

**STATE OF CALIFORNIA  
FINANCE LETTER PROPOSAL - COVER SHEET  
FOR FISCAL YEAR 2008/09  
DF-46 (REV 07/06)**

**Department of Finance  
915 L Street  
Sacramento, CA 95814  
IMS Mail Code: A-15**

FL # FL #5	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

**TITLE OF PROPOSED CHANGE:**

Additional Revenue Agents Report (RAR) Workload

**SUMMARY OF PROPOSED CHANGE:**

The Franchise Tax Board is requesting funding of \$2.2 million and 31.5 positions in FY 2008/09 to address workload growth backlogs and anticipated increases in RAR workloads. This proposal will result in an estimated \$27 million in cash revenue in 2008/09 and \$38.4 million in 2009/10.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE <input type="checkbox"/> ONE-TIME COST <input type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input checked="" type="checkbox"/> REVENUE
--	-------------------------------------	--

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY CHIEF OF STAFF:	DATE

*Pending Approval*

DOES THIS BCP CONTAIN INFORMATION TECHNOLOGY (IT) COMPONENTS? YES  OR NO   
IF YES, DEPARTMENTAL CHIEF INFORMATION SIGNATURE DATE

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

DATE PROJECT # FSR  OR SPR

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

YES  
 NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

**DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)**

CAPITAL OUTLAY  OTROS  FSCU  OSAE  CALSTARS

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:



			<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
<b>TOTAL OPERATING EXPENSES AND EQUIPMENT</b>			\$ 0	\$ 190,000	\$ 105,000
<b>SPECIAL ITEMS OF EXPENSE d/</b>			\$ 0	\$ 0	\$ 0
<b>PROGRAM ADMINISTRATION</b>			\$ 0	\$ 0	\$ 0
<b>Distributed Admin</b>			\$ 0	\$ 0	\$ 0
<b>TOTAL STATE OPERATIONS EXPENDITURES</b>			\$ 0	\$ 2,231,000	\$ 2,146,000
<b><u>Source of Funds</u></b>	<b><u>Appropriation No.</u></b>				
	Org - Ref - Fund				
General Fund	1730 001 0001		\$ 0	\$ 2,231,000	\$ 2,146,000
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
Reimbursements	1730 501 0995		0	0	0
<b>Totals</b>			\$ 0	\$ 2,231,000	\$ 2,146,000
<b>LOCAL ASSISTANCE</b>			\$( 0)	\$( 0)	\$( 0)
<b><u>Source of Funds</u></b>	<b><u>Appropriation No.</u></b>				
	Org - Ref - Fund				
General Fund	1730 001 0001		\$ 0	\$ 0	\$ 0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
Reimbursements			0	0	0
<b>Totals</b>			\$ 0	\$ 0	\$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

**DETAIL OF STAFF BENEFITS  
AND PERSONAL SERVICES**

Positions	<u>Positions</u>			<u>Salary Range</u>	<u>Amount</u>		
	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
	2007/08	2008/09	2009/10				
<b>Administrative Services Division</b>							
Personnel Specialist - Rg B PERM	0.0	1.0	1	\$ 2,993 \$ 3,640	\$ 0	\$ 40,000	\$ 40,000
Student Assistant - Rg D TEMP	0.0	0.5	0.5	\$ 1,799 \$ 1,941	\$ 0	\$ 11,000	\$ 11,000
Total Administrative Services Division	.0	1.5	1.5		\$ 0	\$ 51,000	\$ 51,000
Adjust for Part Year Positions	.0	.0	.0				
Net Positions/ PYs before salary savings	.0	1.5	1.5				

**Audit Division**

Tax Technician, Ftb - Rg B	OT						\$	0	\$	200,000	\$	200,000
Assoc Tax Auditor	PERM	0.0	1.0	1.0	\$ 4,619	\$ 5,897	\$	0	\$	63,000	\$	63,000
Tax Program Tech II,Ftb	PERM	0.0	2.0	2.0	\$ 2,950	\$ 3,588	\$	0	\$	78,000	\$	78,000
Tax Technician, Ftb - Rg B	PERM	0.0	13.0	13.0	\$ 2,817	\$ 3,426	\$	0	\$	487,000	\$	487,000
Tax Program Tech I, Ftb	PERM	0.0	8.0	8.0	\$ 2,638	\$ 3,209	\$	0	\$	281,000	\$	281,000
Total Audit Division		.0	24.0	24.0			\$	0	\$	1,109,000	\$	1,109,000
Adjust for Part Year Positions		.0	.0	.0								
Net Positions/ PYs before salary savings		.0	24.0	24.0								

**Filing Division**

Key Data Operator - Rg B	TEMP	0.0	0.5	0.5	\$ 2,450	\$ 2,975	\$	0	\$	16,000	\$	16,000
Tax Program Assistant - Rg B	TEMP	0.0	0.5	0.5	\$ 2,074	\$ 2,519	\$	0	\$	14,000	\$	14,000
Total Filing Division		.0	1.0	1.0			\$	0	\$	30,000	\$	30,000
Adjust for Part Year Positions		.0	.0	.0								
Net Positions/ PYs before salary savings		.0	1.0	1.0								

**Technology Services Division**

Staff Info Sys Analyst Spec	PERM	0.0	4.0	4.0	\$ 5,065	\$ 6,466	\$	0	\$	277,000	\$	277,000
Staff Prog Analyst Spec	PERM	0.0	1.0	1.0	\$ 5,065	\$ 6,466	\$	0	\$	69,000	\$	69,000
Total Technology Services Division		.0	5.0	5.0			\$	0	\$	346,000	\$	346,000
Adjust for Part Year Positions		.0	.0	.0								
Net Positions/ PYs before salary savings		.0	5.0	5.0								

**Total Salaries and Wages**

Positions		.0	31.5	31.5			\$	0	\$	1,536,000	\$	1,536,000
Part Yr Adj		.0	.0	.0								
P.Y.s		.0	31.5	31.5								

**Schedule of Staff Benefits Costs  
FOR FISCAL YEAR 2008/09**

**Staff Benefits**

	2007/08	2008/09	2009/10
OASDI /1	\$ 0	\$ 90,000	\$ 90,000
Dental /2	0	15,000	15,000
Health /3	0	219,000	219,000
Retirement /4	0	205,000	205,000
Vision /5	0	4,000	4,000
Medicare /6	0	21,000	21,000
Worker's Comp /7	0	10,000	10,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	3,000	3,000
Unemployment Insurance /10	0	2,000	2,000
Total Staff Benefits	\$ 0	\$ 569,000	\$ 569,000

1/ For permanent and overtime, 6.2% of net salary.

2/ For permanent, \$545 per net personnel year.

3/ For permanent, \$7,711 per net personnel year.

4/ For permanent, 16.633% of net salary.

5/ For permanent, \$110 per net personnel year.

6/ 1.45% of net salary for permanent.

7/ 0.8% of net salary for permanent.

8/ 0.05% of net salary for permanent.

9/ 0.21% of net salary for permanent.

10/ 5.68% of net salary for temporary help.

**FRANCHISE TAX BOARD  
Fiscal Year 2008/09**

**Finance Letter**

**Additional Revenue Agents Report (RAR) Workload**

**FL No. 5**

**DATE: February 22, 2008**

**A. NATURE OF REQUEST**

The Franchise Tax Board is requesting funding of \$2.2 million and a total of 31.5 positions (29.9 PYs) for fiscal year 2008/09 to address higher volumes of Federal Audit Revenue Agent Reports (RARs) being received from the Internal Revenue Service (IRS). These additional workloads have already created a backlog of RAR audit cases above the 4:1 BCR, which is continuing to grow. In addition, the program has identified cases above the 3:1 Benefit to Cost Ratio (BCR), which can be worked to provide additional revenue.

This proposal would provide one-time funding to address the backlogs already being experienced by the program and provide ongoing resources to address the continuing increases. These workloads would result in an estimated \$45 million in new assessments in 2008/09 increasing to \$64 million in new assessments in 2009/10 and thereafter. General fund cash benefits are estimated to be \$27 million and \$38.4 million respectively.

**B. BACKGROUND/HISTORY**

FTB's Audit Program is responsible for conducting examinations of taxpayer income tax returns in order to determine the propriety of self-assessed tax liabilities, for issuing notices of proposed changes to those taxpayers where appropriate, and for resolving taxpayer disputes which arise from the proposed changes. The Audit Program accomplishes this by reviewing taxpayer records and/or third party information and communicating with taxpayers by correspondence, office interviews, hearings and taxpayer business site visits.

The Audit Program benefits the state in several ways:

- Provides an audit presence in which the capacity to issue assessments and penalties discourages non-compliance,
- The enforcement of tax law secures additional tax revenues needed to fund state operations,
- Auditing provides self-compliant taxpayers with assurance that everyone with a valid tax liability pays their fair share for government services, and
- Seeking cost-efficient programs to augment State general fund revenues.

## Federal Audits

The Audit Division Fed/State program utilizes RARs from the IRS, modified to reflect California differences as the basis for audit assessments. The RAR workload utilizes automated technology and paraprofessional classifications to provide revenue at a relatively low cost.

The program is experiencing a growth in the number of RARs from the Internal Revenue Service (IRS) due to two primary factors:

- IRS has already increased the number of audits of high-income taxpayers. Audits of taxpayers making \$100,000 or more rose 14% last year from 2006. Audits of taxpayers making over \$200,000 rose 29%, and those of taxpayers with incomes of over \$1 million increased by over 84%. Overall, the number of individual income-tax audits reached a 10-year high in 2007.
- The IRS plans to further increase the number of audits this year with the hiring of additional Revenue Agents. These increases will result in more federal audit information coming into California.

The increases in 2007 have already translated into backlogs for FTB's RAR program above the 4:1 BCR. These backlogs can be addressed with overtime during the 2008/09 fiscal year. In addition to the backlogs, the program proposes to address the ongoing increases over 4:1 BCR as well as workloads at the 3:1 BCR. This increase in the number of Federal Audit Reports received and working to the 3:1 BCR will provide \$61.5 net assessments annually and \$37 million in additional ongoing cash revenue.

## Automated Audit

The Automated Audit Program audits personal income taxpayers with targeted statutory issues and single-issue correspondence audits.

The program has identified additional cost effective single-issue audits by working lower BCR 3:1 workload. The increased budgeted workloads will produce \$2.5 million in net assessments and \$1.5 million in additional ongoing cash revenue.

## **C. STATE LEVEL CONSIDERATIONS**

While the additional revenue that this proposal generates could affect programs in other State Agencies, the implementation itself will not have a direct impact.

## **D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS**

The Audit Program has sufficient space in the central office to accommodate the additional staff.

## **E. JUSTIFICATION**

This budget change proposal will produce cash revenue benefits of \$38.4 million by FY 2009/10 and fully supports the department's mission of collecting the proper amount of tax revenue at the least cost. In addition, it supports the department's Strategic Goal #2 of increasing fairness and compliance with tax laws by helping to ensure that all taxpayers pay their fair share of taxes through means that are fair and equitable.

This proposal will also provide an increased audit presence, which discourages non-compliance, and helps to provide assurance to self-compliant taxpayers that everyone with a valid tax liability pays their fair share for government services.

## **F. OUTCOMES AND ACCOUNTABILITY**

Production workloads for these audits fall under the direction of the Audit Division Chief. Ensuring that appropriate funds are available to pay staff and support costs is the responsibility of the Department's Chief Financial Officer.

## **G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES**

**Alternative 1: Augment the Audit Program by 31.5 positions (29.9 PYs) and \$2.2 million to generate an additional \$38.5 million in cash revenues annually in the Fed/State and Automated Audit programs.**

This augmentation will maximize cost effective revenue sources bringing in \$27 million in cash to the General Fund in 2008/09 and \$38.5 million annually thereafter by addressing both additional growth in the 4:1 and above BCR workloads and identified 3:1 BCRs in these workloads. The table below demonstrates the ongoing benefits broken out by BCR.

BCR	Volume	Direct Hrs	Audit Assessments 2009/10	Cash Revenue 2009/10
3:01	16,015	16,204	\$8,248,837	\$4,949,302
4:01	27,734	15,674	\$55,766,594	\$33,459,956
Total	43,749	31,878	\$64,015,431	\$38,409,259

**Alternative 2: Augment the Audit Program by 26.5 positions (25.1 Pys) and \$1.8 million to address only the 4:1 and above workload growth in the Fed/State program. This would generate an additional \$33.5 million in cash revenues annually. (see above table)**

This alternative would still generate the majority of the proposed increased revenue at a relatively low cost but would not include a 3:1 budgeted workload.

**Alternative 3: Provide no additional funding and continue with current staffing.**

Do not provide additional resources. The Audit Program would continue to operate with current level of resources and work discretionary workloads without the anticipation of increased revenues.

**H. TIMETABLE**

Implement the resources identified within this proposal on July 1, 2008.

**I. RECOMMENDATION**

Alternative #1 is recommended. This alternative provides the funding necessary to maximize the revenue increases to the General Fund, providing \$27 million in 2008/09 and \$38.5 million in 2009/10 and subsequent fiscal years. In addition, this alternative allows FTB to continue to maximize revenues at lower costs, provide an increased audit presence to discourages non-compliance, helps to provide assurance to self-compliant taxpayers that everyone with a valid tax liability pays their fair share for government services, and efficiently and effectively carries out the administration of tax laws.