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FISCAL IMPACT REPORT

SPONSOR: Aragon DATE TYPED: 2/7/03 HB _____

SHORT TITLE: Enhanced & Expanded Tax Collection SB 388/aSFC

ANALYST: Hayes, Patel & Smith

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
	5,000.0			Non-Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	50,000.0		Non-Recurring	General Fund
	11,000.0		Non-Recurring	Other State Funds
	4,000.0-10,000.0		Recurring	General Fund
	1,500.0-4,000.0		Recurring	Other State Funds

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From

TRD

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Amendment clarifies that the appropriation is also for FY03.

Synopsis of Original Bill

SB388 appropriates \$5 million from the general fund to the Taxation and Revenue Department for the purpose of expanding and enhancing tax collection efforts. The appropriation reverts at the end of FY04.

Significant Issues

This funds a key Executive initiative.

FISCAL IMPLICATIONS

TRD has made several impressive presentations on this proposal; a handout from the department's presentation to HTRC is attached. However, TRD has not given any indication of the recurring general fund impact.

LFC did a preliminary analysis to determine whether these revenues would be recurring or non-recurring. The following summary outlines LFC's analysis:

Since **collections** are on outstanding taxes owed, TRD's collection initiatives are, by definition, non-recurring. Using TRD's estimates for collections of personal income tax, CRS taxes, corporate income tax, special taxes and tape match program amounts, the non-recurring base equals \$52.7 million, of that amount, approximately \$44.5 is general fund, and \$8.2 is non-general fund.

The remainder of the nonrecurring amount and the recurring component is in **audit activity**. During an audit, the auditor would typically review three years of tax documents. Using this and TRD's assumptions yields \$15.5 million to be generated from audits. Of this total, one third (one year or \$5.2 million) is assumed to be recurring. This amount could be further reduced by assuming that a certain portion of the population will return to noncompliance; LFC "estimate" is that 70 percent of those audited will comply in future years (the LFC did not reduce the estimate by this factor). Given the preliminary nature of our analysis, we have ranged the estimate from approximately \$6 million to \$14 million. Of this total, roughly \$4 million to \$10 million is general fund recurring revenue.

TECHNICAL ISSUES

On lines 17 and 18, the appropriation should be effective for FY03 and FY04.

SUBSTANTIAL ISSUES

It is critical that TRD establish a transparent methodology to track these revenues.

TRD has stated that the most senior auditors and collectors will be transferred to this project. More routine duties will be taken over by junior employees with less experience. However, it must be noted that a certain amount of "complicated" audits and collections already are in TRD's baseline. It is unclear how these audits will be conducted.