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

SPONSOR:	Varela	DATE TYPED:	02/13/01	HB	154/aHTRC
SHORT TITLE:	Managed Audits			SB	
				ANALYST:	Eaton

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	**FY02**			
	See Narrative	See Narrative	Recurring	General Fund
	See Narrative	See Narrative	Recurring	Local Govt.

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC amendment

The House Taxation and Revenue Committee amendments add the effective date and a transition provision making the interest changes applicable only to assessments made on or after July 1, 2001.

Synopsis of Original Bill

This bill means to improve tax administration, both for the public and for the state, in several ways. First, the bill establishes a “managed audit” program for taxes. A managed audit is a review and analysis conducted by a taxpayer under an agreement with the Department to determine the taxpayer's compliance with the Gross Receipts and Compensating Tax Act and local option gross receipts taxes. The audit is conducted using Department methods and procedures.

Second, the bill allows taxpayers to report gross receipts and tax due on an estimated basis, provided the methodology is acceptable to the Secretary. The period of estimating may not exceed four years. The Secretary and the company are then bound to the methodology for the agreed-upon time.

Third, the Department must publish and make freely available written audit policies and procedures. These are the policies and procedures that govern the conduct of the audit, such as scheduling the audit or what records may be examined.

Fourth, when preparing assessments on multi-period audits the Department will be required to net interest related of over-payments within the audit period against interest due on under-payments using the same rules. A related provision allows a taxpayer to include under-payments in a waiver period asked for by the Department.

Finally, there is a slight adjustment in the time limits for claiming a refund.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) report that several features of this bill are potential revenue gainers while others are revenue losers. TRD believes it is likely that the audit interest offset provisions will reduce revenues perhaps by more than $1 million. The waiver of interest on managed audits is potentially a revenue loser. However, the managed audit frees up auditor time to select and conduct conventional audits. This contributes both assessed taxes and penalty and interest.

ADMINISTRATIVE IMPLICATIONS

Taxation and Revenue Department (TRD) cautions that it will take major efforts to publish in written form all the audit policies and procedures for tax programs and to develop policies, procedures, expertise and forms for managed audits. TRD reports that the Secretary is not required to accept any or all managed audit proposals the Audit and Compliance Division will likely move somewhat cautiously in this area but over time staff will be more familiar with the skills and procedures in managed audits and will become more accepting of the procedure. There might be an reduction of audit activity during the transition period.

TECHNICAL ISSUES

The bill has no effective date and by default would become effective 90 days after adjournment (June 17).

OTHER SUBSTANTIVE ISSUES

The Taxation and Revenue Department (TRD) reports that The managed audit provisions, particularly with the waiver of penalty and interest, could prove to be a boon for companies and the Department. It will accelerate audit collections, and may well prove to be a revenue generator. TRD reports that one auditor can supervise three to five times as many managed audits as conventional audits and companies get more certainty and control over their tax liabilities.

The option of using estimates to report gross receipts is most likely to be beneficial to federal contractors. It may also quickly resolve issues on assigning known total gross receipts to particular periods or locations.

JBE/ar