



STATE OF CALIFORNIA  
**FRANCHISE TAX BOARD**  
PO Box 115  
Rancho Cordova, CA 95741-0115  
Telephone (916) 845-4543  
FAX (916) 845-3191

STEVE WESTLY  
Chair  
CAROLE MIGDEN  
Member  
DONNA ARDUIN  
Member

## MEMORANDUM

To: Gerald H. Goldberg May 26, 2004  
From: Titus S. Toyama  
Subject: Legislature Issues and Potential Impact to FY 2004-05 Budget

The following Issues / Actions were identified by the LAO or by the respective Legislative Budget Committee and may potentially impact the FTB's FY 2004-05 Budget.

### **District Office Consolidations**

This issue was recommended by the LAO as a cost cutting measure and was approved by the Senate and Assembly Budget Subcommittees. The initial cost to close the offices is \$44,000 in FY 2004-05 and \$821,000 in FY 2005-06. Beginning in FY 2007-08 it is estimated that the annual savings from closing these offices will be \$520,000.

As a result of the consolidation the following offices will be closed and staff relocated: Bakersfield, Fresno, Long Beach, San Bernardino, Santa Rosa, Stockton, and Ventura. One office will be added in Los Angeles. Public counter service will be provided at the Los Angeles Collections office, Sacramento, Oakland, San Diego, Santa Ana, and San Francisco offices. In addition to the public counter offices listed above, there will continue to be offices located in San Jose, Van Nuys, and West Covina.

Please refer to the Attachments 1 – 5 for more detail.

The following three issues will be heard in conference committee with the potential of two of the three impacting the department's 2004-05 budget.

### **Fees for Services**

The LAO recommended that the FTB begin charging fees to individuals and businesses for various services that are currently provided free of charge. Trailer Bill Language is required to implement several of the fees. If approved, the fees would result in a fund shift from the General Fund to reimbursements. The Assembly Budget Subcommittee approved the fees except for the Tax Practitioner Hotline fee. These approved fees would result in a General Fund savings of \$3.1 million. The Senate Budget Subcommittee rejected the entire fee proposal.

The FTB has indicated to both the Legislative Budget Committees and to the Department of Finance that the fee proposals cannot be implemented by the beginning of FY 2004-05 in order to achieve fee revenues totaling \$3.1 million. The department has also expressed concerns that the IT changes needed to implement the fee proposal could impact the Tax Amnesty proposal which also requires significant IT changes. In addition, the department

has reservations that the proposed fee for installment agreements will work against the intent of the Tax Amnesty program in regards to voluntary compliance.

Please see Attachment 6 for schedule of proposed fees.

### **Abusive Tax Shelters – Backfill of Redirected Audit Positions and Additional Consultant Services**

At the request of the Assembly Budget Subcommittee, the FTB identified additional revenue to be gained if additional resources were provided. These resources would be used for additional consultant services related to abusive tax shelters and for additional funding needed to backfill audit positions that have been redirected to work on abusive tax shelter cases. The total increase in funding for the two items is \$2.8 million with a cash revenue impact of \$3.4 million in FY 2004-05 (\$10.8 million annual cash revenue beginning in FY 2005-06). The Assembly Budget Subcommittee approved the proposal.

Please refer to Attachments 7 and 8 for more details of this proposal.

### **Bridging the Tax Gap – Withholding on Income paid to Independent Contractors**

The Senate Budget Committee proposed trailer bill language that would add filing and enforcement measures to the Employment Development Department's independent contractor reporting program, which would have the effect of requiring a 2% withholding of income paid to independent contractors. Provisions are also included to assert penalties for failure to withhold, allow FTB access to the information and to permit EDD to develop forms and procedures. The Senate Budget Subcommittee approved the trailer bill language.

Please refer to Attachment 9 for the proposed text of the Trailer Bill Language.

If you have any questions please call me at 845-4106.

Chief Financial Officer

**Legislative Analyst Office  
Analysis of the 2004-05 Budget Bill  
District Office Consolidations and Reductions**

***We recommend that the Franchise Tax Board report at budget hearings regarding district office restructuring proposals, including the phasing in of such changes, budget savings, and revenue impacts.***

The FTB operates 16 field offices throughout the state—Bakersfield, Fresno, Long Beach, Los Angeles, Oakland, Sacramento, San Bernardino, San Diego, San Francisco, San Jose, Santa Ana, Santa Rosa, Stockton, Van Nuys, Ventura, and West Covina—nine of which are located in privately owned buildings and the remainder of which are located in state-owned facilities. The district offices provide limited public access counters which allow taxpayers to address particular tax-related issues and obtain information and assistance regarding other programs administered by FTB. The district offices also house certain auditing and collections activities.

Taxpayer assistance (as well as assistance with various other programs) is currently available through four channels: (1) a centralized call center with automated and staffed responses, (2) written correspondence through the FTB central office, (3) walk-in accessibility through one of the 16 FTB field offices located throughout the state, and (4) Internet access through the department's Web site.

The department's call center provides the greatest number of personal responses to taxpayers, receiving approximately 3 million inquiries per year. Written correspondence is limited to less than 500,000 inquiries annually. The number of direct taxpayer contacts through public access counters typically ranges from 200,000 to 250,000 annually. In addition, electronic services (Internet and interactive voice response) receive over 25 million taxpayer contacts; however, such modes do not provide customized services to taxpayers but rather provide specified information based on taxpayers' selection of various "menu" options.

***Shift Resources to Most Effective Channels.*** The public access counters remain the most expensive by far of the channels available for general taxpayer assistance. The FTB estimated that a call center response to a taxpayer inquiry cost an average of \$6.07 in 2000-01, compared to \$5.21 for a written response, and \$11.15 for a field office

contact. The FTB estimates that roughly 75 percent to 80 percent of inquiries received through the public access counters can be addressed through the Internet or the call center.

The FTB recently took action to close public access counters at all district offices except for Oakland, Los Angeles, Sacramento, San Diego, Santa Ana, and San Francisco. The department estimates that this will achieve personnel and lease savings of somewhat less than \$1 million. After closure, approximately 75 percent of taxpayers are within a 50-mile radius of a public access counter (versus about 95 percent formerly).

In addition to public access, however, it is apparent that many auditing and collection activities now conducted through some field offices could be effectively carried out through alternative means—and at a substantially lower cost. Such alternative administrative venues include: telephone communication, shifts to other district offices, or the transfer of activity to the Sacramento main office. For example, while a physical presence may be required at certain stages of an audit, this presence might be just as effectively met by deploying resources directly from FTB's main office in Sacramento as it is by using staff from a district office.

***LAO Recommendation.*** In view of the substantial commitment of resources required to maintain its district offices for public access and other activities, we recommend that the FTB present district office restructuring proposals at budget hearings including the phasing in of such changes, budget savings, and revenue impacts.

**Franchise Tax Board  
District Office Closure and Consolidation Information**

**17 California Field Offices (Current)**

- Collection and Customer Service locations: Oakland, San Francisco, San Jose, Santa Rosa, Sacramento, Stockton, Fresno, Bakersfield, Los Angeles, Long Beach, Van Nuys, West Covina; Santa Ana, San Bernardino, Ventura, San Diego
- Audit locations: Oakland, San Francisco, San Jose, Fresno, Bakersfield, Los Angeles, West Covina, Van Nuys, Santa Ana, San Diego
- Investigation locations: West Covina, Sacramento

**Proposed Consolidation**

- Collections would be centralized into 6 locations: San Francisco, Oakland, Sacramento, Los Angeles, Santa Ana, and San Diego.
- Audit had previously centralized most of its field staff. This proposal is to further centralize by eliminating Bakersfield and Fresno locations.
- Investigations. No need exists to centralize further.

**Reasons for Consolidation**

- Program efficiencies can be realized from centralizing staff.
  - Supervisor/employee interaction more effective and frequent.
  - Specialization of workloads
  - Workloads management efficiencies
- Net reduction in program expenses

**Impacts of Consolidation**

- Up Front Costs:
  - Remodel existing space in offices receiving staff
  - Costs to move FTB assets to receiving offices
  - Employee's personal moving expenses.
- Ongoing additional travel expenses are possible
- Long term leasehold expense reductions (far exceed initial & ongoing savings)

**Issues impacting these changes**

- Current lease terms
- Ability to backfill vacated space in State Buildings (DGS estimates)
- Space availability at receiving offices

**Proposed Savings**

- Costs and Savings: Attachment 3 approximates the savings over several years.
- Savings are estimates and subject to variables:
  - Ability to free up space in receiving offices
  - State building backfills

**AUDIT AND ARM DIVISION  
FIELD OFFICE CLOSURES  
EXPENSE/SAVINGS ANALYSIS**

OFFICE	LEASE EXPIRATION	FYTD 2003/2004	FYTD 2004/2005	FYTD 2005/2006	FYTD 2006/2007	FYTD 2007/2008	FYTD 2008/2009	FYTD 2009/2010
BAKERSFIELD	7/1/2005	-	-	55,312	55,312	55,312	55,312	55,312
LONG BEACH	2/28/2005	-	33,588	100,763	100,763	100,763	100,763	100,763
VENTURA	12/31/2006	-	-	-	44,430	88,859	88,859	88,859
WEST COVINA	12/01/2001 2/	-	-	-	-	-	-	-
VAN NUYS	09/30/2005 2/, 3/	-	-	58,678	78,237	78,237	78,237	78,237
SAN JOSE	5/31/2007 1/3	-	-	-	10,861	130,327	130,327	130,327
FRESNO	9/30/2005 - State Bldg 1/, 2/	-	-	48,095	64,126	64,126	64,126	64,126
SAN BERNARDINO	9/30/2005 - State Bldg 1/	-	-	120,078	160,104	160,104	160,104	160,104
SANTA ROSA	6/30/2005 - State Bldg 1/	-	-	34,616	34,616	34,616	34,616	34,616
STOCKTON	6/30/2005 - State Bldg 1/	-	-	37,630	37,630	37,630	37,630	37,630
<b>GROSS LEASE SAVINGS</b>		<b>\$ -</b>	<b>\$ 33,588</b>	<b>\$ 455,171</b>	<b>\$ 586,078</b>	<b>\$ 749,974</b>	<b>\$ 749,974</b>	<b>\$ 749,974</b>
<b>OFFSETTING EXPENSES:</b>								
Staff Office Move Expense		\$ -	\$ 33,400	\$ 82,200	\$ 38,400	\$ -	\$ -	\$ -
Staff Personal Move Expense		\$ -	\$ -	\$ 705,902	\$ 317,301	\$ -	\$ -	\$ -
Audit Staff Office Move Expense			\$ 43,850	\$ 315,725	\$ -	\$ -	\$ -	\$ -
Audit Office Lease Expense			\$ -	\$ 172,125	\$ 229,500	\$ 229,500	\$ 229,500	\$ 229,500
<b>TOTAL EXPENSE</b>		<b>\$ -</b>	<b>\$ 77,250</b>	<b>\$ 1,275,952</b>	<b>\$ 585,201</b>	<b>\$ 229,500</b>	<b>\$ 229,500</b>	<b>\$ 229,500</b>
<b>NET SAVINGS</b>		<b>\$ -</b>	<b>\$ (43,662)</b>	<b>\$ (820,781)</b>	<b>\$ 876</b>	<b>\$ 520,474</b>	<b>\$ 520,474</b>	<b>\$ 520,474</b>

1/ DGS requires State Building lessees to continue to pay rent until a backfill tenant moves into abandoned spaces. The "State" only benefits when State Building space is occupied - i.e. a department that is leaving private leased space.

2/ Closing 10 offices will require the relocation of staff into the remaining open offices. Sufficient space does not exist at Los Angeles for this relocation. The Audit Program agrees to move staff into space the Collection Program is leaving in West Covina and Van Nuys. No lease savings are realized by FTB in West Covina due to the swap. If additional space is to be acquired at Los Angeles, annual leasehold costs alone would be \$229,500. Van Nuys and Fresno ARM staff cannot move until Audit vacates space in LA.

3/ Van Nuys and San Jose do not include the cost of tenant improvements or possible increase in the new lease amount that must be renegotiated for Audit.

**BUSINESS ENTITY AND FIELD COLLECTION BUREAU  
ESTIMATED SAVINGS FROM CLOSING FIELD OFFICES**

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
1	OFFICE	LEASE EXPIRATION	FY 03/04		FY 04-05		FY 05-06		FY 06-07		FY 07-08		FY 08-09		FY 09-10	
2	<u>LEASE SAVINGS PER PERIOD:</u>		7/1	1/1	7/1	1/1	7/1	1/1	7/1	1/1	7/1	1/1	7/1	1/1	7/1	1/1
3	BAKERSFIELD	7/1/2005					27,656	27,656	27,656	27,656	27,656	27,656	27,656	27,656	27,656	27,656
4	LONG BEACH	2/28/2005				33,588	50,382	50,382	50,382	50,382	50,382	50,382	50,382	50,382	50,382	50,382
6	VENTURA	12/31/2006								44,430	44,430	44,430	44,430	44,430	44,430	44,430
7	WEST COVINA	12/01/2001 2/			-	-	-	-	-	-	-	-	-	-	-	-
8	VAN NUYS	09/30/2005 2/					19,559	39,118	39,118	39,118	39,118	39,118	39,118	39,118	39,118	39,118
9	SAN JOSE	5/31/2007								10,861	65,164	65,164	65,164	65,164	65,164	65,164
12	FRESNO	9/30/2005 - State Bldg 1/2/					16,032	32,063	32,063	32,063	32,063	32,063	32,063	32,063	32,063	32,063
15	SAN BERNARDINO	9/30/2005 - State Bldg 1/					40,026	80,052	80,052	80,052	80,052	80,052	80,052	80,052	80,052	80,052
17	SANTA ROSA	6/30/2005 - State Bldg 1/					17,308	17,308	17,308	17,308	17,308	17,308	17,308	17,308	17,308	17,308
18	STOCKTON	6/30/2005 - State Bldg 1/					18,815	18,815	18,815	18,815	18,815	18,815	18,815	18,815	18,815	18,815
19																
20	<b>GROSS LEASE SAVINGS</b>		\$ -	\$ -	\$ -	\$ 33,588	\$ 189,777	\$ 265,394	\$ 265,394	\$ 320,684	\$ 374,987	\$ 374,987	\$ 374,987	\$ 374,987	\$ 374,987	\$ 374,987
21	<u>OFFSETTING EXPENSES:</u>															
23	Staff Office Move Expense				\$ 11,700	\$ 21,700	\$ 82,200			\$ 38,400				\$ -	\$ -	\$ -
24	Staff Personal Move Expense		\$ -	\$ -	\$ -	\$ -	\$ 705,902			\$ 317,301	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26	Audit Staff Office Move Expense				\$ 43,150	\$ 700	\$ 315,725									
27	Audit Office Lease Expense						\$ 57,375	\$ 114,750	\$ 114,750	\$ 114,750	\$ 114,750	\$ 114,750	\$ 114,750	\$ 114,750	\$ 114,750	\$ 114,750
28																
29	<b>TOTAL EXPENSE</b>		\$ -	\$ -	\$ 54,850	\$ 22,400	\$ 1,161,202	\$ 114,750	\$ 114,750	\$ 470,451	\$ 114,750	\$ 114,750	\$ 114,750	\$ 114,750	\$ 114,750	\$ 114,750
30	<b>NET SAVINGS</b>		\$ -	\$ -	\$ (54,850)	\$ 11,188	\$ (971,425)	\$ 150,644	\$ 150,644	\$ (149,768)	\$ 260,237	\$ 260,237	\$ 260,237	\$ 260,237	\$ 260,237	\$ 260,237

31

32

33 1/ DGS requires State Building lessees to continue to pay rent until a backfill tenant moves into abandoned spaces. The "State" only benefits when State Building space

34 is occupied - i.e. a department that is leaving private leased space.

35

36 2/ Closing 10 offices will require the relocation of staff into the remaining open offices. Sufficient space does not exist at Los Angeles for this relocation. The Audit Program agrees

37 to move staff into space the Collection Program is leaving in West Covina and Van Nuys. No lease savings are realized by FTB in West Covina due to the swap. If additional space were

38 to be acquired at Los Angeles, annual leasehold costs alone would be \$229,500.

**BUSINESS ENTITY AND FIELD COLLECTION BUREAU  
ESTIMATED SAVINGS FROM CLOSING FIELD OFFICES**

**Cell:** A3

**Comment:** FTB:

May have to stay until new Audit office is ready. This could be as late as 12/31/05 if landlord ties us through the soft term...or 3/31/05 if joint agency agreement is invoked.

**Cell:** A8

**Comment:** FTB:

Move may not occur until FY 09-06.

**Cell:** E23

**Comment:** Becky Urrutia:

W. Covina

**Cell:** F23

**Comment:** Becky Urrutia:

Long Beach

**Cell:** G23

**Comment:** FTB:

Bakersfield, Van Nuys, Fresno, San Bernardino, Santa Rosa, Stockton  
+ \$10,000 router expense for Oakland and \$10,000 router expense for Santa Ana

**Cell:** J23

**Comment:** Becky Urrutia:

Ventura, San Jose, plus \$10,000 Router cost

**Cell:** G24

**Comment:** FTB:

Bakersfield, Fresno, San Bernardino, Santa Rosa, Stockton

**Cell:** J24

**Comment:** Becky Urrutia:

Ventura, San Jose

**Cell:** A25

**Comment:** FTB:

Legacy equipment at capacity. Must replace hubs/servers with new equipment to accommodate relocated staff.

**Cell:** F25

**Comment:** FTB:

LA (new site)

**Cell:** H25

**Comment:** FTB:

Santa Ana

**Cell:** J25

**Comment:** FTB:

Oakland

**BUSINESS ENTITY AND FIELD COLLECTION BUREAU  
ESTIMATED SAVINGS FROM CLOSING FIELD OFFICES**

**Cell:** E26

**Comment:** FTB:  
Staff move from LA to West Covina

**Cell:** F26

**Comment:** FTB:  
Staff move from Long Beach to Santa Ana

**Cell:** G26

**Comment:** FTB:  
Staff move from Santa Ana and S. Bern to WC. Staff move from Santa Ana and LA to new LAX site.  
Includes T1 line expense at new LA office @ \$1000. Office will utilize router/switch from closed Long Beach office.

**Cell:** A27

**Comment:** FTB:  
Rent=\$2.25 per sq ft  
Approx move to this site 9/30/05.

# Franchise Tax Board

## District Office Closures and Consolidation Information Detail

### District Offices Closing:

Location:	Est. Close Date	Audit Relocation	Collection Relocation
Bakersfield	Jul-05	work from home	relocate to LA collection office
Fresno	Sep-05	work from home	relocate to LA collection office
Long Beach	Feb-05	temporary relocation to Santa Anna	relocate to LA collection office
San Bernardino	Sep-05	work from home	relocate to Santa Anna
Santa Rosa	Jun-05	relocate to Oakland	relocate to Oakland
Stockton	Jun-05	no audit staff in this District Office	relocate to Sacramento
Ventura	Dec-06	work from home	relocate to LA collection office

### District Offices Remaining Open:

Audit Only Locations	Collection Only Locations	Audit & Collection Locations:	Public Counter Only
Los Angeles Audit Office San Francisco San Jose Van Nuys West Covina- Audit and Investigations	<b>Los Angeles Collection Office</b> <b>Sacramento -</b> <b>- Collections and Investigations</b>	<b>Oakland</b> <b>San Diego</b> <b>Santa Ana</b>	<b>San Francisco</b>

**Note: Public Counters will remain open in the bolded district offices.**

DEPT: Franchise Tax Board  
STATE OPERATIONS

\*\*\*\*\*  
1730-001-0001 04 04 G  
\*\*\*ORG-REF-FUND YOA YOB\*\*

ITEM TITLE:  
001 Budget Act appropriation

ISSUE: 120 P98: N  
P98 ISSUE:  
SUBCOMMITTEE NUMBER: 04  
SUBCOMMITTEE DATE: 05/19

ISSUE: 120 District Office Closures and  
Consolidations

---DETAIL CHANGES---

POS/PY TYPE/LANG

Operating Expenses and Equipment		
General Expenses		78,000
Facility Operations Lease Savings		-34,000

The cost to close the offices listed is \$44,000 for 2004-05 and \$821,000 in 2005-06. Beginning in 2007-08 it is estimated that the annual savings from closing these offices will be \$520,000.

Offices to be closed include:  
Bakersfield, Fresno, Long Beach,  
San Bernardino, Santa Rosa, Stockton,  
and Ventura

One office will be added in Los Angeles.

Public Counter Service will be provided at the Los Angeles Collections Office, and in Sacramento, Oakland, San Diego, Santa Ana, and San Francisco.

In addition to the offices shown above that provide public counter service, there will continue to be offices in San Jose, Van Nuys, and West Covina.

TOTAL FINANCE LETTER CHANGES	0.0	0	*
TOTAL LEGISLATIVE CHANGES	0.0	44,000	
TOTAL DETAIL CHANGES	0.0	44,000	

---SCHEDULE CHANGES---

10.00.000.000 Tax Programs		44,000
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NET IMPACT TO 1730-001-0001		0	*
		44,000	

TOTAL NET IMPACT TO 1730-001-0001		44,000
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\* DEPT OF FINANCE LETTER

HOUSE=S1 YOB=2004 ITEM=173000100010404  
ISSUE= 120  
ISSUE-STATUS=P  
MULTI-DOF=

**Franchise Tax Board  
Proposed Service Fees and Projected Revenue  
Based on Projected Workload Volumes**

<b>FTB SERVICES FOR FEE CONSIDERATION</b>					
<b>TYPE OF SERVICE</b>	<b>CURRENT VOLUME</b>	<b>PROJECTED VOLUME<sup>1</sup></b>	<b>COST PER REQUEST<sup>2</sup></b>	<b>PROPOSED FEE<sup>3</sup></b>	<b>PROJECTED REVENUE</b>
Installment Agreements	120,000	117,600	\$14.43	\$15	\$1,764,000
PIT Refund Stop Payment	50,500	47,975	\$1.58	\$10	\$479,750
PIT Tax Computation <sup>4</sup>	23,000	20,700	\$1.58	\$10	\$207,000
PIT Transcript <sup>5</sup>	21,300	17,892	\$4.49	\$10	\$178,920
Rush Escrow Demand	19,000	19,000	\$8.77	\$10	\$190,000
BE Tax Computation <sup>6</sup>	8,700	8,700	\$13.10	\$15	\$130,500
BE Refund Stop Payment	4,600	4,370	\$2.91	\$10	\$43,700
Rush Corporation Revivor	1,200	1,200	\$35.10	\$35	\$42,000
Rush Exemption	600	600	\$21.06	\$20	\$12,000
HOH Binder Request <sup>7</sup>	530	265	NA	NA	NA
Partial Lien Release & Subordination of Lien	500	500	\$145.08	\$145	\$72,500
Rush Request for Estate Income Tax Certificate	300	180	\$73.53	\$75	\$13,500
RAR Packet Request <sup>8</sup>	270	135	NA	NA	NA
<b>TOTAL POTENTIAL REVENUE</b>					<b>\$3,133,870</b>

**Note:** Criteria will be need to be developed for each fee in order to remain flexible with respect to waiving fees for specific circumstances.

<sup>1</sup> Fees may dissuade customers from requesting these services; volumes have been reduced according to program area projections.

<sup>2</sup> Cost Includes 30% for overhead.

<sup>3</sup> Fees are rounded to the closest \$5, with a minimum fee of \$10 for cost effectiveness.

<sup>4</sup> Fee reflects the charge for all open years; each additional year would incur another \$5 charge.

<sup>5</sup> Subject to the Information Practices Act and will require a statutory change.

<sup>6</sup> Fee reflects the charge for all open years; each additional year would incur another \$5 charge.

<sup>7</sup> Subject to the Public Records Act that limits the fee to the actual cost of duplication.

<sup>8</sup> Subject to the Public Records Act that limits the fee to the actual cost of duplication.

**Franchise Tax Board  
Legislative Budget Issue  
Abusive Tax Shelter Backfills and Consultants Fee**

The department was requested by the Assembly Consultant to submit a proposal that would augment the department's budget by \$2.8 million and generate \$6.8 million in additional assessments (\$3.4 million in discounted cash revenue) for the last half of FY 2004/05 and \$13.5 million in annual ongoing assessments (\$10.8 million discounted for cash). The proposal would add 25 auditors (11.9 PYs for FY 2004/05) to the audit program and increase funding for abusive tax shelters consultant services by \$1.7 million.

To combat the proliferation of abusive tax shelters, the department redirected audit staff to perform audits of abusive tax shelter cases. The 25 new staff in this proposal would backfill the void left by these initial redirections and allows the audit program to conduct audits of multistate cases that would have a cost/benefit ratio above 5:1. These resources would generate an estimated \$6.8 million in assessments (\$3.4 million in discounted cash revenue) at the cost of \$1.1 million for FY 2004/05.

Also included in this proposal is \$1.7 million that would increase the level of funding for consultants to a total of \$3.9 million for FY 2004/05 (\$400,000 was included the Abusive Tax Shelter Finance Letter and \$1.8 million in the Abusive Tax Shelter Task Force May Revise proposal). Funding for consultant services will include services of economists, financial products experts and industry specialists who will help identify abusive tax shelters, assist with the audits, and provide expert testimony to help sustain audit positions on abusive tax shelter cases.

CBS313R  
UNIT DATABASE  
( BLUE )

DEPARTMENT OF FINANCE  
2004-05 CHANGE BOOK  
WORKSHEET - Assembly Actions

PAGE: 1  
DATE: 05/21/04  
TIME: 10:39:58

DEPT: Franchise Tax Board  
STATE OPERATIONS

\*\*\*\*\*  
1730-001-0001 04 04 G  
\*\*\*ORG-REF-FUND YOA YOB\*\*

ITEM TITLE:  
001 Budget Act appropriation

ISSUE: 127 P98: N  
P98 ISSUE:  
SUBCOMMITTEE NUMBER: 04  
SUBCOMMITTEE DATE: 04/20

ISSUE: 127 Abusive Tax Shelters: Backfill First  
Auditor Redirection & Add Consultant \*

---DETAIL CHANGES---

POS/PY TYPE/LANG

Fund additional consultant hours to  
support abusive tax shelter audits.

Operating Expenses and Equipment  
Cons & prof svcs: external

1,700,000

Fund the backfill of the first group  
of auditors redirected from low return  
audits to abusive tax shelter audits.

Proposed New Positions:  
(Part-year Adjustment 25 PYs-12.5 PYs  
\$1,491,000 - \$745,000)

12.5 R

746,000

Salary Savings  
Staff Benefits

-0.6 R

-37,000

Operating Expenses and Equipment

249,000  
191,000

TOTAL FINANCE LETTER CHANGES  
TOTAL LEGISLATIVE CHANGES

0.0

0 \*

11.9

2,849,000

TOTAL DETAIL CHANGES

11.9

2,849,000

---SCHEDULE CHANGES---

10.00.000.000 Tax Programs

2,849,000

NET IMPACT TO 1730-001-0001

0 \*

2,849,000

TOTAL NET IMPACT TO 1730-001-0001

2,849,000

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POSITION CHANGES FOR ISSUE NUMBER

REG/ON-GOING POS 11.9  
PART YR ADJ PY 0.0  
TEMP HELP PY 0.0  
OVERTIME 0.0  
SALARY SAVINGS PY 0.0  
-TOTAL- 11.9

AMOUNT  
709,000  
0  
0  
0  
0  
709,000

ASM CONSULTANT: DR  
SEN CONSULTANT: DJO  
DOF ANALYST: Kathryn Grosz  
LAO DIRECTOR: J. VASCHE  
RUN DATE: 05/21/04 10:39:58  
UPDT TIME: 05/21/04 10:39:46  
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\* DEPT OF FINANCE LETTER

HOUSE=A1 YOB=2004 ITEM=173000100010404  
ISSUE= 127  
ISSUE-STATUS=P  
MULTI-DOF=

## Trailer Bill Language for Independent Contractor Withholding

SEC. 1. Section 1088.9 is added to the Unemployment Insurance Code to read:

1088.9. (a) Effective January 1, 2005, any service-recipient required to report payments made to a service-provider pursuant to Section 1088.8 shall deduct and withhold a tax of 2 percent on payments made in any year to the service-provider.

(b) Any service-recipient failing to withhold from any payments any amounts required by subdivision (a) to be withheld is liable for the amount required to be withheld, unless it is shown that the failure to withhold is due to reasonable cause.

(c) The Franchise Tax Board shall be allowed access to the information filed with the department pursuant to this section.

(d) The Employment Development Department shall develop and publish forms and procedures for reporting and remitting payments made and taxes withheld under this section.

(e) For purposes of this section, the terms "service-provider" and "service recipient" have the same meanings as applicable for purposes of Section 1088.8.