F I S C A L I M P A C T R E P O R T

		ORIGINAL DATE	2/03/06		
SPONSOR	Whitaker	**LAST UPDATED**		**HB**	613
SHORT TITLE	Tax Dept. Collection Contract Services			**SB**	
				ANALYST	Earnest

REVENUE (dollars in thousands)

Estimated Revenue			**Recurring or Non-Rec**	**Fund Affected**
FY06	**FY07**	**FY08**		
	$500.0*	$1,000.0*	Recurring	General fund
	$200.0*	$400.0*	Recurring	Local Governments

(Parenthesis ( ) Indicate Expenditure Decreases)

* Revenue estimates are based on additional collections from outsourcing the low-value balances to a collection agency. Actual collections are unpredictable. The estimates assume a 1 percent increase in total collections, which is consistent with the experience of some other states.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 613 authorizes the Taxation and Revenue Department to contract with outside collection agencies for the collection of tax obligations that are at least 120 days past due.

FISCAL IMPLICATIONS

TRD expects to increase total collections by outsourcing the collection of lower value receivables and focusing department resources on higher balance accounts. The department expects to generate and additional $1 million in general fund in FY08. These estimates are based solely on the success rates of other states. The actual increase in collections is difficult to evaluate at this time.

SIGNIFICANT ISSUES

According to TRD, outsourcing the collections of targeted delinquent tax liabilities has been a collection tool utilized by many state taxing authorities. Most states that outsource collections utilize external collection vendors to collect on low-balance, aged receivables and out-of-state accounts. It is more cost effective to focus agency resources on collecting higher balance, more current and in-state accounts. Furthermore, state taxing authorities have no authority to collect outside of their respective states unless they hire legal representation in the other jurisdictions.

The cost of outsourcing debt typically ranges from 15% to 20% of the revenues collected by the external vendor.

The cost of collecting current tax debt by TRD staff is about 6% in the first year of delinquency and these costs increase by about 50% for each subsequent year. For example, year two costs would approximate 9%, year three 13.5% and year four 20%. These increases are due to assigning accounts as they age to more experienced and higher paid staff; more costly collections actions such as field work, entering into installment agreements, filing liens, serving levies and court proceedings for injunctions; mailing costs for monthly notifications; skip tracing to locate delinquent taxpayers who have moved and/or changed phone numbers; and on occasion hiring out of state legal representation.

Currently the account receivable balances for CRS, CIT and PIT total in excess of $320 million. It is estimated that about 25-30% of the current debt would be outsourced, due to our large inventory of aged receivables.

Only debt not being worked by the department would be outsourced.

PERFORMANCE IMPLICATIONS

The department has expanded the number of auditing, compliance and collection resources in recent years and has substantially increased collection revenues, but has not reduced the overall account receivables. In addition, TRD has recently implemented a data warehouse to supplement department opportunities to identify unreported or underreported tax debts, which will also add new receivables in the future. By adding external collections as an additional resource, the department can focus on debt recently established, thus increasing revenues and compliance.

ADMINISTRATIVE IMPLICATIONS

TRD would award contracts through a competitive bid. The department has not provided an estimate for the contract amount or the anticipated, positive impact on the agency's operating budget.

Taxation and Revenue Department
Survey of other states use of external vendors for tax collections

Texas- Out-sources most tax programs based on dollar value. Accounts are assigned to one vendor (OSA) that is between 60 and 270 days delinquent with a balance of between $25-999.99 (In-state and out-of-state account). All disputes go back to the Department for action. The collection agency earns a percentage of the collected amount. Texas legislation was amended to allow, "tax farming". They recommend that we make sure the RFP is specific and direct.

Oklahoma- Uses two collection agencies to out-source sales tax collections. Each account is assigned to one agency and if not resolved the account goes to the second agency that is more aggressive. If still not resolved, the account goes to the Department for action. Disputes go back to the Department.

West Virginia- Has out-sourced state collections for the past ten years. The past five years, they have referred 60,000 accounts and have received $4.5m as a result. During the same period, the Department had worked 340,000 accounts and collected over $396m. These accounts were worked at half the cost of a collection agency. The collection agencies collected 20% of referred accounts as compared to 80% of Department worked accounts. However, West Virginia still finds collection agencies beneficial since Revenue Agents can work larger dollar accounts.

Idaho**- Currently out-of-state only. However, they are ready to out-source in-state. All tax programs and dollar amounts are referred. The Department works the account first and if not resolved, it is forwarded to the collection agency. The cost of collections is higher with the agencies. Disputes are discussed and either kept by the agency or is sent back to the Department. Idaho currently has a 10-person Call Center.**

North Carolina- Since the Department built a Call Center; they have ceased utilizing the services of outside collection agencies.

Arizona- Does not use collection agencies.

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