

California Society of Certified Public Accountants Tax Gap Update

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Size of the Tax Gap

- **Federal Tax Gap**

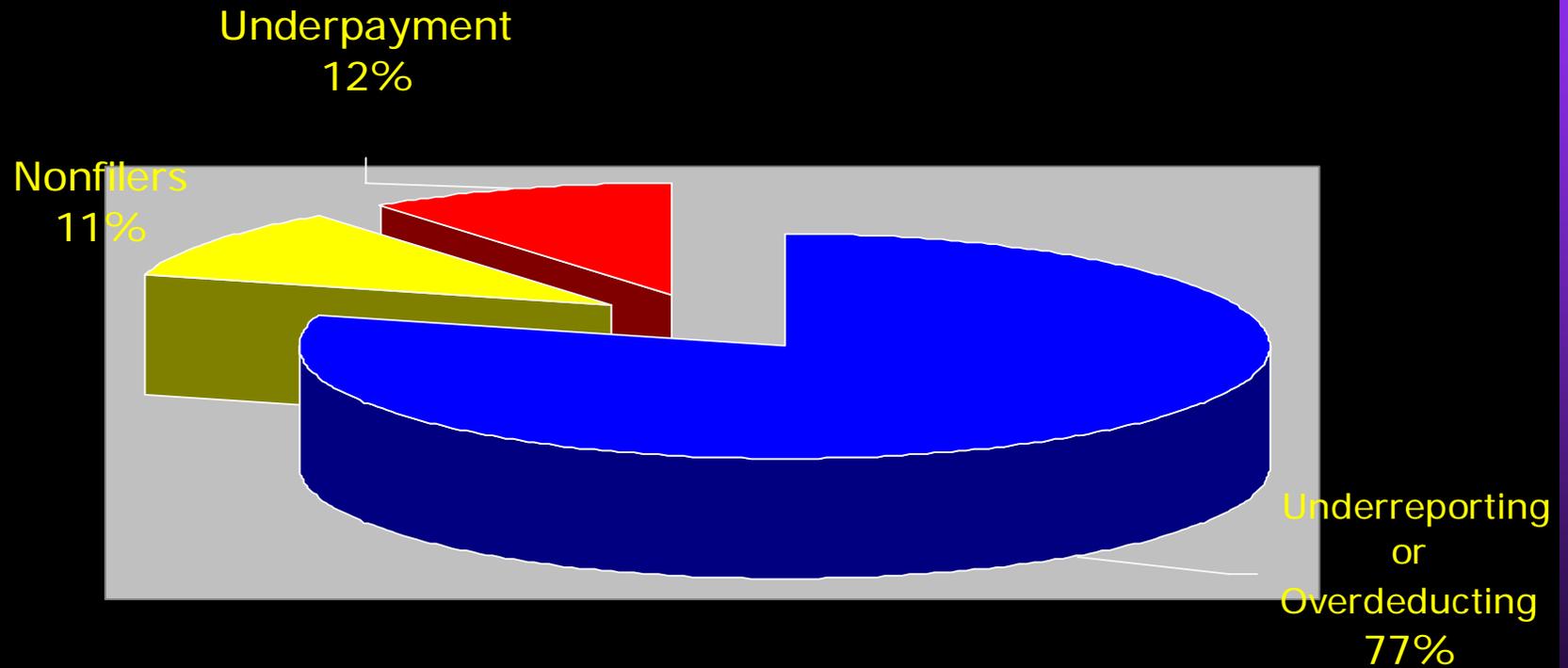
- **Estimate for 2001 tax year \$290.0 B***

*Estimate for all types of tax

- **California Income Tax Gap**

- **1985 estimate \$2.0 B**
- **2004 estimate \$6.5 B**
- **2007 estimate ?**

Tax Gap Components



Building the Plan

We sought **input from internal** and other **stakeholder groups** to achieve all perspectives on this enormous issue:

- Taxpayer Groups
- Tax Professionals
- Business Representatives
- Legislative Staff
- Academic Researchers
- FTB Advisory Board Members

About the Tax Gap Plan ...

- Balanced between "soft" and enforcement oriented approaches.
- The initiatives emphasize short-term tactical and long term compliance.
- It takes a holistic approach at shrinking the tax gap.

Plan Overview

6. **Become More Innovative in Attacking the Tax Gap.**

- Develop expertise to fight tax cheating.
- Continually develop new ideas to reduce the tax gap.
- Work with outside experts to build research capabilities.

Plan Overview, continued

5. Support High Standards in the Tax Professions.

- Make practitioner misconduct unprofitable.

Plan Overview, continued

4. **Level the Playing Field for Businesses.**
 - Focus on sectors where tax cheating hurts honest businesses.
 - Coordinate actions against businesses that cheat.

Plan Overview, continued

3. **Make It Harder to Cheat.**

- Use more data and better data mining.
- Improve information return reporting.
- Increase enforcement speed and coverage.

Plan Overview, continued

2. **Make taxes less taxing.**

- Make it easier for taxpayers to file and pay.
- Reduce burden and legal complexity.

Plan Overview, continued

1. Improve Taxpayer Confidence in the Tax System.

- Determine ways to increase Californians' confidence in tax administration.
- Recognize honest taxpayers' contribution.

Tax Gap Action Committee

- Tax Gap Action Committee has representation from all operational areas of the department.
- It is an enterprise approach that ensures to address the Tax Gap from several angles.
- Committee is responsible for implementation of the Tax Gap Plan.

Tax Gap Implementation

(0-3 yr initiatives)

- Implement short-term initiatives from Tax Gap Plan that **do not** require additional funding (28 initiatives). This is ongoing.
- Implement short-term initiatives from Tax Gap Plan that require **additional funding** (12 initiatives).

Present Efforts – 2005/06

1. Detection of Preparers Filing Fraudulent Returns.
2. Additional Information Sources to Identify Non-Filers.
3. Underground Economy Criminal Investigations.
4. Audit Staff Augmentation.
5. Collection Staff Augmentation.
6. Discovery Audit Activities.

Present Efforts 2007/08

1. Independent Contractors.
2. Corporate Non-Filers.
3. Out-of-State Tax Avoidance.
4. Investigations.
5. Stakeholder Research, Outreach and Publicity.
6. Informants.
7. Detect Under-Reporters.

And how did we do?

The 2005/06 Tax Gap measures achieved success by exceeding revenue expectations in the first year by \$4.5 million and made several inroads towards shrinking the gap.

2005/06 Tax Gap BCP		
Projected	Actual	Estimate by 2009/10
\$51,800,000	\$56,300,000	\$68,500,000

The 2007/08 Tax Gap Measures

2007/08 Tax Gap Planned Activities

Projected	Actual	Estimate by 2009/10
\$20,355,000	\$\$,\$\$\$,\$\$\$	\$40,028,000