

Working Memorandum Number 9

July 1968

REVENUE ADMINISTRATION

GOVERNMENT OF MINNESOTA

Prepared for the
Governor's Council on Executive Reorganization

by
Public Administration Service

Introduction

The Department of Taxation is the primary revenue agency of the Minnesota State Government. The taxes administered by this department are numerous and varied. Taxes which it directly administers or indirectly supervises produce about 90 per cent of all state and local tax receipts and 83 per cent of total state tax receipts.

The taxes and licenses administered or supervised by this department are listed alphabetically in the accompanying table. Those which are not so administered or supervised by the Department of Taxation, but which have a strong revenue producing purpose, or which because of their miscellaneous and non-regulatory character should be considered for inclusion within that agency's jurisdiction, are the following:

1. The motor vehicle license tax -- which is administered by the Secretary of State using both state employees and designated deputy registrars. The latter are private entrepreneurs usually in "outstate" locations (i.e., outside the Twin Cities Area).
2. Beer and liquor excise taxes -- now administered by the Department of Liquor Control.
3. The boxing exhibition gross receipts tax -- which is administered by the State Athletic Commission.
4. The oleomargarine tax -- now administered by the Department of Agriculture.

For the taxes which it does administer or supervise the Department of Taxation is organized under a Commissioner appointed by the Governor. An assistant and several special attorneys general assigned to the department advise and assist the Commissioner and department on legal matters. The department also employs a special "research attorney". The Commissioner

TABLE OF
TAXES AND LICENSES ADMINISTERED
BY THE DEPARTMENT OF TAXATION

Airflight Property	Petroleum Dealer Registration
Auxiliary Forest	Petroleum Distributors
Aviation Gasoline	Petroleum Inspection Fees
Bank Excise	Petroleum Transport Permit
Cigarette Distributors	Petroleum Trip Permit
Cigarette Tax	Property
Cigarette Wholesaler's Fee	Personal
Coal Dock Operators	Real
Copper-Nickel Occupation	Railroad Companies
Copper-Nickel Production	Rural Co-op Membership
Copper-Nickel Royalty	Sales and Use Tax
Deed Tax	Sales and Use Tax Permit
Express Companies	Semi-taconite Tax
Freight Line Companies	Sleeping Car Companies
Gift Taxes	Special Fuel License
Grain Handling	Special Fuel Tax
Highway User Gasoline	Taconite Occupation
Income Tax	Taconite Production
Corporation	Taconite Railroad Companies
Individual and Fiduciary	Taconite Royalty
Inheritance Tax	Telegraph Companies
Iron Ore Occupation	Telephone Companies
Iron Ore Royalty	Tobacco Products
Marine Gasoline	Transient Merchants
Mortgage Registrations	Tree Growth
Motor Carrier License	Trust Companies
Motor Fuel Road Tax	Vessel Tonnage

oversees a large Research and Planning Division and a small Personnel Division. The former is particularly important in tax program improvement for the State, and in preparing and analyzing tax statistics and in developing revenue projections.

Otherwise the work of the department is divided between two deputy commissioners. One oversees divisions as follows: Administrative Services; Tax Compliance; Income Tax; and Sales and Use Tax. It should be noted that "Administrative Services" is not only a large unit but, like "Research and Planning", is a most important element of the department. It not only provides regular budget and finance, supply and equipment, and general services to other organizational elements, but through its data and records services is in a position to control and facilitate input, output, and general work productivity of most tax divisions of the department.

The other deputy commissioner oversees a unit which handles tax abatements and state deeds, plus tax divisions as follows: Inheritance and Gift Tax; Petroleum Tax; Property Tax; Property Appraisal; and Special Taxes.

Increasingly the department is finding it necessary to bring revenue programs and services closer to taxpayers. This is being done by organizing outstate regional and district offices, with, in addition, some employees working from their homes in outlying areas. Formerly regional offices were for income tax services and audits only. With the advent of the sales tax they are being expanded to include this activity. The very important function of "tax compliance" (i.e., the collection of delinquent taxes and enforcement) is also increasingly being extended to the field.

A tax court, consisting of three members appointed by the Governor for six year overlapping terms, reviews and may redetermine orders of the Commissioner of Taxation regarding taxes, fees, and assessments when such orders are appealed to the Court by taxpayers. The Court determines questions both of law and fact and its decisions are final unless appealed to the Supreme Court.

Proposed Organization and Functional Alignments

It is recommended that the Department of Taxation be renamed the "Department of Revenue". In addition to its present functions it is proposed that the department be assigned responsibility for administering the motor vehicle license tax, beer and liquor excise taxes, the boxing exhibition gross receipts tax, and the oleomargarine tax.

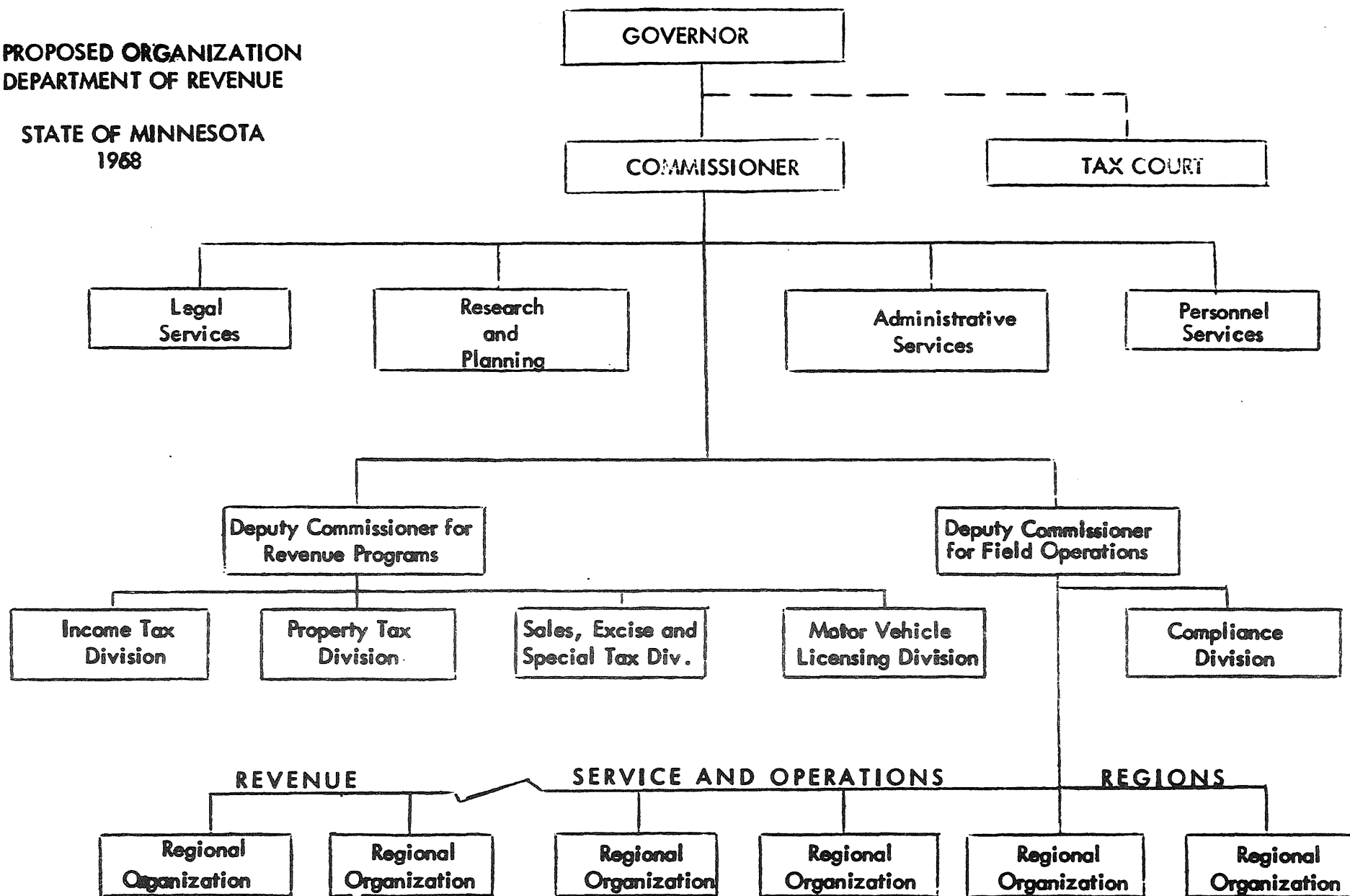
The department should be reorganized in keeping with the accompanying proposed organization chart. All legal services, including those provided by the assistant and special attorneys general and the research attorney, should be provided by a single legal services staff or "office". The Personnel Division and the Research and Planning Division should be retained in their present organizational location subordinate to the Commissioner. They might be re-named "offices" to distinguish them from revenue and tax program divisions. The Administrative Services Division should be relocated in the organizational structure subordinate to the Commission of Revenue (rather than to a deputy commissioner) and also might be renamed an "office".

The central revenue program divisions should be grouped under a Deputy Commissioner for Revenue Programs and should be consolidated functionally so as to consist of divisions as follows: Income Tax; Property Tax; Sales, Excise, and Special Taxes; and Motor Vehicle Licensing.

The development of tax standards and regulations would emanate from the central revenue program divisions. Many tax procedures including many tax return audits are also conducted centrally -- ordinarily with a strong

**PROPOSED ORGANIZATION
DEPARTMENT OF REVENUE**

**STATE OF MINNESOTA
1968**



assist from "Administrative Services". The central program divisions would continue to do much of this work. Increasingly, however, tax service and much audit work should be shifted to the field (as in fact, is being done now). As this trend gains momentum the central program divisions should provide technical support in their respective tax specialties to their field counterparts.

Field work, including field services to taxpayers, field audits, and compliance operations should be organized under a Deputy Commissioner for Field Operations. Assisting him at the central level should be a Compliance Division. Most compliance personnel, however, and revenue service and audit personnel as needed in particular tax fields, should be operative in Revenue Service and Operations Regions. Insofar as practicable, field audit personnel should be trained and become proficient in varied tax requirements and examining procedures. Revenue Service and Operations Regions, of a number and with geographical boundaries determined by the department, should each have a principal regional headquarters, an assigned field staff, and be in charge of a Regional Revenue Director.

The Tax Court and its duties should continue unchanged.

The functions of the respective central revenue program divisions of the central Compliance Division, and of a typical Revenue Service and Operations Region are stated below. The importance of "Research and Planning", and the essential facilitative role of "Administrative Services" in all tax programs, have already been noted. The involvement of these units in the functions described below are implied and will not be separately distinguished.

Income Tax Division

This division would be responsible for standards and policies relative to the assessment and collection of individual, fiduciary, and corporation income taxes and bank excise taxes, including payments through employers' withholdings and declarations of estimated taxes. In general the division would register employers; audit and process returns and declarations; prepare necessary audit reports; record payments; issue refunds; and exchange audit information with the U. S. Internal Revenue Service. It would also provide technical assistance to counterpart regional personnel in matters associated with income tax audits, interpretations of income tax laws and requirements; and concerning informational services to taxpayers.

Property Tax Division

This division should be formed principally from the present Property Tax, Property Appraisal, and Inheritance and Gift Tax Divisions of the Department of Taxation, and should include also the functions of the small Tax Abatement and State Deeds Unit plus a few functions of the present Special Taxes Division of that department.

With respect to the general property tax the Property Tax Division's purpose would be to upgrade assessment standards and appraisal practices throughout the state. In pursuit of this purpose it would prescribe standard formats for the reporting of property values and tax levies, audit assessment and tax list forms, provide property tax information and statistics, and conduct (or assist regional personnel in conducting) instructional schools, sessions, short courses, and meetings for local officials concerned with property appraisals and assessments. Inequitably assessed

properties would be reappraised and reassessed by the state -- but usually by regional personnel.

The central Property Tax Division should directly assess (or give technical guidance to regional personnel in assessing) flight properties of commercial airlines, and assess and review the real and personal property of utility companies and of lessees and vendors of the Metropolitan Airport Commission. It should also review the valuations of utility properties submitted by county assessors and utility companies.

Utilizing ore analyses made by the Ore Estimate Division, Minnesota School of Mines, and by examining reports filed by mining companies, the Property Tax Division should determine the occupation, production, and royalty taxes due on the exploration and mining of ores and the value of iron ore for ad valorem property tax purposes.

This division, in cooperation with "Research and Planning", should determine equalized school district valuations for school aid and bonding purposes. In addition it should review applications from taxpayers and approve abatements for taxes, penalties, and interest erroneously charged by county officials; issue tax deeds to purchasers of tax-forfeited property; insure the usage of documentary stamps on deeds conveying title to real property in the state; and supervise the mortgage registry tax administered by counties.

Finally, the Property Tax Division should administer the inheritance and gift tax by auditing returns, preparing necessary audit reports, recording payments, and ordering refunds.

Sales, Excise, and Special Tax Division

This division should initiate policies, standards, and procedures relative to sales, excise, and special taxes. It should register sales tax collectors; audit, or oversee auditing by regional personnel, of sales and use tax returns; prepare necessary audit reports; and insure that payments are recorded and that refunds due are issued.

With respect to gasoline and special fuel taxes, and beer and liquor excise taxes, the Sales, Excise, and Special Tax Division should insure that distributors are licensed, returns are audited, necessary audit reports are prepared, taxes due are paid, and that receipts and refunds are duly recorded or issued.

Certain miscellaneous and special taxes should also be supervised by this division as follows: the vessel tonnage tax; the tax on rural electric cooperatives; the gross earnings tax on railroad companies, taconite railroad companies, trust companies, freight line companies, express companies, sleeping car companies, telegraph companies, and telephone companies; and it should oversee (via regional personnel) administration by counties of the coal dock, tree growth, auxiliary forest, grain handling, and transient merchant tax programs.

Finally the Sales, Excise, and Special Tax Division should be responsible for program standards and administration of taxes on cigarettes and other tobacco products including the licensing of distributors.

Motor Vehicle Licensing Division

This division should administer motor vehicle registration and licensing laws and taxes. It should issue license plates, and collect taxes due:

by mail, over-the-counter, or by means of designated deputy registrars. By providing general technical review and supervision to regional personnel it should insure that deputy registrars are properly trained and that their records and operations are duly audited. The division should insure that information relative to vehicular registration, license numbers, and ownership is currently available for immediate identification use by public safety officials and other concerned public officials.

Compliance Division

This division should bear central responsibility for the collection of delinquent taxes and for the collections enforcement program of the department. Many compliance operations, however, would be conducted by field personnel on regional staffs. The central division would provide standards and guidelines for such field compliance work and furnish staff support to the regions when needed. It would also make the more difficult determinations in resolving taxpayer disputes, and it would negotiate with attorneys and accountants for the settlement of accounts and the satisfaction of filing requirements. Approval or recommendations for the assessment or abatement of penalties and the authentication of refund warrants would come within the division's purview. The division would also initiate legal actions: to obtain judgments on taxpayer defaulted lawsuits and confessions of judgment; to recover claims against bankrupt and probated estates; and to obtain execution of judgments in applying assets of delinquent taxpayers to outstanding tax liabilities.

Revenue Service and Operations Region

A typical Revenue Service and Operations Region would be operative in

all major areas of taxation administered or supervised by the Department of Revenue.

In the field of income taxation a regional organization would: provide taxpayer information and assistance relative to income tax laws and requirements; perform field audits of tax returns and on cases assigned resulting from office audits or other referrals; authorize additional assessment or over-assessment orders on cases assigned; assist in the pre-audit of individual and partnership returns and answer questions regarding fiduciary returns; and handle protests, correspondence, and hearings on assigned cases.

In the field of property taxation and appraisal and allied revenue fields a regional organization would: review and analyze local appraisal and assessment practices; advise regarding improved procedures and counsel assessors relative to approved policies and standards; arrange workshops, group meetings, and special courses in appraisal and assessment techniques; conduct reappraisals of properties allegedly assessed improperly or inequitably; evaluate and assess flight properties of airlines and review the assessments of utility properties; and conduct audits of inheritance and gift tax returns on assigned cases resulting from office audits or from other referrals.

In the field of sales, excise, and special taxes a regional organization would supply information to vendors and sales tax collectors relative to requirements of law and regulations; audit sales and use tax returns; conduct inspections to insure that distributors of motor fuels, beer and

liquor, and tobacco products are properly licensed; audit the returns of such distributors, and insure that taxes due are paid; and assist in field reviews and audits requisite to the enforcement of special and miscellaneous taxes.

In the field of motor vehicle licensing a regional organization would assist in the training of deputy registrars and review and audit their operations, collections, and deposits. It should also provide over-the-counter sales of licenses when regional headquarters or subordinate district locations are designated as official registration and licensing agencies.

With respect to tax compliance, in addition to compliance activities implicit in other field tax procedures, a regional organization would: collect delinquent tax accounts; locate assets upon which to levy or garnish; conduct investigations to ascertain the location of tax delinquent individuals and failures to file returns, and to substantiate indigency claims made by taxpayers; conduct taxpayer interviews to provide filing information and explain assessments; and negotiate installment payment agreements.

Staffing

If existing staffing patterns for the activities discussed in this memorandum were maintained, the Department of Revenue would have a total staff complement of 1,261 employees. This number does not include designated deputy motor vehicle registrars. Personnel would be available to the major organizational units proposed, and would derive from existing units, as presented below. No attempt has been made to separate out of central divisions those personnel who are now, or who could be assigned to work in the field, i.e., in Revenue Service and Operations Regions. The number should be fairly large.

Commissioner, Deputy Commissioners, and their Offices

From Offices of the Commissioner and Deputy
Commissioners, Department of Taxation

16
Sub-total
16

Legal Services

From Attorney General's Staff assigned to the
Department of Taxation

6

From the Research Attorney, Department of
Taxation

1
Sub-total
7

Research and Planning

From the Research and Planning Division,
Department of Taxation

32
Sub-total
32

Administrative Services

From the Administrative Services Division,
Department of Taxation

261
Sub-total
261

Personnel Services

From the Personnel Division, Department
of Taxation

Sub-total 6 6

Income Tax Division

From the Income Tax Division, Department
of Taxation

Sub-total 163 163

Property Tax Division

From the Property Tax Division (11), Property
Appraisal Division (15), and the Inheritance and
Gift Tax Division (22), Department of Taxation

Sub-total 48 48

Sales, Excise, and Special Tax Division

From the Sales and Use Tax Division (175),
Petroleum Tax Division (107), and the Special
Taxes Division (17), Department of Taxation

299

From the Enforcement and Inspection Unit (6),
Labels and Imports Unit (5), and the Auditing
and Receipts Unit (4), Department of Liquor
Control

15

From the Athletic Commission

N.A.

From the Oleomargarine Tax Unit, Department
of Agriculture

N.A.

Approximate Sub-total 314

Motor Vehicle Licensing Division

From the Motor Vehicle Division, Secretary
of State (exclusive of designated deputy
registrars)

Sub-total 300 300

Compliance Division

From the Tax Compliance Division, Depart-
ment of Taxation

Sub-total 114 114

Revenue Service and Operations Regions

Staff drawn for all central revenue program and tax compliance divisions enumerated above	N.A.
Sub-total	N.A.

Approximate Grand Total, Department of Revenue	1,261
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N.A. - Number not available or undetermined.

ADDENDUM

Working Memorandum Number 9

REVENUE ADMINISTRATION

(Steering Committee Meeting, August 1, 1968)

It was the consensus of the Committee that the Tax Court should be a part of the Judicial rather than the Executive Branch of State Government, but that it should continue to be gubernatorially appointed and continue also to have its present powers. Such a transfer to the Judicial Branch would mean that the Tax Court should not be shown on the organization chart for the proposed Department of Revenue.

It was observed that no mention is made in the working memorandum of the State Board of Equalization (which is by law the Commissioner of Taxation). It was seemingly the consensus of the Committee that the new Commissioner of Revenue would assume this responsibility.

It was proposed and agreed to by the Committee that the recommended Motor Vehicle Licensing Division be placed in its entirety within the proposed Department of Public Safety (see Working Memorandum Number 5), rather than in the Department of Revenue (as proposed in Working Memorandum Number 9). The rationale was that "public safety" rather than "revenue" was the purpose of the function. It was conceded that this activity is a large revenue producer (about seven percent of all revenues derived from state sources).

It was proposed and agreed to that the "Inheritance Tax" should be separated from the Property Tax Division and constitute a separate division

under the proposed Deputy Commissioner for Revenue Programs. The rationale was that the inheritance tax required legal expertise, and unlike the general property tax, was directly administered by the state.

It was felt that enforcement work involved in "Liquor Control", as performed by six people in the Enforcement and Inspection Unit of the present Department of Liquor Control (see page 14), should be done by the proposed Public Safety Division, Bureau of Criminal Apprehension. It was agreed, however, that administration of beer and liquor excise taxes should be a responsibility of the proposed Sales, Excise, and Special Tax Division, Department of Revenue.