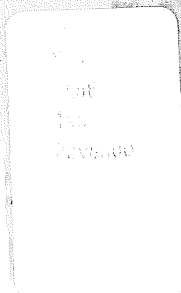


# Performance Report

Department of Revenue

1996



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# AGENCY PERFORMANCE REPORT

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1996

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REVENUE DEPT

**AGENCY : REVENUE DEPT****MISSION**

The Minnesota Department of Revenue's primary mission is to achieve compliance with Minnesota's tax laws as described primarily in chapters 270 through 298.

**GOALS**

- The Department of Revenue contributes to making the state and local revenue system more fair, efficient, reliable, competitive and understandable in both design and operation.
- Every taxpayer pays the legally required amount of tax, no more, no less.
- Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations.
- The Department of Revenue, through the Minnesota Collections Enterprise, will increase the centralized collection of identified public receivables.

**EXPENDITURES AND STAFFING**

Program	F.Y.1996 Expenditures (\$ in Thousands)	Percent of Total	FTE Staff Positions	Percent of Total
REVENUE ADMINISTRATION	\$80,693	99.31%	1255	98.86%
MINN COLLECTION ENTERPRISE	\$561	0.69%	15	1.14%
Total	\$81,254	100.00%	1270	100.00%

The department budget is organized into seven activity areas associated with two main agency programs of Minnesota Tax System Management and Accounts Receivable Management. The seven activity areas include three principal tax systems, three tax support systems, and the Minnesota Collection Enterprise (MCE), which supports the management of the statewide accounts receivable programs.

Minnesota Tax Systems:

1. Income Tax System
2. Business Excise and Consumption Tax System
3. Property Tax and State Aid System

Tax System Support Areas:

4. Tax Operations
5. Legal and Research
6. Administrative Support

Accounts Receivable Management:

7. Minnesota Collection Enterprise

The income tax system includes taxes on individuals, corporations, partnerships, small corporations (S-corporations), fiduciaries, estates, and withholding or payroll taxes (income taxes withheld from paychecks). The business excise tax system includes sales and use taxes, MinnesotaCare, and a variety of special taxes, such as liquor and cigarettes. Tax operations is the largest division; it includes document processing, revenue accounting and collections. Each division within a tax system is led by a division director who reports to an assistant commissioner for the system or "cluster".

In addition to the St. Paul headquarters, Revenue has offices in 18 regional sites located throughout Minnesota and ten out-of-state offices located in Atlanta, Chicago, Cleveland, Dallas, Los Angeles, New York, St. Louis, San Francisco and Washington.

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**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 database; 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 identification in determining eligibility for benefits and services, and opportunities to evade accountability for obligations due the state.

**EMPLOYEE PARTICIPATION**

The Department of Revenue updated its strategic plan with an extensive review process that began in December 1994 and involved 100 employees. Generally, efforts were made not only to include members from all divisions, but also from all bargaining groups and management levels. The chart below shows the numbers of employees involved in the formal team process of recent efforts; however, hundreds more were involved in sub-teams, focus groups, meet-and-confer meetings with union officials, and meetings with legislators and other constituents.

PROJECT	AFSCME	MAPE	MMA	MGR	COMM.
1990 Strategic Planning	4	22	13	18	8
1991 Strategic Planning	0	0	0	2	9
1995 Strategic Planning (phase 1)	26	48	10	6	9
1995 Strategic Planning (phase 2)	7	20	6	8	10

Date : November 15, 1996

## Agency Expenditure Summary

F.Y. 1996

NAME	(in thousands \$)	% of \$	FTE	% of FT
AGENCY: REVENUE DEPT	\$81,254	100.0%	1,270	100.0%
PROGRAM: MINN COLLECTION ENTERPRISE	\$561	0.7%	15	1.1%
PROGRAM: REVENUE ADMINISTRATION	\$80,693	99.3%	1,255	98.9%
BACT: LEGAL & RESEARCH	\$3,536	4.4%	58	4.6%
BACT: PROPERTY TAX & STATE AID	\$4,429	5.5%	77	6.1%
BACT: TAX OPERATIONS	\$21,114	26.0%	446	35.2%
BACT: INCOME TAX SYSTEM	\$14,096	17.3%	237	18.7%
BACT: BUSINESS EXCISE & CONSUMPTION	\$12,668	15.6%	218	17.1%

Agency : REVENUE DEPT

Program : MINN COLLECTION ENTERPRISE

#### EXPENDITURES AND STAFFING :

	<u>(\$ in Thousands)</u>	<u>Percent of Department</u>
Total Expenditure	\$561	0.69%
General	\$561	
Number of FTE Staff:	15	1.14%

#### GOAL :

- The Department of Revenue, through the Minnesota Collections Enterprise, will increase the collection of identified public receivables. (Chapter 16D)

#### DESCRIPTION OF SERVICES :

The goal of the Minnesota Collection Enterprise (MCE) is to increase state revenues through the centralized collection of identified public receivables (debts owed by people to government). MCE provides low-cost collection services that state agencies and courts may choose to use. Depending on the needs of an agency or court, MCE will provide all or some of the collection services for established and verified debts. MCE, as a professional collection organization, performs collection services and thus allows other public entities to concentrate on pursuing their primary missions.

The legislature created the Minnesota Collection Enterprise, effective on July 1, 1994, under the jurisdiction of the Department of Finance. The Department of Finance contracted with the Department of Revenue to manage the implementation of MCE, and in 1996 the legislature, following a recommendation from the Department of Finance, permanently placed MCE with the Department of Revenue. MCE became fully operational in July 1995 with staff located in Ely and St. Paul.

Minnesota Collection Enterprise (MCE) is designed to work with debtors who have not cooperated with the referring agencies. MCE also collects debt that other agencies are not able to handle with their current resources. MCE is expected to provide collection services to public entities at a lower rate than the private sector and recover its cost through the assessment of a collection fee paid by most types of debtors. In comparison to the private sector, MCE has some advantages: better access to information, more legal enforcement tools and the ability to price its services at cost. This fee is evaluated annually and has been established for F.Y. 1997 at 15% of the amount collected plus an additional 10% if legal action such as liens, levies or seizures must be used.

**REVENUE DEPT****1996 Agency Performance Report**

Collection services include locating the debtor, telephone contact with the debtor, arranging and receiving payment immediately or through payment plans, monitoring payment plans, locating and evaluating assets, issuing liens and levies, and seizing assets. Other services to agencies include consulting on effective debt management and productive collection practices, and evaluation of the collection potential of the debt returned to the referring agency.

Current clients include the Departments of Corrections, Human Services (child support, treatment services and benefit overpayments), Labor and Industry (OSHA fines and special compensation fund), Natural Resources, Public Safety, Revenue (income taxes), and Transportation (restitution claims). Other state agencies include the Attorney General (consumer judgments), Ethical Practices Board (fines), Higher Education Services Office, Minnesota State Colleges and Universities (student loans), St. Cloud State University and the Pollution Control Agency.

Originally, legislation provided that MCE would also be available to the University of Minnesota, but this provision was removed by the 1996 Legislature. Additionally, under the jurisdiction of the Department of Finance, a study comparing the efficiency and effectiveness of MCE to private collection agencies was legislatively required, with results to be available to the 1997 Legislature. Results of this study will enable the legislature to judge the value of expanding and encouraging access to MCE by other public entities.

**PROGRAM DRIVERS :**

MCE will generally maintain the status quo until the pilot study report comparing the performance of MCE and private collection agencies is completed in February 1997. However, we will seek to increase the number of referrals from our existing clients, particularly the Department of Human Services (DHS) child support, DHS overpayment of benefits, and student loans from both Minnesota State Colleges and Universities and Higher Education Service Organization (HESO). We plan to generate approximately 10,000 additional non-tax debt referrals in FY 1997. We also have initiated discussions with two county court administrators, and our goal is to begin collection of court fines in January 1997. If we are successful in the pilot study, we will actively seek out new clients.



**Goal 1** : The Department of Revenue, through the Minnesota Collections Enterprise, will increase the collection of identified public receivables.

**Objective 1** : To increase the collection of public receivables and cases referred for collection.

**Measure 1** : Dollars collected and cases closed.

	<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>	<u>F.Y.1998</u>
<b>Dollars collected (thousands)</b>						
Actual			\$5,300	\$10,500		
Target					\$11,300	\$12,500
<b>Cases closed</b>						
Actual			20,108	29,448		
Target					30,000	
<b>Percentage of cases closed with full payment</b>						
Actual			77%	77%		
Target					77%	
<b>Percentage of cases closed without legal action</b>						
Actual				75%		
Target					80%	
<b>Percentage collected of tax debts available for collection</b>						
Actual			63%	67%		
Target					85%	
<b>Percentage collected of unreimbursed AFDC</b>						
Actual				10%		
Target					12%	
<b>Percentage collected of student loans</b>						
Actual				24%		
Target					50%	
<b>Percentage collected of Dept of Human Services overpayments</b>						
Actual				8%		
Target					8%	
<b>Percentage collected of Dept of Transportation restitution</b>						
Actual				25%		
Target					25%	

**Bankruptcy claims filed**

Actual

0

**DEFINITION :**

For each type of debt, the measures are counts of cases closed and dollars (thousands) collected, with further breakdowns by the percentage of cases closed with full payment of the debt, the percentage of cases closed without legal action, and the percentage of debts that were actually collected. AFDC debts are payments made to AFDC recipients where Human Services is trying to recover money from a parent who should have paid child support. Department of Transportation restitution debts result from damage by drivers to transportation property or equipment.

MCE plans to begin filing bankruptcy claims, so this is included as a future performance measure.

**RATIONALE :**

The mission of the MCE is to increase state revenues through the collection of debts owed the state. Success is measured primarily in terms of cases closed, dollars collected and the percentage of debt collected. These are well-established measures for a collections activity. Cases that can be closed without legal action are less costly to close.

**DATA SOURCE :**

Data is from the Minnesota Collections Enterprise.

**DISCUSSION OF PAST PERFORMANCE :**

The MCE is a new entity and historical data is not available.

**PLAN TO ACHIEVE TARGETS :**

MCE expects that the percentage of debt collected will increase as the quality and age of debt referred to the MCE from other agencies improves. Typically, agencies initially send their oldest, most difficult cases to MCE. MCE must earn the confidence of the agencies through our performance, and, as that occurs, the quality of referrals will improve. This is particularly true in the case of child support debts in that the average age of referred debts has decreased from almost ten years to less than five years. MCE plans to begin filing bankruptcy claims.

We will seek to increase the number of referrals from our existing clients, particularly Dept. of Human Services Child Support, plus student loans from the Minnesota State College and University system and Higher Education Service Organization (HESO). Our hope is to generate nontax debt referrals from an additional 10 agencies in FY1997. We also have initiated discussions with two district court administrators, and our goal is to begin collection of court fines in January 1997. The new Predictive Dialing System (the computer dials the number and connects with a "live" person before forwarding the call to a collector) is now fully operational and will greatly expand our capacity for contacting debtors and expanding our inventory. If additional human resources are necessary to meet the needs of an expanded clientele, we will need to add another telephone collection site.

Our aim is to resolve a high percentage of cases on a cooperative basis without resorting to the more expensive legal collection process. We use the progressive enforcement strategy to achieve compliance: initially using customer service approaches to obtain voluntary compliance but then using progressively stronger approaches for those who repeatedly or willfully evade their obligations.

We expect the percentage of outstanding debts that are collected to increase as newer, more collectable cases are referred to MCE. Collection rates vary by the type of tax, as indicated in the performance measure, because of different characteristics of the debtors. Characteristics that affect payment include: recent receipt of AFDC, chemical dependency, education level, personal animosities about child support, and criminal history. The overall rates of collection achieved by MCE are at least equal to those of private collection agencies but the cost to MCE is less. A study that compares collections between MCE and private agencies for different types of debts will be published in January 1997.

**OTHER FACTORS AFFECTING PERFORMANCE :**

Agencies have been reluctant to expand debt referral, pending the results of the pilot study comparing MCE with private collection agencies. Therefore, MCE cannot set targets for years beyond 1997 until the study is completed in January 1997.

**Goal 1** : The Department of Revenue, through the Minnesota Collections Enterprise, will increase the collection of identified public receivables.

**Objective 2** : To meet the expectations of client agencies for collection services.

**Measure 1** : Agencies referring cases to the MCE, total cases referred, and the agencies' satisfaction level.

	<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>	<u>F.Y.1998</u>
<b>Agencies and courts referring cases</b>						
<b>Actual</b>				7		
<b>Target</b>					14	20
<b>Cases referred</b>						
<b>Actual</b>				25,000		
<b>Target</b>					40,000	
<b>Percentage of agencies satisfied</b>						
<b>Actual</b>				95%		
<b>Target</b>					95%	

#### DEFINITION :

The agencies counted are those that refer cases to MCE, including court jurisdictions. In 1996, MCE conducted a survey of its clients to determine their satisfaction level, and to identify areas for improvement. All the clients responded to the survey. We expect to survey clients annually.

#### RATIONALE :

The number of agencies referring cases and the number of cases referred are primary measures of how satisfied agencies are with the services provided by MCE. The customer survey provides supplementary information.

#### DATA SOURCE :

Data is available from MCE.

#### DISCUSSION OF PAST PERFORMANCE :

MCE is a new entity and historical data is not available.

#### PLAN TO ACHIEVE TARGETS :

Feedback from the customer agencies will direct MCE toward further improvements. We will meet quarterly with the agencies, in addition to analyzing the results of the annual survey. Successful and efficient debt collection will promote greater confidence among MCE's customers and generate more case referrals to MCE.

**Agency** : REVENUE DEPT

**Program** : REVENUE ADMINISTRATION

### EXPENDITURES AND STAFFING :

	<u>(\$ in Thousands)</u>	<u>Percent of Department</u>
Total Expenditure	\$80,693	99.31%
From Federal Funds	\$136	
From Special Revenue Funds	\$3,812	
From Agency Funds	\$1,338	
General	\$75,407	
Number of FTE Staff:	1255	98.86%

### GOAL :

- The Minnesota revenue system is fair, efficient, reliable, competitive and understandable in both design and operation. (Chapters 270-298)

### DESCRIPTION OF SERVICES :

Minnesota Tax System Management is composed of three tax systems: Income, Business Excise and Consumption, and Property and State Aids. The Income Tax System includes taxes on individuals, corporations, payroll, small businesses, partnerships, fiduciaries, estates, limited liability companies, and refunds. The Business Excise and Consumption System includes sales and use taxes, petroleum tax, special taxes, and MinnesotaCare. The Property Tax and State Aids System includes management and oversight of the local property tax system and state tax relief payments to individuals and local governments. The Department of Revenue (DOR) managed 31 separate taxes flowing through over 150 distinct revenue streams during F.Y. 1996. Also during F.Y. 1996, the Income Tax System served over 3 million taxpayers; the Business Excise and Consumption Tax System served close to 200,000 businesses that collect tax on behalf of the state; and the Property Tax System served 3,396 county, city, town, school district and special taxing districts.

The tax systems are supported by a common foundation of Tax Operations programs including communications, computer systems, document processing, taxpayer registration and accounting, and collections; Legal and Research services including taxpayer appeals resolution and tax research and fiscal analysis; and Administrative Support.

This program encompasses all areas of the compliance cycle. To start the cycle, tax laws and current policy are analyzed to define taxpayer obligations and rights. Forms, instructions and other informational material are created to educate taxpayers about their obligations. Taxpayer inquiries, correspondence, returns and payments

are processed, edited and stored. Audit activities provide taxpayers with feedback on whether or not they are meeting tax obligations. Collection and non-filer activities are used when taxpayers do not to comply with the laws.

## PROGRAM DRIVERS :

Four issues associated with tax system management:

1) Complex tax system. The complexity of state and local taxes and other means used to finance government services increases the likelihood of taxpayer errors, makes full compliance with the tax laws difficult and costly for both the department and taxpayers, and impedes citizen participation in government spending and taxing decisions. The department must continue to work closely with tax policy makers and local units of government to develop ways to bring more understandability, accountability and efficiency to the state's tax system. We hope that increased use of alternative communication systems, such as the Internet, will help in disseminating information, answering taxpayer questions and encouraging taxpayer participation in policy discussions. Court cases and legislation in Minnesota, other states, and at the federal level greatly add to the burden of administering the tax system. National court decisions and legislation create conditions that sometimes confuse taxpayers or set directions that might be contrary to Minnesota's laws. As a result, we must seek corrective legislation, draft rules clarifying our position, address additional appeals resulting from the decision, revise forms and instructions, and process refund claims or tax orders based on the decision. In the current environment of constrained public resources, the legislature is also expanding the use of earmarked special-purpose taxes. These taxes are often limited to specific industries or products, such as legal gambling, health care or environmentally-related activities. Such taxes tend to have higher costs per dollar collected than broad-based general taxes.

2) Changing profile of individual and business taxpayers. Taxpayer mobility affects the costs of service, compliance and administration. Increasingly, people work in one state but live in another, or live in more than one location. Steady growth of our over-65 population, non-English-speaking population, plus greater variety in family composition are some of the interrelated demographic changes we must respond to. The complexity of business organizations and practices is also increasing. More businesses are national and international in scope, and increasingly transactions occur across state and national borders. Many of these transactions are made through mail order catalogues or telecommunications, making it more difficult for states to determine responsibility for tax payments. Increased cooperation among states including, partnerships to develop more uniform reporting and record-keeping, better exchange of information, and expanded education programs are needed. In addition, the state revenue system faces increased legal challenges as businesses aggressively challenge state tax laws and department interpretations, or practice tax avoidance as a means of reducing operating costs. In response to these challenges, we must seek to clarify existing laws, rules, and regulations, and to develop new ones that are clear and unambiguous; promote comprehensive customer management approaches, such as our Revenue Tax Specialist concept; utilize managed audits and other measures that rely on taxpayers' participation; and devote additional resources to detect nonfilers and underreported income.

3) Federal budget impacts. Minnesota's close conformity to the federal definition of taxable income and the department's heavy reliance on IRS audits for state-level income tax compliance activities bind the state to the federal system. The level of assistance taxpayers receive from the IRS for completing their federal returns and the magnitude of IRS audit and compliance activities have direct impacts on the demand for our own taxpayer services and our ability to perform state-level compliance functions. While a massive overhaul of federal tax

laws appears remote, significant changes in IRS funding are affecting their service, audit and examination activities which carry over to the state. Our challenge is to fill the gaps caused by federal budget reductions and to preserve current levels of compliance and taxpayer service in Minnesota's state income tax system. Other federal funding sources that support specialized state compliance activities, such as motor fuel tax enforcement, are also being reduced or eliminated.

4) Technology--challenges and opportunities. While technological changes pose challenges for both tax policy and administration, they also present new opportunities to provide taxpayers with information and service. But offering taxpayers the latest methods for filing, paying and getting information strains departmental resources and adds to our concern for effective taxpayer service. Although electronic funds transfer and electronic filing have the potential for improving efficiency in the department, many taxpayers are unable or unwilling to jump into the technological age. The department, therefore, must maintain two separate systems for filing and paying--the paper-based system and the electronic system. Emerging technologies, such as the Internet, further expand the possibilities and complications of tax administration. Information-sharing technology and interagency cooperation can reduce the tax compliance burden and negative feelings of taxpayers involved in similar processes with multiple agencies. For example, a consolidated administration of the business registration process for new businesses could allow many agencies to gather information from a single business registration form, which would reduce the number of separate applications and identification numbers a business would have to deal with. These changes might require seed money for system changes and information sharing, but might also streamline taxpayer services and hold down costs.

**Goal 1** : The Minnesota revenue system is fair, efficient, reliable, competitive and understandable in both design and operation.

**Objective 1** : To increase the efficiency of revenue collection.

**Measure 1** : Cost to collect \$100 of taxes.

	<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>	<u>F.Y.1998</u>
<b>All taxes</b>						
<b>Actual</b>	\$1.01	\$ .98	\$ .94	\$ .89		
<b>All taxes except property tax</b>						
<b>Actual</b>	\$ .90	\$ .88	\$ .85	\$ .80		
<b>All income taxes</b>						
<b>Actual</b>	\$ .93	\$ .91	\$ .96	\$ .87		
<b>Corporate franchise tax</b>						
<b>Actual</b>	\$1.76	\$1.60	\$1.59	\$1.41		
<b>Individual income tax (not withholding)</b>						
<b>Actual</b>	\$3.70	\$4.23	\$4.44	\$3.48		
<b>Withholding tax</b>						
<b>Actual</b>	\$ .20	\$ .18	\$ .15	\$ .16		
<b>Sales and use tax</b>						
<b>Actual</b>	\$ .93	\$ .91	\$ .71	\$ .62		
<b>Special taxes</b>						
<b>Actual</b>	\$ .67	\$ .62	\$ .78	\$ .72		
<b>Petroleum tax</b>						
<b>Actual</b>	\$ .63	\$ .53	\$ .53	\$ .56		
<b>MinnesotaCare tax</b>						
<b>Actual</b>	\$3.09	\$ .94	\$ .80	\$ .72		

#### DEFINITION :

The cost of tax collection includes all departmental expenses for the year, but it does not include costs borne by the taxpayer. Cost estimates for separate tax types include direct and indirect (overhead) costs. Special taxes include, among others, gambling and cigarette taxes, but not petroleum taxes, which are reported separately here. MinnesotaCare started in 1993. Individual income includes fiduciaries, estates, partnerships and small corporations (S-corporations); it does not include revenue from withholding taxes, which is listed separately.

Revenue is net revenue, that is, after refunds to taxpayers. Property tax revenues are not included in the "all taxes" efficiency calculation, but all administrative costs for the property tax system are included. Statistics for several types of taxes are shown to allow comparison and indicate the variability of costs for different types of taxes.

#### RATIONALE :

The cost of collecting taxes is a measure of the efficiency of department-wide tax administration.



**DATA SOURCE :**

Data is from the Research Division.

**DISCUSSION OF PAST PERFORMANCE :**

Over the past decade, this measure has been most strongly affected by federal 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 collection. We estimate that noncompliance results in a loss to the state of over \$300 million in individual income taxes alone, each year, yet much of this "tax gap" cannot be collected by traditional auditing methods. To win greater voluntary compliance from taxpayer, the department has shifted resources from traditional auditing methods to customer service.

Also to improve efficiency, the department is continuously updating its technology and shifting toward 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 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 reeducates taxpayers. Many other factors also affect costs, such as the price of postage and supplies.

Agency : REVENUE DEPT  
Program : REVENUE ADMINISTRATION  
BACT : LEGAL & RESEARCH

**EXPENDITURES AND STAFFING :**

	<u>(\$ in Thousands)</u>	<u>Percent of Department</u>
Total Expenditure	\$3,536	4.35%
From Special Revenue Funds	\$143	
General	\$3,393	
Number of FTE Staff:	58	4.55%

**GOALS :****DESCRIPTION OF SERVICES :**

Legal and Research comprises two divisions that support the work of the Income Tax, Sales and Special Taxes, and Property Tax systems: The Appeals, Legal Services and Criminal Investigation Division and the Research Division.

Legal Services provide support to the tax systems through research and analysis of tax law and policy. Its attorneys represent the DOR at contested administrative and rule making hearings, draft legislation, provide legislative testimony, and work closely with legislative staffs, taxpayer and practitioner groups. This unit also provides support to the Attorney General in tax litigation matters.

The Appeals Unit conducts administrative appeals for taxpayers who are appealing audits or penalty determinations to assure that assessments and claim for refund denials are accurate and conform to law. The administrative appeals process is a less costly alternative to litigation. Appeals also provides an Alternative Dispute Resolution (ADR) option for taxpayers on docketed tax court cases.

The Criminal Investigation Unit investigates potential tax crimes and determines whether or not to refer cases to a prosecutor for prosecution.

The Tax Research Division supports the development of sound tax policy through objective research, analysis and measurement of tax system performance. Tax Research publishes a number of studies that describe and evaluate the performance of the three tax systems: income, sales and property taxes. Studies include the Tax Expenditure Report, the Tax Incidence Study, and the Limited Market Value Study--studies mandated by the

Tax Research also supports the tax policy process by providing the legislature and the administration with revenue estimates of the fiscal impact of all major tax proposals. In addition, the division is responsible for forecasting the expected revenues for over two dozen state taxes as part of the state budget process. To support tax policy and revenue estimation, Tax Research builds and maintains tax simulation models and databases for the major state and local taxes.

An important function of tax research is providing public information related to the operation of Minnesota's state and local tax system. This includes monthly and/or annual reports for major taxes and publication of the Minnesota Tax Handbook. This information is distributed statewide to libraries, associations, the media and the public.

#### BACKGROUND INFORMATION :

**MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)**

**DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)**

<b>Type</b>	<b>Based</b>	<b>Measure</b>	<b>1994-95</b>	<b>1995-96</b>
W	FY	Administrative tax appeals total	1,275	1,152
W	FY	Refund appeals received	279	303
W	FY	Penalty appeals received	246	208
W	FY	Additional tax appeals received	742	643
W	FY	Alternative dispute resolution cases (appeals)	47	40
W	FY	Court appeals (Attorney General)	203	156
O	FY	Revenue notices issued	15	12
W	FY	License clearance and revocation hearings	N/A	20
W	FY	Revenue analyses for legislative bills	260	N/A

#### PROGRAM DRIVERS :

Legal and Research are affected by the program drivers listed previously for the other tax programs with the following additions.

1) 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.

- 2) Audit and Collections Activities. Taxpayers are becoming more aggressive in challenging tax laws and departmental interpretations.
- 3) Increasing frequency of tax law changes. There is growing pressure to use the state tax code to achieve non-revenue objectives, such as tax provisions to support economic development, educational, social and environmental objectives. This generates more work for Tax Research on tax policy and revenue estimation.
- 4) Growing complexity of tax law change proposals. A number of increasingly complex tax reform proposals are being considered by the legislature, including property tax, education finance and health care tax reforms. In addition, the federal government is considering alternative tax systems which would have a major impact on the state tax system. Analysis of these complex proposals adds significantly to the work of Tax Research.
- 5) Increased support for Department of Revenue research and performance measurement activities.

Agency : REVENUE DEPT  
 Program : REVENUE ADMINISTRATION  
 BACT : PROPERTY TAX & STATE AID

**EXPENDITURES AND STAFFING :**

	<u>(\$ in Thousands)</u>	<u>Percent of Department</u>
Total Expenditure	\$4,429	5.45%
From Federal Funds	\$136	
From Special Revenue Funds	\$1,550	
General	\$2,743	
Number of FTE Staff:	77	6.07%

**GOAL :**

- The Department of Revenue contributes to making the state and local revenue system more fair, efficient, reliable, competitive and understandable in both design and operation. (Chapters 124, 272 and 273)

**DESCRIPTION OF SERVICES :**

The property tax accounts for approximately 96 percent of total local government tax revenue. In F.Y. 1996 the division distributed \$885.2 million in state property tax relief payments and general support to 3,000 units of local government. State aid payments administered under this program accounted for about 15 percent of the total revenues of cities, counties, and special taxing districts in F.Y. 1996.

The Property Tax Division 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 assists and oversees county and city assessors with 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; provides support to the State Board of Assessors, which is responsible for assessor education and licensure; staffs the State Board of Equalization, which is responsible for monitoring assessment levels for accuracy and uniformity, and issuing corrective orders; and directly assesses railroads, public utilities, and airflight property on a statewide basis as required by law.

The Local Government Levies and Aids Administration collects and maintains assessment and levy information from all local taxing authorities each year; determines state aid payments for each county, city, town, school

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district, and special taxing district under a variety of statutory formulas (Homestead and Agricultural Credit Aid, Local Government Aid, Disparity Reduction Aid, 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; educates and assists county auditors and treasurers on requirements and procedures for tax computation and collection; and conducts annual assessment-sales ratio studies to measure assessment levels, ensure uniformity, and determine the basis for state aid payments to school districts.

The Minerals Tax activity administers mining industry taxes, the bulk of which flow to local government 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 :**

**MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)**

**DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)**

<b>Type</b>	<b>Based</b>	<b>Measure</b>	<b>1994-95</b>	<b>1995-96</b>
OD	CY	Net property taxes payable statewide (thousands)	\$4,050,132	\$4,300,193
O	FY	Property tax refunds paid to individuals (thousands)	\$157,450	\$166,240
OD	FY	Counties with no state board changes to assessment	29	34
W	FY	Property transfers analyzed for sales-ratio study	175,590	165,000
W	FY	Informational inquiries answered by phone	17,575	17,936
O	FY	Classroom hours of assessor training by staff	358	120
O	FY	Informational mailings sent	23,545	25,448
O	FY	Local aid determinations calculated	11,326	11,265
O	FY	Aid paid to local governments by department (thousands)	\$867,806	\$885,230
W	FY	Auditor and treasurer inquiries answered by phone	9,068	8,395
OD	FY	Taxing districts and aid entities	5,987	6,012
O	FY	Aid to school districts certified by DOR, paid by Education (thousands)	\$162,585	\$164,415
OD	FY	Taconite production tax receipts (thousands)	\$81,500	\$85,705

**PROGRAM DRIVERS :**

1) Minnesota's property tax system is extremely complex. Its classification system and variety of special

valuation and exemption programs demand an extremely high level of technical expertise and judgment from local assessors, and make uniform administration 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.

- 2) 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. Both groups need to know about changes to the property tax system and the subsequent implications for them, as well as modifications to data processing systems.
- 3) 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.
- 4) 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.
- 5) 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.

**Goal 1** : The Department of Revenue contributes to making the state and local revenue system more fair, efficient, reliable, competitive and understandable in both design and operation.

**Objective 1** : To ensure uniform and accurate property tax valuation, classification and notification by local governments.

**Measure 1** : Median sales ratio by property type.

	<u>C.Y.1993</u>	<u>C.Y.1994</u>	<u>C.Y.1995</u>	<u>C.Y.1996</u>	<u>C.Y.1997</u>	<u>C.Y.1998</u>
<b>Residential</b>						
<b>Actual</b>	90.5%	89.3%	89.9%			
<b>Apartment</b>						
<b>Actual</b>	94.3%	93.8%	92.9%			
<b>Recreational</b>						
<b>Actual</b>	88.1%	87.2%	86.9%			
<b>Farm</b>						
<b>Actual</b>	89.1%	90.0%	89.7%			
<b>Business</b>						
<b>Actual</b>	95.6%	93.7%	90.8%			
<b>Target</b>				90-105%		

#### DEFINITION :

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 target applies to all types of property.

#### RATIONALE :

The measure shows how assessment levels compare to selling prices over time from one type of property to another. Half of the properties are above the median, and half are below. Ideally, the sales ratio would be 100 percent, that is, the assessment and selling price would be the same for every property. In practice this is impossible to attain, because no one can predict how much every property will sell for. Therefore, the target is a range of values, within which the measure can vary.

#### 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. This data is available from the Property Tax Division.

#### DISCUSSION OF PAST PERFORMANCE :

Assessment levels have become somewhat more uniform among the different types of property since the mid-1980s. The trend is indicated by more uniform sales ratios.



**PLAN TO ACHIEVE TARGETS :**

The target applies to all types of property. To maintain accuracy and improve uniformity of assessments, the division will emphasize assessor training and provide meaningful feedback to assessors. Efforts to enhance uniformity will be strengthened through increased sharing of market-value information among assessors.

**OTHER FACTORS AFFECTING PERFORMANCE :**

A property's value may change between the time it's assessed and the time it's sold. When the value of property is changing rapidly, as might be caused by inflation, the sales ratio will vary from the desired goal of 100%. Increasing sales prices will lower the sales ratio below 100%.

**Goal 1** : The Department of Revenue contributes to making the state and local revenue system more fair, efficient, reliable, competitive and understandable in both design and operation.

**Objective 1** : To ensure uniform and accurate property tax valuation, classification and notification by local governments.

**Measure 2** : Coefficient of dispersion by property type.

	<u>C.Y.1993</u>	<u>C.Y.1994</u>	<u>C.Y.1995</u>	<u>C.Y.1996</u>	<u>C.Y.1997</u>	<u>C.Y.1998</u>
<b>Residential</b>						
<b>Actual</b>	11.4%	11.5%	11.7%			
<b>Target</b>				15%		
<b>Apartment</b>						
<b>Actual</b>	19.0%	14.2%	16.1%			
<b>Target</b>				15%		
<b>Recreational</b>						
<b>Actual</b>	19.4%	20.2%	19.9%			
<b>Target</b>				20%		
<b>Farm</b>						
<b>Actual</b>	18.7%	20.0%	20.5%			
<b>Target</b>				20%		
<b>Business</b>						
<b>Actual</b>	23.7%	20.7%	23.1%			
<b>Target</b>				20%		

#### DEFINITION :

The coefficient of dispersion (COD) measures how uniformly property is assessed in relation to sales prices. The COD is the absolute deviation from the median expressed as a percentage of the median.

#### RATIONALE :

The coefficient of dispersion (COD) measures uniformity of assessments, relative to sales price. A small COD implies that most assessments are close to the median values (see prior measure). Ideally, the dispersion should be as close to zero as possible, meaning that all properties of the same type have the same sales ratio, but a COD at or below the target level may be acceptable. No one can predict the selling price of every property, so the target for this measure is a range of values, within which the measure may vary.

#### DATA SOURCE :

The department is required by law to collect and evaluate data on the uniformity of property tax assessments each year. This data is available from the Property Tax Division.

#### DISCUSSION OF PAST PERFORMANCE :

Assessment uniformity within specific property types, as indicated by the COD measure, has remained relatively constant.

**PLAN TO ACHIEVE TARGETS :**

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 to achieve where properties vary widely in age, condition, and value (e.g., housing in older urban areas or non-metro business property.)

To improve the uniformity of assessments, the division will emphasize assessor training and provide meaningful feedback to assessors. Efforts to increase uniformity will be strengthened through increased sharing of market-value information among assessors.

**Goal 1** : The Department of Revenue contributes to making the state and local revenue system more fair, efficient, reliable, competitive and understandable in both design and operation.

**Objective 2** : To determine and make timely and accurate payments of state aid to local governments.

**Measure 1** : Percentage of aid dollars paid on time and accurately.

	<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>	<u>F.Y.1998</u>
<b>Number of payments</b>						
<b>Actual</b>	10,256	8,229	7,549	7,490		
<b>Number of payment deadlines during year</b>						
<b>Actual</b>	25	26	24	27		
<b>Percentage paid on time</b>						
<b>Actual</b>	99.991%	100%	100%	100%		
<b>Target</b>					100%	
<b>Percentage accurate</b>						
<b>Actual</b>	99.981%	99.999%	99.999%	100%		
<b>Target</b>					100%	

#### DEFINITION :

The percentage of state aid paid on time to local governments is aid dollars paid on the statute-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 (that is, not requiring any further recomputation or correction) as a percentage of all aid dollars.

#### RATIONALE :

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

#### DATA SOURCE :

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. When payment delays have occurred, they have been very brief--a few days at most.

**PLAN TO ACHIEVE TARGETS :**

To meet accuracy and timeliness targets for state aid payments, we must emphasize our staff and technological resource development. Opportunities for formula simplification and payment consolidation will be identified and offered to policy makers for their consideration.

Agency : REVENUE DEPT  
 Program : REVENUE ADMINISTRATION  
 BACT : TAX OPERATIONS

#### EXPENDITURES AND STAFFING :

	<u>(\$ in Thousands)</u>	<u>Percent of Department</u>
Total Expenditure	\$21,114	25.99%
From Special Revenue Funds	\$274	
General	\$20,840	
Number of FTE Staff:	446	35.16%

#### GOALS :

- Every taxpayer pays the legally required amount of tax, no more, no less. (Chapters 270-298)
- The Department of Revenue contributes to making the state and local revenue system more fair, efficient, reliable, competitive and understandable in both design and operation. (Chapters 270-298)
- Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations. (Chapters 270-298)

#### DESCRIPTION OF SERVICES :

Tax Operations divisions are the foundation of the income tax, business excise and consumption tax, and property tax systems. The services of Tax Operations are provided on an agency-wide basis, for most types of taxes. Among services provided are:

- Tax forms and instructions are produced, drawing appropriately on knowledgeable department staff. Tax information to the public is available using a variety of media, including print, radio, television, and an Internet web site.
- Business taxpayers are registered and assigned identification numbers and individual taxpayer information is compiled by taxpayer; incompatible business and individual data is reconciled.
- Incoming mail is opened, sorted and delivered with particular attention given to remittances.
- Over 5 million paper documents and several hundred thousand electronic transactions are processed yearly. After auditing for accuracy, taxpayer filing data is recorded on our computer systems.
- Receipts are promptly deposited with all cash and electronic funds transfers credited to the taxpayer.
- Individual and business accounts are established and kept current; this enables debt collection and credit

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refund. Problems with amended returns, penalties and reporting discrepancies are resolved.

-- Refunds are remitted promptly when the taxpayer is free of tax obligations. Revenue subtracts debt obligations from refunds when a taxpayer owes money for child support, a delinquent school loan or other such government obligations.

-- Tax receipts and refunds are reported to Department of Finance.

-- Tax records, paper and electronic, are sorted and stored with accessibility limited to authorized personnel or taxpayers. Confidentiality procedures are established and monitored.

-- Delinquent taxpayers are identified and collection accounts established. Stronger measures are progressively instituted to collect delinquent taxes; these measures range from letters and phone calls to personal visits and seizures of assets. Collection of all unpaid taxes is undertaken. Particular attention is given to sales, withholding and income taxes. Enforcement of filing requirements for sales and withholding taxes is pursued.

-- Ongoing analyses of the department's performance are produced using a variety of measurement tools.

-- The department's comprehensive computer infrastructure is developed and maintained for all offices, in and out of Minnesota. Systems supporting our tax activity are continually changed, as required by statute, and upgraded for efficiency.

**BACKGROUND INFORMATION :**

**MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)**

**DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)**

<b>Type</b>	<b>Based</b>	<b>Measure</b>	<b>1994-95</b>	<b>1995-96</b>
O	FY	Collections liens, levies and seizures	21,140	20,526
O	FY	Collections bills sent	360,000	148,000
O	FY	Collections calls to delinquent taxpayers	110,000	130,000
O	FY	Collections field visits to delinquent taxpayers	26,400	20,000
O	FY	Sales tax revenue (thousands)	\$2,722,381	\$2,874,702
O	FY	Special taxes revenue (thousands)	\$547,540	\$573,689
O	FY	MinnesotaCare revenue (thousands)	\$252,720	\$264,769
O	FY	Petroleum tax revenue (thousands)	\$504,228	\$517,053
O	FY	Net individual income tax revenue--after refunds, includes withholding (thousands)	\$3,815,040	\$4,206,732
O	FY	Corporate franchise tax revenue (thousands)	\$665,710	\$701,735
O	FY	Withholding tax revenue (thousands)	\$3,272,081	\$3,523,062
W	FY	Sales tax returns filed	722,098	724,428
W	FY	Special taxes returns filed	45,435	46,640
W	FY	MinnesotaCare returns filed	9,447	8,655
W	FY	Petroleum returns filed	35,000	30,000
W	FY	Individual income tax returns filed on paper	1,986,827	2,045,339
A	FY	Percent of individual income tax returns filed electronically	4.6%	5.3%
W	FY	Property tax refund claims filed	609,252	553,054

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W	FY	Corporate franchise tax returns filed	103,648	102,386
W	FY	Withholding tax returns filed	1,610,002	1,836,890
W	FY	Sales tax payments processed	722,098	724,428
W	FY	Special taxes payments processed	34,830	33,140
W	FY	MinnesotaCare tax payments processed	23,247	23,136
W	FY	Petroleum tax payments processed	28,000	15,000
O	FY	MinnesotaCare forms, instructions mailed	79,900	84,900
O	FY	Special taxes forms, instructions mailed	11,472	7,910
O	FY	Petroleum tax forms, instructions mailed	44,092	17,537
O	FY	Sales tax forms, instructions mailed	877,202	768,128
O	FY	Other educational mailings	587,983	584,523
W	FY	Pieces of mail received	N/A	4,847,392
UC	FY	Cost to process an individual income tax return	N/A	\$1.67
UC	FY	Cost to process a sales tax return	N/A	\$1.67
A	FY	Percent of tax deposits by electronic funds transfer	61%	62%

**PROGRAM DRIVERS :**

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

- 1) 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.
- 2) Training. Employees are increasingly expected to adapt and perform to dramatically different employment situations. Advanced understanding of computer technology and applications is needed for managers to perform effectively; facility with computers is required of most staff.



**Goal 1** : Every taxpayer pays the legally required amount of tax, no more, no less.

**Objective 1** : To increase the collection of delinquent taxes.

**Measure 1** : Delinquent taxes collected and cases resolved.

	<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>	<u>F.Y.1998</u>
<b>Dollars available for collection (thousands)</b>						
Actual		\$316,000	\$249,000	\$237,000		
Target					\$210,000	
<b>Dollars collected (thousands)</b>						
Actual		\$140,000	\$143,000	\$129,000		
Target					\$130,000	
<b>Cases closed</b>						
Actual			80,885	71,883		
<b>Cases open at end of year</b>						
Actual		124,000	96,610	74,485		
<b>Percentage of liabilities over one year in age</b>						
Actual			24%	10%		
<b>Percentage of liabilities resolved in one year</b>						
Actual			84%	86%		
Target					90%	95%
<b>Cost to collect \$100 of delinquent taxes</b>						
Actual	\$6.60	\$7.50	\$7.90	\$8.80		

#### DEFINITION :

Dollars available for collection are the amounts taxpayers owe and that the Collections Division can take action on. The total includes penalties and interest on unpaid taxes. Tax debts may be from several tax years or filing periods, and collection may take several years if the taxpayer has an extended payment plan. Some debts are written off, and the total for cases closed includes cases where the debt was written off. The percentage of cases resolved within one year is based on a monthly average of new cases that come to the Collections Division. The percentage of liabilities with an age greater than one year refers to the amounts in cases that have not been collected after one year of availability to the Collections Division. The cost to collect \$100 refers to costs of the Collections Division only.

#### RATIONALE :

Dollars collected, number of cases closed and the percentage of liabilities resolved within one year are primary and related outcome measures for the Collections Division. The most critical measure for assessing whether collections are keeping pace with delinquent taxes is the percentage of liabilities resolved within one year. Because some taxpayers must pay off their debts over an extended period of time or, perhaps, end up in bankruptcy, the percentage resolved in one year can never be 100%.

**DATA SOURCE :**

This data is available from the Collections Division.

**PLAN TO ACHIEVE TARGETS :**

The Collections Division manages accounts receivable. In addition to collecting receivables, the division responds to taxpayers' inquiries, corrects errors in assessments, provides information, educates taxpayers about filing and paying requirements, uses progressive enforcement on those who refuse to comply, coordinates resources (including collections agencies) to resolve cases, and writes off uncollectible debts.

To achieve these targets, the Collections Division will:

- 1) Improve case management of business cases by striving for faster resolution, increased payment plan and wage levy monitoring, and increased enforcement 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 collection agencies. Additionally, smaller dollar income tax cases will be assigned to the Minnesota Collections Enterprise (MCE).
- 3) Increase our efficiencies through implementation of new technology (a new case management system will be implemented in January 1997). Predictive dialing was implemented in February 1996.
- 4) Greater efficiencies will allow us to expand our responsibilities into other compliance-related areas, such as income tax nonfilers and, possibly, partnership, corporate, and small business nonfilers.
- 5) Expand and improve our internal communications and staff training.

**OTHER FACTORS AFFECTING PERFORMANCE :**

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

**Goal 1** : Every taxpayer pays the legally required amount of tax, no more, no less.

**Objective 1** : To increase the collection of delinquent taxes.

**Measure 2** : Percentages of delinquent sales and withholding tax accounts resolved after demands were issued.

	<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>	<u>F.Y.1998</u>
<b>Sales tax demands issued</b>						
<b>Actual</b>				68,000		
<b>Target</b>					68,000	68,000
<b>Percentage of sales tax demands resolved</b>						
<b>Actual</b>				85%		
<b>Target</b>					88%	90%
<b>Withholding tax demands issued</b>						
<b>Actual</b>				55,000		
<b>Target</b>					55,000	55,000
<b>Percentage of withholding tax demands resolved</b>						
<b>Actual</b>				85%		
<b>Target</b>					88%	90%

#### DEFINITION :

The demands for sales tax and withholding tax refer to accounts when the taxpayer did not pay on time and a demand was sent from the Collections Division for payment. The measure tracks the percentage of these delinquent accounts that were settled or resolved by the Collections Division.

#### RATIONALE :

This is a primary measure of the effectiveness of the Collections Division in notifying taxpayers that their accounts are delinquent and collecting or resolving the account.

#### DATA SOURCE :

This data is from the Collections Division.

#### DISCUSSION OF PAST PERFORMANCE :

Historical data is not available.

#### PLAN TO ACHIEVE TARGETS :

The Collection Division's new predictive dialing system has enabled it to contact more nonfilers and resolve their account delinquencies. We expect the number of nonfilers to remain constant.

**Goal 2** : The Department of Revenue contributes to making the state and local revenue system more fair, efficient, reliable, competitive and understandable in both design and operation.

**Objective 1** : To provide timely refund service to taxpayers.

**Measure 1** : Average days to issue refunds and percentage within target.

	<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>	<u>F.Y.1998</u>
<b>Individual income tax refunds, average days</b>						
<b>Actual</b>	23	27	31	26		
<b>Target</b>					30	
<b>Percentage within target</b>						
<b>Actual</b>			95.5%	97.2%		
<b>Corporate tax refunds, average days</b>						
<b>Actual</b>	50	52	38	40		
<b>Target</b>					60	
<b>Percentage within target</b>						
<b>Actual</b>			93%	85e%		
<b>Other business income tax refunds, average days</b>						
<b>Actual</b>	248	204	67	69		
<b>Target</b>					60	
<b>Percentage within target</b>						
<b>Actual</b>			10%	16e%		

#### DEFINITION :

The time to process an income tax refund is the number of days from the moment the refund claim arrives at the department to the day we send out the check. For individual income tax refunds, the percentage within target depends on when the return was filed. The target for returns filed before April 1 is 30 days; after that, the target is 60 days. These measures include returns filed electronically as well as on paper.

The target for other business income tax returns and corporate franchise returns is 60 days. Other business income taxes include estates, fiduciaries, partnerships and small corporations (S-Corporations). The data for these tax types is calendar year data, so the data for 1996 is an estimate based on refunds processed through September 1996.

#### RATIONALE :

The department believes 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. Experience shows that when refunds are late many taxpayers call the department, which adds to service demands on the phone staff.

**DATA SOURCE :**

This data is from the department's Taxpayer Accounting System and the Document Processing Division.

**DISCUSSION OF PAST PERFORMANCE :**

The average number of days to issue refunds in the individual income tax area has been good in the past. The department's priority is to 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 other business refund processing showed improvement in 1993 and 1994, owing to a newly established priority processing status and a more efficient computer data-entry system.

**PLAN TO ACHIEVE TARGETS :**

The department will continue to give priority to strategies and computer systems that help achieve our targets. Also, the department will encourage taxpayers to use electronic filing, which will further expedite refund processing.

**Goal 2** : The Department of Revenue contributes to making the state and local revenue system more fair, efficient, reliable, competitive and understandable in both design and operation.

**Objective 2** : To quickly process payments by taxpayers.

**Measure 1** : Percentage of receipts deposited within one business day after receipt.

	<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>	<u>F.Y.1998</u>
Percentage processed by next day						
Actual			78.5%	79.7%		
Target					85%	85%

#### DEFINITION :

This measure is determined by dividing the dollar amount of payments deposited in a bank within one business day after receipt by the total dollars received. All department receipts are included.

#### RATIONALE :

The sooner funds are deposited, the sooner they are available to the state.

#### DATA SOURCE :

This data is available from the Document Processing Division.

#### DISCUSSION OF PAST PERFORMANCE :

The department has measured deposit performance for many years. In 1992 the department began collecting revenues electronically (by electronic funds transfer or EFT), which has improved deposit timeliness. The department has also used education of taxpayers and statutory changes to speed the availability of receipts.

#### PLAN TO ACHIEVE TARGETS :

The department will promote electronic filing, electronic funds transfer, and more rapid reporting of taxpayers' transactions as the means to achieve faster deposit of payments and more rapid availability of information about transactions. The department plans to increase the use of electronic funds transfer from taxpayers to the state through a combination of statutory changes and education of taxpayers. For funds remitted on paper, we plan to implement a more sophisticated technology for managing receipts.

- Goal 3** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations.
- Objective 1** : To double the use of the Internet web site by taxpayers and increase CD-ROM sales.
- Measure 1** : Visits to the department's Internet (WWW) site, number of tax forms downloaded, and CD-ROMs distributed.

	<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>	<u>F.Y.1998</u>
<b>Number of Internet web-site visits</b>						
Actual				32,000		
Target					65,000	
<b>Number of tax forms downloaded</b>						
Actual				41,500		
Target					90,000	
<b>Number of CD-ROMs with tax forms distributed</b>						
Actual				750		
Target					1,000	

**DEFINITION :**

These measures are simple counts using a conservative approach to record Internet visits. CD ROMs contain tax forms and instructions.

**RATIONALE :**

The department's site on the World Wide Web was opened for business during the 1996 tax season. It was developed as part of our search for alternatives to printing and mailing forms, as well as in response to growing taxpayer demand for readily accessible information from the department. Our site allows visitors to download and print tax forms from their computers, and to gain access to information about tax systems such as income and sales. Visits to the site should increase dramatically in the next five years as more and more taxpayers obtain access to the web. Currently, more than 35 million Americans have web access, an increase of 36 percent over last year. Along with providing a new dimension to customer service, continued growth in web site use should contribute to a gradual decrease in the need for paper forms.

The new CD-ROM, containing individual income tax forms and instructions, was developed last year for tax preparers and resulted in 550 sales. An additional 200 were distributed to public libraries and copy center sites for taxpayer use. The CD allows the tax preparers to print their own forms for their client's returns, again with the goal of reducing the taxpayer's dependence on paper forms.

**DATA SOURCE :**

These statistics are available from the department's Communications Division. Internet statistics are calculated automatically by the Internet computer system.

**DISCUSSION OF PAST PERFORMANCE :**

These are new measures.

**PLAN TO ACHIEVE TARGETS :**

Marketing of the CD will be expanded this year to include major businesses in the state. This expansion will encourage on-site use of the CD by their employees. Additional forms and instructions will be added to the web site, and in January 1997 the department will again publicize its existence.



**Goal 3** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations.

**Objective 2** : To increase the use of electronic tax files in place of manual files.

**Measure 1** : Taxpayers' files accessed electronically and manually.

	<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>	<u>F.Y.1998</u>
<b>Business registrations (PROFILE)</b>						
<b>Actual</b>		44,576	50,834	62,725		
<b>Registration updates</b>						
<b>Actual</b>		163,755	229,437	243,748		
<b>Income tax electronic file retrievals (TRIPOD)</b>						
<b>Actual</b>		65,108	120,332	180,000		
<b>Target</b>					200,000	
<b>Income tax manual file retrievals</b>						
<b>Actual</b>		199,605	172,295	136,821		
<b>Target</b>					136,000	

#### DEFINITION :

A taxpayer's file is accessed when there is a question or problem with a tax return or financial account or when a new business is registered. This measure counts how often these files are accessed either through the department's newer electronic computer system or through the older paper record system. TRIPOD records are for individual income tax and property tax refunds, and PROFILE records are for business registrations.

#### RATIONALE :

The department is moving from paper or manual files, to computer or electronic files. This changeover will greatly speed our services to taxpayers who have a problem or question about their tax records, as well as improve access for department employees to a taxpayer's records. Manual retrieval of files is slow, sequential and exclusive in usage of data. Only one customer may use the data at any given time. And tracking and exchange of records that are charged out is slow and expensive. Automated retrieval provides rapid multiple access to data. Because the primary record is never out of possession, there is no secondary handling for searches or refiling.

Locating and transmitting records for outstate offices may take from 1-3 days for outstate offices. The records must later be returned and refiled, which slows the processing of any case using the same records. The current retrieval goal on manual files is 1 business day to place the requested file in interoffice mail. Files requested in large batches may take up to 3 weeks. Electronically, the same records are available in seconds, and to multiple people. For individual income tax and property tax refunds, TRIPOD displays data captured by the state and the IRS in the document processing cycle, which satisfies the majority of data elements needed to provide service to taxpayers. Electronic availability of data also expedites the need for document processing to verify the previous year's filing numbers.

**DATA SOURCE :**

This data is available from the department's Profile, Access and Security Division.

**DISCUSSION OF PAST PERFORMANCE :**

The TRIPOD computer system for individual income tax records and property tax refund records began operations in 1994. In 1995, outstate offices gained access to the system. The PROFILE system, which contains records for businesses, has been operational since 1994, and it has experienced consistent growth through our registration of businesses by phone. The total for manual file retrievals for FY1996 and FY1997 will be skewed by a special study (on tax reciprocity), that will add about 20,000 retrievals in FY1996 and may add 30,000 in FY1997.

Sales Tax, Special Taxes and MinnesotaCare currently process and access 90+% of their records thorough automated means. The Integrated System composed of the Taxpayer Registration Systems, Taxpayer Accounting, and Refunds Processing Module (excluding the collections CACS System) accessed 10,155,869 records in FY96. This electronic access has enhanced the ability to provide prompt customer service at the time of initial contact. We have measured portions of this through the PROFILE registration system. The old manual registration process took 60-90 days to issue a new business identification number. The automated PROFILE registration system now makes a business identification number available within 1 hour for 90% of registrants.

**PLAN TO ACHIEVE TARGETS :**

The department plans to put additional tax records on the computer systems and rewrite computer programs to improve system access and response time.

**OTHER FACTORS AFFECTING PERFORMANCE :**

Access to computer record systems must meet the IRS security standards, because the systems contain IRS data on individual taxpayers.

**Goal 3** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations.

**Objective 3** : To answer taxpayers' phone calls promptly.

**Measure 1** : Percentage of phone calls answered by the Collections Division.

	<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>	<u>F.Y.1998</u>
<b>Calls answered</b>						
<b>Actual</b>				26,733		
<b>Percentage of calls answered</b>						
<b>Actual</b>			94e%	90%		
<b>Target</b>					95%	

#### DEFINITION :

This measure is the percentage of phone calls received that are answered by the Collections Division's Compliance Customer Assistance (CCA) unit. The number of calls answered is also included for reference. The percentage of calls answered in 1995 is an estimate based on 22,399 calls answered in the last half of the year, when data first became available for this measure.

#### RATIONALE :

Good response to taxpayers' phone calls is an important dimension of taxpayer service. Although many units within the Collections Division get phone calls, the Customer Compliance Assistance (CCA) unit is primarily responsible for taking calls from taxpayers on their first billing or demand-to-file notice. This unit is usually the first point of contact for most taxpayers with the Collections Division, and the work of the division is organized with this in mind.

#### DATA SOURCE :

Data is from the Collections Division and is collected through an automated phone call distribution system.

#### DISCUSSION OF PAST PERFORMANCE :

Historical data is not available.

#### PLAN TO ACHIEVE TARGETS :

The Collections Division has given its highest priority to the CCA unit in receiving resources to ensure that their phone answering level is sufficient to meet the demands of taxpayers who respond to the first notice from the department regarding their tax obligations.

**Goal 3** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations.

**Objective 4** : To meet taxpayers' expectations for services.

**Measure 1** : Percentage of taxpayers responding to a collections survey who "agree" or "strongly agree" that they received a certain level of service by the collections staff.

	<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>	<u>F.Y.1998</u>
Percentage satisfied						
Actual			88e%	93e%		
Target					90%	

#### DEFINITION :

The percentage is based on an annual survey mailed to a sample of about 500 taxpayers whose cases have been resolved by the Ely office of the Collections Division. The Ely office does collections by phone. Several questions were asked on the survey, and the results were averaged for this performance measure. Persons were asked whether they "strongly agree," "agree," "disagree," or "strongly disagree" that the collector was knowledgeable and courteous, that they now have a better understanding of their future filing and payment requirements, that the collector responded in a timely fashion and with adequate informations, and that they were satisfied with the time it took to resolve their case.

Of the surveys mailed out in 1996, 141 people responded, which is a response rate of 28 percent. This was a drop 6 of percent from 1995. The survey included both individual and business taxpayers. The results were also analyzed according to whether or not the taxpayers were cooperative during the collections process. Because many of the taxpayers were uncooperative, this undoubtedly lowered the response rate for the survey. An uncooperative taxpayer is one who fails to respond to any of the department's bills or phone calls, or fails to honor commitments made to the department. Further information on the survey responses for each question is available from the Collections Division.

#### RATIONALE :

Feedback directly from people who were served is the most direct way to assess the quality of service.

#### DATA SOURCE :

Data is from the Collections Division.

#### DISCUSSION OF PAST PERFORMANCE :

This is a new survey.

Agency : REVENUE DEPT  
Program : REVENUE ADMINISTRATION  
BACT : INCOME TAX SYSTEM

**EXPENDITURES AND STAFFING :**

	<u>(\$ in Thousands)</u>	<u>Percent of Department</u>
Total Expenditure	\$14,096	17.35%
General	\$14,096	
Number of FTE Staff:	237	18.68%

**GOALS :****GOALS :**

- Every taxpayer pays the legally required amount of tax, no more, no less. (Minnesota Statutes, chapters 10A, 270, 270A, 289A, 290, 290A)
- Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their filing and payment obligations. (Chapters 10A, 270, 270A, 289A, 290, 290A)

**DESCRIPTION OF SERVICES :**

The Income Tax System administers the taxes associated with individual income, corporate franchise, withholding from payrolls, S-corporation, partnership, fiduciary, estate, and limited liability companies. Refund administration for property taxes and political contributions is also part of this system.

The Income Tax System serves over 3.1 million taxpayers annually, including 2.1 million individual income tax filers, and accounts for nearly half of the state's total tax collections each year.

- The Income Tax System consists of three divisions: Individual Income Tax, Corporate Franchise Tax, and Withholding Tax. (The former Other Business Income Tax Division, or OBIT, was merged into the Corporate Franchise Division this past biennium.)

The Income Tax System works for compliance among all taxpayers obligated to file an income tax return. To

achieve compliance, the department balances its approach among trying to influence sound tax law, offering education to taxpayers about their obligations, providing services to taxpayers to help them meet those obligations, giving feedback to taxpayers if they are not meeting their obligations, and seeking progressive enforcement against noncompliant taxpayers. 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 type may have a different emphasis.

The Individual Income Tax Division concentrates 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 primarily on the federal income tax. Compliance with tax laws is progressively enforced, which means using harsher penalties for taxpayers who continually flaunt the law.

The Corporate Franchise Tax Division administers franchise taxes on corporations. Corporations come in all sizes, from small businesses with a sole shareholder who files the tax, to large multinational corporations that employ their own tax departments. Some corporations are start-up businesses, while others have been filing taxes in Minnesota since 1933. Also, some corporations' income is earned totally in Minnesota, while other corporations apportion their income among Minnesota and other states.

With the merger of the OBIT division, the Corporate Franchise Tax Division now administers income tax filings for partnerships, S-corporations, trusts and estates, along with estate tax return filings. Partnerships and S-corporations range in size. Multi-state partnerships and S-corporations must apportion their income among states. Nonresident shareholders and partners may choose to file individual income tax returns or include their Minnesota income tax liability on a composite entity return.

Variation in corporate customers requires services in all aspects of the "win compliance" cycle. Sound tax policy keeps laws simple, which eases the burden of filers unfamiliar with Minnesota's tax laws. Education helps start-up businesses and multinational corporations 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 tax expertise.

This division concentrates its resources on giving timely feedback and accurate information through prompt refunds, written and oral information (to help taxpayers comply), and audits.

The Withholding Tax Division administers income tax withheld by employers from employees' paychecks. Withholding is a critical component of making the Income Tax system work effectively. Historically, over 98% of individual income tax owed is paid through income tax withholding. The variation in our withholding customers, which includes every corporation and a number of partnerships and sole proprietors, requires service in all aspects of the "win compliance" cycle. Past efforts have focused on giving taxpayers feedback, service and education. Auditing and the search for businesses that should be filing are priorities for the coming biennium and beyond. In the fall of 1996, as a result of a legislative initiative, we tripled the size of the audit staff.

**BACKGROUND INFORMATION :**

MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)

DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)

<u>Type</u>	<u>Based</u>	<u>Measure</u>	<u>1994-95</u>	<u>1995-96</u>
O	FY	Net individual income tax collected (after refunds; includes withholding) (thousands)	\$3,815,040	\$4,206,732
OD	FY	Total individual income taxpayers	3,136,691	3,283,866
O	FY	Net corporate tax collected (thousands)	\$665,710	\$701,735
OD	CY	Total corporate taxpayers	58,573	55,697
O	FY	Net withholding tax collected (thousands)	\$3,272,081	\$3,523,062
OD	FY	Total withholding taxpayers	136,000	129,000
O	FY	Property tax refunds paid (thousands)	\$157,450	\$166,240
O	FY	Property tax refund claims	534,000	613,000
O	FY	Political contribution refund claims paid (thousands)	\$3,927	\$3,503
O	FY	Political contribution refund claims	62,609	57,666

**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. A 1992 change 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 taxpayers the latest methods for filing, paying and getting information strains departmental resources and adds to concerns about effective taxpayer service. 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. Therefore, the department must maintain two separate systems for filing and paying: the paper-based system and the electronic system.

3) Economic conditions. 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 and may increase their need for service and feedback.

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. Our department is expected to match or exceed the IRS service levels. The Minnesota Department of Revenue and the IRS have a reciprocal audit relationship. We give them information for their audits, and they give us about 44 percent of the leads for our audits. IRS audit results are passed on to our department for audit adjustments on state taxes. The department is concerned about a possible cutback in the IRS audit presence, which might in turn reduce the department's audit presence.

5) Court cases. Court cases, both state and federal, greatly add to the burden of administering the tax system. A court decision that goes against a departmental position can bring new claims from taxpayers in the same position, and court challenges by taxpayers in similar, but not identical, situations.

6) Demographic changes. The number of taxpayers over 65 years is increasing, and the distribution of income is shifting across different classes of taxpayers. More families have two wage earners, possibly with three jobs in the family. Minnesotans are becoming more diverse, and many immigrants have limited English skills. Taxpayers are increasingly 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.

7) Multinational and multistate tax issues. The global market plays an increasingly larger role 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.



**Goal 1** : Every taxpayer pays the legally required amount of tax, no more, no less.

**Objective 1** : To increase timely and full payment of taxes.

**Measure 1** : Percentage of tax returns filed on time with full payment.

	<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>	<u>F.Y.1998</u>
<b>Individual income tax returns filed</b>						
<b>Actual</b>		1,921,283	2,244,881	2,362,547		
<b>Percentage fully paid on time</b>						
<b>Actual</b>		91.5%	91.6%	92.2%		
<b>Corporate tax returns filed</b>						
<b>Actual</b>		51,938	62,664	56,128		
<b>Percentage fully paid on time</b>						
<b>Actual</b>		84.6%	85.3%	85.2%		
<b>Withholding tax returns filed</b>						
<b>Actual</b>		422,718	458,143	504,059		
<b>Percentage fully paid on time</b>						
<b>Actual</b>		93.2%	93.6%	94.1%		
<b>Other business income tax returns filed</b>						
<b>Actual</b>		37,209	58,978	68,230		
<b>Percentage fully paid on time</b>						
<b>Actual</b>		94.1%	91.1%	90.8%		

#### DEFINITION :

This measure is the ratio of tax returns filed on time with full payment, to the total number of tax returns filed or corrected during the year. People who should have filed a tax return, but did not, are not included. The total also includes amended returns and returns filed by the department. Tax returns may be for one or more prior tax periods.

Other business income taxes include fiduciaries, partnerships and S-corporations (small corporations). The 1994 data includes only returns filed for taxes owed. In 1995, however, returns from S-corporations with no tax owed were added to the accounting system, and in 1996 partnership returns with no tax owed were added to the system.

**RATIONALE :**

Filing and paying taxes on time is the definition of full voluntary compliance. The percentage of filings fully paid on time presumes that the tax return has been honestly completed as to taxes owed. The total, however, may include some taxpayers who in subsequent years are discovered to owe more taxes.

**DATA SOURCE :**

This data is from the department's Taxpayer Accounting System (TPA).

**DISCUSSION OF PAST PERFORMANCE :**

Data is not available prior to 1994.

**PLAN TO ACHIEVE TARGETS :**

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

**OTHER FACTORS AFFECTING PERFORMANCE :**

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

**Goal 1** : Every taxpayer pays the legally required amount of tax, no more, no less.

**Objective 1** : To increase timely and full payment of taxes.

**Measure 2** : Percentage of total taxes due that were fully paid on time.

	<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>	<u>F.Y.1998</u>
<b>Individual income taxes owed (thousands)</b>						
<b>Actual</b>		\$2,830,085	\$3,575,741	\$3,949,944		
<b>Percentage fully paid on time</b>						
<b>Actual</b>		91.6%	92.4%	92.8%		
<b>Corporate taxes owed (thousands)</b>						
<b>Actual</b>		\$539,423	\$586,642	\$688,127		
<b>Percentage fully paid on time</b>						
<b>Actual</b>		77.1%	78.4%	79.6%		
<b>Withholding taxes owed (thousands)</b>						
<b>Actual</b>		\$3,032,742	\$3,490,719	\$3,913,004		
<b>Percentage fully paid on time</b>						
<b>Actual</b>		94.4%	94.8%	94.7%		
<b>Other business income taxes owed (thousands)</b>						
<b>Actual</b>		\$47,354	\$45,057	\$49,177		
<b>Percentage fully paid on time</b>						
<b>Actual</b>		94.4%	93.7%	86.1%		

#### DEFINITION :

This measure is the ratio of tax dollars fully paid on time to the total amount of taxes known to have been paid or due during the fiscal year. This presumes that the taxes paid on time are honestly reported as initially filed. The total paid on time, however, includes taxpayers who in subsequent years may be discovered to owe additional taxes. On the other hand, the total paid or due (the denominator) includes amounts from prior tax years that are paid or discovered to be owed during the current fiscal year. So the measure is an approximation to the amount paid on time in a given fiscal year, and must be tracked for several years to determine if a trend is significant.

Individual income tax totals include payroll withholding but exclude refunds. Other business income taxes include fiduciaries, partnerships and S-Corporations (small corporations).

Note that the total dollars collected includes only those amounts reported by taxpayers or discovered by the department. An estimated \$300 million or more of potential income tax revenue goes unreported and undetected by the department every year.

**RATIONALE :**

The definition of tax compliance is full payment of taxes due on time.

**DATA SOURCE :**

This data is from the department's Taxpayer Accounting System (TPA).

**DISCUSSION OF PAST PERFORMANCE :**

Data is not available prior to 1994.

**PLAN TO ACHIEVE TARGETS :**

Improved taxpayer services 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 :**

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

**Goal 1** : Every taxpayer pays the legally required amount of tax, no more, no less.

**Objective 2** : To locate taxpayers who should be filing, but are not filing.

**Measure 1** : Nonfilers discovered and percentage who filed in next year.

	<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>	<u>F.Y.1998</u>
<b>Individual income tax nonfilers discovered</b>						
<b>Actual</b>	3,447	2,686	3,422	3,033		
<b>Target</b>					3,000	3,000
<b>Percentage who filed in next year</b>						
<b>Actual</b>			63e%			
<b>Target</b>					60%	60%
<b>Corporate tax nonfilers discovered</b>						
<b>Actual</b>	98	129	163	170		
<b>Target</b>					160	
<b>Percentage who filed in next year</b>						
<b>Actual</b>	89e%					
<b>Withholding tax nonfilers discovered</b>						
<b>Actual</b>			24			
<b>Percentage who filed in next year</b>						
<b>Actual</b>			69%			
<b>Other business income tax nonfilers discovered</b>						
<b>Actual</b>			53	272		

#### DEFINITION :

The first measure reports the number of nonfilers discovered: taxpayers who should have filed a tax return, but did not. The second measure, where available, is an estimate of the percentage of those discovered who filed in the next year, other than those who did not need to file (which is sometimes difficult to determine). The corporate data are "nexus" cases: companies operating in Minnesota but not acknowledging that. The number of nonfilers discovered for withholding tax is for calendar year 1995.

The statistics on percentage of nonfilers who filed in the next year are estimates based on samples of the nonfilers discovered. The corporate statistic is an estimate based on a sample of 36 corporate taxpayers. For individual income, the sample size was 141 cases, which were selected at random in 1995 from the nonfilers discovered in 1992 and 1993.

The department intends to develop an automated system to track the compliance behavior of nonfilers after they have been located. This means that in future years, the estimates of compliance will not rely on samples.

**RATIONALE :**

Locating taxpayers who owe taxes but do not file returns is another focus of the department's compliance efforts. Once these taxpayers are identified, it is important that they voluntarily continue to file.

**DATA SOURCE :**

These statistics are from division reports for individual, withholding and corporate taxes.

**DISCUSSION OF PAST PERFORMANCE :**

Locating nonfilers is difficult and the effort's progress has been slow.

**PLAN TO ACHIEVE TARGETS :**

The department expects to maintain last year's level of locating nonfilers of income tax. Location of corporate nonfilers is expected to decrease because of the loss of special initiative funding. Corporate audits often lead to the discovery of corporate nexus cases--cases that involve non-Minnesota businesses that may be unaware of Minnesota's laws and filing requirements. Early education and enforcement are the primary means to bring nonfiling taxpayers into compliance.

**OTHER FACTORS AFFECTING PERFORMANCE :**

The IRS will be decreasing its nationwide effort to bring nonfilers into compliance. This may affect our ability to identify nonfilers.

**Goal 1** : Every taxpayer pays the legally required amount of tax, no more, no less.

**Objective 3** : To increase feedback to taxpayers through audits.

**Measure 1** : The number of audits (with taxpayer notified) and dollars refunded or assessed.

	<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>	<u>F.Y.1998</u>
<b>Individual income tax audits</b>						
Actual			171,125	178,824		
<b>Individual income tax audit assessments (thousands)</b>						
Actual			\$43,007	\$44,619		
<b>Individual income audit refunds (thousands)</b>						
Actual			\$3,556	\$7,723		
<b>Corporate tax audits</b>						
Actual			6,234	9,600		
<b>Corporate tax audit assessments (thousands)</b>						
Actual				\$92,171		
<b>Corporate tax audit refunds (thousands)</b>						
Actual				\$11,452		
<b>Other business income tax audits</b>						
Actual			6,431	6,526		
<b>Net other business audit assessments (thousands)</b>						
Actual			\$4,844	\$4,122		
<b>Withholding tax audits</b>						
Actual			10,290	10,283		
<b>Withholding tax audit assessments (thousands)</b>						
Actual			\$4,766	\$6,117		
<b>Withholding tax audit refunds (thousands)</b>						
Actual			\$4,004	\$6,650		

**DEFINITION :**

The number of audits includes all types of departmental audit activity, whether done as an examination of a return at the department or in person with the taxpayer. Audits often involve the examination of returns from prior tax years, and a single taxpayer may have audits for several different tax filing periods. The count of audits includes all tax periods audited (not taxpayers), but for some audit units the number of periods is estimated from the number of taxpayers audited (so that comparable data can be aggregated). The count includes only audits that resulted in a change in tax liability. In these cases the taxpayer was notified about the change.

The dollars are those available for collection following the taxpayer's appeal period and include amounts paid voluntarily by the taxpayer at the conclusion of the audit, as well as amounts that remain to be collected by the department. For other business income taxes, the dollars are the net, after refunds to taxpayers who overpaid their taxes. At this time, the department does not have a separate report of refunds, apart from assessments, for these tax types.

Individual income includes audits of property tax refund claims and political contribution refund claims. Other business audits include partnerships, estates, S-corporations (small corporations), and fiduciaries.

**RATIONALE :**

Auditing is essential to maintain a high level of voluntary compliance and to ensure that taxpayers are treated fairly. Research by the IRS on individual income tax audits shows that an audit has a substantial "ripple" effect on other taxpayers. For every dollar collected in an audit, about \$12 more is paid voluntarily by other taxpayers who were not audited but presumably were motivated by the audit to increase their voluntary compliance. The department also seeks to identify and refund overpayments made by taxpayers.

**DATA SOURCE :**

Data is combined from the different sections of the department that do audits.

**DISCUSSION OF PAST PERFORMANCE :**

In recent years the department has increased its efforts to identify taxpayers who have overpaid and are due a refund. Auditing has been increased through legislative and departmental funding initiatives.

**OTHER FACTORS AFFECTING PERFORMANCE :**

Performance depends in part on federal auditing efforts, which detect many instances of noncompliance. The IRS forwards its information about noncompliant taxpayers to our department. A reduction in federal tax auditing would reduce our ability to find noncompliant taxpayers and to collect money owed the state.



**Goal 2** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their filing and payment obligations.

**Objective 1** : To maintain a high level of phone service to taxpayers.

**Measure 1** : Phone service level (percentage of callers reaching us).

	<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>	<u>F.Y.1998</u>
<b>Individual income tax calls answered</b>						
<b>Actual</b>	555,300	718,400	770,492	696,018		
<b>Percentage of calls answered (IRS formula)</b>						
<b>Actual</b>	59%	69%	96%	97%		
<b>Target</b>					97%	97%
<b>Withholding tax calls answered</b>						
<b>Actual</b>				24,833		
<b>Percentage of calls answered (IRS formula)</b>						
<b>Actual</b>				83%		

#### DEFINITION :

Phone service levels are defined by an IRS formula that takes into account the number of calls received, the number of busy signals, the number of calls answered, and the repetitive dialing capabilities of modern phones. Daily statistics from phone operations are applied to the formula to calculate the service level used as the performance measure.

#### RATIONALE :

This measure is a very important aspect of customer service. If we make ourselves available to taxpayers, we believe that they will be better equipped to file and pay taxes correctly.

#### DATA SOURCE :

Data on phone calls is recorded automatically by the telephone answering system. The rate is available from the phone service unit.

#### DISCUSSION OF PAST PERFORMANCE :

Phone service for income tax customers has been low in the past because of understaffing and increased demand. In F.Y. 1994, however, the legislature funded an initiative to invest in phone service. This funding helped the department achieve the highly improved service levels reported here.

**PLAN TO ACHIEVE TARGETS :**

The department expects to maintain its service level at the 97 percent target for individual income tax calls by continuing the current staffing level and by putting additional staff on the phones (switching work duties) when needed.

**OTHER FACTORS AFFECTING PERFORMANCE :**

Many factors can cause abrupt increases in the number of calls to the department, including changes in tax laws, newspaper editorials on taxes, and tax news from other states.

**Goal 2** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their filing and payment obligations.

**Objective 2** : To maintain the accuracy of taxpayers' returns.

**Measure 1** : Percentage of returns that are accurate on initial filing.

	<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>	<u>F.Y.1998</u>
<b>Total individual income returns filed</b>						
<b>Actual</b>	2,095,099	1,845,844	2,160,966	2,271,000		
<b>Percentage correct on filing</b>						
<b>Actual</b>	97.8%	97.6%	98.0%	97.3%		
<b>Target</b>					97%	97%
<b>Total withholding returns filed</b>						
<b>Actual</b>			456,442	492,950		
<b>Percentage correct on filing</b>						
<b>Actual</b>			98.0%	98.0%		
<b>Target</b>					97%	97%
<b>Property tax refund claims filed</b>						
<b>Actual</b>			534,000	613,000		
<b>Percentage correct on filing</b>						
<b>Actual</b>			88.1%	90.2%		
<b>Target</b>					90%	90%
<b>Political contribution refund claims filed</b>						
<b>Actual</b>			62,609	57,666		
<b>Percentage correct on filing</b>						
<b>Actual</b>			95.5%	95.5%		
<b>Target</b>					95%	95%

#### DEFINITION :

This measure is the ratio of returns with errors, to total returns filed. Errors are counted, however, only if they result in a change in the taxpayer's liability. The total includes returns filed on time, as well as late returns. Note that some tax returns, which appear to be correct on initial filing, may be found after an audit to be inaccurate.

**RATIONALE :**

This is a simple, overall measure of taxpayer accuracy. It reflects on the complexity of tax filing and the quality of information provided to the taxpayer by the department. 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. If the accuracy rate holds constant in spite of many complex changes in the tax laws, this, too, can be considered a success.

**DATA SOURCE :**

Data on individual income tax processing, refunds, and political contributions are from the department's Document Processing Division. Data on withholding accuracy is from the department's Withholding Tax Division.

**DISCUSSION OF PAST PERFORMANCE :**

The accuracy rate for individual income tax returns declined slightly from 1995 to 1996 because the department implemented a new automated check on the accuracy of tax returns. Previously, this particular accuracy check had been done at a later stage in processing.

**PLAN TO ACHIEVE TARGETS :**

Tax system work concentrates on helping taxpayers pay their taxes correctly at the outset. Past and current accuracy levels represent our continual efforts to improve the design of tax forms, phone service, and educational materials.

**OTHER FACTORS AFFECTING PERFORMANCE :**

Electronic filing has the potential to reduce error rates.

**Agency** : REVENUE DEPT  
**Program** : REVENUE ADMINISTRATION  
**BACT** : BUSINESS EXCISE & CONSUMPTION

**EXPENDITURES AND STAFFING :**

	<u>(\$ in Thousands)</u>	<u>Percent of Department</u>
Total Expenditure	\$12,668	15.59%
From Special Revenue Funds	\$1,366	
General	\$11,302	
Number of FTE Staff:	218	17.15%

**GOALS :**

- Every taxpayer pays the legally required amount of tax, no more, no less. (Minnesota Statutes, chapters 60A, 69, 115B, 116, 273, 287, 290, 294-297E, 299F, 325D and 473.)
- Taxpayers are satisfied because they are treated like customers and and receive the services they need to help them meet their tax filing and payment obligations. (Chapters 60A, 69, 115B, 116, 273, 287, 290, 294-297E, 299F, 325D, 473)

**DESCRIPTION OF SERVICES :**

The Business, Excise and Consumption Tax 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 state sales and use taxes. The division also administers local sales and use taxes for Minneapolis, St. Paul, Rochester, St. Cloud, Mankato and Cook County.

The Special Taxes Division administers 24 taxes and fees. These include taxes on cigarettes, tobacco, beer, wine, liquor and gambling products; these taxes are collected from distributors of the commodities. It also administers taxes and fees on hazardous and solid waste. In addition, the division administers three taxes and a surcharge on the premiums of insurance companies and the unrelated business income tax. The division has regulatory responsibility under 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 requires that the division collect information necessary to determine tax payments, and also to monitor and to regulate the activity.

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

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. The revenue from the MinnesotaCare tax is used to fund health-care insurance for Minnesotans who do not have health insurance, to help form health-care insurance purchasing pools to make it more affordable for small business owners to provide health insurance to their employees, and to help form integrated service networks to help contain the escalating costs of health care.

In general, the four divisions in this program administer most aspects of the taxes and fees they are responsible for. These include:

- creating forms, instructions and other written materials required to determine the amount of tax owed,
- answering telephone and written requests for assistance,
- providing classroom training to taxpayers and making appearances before taxpayer groups,
- providing feedback to taxpayers through on-site information visits and audits,
- participating in appeals of audits,
- participating in civil and criminal investigations,
- making initial attempts to collect delinquent accounts,
- recording taxpayer transactions for taxes with a small number of filers, and
- identifying changes to the tax laws to improve taxpayers' ability to comply.

The divisions within this program also maintain several computer systems that contain information from taxpayer reports. Some of this information is used by other state agencies in their regulatory, licensing, and reporting functions.

To achieve a higher level of compliance with the taxes administered by this program, the program is:

- examining methods to expand on-site audits by means other than direct audits by department employees. This includes managed audits--audits conducted by taxpayers of their own tax records. The taxpayer uses a plan designed by the department specifically for the taxpayer's business.
- conducting partial, rather than complete audits in specific areas where noncompliance has been identified.

- coordinating with other divisions to use a single employee to examine compliance with other taxes (MinnesotaCare tax, sales tax, withheld income tax) rather than using a separate employee for each tax.
- coordinating with other states to conduct a single audit of multi-state businesses.
- targeting audits at types of businesses with histories of noncompliance.
- devising and testing methods to determine which methods result in improved compliance and service to taxpayers.
- making expanded use of information visits--visits in which an employee contacts the taxpayer, usually a new business, and offers to conduct a review of its records and answer tax questions.

This program is increasing on-site information visits, audits and self-audits to provide taxpayers with feedback on how well they are fulfilling their obligation to collect sales tax, account for receipts and report. In its self-audit project, the division selects an industry that appears to lack knowledge on sales tax and use tax requirements. The division mails information to all businesses in the industry to explain sales tax and use tax responsibilities, and then asks the business to determine and pay the tax owed, or explain why tax is not owed.

#### BACKGROUND INFORMATION :

##### MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC); OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)

##### DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIAL YEARS (BY)

<u>Type</u>	<u>Based</u>	<u>Measure</u>	<u>1994-95</u>	<u>1995-96</u>
OD	FY	Sales tax taxpayers	178,593	190,010
OD	FY	Special taxes taxpayers	16,026	18,598
OD	FY	MinnesotaCare taxpayers	9,447	9,459
OD	FY	Petroleum tax taxpayers	4,100	3,000
W	FY	Sales tax refund claims	1,587	1,790
W	FY	Special taxes refund claims	374	280
W	FY	MinnesotaCare refund claims	24	128
W	FY	Petroleum tax refund claims	6,008	5,426
W	FY	On-site audits (all tax types in system)	11,340	6,425
A	FY	Directed self-audits by taxpayers	10	83
W	FY	Informational visits to taxpayers	1,156	1,223
W	FY	Sales tax letters answered	954	913
W	FY	Special taxes letters answered	11,810	12,912
W	FY	MinnesotaCare letters answered	68	90
OD	FY	Taxpayers in sales tax classes	3,940	10,205
O	FY	Sales tax forms, instructions mailed	877,202	768,128

REVENUE DEPT			1996 Agency Performance Report	
O	FY	MinnesotaCare forms, instructions mailed	79,900	84,900
O	FY	Special taxes forms, instructions mailed	11,472	7,910
O	FY	Petroleum tax forms, instructions mailed	44,092	17,537
O	FY	Other educational mailings	587,983	584,523
O	FY	Sales tax revenue (thousands)	\$2,722,381	\$2,874,702
O	FY	Special taxes revenue (thousands)	\$547,540	\$573,689
O	FY	MinnesotaCare revenue (thousands)	\$252,720	\$264,769
O	FY	Petroleum tax revenue (thousands)	\$504,228	\$517,053

#### PROGRAM DRIVERS :

- 1) Economic trends. The nature and scope of the activities performed by the department are extremely sensitive to changes in the state's economy. Economic upturns increase business registrations, requests for forms, instructions and other informational materials, telephone inquiries, 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, non-filings, delinquent tax, and tax avoidance.
- 2) Two systems to accommodate taxpayers. Some taxpayers are making increased use of information technology for filing and paying their taxes. However, not all taxpayers invest in information technology at the same time or to the same degree. To meet the needs of our customers, we need to maintain two systems--one for those using computers, and another for those using manual methods.
- 3) Court cases and aggressive appeals of audits. Two trends are resulting in more aggressive challenges to the department's interpretation of tax laws and appeals of audits. Businesses are seeking to become more competitive by reducing the taxes they must pay. Likewise, accounting and law firms are seeking to expand their businesses by offering to help businesses reduce their taxes. The result is an increase in the number of informal appeals and court cases which the department must handle.
- 4) Electronic and mail transactions. It is more difficult to identify taxable transactions because increasingly transactions take place electronically and by mail. Electronic devices make it easier to conduct transactions across state borders, which adds to the difficulty of identifying transactions to determine nexus. Conducting audits of such transactions requires knowledge of how to access and interpret computer-stored records.
- 5) Federal preemption of state taxing authority. State tax bases are being eroded by federal restrictions on states' power to tax mail and electronic transactions and certain industries, such as health care self-insurers.
- 6) Reduction in IRS budget for enforcing federal tax laws from which the state benefits. The state will be required to make additional efforts to compensate for lack of federal efforts to identify nonfilers and tax evaders, particularly in highway user taxes. However, cut backs are not anticipated in federal efforts to enforce alcohol and cigarette tax laws.
- 7) Increasing use of taxes and fees to accomplish environmental goals. Because these taxes and fees are imposed on a very small segment of the business community and are based on quantities of disposable waste that are difficult to determine, the cost of collecting them is higher in comparison with the cost of collecting other taxes and fees.



**Goal 1** : Every taxpayer pays the legally required amount of tax, no more, no less.

**Objective 1** : To increase timely and full payment of taxes.

**Measure 1** : Percentage of tax returns filed on time with full payment.

	<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>	<u>F.Y.1998</u>
<b>Sales and use tax returns filed</b>						
Actual		840,930	722,098	724,428		
<b>Percentage fully paid on time</b>						
Actual		85.1%	82.8%	85.3%		
Target					88%	
<b>MinnesotaCare tax returns filed</b>						
Actual			8,426	7,950		
<b>Percentage fully paid on time</b>						
Actual			88.4%	87.8%		
Target					90%	
<b>Petroleum tax returns filed</b>						
Actual			39,000	23,000		
<b>Percentage fully paid on time</b>						
Actual			95%	96%		
Target					97%	
<b>Special taxes returns filed</b>						
Actual			45,435	46,916		
<b>Percentage fully paid on time</b>						
Actual			92%	91%		
Target					95%	

#### DEFINITION :

This measure is the ratio of tax returns filed on time with full payment, to the total number of tax returns filed or corrected during the year. Taxpayers who should have filed a return, but did not, are not included. The total includes amended returns. Tax returns may be for one or more prior tax periods.

#### RATIONALE :

Filing and paying taxes on time is the definition of full voluntary compliance. The percentage of filings fully paid on time presumes that the tax return has been honestly completed. The total, however, may include some taxpayers who, in subsequent years, are discovered to owe more taxes.

**DATA SOURCE :**

Sales tax data is from the department's Taxpayer Accounting System (TPA); other data is from the other tax divisions.

**DISCUSSION OF PAST PERFORMANCE :**

Data is not available prior to 1994. The percentages have remained nearly constant over the last three years.

**PLAN TO ACHIEVE TARGETS :**

Based on the results of this measure--together with an analysis of the factors that may contribute to the late filing of returns--the program will take the appropriate steps to eliminate any obstacles that hinder taxpayers from filing timely tax returns.

**OTHER FACTORS AFFECTING PERFORMANCE :**

The above measure can be affected by changes in the state's economy. For example, a downturn in the economy will result in more business failures and in more businesses using the taxes collected from customers to pay for labor expenses and supplies. In turn, this will lead to an increase in late payments or nonpayment of taxes.

**Goal 1** : Every taxpayer pays the legally required amount of tax, no more, no less.

**Objective 1** : To increase timely and full payment of taxes.

**Measure 2** : Percentage of total taxes due that were fully paid on time.

	<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>	<u>F.Y.1998</u>
<b>Sales and use taxes owed (thousands)</b>						
Actual		\$2,648,964	\$3,033,011	\$3,051,923		
<b>Percentage fully paid on time</b>						
Actual		87.1%	90.5%	89.8%		
Target					92%	
<b>MinnesotaCare taxes owed (thousands)</b>						
Actual			\$123,000	\$137,000		
<b>Percentage fully paid on time</b>						
Actual			98.7%	95.6%		
Target					98%	
<b>Petroleum taxes owed (thousands)</b>						
Actual			\$552,000	\$567,000		
<b>Percentage fully paid on time</b>						
Actual			99%	99%		
Target					99%	
<b>Special taxes owed (thousands)</b>						
Actual			\$544,000	\$596,000		
<b>Percentage fully paid on time</b>						
Actual			99.9%	99.7%		
Target					100%	

#### DEFINITION :

This measure is the ratio of tax dollars fully paid on time to the total amount of taxes known to have been paid or due during the fiscal year. This presumes that the taxes paid are honestly reported as initially filed. The total paid on time, however, includes taxpayers who in subsequent years may be discovered to owe additional taxes. On the other hand, the total paid or due (the denominator) includes amounts from prior tax years that are paid or discovered to be owed during the current fiscal year. The measure is an approximation to the amount paid on time in a given fiscal year, and must be tracked for several years to determine if a trend is significant.

#### RATIONALE :

Full payment of taxes on time is the definition of tax compliance.

**DATA SOURCE :**

Sales tax data is from the department's Taxpayer Accounting System (TPA); other data is from the respective tax divisions.

**DISCUSSION OF PAST PERFORMANCE :**

Data is not available prior to 1994; there has been little change in the past three years.

**PLAN TO ACHIEVE TARGETS :**

Based on the results of this measure--together with an analysis of the factors that may contribute to the late filing of returns--the program will take the appropriate steps to eliminate any obstacles that hinder taxpayers from filing timely tax returns.

**OTHER FACTORS AFFECTING PERFORMANCE :**

The above measure can be affected by changes in the state's economy. For example, a downturn in the economy will result in more business failures and in more businesses using the taxes collected from customers to pay for labor expenses and supplies. In turn, this will lead to an increase in late payments or nonpayment of taxes.

**Goal 1** : Every taxpayer pays the legally required amount of tax, no more, no less.

**Objective 1** : To increase timely and full payment of taxes.

**Measure 3** : Percentage of sales taxes due that were reported correctly by selected business sectors.

	<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>	<u>F.Y.1998</u>
<b>Business services</b>						
<b>Actual</b>	97e%					
<b>Banking industry</b>						
<b>Actual</b>	99e%					
<b>Veterinarians</b>						
<b>Actual</b>			89e%			
<b>Opthamologists</b>						
<b>Actual</b>				99e%		
<b>Engineers and architects</b>						
<b>Actual</b>				82e%		
<b>Contractors</b>						
<b>Actual</b>				99e%		
<b>Medical doctors</b>						
<b>Actual</b>				97e%		
<b>Dentists</b>						
<b>Actual</b>				89e%		
<b>Other health practitioners</b>						
<b>Actual</b>				91e%		
<b>Target</b>					95%	

#### DEFINITION :

The Sales and Use Tax Division identified a representative, random sample of businesses within an industry and conducted a comprehensive audit of the businesses in the sample. Based on the audits, the division identified the total amount of sales tax that should have been reported by the businesses in the sample.

Based on results of the audit sample, the division is developing an estimate of the total dollar amount of taxes that should have been reported by all businesses within the industry. The percentage of sales tax correctly reported will be determined by dividing the reported sales tax by the amount of sales tax which should have been reported.

Once the percentage of compliance is established for a baseline year, the degree of increase in compliance will be determined in succeeding years by dividing the amount collected from the businesses by the amount that should have been reported by the businesses. The amount that should have been reported will be estimated by the department's Research Division based on the results from the sample conducted in the baseline year, adjusted for inflation and changes in economic activity. The target is the same for all business sectors.

**RATIONALE :**

Payment of taxes due is a basic measure of tax compliance. This measure reports compliance by business sector, because compliance varies widely across sectors, and different strategies must be used to improve compliance within sectors.

**DATA SOURCE :**

The source of data for this measure will be sales and use tax returns and audit records.

**PLAN TO ACHIEVE TARGETS :**

The Sales and Use Tax Division plans to achieve the objective by providing all of the selected businesses with sales tax information which has been tailored for 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 tax laws. In addition, during audits, division employees will identify obstacles to understanding and compliance, and will develop ways to remove the obstacles. In the future, additional business sectors will be included.

**OTHER FACTORS AFFECTING PERFORMANCE :**

This measure can be affected by changes in the economy. Underpayment of taxes is more common when the economy is poor.

**Goal 1** : Every taxpayer pays the legally required amount of tax, no more, no less.

**Objective 1** : To increase timely and full payment of taxes.

**Measure 4** : Percentage of use taxes due that were reported correctly by selected business sectors.

	<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>	<u>F.Y.1998</u>
<b>Business services</b>						
Actual	21e%					
<b>Banking industry</b>						
Actual	74e%					
<b>Veterinarians</b>						
Actual			26e%			
<b>Opthamologists</b>						
Actual				38e%		
<b>Engineers and architects</b>						
Actual				75e%		
<b>Contractors</b>						
Actual				76e%		
<b>Medical doctors</b>						
Actual				56%		
<b>Dentists</b>						
Actual				30e%		
<b>Other health practitioners</b>						
Actual				2e%		
Target					85%	

#### DEFINITION :

The Sales and Use Tax Division identified a representative, random sample of businesses within an industry and conducted a comprehensive audit of the businesses in the sample. Based on the audits, the division identified the total amount of use tax that should have been reported by the businesses in the sample.

Based on results of the audit sample, the division is developing an estimate of the taxes that should have been reported by all businesses within the industry. The percentage of use tax correctly reported will be determined by dividing reported use tax by the use tax that should have been reported.

Once the percentage of compliance is established for a baseline year, the degree of increase in compliance will be determined in succeeding years by dividing the amount collected from the businesses by the amount that should have been reported. The total amount that should have been reported will be estimated by the department's Research Division based on the results of the sample conducted in the baseline year, adjusted for inflation and changes in economic activity. The target is the same for all business sectors.

**RATIONALE :**

Payment of taxes due is a basic measure of tax compliance. This measure reports compliance by business sector, because compliance varies widely across sectors, and different strategies must be used to improve compliance within sectors.

**DATA SOURCE :**

The source of data for this measure will be sales and use tax returns and audit record.

**PLAN TO ACHIEVE TARGETS :**

The Sales and Use Tax Division plans to achieve the objective by providing all of the selected businesses with sales tax information tailored for 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 tax laws. In addition, during audits, division employees will identify obstacles to understanding and compliance, and will develop ways to remove the obstacles.

Because of the lower level of use tax compliance when compared with sales tax, the target for use tax is set lower than the target for sales tax. In the future, additional business sectors will be included.



**Goal 1** : Every taxpayer pays the legally required amount of tax, no more, no less.

**Objective 1** : To increase timely and full payment of taxes.

**Measure 5** : Percentage of sales tax payers identified as nonfilers who begin to file a return voluntarily.

	<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>	<u>F.Y.1998</u>
<b>Percentage who file in next tax period</b>						
<b>Actual</b>			90%	90%		

**DEFINITION :**

The measure is the percentage of sales tax payers identified as nonfilers who start filing their sales tax returns voluntarily.

**RATIONALE :**

It is important to find taxpayers who are not filing, but should be, to ensure payment and continuation of future payments.

**DATA SOURCE :**

Data is from division records.

**DISCUSSION OF PAST PERFORMANCE :**

This is a new performance measure, and historical data is not available.

**Goal 2** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations.

**Objective 1** : To treat all taxpayers fairly and respectfully when audited.

**Measure 1** : Percentage of audited taxpayers who "agree" that their audit met specific standards.

	<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>	<u>F.Y.1998</u>
Percentage of taxpayers responding who "agree"						
Actual	91e%	91e%	91e%	92e%		
Target					94%	

#### DEFINITION :

This measure is the percentage of audited taxpayers who in a survey "agree" or "strongly agree" that their audit was conducted in a fair, efficient and respectful manner; that they received useful, understandable and complete information about the nature and scope of an audit prior to the audit; that they were told of their rights to appeal the audit; that they were informed about the state's tax laws and the results of the audit; and that they received understandable responses to their questions about the audit. Also, this measure reflects 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 measure is based on the average response over 19 questions on the survey. Taxpayers may respond anonymously to the survey.

Data here includes only taxpayers audited for sales and use tax; additional tax divisions will be added in future years. The MinnesotaCare Tax Division, the Petroleum Tax Division and the Special Taxes Division began conducting identical surveys effective July 1, 1996.

The survey is sent to all taxpayers audited. The results for FY 1995 are based on surveys sent to 922 taxpayers, of whom 676 responded. The results for FY 1996 are based on surveys sent to 961 taxpayers, of whom 621 responded.

#### RATIONALE :

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

#### DATA SOURCE :

Data is compiled from the surveys conducted by the respective tax divisions.

#### DISCUSSION OF PAST PERFORMANCE :

The Sales and Use Tax Division has been conducting this survey of audited taxpayers for the past five years. Most taxpayers throughout the five-year period have agreed or strongly agreed that the feedback they received through their audit was helpful and understandable, and that the audit was done in a fair, efficient and respectful manner.

**PLAN TO ACHIEVE TARGETS :**

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

**Goal 2** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations.

**Objective 2** : To give taxpayers information that is understandable, complete and helpful.

**Measure 1** : Percentage of taxpayers responding to in-person interviews who "agree" or "strongly agree" that printed information and information seminars are understandable, complete, and met their needs.

	<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>	<u>F.Y.1998</u>
MinnesotaCare tax worksheet understandable						
Actual				88e%		
MinnesotaCare tax instruction booklet understandable						
Actual				75e%		
MinnesotaCare annual tax return understandable						
Actual				79e%		
MinnesotaCare fact sheets understandable						
Actual				90e%		
MinnesotaCare tax worksheet complete						
Actual				83e%		
MinnesotaCare tax instruction booklet complete						
Actual				74e%		
MinnesotaCare annual tax return complete						
Actual				79e%		
MinnesotaCare fact sheets complete						
Actual				79e%		
Sales tax return understandable						
Actual				89e%		
Sales tax instruction booklet understandable						
Actual				73e%		
Sales tax newsletter understandable						
Actual				89e%		

**REVENUE DEPT****1996 Agency Performance Report****Sales tax fact sheets  
understandable**

Actual 66e%

**Sales tax return complete**

Actual 89e%

**Sales tax instruction  
booklet complete**

Actual 73e%

**Sales tax newsletter  
complete**

Actual 88e%

**Sales tax fact sheets  
complete**

Actual 68e%

**Sales tax seminar content  
understandable**

Actual 78e%

**Sales tax seminar met  
needs**

Actual 75e%

**MinnesotaCare seminar  
content understandable**

Actual 73e%

**MinnesotaCare seminar  
met needs**

Actual 73e%

**DEFINITION :**

The Sales and Use Tax Division and the MinnesotaCare Tax Division conducted in-person interviews of randomly-selected taxpayers to determine the degree to which the written materials, telephone answers and information seminars meet taxpayers' needs. Taxpayers currently being audited and taxpayers with delinquent taxes were not included in the survey. The Sales Tax Division interviewed 275 taxpayers. The MinnesotaCare Tax Division interviewed 60 taxpayers.

This measure determines the percentage of taxpayers who "agree" or "strongly agree" that the printed information provided by the program is understandable and complete. In addition, this measure determines the percentage of taxpayers who "agree" or "strongly agree" that the information seminars are understandable and address their needs. Most of the remaining respondents checked "neither agree nor disagree."

The percentages are calculated for the number who responded to each question.

**RATIONALE :**

The data from the interviews lets the divisions know how well their written information and seminars meet taxpayers' needs.

**DATA SOURCE :**

Data is from the respective divisions.

**DISCUSSION OF PAST PERFORMANCE :**

In the past, the divisions have conducted focus group sessions and sought feedback from taxpayers. Their responses have been used to improve the usefulness, understandability and completeness of printed materials, and subsequently to develop new written materials to respond to taxpayers' needs. However, no regular surveys were conducted.

**PLAN TO ACHIEVE TARGETS :**

These interviews serve as a basis for identifying aspects of printed materials and information services that need to be improved. The divisions will be developing a plan to modify these services and to better respond to taxpayers' needs. Subsequent surveys--planned in two-year intervals--will permit the program to know if these modifications resulted in meeting taxpayers' needs.

**OTHER FACTORS AFFECTING PERFORMANCE :**

Increases in the complexity of the state's tax law can influence the degree to which taxpayers "agree" or "strongly agree" that our printed material and information seminars are understandable and complete.

**Goal 2** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations.

**Objective 3** : To promptly and accurately answer taxpayers' phone calls and letters.

**Measure 1** : Percentage of calls answered and percentage of taxpayers in in-person interviews who "agree" or "strongly agree" that they are satisfied with the answers they received by phone.

	<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>	<u>F.Y.1998</u>
<b>Sales tax calls answered</b>						
Actual			69,817	74,836		
<b>Percentage of sales tax calls answered</b>						
Actual			68%	87%		
Target					95%	
<b>MinnesotaCare calls answered</b>						
Actual			18,000	15,260		
<b>Percentage of MinnesotaCare calls answered</b>						
Actual			98%	98%		
Target					99%	
<b>Special taxes phone calls answered</b>						
Actual			31,650	36,635		
<b>Percentage of special taxes calls answered</b>						
Actual			99%	99%		
Target					99%	
<b>Percentage of petroleum tax calls answered</b>						
Actual			99%	99%		
Target					99%	
<b>Percentage satisfied with MinnesotaCare phone service</b>						
Actual				96e%		
<b>Percentage satisfied with sales tax phone service</b>						
Actual				88e%		

**DEFINITION :**

The first measure is the percentage of total calls answered, which is the ratio of calls answered to calls attempted by taxpayers. The satisfaction measure is from in-person interviews of randomly selected taxpayers by the divisions. The measure is the percentage of respondents who "agree" or "strongly agree" that they were satisfied with the answers they received by phone. This is the same survey used for the performance measure on the quality of printed information and seminars. The Sales Tax Division interviewed 275 taxpayers; the MinnesotaCare Division interviewed 60 taxpayers.

**RATIONALE :**

Answering taxpayers' questions promptly and accurately is essential to help taxpayers comply with their obligations.

**DATA SOURCE :**

Data is from the department's automated phone records and from the surveys conducted.

**DISCUSSION OF PAST PERFORMANCE :**

The Sales and Use Tax Division needs to make its telephone service more accessible to taxpayers who have inquiries about the sales and use tax law. Division studies show that in FY 1994, three out of ten callers received busy signals. In FY 1995--due to extensive law changes, re-designed sales tax return and re-design of the sales tax computer systems--the total number of telephone calls increased, resulting in two out of five taxpayers receiving busy signals. This situation generated numerous complaints. The inability of taxpayers to reach the Sales and Use Tax Division affected other divisions. For example, of the 1,500 to 3,000 phone calls received per month by the Special Taxes Division, many were misdirected calls relating to the sales and use tax. In FY 1996, the Sales and Use Tax Division installed an automated phone system that permitted the division to answer nine out of ten calls.

All other divisions in the program are responding to virtually all the phone calls they receive in connection with the taxes they administer.

**PLAN TO ACHIEVE TARGETS :**

The Sales and Use Tax Division is continuing to expand the responsibilities of existing employees to include responding to phone calls. The division is also training employees to help them provide knowledgeable, accurate and courteous responses to callers. In addition, the division is making more extensive use of the automated phone system which permits it to more effectively distribute incoming phone calls among employees and permits callers to order forms without having to talk to employees. Surveys will be conducted every two years to monitor progress.

The division is also identifying unclear and complex provisions of the tax laws it administers and is making recommendations for clarifying and simplifying the laws. In doing so, taxpayers' need to call assistance is reduced.



**Goal 2** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations.

**Objective 3** : To promptly and accurately answer taxpayers' phone calls and letters.

**Measure 2** : Average days to answer letters.

	<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>	<u>F.Y.1998</u>
Average days to answer sales tax letters						
Actual			8	5		
Target					7	
Average days to answer MinnesotaCare letters						
Actual			5	5		
Target					7	
Average days to answer petroleum tax letters						
Actual			5	5		
Target					7	

#### DEFINITION :

The measure is average number of business days to answer letters received at the department.

#### RATIONALE :

It is a priority to answer taxpayers' questions promptly, which we believe will help taxpayers to pay their taxes accurately and on time.

#### DISCUSSION OF PAST PERFORMANCE :

There has been little change in performance in recent years.

#### PLAN TO ACHIEVE TARGETS :

The targets are being met and will continue to be met in the foreseeable future.

**Goal 2** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations.

**Objective 4** : To make prompt refunds to taxpayers.

**Measure 1** : Average days to issue tax refunds.

	<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>	<u>F.Y.1998</u>
<b>Average days for sales tax refunds</b>						
<b>Actual</b>			40	37		
<b>Target</b>					30	
<b>Average days for MinnesotaCare refunds</b>						
<b>Actual</b>			10	10		
<b>Target</b>					30	
<b>Average days for petroleum tax refunds</b>						
<b>Actual</b>			5	5		
<b>Target</b>					30	

#### DEFINITION :

This measure is the average days for a refund to be issued following receipt of a claim.

#### RATIONALE :

Issuing prompt refunds is good service to taxpayers.

#### DATA SOURCE :

Data is from the tax divisions.

#### DISCUSSION OF PAST PERFORMANCE :

There has been little change in recent years; earlier data is not available.

#### PLAN TO ACHIEVE TARGETS :

Targets are being met already for MinnesotaCare and petroleum taxes. The Sales Tax Division has streamlined its process for approving refund claims, which, together with improvements in its computer systems, is resulting in more timely refunds.

**Goal 2** : Taxpayers are satisfied because they are treated like customers and receive the services they need to help them meet their tax filing and payment obligations.

**Objective 5** : To maintain or increase the accuracy of tax returns.

**Measure 1** : Percentage of tax returns that are accurate on initial filing.

	<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>	<u>F.Y.1998</u>
<b>Sales tax returns filed</b>						
Actual	987,880	1,167,809	722,098	724,428		
<b>Percentage of sales tax returns accurate</b>						
Actual			87%	92%		
Target					99%	
<b>MinnesotaCare returns filed</b>						
Actual	785	6,145	9,447	8,655		
<b>Percentage of MinnesotaCare tax returns accurate</b>						
Actual		100%	100%	100%		
Target					100%	
<b>Special taxes returns filed</b>						
Actual	51,369	39,400	45,435	46,640		
<b>Percentage of special taxes returns accurate</b>						
Actual			87%	89%		
Target					99%	
<b>Petroleum tax returns filed</b>						
Actual	55,581	60,418	35,000	30,000		
<b>Percentage of petroleum tax returns accurate</b>						
Actual			97%	97%		
Target					99%	

#### DEFINITION :

The measure is the percentage of total returns that are accurate on initial filing. It is possible, however, that errors in a return might be discovered during a later audit.

#### RATIONALE :

Accuracy of returns depends in part on the quality of information and assistance provided to taxpayers by the department. Complexity of laws also affects accuracy.

**DATA SOURCE :**

Data is from the respective divisions.

**DISCUSSION OF PAST PERFORMANCE :**

This is new measure, and there has been little change in the last few years.

**PLAN TO ACHIEVE TARGETS :**

Based on the results of the measures--together with an analysis of the factors which may contribute to taxpayers making errors on tax returns--the program will take the appropriate steps to eliminate obstacles that hinder taxpayers from accurately filing returns.

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## APPENDIX