



Office of Program Policy Analysis And Government Accountability



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Review of the Department of Revenue's General Tax Administration Program Based on Performance-Based Budgeting Measures and Standards for Fiscal Year 1996-97

Abstract

- Based on performance-based program budgeting measures, the General Tax Administration Program has achieved better results from its taxpayer education and assistance activities and has become more efficient in processing tax returns and payments.
- However, involuntary collections declined by 9.5% from Fiscal Year 1995-96 to Fiscal Year 1996-97 primarily due to a decline in performance of some collections and compliance enforcement activities.
- Changes to the program's performance-based program budget measures have enhanced their usefulness. However, some additional modifications are needed to provide the Legislature with more meaningful information.

Purpose

Chapter 94-249, Laws of Florida, directs state agencies to prepare performance-based program budgeting measures in consultation with the Governor's Office of Planning and Budgeting, staff from the appropriate legislative committees, and the Office of Program Policy Analysis and Government Accountability (OPPAGA). State agencies are then required to submit performance-based program budget requests that include performance measures and standards to the Legislature for approval. The Legislature includes the approved performance measures and standards in the annual General Appropriations Act.

State agencies must report annually on performance against these standards to the Governor and the Legislature in their legislative budget requests. The Legislature considers this information in making funding decisions. The Legislature can also award incentives

and disincentives for program performance that exceeds or fails to meet the established standards.

Section 11.513, F.S., directs OPPAGA to complete a justification review of each state agency program that is operating under a performance-based program budget. The Legislature authorized the General Tax Administration Program to operate under a performance-based program budget in Fiscal Year 1995-96. OPPAGA Report No. 96-56 (February 1997) and OPPAGA Report No. 96-89 (June 1997) presented the results of the justification review of the General Tax Administration Program.

This report discusses the Program's performance compared to the legislative measures and standards for Fiscal Year 1996-97 and options for improving the Program's Fiscal Year 1998-99 performance-based program budgeting measures and standards.

Background

The Department of Revenue's General Tax Administration Program administers the collection of 36 taxes, including the sales and use tax, corporate income tax, and corporate and personal intangible tax. According to s. 213.01, F.S., the Legislature's intent is that the revenue laws of the state be administered in a fair, efficient, and impartial manner.

The Program comprises six major functions:

- **Taxpayer Education and Assistance.** The Department provides taxpayers with information that encourages and helps them comply with tax laws. The Department's education and assistance activities include preparing and distributing instructions and brochures, responding to taxpayer inquiries in writing or by phone, meeting with individual

taxpayers, and conducting seminars for different groups of taxpayers.

- **Tax Returns Processing and Reconciliation.** The Department ensures that all tax returns are processed accurately and timely, reviews and analyzes tax payments, generates and mails tax notices to taxpayers who have made incorrect payments, and ensures that all remittances are deposited in a timely manner and distributed to the appropriate state and local government entities.
- **Audit.** The Department reviews registered taxpayers' financial records to ensure that taxpayers have correctly calculated and reported all of the taxes they owe. If it discovers underreported tax liabilities, the Department then assesses and collects the additional owed taxes.
- **Compliance Enforcement.** The Department uses investigative techniques to identify registered and unregistered taxpayers who do not pay owed taxes. These techniques include checking bills of lading at key entry points into Florida, canvassing flea markets, malls, and other businesses, and collecting evidence of criminal tax violations.
- **Collections.** The Department pursues collection of outstanding obligations through various methods, including written and telephone correspondence with taxpayers and other more intensive techniques such as garnishing assets and issuing levies.
- **Adjudication.** The Department reviews taxpayer appeals of Department tax decisions (e.g., tax assessments) prior to any formal litigation.

For Fiscal Year 1997-98, the General Tax Administration Program had 2,371 authorized positions and was appropriated \$87.7 million for salaries and benefits. In Fiscal Year 1996-97, the Department collected over \$20 billion, of which approximately \$513 million were involuntary collections.

Findings

Using performance-based program budgeting measures, what can be concluded about the General Tax Administration Program's performance?

Based on 1996-97 measures, the Department has achieved better results from its taxpayer education and assistance activities and has become more efficient in processing tax returns and payments.¹ (See Exhibit 1.) However, involuntary collections declined by 9.5% from Fiscal Year 1995-96 to Fiscal Year 1996-97 due primarily to a decline in performance of some collections and compliance enforcement activities.² (See Exhibit 2.) As addressed in OPPAGA Report No. 96-89, the performance of the adjudication function has steadily improved.

Improved results from taxpayer education and assistance activities. The performance of the Department's taxpayer education and assistance activities has continued to improve. The primary outcome measure for these activities, the percent of returns filed accurately and timely by all taxpayers, improved from 76.5% in Fiscal Year 1995-96 to 78.5% in Fiscal Year 1996-97. While the Department did not meet the 81.3% standard established in the 1996-97 General Appropriations Act, this 2% improvement in performance means that 100,000 more tax returns were filed accurately and timely in Fiscal Year 1996-97 than in the prior year.

¹ We limited our review to the three 1996-97 measures for which the Department had reported accurate data and for which three years of data were available. (See OPPAGA Report No. 96-56 for details.)

² Although not included in the 1996-97 General Appropriations Act, we used the measure "total involuntary collections" because it provides valuable information about the Program's performance in collecting owed taxes. (See OPPAGA Report No. 96-56 for details.)

Exhibit 1

The General Tax Administration Program Has Achieved Better Results From Its Taxpayer Education and Assistance Activities and Has Become More Efficient in Processing Tax Returns and Payments

Outcome Measure	Fiscal Year			1996-97 GAA Standard	Standard Reasonable?	Performance Improvement in Fiscal Year 1996-97?
	1994-95	1995-96	1996-97			
Average number of days from receipt of payment to deposit (sales tax)	0.89	0.62	0.38	0.8	No, easy to achieve	Yes, 39% improvement from Fiscal Year 1995-96 performance
Percent of returns filed accurately and timely by all filers	74.95%	76.5%	78.5%	81.3%	No, too difficult	Yes, 2% improvement from Fiscal Year 1995-96 performance
Percent of bills and delinquency notices issued accurately by DOR	91.0%	87.6%	89.8%	93% ¹	Yes	Yes, 2.2% improvement from Fiscal Year 1995-96 performance

¹The measure in the 1996-97 General Appropriations Act was restated to read *Percent of bills and delinquency notes issued incorrectly - (DOR caused)* and the standard was set at 7%. To ensure consistency with prior years, we kept the measure as originally stated and used the corresponding standard of 93%.

Source: 1996-97 General Appropriations Act, 1998-99 Legislative Budget Request, and OPPAGA Report No. 96-56

Exhibit 2
Involuntary Collections Declined by 9.5% From Fiscal Year 1995-96 to Fiscal Year 1996-97

Output Measure	Fiscal Years			Performance Improvement in Fiscal Year 1996-97?
	1994-95	1995-96	1996-97	
Total involuntary collections (tax, penalty, and interest)	\$553.8 million	\$566.1 million	\$512.6 million	No, decline of 9.5% from Fiscal Year 1995-96 to Fiscal Year 1996-97

Source: 1996-97 General Appropriations Act, 1998-99 Legislative Budget Request, and OPPAGA Report No. 96-56

Improved efficiency of tax processing function. A comparison of data for the past three years indicates that the Department has steadily reduced the average time it takes to deposit sales tax payments. Performance in making sales tax payment deposits in Fiscal Year 1996-97 improved by 39% over 1995-96 performance and by 36% over 1994-95 performance. The Department met the standard of 0.8 days established in the 1996-97 General Appropriations Act. Faster deposits of tax receipts means increased interest earnings, which result in more revenues for the state.

Improved accuracy of bills and delinquency notices. The Department has also improved the accuracy of bills and delinquency notices issued in Fiscal Year 1996-97. The Department's accuracy rate increased from 87.6% in Fiscal Year 1995-96 to 89.8% in Fiscal Year 1996-97. This means that approximately 23,000 more bills and delinquency notices were mailed out correctly in the current year than in the prior year. However, the Department's 1996-97 performance is below its Fiscal Year 1994-95 performance and the Department did not meet the 93% standard established in the 1996-97 General Appropriations Act. Improving the accuracy of bills and delinquency notices is important because inaccurate bills and delinquency notices cause inconvenience for taxpayers and create more work for Department staff.

Decline in involuntary collections. Total involuntary collections declined by 9.5% from \$566.1 million in Fiscal Year 1995-96 to \$512.6 million in Fiscal Year 1996-97.³ Most of this decline can be attributed to reduced collections from bills and delinquency notices and from reduced compliance enforcement activities. Although involuntary collections declined in the current fiscal year, the Department's return-on-investment for these activities is still positive. Therefore, despite diminished results in the current year, these activities are worthwhile because they generate much more revenue for the state than their operating costs.

What improvements can be made to the Program's performance-based program budgeting measures for Fiscal Year 1998-99?

Over the last two years, the Department has proposed and the Legislature has adopted changes in the

performance measures for the General Tax Administration Program. These changes have improved the usefulness of the measures. For example, the 1996-97 measures were more comprehensive than the 1995-96 measures because the newer set of measures included outcomes for all major program functions while the earlier measures addressed outcomes for only three of six program functions. (See OPPAGA Report No. 96-56.) Both the approved 1997-98 measures and the proposed 1998-99 measures address each of the Program's major functions.

Although the Department's proposed changes for the 1998-99 measures generally appear reasonable, the Department should reconsider its proposal to delete all of the output measures. These output measures provide useful information on the Program's workload.

Conclusions and Recommendations

Based on 1996-97 measures, the Department has achieved better results from its taxpayer education and assistance activities and has become more efficient in processing tax returns and payments. However, involuntary collections declined by 9.5% from Fiscal Year 1995-96 to Fiscal Year 1996-97 due primarily to declines in performance of some collections and compliance enforcement activities. The Department should analyze the reasons for the declines and, as appropriate, take actions to reverse the declines.

Changes to the Department's performance measures over time have enhanced their usefulness. For example, the newer measures are more comprehensive in that they address outcomes of all major Program functions and they include more outcomes, which are indicators of the Program's actual impact, than outputs, which only reflect the level of service provided by the Department.

The Department has proposed modifying or deleting seven measures for Fiscal Year 1998-99. While the Department's proposed changes are generally reasonable, we disagree with the Department's proposal to discontinue all of the output information. Output measures provide useful workload measures. We therefore recommend that the Department reconsider its proposal to delete these measures. (See Exhibit 3.)

³ Because this was not a performance-based program budgeting measure for 1996-97, no standard was established.

Exhibit 3
Recommendations to Improve Proposed 1998-99 Performance-Based Budgeting Measures
for the General Tax Administration Program

Approved 1997-98 Measures	Proposed 1998-99 Measures	Recommendations
Average days from receipt of payment to deposit (sales, corporate, intangible, and fuel taxes).	Continue.	None.
Number of days between initial distribution of funds and final adjustments (sales, corporate, intangible, and fuel taxes).	Department proposes to modify this measure to be <i>Number of days between initial distribution of funds and final adjustments (sales and fuel taxes).</i>	Agree with proposed change.
Percent of sales tax returns filed substantially error free and on time.	Continue.	In OPPAGA Report No. 96-56 we recommended that the Department consider including other taxes (e.g., corporate income, fuel, intangible) to provide a more complete indicator. DOR agrees in concept with our recommendation, but believes that implementing it would be costly and is not currently feasible.
Percent of returns that did not result in a notice of apparent filing error or late return.	Continue.	None.
Percent of sales tax returns filed substantially error free and on time by first time filers.	Department proposes to delete this measure.	Agree with proposed change.
Average time in days between the processing of a sales tax return and the first notification to the taxpayer of an apparent filing error or late return.	Continue.	In OPPAGA Report No. 96-56 we recommended that the Department consider including other taxes (e.g., corporate income, fuel, intangible) to provide a more complete indicator. DOR agrees in concept with our recommendation, but believes that implementing it would be costly and is not currently feasible.
Dollars collected as a percentage of actual liability of notices sent for apparent sales tax return filing errors or late returns.	Continue.	None.
Percent of delinquent tax return and filing error or late return notices sent to taxpayers that had to be revised (Department or taxpayer error).	Continue.	None.
Percent of final audit assessment amounts collected (tax only).	Continue.	None.
Final audit assessment amounts as a percentage of initial assessment amounts (tax only).	Continue.	None.
Dollars collected voluntarily as a percentage of total dollars collected.	Continue.	None.
Average number of days to resolve a dispute of an audit assessment.	Continue.	None.
Return on investment (total involuntary collections per dollar spent).	Department proposes to modify this measure to be <i>Direct collections per enforcement related dollar spent.</i>	Agree with proposed change.
Return on investment (total collections per dollar spent).	Continue.	None.
Total voluntary collections (taxes, penalties, and interest, in millions).	Department proposes to delete this measure.	Disagree with proposed change because this measure provides useful workload information.
Total involuntary collections (taxes, penalties, and interest, in millions).	Department proposes to delete this measures.	Disagree with proposed change because this measure provides useful workload information.
Number of delinquent tax return notices issued to taxpayers.	Department proposes to delete this measure.	Disagree with proposed change because this measure provides useful workload information.
Number of notices sent to taxpayer for apparent tax return filing errors or late return.	Department proposes to delete this measure.	Disagree with proposed change because this measure provides useful workload information.

Source: Interviews with Department of Revenue staff

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