

# **EXCERPT FROM CALIFORNIA PERFORMANCE REVIEW REPORT**

## Chapter 11 The California Tax Commission

### **INTRODUCTION**

California's tax collection system is currently divided between four different agencies. The Board of Equalization administers the State's sales tax, state-assessed property taxes and a variety of excise taxes, while the Franchise Tax Board collects income taxes, the Department of Motor Vehicles collects the Vehicle License Fee and the Employment Development Department collects employment taxes.

Ultimately, how well a state administers its tax system determines its ability to finance needed services for its people and maintain the trust of taxpayers.

### **FINDINGS OF THE CALIFORNIA PERFORMANCE REVIEW**

An analysis by the California Performance Review found:

#### **1. California's tax system is duplicative.**

At a time when budget resources are limited, California is paying for multiple tax agencies to perform identical functions in areas ranging from return processing and collections to information processing. Taxpayers pay for duplicative state buildings and office space around the state. Coordination of these functions would save taxpayer dollars without reducing the level of service.

#### **2. California's tax system is inefficient.**

California loses revenue because its tax agencies do not coordinate with each other. For example, the Franchise Tax Board may have a taxpayer accurately reporting income taxes, but not registered to collect sales tax even though they are required to do so. Conversely, the Board of Equalization may have a registered taxpayer that properly collects sales tax while failing to file an income tax return. Aside from cost savings, coordinating tax agency functions should result in improved collections.

#### **3. California's tax system is confusing for taxpayers.**

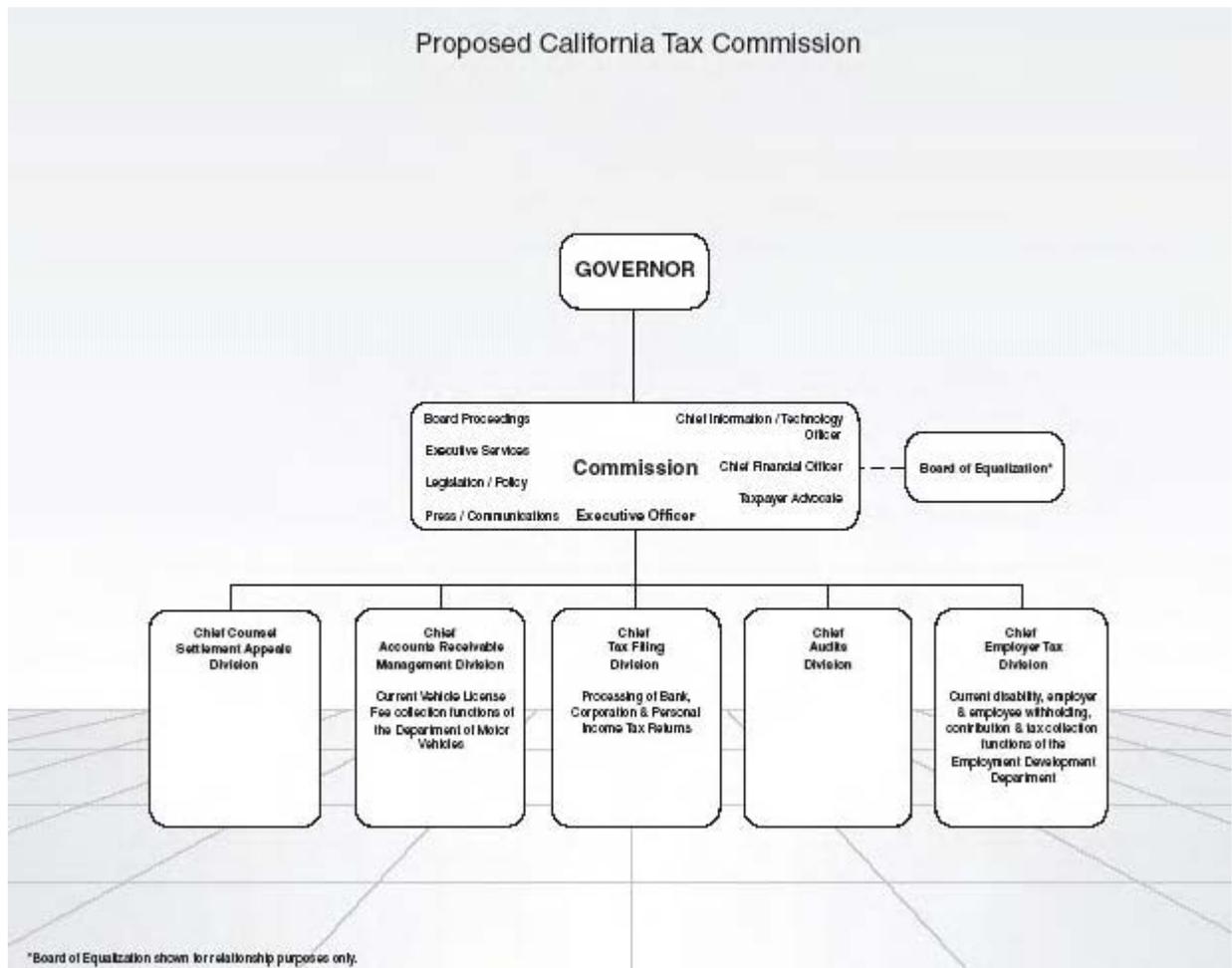
California's taxing entities are staffed by people with similar duties and responsibilities, yet they are in different agencies. Taxpayers are unsure which agency they are supposed to call to get their questions answered. Consolidation and improved coordination should provide a single point of contact for taxpayer inquiries and a single point of accountability for customer service.

## PROPOSED ORGANIZATIONAL IMPROVEMENTS

To address these problems, California's revenue agencies should be consolidated into one California Tax Commission. This Commission should integrate revenue collection activities independent of the budget and fiscal agencies.

The Board of Equalization should be retained, while other tax collection programs should be consolidated under the California Tax Commission. The members of the Board of Equalization should serve as ex officio members of the California Tax Commission, with the State Controller serving as the Commission's initial chairperson.

The California Tax Commission, should be organized as follows:



## **California Tax Commission**

### **1. Management Goal:**

The California Tax Commission should have the following management goals:

- Be an efficient consumer of taxpayer dollars – Consolidating the administrative structures of California’s two major tax agencies should result in budgetary savings by eliminating duplicative functions and responsibilities. The California Tax Commission should work to combine remittance processing, cashiering, mail processing, technology and field offices to reduce costs.
- Be open and accountable to the people – The purpose of the California Tax Commission should be to bring transparency to California’s tax collection process while embracing the Board of Equalization’s “inclusive” philosophy to tax administration and extending it to all state tax functions.
- Perform revenue collection functions with maximum efficiency – The California Tax Commission should not only save money, but should also increase the effectiveness of tax collection. Combining technology, best practices, auditing and compliance assistance functions in one agency should allow the new organization to perform all tax functions more effectively. Increased efficiency should translate into more dollars collected at a lower cost—reducing the pressure for future tax increases.
- Maintain and promote an attitude of customer service – The California Tax Commission should be expected to follow and build on best practices for customer service and should provide a one-stop-shop where any taxpayer can go to with tax issues.

### **2. Proposed Functions:**

The California Tax Commission should be responsible for executive branch tax collection programs, including the collection of corporate and personal income taxes.

### **3. Transferred Functions:**

The powers, duties, responsibilities, obligations and jurisdiction of the Franchise Tax Board should be transferred to the Commission.

The duties, responsibilities, obligations, liabilities and functions of the Employment Development Department should be transferred to the Commission concerning:

- The determination of contribution rates and the administration and collection of contributions, penalties and interest, including but not limited to filing and releasing liens;
- The establishment, administration and transfer of reserve accounts;
- The assessments and the administration of credits and refunds; and
- The approval of elections for coverage or for financing unemployment and disability insurance coverage.

In addition, the duties, responsibilities, obligations, liabilities and functions of the Department of Motor Vehicles concerning the Vehicle License Fee should be transferred to the Commission.

**California Performance Review**  
**Recommendations Directly Related to FTB**  
**August 10, 2004**

<b>Title (and Issue #)</b>	<b>CPR Recommendations</b>
<i>Raise State Revenue through Tax Amnesty (General Government [GG] 01)</i>	<p>The Governor should work with the Legislature to enact legislation authorizing an omnibus tax amnesty program with the following provisions:</p> <ul style="list-style-type: none"> <li>• Include a partial waiver of interest and penalties, similar to the New York experience, to further accelerate returns;</li> <li>• Add the 2003 tax year in the amnesty by applying amnesty to past due taxes in the year prior to January 2004; and</li> <li>• Add amnesty for Motor Vehicle License and Registration Fees (VLRFF).</li> </ul>
<i>Additional Tax Collection and Audit Staff Will Generate Additional Tax Revenue (GG 02)</i>	<p>A. The Governor should direct the Department of Finance, or its successor entity, to revise future employee freeze programs to exempt positions that produce revenues.</p> <p>B. The Governor should direct the Department of Finance to work with the Employment Development Department, Franchise Tax Board and the Board of Equalization, or their successor entities, to develop budget change proposals to enhance revenue collections.</p>
<i>Consolidate and Upgrade Cashiering for State Taxing Agencies (GG 03)</i>	<p>The Governor should work with the Board of Equalization (BOE), Franchise Tax Board (FTB) and Employment Development Department (EDD) to develop and implement the results of, a feasibility study to upgrade mail, cashiering, remittance processing, data capture and image management systems for these three agencies.</p>
<i>Use Contracts Information System to Increase Debt Collection Through Offsets (GG 04)</i>	<p>The Department of General Services, or its successor, should revise the State Administrative Manual to require state entities performing debt collection to use the State Contract and Procurement Registration System to determine if an offset against payments can be made.</p>

<p><i>Revise the Homeowners and Renters Assistance Program and Strengthen the Property Tax Postponement Program (GG 35)</i></p>	<p>Phase Out the Homeowners portion of the assistance program, and increase the household limitation on the tax postponement program so that more seniors and disabled individuals can participate.</p>
<p><i>Improve the Performance and Reduce the Cost of California's Child Support Program (Health and Human Services [HHS] 03)</i></p>	<p>A. The Governor should work with the Legislature to:</p> <ul style="list-style-type: none"> <li>• Remove the county child support departments as the designated entity to deliver Child Support Enforcement Program (CSEP) services at the local level;</li> <li>• Require child support services at the local level to be provided under contract; and</li> <li>• Permit competitive bidding by public or private entities to administer local child support programs as determined by the Department of Child Support Services, or its successor entity.</li> </ul> <p>B. The Department of Child Support Services, or its successor, should develop specific contractual requirements and performance standards for any entity administering child support services at the local levels including overall performance, cost effectiveness and customer service standards.</p> <p>C. The Department of Child Support Services, or its successor, should develop guidelines and a work plan for a phased-in issuance of Requests for Proposals for operation of local CSEPs beginning with the poorest performing counties as measured by the federal performance standards.</p>
<p><i>Create a One-Stop Business License Center for California Businesses (GG 22)</i></p>	<p>A Master License Service Office should be created to work with other regulatory departments, and seek legislation if necessary to establish a uniform business identification number. The governor should appoint a third party facilitator (business advocate) to provide oversight for creating California MLS. Legislation should be sought to enact a one-time master application fee and a master renewal application fee. Revenue from the fees should be used to pay for the MLS.</p>