 70 percent was realized. On average, 75 percent of corporate claims for refund (100X) were processed within five to six months, when no audit exists. (For context, the average time frame to process a current year corporate tax return refund is four months.) Once additional changes like moving from a paper process to an image process have had a lengthier opportunity to work, FTB expects further positive impact on the overall processing of corporate claims for refund. FTB hopes to achieve its goal of improved corporate refund claim processing through its revised processes and procedures, and increased use of technology. FTB developed tools to improve the efficiency of the audit screening process.

While the Filing and Audit Division's accomplishments have come a long way toward mitigating the negative effects of the lack of interest compensation for California Intrastate businesses, I remain concerned with amended tax returns subject to audit

examination and the lack of interest paid during the often extensive period California had use of a business's money.

Apportioning corporations continue to make up 82 percent of Audit Division's current open claims inventory. Our most recent data shows that, historically, FTB will refund 42 percent of these corporation claims. The amount of open apportioning corporation claims in Audit increased and took longer to close. This year, the average time to close an apportioning corporation's claim examination increased from 19 to 20 months. The tax return complexity, business entity size, sophisticate corporate structures, and complexity are contributing factors as to why audited claims require longer processing time frames. My concern is that these taxpayers will receive no interest on the amounts refunded since the rate of interest paid on the corporate overpayments has been calculated at zero since July 1, 2009. On the other hand, FTB charged interest to corporations that underpaid their tax.

Given the steps FTB took, it is hard to say if it is possible or even probable to shorten the time for processing these complex claims. FTB started to explore situations where a claim may be refunded prior to commencing an examination. However, I would also like FTB to explore ways to allow taxpayers (especially corporations) the ability to apply refund claims (or a portion thereof) towards balances due for other years or as estimated payments when we anticipate that the review of a claim (complex one) could take between 24 to 30 months.

Letter Claims

Although my report last year did not discuss "letter claims," FTB did receive a subsequent inquiry regarding our processes surrounding these claims. As a result, I requested the department expand the scope of this issue to identify and provide data on all corporate claims, 100X and letter claims, from an enterprise-wide perspective.

All FTB business areas generally process and resolve different types of incoming correspondence (including letter claims). When FTB focused on the letter claim issue, we found that FTB had not been consistently tracking correspondence by correspondence types. In January 2014, FTB took steps to track all letter claims, business entity (BE) and personal income tax (PIT), consistently department wide. In addition, FTB recently implemented technological improvements that now allow business areas to identify and track future correspondence claims received.

The majority of the letter claims sent to FTB request penalty abatement. The Filing Division's Correspondence, Analysis, Support and Education Section (CASES) process these claims and, generally, the law requires the taxpayer to establish reasonable cause before allowing a claim. CASES began work on the development of two new forms (PIT and BE) for these reasonable cause penalty requests. The newly developed forms:

- Provide instructions regarding reasonable cause.
- Explain the statute of limitations for making a claim.
- Provide an easier to use standardized layout for all the information we need to evaluate their reasonable cause abatement request.
- Prevent unnecessary correspondence.

In addition we developed a new webpage devoted to helping taxpayers file a complete claim for refund.

Collections centralized the letter claim processing in the Collection Advisory Team (CAT), to respond to the workload. Claims for refund are CAT's highest correspondence priority. CAT tracks the claims received to ensure timely completion with the goal to resolve claim requests within six months of receipt. Collections currently only maintains limited claim for refund data on the volume of letter claims for refund processed by Collections, which is not currently categorized by taxpayer types. Collections available data for the last three fiscal years shows an increasing

trend in taxpayer letter claims. Collections processed 32 percent more taxpayer letter claims in 2013/2014 over the volume processed in 2012/2013 and a 62 percent increase over the volume Collections processed in 2011/2012. ARM does not track claims for refund submitted as amended tax returns.

Since Collections does not track amended tax returns, a business representative with a recorded tax liability due, which is assigned to collections, must overcome the often challenging task of coordinating with the collector to put a hold on additional collection actions to collect the original reported liability. Currently, procedures instruct collectors to hold or delay collection actions, pending the processing of the tax return, if they can determine the tax liability will be satisfied in full or will result in a refund when the department processes the tax return. Collections achieved a marked improvement in service to customers through the utilization of technologies, such as Virtual Hold and modified additional queue configuration, and improved their level of access to 68 percent in 2013/2014. Businesses are still tasked with the challenge of getting through to speak with a collector or making a payment. Businesses often pay the tax liability or enter into an installment agreement just to avoid involuntary collection actions. Businesses then wait for the amended tax return to be processed to receive a refund. In the past, collection staff instructed businesses to take this approach. Interest does continue to accrue for any unpaid tax liabilities that the amended tax return may not eliminate, charged at a current (as of July 1, 2014) interest rate of three percent.

Audit does not differentiate between claims filed by a letter or through an amended tax return. Audit maintains and tracks audits conducted on letter claims under regular business practices in the audit inventory systems. The new technologies mentioned above will be used to track and report on future clerical letter claims.

Regardless of the size of the corporation, FTB's inability to pay interest on the money owed, but not paid over a reasonable amount of time, is a taxpayer burden and has a negative effect on business in California. A legislative change is required to alter the way FTB calculates interest on corporate underpayments to allow for interest to be paid to taxpayers in those situations where the claim was not processed timely. FTB pays individuals interest on overpayments if the refund is not made timely. Legislation needs to be considered to allow for the payment of interest on corporate overpayments that FTB does not process in a reasonable amount of time.

Additionally, FTB needs to continue to evaluate and improve the process of examining corporate claims to reduce the length of time for processing them. Although, as I acknowledged before, it does not appear that improved operational efficiencies will reduce the processing time frames if the number of claims filed continues to increase.

11. Protest and Appeal Rights for Withholding Assessments

FTB's Withholding Services and Compliance Section (WSCS) began in the 1950s and its efforts were primarily directed toward the Hollywood entertainment industry. However, over the years WSCS's responsibilities greatly expanded. WSCS:

- Collects withholding on payments to taxpayers at the time they have a taxable event in California.
- Educates withholding agents of their responsibility.
- Conducts audits of withholding agents.

WSCS programs include withholding on:

- Payments made to nonresident entertainers, athletes, and independent contractors for services performed in California.
- Income from sellers of California real estate.

- Distributions of California sourced income to partners, shareholders, members, and beneficiaries.
- Taxpayers who do not provide a taxpayer identification number (TIN), provide an invalid TIN, or fail to certify they are exempt from backup withholding.

The obligation to act as a withholding agent has become very difficult due to the increasing complexities surrounding how to:

- Determine California source income.
- Know when withholding is required.
- Properly report the withholding to FTB.
- Correctly submit amounts withheld to FTB.

Despite these complexities, when WSCS performs an audit examination and issues an assessment, there are no protest and appeal rights available without first paying the liability. Therefore, I again recommend FTB pursue a legislative remedy to gain protest and appeal rights for these withholding assessments. Furthermore, only limited action has been taken by WSCS to add language to clearly explain that the statute does not provide protest and appeal rights for assessments it issues. I once again recommend increasing the information presently provided on FTB's website, in publications, and on the correspondence used during their examinations.

As I recommended last year, WSCS needs to develop a comprehensive procedure manual for WSCS staff and publish it on FTB's website. Although there is no procedure manual that outlines procedures for staff to follow in working these audits, the program continues to expand into areas of noncompliance creating more uncertainty as to how these programs operate. The lack of action by WSCS to develop and publish a procedural manual on FTB's public website contributes to the difficulties of department staff, taxpayers, and withholding agents in meeting California's withholding requirements.

Advocate's Accomplishments

Introduction

In 2008, I became California's Taxpayers' Rights Advocate. An important component of this position for me was to clarify the advocate's role both internally and externally. Over the past seven years, I made significant changes to establish my role and authority as well as increased the technical level of my staff.

Internally, I made many recommendations for the department to improve in areas that I felt affected taxpayers' rights. I advocated for staff development and training, further developed education and outreach tools and resources, and identified many issues that impact the department.

Externally, I interacted with the tax professional community and with taxpayers. I personally participated in presentations to a variety of tax professionals, community organizations, business groups, and government groups throughout California. My involvement in these events allowed me to stay apprised of how law changes and FTB's policies, processes, and procedures affected taxpayers. I improved practitioner relations through liaison meetings, trade media guideline establishment, and social media use.

I plan to retire in December 2014. I highlighted some of my accomplishments as Advocate in this section.

Administrative Services

Role of the Advocate

I worked with the Executive Officer to redefine the role of the Taxpayers' Rights Advocate with FTB to include the following:

- Operate more independently.
- Take a more proactive approach in addressing taxpayers' issues, concerns, and challenges.
- Ensure California taxpayers are being adequately protected during the process of tax assessment as well as through the collection process.

My goal as Taxpayers' Rights Advocate was to promote more visibility throughout the tax practitioner community as well as the large and small business community. I worked with these groups to facilitate a more successful relationship with FTB.

With this redefined role came the need for staff with:

- A higher level of technical expertise.
- Departmental knowledge in legislation, administration, tax law, and department procedures.
- An ability to work on sensitive issues with potential legislative member involvement.

Having staff with a higher level of expertise allows Taxpayers' Rights Advocate employees to work with Audit employees in reviewing complaints received on the more complex audit related issues. I successfully met this need by expanding my staff from the Small Business Liaison and *Tax News* Editor to the creation of the following positions with the use of Senior Operations Specialist and Program Specialist I and III classifications:

- Trend and Issue Specialist
- Technical Assistant to the Advocate
- Tax Practitioner Liaison

Previously, *Tax News*, one of FTB's main avenues for external communications, was only used to communicate business area information. Our tax professional subscribership had become inert. Now, we focus the monthly publication on the needs and wants of our tax professional community. We created *Tax News Flashes*, time-sensitive email alerts on hot issues, and maintained this information on a webpage. To reach a broader audience, we also forged ahead into social media like Facebook and Twitter. We also partnered with California Society of Enrolled Agents (CSEA) Education Foundation to create short video articles on YouTube. Several renowned newspapers and industry publications cite *Tax News* regularly. Other taxing agencies use the publication as a conduit for information, and we doubled our subscription base.

Webpages/Publications

I identified and developed much needed tools to clarify tax laws and promote improved taxpayer understanding and self-assessment.

Mortgage Relief Act Webpage

In 2008, when the struggling housing market hit California hard and foreclosures and short sales occurred at record levels, Californians faced the reality of losing their homes. I began to inform the public of the state tax ramifications of foreclosures, short sales, and other activities resulting from debt forgiveness. I worked to ensure FTB added a mortgage debt relief webpage to FTB's website, with law information and links to important state and federal resources, and *Tax News* articles were published to help disseminate the information to tax professionals.

FTB 1024, Penalty Reference Chart

In 2010, I had my staff create the FTB 1024, *Penalty Reference Chart*. We developed the chart after taxpayers and the tax professional community began to address me with growing concerns about the increased number of penalties. In addition to concerns about fairness, I was often called upon to provide clarity on how, when, and why the various penalties were assessed. The *Penalty Reference Chart* outlines each penalty, applicable R&TC section, corresponding IRC section, reason, computation, and exceptions. This chart allows taxpayers to see 79 occurrences in one central location in which California law allows for the issuance or waiver of a penalty.

Systemic Issue Management System (SIMS)

One of my most important accomplishments as Taxpayers' Rights Advocate is the creation of SIMS, a web-based application where taxpayers and tax professionals can report potential systemic issues to us for research and resolution. SIMS functionality enables us to track issues to resolution and includes the ability to create reports for senior management.

Improved Practitioner Relations

I committed to maintain constant interaction with the tax professional community and taxpayers to stay apprised of issues, concerns, and challenges taxpayers face and the impact legislation has on businesses in California and taxpayer compliance. At my recommendation, we changed the format of the liaison meetings with CSEA and California Society of CPAs (CalCPA) to provide written responses at the meeting. We collaborated with the Governance Council on agendas for the Advisory Board meetings. We established quarterly meetings with the other California Advocates.

Trade Media Relations Improvement

I established guidelines to handle trade media requests by question type. I established clear communication expectations for transparency while reducing the time spent responding to inquiries from the media and trade publications.

Twitter

As Taxpayers' Rights Advocate, I opened the first Twitter account in the department and tweeted hot issues to media-savvy tax practitioners.

Criminal Investigations Transparency

At my recommendation, the Criminal Investigation Bureau made considerable improvements to achieve transparency by creating an external webpage on FTB's public website. This webpage contains information about their program as well as its policy and procedure manuals.

Audit

Audit Staff Development/Retention

I raised the issue of training for auditors. I recommended that the Audit Division conduct a training needs assessment and formally track all training received by audit staff. Given salary disparity with the private industry, I recommended the Audit Division give consideration to promotional opportunities for seasoned audit staff to keep attrition to a minimum.

Improved Inventory Control on Claims Filed

As explained in my Advocate's Address, I stressed the need to evaluate and improve the processing of corporate claims. Although more work is needed, FTB has made significant progress. Today, FTB has improved inventory tracking allowing business areas to identify and track correspondence claims. FTB produces reports that allow them to further evaluate and improve the refund claim process. In addition, FTB identified cancellation of penalties as the top reason letter claims are filed. Generally, the law requires there to be reasonable cause before a penalty can be cancelled. Newly developed forms, available this coming year, will provide taxpayers with better instructions, standardized layout, and expectations to speed processing of cancellation of penalties claims.

Collections

Liens

At my recommendation, Collections evaluated and reviewed the effectiveness of the lien program, including the impact of dollar amount guidelines to file liens. As a result of this review, FTB increased the general guideline amount for lien filings from \$1,000 to \$2,000 beginning July 2013.

In addition, as a result of my collaboration with the Lien Program, we revised the subject line of the lien release notices to read "filed in error." This subject line change allowed county recorder offices to index the lien as filed in error. County websites will now display "filed in error" rather than "paid released."

Collection Actions Stayed While Amended Returns Process

From reported SIMS issues and my collaboration with Collections, all collectors are trained on the proper procedures for collection relief when processing amended tax returns.

As the Taxpayer's Rights Advocate, my staff works with program areas to protect taxpayers' rights. When we identify a systemic issue, my staff cooperatively works with the program area to find solutions. Each year FE issues are one of the top five reasons taxpayers contact the Taxpayers' Rights Advocate's Office. Each year, we explain assessments and provide information to assist taxpayers complete their tax returns. In some cases, we cancel assessments or address hardship issues. The department's FE program identifies and contacts individuals and business entities

that appear to have a California filing requirement and have not filed. With the growing numbers of new businesses and individuals entering the workforce each year, the size of this program continues to grow. Today's FE program will contact more than one million individuals and business entities who did not file a state income tax return. I noticed we mailed a disconcerting volume of notices and letters to undeliverable addresses, which raised my concerns as to whether these taxpayers received their due process before involuntary collection action occurred. As a result of concerns I raised, the department introduced a process that puts a temporary stay on FE assessments that are identified as having an undeliverable address. The department identified a reasonable amount of time for the FE unit to locate a good address from a third party and send a new notice. However, after a reasonable amount of effort, if a good address is not located, the department has procedures to allow the case to proceed through the collection cycle.

Today, FTB continues to work on several efforts to improve the effectiveness and use of address data while protecting taxpayers' rights. We ensure these taxpayers are given due process before involuntary collection action occurs.

Follow Federal Guidelines for Installment Agreements

As a result of CSEA's concerns regarding inconsistencies in Collections processes presented at the 2011 Taxpayers' Bill of Rights Hearing, I collaborated with Collections to use the IRS Collection Financial Standards as a starting point.

Annual Notice

My staff worked with Collections and successfully extended the annual notice process to taxpayers with debts currently discharged from accountability. Although not required by the Taxpayers' Bill of Rights, this annual notice addresses the extended time between contacts from the department which seemed problematic and burdensome for many taxpayers.

Filing

Web Pay Amended Return Option

If a taxpayer filed an amended paper return with a balance due and made an electronic payment, often times FTB refunded the taxpayer. The processing of a paper amended return can take as long as six months. FTB needed a method to allow taxpayers to make a payment and have it reflected on their account, but not continue to show a balance due while we processed the amended return. My staff worked with e-programs to add an amended return payment option for taxpayers who use Web Pay.

E-pay Permanent Opt Out

Disabled taxpayers requested assistance in finding a way to opt out of the mandatory e-pay requirement. My office submitted a legislative proposal to allow for a permanent waiver. However, we ultimately worked with the department to administratively allow disabled taxpayers to permanently opt out.

Enterprise Planning Notice Team and Forecasting Tool

As a result of my concerns expressed in the 2012 *Taxpayers' Bill of Rights Annual Report to the Legislature*, the ENPT was created and tasked with reviewing noticing from an enterprise-wide perspective (this team included membership throughout the department). The ENPT recommended that FTB implement a short-term solution this year to increase the Taxpayer Service Center's LOA. The recommendation was to change the timing of the FE current notice mail schedule for the remainder of the 2014 tax filing season. The short-term solution contributed to a decrease of 22.3 percent in TSCS calls.

In addition, the ENPT developed a forecasting tool to provide each business area with information showing them the staffing levels needed and volume of notices they can send to achieve the desired call center's LOA and the desired correspondence response time.

Automatic Notices on Hold During Filing Season

The department quickly processed all e-file returns, but took much longer to process mailed payments for the balances due. This resulted in the taxpayer receiving a Notice of Balance Due even though they mailed a check. I requested that FTB wait to mail the notices until posting all tax return payments to the computer system. This would reflect all payments and taxpayers could pay the correct balance due. As a result, the department holds automatic notices from March through May of each filing season.

FE Programs: Penalties and Senior Citizens

When I was appointed as the new Taxpayers' Rights Advocate in 2008, the largest dollar amount in proposed assessments, for personal income taxes, resulted from FE assessments. An FE assessment refers to individuals and business entities who have not filed their state income tax return after we notified them of their filing requirement. The personal income tax FE program uses various income sources. IRS, BOE, EDD, financial institutions, and other sources provide more than 500 million income records to FTB. Approximately 40 percent of the taxpayers contacted for failing to file a tax return subsequently file their returns.

Penalties

The protection of taxpayers' rights and ensuring taxpayers receive their due process is of the utmost importance to me. When I began to receive numerous requests from out-of-state corporations and LLCs who encountered issues with notices generated from the department's FE program, I made inquiries to determine if there were any systemic issues with the department's administration of the Business Entity FE program. As a result of my office's inquiry, two issues came to light:

- FE program staff needed assistance to uniformly explain the legal basis behind "doing business" determinations for members of an LLC. Legal Ruling 2014-01 addresses this matter.
- FE letters and *Notices of Proposed Assessment* (NPA) asserted penalties on members of LLCs. I requested a Legal review of FE Notices of Proposed Assessment penalty procedures after it came to light that penalties were issued to business entities for failing to qualify for doing business in California. This occurred despite the taxpayers' asserted defense that the Corporations Code (CC) did not require them to qualify. Taxpayers pointed out that:
 - The CC requires a foreign corporation to qualify before they "transact intrastate business."
 - The CC specifically states a foreign corporation shall not be considered to be transacting interstate business merely because of its status as a member of an LLC.

As a result of Legal's review, the department's FE program stopped issuing this penalty when the business entity requirement to file a return was based solely on their LLC membership. Legal's review also led to a discovery of other LLC FE penalty assessment errors.

Senior Citizens

I expressed concerns when the FE program began to use 1099 and 1098 data to identify and contact individuals. I was especially concerned about the practice of using the 1098 data to project income to determine if a taxpayer had a filing

requirement and did not file a California tax return. I warned that FTB should protect compliant taxpayers as they use new data to identify and collect delinquent taxes. When FTB made a technical change in its FE program, the change inadvertently resulted in erroneous contacts to a small number of taxpayers who receive social security income, which is not taxable by California. Although FTB immediately took action to address this issue, it was indicative of the types of unintended consequences of which I had expressed concern and that can occur absent a thorough analysis of how we should interpret data.

Withholding Manual

I recommend Withholding Service and Compliance Section (WSCS) develop a comprehensive procedure manual published on FTB's website for both WSCS staff and withholding agents. This manual will increase transparency and address the complexities surrounding how withholding agents determine, properly report, and correctly submit withholding amounts.

Legal

Sourcing of Income for Entertainers and Athletes

This year I was contacted by the commissioner and the executive officer from the California State Athletic Commission through a referral from GO-Biz. Of concern was a section of the New York State Department of Taxation law that was created to make New York more favorable for athletes to compete. This was a guidance request that the Commission can now follow, for purposes of sourcing, the types of income a Mixed Martial Arts fighter typically receives. The concern was how FTB taxed the income of nonresident competitors performing in California. Of primary concern were pay-per-view and cable revenue, and whether a recent law change would affect how competitor's income is sourced. I worked closely with the commission and FTB's Legal staff to develop a realistic example portraying typical contracts between the competitor and the promoter. The example allowed our Legal Division to respond to the fact-based situation with the much needed guidance for the California State Athletic Commission on sourcing as well as guidance for the promoter to use to determine the withholding of tax at source requirements.

Protest Improvements

The department now has improved collaboration between our Audit and Legal Divisions, including increased frequency of legal staff consulting on audits. Our Legal Division now takes an active auditor training role. This collaborative effort resulted from concerns about the number of assessments modified after a business entity taxpayer elects to file a protest. A protest is the first level of appeal after the examination is completed. With these changes, we observed progress in reducing the volume of assessment modifications.

SMLLC Refunds

The department erroneously assessed single member limited liability companies (SMLLCs) a penalty for nearly 18 years. Once we identified this error, I determined the Taxpayers' Rights Advocate could provide relief under R&TC Section 21004(c) and recommended that the department consider these payments as over collected instead of over assessed. This determination allowed us to look beyond the statute of limitations, as the statute would have barred many refunds.

Pending

Protest and Appeal Rights for Withholding Assessments

Presently, FTB does not offer protest and appeal rights to a withholding agent without first paying the liability (when WSCS performs an audit examination and issues an assessment). Therefore, I again recommended the department pursue a legislative remedy to gain protest and appeal rights for these withholding assessments.

Conclusion

My recommendation for my successor is continue to work closely with taxpayers and the tax practitioner community. These relationships provided me with invaluable insight into the issues and burdens that face our external stakeholders. I also advise my successor to challenge the department internally on issues that affect taxpayers and practitioners. By identifying issues and concerns, I believe the role of the Taxpayers' Rights Advocate makes the department more efficient and customer centric.

As my retirement approaches, I again thank Selvi, the three-member Franchise Tax Board, and the legislature for their support over the past seven years.

Taxpayers' Rights Advocate Contact Information

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To get this publication, go to ftb.ca.gov and search for **taxpayers annual report** or write to the address above.

Taxpayers' Rights Advocate

Taxpayers' Rights Advocate's Office Mission

Our office works with program areas to protect taxpayers' rights. We identify systemic problems and find solutions in a cooperative effort while protecting taxpayers' rights and recognizing the goals of our audit, collection, and filing programs. We also coordinate the resolution of taxpayer complaints and problems, including complaints regarding unsatisfactory treatment of taxpayers by FTB employees. We promote integrity and responsibility, so our customers can rely on quality information and efficient service.

Taxpayers' Bill of Rights Legislation

In 1988, the California Legislature enacted the Taxpayers' Bill of Rights. For the first time, legislation spelled out California taxpayers' rights and FTB's obligations. This law codified many existing department procedures and established a Taxpayers' Rights Advocate.

On July 30, 1996, the federal Taxpayers' Bill of Rights 2 passed, followed a few months later by California Taxpayers' Rights Conformity Legislation.

California lawmakers enacted the Taxpayers' Bill of Rights Act of 1999 to further guarantee taxpayers' rights.

Taxpayers' Rights Advocate's Responsibilities

The Taxpayers' Rights Advocate has a direct reporting relationship to the Executive Officer. As enacted by the legislature in the California R&TC, the Taxpayers' Rights Advocate:

- Coordinates the resolution of taxpayer complaints and problems, including complaints regarding unsatisfactory treatment by FTB employees.
- Develops and implements a taxpayer education and information program.
- Identifies areas of recurrent taxpayer noncompliance.
- Conducts an annual hearing where individual taxpayers and industry representatives may present proposals to clarify the California R&TC.
- Makes recommendations to improve taxpayer compliance and uniform tax administration.
- Informs taxpayers in simple, nontechnical language of procedures, remedies, and rights during audit, appeal, and collection proceedings.
- Evaluates FTB employee performance based on taxpayer contact and not on the revenue produced.

The Taxpayers' Rights Advocate's Office coordinates education and outreach efforts throughout California, such as tax professional and Advisory Board meetings. In addition, our staff participates in tax professional seminars, industry group workshops, and small business events. We provide filing season updates and information to legislative offices. The Taxpayers' Rights Advocate also conducts independent administrative review and administers the Interest Abatement and Third-Party Fee programs.

In addition, the Taxpayers' Rights Advocate has been given authority to abate penalties, fees, additions to tax, or interest under certain circumstances which are attributable to an FTB error or delay. The relief is limited to \$7,500.

Explanation of Taxpayer Rights in Publications

We develop, review, and revise our notices, forms, and publications to ensure our written content is clear, accurate, and current. We train staff to apply department

writing standards and follow guidelines to meet readability requirements as well as technical accuracy. We include revision dates on all of our publications. We offer limited quantity translated publications in Spanish, Chinese, Korean, and Vietnamese.

Our tax booklets and notices include information about taxpayers' rights. Our goal is to inform taxpayers in simple, nontechnical language about procedures, remedies, and rights during audit, appeal, and collection proceedings.

We provide detailed information about Taxpayers' Bill of Rights legislation in our publications:

- FTB 4058, *California Taxpayers' Bill of Rights – Information for Taxpayers*. This publication provides a basic overview of taxpayers' rights and includes the major provisions of the 1988, 1997, and 1999 California legislation.
- FTB 4058B, *California Taxpayers' Bill of Rights – Your Rights as a Taxpayer*. A one-page overview of California Taxpayers' Bill of Rights. This publication highlights some of your basic rights.
- FTB 4058C, *California Taxpayers' Bill of Rights – A Comprehensive Guide*. This publication describes the R&TC provisions of your rights.

We also review external publications and communications for compliance with the Taxpayers' Bill of Rights legislation.

Advisory Board

We coordinate annual Advisory Board meetings with representatives from industry, state and federal government, and our department to discuss issues related to California income tax. This board provides our Executive Officer with insight and contributions on the various projects and programs FTB administers.

The topics from our latest meeting included EDR and Filing Season Update, Audit Issues and Priorities, and Accounts Receivable Management Update.

Annual Meetings With Tax Professionals

We coordinate liaison meetings with the California Society of Enrolled Agents and the California Society of Certified Public Accountants. We provide legislative, filing, and audit updates. We present and discuss FTB's upcoming projects and issues, and we respond to questions from tax professionals.

Legislative Information Letter

In addition to assisting legislative staff with their constituents' tax issues, the Taxpayers' Rights Advocate's Office provides legislative staff with annual filing season updates and information on services available to taxpayers. This year we provided information on available online services and taxpayer assistance information.

Interest Abatement

We may cancel interest if a taxpayer can show the interest accrued because we made an unreasonable error or delay in performing certain kinds of acts. We may also cancel interest, under certain circumstances, if the Internal Revenue Service cancelled interest on a federal assessment that formed the basis for our assessment. If we deny a taxpayer's request, they have the right to appeal our action.

Third-Party Fees

Taxpayers may file a claim for refund for reimbursement of charges imposed by an unrelated third party as the direct result of FTB's erroneous processing or collection actions. Charges that may be reimbursed include, but are not limited to, usual and customary charges for complying with levy instructions and reasonable charges for overdrafts that are a direct result of FTB's erroneous action.

Taxpayers' Rights Advocate Contacts

Taxpayers or their representatives contact the Taxpayers' Rights Advocate's Office when they are unable to resolve their issues through regular channels. We assist taxpayers by reviewing their unresolved tax problems, ensuring that their issues are handled promptly and fairly. We also interact with other state and federal agencies and assist in identifying and resolving department problems.

The Governor's Office, three-member Franchise Tax Board, employees, legislators, state and federal agencies, and taxpayers or their representatives contact us by mail, fax, telephone, and email. We received over 20,700 contacts in fiscal year (FY) 2013/2014. The majority of taxpayers (over 16,500 contacts) contacted us by telephone. We provide taxpayers a public number (800.883.5910) to contact our Advocate Hotline.

We also received over 1,500 email contacts and 2,700 pieces of correspondence during this reporting period. Taxpayers often chose to email the Taxpayers' Rights Advocate when they could not contact the department by telephone or when there was extensive telephone wait time.

The top five reasons taxpayers contacted the Taxpayers' Rights Advocate's Office in FY 2013/2014 include:

- Filing enforcement
- Balance due
- Refund
- Order to withhold
- Earnings withholding order for taxes (EWOT)

Some examples of how we assisted taxpayers with these issues include:

Filing Enforcement

We explained assessments and provided information to assist taxpayers to complete their tax returns. In some cases, we cancelled assessments or addressed hardship issues.

Balance Due

We updated taxpayers on their balance due or delayed collection action to allow tax returns or payments to post. We mailed tax computations, sent Offer in Compromise packages, reevaluated assessments, and encouraged taxpayers to send payments.

Refund

We assisted taxpayers by checking the status of their refunds or reissuing refunds.

Order to Withhold

We upheld, modified, or released these orders, as appropriate, based on review of the accounts and any additional information provided.

Earnings Withholding Order for Taxes

We modified or released these orders based on additional information provided.

Equity Relief

Assembly Bill 2686 (Stats. 2012, Ch. 349, Sec. 1), effective January 1, 2013, authorizes the Taxpayers' Rights Advocate to abate penalties, fees, additions to tax, or interest attributable to an FTB error until January 1, 2016. The executive officer of the board must concur with any relief granted in which the total reduction exceeds \$500. Any relief granted is limited to \$7,500. Since January 1, 2013, our staff has identified and provided relief in four occurrences involving 15,838 taxpayers totaling more than \$3.9 million in relief. Relief was not available for the 180 requests made directly by taxpayers because they had either contributed to the error or delay in a significant way, or relief was available under another provision of the law.

Systemic Issue Management System (SIMS)

The Taxpayers' Rights Advocate identifies systemic issues and finds solutions in a cooperative effort with FTB's audit, collections, and filing programs. In FY 2013/2014, we received 356 issues through SIMS. Of the issues submitted, we identified ten as possible systemic issues and forwarded to program areas for research and resolution. The program areas resolved the issues.

Identify Areas of Noncompliance

Sample Data From the Audit Process

We compiled and analyzed data from the audit process to identify areas of recurrent taxpayer noncompliance. The data, some of which is derived from statistical samples, includes:

- The statute or regulation involved, including failing to file a return when required to do so.
- The amount of tax involved.
- The industry or business engaged in by the taxpayer (sample data).
- The number of years covered in the audit period.
- Whether the taxpayer used professional tax preparation assistance (sample data).
- Whether the taxpayer filed individual or corporate tax returns.

We collected assessment information from the personal income tax (PIT) Notice of Proposed Assessment display file for assessments that became final in FY 2013/2014. When we used sample data, the volumes and dollar amounts represent the sample study numbers projected to the total universe of assessments. See tables in Appendix 1 for details.

We collected data for the distribution of Notices of Proposed Assessment by issue and tax assessed. If a single notice included multiple issues, we categorized the notice under the issue that provided the majority of the tax change. We categorized the assessment as “other” when there was no distinct primary issue.

For corporation taxes, the largest dollar amount in proposed assessments resulted from one primary issue, allocation and apportionment audits, which involves corporations doing business within and outside California.

Allocation is the assignment of nonbusiness income to a particular state. Apportionment is the division of business income among states by the use of an apportionment formula. Within the apportionment formula, the sales factor is the most frequent audit issue for corporations. The higher rate of noncompliance associated with allocation and apportionment may be attributed to the complexity of the issues involved. In addition, noncompliance may occur due to diverse interpretations of the tax laws.

Based on the primary business activity in California, the industry group assessed with the largest dollar amount was the manufacturing industry.

For personal income taxes, the largest dollar amount in proposed assessments resulted from filing enforcement assessments, which refers to taxpayers who have not filed their state income tax return after we notified them of their filing requirements. Most of the proposed assessments were issued to personal income taxpayers for failure to file a state income tax return.

We issue a separate Notice of Proposed Assessment to the taxpayer for each tax year included in an audit adjustment. Individuals typically have audit changes for just one tax year. Ninety-one percent of the individuals who received Notices of Proposed Assessment during FY 2013/2014 had audit changes for a single tax year.

An in-house accounting department or an accounting or legal firm prepares virtually all corporation tax returns. The data indicates that tax professionals file over 87 percent of all PIT returns. We consider corporation tax returns as professionally prepared. In the absence of a paid tax professional’s signature, we consider that taxpayers self-prepared their PIT returns.

We also compiled statistics for e-filing and payments. For these figures, see Appendix 1, Table 6. e-filing continues to increase, with an eight percent increase

from July 1, 2013, to June 30, 2014. As of June 30, 2014, we received 916,000 e-filed Business Entity (BE) tax returns, a 17 percent increase.

FTB informs taxpayers about their California filing requirements through its website, letters, and contacts with nonfilers. FTB sends first-time nonfilers who met their filing requirements in the previous four years a Request for Tax Return notice. We send repeat nonfilers a Demand for Tax Return notice. We send a Notice of Proposed Assessment to nonfilers, who do not file the necessary tax returns after receiving a request or demand notice. See Appendix 1, Tables 7A and 7B, for volumes of notices issued. Our goal is to obtain tax returns from those who have a filing requirement without having to issue a Notice of Proposed Assessment.

Approximately 44 percent of the taxpayers contacted for failure to file a tax return subsequently file their tax returns.

Taxpayer Filing Errors

The California R&TC requires the Taxpayers' Rights Advocate to identify the most common taxpayer errors when they file their tax returns and evaluate how those errors may be avoided or corrected.

We compiled taxpayer error information on approximately 16.5 million current year tax returns processed between July 1, 2013, and June 30, 2014. During this time, FTB made approximately 365,000 adjustments and issued just over 325,000 *Return Information Notices* (RINs) to taxpayers who filed tax returns with errors that resulted in a change of tax liability. This equates to two percent of tax returns. The errors are explained in the notices. The number of adjustments is greater than the number of notices because many tax returns contained multiple errors. These numbers do not include counts for adjustments which did not affect the tax liability, such as adjustments to estimate transfers, voluntary contributions, or refund offsets to other tax years or other debts.

Just under half (46 percent) of the adjustments we made were on paper-filed tax returns, even though only 16 percent of total current year tax returns were paper-filed. Adjustments on electronically filed tax returns (84 percent of total current year returns) accounted for the remaining 54 percent.

The most common taxpayer error, for all filing methods, was to claim the wrong amount of estimated tax credits. Of all current year RINs, 52 percent contain an Estimate Payment Credit adjustment, up from 31 percent in FY 2012/2013. Taxpayers neglected to claim estimate payments they submitted, claimed a credit for a payment that differs from what they submitted, forgot estimate transfers, forgot adjustments to estimate transfers from the previous year, or claimed credits for payments that FTB had no record of receiving.

Tables in Appendix 2 display the number of adjustments by tax return type and filing method, and include a definition of what typically caused each adjustment.

Improve Compliance

Statutes

Each year we review areas of the law and propose legislation in order to carry out our responsibility of improving taxpayer compliance and enhancing administration. We identified several areas of the law during the review process for which we proposed legislation to facilitate administration of our duties.

Chaptered Legislation

AB 672 (Harkey, Stats. 2013, Ch. 239)

This act repeals the tax clearance requirement for specified estates and eliminates the associated authority to provide expedited tax clearance certificates.

AB 1411 (Committee on Revenue and Taxation, Stats. 2013, Ch. 200)

This act allows Franchise Tax Board to use Financial Institution Record Match (FIRM) address information for tax administration purposes.

SB 211 (Hernandez, Stats. 2013, Ch. 513)

This act extends the sunset date on the reciprocal sharing of tax information between the Franchise Tax Board and a city's tax officials until January 1, 2019.

Regulations

The laws administered by FTB broadly authorize the adoption of rules and regulations necessary for their enforcement. Occasionally, specific statutory provisions require us to adopt regulations. See Appendix 3 for a list of regulations.

Areas for FTB to Improve

We are identifying areas to improve that could result in increased taxpayer compliance; although we have not addressed whether FTB has existing resources needed to make these improvements.

Customer Service Call Center Access Rates

In FY 2013/2014, the Taxpayer Services Center (public number 800.852.5711 and hotline number 916.845.7057) answered approximately 64 percent or 1.2 million of the incoming calls. This is an improvement from 59 percent answered in 2012/2013. We continue to use technology to maximize the methods and ease by which the taxpayer can contact FTB. Queue management, the successful redirection of taxpayers to applications on the web, and live chat help maintain open communication channels.

During FY 2013/2014, the Accounts Receivable Management (ARM) Division experienced a marked improvement in service to customers from 62 percent in 2012/2013 to 68 percent in 2013/2014. During FY 2013/2014, ARM used technologies, such as Virtual Hold and modified additional queue configuration, to maintain and improve our level of access service to our customers. Overall, ARM answered 1.2 million, or 68 percent, of PIT and BE collection customer contact calls.

Response to Correspondence Time Frames

Taxpayers writing to the department continue to experience delays in processing and responding to their correspondence. The average response time to correspondence still varies greatly throughout the department. Our general response time is 25 to 30 days, but in some areas, the response time was as high as 90 days at various times during the year. The EDR Project involves an effort to improve correspondence services. Beginning in June 2013, we began scanning paper correspondence relating to 3 FTB notices and in January 2014 we began scanning all PIT and BE tax paper correspondence.

Pending and Enacted Federal Legislation

When the legislature enacted the California Personal Income Tax Fairness, Simplification, and Conformity Act of 1987, it declared that for most taxpayers in most ordinary circumstances, the burden of preparing tax returns could be greatly reduced by the availability of state tax forms which allowed taxpayers to copy numbers from their federal returns and make simple adjustments. When changes are made to the federal income tax law, some federal law changes may result in automatic California conformity. For example, California law provides for the same treatment as applicable for federal income tax purposes (without regard to date enacted or taxable year) when there is a federal law change that relates to deferred compensation (pension, profit-sharing, stock bonus plans, etc., and rules relating to minimum funding standards and benefit limitations). However, California generally does not automatically adopt federal changes. Instead, state legislation is generally needed to conform. California's complex method of conformity results in a significant need for FTB to identify and analyze pending and final federal legislation once it is passed into law. Add to this the repeating occurrence where Congress is called upon to deal with what is often titled must-pass legislation, particularly the extension of expiring tax deductions. A large number of federal tax deductions expired as of January 1, 2014, but most of these tax deductions are expected to be reinstated. States that link to the federal individual income tax code probably will not know the 2014 federal law any earlier than December, and maybe not until January.

The lack of conformity and the passage of late legislation, whether at the state or federal level, directly affects taxpayers' ability to be self-compliant. There is also a significant impact to FTB when there is a need to conduct last-minute education and outreach efforts.

As a result, when there is pending or final federal legislation, FTB has to reallocate resources to analyze and understand the federal legislative changes and the impact to California taxpayers. FTB then has to train staff and respond to taxpayer and tax professional inquiries within short time frames and, in some cases, prior to the passing of state conformity legislation.

FTB needs dedicated staff and resources to follow and provide analysis on pending, late, and final state and federal legislation on an ongoing basis. The lack of conformity to federal legislation burdens taxpayers and the department. FTB must allocate resources to reflect the federal tax law changes in our processing, programming, and revising tax forms, instructions, and publications.

Our efforts to inform our tax professionals of late-breaking legislation or to clarify the impact of laws currently include:

- *Tax News* monthly articles.
- Periodically released *Tax News Flashes* to our subscribers.
- Social media posting such as Twitter, Facebook, and YouTube.

These efforts, however, have limited reach. FTB needs to continue to look for additional avenues to reach directly-affected taxpayers.

Education and Outreach

We continue to increase our education and outreach efforts and use social media tools available. We used media tools, such as Twitter and Facebook, to provide taxpayers with information on California and federal tax law and FTB service changes. We continue to participate in BOE and State Controller's Office sponsored events to provide small business education and outreach throughout California. Also, our staff collaborated with California Governor's Office of Business and Economic Development (GO-Biz) to help phase out the "New Jobs Tax Credit," and introduce

the California Competes Tax Credit Program. We added educational information to our presentations and ran several Tax News articles pointing to new tools and resources available for this new program. We conducted surveys to improve our presentations and expand our topics. The key point is that FTB is here to help.

e-Services

In an effort to reduce taxpayer burden, increase access to information, make filing and paying taxes easier, and improve the timeliness and accuracy of tax returns, we continue to enhance and develop our online services. Below are a few of the e-services available and some highlights of the year's activities.

ReadyReturn

ReadyReturn is a voluntary tax-filing method where FTB uses wage and withholding information to complete "simple tax returns" for taxpayers. FTB pre-selects taxpayers who filed as single or head of household, have income only from wages, and claim the standard deduction. Taxpayers may choose to view, update, and e-file their ReadyReturn online. Usage has climbed from approximately 11,000 tax returns in 2008 to approximately 75,000 tax returns in 2014.

CalFile

CalFile is a free, secure, online application that allows taxpayers to e-file their state income tax return directly with FTB. CalFile eases the filing burden for taxpayers by guiding them through an easy question-and-answer process in order to complete their tax return.

In January 2013, CalFile was implemented with new features and an improved "look and feel." One of the new features is the ability to save a partially completed return and come back later to finish. Another enhancement is the ability to import information from FTB's accounting system into the return (e.g., address, wages, estimated tax payments made, etc.). Taxpayers can also request an email confirming their tax return was filed.

In January 2014, we enhanced CalFile to allow the filing of not only the current tax year, but also the previous tax year return.

In 2014, approximately 275,000 taxpayers filed their current tax year (2013) return, and almost 10,000 more filed their previous tax year (2012) return.

MyFTB Account

MyFTB Account is the secure web program that serves as the central location for taxpayers and tax professionals to interact with FTB online. Users complete a one-time registration and select a user name and password that they manage. Taxpayers must provide key pieces of information from their tax returns to register, while tax professionals must provide their industry credentials. To view a client's account, tax professionals should have their client's written permission and will need to provide information from the client's tax return.

MyFTB Account for Individuals gives users access to estimated tax payment information, recent payments made, the total balance due on their account, their California wage and withholding information, and FTB-issued 1099-G and 1099-INT information. Individual taxpayers can update their address and telephone number, sign up for estimated tax payment email reminders, and access additional services such as CalFile and Web Pay.

MyFTB Account for Businesses lets users view their entity's estimated tax payments and make payments using Web Pay.

Web Pay

Web Pay is a free, secure, online service that allows individual and business taxpayers to make their tax payments online. Taxpayers can schedule payments to come out of a checking or savings account up to one year in advance. Taxpayers have the ability to view scheduled payments and cancel those that have not been processed (when accessing Web Pay through their MyFTB Account).

Training

To improve public services and encourage voluntary compliance, FTB develops employee skills and abilities. FTB provides extensive training to our public service staff on quality customer service and telephone techniques. The call center represents the front line process. Call centers that are properly staffed with well trained employees who provide critical pre-filing assistance, tax law explanations, and appropriate forms, can positively affect compliance. This service also minimizes the cost associated with collection and audit functions that result when tax returns are not filed timely, properly, or with the appropriate payment amount.

FTB provides technical employee training, including public service staff, tax technicians, compliance representatives, and auditors, on the following systems:

- Taxpayer Information System (TI).
- Business Entity Tax System (BETS).
- Accounts Receivable Collection System (ARCS).
- Integrated Nonfiler Compliance System (INC).
- Other systems as necessary.

In addition to technical training, FTB trains employees on workplace diversity, sexual harassment awareness, disability awareness, career development and upward mobility, and other administrative courses.

FTB also provides the following essential training regarding:

- Tax law.
- Taxpayers' Bill of Rights.
- Account analysis and resolution.
- Security and disclosure.

To ensure all collection staff have the required skills and abilities to administer tax laws, FTB provides a rigorous 9 to 10 week training session to newly hired collection staff. The objective is to provide a concrete foundation of general system and collection knowledge for three business areas; PIT, BE, and Non-Tax Debt. Within each session, we provide system instruction for collection and accounting systems. We also provide soft skill courses which aid in day-to-day tasks; negotiations, conflict management, inventory management, telephone management, and telephone techniques. An integral part of the training session is on-the-job training.

FTB invites subject matter experts to serve as mentors and coaches, training consultants, or guest instructors to provide new or updated training. FTB encourages employees to further their education by enrolling in classes, including computer-based courses and college courses, to refresh or further their existing skills or knowledge.

FTB provides professional training to its auditors from the moment they begin their work with FTB. A four-week basic professional auditor training series was established to give auditors baseline expertise in the following areas:

- Organizational mission and values and customer service.
- Taxpayers' Bill of Rights and the principles of tax administration.
- Audit process, case management, policies and procedures.
- Tax law and research methodologies.

- Disclosure and information security.
- Technologies and systems.

FTB offers ongoing support for auditors to develop their skills throughout their careers with an emphasis on just-in-time technical law training. Mentors or leads provide continued guidance, direction, and on-the-job training and support for auditors. FTB also provides broad-based development to optimize knowledge of the latest technologies, specialized transactions, and improved auditing techniques.

FTB supports its auditors who seek Certified Public Accountant status. Under the Board of Accountancy guidelines, FTB provides Certified Public Accountants the opportunity to receive continuing education credits for courses FTB develops and administers.

Enforcement

Although FTB encourages voluntary compliance through taxpayer education by providing pre-filing assistance and information, FTB continues to identify ways to improve its enforcement capabilities.

Filing Enforcement (FE) Program

FE program identifies and contacts individuals and business entities that appear to have a requirement to file a California tax return and have not filed.

The PIT FE program uses various income sources to contact wage earners, self-employed individuals, individuals with unreported capital gains, nonresidents with California source income, individuals with partnership income, and any other individuals with unreported income. More than 500 million income records were provided to FTB by the IRS, BOE, Employment Development Department (EDD), financial institutions, and other sources.

The business entity nonfiler program also uses various income sources, including information from the IRS, BOE, EDD, and financial institutions, to identify potential nonfiling corporations, limited liability companies, limited liability partnerships, and limited partnerships that appear to have a filing requirement.

Additionally, with the introduction of the EDR project, FE has upgraded its efficiency in choosing the best cases for individual and business entity nonfiler contacts to further advance the goal of taxpayer compliance. Within the EDR Project, FE has created an analyst team to review new business rules and practices implemented by the EDR Project to protect taxpayers from erroneous contacts and involuntary collections that could result from these changes.

FTB continuously strives to improve the FE programs and services available to both the taxpayer and the tax professional communities. FTB's website provides around-the-clock access and was implemented based on feedback that tax professionals and taxpayers provided. The following features are available to taxpayers from our website:

- Request additional time to file a tax return. This service may assist those who are experiencing a personal or financial crisis, or who need more time to obtain records to file a tax return.
- Provide updated address information.
- Request an email reminder to file for future tax years.

Audit Program

The Audit program incorporates FTB's strategic goals. The program works with taxpayers and their representatives to administer and enforce the law effectively to ensure that all taxpayers meet their obligations to file and pay the proper amount owed. The program uses innovative methods to promote these objectives through customer service, education, self-compliance letters, initiatives, and partnerships

with other federal and state agencies. In performing these activities, the program considers the effects on taxpayers, increases the timeliness and effectiveness of enforcement actions, and focuses on adherence to FTB Regulation Section 19032, Audit Procedures, to complete audits in a timely manner. When new issues arise, FTB collaborates with subject matter experts to operate its programs in an efficient manner and seeks better use of technology and data.

FTB continues to seek new opportunities to form partnerships with taxpayers and other agencies and promote best audit practices.

Addressing California's Tax Gap

The tax gap is the difference between the amount of taxes legally owed and voluntarily paid.

Addressing issues that cause taxpayers to underreport, under pay, or to not file their returns remains a top priority for FTB. We compliment these priorities with efforts to educate the citizens of California regarding prevalent areas of noncompliance. FTB continues to apply new tools and data sources that aid in the detection of taxpayers who contribute to the tax gap by using or promoting schemes to evade taxes.

FTB continues to pursue abusive tax shelter transactions. FTB's ongoing partnership with other states, the IRS, and other agencies enhances the sharing and exchanging of abusive tax shelter information, training, and informant leads. FTB focuses audit resources to identify, evaluate, and examine these transactions and the related tax shelter penalties.

Collections Program

The Collections program collects tax and nontax debts on behalf of the State of California. Tax debts are primarily filing enforcements, unpaid audits, and tax return assessments for individuals and business entities. Nontax debts include vehicle registration fees and various court-ordered debts. This program uses a variety of methods and tools to enforce the laws covering tax and nontax debt.

FTB maintains a call center staffed by collection experts, including several Spanish/English speaking employees. FTB provides online access to collection information, procedures, and electronic forms.

Liens and Levies

FTB has authority to issue lien notices and to levy wages and bank accounts. Individual collectors or an automated system can issue these notices and levies.

Accounts Receivable Collection System

FTB uses this automated system to process and maintain over 2.0 million accounts annually. FTB applies a customized approach to accounts, which greatly reduces the intrusion into taxpayers' lives. By automating many key collection functions, the staff uses the system to maximize efficiency, so collectors can answer questions, resolve problems, and help taxpayers find ways to pay their tax debts.

Field Collections

Based in field offices in various California locations, the field collectors make in-person contact with persistently noncompliant tax debtors. Collectors take appropriate actions to fully resolve cases. Actions include gathering case information, securing asset information, obtaining commitments, taking collection actions when voluntary compliance cannot be obtained, and properly documenting the case.

Contract Collection

Outsourcing collection accounts provides FTB with an alternative collection strategy for accounts that are not economically feasible to assign to an FTB collector. We view

outsourcing as a way to broaden our ability to collect debts owed to the state. FTB uses Private Collection Agencies (PCAs) to collect debts in certain tax workloads. FTB seeks the best way to resolve each individual account through a combination of automated actions, attention from experienced, highly trained professional staff, and a customer-centered collections approach. In keeping with this approach, FTB provides a variety of options to help taxpayers resolve their tax debts. FTB takes great care to safeguard taxpayers' data and protect their rights when outsourcing accounts to PCAs. FTB requires all PCAs to adhere to the Fair Debt Collection Practices Act, FTB's Taxpayers' Bill of Rights, California R&TC, and all other FTB applicable policies.

Payment Methods

Installment Agreements

FTB provides the option of an installment agreement to both individual and business taxpayers who are financially unable to pay the balance in full. Individual taxpayers can now apply and check the status of their installment agreement requests online. As of March 12, 2012, individual taxpayers have the option to set up Installment Agreements through the Interactive Voice Response (IVR). In FY 2013/2014, 214,000 installment agreements were set up, and over 7,000 of those were set by taxpayers selecting the IVR option.

Provisional Payment Plans

FTB allows individual taxpayers to make payments while valid PIT returns are being prepared. Once valid tax returns are filed and the criteria for an installment agreement are met, we convert the provisional plan to a formal installment agreement. Since the program's inception in December 2009, 73,228 tax returns have been filed and over \$79 million collected. Provisional payment plans increase compliance with tax laws, accelerate revenue, provide greater efficiencies, and improve customer service.

Offer in Compromise

FTB's 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. It allows a taxpayer to offer a lesser amount for payment of an undisputed final tax liability.

Quality Assurance Practices

FTB follows quality assurance practices to validate that it meets targets and deadlines, complies with legal due process requirements, and takes corrective actions.

Criminal Investigations

FTB special agents are sworn peace officers charged with the investigation of individuals and business entities suspected of committing income tax crimes. In the course of investigating suspected violations, special agents gather evidence, analyze assets and liabilities, interview witnesses, interrogate suspects, and plan and effect search and arrest warrants. Special agents work in conjunction with the Audit and Collections programs, and other local, state, and federal organizations and law enforcement agencies. When a case moves into the prosecution phase, special agents serve as expert witnesses and assist prosecuting attorneys in preparation and prosecution of departmentally approved cases, ensure appropriate media coverage is obtained in accordance with the department's Public Affairs Media Program, and ensure terms of probation directly affecting the department are fulfilled.

For FY 2013/2014, criminal investigations activities resulted in:

- 80 new cases.
- 40 individuals arrested.
- 30 search warrants executed at 103 locations.
- 30 cases approved for prosecution.
- 56 individuals prosecuted.
- 103 cases closed.

Legal

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

Taxpayer Education and Outreach

As we mentioned in the Advocate Address and in the Improved Compliance portions of this report, the Advocate staff strives to provide taxpayers and tax professionals with the information they need to file their state tax returns completely, accurately, and timely. The department continues to focus on education and outreach efforts, to build strong tools and resources, and to improve services.

In spite of the economic challenges and resource limitations faced by the Multilingual Services Program (MSP) this year, the program continues to increase the amount of non-English products, services, and communications to our limited English proficient (LEP) customers.

We continue to partner with other California state agencies and programs to increase our attendance in community events, reaching out to educate taxpayers on free filing services, and providing general answers to their tax questions and concerns in order to gain compliance. We also increased our social media visibility, connecting with taxpayers by creating a Facebook page for non-English speakers. We added two new Spanish Youtube videos to update non-English speaking taxpayers on important information, such as, new products, community events, and self-service options. We also increased our distribution of non-English materials to our field offices and public distribution sites throughout the state. These communication channels enabled us to increase taxpayer education and outreach at a minimal cost to the department.

We continue to provide internal training, translation resources, and communication to bilingual staff. Keeping them informed of FTB's non-English products and services, outreach events, glossaries, and translation tools to ensure our staff provides efficient and quality service to our non-English speaking taxpayers.

For persons with disabilities, we provide access to our programs, services, and facilities in accordance with Title II of the Americans with Disabilities Act of 1990. At the taxpayer's request, we provide reasonable accommodations in alternative format, including but not limited to income tax booklets in large print and on audiocassette.

Our ongoing media efforts, including Spanish media, play a major role in reducing taxpayer errors. We give news interviews, prepare news releases, post information on social media outlets, create video clips, provide public service announcements, and send out *Tax News Flashes* to inform taxpayers of changes to tax law, new programs, and current issues of interest.

California Tax Law and FTB Services Updates

In our commitment to provide timely information to promote complete, accurate, and timely filed returns, we developed a California tax and FTB services update presentation and presented it throughout the year statewide to tax professionals.

This year's presentations provided information, explanations, and promoted discussions about the following issues:

Like-Kind Property Exchange Reporting

All individuals and business entities that perform like-kind exchanges of property located in California for property located outside California file an annual information return to report their previously deferred California sourced gain or loss.

Expiration of the Enterprise Zone Credit

Enterprise Zones were repealed on January 1, 2014. The hiring credit can be generated for qualified employees hired on or before December 31, 2013, for the full 60-month credit period. However, the hiring credit cannot be generated for the employment of any person hired on or after January 1, 2014.

New Employment Credit

Available to a qualified taxpayer that hires a qualified full-time employee, pays or incurs qualified wages attributable to work performed by the qualified full-time employee in a designated census tract or economic development area, and that receives a tentative credit reservation for that qualified full-time employee.

Qualified Small Business Stock Deferral

50 percent gain exclusion retroactively allowed for tax years 2008 to 2012.

FTB Authorized to Operate and Administer FIRM

FTB uses FIRM for automated data exchanges to the maximum extent feasible to identify accounts of delinquent tax debtors held at financial institutions doing business in California. FTB uses FIRM as an enforcement tool to collect delinquent taxes and nontax debts of individuals and business entities.

Proposition 39

Makes the use of single sales factor (SSF) apportionment mandatory for all but those taxpayers required to use equal-weighted three factor apportionment (agricultural, bank or financial, savings and loans, and extractive). This includes a nonresident's business, trade, or profession that carries on within and outside of California.

Net Operating Loss

Fifty percent of Net Operating Losses incurred in taxable years beginning on or after January 1, 2013, shall be carried back to the two preceding taxable years unless a timely election to waive the carryback is made, then 100 percent of the loss will be carried forward for 20 years. A separate state election may be made.

Wage Garnishment and Bank Account Levies

Prohibited against homeless veterans for unpaid loitering, curfew violations, and illegal lodging citations.

Unpaid Special District Debts

FTB to collect unpaid special district debts through offset of personal income and corporate tax refunds.

Data Exchanges Between FTB and Cities

Ensure compliance with state income tax and city business tax requirements.

California Registered Domestic Partners Still Not Recognized by IRS

California recognized registered domestic partnerships for tax purposes effective January 1, 2007. To date, IRS has yet to recognize registered domestic partnerships.

New Power of Attorney (POA) Form

Joint filers must now complete and submit a separate FTB 3520, *Power of Attorney Declaration*, for each spouse/registered domestic partner. We made the taxpayer information section easier to identify taxpayer, business entity, or fiduciary relationship. Taxpayers can now authorize a representative to represent them for all FTB matters. This authority automatically expires four years from the date this POA is signed or a new POA is filed that revokes this authorization.

Tax Incentives

Motion Picture and Television Production Credit, Fresh Fruit and Vegetable Credit, and Research and Development Credit.

The Top Debtors List

The list must be updated at least twice a year and requires suspension of debtor's occupational, professional, and driver licenses. State agencies are also being prohibited from entering into a contract for goods and services with the debtor.

California Withholding Agent and Federal Back-up Withholding Requirements

Taxpayers who pay California source income to someone from outside of California generally must withhold on all payments that exceed \$1,500 in a calendar year. When payments are made and the payee does not provide a valid taxpayer identification number, or fails to certify they are exempt from backup withholding for federal purposes, they must also withhold and remit a portion of the payment for state purposes.

Beginning July 1, 2013, a voluntary program started for eligible withholding agents to potentially avoid penalties and audits by remitting past-due, nonwage withholding for the previous two calendar years, plus interest.

Taxpayer Advocate Relief

Restored to provide relief from tax, penalty, and interest caused by erroneous actions or inactions by FTB, and no other relief is available (limited to \$7,500). The taxpayer must not have significantly caused the error or delay.

Online Services

Where's my refund?, Live Chat, Tax News, MyFTB Account, Web Pay, Installment Agreements, SIMS, Return and Payment Processing, Outbound Calling, and Secure Email.

Interactive Voice Response

Franchise Tax Board provides 37 IVR applications. The majority of the applications, available in both English and Spanish, provide general tax information for individuals and business entities. In addition, current balance due, applied payments, and refund information can be accessed, and many of the most common forms can be ordered. PIT callers can even apply for installment agreements. FTB also supports nontax IVR applications that provide general information for Court Ordered Debt and Vehicle Registration Collections. Callers may have the option to speak to a representative after navigating through the application. If they are transferred to one of FTB's larger call centers, they may be given the option to wait on hold or request a call back without losing their place in queue.

Queue Management

We continue to use Queue Management technology, which was implemented in May 2010, for external customers who call our 800 numbers. Rather than wait on hold, customers can choose to terminate the call, maintain their place in the calling queue, and receive a call back just as promptly as if they had remained on the line. The customer is given a call back time based on the estimated wait time at the time of their call. Customers welcomed this feature and continue to take advantage of the option. The queue management technology reduced the number of abandoned calls by approximately 65 percent. Abandoned calls are callers who hang up because they are not able to continue waiting on the line. FTB saved over 2 million hours of hold time since implementation and almost 800,000 hours during FY 2013/2014. When offered the option, 70 percent of the callers chose to have a call back. We successfully connected with 88 percent of the callers.

California Tax Information

In an effort to provide one-stop service for California taxpayers, FTB participated with other state tax agencies to establish the California Tax Service Center website maintained by BOE.

On the Internet, the California homepage (**ca.gov**) and California Tax Service Center (**taxes.ca.gov**) provide taxpayers with easy access to a variety of state and federal tax information through hypertext links from one website to another.

Tax News

Our monthly online publication, *Tax News*, informs tax professionals about state income tax laws, regulations, policies, procedures, and events that affect the tax professional community. We continue to use our *Tax News Flashes* to push time-sensitive information quickly to our subscribers on subjects such as webinars, forums, and other educational opportunities. This year we sent 28 flashes. We continue to increase our flashes mainly because it provides a fast and cost-efficient mode of communication, as well as sharing like information and links through social media like Twitter and Facebook. We continue our partnership with the California Society of Enrolled Agents Education Foundation. We produced several short video articles, *Tax News Live*. *Tax News* continues to experience positive feedback; our subscription base continues to increase; and trade media publications repost and quote our articles.

Small Business Outreach

We provide training at seminars and develop programs to help small businesses meet their state income tax filing requirements. In conjunction with the BOE, EDD, and IRS, we develop products that simplify the process to obtain information on most business filing requirements.

We participate in small business fairs sponsored by BOE members and the State Controller's Office throughout California.

We created and worked on updating the following publications to address common questions related to small business taxpayers:

- FTB 984 - *Common Business Expenses for the Business Owner and Highlights of Federal/State Differences*
- FTB 985 - *Audit/Protest/Appeals (The process)*
- FTB 1123 - *Forms of Ownership*
- FTB 4058B - *Your Rights as a Taxpayer*
- FTB 4058C - *California Taxpayers' Bill of Rights - An Overview*
- BOE Pub. 170 - *Striking Gold in California - What You Need to Know About Taxes and Your Small Business*

Our Small Business Liaison provides education and outreach to small businesses and receives calls from taxpayers. The liaison offers small business owners and taxpayers interested in starting a business tax information and information about specific filing requirements, based on their business ownership or proposed business ownership type. The liaison refers business owners and taxpayers to the appropriate program areas within our department and to the other state or federal agencies to answer their questions.

The education and outreach staff received over 1,251 calls this year, most of which came through our Small Business Liaison phone line. We primarily received calls from out-of-state taxpayers inquiring about doing business in California and filing requirements. Also, we worked with our *Tax News* editor to publish a series of articles about doing business and changes in the law.

Speakers' Bureau

Speakers' Bureau helps nonprofit organizations, community groups, and government-funded educational institutions learn more about tax-related issues. Speakers typically make brief presentations to groups of 25 or more. We provide speakers in other languages upon request and availability. The Speakers' Bureau is one of our ongoing ventures that acknowledge the continuing educational needs of tax professionals and nonprofit tax-related organizations.

Interested Parties Meetings

FTB staff holds meetings with the affected public to discuss or generate feedback from interested parties about specific topics, such as implementation of new laws or proposed initiatives, regulations, projects, and other topics of interest.

Free Filing Assistance

FTB and IRS jointly administer the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) volunteer programs to provide free tax help to limited or fixed income, senior, disabled, and non-English speaking persons who need to file simple federal and state tax returns.

FTB recruits VITA and TCE volunteers statewide, provides training to the volunteers, and provides outreach to let the public know about the programs.

FTB also provides VITA services for the U.S. Armed Forces with training and support for tax law questions, and to military VITA sites throughout California.

Schools' Partnership Program Volunteer Income Tax Assistance

FTB suspended the Schools' Partnership VITA Program in 2009 due to the economic climate and budgetary constraints present at that time. The program remains suspended due to internal resource constraints, but is reviewed annually for possible resumption. Historically, FTB collaborated with the IRS to administer the program at two area high schools, providing students with opportunities to develop job skills, earn school credit, and learn about the value of volunteerism as they helped non-English speaking, disabled, senior, and limited or fixed income members of the community prepare basic state and federal tax returns. Even though the program itself has been suspended, one high school continues to work with the IRS to offer free tax return preparation services to the local community. FTB employees also volunteer on their own time to assist the school and student preparers with tax return preparation.

Department Initiatives and Projects

Key Initiatives for 2014

Portfolio Management

FTB will establish a portfolio of business and information technology initiatives and projects. FTB will align each project and initiative under the strategies that support FTB's goals. The Governance Committees will receive quarterly portfolio updates to track and monitor performance.

Strategic Plan

FTB is at the halfway point toward the implementation of its 2012-2016 Strategic Plan. FTB will highlight achievements and updates to the Strategic Plan.

Modernize Our Tax Systems

Introduction

The EDR Project is the first of several planned FTB modernization projects described in our Strategic Plan.

The EDR Project brings us new technologies that we will use to leverage the data we collect to more effectively administer our tax systems. This means more efficient operations throughout FTB, better customer service, a higher level of transparency, and more revenue. In short, the EDR Project gives us the opportunity to provide better customer service, reduce taxpayer burden, and make significant progress toward reducing the tax gap.

EDR Project Components

The EDR Project includes four major components:

1. New applications and processes for handling tax returns, payments, and correspondence. The new applications (Taxpayer Folder, Case Management, and Return Analysis) automate manual processes, enhance our capacity to capture and validate data, standardize our processes, and leverage the same applications to process both PIT and BE tax data.
2. Enterprise data warehouse. The data warehouse makes all appropriate data accessible to our legacy systems and authorized FTB users.
3. New enhanced MyFTB. MyFTB provides authorized users (such as taxpayers and taxpayer representatives) secure online access to images of tax returns, payments, notices, correspondence, and more at FTB's website, ftb.ca.gov.
4. Updated legacy systems. We update legacy systems so they work with the new processing applications, the data warehouse, and the new MyFTB.

The EDR Project Schedule

The EDR Project is a 66-month project divided into three major design stages each of which includes various major and minor releases.

We separate each design stage and release to allow us to slowly implement the project in well-defined increments, in which each release builds upon the previous release. Additionally, the project has a six-month stabilization period after each major release to ensure the solution is functioning correctly and stabilized over a period of time before we implement the next release.

The project schedule is designed to have all project deliverables in place prior to the final year of the project. This schedule allows us to focus on our workforce transition during the last 12 months of the project to ensure our ability to maintain and use the solution.

EDR Project Implementation Status

The EDR Project is on schedule, within budget, and exceeding revenue targets.

Since the EDR Project kick-off in July 2011, we successfully implemented numerous early initiatives to increase our efficiency and effectiveness resulting in about \$76 million in revenue. Additionally, by December 2014 we will have fully implemented two of the three project design stages.

New Applications and Processes for Handling Tax Returns, Payments, and Correspondence

Within the first few years of the project, we:

- Reengineered the return and payment processing pipeline.
- Deployed a new data entry and capture system.
- Added five new scanners.
- Introduced 2-D barcodes for PIT returns.
- Automated our payment deposit process.

These efforts significantly reduced our manual processes for tax returns and payments.

In summer 2014, we rolled out full implementation of our Taxpayer Folder and Case Management applications to nearly 4,000 staff. These applications provide us online access to taxpayer account information and allow us to handle correspondence online instead of responding to taxpayers through the mail, making us more efficient and improving our customer service.

In January 2015, we will introduce a pilot version of our new Return Analysis System for PIT returns. This system provides us full automation of our tax return and payment posting, correction, and notice processes. We plan full implementation for PIT return processing in summer 2015 and for BE return processing about six months later.

Enterprise Data Warehouse

Over the past few years, we have loaded and converted hundreds of files and millions of records to our data warehouse. Our new data management processes allow us to leverage this important data to more effectively develop our collections and audit models, which results in additional revenue for the state. Our data conversion processes continue through 2015.

New Enhanced MyFTB

Our work to provide external stakeholders easy, secure online access to confidential tax data continues. In summer 2014, we initiated a year-long test plan for our new MyFTB program. The test plan includes comprehensive security and usability testing by external consultants, in addition to FTB's experts. MyFTB provides taxpayers and their authorized representatives access to important tax information such as tax returns, payments, correspondence, and more, online through our website, **ftb.ca.gov**. We will rollout MyFTB to the public in summer 2015.

Updated Legacy Systems

As we deploy new applications, we continue to update our legacy systems to ensure they support the applications. Also, we continue work to modernize our technical architecture, doubling our computing power, ensuring that we're prepared to support our modernization efforts for decades to come.

All of our EDR Project work enables us to work more efficiently, plan effectively, provide even better customer service, and collect more revenue for the state. In fact, in June 2014, we reached our first \$1 billion in new revenue due to the project, 10 months ahead of projections.

EDR Project Revenue

Fiscal Year	Target Amount: Millions	Actual Amount: Millions	% of Target
2011/12	\$63	\$115.7	184%
2012/13	\$174.7	\$338.5	194%
2013/14	\$260.3	\$482.7	185%

Revenue will continue to increase during the project. Revenue benefits will level out at \$1 billion annually starting in 2016, and continue each year thereafter. The new revenue over the project reporting period is estimated to be more than \$4 billion.

The EDR Project revenue estimates are based on current tax law and do not factor in any new taxes or penalties. The primary source of funding for the EDR Project is drawn from more efficient collections and increased tax compliance.

Tax Gap Action Committee Initiatives

- Provide background information on the underground and illegal economies. The Committee will explore the possibility that enhanced partnering among California agencies could improve compliance with tax and other laws.
- Increase FTB's ability to identify fraudulent refund claims and prevent the issuance of the erroneous refunds when a false claim is the result of identity theft. The Committee will support research to identify new identity theft fraud models and work to identify the most cost effective methods to accomplish this initiative.

Projects

Live Chat

In 2011, FTB launched Live Chat as a fast and efficient way for the public to ask FTB representatives nonconfidential questions regarding PIT and BE tax questions, find a form or publication, and to get help with our website. Also in 2011, as a companion to our general Live Chat service, we began to offer PIT Chat customers the opportunity to move from the Live Chat channel to secure email in order to resolve their account-specific *Return Information Notices*, *Statement of Tax Due*, and filing enforcement questions.

In FY 2013/2014, continuing forward with the positive momentum we gained since our 2011 launch, our general Live Chat service agents responded to 127,000 chats from individuals and tax professionals. Of this amount, 85,000 chats were regarding PIT questions and 42,000 chats regarding BE tax questions.

During FY 2013/2014, the PIT and BE Collections Live Chat completed 30,262 chats with a 99.1 percent level of access. During FY 2012/2013, PIT and BE Collections Live Chat completed 17,371 chats. Customer satisfaction survey results provided positive feedback from taxpayers regarding the Live Chat service. Taxpayers expressed they are happy to get quick answers (average wait time of 19 seconds) to general collection questions without having to spend considerable time on the phone.

Taxpayers' Bill of Rights Hearing

Taxpayers presented proposals to the three-member Franchise Tax Board (Board) at the annual Taxpayers' Bill of Rights hearing on December 4, 2013. The meeting took place at FTB in Sacramento, California. For copies of the complete responses, go to ftb.ca.gov and search for **hearing responses**. The responses are in order of the presentations at the meeting.

Lynn Freer, Spidell Publishing, Inc.

Ms. Freer provided oral comments to the Board on the following issues:

- Small tax bills
- Regulations for limited liability companies (LLC) doing business in California
- Ralite-type corporations
- Conformity

“In his letter dated January 14, 2014, Taxpayers' Rights Advocate, Steve Sims responded regarding small tax bills that the Franchise Tax Board recognizes this issue and anticipated a fix to be in place before the 2014 Return Information Notice season that took place in late May.

Regarding regulations for LLCs doing business in California, Mr. Sims responded that long-standing principles of existing law provide adequate guidance to LLCs and their members, so a regulation of Revenue and Taxation Code Section 23101 is not necessary. FTB Legal Division is instead drafting an FTB Legal Ruling that will explain these principles and provide guidance to taxpayers.

Regarding Ralite-type corporations, Mr. Sims responded that FTB provided technical assistance to the legislature in order to come up with a workable legislative solution for this issue. It should be pointed out that the annual or minimum tax is imposed in part to address the administrative costs of the state of maintaining records concerning a business entity, and any legislative proposal may need to address these administrative costs as well as the perceived revenue loss involved in abating the minimum or annual tax in order for the proposal to be successful. A large percentage of corporations and LLCs that are suspended never take the steps needed to revive and dissolve, creating administrative problems for both FTB and the Secretary of State (SOS), including the expense of sending notices and letters as well as the necessity of recordkeeping and reporting on these inactive or defunct entities. FTB continues to educate taxpayers about the annual or minimum tax requirement.

Regarding conformity, Mr. Sims responded that FTB staff regularly works with the legislature to provide a thorough analysis of annual federal law changes. This past year FTB proposed two legislative proposals that would conform to federal law or policies with modifications. FTB has a general policy in favor of conformity, but the department does not believe the process of developing recommended conformity legislation properly lies with FTB staff because conformity is a legislative function rather than an FTB administrative function. FTB staff will continue to provide the legislature all necessary research and analysis relating to conformity legislation.”

Gina Rodriguez, Cal-Tax

Ms. Rodriguez provided oral comments to the Board on the following issues:

- Compliance backlog
- Audits
- Refund claims
- Large corporate understatement penalty claims for refund

- FTB's plans to address audits/claims backlog
- FTB's plans to address protest backlogs

"In his letter dated January 14, 2014, Taxpayers' Rights Advocate, Steve Sims responded regarding compliance backlog that Revenue and Taxation Code Section 21010 no longer applies, as the plans referenced in that statute were to have been complete by July 1, 1989. Regarding appeals, the State Board of Equalization is in control of the timeline of taxpayer appeals of FTB actions, so Mr. Sims would not address them in his response.

Regarding audits, Mr. Sims responded that the Audit Division conducts audits in accordance with Audit Procedures Regulation 19032. FTB generally completes audits within two years from the initial taxpayer contact and timely completion relies upon taxpayers and auditors working together, taxpayers timely responding to relevant and reasonable information requests, or explaining why additional time is needed.

Regarding refund claims, Mr. Sims responded FTB typically receives and refunds about 70 percent of its corporation claims within 12 weeks without audit. Claims for refunds may be filed by amended returns or correspondence. All amended returns are tracked and processed by FTB systems. However, claims for refunds filed by correspondence are combined with the hundreds of thousands of other correspondence received by FTB, and worked when the correspondence is assigned. To address tracking of claims for refund filed by correspondence, FTB is tracking most correspondence claims within its separate legacy systems. In 2014, EDR will image all correspondence and enable FTB to better track correspondence claims.

Regarding large corporate understatement penalty (LCUP) claims for refund and the concern shown it may have on additional amended returns, which contributes to "backlog", Mr. Sims responded that there is no easy way to distinguish if the taxpayer is taking a conservative filing approach in order to avoid the LCUP from any other claims that are filed, so it would be difficult to correlate which corporations may be filing claims because of the existence of the penalty.

Regarding FTB's plans to address audits/claims backlog, Mr. Sims responded that there are many reasons that may attribute to a delay or a backlog in audits, such as a taxpayer request in order to accommodate schedules, other federal/state audits, or availability. Also, with the loss of staff in nearly 85 positions, we continue to spread staff tax expertise on team audits, subject matter experts, training, and development. However, audits are delayed when taxpayers file claims on new issues after the audit has started, completed, or during the protest. For example, 21 corporations under audit filed 136 claims for refund. Our management plan to address our audits and claims backlog include targeting audits using all available resources including obtaining retired annuitants, identifying ways to mitigate audit delays with the taxpayers' cooperation, reevaluating how claims are processed, streamlining inventory management and audit processes, identifying cases for closing agreements, continuing auditor training, and working closely with Legal staff.

Regarding FTB's plans to address protest backlogs, Mr. Sims responded that many factors led to the protest backlog over the past few years, which include the significant loss of positions in vacancy sweeps, an increase in the number of cases protested, and other factors outside FTB's control. While FTB works to close all protest cases as expeditiously as possible, management specifically targets those cases that have been pending in excess of 36 months. We look at ways to streamline all of our protest cases. Our Audit and Legal Divisions continue to work closely together on cases earlier in the audit process to try and reduce the protest number. We also anticipate hiring additional staff in 2014 to assist with reduction of protest backlog."

Patricia Kappen, CSEA

Vicki Mulak provided oral comments to the Board on the following issues:

- Inability to dissolve/cancel business entities formed but not launched
- Mortgage relief nonconformity
- Taxpayer education re: market-based sourcing rules
- Small tax-exempt organization revocations
- Amended return processing
- POAs and implementation delay of 2014 EDR enhancements to MyFTB Account

“In his letter dated January 14, 2014, Taxpayers’ Rights Advocate, Steve Sims responded regarding the inability to dissolve/cancel business entities formed but not launched that FTB is aware of this issue and provides technical assistance to the legislature in order to come up with a workable legislative solution. A large percentage of corporations and LLCs that are suspended never take the steps needed to revive and dissolve, creating administrative problems for both FTB and SOS, including the expense of sending notices and letters as well as the necessity of recordkeeping and reporting on these inactive or defunct entities. FTB continues to educate taxpayers about the annual and minimum tax requirement and the ongoing liability.

Regarding mortgage relief nonconformity, Mr. Sims responded that FTB has a general policy in favor of conformity, and FTB staff regularly work with the legislature to provide a thorough analysis of annual federal law changes. The department does not believe that the process for developing recommended conformity legislation properly lies with FTB staff because conformity is a legislative function rather than an administrative function of FTB. FTB staff will continue to provide the legislature all necessary research and analysis relating to conformity legislation.

Regarding taxpayer education re: market-based sourcing rules, Mr. Sims responded that FTB is currently working to develop guidance in the form of frequently asked questions (FAQ) with specific examples to address impacts of SSF/market based sourcing to all taxpayers, including small businesses. If more information is still needed, FTB will provide further guidance.

Regarding small tax-exempt organization revocations, Mr. Sims responded that FTB mailed revocation notices to tax-exempt organizations that have not filed the required FTB 199N, *Annual Electronic Filing Requirement for Small Tax-Exempt Organizations*, for three consecutive years. Information regarding revocation has been added to the front page of FTB’s Exempt Organizations webpage. If an organization loses its California tax-exempt status, it must reapply using FTB 3500, *Exemption Application*, and have it approved to regain its tax-exempt status. Any income received between the revocation date and renewed exemption date may be taxable. Relief is available through a reinstatement process.

Regarding amended return processing, Mr. Sims responded that for PIT amended returns the processing timeframes are well ahead of previous years. Twenty-five percent of amended returns received were processed within 75 calendar days of receipt. The remaining 75 percent of amended returns received on average were processed within 120 calendar days of receipt. For BE amended returns, FTB processed approximately 70 percent of these returns within 120 calendar days on average. In 2014, FTB will implement a fix to the payment issue; when FTB receives PIT amended payments both through web and paper, the payment will be held in suspense which will allow time for the amended return to be processed and the payment to be applied properly. We continue to look for ways to improve how we process amended returns. We currently support the ability for BEs to file amended returns electronically. Beginning in 2015, we plan to support the ability for PIT

amended returns to be filed electronically. Also, beginning in 2014, we will begin scanning amended returns which will eliminate the need for routing paper and will help streamline the process.

Regarding POAs and implementation delay of 2014 EDR enhancements to MyFTB Account, Mr. Sims responded that in regards to requesting taxpayer transcripts, FTB recommends two alternatives which will help expedite the process. First, utilize the self-service options on our website, using MyFTB Account. Second, if you are the taxpayer's authorized representative, call the Tax Practitioner Hotline and receive this information over the phone. If you prefer to receive this information in writing, the hotline can send you a tax computation for the taxpayer, within approximately ten working days.

There have been training issues identified with sending requested tax transcripts to the taxpayer, also issues such as the POA on file does not list the tax year for the information requested or FTB does not have a valid POA on file are other reasons a transcript may be requested. When FTB rejects a POA, staff sends a letter to the taxpayer informing them we rejected their POA and the reasons that caused the rejection. Because we cannot enter these POA forms into our system, we cannot contact the representative, but can only notify the taxpayer. It is the taxpayer's responsibility to contact their representative when they receive the rejection letter and correct the matter.

Please know that FTB has taken many steps in the last several years to improve understanding and help reduce the number of rejections. In addition, staff presented three POA Webinars in the last three years. Finally, FTB understands and agrees that early implementation of the enhancements originally scheduled for the External Taxpayer Folder in 2014 would help alleviate some of the POA workload issues and while it is necessary, FTB apologizes for the delay. FTB scheduled the deployment of the External Taxpayer Folder (External Folder) to occur in June 2015; however staff will begin internal security testing in September 2014 and then plan to request input from the tax practitioner community in May 2015."

Evaluating Franchise Tax Board Employees

In evaluating FTB employees, we continue to stress the importance of customer service. We evaluate employees on: 1) how well they provide quality customer service, while striving to exceed customers' expectations, 2) their treatment of taxpayers, and 3) providing accurate, timely, and complete assistance. We continue to reaffirm that employees are not to be evaluated based on the revenue they produce through additional tax assessments or collections.

Over the last few years, we have focused on several efforts to improve our evaluation process, including the following.

- In 2008, we focused on developing a plan to ensure all eligible employees received an annual performance appraisal by August 31 of each year. Since that time, the percentage of employees and supervisors who receive a required performance appraisal has risen to nearly 95 percent.
- In 2010, we concentrated our efforts on improving the communication process between supervisors and those employees evaluated and holding staff accountable for expected results/behaviors. These efforts included a presentation of training to all supervisors that focused on honest and respectful communication with staff which included conversations related to expectations and performance evaluations.
- Beginning in FY 2011/2012 and continuing through the FY 2013/2014, we are focusing on two areas:

1. FTB's Strategic Plan (2012-2016)

Two primary goals detailed in our Strategic Plan specifically address our desire to improve customer service and invest in our employees to build a stronger organization. Employee and supervisor performance in these areas are addressed in annual performance evaluations.

2. Improving the "Content" of Performance Evaluations

In 2013 we offered Performance Evaluation Refresher Training for supervisors and offered one-on-one sessions with those who wanted assistance. We offered the training again in 2014, and included training in another related area, Duty Statements, which gave supervisors the tools necessary for communicating expectations to their employees and then increasing empowerment and accountability at all levels.

Appendices

Appendix 1

All tables in Appendix 1 reflect tax increase assessments only. The assessments became final in FY 2013/2014. We may have issued the assessments in prior years; however, due to cases in protest status, we did not resolve them until FY 2013/2014. Appendix 1 totals reflect rounded figures and may not compute exactly.

Table 1A Corporation Tax Law					
NPAs Finalized in FY 2013/2014 Categorized by Primary Statute (issue)					
Issue	Number of NPAs		Tax Assessed (millions)		Average Assessment Per NPA
		%		%	
Allocation/Apportionment	579	29.3	\$ 316.5	80.7	\$ 546,689
Assess Minimum Tax	46	2.3	0.0	0.0	776
Revenue Agent Reports	1,068	54.1	43.5	11.1	40,726
State Adjustments	104	5.2	17.2	4.4	165,807
Other	176	8.8	14.5	3.7	82,531
Totals/Average	1,973	100	\$ 391.8	100	\$ 198,598

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

Table 1B Personal Income Tax Law					
NPAs Finalized in FY 2013/2014 Categorized by Primary Statute (issue)					
Issue	Number of NPAs		Tax Assessed (thousands)		Average Assessment Per NPA
		%		%	
CP2000	124,249	21.2	\$ 124,555	7.5	\$ 1,002
Filing Enforcement	373,072	63.7	1,175,032	70.9	3,150
Filing Status	25,538	4.4	26,081	1.6	1,021
Revenue Agent Reports	36,116	6.2	163,681	9.9	4,532
Other	26,848	4.6	169,016	10.1	6,295
Totals/Average	585,823	100	\$1,658,365	100	\$ 2,831

- 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 not filed a state income tax return after we notified them of their filing requirement.
- *Filing Status* primarily reflects notices issued due to head of household adjustments.

Table 2 **Corporation Tax Law**
Corporations by Industry with NPAs Finalized in FY 2013/2014

Industry	All Corporations 2012 Tax Year		Corporations with NPAs		Tax Assessed (millions)	
		%		%		%
F.I.R.E.*	133,110	17.0	128	11.3	\$ 67.5	17.2
Manufacturing	49,367	6.3	116	10.3	155.9	39.7
Services	336,726	43.0	234	20.8	21.0	5.3
Trade	151,603	19.3	142	12.6	43.1	11.0
Other **	113,248	14.4	505	44.8	104.3	26.6
Totals	784,054	100	1,125	100	\$ 391.8	100

* Finance, insurance, real estate, and holding companies.

** Includes agriculture, construction, utilities, transportation, communication, information, and other industries not classified in the sample.

For corporations not filing through a combined report, we base the industry designation on the corporation's primary business activity in California. In the case of corporations filing through combined reports, we base the industry designation on the primary occupation of the group, not necessarily on the industry of the parent. If the parent is a holding company of a diverse group of subsidiary corporations, then we group it with finance, insurance, real estate, and holding companies.

Tables 3A, 3B, and 4, apply to 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.

Table 3A **Corporation Tax Law**
NPAs Finalized in FY 2013/2014 Issued by Taxable Year

Average Taxable Year	Number of NPAs		Tax Assessed (millions)		Average Assessment Per NPA
		%		%	
2006 and prior	489	23.8	\$ 300.9	75.9	\$ 615,377
2007	203	10.2	44.5	11.3	219,427
2008	389	19.7	22.4	5.7	57,701
2009	511	25.8	13.8	3.5	26,939
2010	310	15.7	7.4	1.8	23,773
2011	61	3.0	1.9	0.4	31,282
2012 and later	10	0.5	0.9	0.2	88,072
Totals/Average	1,973	100	\$ 391.8	100	\$ 198,598

Table 3B **Corporation Tax Law**
Multiple NPAs Finalized in FY 2013/2014 for the Same Taxpayer

Corporations With...	Number of Taxpayers	Tax Assessed (millions)	Average Assessment Per Taxpayer
One NPA	586	\$ 57.8	\$ 98,681
Two NPAs	348	125.3	360,145
Three NPAs	125	106.5	852,350
Four or more NPAs	66	102.1	1,547,455
Totals/Average	1,125	\$ 391.8	\$ 348,296

Table 4 **Personal Income Tax Law**
NPAs Finalized in FY 2013/2014 Issued by Taxable Year

Taxable Year	Number of NPAs		Assessment Amount (thousands)		Average Assessment Amount
		%		%	
2007 and prior	4,299	0.7	\$ 161,291	9.7	\$ 37,518
2008	3,897	0.7	42,226	2.5	10,835
2009	106,703	18.2	201,231	12.1	1,886
2010	200,202	34.2	446,259	26.9	2,229
2011	153,134	26.1	502,466	30.3	3,281
2012 and later	117,588	20.1	304,893	18.4	2,593
Totals/Average	585,823	100	\$1,658,365	100	\$ 2,831

Table 5 **Personal Income Tax Law**
Resident Tax Return Preparation, Process Years 2012 and 2013

Preparer	2011 Tax Returns Processed (thousands)		2012 Tax Returns Processed (thousands)		% Change
		%		%	
Professional	10,510	70.0	13,340	87.8	17.8
Taxpayer	4,248	28.2	1,592	10.5	-17.7
VITA*	284	1.9	268	1.8	-0.1
Totals	15,042	100	15,120	100	

* Volunteer Income Tax Assistance is a program that provides tax return preparation assistance for seniors, disabled, non-English speaking, and those with limited or fixed incomes.

Table 6 **E-filing and Payment Statistics**

Activities	July 1, 2013	June 30, 2014	% Change
Credit Card Payments (average payment is \$1,181)	154,000	181,000	18
Direct Debit of Balance Due (electronic funds withdrawal)	505,000	609,000	21
Direct Deposit Refund	6,200,000	6,610,000	7
e-file	13,953,000	15,018,000	8
** CalFile	257,000	286,000	11
** Online Filing	3,351,000	3,692,000	10
** Business Entity	784,000	916,000	17

** We include these volumes in the e-file volume.

Table 7A **Corporation Tax Law**

Nonfilers Detected Through the Automated Nonfiler System

Fiscal Year	Demands	NPAs Issued
2008/2009	65,954	23,807
2009/2010	26,367	27,286
2010/2011	43,924	23,629
2011/2012	54,595	30,492
2012/2013	92,683	53,470
2013/2014	109,146	70,766

Table 7B **Personal Income Tax Law**

Nonfilers Detected Through the Automated Nonfiler System

Fiscal Year	Demands/Requests	NPAs Issued
2008/2009	1,222,050	849,650
2009/2010	1,243,842	706,104
2010/2011	1,067,776	774,627
2011/2012	1,043,258	689,165
2012/2013	1,003,994	625,018
2013/2014	900,194	579,296

Appendix 2

Table 8A **Top Errors by Tax Return Type**
July 1, 2013 through June 30, 2014

Code		Grand Total	540 2EZ	540	540 A	540 NR	540 X
EP	Estimate Payment Revised	177,878	1,745	158,367	326	17,341	99
DS	Deductions Revised	94,174	125	88,343	387	5,107	212
WS	Withhold at Source Revised	50,118	154	24,606	-	24,923	432
TC	Tax Amount Revised	36,513	209	29,487	294	5,442	1,081
AA	Adjusted Gross Income Revised	36,031	35,945	60	6	15	5
DI	Standard Deduction Allowed Because Greater Than Itemized Deduction Claimed	27,547	-	25,352	162	1,677	356
OC	Estimated Tax Transfer Revised: Error Affected the Available Transfer Amount	25,608	-	19,554	37	6,000	17
AW	Withholding Did Not Match Attachments	23,680	2,471	19,941	83	932	253
TT	Total Credits/Liability Revised	16,435	6,030	9,172	478	529	226
EX	Exemptions Revised	13,929	151	12,217	563	927	71
TY	Total Tax Revised - AGI, Filing Status, or Dependents	13,835	13,835	-	-	-	-
ND	California Taxable Income Revised	13,179	-	-	-	13,129	50
CT	CDC Credit Revised to Match Original Return	13,091	108	395	6	17	12,565
SS	State Disability Insurance Revised	13,051	-	12,534	72	333	112
OF	Refund Reported on Amended Return Does Not Match Original Return	12,497	469	3,135	40	336	8,517
OW	Withholding Reported on Amended Return Does Not Match Original Return	9,573	-	-	-	-	9,573
OM	Amount Paid With Original Return Plus Payments Made After Return Filed Does Not Match Amount Claimed on Amended Return	8,479	100	1,362	33	106	6,878
NP	Total Tax Ratio Calculated Incorrectly or Ratio Incorrectly Applied	7,734	-	*	-	7,724	9
AT	Withheld Tax Credit Disallowed; Withholding Documents Not Attached	5,522	423	3,179	28	1,731	161
RN	Nonrefundable Renter's Credit Revised; Wrong Amount Claimed for Filing Status, California AGI Over Maximum Amount, Part-Year Resident, or Nonresident	5,339	1,494	3,523	165	151	6

OA	Refund Revised, Total Payments and Credits Added or Subtracted Incorrectly From Total Tax	5,235	1,096	3,104	113	140	782
AR	Amended Return Filed With No Record of Original Return	2,471	-	*			2,469
TI	Taxable Income Revised	1,862	43	1,592	77	104	46
OB	Estimated Tax Payments Reported on Amended Return Do Not Match Original Return	1,824	252	1,343	32	47	150
EE	Senior Exemption Credit Revised to Correct Amount	1,681	299	1,220	23	139	-
NN	Total Tax Revised; California Tax Rate, California Credit Percentage, or California Exemption Credit Percentage Incorrectly Calculated; or Error Calculating/Transferring Tax on Schedule G-1, <i>Tax on Lump-Sum Distributions</i> or Form 5870A, <i>Tax on Accumulation Distribution of Trusts</i>	1,414	-	-	-	1,412	*
OP	Estimated Tax Payments Reported on Amended Return Do Not Match Original Return	1,174	8	257	4	29	876
	Other Paragraph Codes Not Listed	5,078	834	3,190	252	635	598
	Top Ten	501,913	63,807	399,573	2,571	84,486	43,529
	All Others	123,309	1,561	22,360	610	4,440	2,015
	Grand Total	624,952	65,368	421,933	3,181	88,926	45,544

*Reflects fewer than three tax returns.

Bold Text › Top ten codes issued by Tax Return Type.
 Light Text › Not top ten.

Table 8B **Top Errors by Filing Method**
July 1, 2013 through June 30, 2014

Code		Grand Total	Electronic	Paper
EP	Estimate Payment Revised	177,878	141,936	35,942
DS	Deductions Revised	94,174	70,530	23,644
WS	Withhold at Source Revised	50,118	35,798	14,320
TC	Tax Amount Revised	36,513	3,105	33,408
AA	Adjusted Gross Income Revised	36,031	8,860	27,171
DI	Standard Deduction Allowed Because Greater Than Itemized Deduction Claimed	27,547	13,633	13,914
OC	Estimated Tax Transfer Revised: Error Affected the Available Transfer Amount	25,608	18,837	6,771
AW	Withholding Did Not Match Attachments	23,680	13,546	10,134
TT	Total Credits/Liability Revised	16,435	737	15,698
EX	Exemptions Revised	13,929	1,027	12,902
TY	Total Tax Revised: AGI, Filing Status, or Dependents	13,835	329	13,506
ND	California Taxable Income Revised	13,179	3,954	9,225
CT	CDC Credit Revised to Match Original Return	13,091	45	13,046
SS	State Disability Insurance Revised	13,051	9,512	3,539
OF	Refund Reported on Amended Return Does Not Match Original Return	12,497	354	12,143
OW	Withholding Reported on Amended Return Does Not Match Original Return	9,573	-	9,573
OM	Amount Paid With Original Return Plus Payments Made After Return Filed Does Not Match Amount Claimed on Amended Return	8,479	98	8,381
NP	Total Tax Ratio Calculated Incorrectly or Ratio Incorrectly Applied	7,734	2,714	5,020
	Other Paragraph Codes Not Listed	31,600	4,966	26,634
Top Ten		501,913	319,711	203,551
All Others		123,039	10,270	91,420
Grand Total		624,952	329,981	294,971

Table Legend:

Bold › Top ten codes issued by Tax Return Type.

Appendix 3

Regulation Section 17942 – Limited Liability Company (LLC) Fees

For taxable years beginning on or after January 1, 2007, the legislature amended California Revenue and Taxation Code (R&TC) Section 17942 to modify the language of the statute and add a new provision. Section 17942 now provides that the LLC fee is based on total income from all sources attributable to or derived from California. In addition, the amended LLC fee statute provides that, “total income from all sources derived from or attributable to this state shall be determined using the rules for assigning sales under Sections 25135 and 25136 and the regulations thereunder, as modified by regulations under Section 25137, other than those provisions that exclude receipts from the sales factor.”

R&TC Sections 25135 and 25136 assign sales to the California numerator of the sales factor. Section 25135 assigns sales of tangible personal property and contains as its primary rule the assignment of the sale to California, if the property is delivered to a purchaser in this state. Section 25136 assigns all other sales, and its primary rule assigns sales on the basis of where the income-producing activity associated with that sale occurred. The regulations under Section 25136 also provide special rules for assigning specific items such as income from real property, which is assigned to the state where the real property is located.

The regulations adopted pursuant to R&TC Section 25137 provide specific apportionment rules for special industries, such as banks and financials, truckers, and franchisors. These regulations also provide specific sales factor rules for various types of income that are especially problematic. While the new LLC fee methodology utilizes the sales factor numerator rules to determine the total income assignable to California for purposes of the LLC fee calculation, the method is not the Uniform Division of Income Tax Purposes Act (UDITPA) apportionment method. There is no calculation of a factor, only the determination of whether a given item of income is assignable to California, using the sales factor numerator assignment mechanism. Both business and nonbusiness income from items are assigned using the sales factor rules. Once the total income of the LLC is assigned to the various states using this methodology, the fee is calculated based on the total income assignable to California.

On November 28, 2007, staff received authorization from the three-member Franchise Tax Board to proceed with an interested parties meeting to discuss what regulatory guidance (if any) should be provided regarding the use of this new assignment mechanism. Interested parties meetings were held on June 17, 2008, and November 19, 2010. Staff held a third interested parties meeting on October 4, 2011, to provide proposed language for public input. On March 8, 2012, the three-member Franchise Tax Board approved staff’s recommendation to proceed with the formal regulatory process, as required under the Administrative Procedure Act. As required by Government Code Section 11346.4, staff mailed and published a public notice on February 7, 2014, to announce that a public hearing would be held if requested by an interested person at least 15 days prior to the close of the comment period of March 27, 2014. There were no requests for a hearing made. The final regulations were filed by the Office of Administrative Law with the Secretary of State on May 14, 2014.

Regulation Section 18416.5 – Alternative Communication Method

The Franchise Tax Board (FTB) is considering an alternative communication method authorized under R&TC Section 18416.5. At the request of the taxpayer or the taxpayer’s authorized representative, Section 18416.5 allows FTB to provide notification to the taxpayer in a preferred electronic method. The taxpayer designates their preference so their notice, statement, bill, or other communication is available

for viewing in the taxpayer's limited-access secure folder on the FTB Internet website. This alternative communication method also allows the taxpayer or the taxpayer's authorized representative to electronically file a protest, notification, and/or other communication to FTB in a secure manner.¹

FTB's electronic notifications under the alternative communication method shall be treated as if it were mailed by United States mail, postage prepaid, notwithstanding any other law regarding the use of United States mail, pursuant to R&TC Section 18416.5, subdivision (d). This treatment applies to any notice, statement, bill, protest, and/or other communication from FTB to a taxpayer or the taxpayer's authorized representative and from a taxpayer or the taxpayer's authorized representative to FTB pursuant to the alternative communication method authorized by this proposed regulation.

On December 1, 2011, staff received authorization from the three-member Franchise Tax Board to proceed with an interested parties meeting to discuss alternative communication methods under R&TC Section 18416.5. An interested parties meeting was held on March 14, 2014. Comments were received, draft language was published and public input was requested on the draft language. A second interested parties meeting was held on August 27, 2014, to elicit input and discussion of the draft language. Staff anticipates holding a formal regulatory hearing as required under the Administrative Procedure Act sometime in the fall of 2014.

Regulation Sections 18662-0 Through 18662-8 and 19002 – Withholding at Source

Withholding at Source is an essential part of the department's tax gap compliance initiative. Withholding's "pay as you go" process helps taxpayers by ensuring that tax is collected as income is received. It helps the state to ensure that tax is paid as it is incurred on specific transactions, encouraging taxpayers to file tax returns at the end of the year.

California law requires FTB to issue regulations to implement the withholding at source statutory requirements (R&TC Section 18662, subdivision (a)). These regulations have not been updated in many years, and do not currently reflect statutory and other changes affecting the withholding statutes themselves. They were written at a time when electronic filing and payment were not available, and also need to be updated to align these filing and payment procedures with modern practices.

The text of the existing regulations has been rewritten and reorganized into a simpler, more descriptive order. The revised text contains a table of contents, and the draft regulations begin with the definitions and general rules applicable to all withholding at source, then provide specific guidance for the two major withholding areas that FTB administers: Real Estate Withholding and Withholding on Payments (Nonresident Withholding).

On June 27, 2007, staff received authorization from the three-member Franchise Tax Board to proceed with an interested parties meeting to discuss the draft proposed regulations and instructions to reflect current statutory requirements under R&TC Section 18662. An interested parties meeting was held August 13, 2007. Three comments were received. On November 28, 2007, staff received approval to commence a formal regulatory project, as required under the Administrative Procedure Act, from the three-member Franchise Tax Board; however, staff felt it would be necessary to hold a second interested parties meeting which was held on July 14, 2011. On December 1, 2011, the three-member Franchise Tax Board approved staff's recommendation to proceed with the formal regulatory process, as required under the Administrative Procedure Act. As required by Section 11346.4 of

¹ Notices, statements, bills, and other communications required or authorized under Part 10 (commencing with Section 17001), Part 10.2 (commencing with Section 18401), or Part 11 (commencing with Section 23001)

the Government Code, staff mailed and published a public notice on February 15, 2013, to announce a public hearing would be held on April 4, 2013, to consider, within California Code of Regulations, title 18 the following proposed regulatory revisions and additions: (a) the adoption of Regulation Section 18662-0, (b) the amendment of Regulation Sections 18662-1 through 18662-8, (c) the repeal of existing Regulation Section 18662-7 and reservation of it for future use, (d) the repeal of existing Regulation Sections 18662-11 through 18662-14, and (e) the amendment and renumbering of Regulation Section 25401b to Regulation Section 19002. There were eight attendees at the hearing and oral testimony was received from four individuals. As a result of comments received at the oral hearing, as well as further review by staff, nonsubstantial, sufficiently-related changes (within the meaning of Government Code Section 11346.8) were made to the above-described rulemaking action. These proposed changes were noticed in a 15-day change notice mailed on December 31, 2013. No comments were received regarding the 15-day regulatory changes, so no further changes were made. The final approved regulations were filed by the Office of Administrative Law with the Secretary of State on March 10, 2014.

Regulation Section 19266 – Financial Institutions Record Match (FIRM)

The Financial Institution Record Match (FIRM) program was enacted March 24, 2011 (SB 86, Stats. 2011, Ch. 14). Sections 19266 and 19560.5 were added to the Revenue and Taxation Code, which authorizes FTB to match FTB tax and FTB collected nontax debtor files referred to FTB for collection (collectively, “delinquent debtor files”) against accounts held at financial institutions (banks, credit unions, insurance and brokerage companies) doing business in California.

On July 25, 2011, FTB hosted a FIRM Advisory Workshop. The invitees included the financial institution trade associations. The purpose of this workshop was to obtain input from the financial institutions as to the steps FTB is taking to implement the FIRM statutory provisions and to mitigate potential impacts to the financial institutions. FTB provided the Advisory Workshop participants with the draft FIRM documents to review and provide feedback.

On August 16, 2011, FTB held the first interested parties meeting to discuss FIRM processes, procedures, and the necessary components of the FIRM regulations. A second interested parties meeting was held on September 27, 2011, to solicit public input on the draft regulations. On December 1, 2011, the three-member Franchise Tax Board approved staff’s recommendation to proceed with the formal regulatory process, as required under the Administrative Procedure Act. As required by Government Code Section 11346.4, staff mailed and published a public notice on January 18, 2013, to announce that a public hearing would be held on March 27, 2013. No comments were made at the public hearing and no other written comments were received. A 15-day notice of proposed changes to the regulation based upon staff’s proposals was published on December 6, 2013. No written or oral comments were received with respect to that 15-day notice. The final approved regulations were filed by the Office of Administrative Law with the Secretary of State on February 20, 2014.

Regulation Section 19322 – Refund Claim

In 1993, SB 3 added Section 19322 to the Revenue and Taxation Code by consolidating separate sections that previously were in the Personal Income Tax Law and the Corporation Tax Law into this new section. This section provides that all claims for refund must be made in writing and be signed by the taxpayer or the taxpayer’s representative. Section 19322 further mandates that all claims for refund state the specific grounds upon which the claim is based.

The current claim for refund Regulation Section 19322 provides requirements for the manner of filing refund claims, grounds that must be set forth in refund claims, and information regarding the oral hearing process. The current rulemaking project proposes regulatory amendments to update current Regulation Section 19322. The potential amendments to the existing regulation aim to clarify the manner of filing refund claims both to make clear the preference for claims to be reported on the prescribed amended tax return form and also to encompass electronic means of filing claims which may become available in the future. Additionally, the potential amendments seek to clarify the grounds that must be set forth in a valid refund claim both through additional specific language in the regulation and through the use of examples of valid and invalid claims. Finally, the regulation seeks to clarify the oral hearing process available to taxpayers for their claims for refund.

On December 4, 2008, staff received authorization from the three-member Franchise Tax Board to proceed with an interested parties meeting to discuss proposed amendments to the existing regulations for R&TC Section 19322. An interested parties meeting was held on December 3, 2010. Staff anticipates holding a second interested parties meeting sometime in the spring or summer of 2015.

Regulation Section 21019 – Liens Filed in Error

FTB is considering the adoption of a new regulation that would authorize and establish specific procedures under which FTB staff could release a lien under the discretionary language in R&TC Section 21019, subdivision (f). That subdivision provides, in pertinent part, that FTB “may release a lien under any circumstances to facilitate the collection of the tax liability or, if that release is in the best interest of the taxpayer and the state, and take any action associated with the release of that lien it deems appropriate.” Staff anticipates that any such proposed regulation would include provisions under which staff would release such liens with a statement that the released lien should be treated as though it was filed or recorded in error.

This proposed rulemaking action is not intended to address the mandatory release situations described in R&TC Section 21019, subdivisions (c) and (d), relating to liens filed either not in accordance with administrative provisions, or after the taxpayer has entered into an installment payment agreement under R&TC Section 19008.

On December 4, 2013, staff received authorization from the three-member Franchise Tax Board to proceed with an interested parties meeting. An interested parties meeting was held on February 14, 2014. Comments were received. Staff anticipates holding a second interested parties meeting in the fall of 2014 or the spring of 2015.

Regulation Section 23663 – Assignment of Credits to Combined Group Members

R&TC Section 23663 permits the assignment of credits among affiliated members of the same combined reporting group. R&TC Section 23663 was added by Section 10 of AB 1452 (Stats. 2008, Ch. 763) and is specifically operative for assignments made in taxable years beginning on or after July 1, 2008, and first permits assigned credits to be claimed against the “tax” of the assignee in taxable years beginning on or after January 1, 2010.

An assignment is made as an election on a taxpayer’s original tax return on the Form FTB 3544 and is irrevocable under R&TC Section 23663, subdivision (c). In some situations taxpayers have made defective elections, such as when the total credits available to be assigned are less than the assignor contemplated when the original tax return was filed, or an assignee was not a member of the same combined reporting group on the required dates. Because the assignment election is irrevocable, taxpayers are left with no clear recourse to fix such defective elections, and the department has not yet established any standards to apply in adjusting such defective elections.

Under R&TC Section 23663, subdivision (e), paragraph (4), the Franchise Tax Board is specifically authorized to issue necessary regulations to specify the treatment of any assignment that does not comply with the requirements of Section 23663, including where the taxpayer and assignee are not members of the same combined reporting group on the dates required.

On June 7, 2012, staff received authorization from the three-member Franchise Tax Board to proceed with an interested parties meeting. An interested parties meeting was held on October 1, 2012, to elicit public input on a proposed regulation which would authorize and establish specific procedures under which taxpayers may request that Franchise Tax Board staff permit the correction of defective elections, and identify general standards under which staff would review requests for the correction of a defective election, including examples of situations where such requests may or may not likely be granted following staff review. A second interested parties meeting was held on December 5, 2013, for discussion that would establish default rules regarding the allocation of credits in the case of defective elections under this section. The regulation would also authorize and establish procedures for alternative allocations and corrections for certain defective elections. A third interested parties meeting was held on June 12, 2014, to discuss proposed regulations which would define a defective assignment and provide rules for the treatment of defective assignments. Specifically, the draft language would provide default rules for the allocation of credits that are the subject of defective assignments, alternative allocations that are available before first contact and corrections of errors that are available before the filing of the subsequent year's tax return. These rules provide certainty for taxpayers as to the availability of credits that were the subject of a defective assignment. Staff anticipates holding a formal regulatory hearing under the Administrative Procedure Act sometime in the spring of 2015.

Regulation Section 24465-3 – Transfer of Appreciated Property to an Insurer

In 2004, the legislature passed and the Governor signed AB 263, which added Section 24465 (and other provisions) to the R&TC. This section would, in connection with specified exchanges, provide that if a taxpayer transfers property to an insurer, the insurer shall not, for purposes of gain recognition, be considered to be a corporation for purposes of the Corporation Tax Law.

On March 8, 2011, staff held an interested parties meeting to discuss proposed regulations to implement specific subdivisions of R&TC Section 24465. A second interested parties meeting was held on March 29, 2012, to discuss proposed language under subdivision (c) of R&TC Section 24465 (Annual Statement) and the economic impact, if any, of the proposed language. On September 5, 2012, the three-member Franchise Tax Board approved staff's recommendation to proceed with the formal regulatory process, as required under the Administrative Procedure Act. As required by Government Code Section 11346.4, staff mailed and published a public notice on June 27, 2014, to announce that a public hearing would be held if requested by an interested person at least 15 days prior to the close of the comment period of September 11, 2014. There were no requests made. Staff plans on submitting the final regulations to the Office of Administrative Law in October or November 2014.

Regulation Section 25106.5-1 – Intercompany Transactions

During 1999, the Franchise Tax Board promulgated California Code of Regulations, Title 18, Section 25106.5-1, which addresses the treatment of intercompany transaction in a combined report context occurring on or after January 1, 2001. Regulation Section 25106.5-1 generally follows the federal consolidated intercompany regulations (Treasury Regulation Section 1.150-2-13 et seq.) with respect to many of the issues in those regulations, but because income is not

apportioned for federal purposes, Regulation Section 25106.5-1 also provides applicable apportionment rules.

For income tax purposes, gain or loss from intercompany transactions is ordinarily deferred until there is a triggering event, such as the sale of the deferred item outside the group to a third party. Notwithstanding this general principle, both the California and federal intercompany regulations allow taxpayers in specified circumstances to elect to account for their income or loss from intercompany transactions on a “separate entity” basis. This election allows current recognition of income or loss from intercompany transactions. The election is governed by Regulation Section 25106.5-1, subsection (e), for California tax purposes and Treasury Regulation Section 1.1501-13, subsection (e)(3), for federal tax purposes.

Both the California and federal regulations include “simplifying rules” provisions. This election is included within those “simplifying rules.” Regulation Section 25106.5-1, subsection (e), authorizes federal “separate entity” elections to be effective for California tax purposes. Even in situations in which the taxpayer has not made a federal “separate entity” election, taxpayers can elect to recognize intercompany income or loss on a separate entity basis as long as they have “properly reported” the intercompany income or loss on a separate entity basis for federal or foreign national tax purposes.

Questions have arisen regarding the proper sales factor treatment of intercompany transactions that are recognized on a separate entity basis due to the above described election. Some taxpayers have suggested that because the election results in current income recognition from intercompany transactions, as opposed to the normal scheme of deferral, that the sales factor for the year of election should contain the gross receipts related to the income recognized currently due to the election, which results in a higher sales factor denominator and reduced California apportioned income. Staff believes that it is prudent to clarify that a Regulation Section 25106.5-1, subsection (e), election does not allow taxpayers to include intercompany transaction receipts in their sales factor denominator in the year of election. Instead, receipts are only included in the sales factor when the intercompany items are sold to third parties, giving rise to economic gain or loss to group as a whole. If intercompany receipts were to be recognized currently due to the election, the receipts that arise when the items are eventually sold outside the group would result in a double count of the actual economic activity in the sales factor. Furthermore, inclusion in the sales factor in the current year due to a subsection (e) election is inconsistent with Regulation Section 25106.5(a)(5)(A) and (a)(5)(B).

On December 3, 2009, staff received permission from the three-member Franchise Tax Board to hold an interested parties meeting to discuss possible amendments to Regulation Section 25106.5-1 to provide further guidance in two areas and to address conformity with federal laws. Staff held an interested parties meeting on April 21, 2010. Comments were received. A second interested parties meeting was held on September 22, 2010, to discuss proposed amendments to the regulation. On August 16, 2011, staff held a third interested parties meeting to discuss proposed amendments to the Deferred Intercompany Stock Account (DISA) provisions to provide additional guidance to the taxpayers. On December 1, 2011, the three-member Franchise Tax Board approved staff’s recommendation to proceed with the formal regulatory process, as required under the Administrative Procedure Act. As required by Government Code Section 11346.4, staff mailed and published a public notice on April 26, 2013, to announce that a public hearing would be held on July 25, 2013. There were three comments received at the hearing. As a result of the hearing, a 15-day notice was issued. There were no comments or requests made during the 15-day comment period. The final approved regulations were filed by the Office of Administrative Law with the Secretary of State on January 8, 2014.

Regulation Section 25136-2 – Market-Based Rules for Sales Factor

For taxable years beginning on or after January 1, 2011, R&TC Section 25136 provides the sales factor numerator assignment rules for all sales other than sales of tangible personal property. R&TC Section 25136, subdivision (b), provides the market-based rules for assignment of sales of other than sales of tangible personal property where taxpayers have made a single-sales factor election.

California Code of Regulations, Title 18, Section 25136-2, which became effective on March 27, 2012, and operative for taxable years beginning on or after January 1, 2011, provides cascading rules for sales of services and sales of intangible property. In those rules, there are specific provisions for assignment of sales of stock or interests in a pass-through entity and for the incorporation of the special industry rules under California Code of Regulations Section 25137, including those for mutual fund providers under California Code of Regulations Section 25137-14. Currently, there are no provisions for assignment of dividends under California Code of Regulations Section 25136-2.

On December 1, 2011, staff received permission from the three-member Franchise Tax Board to hold an interested parties meeting to address certain sales of services and intangible property which were not addressed in the proposed language of California Code of Regulations Section 25136-2. Specifically, possible amendments include situations involving sales in connection with asset management services, dividends, and reasonable approximation of the factor information of the underlying corporation where the taxpayer does not have the factor information. Staff held an interested parties meeting on March 29, 2012. Comments were received. A second interested parties meeting was held on October 18, 2013, to discuss proposed amendments to the regulation. On July 8, 2014, staff held a third interested parties meeting to discuss issues that were not discussed at the first or second interested parties meetings; primarily a market-based approach for assignment of sales other than sales of tangible personal property to the sales factor. Staff anticipates holding a formal regulatory hearing sometime in the spring of 2015.

Regulation Section 25137-1 – Apportionment and Allocation of Partnership Income

When a taxpayer subject to the Corporation Tax Law is a partner in a partnership as defined in R&TC Section 17008, the computation of its distributive share of partnership items is determined in accordance with Chapter 10 of Part 10 of Division 2 of the Revenue and Taxation Code. The portion of such distributive share (constituting business and nonbusiness income) that has its source in this state, or that is included in the taxpayer's business income, is determined in accordance with California Code of Regulations, Title 18, Section 25137-1 (the "partnership regulation"), which was first promulgated in 1972 and last amended in 1985.

The partnership regulation has generally functioned well over the years, but the passage of time has rendered some of its provisions out-of-date and new business models have arisen that the regulation does not address. For these reasons, FTB staff has studied the regulation and identified several issues that it believes should give rise to consideration of amending the regulation.

On November 28, 2007, staff received permission from the three-member Franchise Tax Board to hold an interested parties meeting to address numerous issues identified by staff. An interested parties meeting was held on September 19, 2008. A second interested parties meeting was held on October 18, 2013, to discuss proposed amendments to the regulation. On July 8, 2014, staff held a third interested parties meeting to discuss a discussion draft and get input on any other issues that might need to be addressed. Staff anticipates holding a formal regulatory hearing sometime in the spring of 2015.

**The Taxpayers' Rights Advocate's Office**

works with Franchise Tax Board's program areas to ensure taxpayers' rights are protected. We identify systemic problems and find solutions in a cooperative effort while protecting taxpayers' rights and recognizing the goals of our Audit, Collections, and Filing programs. We also coordinate the resolution of taxpayer complaints and problems, including complaints regarding unsatisfactory treatment of taxpayers by employees. We promote integrity and responsibility so that our customers can rely on quality information and efficient service.

