

# Enforcement Revenue: Specification and Modeling

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# What is Enforcement Revenue

- Tax departments are often asked to provide more revenue for a variety of reasons, either through staffing changes, additional staff, reprioritizing collections, better technology or “analytics”
- However, the exact revenue impacts of changing staffing, technology, or strategic decisions can't be identified.
  - Lawmakers typically want the results “tracked” as in an accounting exercise, where the best that can be offered is an estimate.
  - “Tracking” revenue impacts is a Greek tragedy in the making (e.g. Benefits-based contracts, task forces,...)

# What's so Hard about Cause and Effect?

- The standard problem of “no counterfactual”
- Changing staffing/strategy is often caused by budget constraints which occur when revenue is constrained (e.g. low employment)
- Can almost always collect more revenue without more staff/tech/analytics by focusing on short-term compliance activities
- Hard to distinguish new revenue from shifting revenue in time (e.g. Amnesty, moving audit staff to collection function...)

# Some Situations to Think About

- Some payments more directly related to enforcement effort
  - Payments on an audited tax return
  - Payments after a non-filer assessed tax (what about refunds?)
- Some payments ambiguously influenced by enforcement
  - Taxpayer files a return and is unable to pay in April but does pay in June without prompting...Or pays in June after a collection letter is sent...Or pays in June after a phone call.
  - Taxpayer files a return, but is unable to pay, then calls to set up a payment plan.
  - Taxpayer owes for Tax Year 2012, but is due a refund for Tax Year 2013, which is used to pay the older debt...Or taxpayer's federal refund is used to pay the older state debt.
  - Taxpayer hears that a competitor was audited, so decides to report income that wouldn't have been reported otherwise.

# Simplify the Question

- We chose to focus on receipts that are most likely caused by direct DOR employee involvement
  - This leads to a methodology..i.e. ways to find characteristics of payments in existing operational data that indicate employee involvement.
  - The result has to be specific to the data and data generating processes examined
- Examined all Oregon Personal Income Tax (PIT) Transactions (Returns, Payments, Refunds, etc) Since FY1998, we asked:
  - Did DOR auditors or filing enforcement staff discover the tax liability?
  - Were DOR Revenue Agents involved in securing the Payment?
- We turned to our available data to identify criteria (characteristics of the liability or payment) for specifying enforcement revenue
  - Specification differs from identification
  - Basing the specification on criteria that can be applied to every payment allows a mutually exclusive and exhaustive classification of revenue.
- Our specification is based on our narrow criteria which were developed for a particular question. There are many possible ways to specify enforcement revenue

# Source of Tax Liability

- In our data it's revealed by transaction type of first transaction that adds tax to a liability
- Self Assessed
  - The taxpayer filed a return reporting tax liability prior to any enforcement action by DOR.
  - This category includes the bulk of liabilities and payments.
- Enforced Filing
  - The taxpayer did not file a return by the due date
    - But did file a return after DOR sent a letter requesting the taxpayer to file, or
    - DOR filed a return for the taxpayer (estimated amount of tax due)
- Audit/Adjustment
  - The taxpayer did file a return
    - But DOR identified an error or omission and adjusted the tax.

# Characteristics of Payment

- Payment made on liability that is NOT in Collections
  - Only consider payment “direct enforcement revenue” if the liability was discovered through audit/adjustment.
- Payment made by Offset
  - Only consider payment “direct” if the liability was discovered through audit/adjustment or by filing enforcement.
- Payment made by Garnishment
  - Consider it “direct”
- Was Account in Active Collection or on Payment Plan
  - Consider it “direct”

# Specification of Enforcement Revenue

If account is NOT in collections tracking system:  
Category is “Not in Collections”

Otherwise:  
IF Payment Type is Garnishment or Offset:  
Category is [Payment Type](#).

Otherwise:  
Left with payments in collection system  
that are not garnishment or offset:  
Category is [Collection Status](#)

	SELF-ASSESSED	REQUESTED FILING (Filed after Request to File)	FAILURE TO FILE ASSESSMENT	AUDITED/ADJUSTED RETURN
<b>NOT IN COLLECTIONS</b>	Indirect	Indirect	Indirect	Direct
<ul style="list-style-type: none"> <li>Withholding Payments [inc. Refundable Credits]</li> </ul>	Presented for Context	Presented for Context	Presented for Context	Presented for Context
<b>PAYMENT TYPE</b> (Considered Before Status)				
<ul style="list-style-type: none"> <li>Kicker Offset*</li> </ul>	Indirect	Partial*	Partial*	Partial*
<ul style="list-style-type: none"> <li>Other Offset</li> </ul>	Indirect	Direct	Direct	Direct
<ul style="list-style-type: none"> <li>Garnishment**</li> </ul>	Direct	Direct	Direct	Direct
<b>STATUS</b> (Considered After Pay Type)				
<ul style="list-style-type: none"> <li>On Hold</li> </ul>	Indirect	Direct	Direct	Direct
<ul style="list-style-type: none"> <li>CAP</li> </ul>	Indirect	Direct	Direct	Direct
<ul style="list-style-type: none"> <li>Active</li> </ul>	Direct	Direct	Direct	Direct
<ul style="list-style-type: none"> <li>Pay Plan</li> </ul>	Direct	Direct	Direct	Direct

Direct enforcement revenue is the specified revenue that is intended to estimate and represent the revenue that occurs because of direct action by DOR auditors and collectors.

Indirect revenue includes payments made by taxpayers without direct auditor or collector action.

\*Partial enforcement revenue is only used for kicker offsets. For PIT only: Estimated amount that would have been collected in absence of kicker as 50% (approximate average collection rate of audit setups).

\*\*Garnishments include treasury offsets, which occur when Oregon receives money from a taxpayer’s federal refund from US Treasury. These are included in the garnishments payment type because the work involved is more similar to garnishment than it is to internal offsets.



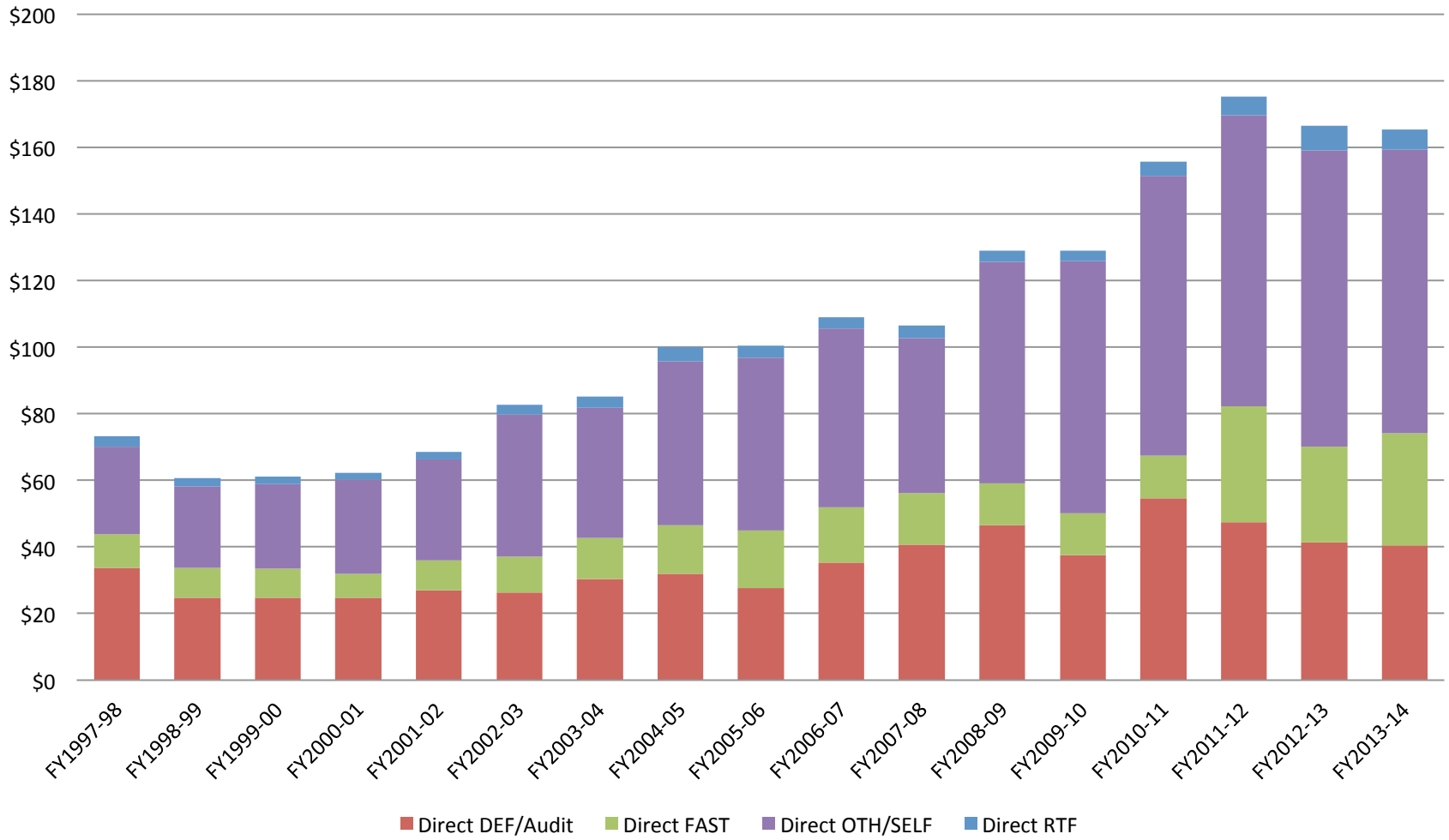
# Results

- Can calculate for current and prior periods one number that is specified enforcement revenue
  - A good representation of overall enforcement
- Can examine revenue in any of the 36 categories in the matrix
  - Allows very detailed discussions about the impacts of different internal and external factors on revenue
  - Can break categories down further with available data (e.g. type of audit)
  - Can create new specification to include more or fewer cells of matrix if looking at impact of technology or strategy

# PIT Payments: FY 2014

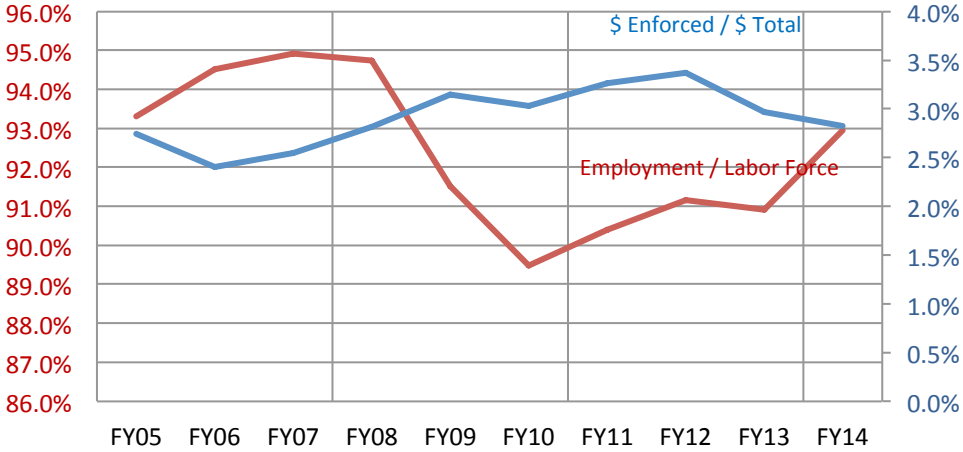
	Self Assessed	RTF	FAST	Audited/ Adjusted Return	Total	Total Direct	Percent Direct
Not in Collections	774,800,000	(400,000)	130,000	12,280,000	786,810,000	12,280,000	1.6%
Withholding	5,221,180,000	18,330,000	14,910,000	1,050,000	5,255,470,000		
Payment Type							
Kicker Offset	10,000	-	-	30,000	40,000	15,000	37.5%
Other Offset	8,060,000	770,000	3,100,000	3,740,000	15,670,000	7,610,000	48.6%
Garnishment	26,810,000	2,340,000	29,790,000	6,920,000	65,860,000	65,860,000	100.0%
Status							
Unassigned/On Hold	65,430,000	240,000	(2,970,000)	10,370,000	73,070,000	7,640,000	10.5%
CAP	1,790,000	80,000	380,000	380,000	2,630,000	840,000	31.9%
Active	29,620,000	1,200,000	1,020,000	3,280,000	35,120,000	35,120,000	100.0%
Pay Plan	28,690,000	1,570,000	2,400,000	3,390,000	36,050,000	36,050,000	100.0%
Total	6,156,390,000	24,130,000	48,760,000	41,440,000	6,270,720,000	165,415,000	2.6%
Total Direct	85,120,000	6,200,000	33,720,000	40,375,000	165,415,000		
Percent Direct	1.4%	25.7%	69.2%	97.4%	2.6%		

## PIT Direct Enforcement Revenue (in millions)

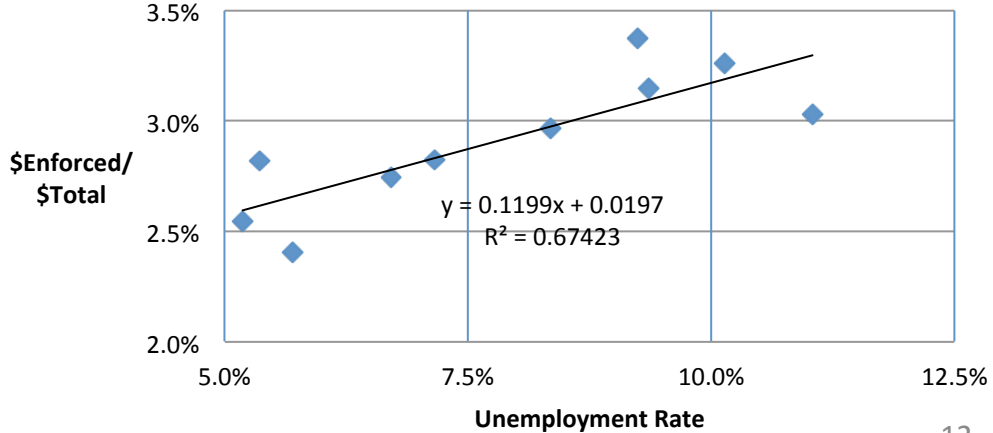


# Recent Relationship between Enforcement Revenue and Employment

## "Employment Rate" vs. "Enforcement Revenue Rate"



## "Enforcement Revenue Rate" vs. Unemployment Rate



# Probably Overstates DIRECT impact?

- Cause/Effect implied by counting payments in “Active” status is sketchy
  - Our current collection actions data is not good for differentiating...
- Some audit/suspense adjustments would have been self-reported eventually
- Some garnishments are requested by taxpayers
- BUT as long as overstatement is relatively constant, looking at changes in series is still useful
- Some data ~~available~~ that exists in GenTax can probably improve the specification

# Work Continues

- Alternate Specifications are Possible
- Refinement is required
  - Refinement within categories
  - Refinement/Overhaul as data and business processes change
- No single Quantitative Model can Explain all Changes
  - Enforcement Revenue is influenced by a complex set of variables, circumstances and business decisions
    - Employment/Unemployment and Enforcement Objectives are significant determinants of changes.
    - Most revenue is voluntarily reported and submitted, so determinants of voluntary compliance are significant as well.
- Examples of Potential Predictive Models are Developed and Presented in Report