Managing a Research Division

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Minnesota Department of Revenue

Research Division Structure

- 20 Employees
- Main Functional Areas:
  - State Tax System: Sales, Income, Excise
  - Property Tax
  - Database/Programming Support
  - Administrative Support
  - GIS
  - Management
- Main Areas of Responsibility:
  - Legislative/Administrative Tax Proposal Analysis
  - Revenue Forecasting/Economic Analysis
  - Mandated Studies
  - Special Studies
Environment

- Political environment more unforgiving
- Higher Bar/More justification for sharing data
  - State to State
  - Feds to State
  - State Agency to State Agency
- Demand for more comprehensive analysis
- More confidential types of requests
- More requests from other agencies

Trends

- Operational efficiencies are not informationally friendly.
- Administrative practices that result from budget reductions create false “trends”.
- New requirements/studies are not adequately funded or not funded at all.
- Budget pressure creates a “short-run” perspective.
- Budget demands emphasize compliance activities over research.
- Demands up/staffing down.
What Does Not Work

- Just saying No.
- Trying to keep pace with requests at the expense of quality.
- Not investing in staff training and tools.
- Trying to charge for services, especially within the Department of Revenue.
What Does Work

- Fight for independence/objectivity
- Slowing down response times, negotiating priorities with requesters.
- Investing in cooperative efforts with other legislative staff and other parts of the department.
- Explore compliance activities - especially those that complement research.
- Do invest in staff, consider hiring/training hybrid analysts/programmers.
- Look at leveraging other types of techniques/technologies.
  - Data Mining - compliance and editing
  - GIS - Compliance and tax policy analysis
- Taking on more operational research activities
  - Sales tax gap

Future Directions

- Migrate more towards programmer/analyst and away from analyst/programmer.
- Blending of analytical and compliance activities.
- Multi-state research efforts, perhaps two or more states conducting research to share costs.
  - Example: Sales Tax Gap - audits collect one data element per state
- Benefit funding
- Changing laws to allow more data sharing while protecting against disclosure.
- Organizational changes that combine resources between agencies and eliminate barriers.
Sales Tax Gap Project
Some Preliminary Results for Minnesota

Sales vs. Use Tax Audit Payments
Preliminary 2000 Tax Gap Results
Known Filers - Level II

- Use Tax: $153.9 Million or 52.2%
- Sales Tax: $131.2 Million or 44.5%
- Local Option Tax: $9.6 Million or 3.3%

Total: $294.7 Million
Percent of Sales and Use Tax
Preliminary 2000 Tax Gap Results
Known Filers - Level II

<table>
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<tr>
<th>Tax Class</th>
<th>Percent</th>
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<tr>
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<td>-2.5%</td>
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<td>$0 - $1,000</td>
<td>39.1%</td>
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<tr>
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<td>$1,250,001 - More than</td>
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Total Percent: 7.8%

Average Payment
Preliminary 2000 Tax Gap Results
Known Filers - Level II

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Average Total: $2,837