



Georgia Department of Audits and Accounts Performance Audit Division

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Why we did this review

This report is a follow-up review of a special examination published in January 2014 (Report #13-20).

The original examination answered the Senate Appropriations Committee's questions regarding tax compliance efforts administered by the Georgia Department of Revenue (DOR). The report included information on the types of compliance activities, the resources devoted to the activities (including special funding initiatives), and their performance over time. The report also identified ways to expand compliance activities and strategies for balancing those activities with the administrative burden they impose on taxpayers.

About DOR

Created in 1938, DOR is the primary revenue collecting agency in the state. DOR's primary responsibility is enforcing the state's tax code and collecting tax revenue. In fiscal year 2015, DOR collected more than \$19 billion across more than 10 different tax types, including income and sales and use taxes. DOR also regulates the manufacturing and sale of alcohol and tobacco products, production and sale of automobile license plates, and administers the Unclaimed Property Program.

Follow-Up Review Tax Compliance Efforts

Many issues identified in the special examination have been addressed

What we found

Since our 2014 special examination, DOR has taken steps to improve tax compliance activities and reduce the administrative burden on taxpayers. To improve tax compliance activities, DOR reviewed outstanding tax balances, upgraded and added new modules to its tax data system, established a new policy regarding uncollectible receivables, and established procedures to improve its reporting for the Comprehensive Annual Financial Report. However, DOR is still not maximizing its use of data analytics to better target tax compliance efforts and has not conducted a tax gap analysis. To reduce the administrative burden on taxpayers, DOR created a mobile application, revamped its website, and improved its call center.

Activities primarily geared toward tax compliance are concentrated among three organizational units: the Tax Compliance Division, the Alcohol and Tobacco Division, and the Office of Special Investigations. Of the three units, the Tax Compliance Division generates the greatest financial benefits, which include cash collections and tax assessments and disallowances. As noted in our original report, between fiscal years 2010 and 2013, the Division's financial benefits ranged from \$365 million to \$465 million. DOR reported that financial benefits increased to \$618 million in fiscal year 2014 and \$548 million in fiscal year 2015. DOR indicated that the increase in cash collections was due to an increase in overall economic spending, an increase in the number of accounts with the Federal Treasury Offset Program, and more accurate collections tracking. DOR also indicated that it improved the process for collecting delinquent accounts and eased the terms of Installment Payment Agreements,

which encouraged more voluntary compliance. While financial benefits generated by the Tax Compliance Division increased, expenditures decreased from \$55.6 million in fiscal year 2013 to \$51.8 million in fiscal year 2014 and \$52.9 million in fiscal year 2015.

Expansion of Tax Compliance Efforts

The original examination found that the Tax Compliance Division, which generates a significant return on investment, had the greatest potential for expansion to further increase compliance. We identified three strategies for expanding efforts: 1) reviewing outstanding tax balances; 2) improving data analytics; and 3) conducting a tax gap analysis. As discussed below, since our review, DOR has completed its review of outstanding tax balances and has made progress in data analytics, but DOR has not conducted a tax gap analysis.

- **Outstanding Tax Balances** – The original examination found that DOR lacked a complete and accurate inventory of outstanding tax balances. At that time, DOR estimated the total balance of taxes owed to the state at \$4.4 billion with at least \$1.9 billion deemed as uncollectible or difficult to collect. As shown in Exhibit 1, DOR has since completed its review of outstanding tax balances and wrote-off \$3.3 billion. The \$3.3 billion write-off included \$1.56 billion (47%) for closed accounts and \$1.19 billion (35%) for filing periods prior to 2001. Using this information, DOR plans to assess the staffing needed to collect what remains.

Exhibit 1

DOR Wrote-Off \$3.3 Billion in Outstanding Tax Balances

Tax Type	Periods Prior to 2001	Inactive/Closed	Bankrupt ⁽¹⁾	Adjustments ⁽¹⁾⁽²⁾	Total
Sales & Use	\$358,099,694	\$1,020,467,097	\$11,798,446	\$110,857,801	\$1,501,223,039
Individual Income	\$643,976,757	\$1,922,945	\$97,897,362	\$115,773,001	\$859,570,065
Wage Withholding	\$133,017,197	\$167,590,688	\$6,650,253	\$253,130,054	\$560,388,191
International Fuel		\$336,966,121	\$2,519	\$3,327,596	\$340,296,236
Corporate Income	\$50,455,659	\$17,169,960	\$551,983	\$1,812,252	\$69,989,856
Motor Fuel	\$1,600,313	\$6,683,322	\$250		\$8,283,885
Tobacco		\$4,313,156			\$4,313,156
Miscellaneous	\$76,789	\$80,599	\$28,735	\$95,700	\$281,823
Alcohol		\$173,111			\$173,111
Total	\$1,187,226,410	\$1,555,366,999	\$116,929,548	\$484,996,405	\$3,344,519,362
⁽¹⁾ When a 1% collectibility factor is applied, the total amount for bankrupt accounts is \$115,760,252 and the total amount for adjustments is \$480,146,441.					
⁽²⁾ Adjustments are based on estimated payments.					
Source: DOAA State Government Division					

In addition to reviewing outstanding tax balances, DOR made several related process improvements. DOR developed a policy to write-off uncollectible receivables using specific criteria. DOR also developed reports and a process for future reporting periods to improve the consistency and accuracy of outstanding tax balances. Lastly, DOR established new procedures to provide a more accurate and reliable calculation of taxes receivable and refunds payable for the state's Comprehensive Annual Financial Report.

- **Data Analytics** – The original examination found that DOR had not maximized its use of the data analytics capabilities within the Integrated Tax Solution (ITS) to improve the efficiency of compliance efforts and increase identification of taxpayers not in compliance. Since then, DOR has upgraded its ITS and purchased two new modules – a business credit manager and a fraud management tool. With these new tools, DOR eliminated the need for the LexisNexis® product, which had a declining return on investment. DOR also augmented its data with the Georgia Department of Labor's unemployment benefits and the Georgia Secretary of State's voter

registration information to better identify non-compliant taxpayers. For example, DOR uses portions of the voter registration file, including state of residency and date registration began, to research individual income tax residency protests. To better utilize ITS analytics, DOR reported that it hired 11 revenue agents and six auditors who have collected over \$5.8 million since July 2015. However, DOR is still not making full use of the analytic tools due to a lack of funding for additional technology resources.

- **Tax Gap Analysis** – The original examination found that DOR had not conducted an analysis of the “tax gap”, which is the difference between tax revenues actually collected and the amount that should be collected if taxpayers fully complied with the tax laws. DOR has still not conducted a tax gap analysis due to a lack of staffing resources.

Compared to the Tax Compliance Division, the Office of Special Investigations and the Alcohol and Tobacco Division had less potential for expansion. Therefore, the original report recommended maintaining (rather than increasing) the level of activity within the Office of Special Investigations and the Alcohol and Tobacco Division. DOR reported that it has generally maintained its activity within these units.

Minimizing the Administrative Burden on Taxpayers

DOR was taking many steps to reduce the administrative burden on taxpayers at the time of the original report and, since then, has adopted several other practices. During the original examination, we found that DOR promoted electronic filing, allowed for flexible payment alternatives, and provided services such as customer call centers. Following the examination, DOR created a mobile application that allows taxpayers to check refund status, access the online Georgia Tax Center, locate regional offices, and contact the agency. DOR also improved its website by revamping the formatting for easier accessibility, updating the content, and improving the search functionality. In addition, DOR’s call center now has a virtual call back messaging system that gives callers the option of retaining their place in the queue without remaining on the line. Lastly, DOR established advisory councils with industry partners, tax practitioners, and local government officials to discuss a range of topics, including taxpayer services.

While DOR has made improvements, there is a need for continued progress with the written communication in taxpayer notices and correspondences. The original report recommended logically organizing documents and using more common words and plain language to improve readability for taxpayers. Subsequent to the report, DOR revised the tax execution notice using a plain language approach. However, DOR acknowledged that it still has significant work ahead to change all taxpayer notices and correspondence.

***DOR’s Response:** DOR noted that in order to conduct a tax gap analysis it “would have to hire its first professional economists.” DOR indicated that an alternative would be for it “to be funded to contract with a state entity that currently performs economic analysis.” DOR further indicated that it “generally tried to create efficiencies with existing resources rather than request additional staffing.”*

Finally, DOR stated that while it “recognizes the significant work ahead”, it is “committed to its efforts in the plain language initiative to revise all forms and correspondence for improved understanding and compliance by the taxpayers of Georgia.”

A copy of the 2014 special examination #13-20 may be accessed at <http://www.audits.ga.gov/rsaAudits>

The Performance Audit Division was established in 1971 to conduct in-depth reviews of state-funded programs. Our reviews determine if programs are meeting goals and objectives; measure program results and effectiveness; identify alternate methods to meet goals; evaluate efficiency of resource allocation; assess compliance with laws and regulations; and provide credible management information to decision-makers. For more information, contact us at (404)656-2180 or visit our website at www.audits.ga.gov.