
ANNUAL PERFORMANCE REPORT

1994

MINNESOTA DEPARTMENT OF REVENUE

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Questions, comments should be directed to:

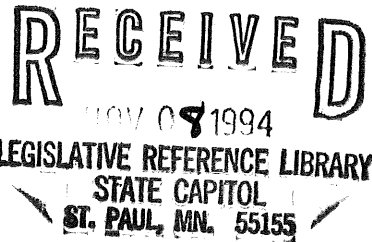
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AGENCY: Revenue, Department of

MISSION:

The Minnesota Department of Revenue's mission is to win taxpayer compliance with Minnesota's tax system.

To administer the tax system, we have a five-stage "win compliance cycle" that begins with sound policy and includes education, service, feedback and progressive enforcement:

- We work to develop sound revenue policy, based on principles of fairness, efficiency, reliability, competitiveness and understandability.
- We educate citizens about their rights and responsibilities under the law.
- We serve our customers—citizens—to help them comply with the law.
- We give feedback to individuals on their tax compliance through auditing and other means; we also develop and share information on the extent of collective compliance and on the performance of the tax system.
- We use progressively tougher enforcement measures, as necessary, when taxpayers fail to meet their obligations.

GOALS:

- A Minnesota tax system that is fair, efficient, reliable, competitive and understandable in structure and operation.
- Taxpayers who comply with tax laws by paying on time their fair share of taxes—neither more, nor less, than is owed.
- Departmental systems that allow us to perform our work with speed and accuracy, at the least cost, and with minimal burden on taxpayers.
- The needs of our customers have been identified and met.
- Citizens and elected officials have confidence in Minnesota's tax system and understand it.

Table 1:

<u>Program</u>	<u>Estimated Expenditures (\$ in Thousands)</u>	<u>Percent of Total</u>	<u>FTE Staff Positions</u>	<u>Percent of Total</u>
Income Tax System	\$11,409	15%	235	18%
Sales and Special Taxes System	14,647	19%	260	20%
Property Tax and State Aid System	3,111	4%	52	4%
Tax Operations	<u>47,261</u>	<u>62%</u>	<u>755</u>	<u>58%</u>
<u>Totals</u>	<u>\$76,428</u>	<u>100%</u>	<u>1,302</u>	<u>100%</u>

ORGANIZATION:

The department's tax program is organized into three tax systems and three support functions. The support functions are combined as a single unit, Tax Operations, in this performance report, but considered as separate activities in the biennial budget. The tax systems are income, sales, and property taxes.

The income tax system includes taxes on individuals, corporations, partnerships, small corporations (S-Corps), fiduciaries (estates), and withholding or payroll taxes (income taxes withheld from paychecks). The sales tax system includes sales and use taxes, petroleum taxes, MinnesotaCare, and a variety of special taxes, such as liquor and cigarettes. Property tax includes state aids. Each tax division is led by a division director who reports to an assistant commissioner.

Included in the agency-wide operational support functions are finance and performance measurement, organizational development, human resources and personnel, information systems, and facilities' management. These activities report to the deputy commissioner. Agency-wide activities reporting to an assistant commissioner for tax system services are: document processing, revenue accounting, collections, record keeping and security, and communications. Tax research and legal services report to another assistant commissioner.

The Department of Revenue does audits, collects delinquent taxes, and provides other services to taxpayers from 18 regional and local sites in Minnesota in addition to the main St. Paul office and out-of-state offices. Ely is the site of a major collections office, and Eveleth a minerals tax office. The out-of-state offices, which specialize in auditing multi-state corporations, are located in Chicago, Cleveland, Dallas, St. Louis, San Francisco, Los Angeles, Washington and New York.

WAYS TO IMPROVE PROGRAM OUTCOMES:

To increase compliance and reduce the costs of tax collection, tax laws should be easy to understand and apply. The current tax laws are so complex that they make it difficult for us to educate and support taxpayers who want to comply. Further, complex tax laws offer loopholes and ambiguities that shield taxpayers who do not wish to comply.

Our ability to provide higher levels of service, improve taxpayers' voluntary compliance, and collect delinquent taxes would be enhanced by the adoption or extension of:

- Uniform individual, business and government identifiers;
- Integrated or common business registration processes;
- Shared financial and demographic databases; and
- Uniform data exchange formats and telecommunications links.

As a matter of policy, these steps toward uniformity should be encouraged between agencies and their customers, and planned for within and between agencies and levels of government. This would minimize redundant business and information management processes, inaccurate or conflicting data, confusion over customer identities in determining eligibility for benefits and services, and opportunities to evade accountability for obligations due the state. .

SUMMARY

AGENCY: Revenue, Department of
 PROGRAM: 01a - Income Tax System

EXPENDITURES AND STAFFING (F.Y. 1994)

(\$ in Thousands)

Total Expenditures:	\$ 11,409	15 % of department's budget
From State Funds	\$ 11,409	
From Federal Funds	\$ 0	
 Number of FTE Staff:	 235	 18 % of department's staff

PROGRAM GOALS:

- To ensure that taxpayers pay no more or less tax than is owed (Minnesota Statutes, chapters 10A, 270, 270A, 289A, 290, 290A).
- To process promptly and accurately all taxpayers' transactions.

DESCRIPTION OF SERVICES:

The income tax system exists to win the widest possible compliance among all taxpayers obligated to file with the income tax system. The income tax system includes four divisions: individual income tax, corporate franchise tax, withholding tax, and Other Business Income Taxes (OBIT). OBIT, in turn, includes taxes on small businesses, partnerships, fiduciaries, estates, and limited liability companies, and administers property tax and political contribution refund programs.

To achieve compliance, the department balances its approach among influencing good tax policy, offering education, giving feedback to the taxpayer, providing services to taxpayers, and seeking progressive enforcement. The department has determined that these five parts of the "win compliance" cycle are what we must do to achieve our mission. These compliance activities are necessary for every tax type, but each tax may have a different emphasis.

Individual Income Tax. The individual income tax system serves over 2.1 million filers each year, concentrating its resources on giving timely feedback and service to taxpayers through prompt refunds, written and oral responses to requests for information (to help taxpayers file correctly), and audits. Influencing tax policy is less important for the individual income tax than for other taxes, because the state's individual income tax is based on the federal income tax. Compliance with tax laws is progressively enforced, which means using harsher penalties for taxpayers who continue to flaunt the law.

Corporate Franchise Tax. Corporations come in all sizes, from small businesses where the sole shareholder files the tax returns to large multinational corporations employing their own tax departments. Some corporations are start-up businesses, while others have been filing in Minnesota since 1933. Also, some corporations' income is gained totally in Minnesota, while other corporations apportion their income between Minnesota and other states.

This variation in our corporate customers requires services in all aspects of the "win compliance" cycle. Sound tax policy keeps laws simple to ease the burden of filers not familiar with our laws. Education helps start-up businesses and multinational corporations that are trying to comply with the laws of several states. Feedback in the form of audits and early detection of problems helps both new and old companies. Good customer service benefits all taxpayers by providing clear forms and instructions, prompt handling of claims for refunds, legislative updates, and responses to taxpayers' inquiries. Progressive enforcement also comes into play for corporations that should be aware of their tax responsibilities through either their prior contacts with the department or their in-house expertise.

The corporate franchise tax system concentrates its resources on giving timely feedback and accurate information through prompt refunds, written and oral information (to help taxpayers comply), and audits.

Withholding Tax. The withholding tax system focuses its resources on giving feedback and service to customers. Progressive enforcement plays a smaller role here than in other income tax systems.

OBIT Taxes. This tax group deals with a great variety of customers, ranging from small businesses with one shareholder who files the tax returns, to partnerships, fiduciaries and large corporations that have their own tax departments. Fiduciaries file on behalf of others, such as estates and trusts. Some partnerships and corporations operate totally in Minnesota, while others must apportion their income among several states. The OBIT system concentrates its resources on giving timely feedback and customer service.

The Tax Operations program provides support for Income Taxes. This support includes forms and instruction design and production, processing taxpayer transactions, maintaining records of the transactions, mail opening and distribution, legal services, and collecting delinquent taxes.

BACKGROUND INFORMATION:

MEASURES OF ACTIVITIES (A), WORKLOAD (W), UNIT COSTS (UC), OTHER DATA (O)

(Dollars in thousands)			
<u>Type</u>	<u>Measure</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>
<i>Individual Income</i>			
A	Net revenue (after refunds; includes withholding and estates)	\$3,515,279	\$3,584,316
A	Total taxpayers	2,159,000	2,171,000
UC	Cost per \$100 collected (includes withholding tax and OBIT)	\$0.81	\$0.81
W	Paper returns processed (includes estimated payments)	2,589,000	2,311,000
W	Electronic returns processed	104,000	119,000
W	Claims for refunds	1,434,000	1,516,000
W	Refunds to taxpayers by electronic funds transfer	15,000	20,000
W	Field audits	400	200
W	Office audits	37,000	43,000
<i>Corporate Franchise</i>			
A	Total revenue (includes OBIT small corporations)	\$509,534	\$552,026
A	Total taxpayers	54,000	50,000
UC	Cost per \$100 collected	\$1.76	\$1.59
W	Paper returns processed (includes estimated payments)	102,000	104,000
W	Electronic returns processed	0	0
W	Claims for refunds	14,600	14,300

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W	Taxpayers paying by electronic funds transfer	500	1,200
W	Field audits	300	200
W	Office audits	2,000	2,200
	<i>Withholding</i>		
A	Total revenue	\$2,899,719	\$3,086,726
A	Total taxpayers	119,000	128,000
W	Paper returns processed (weekly, monthly, etc.)	1,064,000	1,327,000
W	Claims for refunds	4,600	6,000
W	Taxpayers paying by electronic funds transfer	1,300	4,200
W	Field audits	0	0
W	Office audits	9,100	9,800
	<i>OBIT and Property Tax Refunds</i>		
A	Property tax refunds paid out	\$162,526	\$153,575
W	Property tax refund claims processed	541,000	579,700
W	Taxpayers getting property tax refunds	522,000	558,000
W	Property tax paper returns	488,000	625,000
A	Total OBIT taxpayers	142,000	121,000
W	OBIT paper returns processed	179,700	183,300
W	OBIT electronic returns processed	0	3,000
W	OBIT claims for refunds	54,300	43,600
W	OBIT taxpayers paying by electronic funds transfer	0	1,800
W	OBIT field audits	41	39
W	OBIT office audits	1,400	2,600

PROGRAM DRIVERS:

1. *State and federal tax laws.* Changes in federal tax law require that legislators debate the merits of conformity of Minnesota law to the federal changes. Decisions about conformity affect the complexity of taxes and the costs of administration, and may hinder the department's ability to do effective tax planning and make accurate revenue forecasts. Federal law changes sometimes remove information that the Department of Revenue needs to administer state laws. Recent changes in federal withholding requirements, for example, forced us to set up a data exchange with the federal government to continue access to information on filing requirements.

Changes in Minnesota law typically require changes in forms and instructions, reprogramming of computer systems, and additional education of taxpayers and employees. The number of phone calls and letters we handle is likely to increase, and administrative processes may slow down while employees deal with the changes.

2. *Technology.* Offering our taxpayers the latest methods for filing, paying and getting information puts a strain on departmental resources and adds to our concern for effective taxpayer service.

Technology is also making more difficult the task of attributing income to the correct state. For instance, a business might sell a service to people in one state while the service is being performed via technology from another state.

Our tax system is considering investments in regional customer service centers for better access by the rural population. We are also considering investments in technology to file forms and make payments by fax and phone. The continual changes in communication technology require frequent re-education of our staff and customers.

Although technological advances have the potential to make taxpaying and the department more efficient, many taxpayers are unable or reluctant to jump into the technological age. The department, therefore, must maintain two separate systems for filing and paying: the traditional paper-based system and the modern electronic filing and payment system.

Although electronic payments are more efficient for the state than payments by check, taxpayers are hesitant to use electronic payment. Many taxpayers want to have the use of their funds while their checks are being cleared, a process that is much slower for checks than for electronic funds transfer.

3. *Economy.* When the economy is slow and unemployment and bankruptcies are high, the department's workload increases. A slow economy results in more activity in the cash or "underground" economy and means less voluntary compliance with taxes. In addition, taxpayers turn to self-employment to earn money, which complicates their taxes; they may need more service and feedback to comply with the law.

4. *Internal Revenue Service initiatives.* When the IRS changes its policies or embarks on new services or audit programs, the effects are highly visible to the taxpayers of Minnesota. We are expected to match the IRS's service levels. The results of the IRS's audits are passed on to the department for similar audit adjustments. The Minnesota Department of Revenue and the IRS have a reciprocal relationship. We give them information for their audits, and they give us about 70 percent of the leads for our audits.

5. *Multinational and multistate tax issues.* The global market increasingly has a larger part in the administration and compliance requirements of corporate franchise taxes. Technology allows corporate taxpayers to cross all state and national boundaries to market their products, causing special problems in taxation. The trend has been toward uniformity among states in adopting new legislation and sharing information and technologies. Recent international trade agreements, however, have increased the complexity of the tax picture and have made our partnerships with other states more difficult to negotiate.

6. *Court cases.* Courts cases in Minnesota, other states, or at the federal level, can greatly add to the burden of administering the tax system. A decision that goes against a department position can bring new claims from taxpayers in the same position or court challenges by taxpayers in a similar but not identical situation.

7. *Demographic changes.* The number of taxpayers who are over 65 is increasing, and the distribution of income is shifting across different classes of taxpayers. More families have two wage earners, sometimes with three jobs. Minnesotans are becoming more diverse and many immigrants have limited ability in the English language. Taxpayers are more mobile and may work or live in other states. All these changes make tax filing more complex and lead to more requests for services from the department.

AGENCY: Revenue, Department of
 PROGRAM: Income Tax System

OBJECTIVE, MEASURE

Objective 1: To gain the widest compliance by taxpayers with the state's tax laws.

Measure (1-1): Percent of taxpayers paying their taxes on time, and percent of total taxes due that is paid on time.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
<i>Individual income</i>						
Total taxpayers	NA	NA	1,711,280			
Paying on time	NA	NA	1,573,775			
Percent on time	NA	NA	92.0%			
Target						
<i>Corporate</i>						
Total taxpayers	NA	NA	32,700			
Paying on time	NA	NA	25,445			
Percent on time	NA	NA	77.8%			
Target						
<i>Withholding</i>						
Total taxpayers	NA	NA	128,465			
Paying on time	NA	NA	117,084			
Percent on time	NA	NA	91.1%			
Target						
<i>OBIT</i>						
Total taxpayers	NA	NA	35,022			
Paying on time	NA	NA	30,505			
Percent on time	NA	NA	87.1%			
Target						
<i>Individual income</i>						
Total taxes owed	NA	NA	\$2,825,250			
Paid on time	NA	NA	\$2,587,424			
Percent paid on time	NA	NA	91.6%			
Target						
<i>Corporate</i>						
Total taxes owed	NA	NA	\$508,155			
Paid on time	NA	NA	\$419,109			
Percent paid on time	NA	NA	82.5%			
Target						
<i>Withholding</i>						
Total taxes owed	NA	NA	\$3,032,363			
Paid on time	NA	NA	\$2,803,340			
Percent paid on time	NA	NA	92.4%			
Target						
<i>OBIT</i>						
Total taxes owed	NA	NA	\$47,803			
Paid on time	NA	NA	\$44,463			
Percent paid on time	NA	NA	93.0%			
Target						

DEFINITION, RATIONALE, DATA SOURCE:

Filing and paying taxes on time is the definition of full compliance. The percentage of taxes paid is the fraction of taxes fully paid on time, presuming that the tax return has been honestly completed, in relation to total taxes owed. The amount paid on time may include some taxpayers who are later discovered to have incorrectly reported their taxes. Individual income includes taxes withheld through payroll deductions but refunds are excluded. Note, however, that the total of taxes owed includes only tax obligations that have been reported by taxpayers or discovered by the department. An estimated \$300 million of income taxes goes unreported and undiscovered each year, and the number of people who should file taxes, but do not, is unknown.

Data for these measures is from the department's taxpayer accounting system (TPA). The total for a fiscal year includes all taxpayers who owed money at the beginning of the year and all taxpayers whose tax filings during the year were processed completely by the end of the fiscal year. OBIT includes small corporations (S-Corps.), fiduciaries and partnerships. A taxpayer may be counted under more than one tax type, for example, as a corporate taxpayer and an individual income taxpayer.

DISCUSSION OF PAST PERFORMANCE:

These are new performance measures, and data is not available for earlier years.

PLAN TO ACHIEVE TARGETS:

Improved taxpayer service will be a primary focus of our efforts to improve voluntary compliance. We will also be doing research to evaluate what methods work best at increasing voluntary compliance.

OTHER FACTORS AFFECTING PERFORMANCE:

These measures can be affected by changes in the state's economy. Underpayment of taxes is more common when the economy is poor.

AGENCY: Revenue, Department of
PROGRAM: Income Tax System

OBJECTIVE, MEASURE

Objective 1: To gain the widest compliance by taxpayers with the state's tax laws.

Measure (1-2): Percentage of delinquent taxes (accounts receivable, A/R) collected, by tax type.

Actual Performance (Dollars in thousands)	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
<i>Individual income</i>						
Accounts receivable	NA	NA	\$226,185			
Collected A/R	NA	NA	\$55,488			
Percentage collected	NA	NA	24.5 %			
<i>Corporate franchise</i>						
Accounts receivable	NA	NA	\$111,914			
Collected A/R	NA	NA	\$10,579			
Percentage collected	NA	NA	9.45 %			
<i>Withholding</i>						
Accounts receivable	NA	NA	\$71,631			
Collected A/R	NA	NA	\$12,013			
Percentage collected	NA	NA	16.8 %			
<i>OBIT</i>						
Accounts receivable	NA	NA	\$979			
Collected A/R	NA	NA	\$733			
Percentage collected	NA	NA	74.9 %			

DEFINITION, RATIONALE, DATA SOURCE:

Accounts receivable are the cumulative amounts of money that taxpayers have not paid voluntarily. The total is the year end balance plus amounts owed and collected during the year. The total includes interest and penalties on unpaid balances but does not count amounts that are under appeal. Success on this measure is indicated by an increase in the collection of delinquent taxes. Note, however, that tax collections for a given fiscal year include amounts owed from previous tax years, and collections from new accounts receivable will go on for several years, or until the debts are ruled uncollectable. Thus, one must look at trends in delinquent taxes and collections over several years to assess whether collections are keeping pace with delinquent taxes. Data comes from the department's taxpayer accounting system (TPA) and conforms to the definition of accounts receivable used by the Department of Finance. OBIT includes small corporations (S-Corps) and partnerships.

DISCUSSION OF PAST PERFORMANCE:

The collection of delinquent taxes has increased in the past few years, partly the result of special initiatives funded by the legislature. This is a new performance measure, however, and historical data is not available.

PLAN TO ACHIEVE TARGETS:

Improved taxpayer services will be a focus of the Income Tax system's efforts to increase voluntary compliance, which, in turn, will reduce the new accounts receivable. The department's Collections Division (see also Tax Operations) is responsible for collecting accounts receivable. To increase collections, the division will: (1) Improve case management of business cases, including faster resolution, more payment-plan monitoring and wage-levy monitoring, and more use of strict enforcement tools when appropriate. (2) Improve inventory management, by focusing on cases less than one year old, while older, unproductive cases will be referred more often to collections agencies. Additionally, certain types of cases not currently

pursued will be assigned to the Minnesota Collection Enterprise (a new activity that will centralize much of the state's collection activities.) And (3) expand internal communications and training for staff.

The Collections Division sets a target for total collections, across all the types of taxes that it collects. Different types of taxes may be collected simultaneously, and Collections does not target specific taxes. Therefore, no targets are given here for the tax types. An overall target for collections is given in the Tax Operations section of the performance report.

OTHER FACTORS AFFECTING PERFORMANCE:

An economic downturn can cause an increase in accounts receivable and make collection of delinquent funds more difficult.

AGENCY: Revenue, Department of
 PROGRAM: Income Tax System

OBJECTIVE, MEASURE

Objective 1: To gain the widest compliance by taxpayers with the state's tax laws.

Measure (1-3): Percentage of taxpayers found paying too much or too little during audit and review.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
<i>Individual</i> returns						
Number corrected						
Percentage corrected						
Target						
<i>Corporate</i> returns						
Number corrected						
Percentage corrected						
Target						
<i>Withholding</i> returns						
Number corrected						
Percentage corrected						
Target						
<i>OBIT</i> returns						
Number corrected						
Percentage						
Target						

DEFINITION, RATIONALE, DATA SOURCE:

These measures are under development and will not be complete until the next performance report. The number of returns that we correct for refunds or additional tax owed in the post-processing audit process reflects department attempts to ensure that taxpayers are treated fairly and pay the correct amount of taxes. Corrections come from audits by the Department of Revenue, the federal Compliance 2000 reports, and federal Revenue Agent Reports. Data for this measure comes from unit production reports. The returns audited during a fiscal year usually are returns from previous tax years.

DISCUSSION OF PAST PERFORMANCE:

The number of audits is limited by staff resources, and some amounts owed by taxpayers are too small for the department to collect cost-efficiently.

PLAN TO ACHIEVE TARGETS:

The relationship of completed audits to the total returns filed should be maintained by current audit resources.

OTHER FACTORS AFFECTING PERFORMANCE:

Performance depends in part on federal auditing efforts, which detect many instance of noncompliance. The IRS passes that information along to the Minnesota Department of Revenue. A reduction in federal tax auditing would reduce our ability to collect delinquent taxes.

AGENCY: Revenue, Department of
PROGRAM: Income Tax System

OBJECTIVE, MEASURE

Objective 1: To gain the widest compliance by taxpayers with the state's tax laws.

Measure (1-4): Nonfilers discovered and percentage who file in next year.

Actual Performance	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
<i>Individuals</i> discovered	1,860	2,039	1,909			
Percentage filing	NA	NA	68 %e	70 %	80 %	90 %
Target				100 %	100 %	100 %
<i>Corporations</i> disc'd.	128	98	129			
Percentage filing	NA	NA	72 %e	75 %	80 %	90 %
Target				100 %	100 %	100 %
<i>Withholding</i> discovered	NA	NA	NA			
Percentage filing	NA	NA	NA	70 %	80 %	90 %
Target				100 %	100 %	100 %

DEFINITION, RATIONALE, DATA SOURCE:

Discovering taxpayers who owe taxes but do not file tax returns is another focus of compliance efforts. Once these taxpayers are identified, it is important that they continue to file voluntarily. This measure reports the number of nonfilers who are discovered each year, and the percentage of nonfilers discovered the previous year who have voluntarily filed a return in the current year, excepting those who did not need to file. The percentages for 1994 are estimates ("e") based on a random sample. Future percentages will be based on the entire population of nonfilers. The corporate and small business data includes "nexus" cases where the company was operating in Minnesota but did not acknowledge that fact. These statistics are available from division production reports for individual income and corporate taxes. The nonfiler program for withholding taxes is just beginning.

DISCUSSION OF PAST PERFORMANCE:

Discovering nonfilers is difficult, and improvements are slow.

PLAN TO ACHIEVE TARGETS:

We expect to maintain last year's achievement and gradually increase each year.

OTHER FACTORS AFFECTING PERFORMANCE:

The IRS will be retreating from its nationwide effort to get nonfilers back into the fold. This may affect our ability to be as productive in the individual income tax area as in the past.

To increase voluntary compliance, this program will concentrate on feedback, education and enforcement directed at those who should be filing but are not. Many of these taxpayers will be identified through normal auditing. The auditing of current filers often leads to the discovery of nexus cases, which involve non-Minnesota businesses that may not be aware of our laws about filing requirements. Therefore, early education and feedback can resolve many of these cases. Enforcement is more applicable for nonfilers who are in Minnesota but who refuse to file. Enforcement efforts also extend to taxpayers who deliberately delay the auditing process.

AGENCY: Revenue, Department of
 PROGRAM: Income Tax System

OBJECTIVE, MEASURE

Objective 2: To provide timely service to taxpayers who contact us.

Measure (2-1): Phone service levels (percentage of callers reaching us).
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Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
<i>Individual income</i>						
Calls answered	NA	555,300	718,400			
Percentage answered	NA	59 %	69 %			
Target				95 %	95 %	95 %

DEFINITION, RATIONALE, DATA SOURCE:

Phone service levels are defined by an IRS formula that takes into account numbers of calls received, numbers of busy signals, numbers of calls answered, and the repetitive dialing capabilities of modern phones. Daily statistics from the phone operations are applied to the formula to calculate the service level used here as the performance measure. This measure is a very important aspect of our customer service. If we make ourselves available to taxpayers to answer their questions, we believe that they will have a better chance of filing and paying their taxes correctly.

This measure is not available for the corporate franchise tax, withholding tax, or OBIT tax systems because the phone system serving those systems is not capable of gathering data on calls and busy signals that is specific to each type of tax.

DISCUSSION OF PAST PERFORMANCE:

Our phone service levels have been very low in the past because we did not have enough staff to answer the phones in the face of a continually increasing demand. In F.Y. 1994, the legislature gave us initiative funds to invest in phone service, which helped us achieve the highly improved service levels reported above. The F.Y. 1994 level, however, does not fully represent the current service level because it is an average of service levels over the entire year, whereas there was a marked expansion of service toward the end of the year.

PLAN TO ACHIEVE TARGETS:

We expect continued improvement as we make full use of the legislative initiative money. In addition, we have re-aligned our compliance resources to put additional examiners on the phones (switching work duties) when phone calls are heavy.

OTHER FACTORS AFFECTING PERFORMANCE:

Many factors can cause abrupt increases in the number of people calling the department. These include changes in tax laws, newspaper editorials on taxes, tax news from other states, and so on.

AGENCY: Revenue, Department of
PROGRAM: Income Tax System

OBJECTIVE, MEASURE

Objective 2: To provide timely service to taxpayers who contact us.

Measure (2-2): Average days to issue refunds.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
<i>Individual</i>						
Average days	22	23	29			
Target				25	25	25
<i>Corporate</i>						
Average days	90	50	52			
Target				45	45	45
<i>OBIT</i>						
Average days	NA	248	204			
Target				90	90	90

DEFINITION, RATIONALE, DATA SOURCE:

The measure of the time it takes us to process a refund depends on the type of tax. For individual income taxes, the time is the number of days from the moment the refund claim arrives at the department to the day we send out a check in the mail. For corporate and OBIT taxes, time is counted from the day when a claim is entered into the accounting system to the day when the check is put in the mail; we do not count how long the return might have been in the department before processing started. The withholding system does not have statistics on refund processing because the refund process is treated differently. Data on refund processing is from the department's taxpayer accounting system (TPA).

We believe that a timely response to taxpayers, especially in the area of giving them their refunds, is an important component of customer satisfaction and, therefore, of winning compliance. Also, the state must pay interest on refunds that are over 90 days in processing.

DISCUSSION OF PAST PERFORMANCE:

The average days to refund in the individual income tax system has been very good in the past. We have made it a priority to achieve an average under 30 days. The average went up in 1994 because of a reorganization, which resulted in fewer staff available for data entry. Corporate and OBIT refund processing showed much improvement in 1993 and 1994 owing to a newly established priority processing status and more efficient computer data-entry system.

PLAN TO ACHIEVE TARGETS:

We will continue to give a high priority to strategies and computer systems that help us achieve these targets.

OTHER FACTORS AFFECTING PERFORMANCE:

The program drivers will affect performance on this indicator, particularly the shift to electronic filing methods for the individual income tax and fiduciaries. Electronic filing greatly speeds refund processing.

AGENCY: Revenue, Department of
PROGRAM: Income Tax System

OBJECTIVE, MEASURE

Objective 3: To increase the accuracy of taxpayers' returns.

Measure (3-1): Percentage of returns that are accurate.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
<i>Individual Income</i>						
Total returns	NA	2,095,099	1,845,844			
Correct returns	NA	2,048,633	1,801,995			
Percentage correct	NA	97.8%	97.6%			
Target				98.0%	98.0%	98.0%
<i>Corporate Franchise</i>						
Total returns	NA	NA				
Correct returns	NA	NA				
Percentage correct	NA	NA	94.0%e			
Target				94.0%	94.0%	94.0%
<i>OBIT</i>						
Total returns	NA	488,570	625,384			
Correct returns	NA	434,528	564,053			
Percentage correct	NA	88.9%	90.2%			
Target				96.0%	96.0%	96.0%

DEFINITION, RATIONALE, DATA SOURCE:

If a taxpayer's payment and return are received by the due dates and there are no errors on the return, the return is tentatively considered to be accurate. The ratio of the number of taxpayers who file correct returns to the total number of filers gives a measure of overall accuracy. Errors are frequently caused by problems with instructions and forms, and by the complexity of tax laws. If the percentage of correct returns increases, it would indicate our success at giving information and assistance to taxpayers. (We expect the number of arithmetic errors to remain steady over time.) If the percentage correct holds constant in spite of many complex changes in tax laws, this, too, can be considered a success. The data for this measure are from a computer analysis of tax system processing files. The F.Y. 1994 data for corporate taxes is an estimate based on three months of the year.

DISCUSSION OF PAST PERFORMANCE:

Tax system work has concentrated on helping taxpayers pay their taxes correctly when they first pay them. Past and current accuracy levels reflect our continual efforts to improve the design of tax forms, phone service, and educational materials.

PLAN TO ACHIEVE TARGETS:

We will consider it a success if we maintain the current high level of taxpayer accuracy, but nonetheless we will work for improvements. The income tax system plans to focus on customer service and taxpayer education to maintain and, we hope, improve on current levels of accuracy. As part of our customer service, we strive to improve our forms and instructions, to review and improve our procedures for processing returns and audit reports, to keep customer hand-offs to a minimum, and to incorporate customer and employee suggestions into sound tax policy proposals. Education efforts include doing early audits of new businesses, giving prompt attention to suspected non-filers, issuing newsletters and other publications that deal with legal changes and common questions, increasing participation in new business education, and tax seminars.

OTHER FACTORS AFFECTING PERFORMANCE:

The program drivers will affect performance on this indicator, especially electronic filing for individual income and fiduciaries, which reduce error rates by screening for errors automatically before the return is sent to the department.

SUMMARY

AGENCY: Revenue, Department of
 PROGRAM: 01b - Sales and Special Taxes System

EXPENDITURES AND STAFFING (F.Y. 1994)

(\$ in Thousands)

Total Expenditures:	\$ 14,647	19% of department's budget
From State Funds	\$ 14,617	
From Federal Funds	\$ 30	
 Number of FTE Staff:	 260	 20% of department's staff

PROGRAM GOALS:

- To ensure that taxpayers pay no more or less tax than is owed. (Minnesota Statutes, chapters 60A, 69, 115B, 116, 273, 287, 290, 294-297E, 299F, 325D and 473.)
- To ensure that all taxpayers' transactions are accurately and promptly processed.

DESCRIPTION OF SERVICES:

The Sales and Special Taxes System is made up of four divisions: the Sales and Use Tax Division, the Special Taxes Division, the Petroleum Tax Division and the MinnesotaCare Tax Division.

The Sales and Use Tax Division administers the state sales tax and use tax. The division also administers local sales taxes in the cities of Minneapolis, St. Paul, Rochester, St. Cloud and Mankato and in Cook County.

The Special Taxes Division administers 18 taxes and fees. These include taxes on cigarettes, tobacco, beer, wine, liquor, and gambling products. Taxes are collected from the distributors of these commodities. The division also collects taxes and fees on hazardous and solid waste. In addition, the division administers three taxes and a surcharge on the premiums of insurance companies. The division has regulatory responsibility for the Unfair Cigarette Sales Act and provisions of the state's lawful gambling law.

Many of the taxes, fees, and regulatory laws administered by the division have the legislative intent of achieving a social or political result as well as raising revenue. This added purpose involves the division in collecting information that is used not only to determine tax payments but also to monitor and regulate the activity.

The Petroleum Tax Division administers the state tax on gasoline, special fuels, aviation fuel, and road tax. The division also collects various fees that are designated for specific purposes. A large percentage of the revenue collected from the tax on petroleum products is dedicated to the highway user trust fund, while the remaining portion is used for airport maintenance and improvements, the clean-up of leaking underground gasoline storage tanks, the inspection of the quality and grade of petroleum products, and the upgrading of low-income household heating equipment.

The MinnesotaCare Tax Division administers the MinnesotaCare tax paid by Minnesota's hospitals, health-care providers, wholesalers of prescription drugs, and retailers of medical supplies and equipment, as well as the tax paid by health-care providers in other states who provide services to Minnesota residents. The revenue from the MinnesotaCare tax is used to fund health insurance for Minnesotans who do not have any, to make it more affordable for small business owners to provide health insurance to their employees, and to help contain the escalating costs of health care.

The MinnesotaCare tax on hospitals and surgery centers went into effect on January 1, 1992. The MinnesotaCare tax on health-care providers, wholesalers of prescription drugs, and retailers of medical supplies, equipment and appliances went into effect on January 1, 1994.

In general, the four divisions of this program administer all aspects of the taxes and fees for which they have responsibility. This includes:

- creating forms, instructions and other written materials to be used to determine the amount of tax paid;
- answering telephone and written requests for assistance;
- providing classroom training to taxpayers and making appearances before taxpayer groups;
- providing feedback to taxpayers as to how well they are fulfilling their tax obligations;
- participating in appeals of audits;
- participating in civil and criminal investigations;
- making initial attempts to collect delinquent accounts and recording taxpayer transactions for special groups of taxpayers;
- identifying desirable changes to the tax laws to improve the ability of taxpayers to comply with the law.

These divisions also maintain several computer systems that contain information from taxpayers' reports, some of which is used by other agencies in performing their regulatory and licensing functions.

This program is making increasing use of informational visits, self-audit projects and other audits to provide taxpayers with feedback on how well they are fulfilling their obligations for collecting the sales tax, accounting for their receipts, and reporting the tax. In the self-audit project, the division selects an industry where there appears to be a lack of knowledge on sales and use tax requirements, and then mails information to all businesses in the industry explaining their tax responsibilities, and asks the business to determine and pay the tax owed or explain why the tax is not owed.

The Tax Operations program provides support for Sales and Special Taxes. This support includes processing taxpayer transactions, maintaining records of the transactions, mail opening and distribution, legal services, and collecting delinquent taxes.

BACKGROUND INFORMATION:

MEASURES OF ACTIVITIES (A), WORKLOAD (W), UNIT COSTS (UC), OTHER DATA (O)

(Dollars in thousands)			
Type	Measure	F.Y. 1993	F.Y. 1994
<i>Revenue measures</i>			
A	Total revenue for system	\$3,382,819	\$3,620,328
A	Sales tax revenue	\$2,378,483	\$2,519,698
A	Special tax revenue	\$522,897	\$556,206
A	MinnesotaCare tax revenue	\$11,884	\$57,313
A	Petroleum tax revenue	\$469,555	\$487,111
A	Percentage of total revenue paid electronically	NA	58%
<i>Measures of return processing</i>			
W	Total returns filed	1,095,615	1,273,772

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W	Sales tax returns	987,880	1,167,809
W	Special tax returns	51,369	39,400
W	MinnesotaCare tax returns	785	6,145
W	Petroleum tax returns	55,581	60,418
	<i>Cost of collecting \$100 by tax type</i>		
UC	Cost per \$100 sales tax collected	\$0.93	\$0.91
UC	Cost per \$100 special taxes collected	\$0.74	\$0.63
UC	Cost per \$100 MinnesotaCare taxes collected	NA	\$2.71
UC	Cost per \$100 petroleum taxes collected	\$0.63	\$0.53
	<i>Number of taxpayers by tax type</i>		
A	Taxpayers of sales tax	157,000	170,000
A	Taxpayers of special taxes	11,776	11,776
A	Taxpayers of MinnesotaCare taxes	NA	13,000
A	Taxpayers of petroleum taxes	7,500	6,600
	<i>Payments processed by tax type</i>		
W	Sales tax payments	985,468	1,167,809
W	Special tax payments	38,000	38,000
W	MinnesotaCare tax payments	785	6,145
W	Petroleum tax payments	55,589	60,418
	<i>Claims for refunds by tax type</i>		
W	Sales tax refunds	3,380	2,707
W	Petroleum tax refunds	6,378	6,600
	<i>Auditing measures</i>		
W	Audits	7,353	8,073
A	Directed self-audits by taxpayers	207	250
W	Informational visits	225	40
	<i>Telephone calls answered by tax type</i>		
W	Sales tax calls	NA	115,022
W	Special tax calls	6,000	6,000
W	MinnesotaCare tax calls	NA	16,000
	<i>Other measures</i>		
W	Letters answered	2,273	1,914
A	Participants in business education classes	NA	994
A	Forms and instructions mailed	2,196,000	3,900,550
A	Other educational mailings	481,048	495,000

PROGRAM DRIVERS:

■ *Economic trends.* Department activity levels, like revenue collections, are extremely sensitive to changes in the state's economy. Economic upturns, for example, increase business registrations, requests for forms, instructions and other information, telephone calls, and filings of tax returns. When downturns in the state's economy put pressure on businesses, the department must respond to increases in late filings, nonfilings, delinquent taxes, and tax avoidance.

■ *Economic change.* International trade agreements, such as NAFTA and GATT, are redefining the marketplace and affecting competition, pricing and other factors for Minnesota businesses. Changes in the global economy thus affect administration of state taxes.

The rapid pace of mergers and reorganizations strains our ability to identify taxpayers and their appropriate liabilities.

■ *Technology.* Increased use of ever-more powerful and sophisticated computers by some taxpayers challenges us; unless we keep pace, we will not be able to provide them the good customer service that we believe is essential to winning compliance. However, not all taxpayers are investing in information technology at the same time or to the same extent. To meet the needs of all our customers, we need to maintain two systems—one to accommodate those using computers and another for those who use manual methods to file returns and pay taxes.

■ *State and federal legislation.* Most state law changes require us to write, publish and mail new instructions to affected taxpayers. New laws also require retraining our employees and modifying computer systems, and may result in additional phone and letter inquiries.

We must be prepared to handle changes in federal tax laws, too. One proposal would provide for uniform collection of state sales taxes nationwide. This would mean establishing different administration mechanisms for taxpayers outside Minnesota.

Enactment of a federal health care plan providing universal health coverage would reduce or eliminate the need for the MinnesotaCare health insurance plan and for the tax that funds it. (In the absence of federal legislation, MinnesotaCare will proceed with its planned expansion to couples without children and to single persons, which will require substantially greater revenue than is now collected. The proposed adoption of a program of universal coverage for all Minnesotans through MinnesotaCare would require yet more revenue.)

Increases in federal cigarette and alcohol taxes can result in a reduction in the consumption of the products and, in turn, cause a reduction in state taxes collected. In addition, such increases in federal taxes will lead to more evasion of taxes through illegal distribution of untaxed products, causing a further reduction in state taxes. Increases in the state taxes on cigarettes and alcohol may have similar effects.

■ *Court cases and aggressive appeals of law suits.* The complexity of the state's tax laws results in frequent legal challenges. Court decisions that overturn our interpretation of the law often require that we revise and distribute new instructions and informational materials. Also, a court decision may result in the processing of more refund applications.

In addition to court cases, we are seeing substantial increases in taxpayers' challenges to our audits. This is substantially increasing the number of legal conferences and hearings that we must hold to resolve appeals.

■ *Lifestyle changes.* Americans are becoming more conscious about the ill effects of tobacco and alcohol, which is reducing consumption of these products. While the reduction in consumption will lead to lower revenue, the program's costs to administer the taxes will likely remain the same because the number of businesses distributing the products is likely to remain the same.

Minnesotans' commuting patterns, use of mass transit, and purchase of fuel-efficient vehicles affects petroleum consumption and, consequently, revenue.

■ *Reliance on tax laws to implement social policy.* Tax administration is an essential part of the state's overall policy for regulating activities with high social and environmental costs, such as gambling, the use of tobacco and alcohol products, and the generation of industrial pollution and residential waste. Tax administrators and regulatory agencies, including the Pollution Control Agency, the Department of Health, the Gambling Control Board and the Department of Public Safety, are working together to coordinate the collection of information to ensure effective and efficient administration. These coordinated efforts place heavy demands on our information systems and other resources.

AGENCY: Revenue, Department of
 PROGRAM: Sales and Special Taxes System

OBJECTIVE, MEASURE

Objective 1: To gain the widest compliance by taxpayers with the states's tax laws.

Measure (1-1): Percent of taxpayers paying their taxes on time, and percent of total taxes due that is paid on time.
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Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
<i>Sales and Use Taxes</i>						
Total taxpayers	NA	NA	169,551			
Paying on time	NA	NA	145,738			
Percent on time	NA	NA	86.0%			
Target						
 Taxes owed (\$1000)	NA	NA	\$2,635,242			
Paid on time	NA	NA	\$2,303,603			
Percent paid on time	NA	NA	87.4%			
Target						

DEFINITION, RATIONALE, DATA SOURCE:

Filing and paying taxes on time is one of the criteria used to measure full compliance. The percentage of taxes paid is the fraction of taxes fully paid on time in relation to total taxes owed. The amount paid on time may include some taxpayers who are later discovered to have incorrectly reported their tax obligations. The total of taxes owed includes only tax obligations that have been reported by taxpayers or discovered by the department. The amount of sales taxes that go unreported and undiscovered each year is unknown, as is the number of people who should file taxes but do not.

Data for this performance measure is from the department's taxpayer accounting system (TPA). The total for a fiscal year includes all taxpayers who owed money at the beginning of the year and all taxpayers whose tax filings during the year were processed completely by the end of the fiscal year. Data for special taxes is under development.

DISCUSSION OF PAST PERFORMANCE:

This is a new performance measure, and data is not available for earlier years.

PLAN TO ACHIEVE TARGETS:

In F.Y. 1995, the program will be developing measures to determine the degree to which taxpayers are timely and regularly fulfilling their obligations under the state tax laws. Based on the results of the measures—together with an analysis of the factors that may contribute to the late filing of returns or late payment of taxes—the program will take the appropriate steps to eliminate any obstacles that hinder taxpayers from filing tax returns timely, and from paying taxes in a prompt and regular manner.

OTHER FACTORS AFFECTING PERFORMANCE:

These measures can be affected by changes in the state's economy. For example, economic downturns result in more business failures, and more businesses use the sales taxes they have collected from their customers to pay for operating expenses. These business practices then lead to increases in nonfilers and in the late payment or nonpayment of taxes.

AGENCY: Revenue, Department of
PROGRAM: Sales and Special Taxes System

OBJECTIVE, MEASURE

Objective 1: To gain the widest compliance by taxpayers with the states's tax laws.

Measure (1-2): Percentage of delinquent taxes (accounts receivable, A/R) collected.

Actual Performance (Dollars in thousands)	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
<i>Sales and use taxes</i>						
Accounts receivable	NA	NA	\$190,032			
Collected A/R	NA	NA	\$46,549			
Percentage collected	NA	NA	24.5 %			
<i>Special taxes</i>						
Accounts receivable	NA	NA	NA			
Collected A/R	NA	NA	NA			
Percentage collected	NA	NA	NA			
<i>MinnesotaCare</i>						
Accounts receivable	NA	\$160	\$200			
Collected A/R	NA	NA	NA			
Percentage collected	NA	NA	NA			
<i>Petroleum</i>						
Accounts receivable	NA	NA	NA			
Collected A/R	NA	NA	NA			
Percentage collected	NA	NA	NA			

DEFINITION, RATIONALE, DATA SOURCE:

Accounts receivable are the cumulative amounts of money that taxpayers have not paid voluntarily. The total is the year end balance plus amounts owed and collected during the year. The total includes penalties and interest on unpaid balances but does not count amounts under appeal. Success on this measure is indicated by the department collecting an increasing proportion of delinquent taxes. Note, however, that tax collections include amounts owed from previous tax years that are collected during a given fiscal year, and collections from new accounts receivable will go on for several years, or until the debts are ruled uncollectable. Thus one must look at trends in delinquent taxes and collections over several years to assess whether collections are keeping pace with delinquent taxes. Data on accounts receivable for sales and use taxes is from the department's taxpayer accounting system (TPA) and conforms to the definition of accounts receivable used by the Department of Finance. Data for other tax types is collected separately, and the performance measures are still under development.

DISCUSSION OF PAST PERFORMANCE:

The collection of delinquent taxes has increased in the past few years, partly because of special initiatives funded by the legislature. This is a new performance measure, however, and historical data is not available.

PLAN TO ACHIEVE TARGETS:

The department's Collections Division (see also Tax Operations) is responsible for collecting accounts receivable. To increase collections, the division will: (1) Improve case management of business cases, including faster resolution, more payment-plan monitoring and wage-levy monitoring, and more use of strict enforcement tools when appropriate. (2) Improve inventory management, by focusing on cases less than one year old, while older, unproductive cases will be referred more often to

collections agencies. Additionally, certain types of cases not currently pursued will be assigned to the Minnesota Collection Enterprise (a new activity that will centralize much of the state's collection activities.) And (3) expand internal communications and training for staff.

The Collections Division sets a target for total collections, across all the types of taxes that it collects. Different types of taxes may be collected simultaneously, and Collections does not target specific taxes. Therefore, no targets are given here for the tax types. An overall target for collections is given in the Tax Operations section of the performance report.

OTHER FACTORS AFFECTING PERFORMANCE:

An economic downturn can increase the amount of accounts receivable and make the collection of delinquent taxes more difficult.

AGENCY: Revenue, Department of
PROGRAM: Sales and Special Taxes System

OBJECTIVE, MEASURE

Objective 1: To gain the widest possible compliance by taxpayers with the state's tax laws.

Measure (1-3): Percentage of sales and use taxes correctly reported in selected business sectors.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
<i>Sales Tax</i>						
Business services	NA	97 %e				
Banking industry	NA	99 %e				
Veterinarians	NA	NA				
Target				99 %	99 %	100 %
<i>Use Tax</i>						
Business services	NA	21 %e				
Banking industry	NA	74 %e				
Veterinarians	NA	NA				
Target				85 %	85 %	85 %

DEFINITION, RATIONALE, DATA SOURCE:

The Sales and Use Tax Division will identify a representative sample of businesses within an industry and conduct a comprehensive audit of the sample. The business sectors chosen for compliance measurement are ones known from past audits to have problems paying their taxes. Based on the audits, we will estimate the total amount of sales and use tax that should have been reported within a business sector and compare that to the taxes actually paid. Once the total amount is established for a baseline year, the degree of increase in compliance will be determined in succeeding years by dividing total amount collected from the businesses by the total amount that should have been reported by the businesses. The total amount that should have been reported by businesses will be estimated by the department's Research Office, based on the results from the sample conducted in the baseline year, adjusting for inflation and changes in economic activity. Additional business sectors will be added in future years.

DISCUSSION OF PAST PERFORMANCE:

The study will, for the first time, permit the division to identify both the degree of compliance among selected businesses and any improvements in compliance. Data for 1993 are estimates ("e") based on a statistical sample of businesses.

PLAN TO ACHIEVE TARGETS:

The Sales and Use Tax Division plans to reach the targets by providing all the selected businesses with sales tax information tailored to the type of business, by conducting classroom training for representatives of the businesses, and by working with business associations to promote better taxpayer awareness and understanding of the sales and use tax laws. In addition, during audits, employees of the division will identify obstacles to understanding and compliance, and will develop ways to remove the obstacles.

OTHER FACTORS AFFECTING PERFORMANCE:

Compliance tends to decrease in an economic downturn.

AGENCY: Revenue, Department of
PROGRAM: Sales and Special Taxes System

OBJECTIVE, MEASURE

Objective 1: To gain the widest compliance by taxpayers with the state's tax laws.

Measure (1-4): Nonfilers discovered and percentage who file in next year.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
Nonfilers discovered						
Percentage filing						
Target						

DEFINITION, RATIONALE, DATA SOURCE:

Discovery of nonfilers is a prime focus of compliance efforts, as is keeping nonfilers compliant once they have been discovered.

DISCUSSION OF PAST PERFORMANCE:

This measure is under development, and historical data is not available.

PLAN TO ACHIEVE TARGETS:**OTHER FACTORS AFFECTING PERFORMANCE:**

AGENCY: Revenue, Department of
 PROGRAM: Sales and Special Taxes System

OBJECTIVE, MEASURE

Objective 2: To provide information and services that meet taxpayers' needs.

Measure (2-1): Percentage of taxpayers rating information and services as "good" or "very good".
--

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
<i>Information</i>						
Usefulness	NA	NA	NA			
Accuracy	NA	NA	NA			
Understandability	NA	NA	NA			
Completeness	NA	NA	NA			
Timely	NA	NA	NA			
Target	NA	NA	NA			
<i>Phone or letter service</i>						
Accuracy	NA	NA	NA			
Understandability	NA	NA	NA			
Courteousness	NA	NA	NA			
Timeliness	NA	NA	NA			
Target						

DEFINITION, RATIONALE, DATA SOURCE:

This measure is based on a proposed survey of taxpayers who receive information from the department. Satisfaction will be rated on several dimensions. The survey will be developed in F.Y. 1995. Responses of "good" or "very good" will be considered satisfactory. The survey will be administered periodically to assess our rate of improvement.

This data will let the program know whether its written and verbal information meets taxpayers' needs.

DISCUSSION OF PAST PERFORMANCE:

The division has previously conducted focus groups and sought feedback from taxpayers and has used the information gained to improve printed materials. No regular surveys of the type proposed for this measure have been done.

PLAN TO ACHIEVE TARGETS:

The responses of taxpayers to the survey will guide our redesign of the information we send out, and subsequent surveys will tell us if we have been successful. In addition, the divisions will identify unclear and complex provisions of tax laws that they administer and make recommendations for clarifying and simplifying the laws, so that taxpayers will have less need to ask for information. The department will train employees to provide knowledgeable, accurate and courteous responses to callers and writers.

OTHER FACTORS AFFECTING PERFORMANCE:

Changes in the complexity of tax laws can influence how taxpayers rate informational materials.

AGENCY: Revenue, Department of
PROGRAM: Sales and Special Taxes System

OBJECTIVE, MEASURE

Objective 2: To provide information and services that meet taxpayers' needs.

Measure (2-2): Audited taxpayers who "agree" that their audit met specific standards.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
Percentage agreeing	91 %	91 %	91 %			
Target				92 %	93 %	94 %

DEFINITION, RATIONALE, DATA SOURCE:

This measure is the percentage of audited taxpayers who, in a survey, "agree" or "strongly agree" that the feedback they received was helpful and understandable, and that their audit was conducted in a fair, efficient and respectful manner.

This measure determines the degree to which taxpayers "agree" or "strongly agree" that they received useful, understandable and complete information about: the nature and scope of an audit prior to the audit; their rights to appeal the audit; the state's tax laws; and the results of the audit; and received understandable responses to their questions about the audit. Also, this measure determines the degree to which taxpayers "agree" or "strongly agree" that the audit was conducted in a manner that was respectful of their time, office procedures, and employees.

The responses from the survey let auditors know whether they are providing appropriate and understandable information in a manner that respects taxpayers' rights.

DISCUSSION OF PAST PERFORMANCE:

The Sales and Use Tax Division has been conducting a survey of audited taxpayers for the last three years. Most taxpayers throughout the three-year period have said that the feedback they got met the standards outlined above.

PLAN TO ACHIEVE TARGETS:

The Sales and Use Tax Division will modify audit practices, develop additional printed material for use in audits, or rewrite existing materials to make them more understandable. Additional training will be provided to auditors to improve their skills, knowledge and performance.

OTHER FACTORS AFFECTING PERFORMANCE:

None.

AGENCY: Revenue, Department of
 PROGRAM: Sales and Special Taxes System

OBJECTIVE, MEASURE

Objective 3: To provide timely service to taxpayers who contact us.

Measure (3-1): Days to respond to specific types of service requests and percentage of phone calls answered.
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Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
Issue refunds	NA	NA	NA			
Tax ID numbers	NA	NA	NA			
OK Electronic payment	NA	NA	NA			
Target days	NA	NA	NA			
Phone calls answered	NA	NA	70 %			
Target percentage						
Days to answer letter	NA	NA	NA			
Target days						

DEFINITION, RATIONALE, DATA SOURCE:

The measure of response time for service requests is the average days it takes us to issue refunds, licenses and tax identification numbers, and to approve payment by electronic means. This data will be extracted from department records. Measures for the percentage of phone calls answered and the time it takes to respond to a letter will be determined from departmental records for the Sales and Use Tax Division, which receives the bulk of the phone calls in this tax system.

DISCUSSION OF PAST PERFORMANCE:

In F.Y. 1994, 70 percent of callers got through, but in the first nine months of F.Y. 1994 the figure was only 60 percent because of an increase in calls. More people called because of extensive law changes, redesigned tax forms, and a redesigned computer system. This situation generated numerous complaints from taxpayers. The inability of taxpayers to reach the division has an impact on other divisions. For example, of the 1,500 to 3,000 phone calls received monthly by the Special Taxes Division, many are misdirected calls about sales tax. In the last three months of F.Y. 1994, the Sales and Use Tax Division installed an automated phone system that helped the division to answer 80 percent of calls. The other divisions are able to answer virtually all their calls.

PLAN TO ACHIEVE TARGETS:

The division is streamlining its process for approving claims for refunds, which together with improvements in its computer systems, will result in more rapid issuing of refunds. Also, the Petroleum Division plans to shift the responsibilities of some employees to include processing of refund applications, which are expected to increase as a result of law changes in 1994.

The Sales and Use Tax Division plans to expand the responsibilities of existing employees to include responding to phone calls and letters with questions about sales taxes, and the division will train the employees to provide knowledgeable, accurate and courteous responses to callers and writers. In addition, the division will be making more extensive use of the automated phone system so as to more efficiently distribute incoming phone calls among employees and to permit callers to order forms without having to talk with an employee.

OTHER FACTORS AFFECTING PERFORMANCE:

Changes in the law may increase demands for phone services and require more time on the phone to answer questions.

AGENCY: Revenue, Department of
 PROGRAM: Sales and Special Taxes System

OBJECTIVE, MEASURE

Objective 4: To process payments by taxpayers promptly and accurately.

Measure (4-1): Percentage of receipts deposited within one day.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
Percentage in 1 day	70%	75%	75%			
Target	80%	80%	80%	100%		

DEFINITION, RATIONALE, DATA SOURCE:

This measure is determined by dividing the total dollar amount of payments deposited within one day of receipt by the total dollar amounts received from taxpayers. The sooner the funds are deposited, the sooner they will be available for use by the state. This data is available from department records.

DISCUSSION OF PAST PERFORMANCE:

The program has measured deposit performance for many years. In the mid-1980s efforts were made to prioritize processing of large dollar remittances through envelope bar coding and special expedited processing procedures. In 1992 the department began collecting revenues electronically, which improved deposit timeliness.

PLAN TO ACHIEVE TARGETS:

The program will promote wider use of electronic filing for returns, electronic transfer of funds, and more rapid reporting of taxpayers transactions as a means of achieving faster deposit of payments and more rapid availability of information about transactions.

OTHER FACTORS AFFECTING PERFORMANCE:

None.

AGENCY: Revenue, Department of
 PROGRAM: Sales and Special Taxes System

OBJECTIVE, MEASURE

Objective 4: To provide readily accessible information from our records.

Measure (4-2): Ratings by other state agencies on record-keeping quality.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
Completeness	NA	NA	NA			
Accuracy	NA	NA	NA			
Timeliness	NA	NA	NA			
Accessibility	NA	NA	NA			
Target	NA	NA	NA			

DEFINITION, RATIONALE, DATA SOURCE:

This measure will be based on a survey of employees in the Department of Revenue and other state agencies who make use of our records. The measure will be the percentage of employees who say that our services are "good" or better.

DISCUSSION OF PAST PERFORMANCE:

The division has sought feedback from employees of other agencies before, but no systematic survey has been done.

PLAN TO ACHIEVE TARGETS:

Results of the survey will be used to guide service improvements.

OTHER FACTORS AFFECTING PERFORMANCE:

None.

AGENCY: Revenue, Department of
 PROGRAM: Sales and Special Taxes System

OBJECTIVE, MEASURE

Objective 5: To increase the accuracy of taxpayers' returns.

Measure (5-1): Percentage of returns that are accurate.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
Total returns						
Correct returns						
Percentage correct						
Target						

DEFINITION, RATIONALE, DATA SOURCE:

This performance measure is being developed. If a taxpayer's return has no errors on the return, the return is tentatively considered to be accurate. The ratio of the number of taxpayers who file correct returns to the total number of filers gives a measure of overall accuracy. Errors frequently result from problems with instructions and forms, and by the complexity of tax laws. If the percentage of correct returns increases, it would indicate our success at giving information and assistance to taxpayers. (We expect the number of arithmetic errors to remain constant over time.) If the percentage correct holds constant in spite of complex changes in tax laws, this, too, can be considered a success. The data for this measure will be from a computer analysis of tax system processing.

DISCUSSION OF PAST PERFORMANCE:

In the past, the program had a limited ability to measure the accuracy of taxpayer filing. Data was gathered sporadically through manual samplings.

PLAN TO ACHIEVE TARGETS:

Analysis of the frequency and types of errors that taxpayers make will indicate what steps we need to take to reduce taxpayer errors. To improve accuracy, we will modify written the information provided to taxpayers, professional tax preparers, and tax resource organizations. We will mail custom letters to individual taxpayers explaining errors made on their particular lines of a filing, so that future filings will be accurate.

OTHER FACTORS AFFECTING PERFORMANCE:

Changes in tax laws and the complexity of tax laws can increase taxpayer errors.

SUMMARY

AGENCY: Revenue, Department of
 PROGRAM: 01c - Property Tax and State Aid System

EXPENDITURES AND STAFFING (F.Y. 1994)

(\$ in Thousands)

Total Expenditures:	\$ 3,111	4% of department's budget
From State Funds	\$ 3,111	
From Federal Funds	\$ 0	
 Number of FTE Staff:	 52	 4% of department's staff

PROGRAM GOALS:

The purpose of this program is to administer the state's role in the complex, integrated system of local property taxes and state tax relief payments used to fund locally-delivered government services.

The property tax program has two primary goals:

- To ensure uniform and accurate property tax valuation, classification, and notification by local governments (Minnesota Statutes, chapters 124, 272 and 273).
- To determine and make timely and accurate payments of state aid to local governments (M.S. chapter 273 and other authorities).

DESCRIPTION OF SERVICES:

The property tax accounts for approximately 96 percent of total local government tax revenue. In F.Y. 1994 the program determined and distributed \$829.6 million in state property tax relief payments and general support aids to 3,000 units of local government. State aid payments administered under this program accounted for approximately 15 percent of the total revenues of cities, towns, counties, and special taxing districts in F.Y. 1994.

The property tax system exists to ensure uniform and accurate administration of the property tax at the local level and to make accurate, timely payments of state aid to local governments.

The **Property Tax Assessment Administration** activity assists and oversees county and city assessors in the complete and accurate identification of taxable property, its proper classification and valuation, and equalization of assessments among taxing districts; provides information to individual taxpayers and local government officials about the property tax process; conducts annual assessment-sales ratio studies to measure assessment levels, ensure their uniformity, and determine the basis for state aid payments to school districts; provides support to the State Board of Assessors, responsible for assessor education and licensure; staffs the State Board of Equalization, responsible for monitoring assessment levels for accuracy and uniformity and issuing corrective orders where necessary; and directly assesses railroads, public utilities, and airflight

property on a statewide basis as required by law.

The **Local Government Levies and Aids Administration** activity collects and maintains assessment and levy information from all local taxing authorities each year; determines state aid payments for each county, city, town, and special taxing district under a variety of statutory formulas (Homestead and Agricultural Credit Act, Local Government Aid, Disparity Reduction Act, and many smaller programs); makes aid payments by statutory deadlines each year; assists and monitors local governments in implementing the annual Truth in Taxation process; verifies and issues state deeds for tax-forfeited property; determines annual levy limits for those taxing authorities subject to them; and educates and assists county auditors and treasurers on requirements and procedures for tax computation and collection.

The **Minerals Tax** activity administers taxes on the mining industry, the bulk of which flow to local governments in lieu of property taxes. These include the taconite production tax (the largest by far in terms of revenue), the occupation tax on taconite, semi-taconite, and iron ore (levied in lieu of the corporate income tax), aggregate material (gravel) tax, and ad valorem taxes on taconite railroads, unmined taconite, auxiliary mining lands for taconite operations, natural iron ore, and severed mineral interests. Note that taconite production taxes are determined by the state but paid directly to counties and the Iron Range Resources and Rehabilitation Board (IRRRB).

BACKGROUND INFORMATION:

MEASURES OF ACTIVITIES (A), WORKLOAD (W), UNIT COSTS (UC), OTHER DATA (O)

(Dollars in thousands)			
Type	Measure	F.Y. 1993	F.Y. 1994
<i>Property Tax Assessment</i>			
A	Net property taxes payable, statewide (calendar year)	\$3,940,567	\$4,050,132
A	Property tax refunds paid to individuals	\$162,526	\$153,575
O	Counties receiving no state board changes to assessment	28	23
W	Property transfers analyzed for sales-ratio study	154,173	167,843
W	Assessors' inquiries answered by phone or letter	NA	10,300
A	Classroom hours of assessor training by staff	427	486
O	Assessment appeals to Tax Court	5,453	4,338
<i>Local Government Levies and Aids</i>			
A	Aids paid to local governments by Dept. of Revenue	\$782,515	\$829,596
W	Auditor and treasurer inquiries answered by phone	NA	3,793
O	Taxing districts statewide	4,757	4,782
A	Aids to school districts certified by DOR, paid by Education	\$188,005	\$210,152
<i>Minerals Tax</i>			
O	Taconite production tax receipts	\$82,035	\$83,046

PROGRAM DRIVERS:

■ *Complexity of Minnesota's property tax and state aids system.* Minnesota's property tax system is extremely complex—more so than for any other state. The complexity of the classification system and the variety of special valuation and exemption programs demand an extremely high level of technical expertise and judgment among local assessors, and make uniform administration more difficult. The variety and complexity of local taxing districts, levies, and state aid programs have similar impacts on the calculation and collection of property tax bills.

■ *Instability of the property tax and aid system from year to year; frequency of change and required re-education and system modification.* Frequent modifications of the property tax valuation and classification system and of tax levy and aid determination procedures require annual education of local officials and taxpayers about changes to the property tax system and the implications for them, as well as often complex modification of data processing systems.

■ *Increasing litigation over property tax valuations at the local level.* In recent years, declining market values for some types of property (notably commercial-industrial) coupled with lagging assessed values have prompted increasing attention to the accuracy of current assessment levels and increasing appeals and litigation of property tax assessments. Resolving these appeals consumes large amounts of assessors' time and resources.

■ *Variation in local government capacity to administer the local property tax system, both in technology available and in the level of skill or expertise among staff and local officials.* Local jurisdictions vary in the extent to which they have the human and technological resources to deal with the complexity and continual change in the property tax system. At the state level, this requires extra educational efforts to develop the capacity of local staffs, and often requires modifications to state data transmission and processing systems to accommodate the variety of technology used by local governments.

■ *Recent growth in real estate market activity and values.* Since the mid-1980s, sales activity in state real estate markets has grown, increasing the amount of data that must be processed and analyzed, notably farms and lakeshore property. This has placed more pressure on assessors and the State Board of Equalization to keep accurate, up-to-date property valuations.

AGENCY: Revenue, Department of
 PROGRAM: Property Tax and State Aid System

OBJECTIVE, MEASURE

Objective 1: To ensure accurate, uniform valuation and classification of taxable property by local governments.

Measure (1-1): Median sales ratio by property type.

Actual Performance	<u>C.Y. 1984</u>	<u>C.Y. 1990</u>	<u>C.Y. 1992</u>	<u>C.Y. 1993</u>	<u>C.Y. 1996</u>	<u>C.Y. 1997</u>
Residential	90.6 %	92.5 %	91.1 %	90.5 %		
Apartment	79.8	95.6	96.2	94.3		
Recreational	79.6	90.8	89.1	88.1		
Farm	97.1	91.0	91.8	89.1		
Business	76.5	94.6	97.2	95.6		
<i>Target</i>						
All property types	90-105 %	90-105 %	90-105 %	90-105 %	90-105 %	90-105 %

Measure (1-2): Coefficient of dispersion by property type.

Actual Performance	<u>C.Y. 1984</u>	<u>C.Y. 1990</u>	<u>C.Y. 1992</u>	<u>C.Y. 1993</u>	<u>C.Y. 1996</u>	<u>C.Y. 1997</u>
Residential	12.0	12.6	11.6	11.4		
Apartment	17.8	18.6	15.1	19.0		
Recreational	20.8	20.1	21.0	19.4		
Farm	19.8	20.5	19.3	18.7		
Business	26.3	20.9	22.5	23.7		
<i>Targets</i>						
Residential, apartment	15.0	15.0	15.0	15.0	15.0	15.0
Rec., farm, business	20.0	20.0	20.0	20.0	20.0	20.0

DEFINITION, RATIONALE, DATA SOURCE:

Data on the accuracy and uniformity of property tax assessments are required by law to be collected and evaluated by the department each year.

The median sales ratio is an accuracy measure; it represents the most typical level of assessed value for property tax purposes as a percentage of the actual selling price of properties transferred in arms'-length transactions. The measure shows how assessment levels compare over time from one type of property to another. (Half of the properties are above the median, and half below.) Ideally, the sales ratio would be 100 percent, that is, assessments and selling price would be the same. In practice, sales ratios within the target range are acceptable.

The coefficient of dispersion (COD) measures how uniformly property is assessed in relation to sales prices. A small COD implies that most assessments are close to the median values (above). (The COD is the absolute deviation from the median expressed as a percentage of the median.) Ideally, the dispersion should be as close to zero as possible, meaning that all properties have the same sales ratio, but a COD at or below the target level is acceptable. Uniformity in assessments is affected by the type and age of the property. Assessment uniformity is easiest to achieve where all properties are similar (e.g., a new suburban housing development); it is most difficult where properties vary widely in age, condition, and value (e.g., housing in older urban areas or non-metro business property).

DISCUSSION OF PAST PERFORMANCE:

Assessment levels have become somewhat more uniform among the different types of property since the mid-1980s, as indicated by more uniform median sales ratios. Assessment uniformity within specific property types, indicated by the COD, has remained relatively constant.

PLAN TO ACHIEVE TARGETS:

To maintain the accuracy and improve the uniformity of assessments, we will emphasize assessor training and provide meaningful feedback to assessors. Efforts to share market-value information more widely among assessors to improve uniformity will also be intensified.

OTHER FACTORS AFFECTING PERFORMANCE:

None.

AGENCY: Revenue, Department of
 PROGRAM: Property Tax and State Aid System

OBJECTIVE, MEASURE

Objective 2: To make accurate, timely payments of state aids to local governments.

Measure (2-1): Percentage of aids paid on time and accurately.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
Percent paid on time	NA	99.991	100			
Target	100	100	100	100	100	100
Percent accurate	NA	99.981	99.999			
Target	100	100	100	100	100	100

DEFINITION, RATIONALE, DATA SOURCE:

Measures of accuracy and timeliness of state aid payments show how well the department is meeting its goals of computing state aid payments under the variety of formulas required and making correct, timely payments to each local government unit.

The percentage of state aid paid on time to local governments is aid dollars paid on the statutorily-required dates as a percentage of all aid dollars paid. The percentage of aid dollars determined accurately is the aid dollars paid as originally certified to the local government (i.e., not requiring any further recomputation or correction after the initial one) as a percentage of all aid dollars.

Data have been compiled by the Property Tax Division from aid certification and payment records.

DISCUSSION OF PAST PERFORMANCE:

Accuracy and timeliness of state aid payments have been extremely high, despite complex and changing formulas, notices, and payment requirements. Where payment delays have occurred, they have been very brief—a few days at most.

PLAN TO ACHIEVE TARGETS:

To continue to meet accuracy and timeliness targets for state aid payments, we must emphasize development of our staff and our technological resources to meet workload demands. Opportunities for formula simplification and payment consolidation will be identified and offered to policymakers for their consideration.

OTHER FACTORS AFFECTING PERFORMANCE:

None.

taxes.

The Communications Division prepares instructions and information for the public.

The Information System Division is responsible for the department's extensive computer network.

The Tax Research Division promotes sound tax policy by analyzing and forecasting revenue collections and the fiscal impact of proposed tax legislation. Tax Research also analyzes the state's tax expenditures (revenues foregone by specific exemptions in the law).

Legal Services works on the many complex legal issues surrounding taxpayer noncompliance and appeals of tax decisions and advises on tax policy and legislation.

BACKGROUND INFORMATION:

MEASURES OF ACTIVITIES (A), WORKLOAD (W), UNIT COSTS (UC), OTHER DATA (O)

(Dollars in thousands)			
Type	Measure	F.Y. 1993	F.Y. 1994
A	Total tax revenue collected (excluding property tax)	\$7,418,772	\$7,795,003
A	Revenue recaptured (debts collected from refunds)	\$9,543	\$15,786
W	Administrative tax appeals	1,320	1,244
W	Court appeals (Attorney General)	293	242
W	Mailings sent and received	11,688,000	11,481,000
W	Desktop computers maintained on network	1,000 (est)	1,125
W	New business registrations	NA	38,000
O	Business registrations processed within 2 days	few	96 %
A	Taxpayer records maintained	10 million	10 million
W	Taxpayer records retrieved or accessed on line	400,000 (est)	500,000 (est)
A	Microfilm images stored	89 million	89 million
UC	Cost per \$100 collected by Collections Division	\$6.60	\$7.50
A	Taxpayers with delinquent Collections accounts	NA	128,000
W	Collections liens, levies and seizures	NA	21,140
W	Collections bills sent to delinquent taxpayers	NA	360,000
W	Collections phone calls to delinquent taxpayers	NA	110,000
W	Collections field visits to delinquent taxpayers	NA	26,400
A	Separate taxes collected (separate accounts)	141	154

PROGRAM DRIVERS:

Tax Operations are affected by the program drivers listed previously for the other tax programs, but two factors are especially noteworthy here:

Technology. Because the Tax Operations program relies heavily on electronic information systems, technology is an important

driving force. The pace of developments in computers, computer systems, and electronic communications provides opportunities for making services faster and more accurate but, at the same time, requires significant investments in equipment, training, and security.

Legislation and Court Decisions. Tax policy and tax law are continually changing and evolving. Often, tax policy is driven by public policy in other areas, such as concern for the environment or public welfare, or for the promotion of certain business activities. Proposals for new taxes or changes to existing laws are made every legislative session; these require careful analysis for their potential impact. Similarly, court decisions can have sweeping effects on tax law and revenues.

AGENCY: Revenue, Department of
 PROGRAM: Tax Operations

OBJECTIVE, MEASURE

Objective 1: To administer the collection of taxes as efficiently as possible.

Measure (1-1): Cost to collect \$100 of taxes.

Actual Performance	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
All taxes	\$1.02	\$1.01	\$0.98			
All income taxes	\$1.03	\$0.93	\$0.91			
Individual + With + OBIT	\$0.90	\$0.81	\$0.81			
Corporate	\$2.05	\$1.76	\$1.59			
Sales/Use	\$0.85	\$0.93	\$0.91			
Special taxes	\$0.73	\$0.74	\$0.63			
Petroleum taxes	\$0.57	\$0.63	\$0.53			
Target for all taxes						

DEFINITION, RATIONALE, DATA SOURCE:

The cost of collecting all state taxes is a measure of the efficiency of agency-wide tax administration, and therefore the measure is included under the Tax Operations program. The cost of tax collection includes all departmental expenses for the year, but does not include costs borne by the taxpayer. Cost estimates for separate tax types include both direct and indirect or overhead costs. Special taxes include minerals taxes but not petroleum taxes, which are reported separately here, and special taxes include MinnesotaCare start-up costs for 1993. Revenue is net revenue, that is, after refunds to taxpayers. Property tax revenues are not included in the "all taxes" calculation except for air flight property and minerals taxes, but all administrative costs for the property tax system are included. Statistics for several types of taxes are included to allow comparison and show the variability of costs for different types of taxes.

DISCUSSION OF PAST PERFORMANCE:

Over the past decade, this measure has been most strongly affected by federal income tax reform, because of the close ties between federal income tax and state income tax. Sales tax re-engineering costs temporarily reduced efficiency for that tax system in 1993. Corporate tax cost-efficiency has improved because of increasing revenue.

PLAN TO ACHIEVE TARGETS:

The level of voluntary compliance by taxpayers has a profound bearing on the efficiency of tax collections. In F.Y. 1993, about 3 percent of revenue came from collection of delinquent taxes, but this required about one-third of the department's budget. We estimate that noncompliance results in a loss to the state of over \$300 million in income taxes alone, yet much of this cannot be collected by traditional auditing methods. Thus there is a great potential to collect taxes more efficiently by increasing voluntary compliance. To win greater voluntary compliance from taxpayers, the department is shifting resources from traditional auditing methods to customer service.

Also to improve efficiency, the department is continuously updating its technology base and making a shift toward more reliance on electronic means for keeping records, processing returns, and transferring money—methods that are much more efficient than traditional operations with paper forms.

OTHER FACTORS AFFECTING PERFORMANCE:

Efficiency is affected by the total level of revenue received. Generally, revenue collection costs do not increase as rapidly as revenue. Conversely, a decline in revenue would not necessarily lead to a proportional reduction in collection costs. So, for example, an economic upturn might produce more revenue for the state, making revenue collection more efficient. New tax programs and significant changes in tax laws can reduce efficiency, at least temporarily, while the department modifies its administrative procedures, retrains staff and re-educates taxpayers. Many other factors also affect costs.

AGENCY: Revenue, Department of
PROGRAM: Tax Operations

OBJECTIVE, MEASURE

Objective 2: To gain the widest compliance by taxpayers with the state's tax laws.

Measure (2-1): Dollars collected of delinquent taxes (accounts receivable, A/R).
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Actual Performance (Dollars in thousands)	<u>F.Y. 1992</u>	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>
Available for collection	\$272,600	\$284,400	\$300,100			
Working inventory	\$185,600	\$149,400	\$151,900			
Total collections	\$93,900	\$132,200	\$140,000			
Direct collections	\$61,300	\$87,300	\$108,000			
Target direct collections			\$85,000	\$107,000		

DEFINITION, RATIONALE, DATA SOURCE:

Accounts receivable each year are the cumulative amounts of money that taxpayers have not paid voluntarily. This includes interest and penalties on unpaid balances but does not count amounts that are under appeal. Success on this measure is indicated by the department collecting an increasing amount of delinquent taxes. Note, however, that tax collections include amounts owed from previous tax years that are collected during a given fiscal year, and collections from new accounts receivable will go on for several years, or until the debts are ruled uncollectible. Thus one must look at trends in delinquent taxes and collections over several years to assess whether collections are keeping pace with delinquent taxes.

The amount "available for collection" from taxpayers (above) is the balance of taxpayers' accounts receivable on the computer automated collections system (CACS) at the end of the fiscal year. CACS uses a more conservative measure of accounts receivable than the definition used by the Department of Finance. The working inventory is the total available for collection less amounts that have been turned over to a collection agency, ruled uncollectible, or are under a legal appeal. Total collections include amounts collected by billing delinquent taxpayers, which are excluded from direct collections. The cost of collections in the background information refers to total collections.

DISCUSSION OF PAST PERFORMANCE:

Some of the 1994 increase was the result of special funding for legislative and Governor's initiatives.

PLAN TO ACHIEVE TARGETS:

The target for 1995 is based on an expected increase of 26% from the target in 1994, not the actual amount collected in 1994. To increase collections, the division will: (1) Improve case management of business cases, including faster resolution, more payment-plan monitoring and wage-levy monitoring, and more use of strict enforcement tools when appropriate. (2) Improve inventory management, by focusing on cases less than one year old, while older, unproductive cases will be referred more often to collections agencies. Additionally, certain types of cases not currently pursued will be assigned to the Minnesota Collection Enterprise (a new activity that will centralize much of the state's collection activities.) And (3) expand internal communications and training for staff. Because of many uncertainties about factors affecting collections, targets will be set only one year ahead.

OTHER FACTORS AFFECTING PERFORMANCE:

An economic downturn can increase the amount of delinquent taxes and make collections more difficult.

AGENCY: Revenue, Department of
PROGRAM: Tax Operations

OBJECTIVE, MEASURE

Objective 3: Because Tax Operations exists to support the tax systems of the department, other objectives and performance measures for Tax Operations are included implicitly in the objectives of the the tax systems, as discussed previously in this performance report. The divisions in Tax Operations work closely with all tax systems to help them achieve their program objectives and are jointly responsible that all targets are met.