

Department Overview:

What's Changing at the Department of Taxes

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The Vermont Department of Taxes

Commissioner

Taxpayer
Services

Compliance

PVR

Legal

Finance

Information
Systems

POLA

Income

Collections

Current Use

Returns
Processing

Policy

Corporate

Audit

PTT

Accounting

Outreach

Business

Discovery

District
Advisors

Data

Misc

How do we audit?

Common bill and assessment scenarios:

- Brought to a Tax Examiner's attention by a computer edit
- Common error discovered
- The IRS sends data on Vermont filings
- The IRS sends a list of federal adjustments
- Compare HI-144 to Federal return information
- Non-filers discovered by comparing data from other sources. If they do not respond, an estimated assessment is prepared based on the best information available.

How do we audit?

Common bill and assessment scenarios (cont):

- Business filings are reviewed for consistency either for registration across different tax types or for industry norms.
- Office or field audits are based on a variety of criteria.
- Approximately 5% of all filings are reviewed
- Approximately 1% of all filings result in an assessment

Sales and Use Tax Field Audits

Every year, the compliance division at the Vermont Department of Taxes completes around 180 tax field audits.

Over the past few years, several of those have raised questions.

Non-profit
Admissions

Auctioneers

Elderly Housing
Meals

Compost

Contractors

Audit Aftermath – Internal Process

The Tax Department issues a bill to audited business. Similar businesses may also have been under audit, causing other bills to be generated.

The Tax Department position is reviewed through appeal.

The Tax Department works to clarify regulations and fact sheets around this issue for the future.

The Tax Department does outreach to educate taxpayers who might be in similar situations.

Audit Aftermath – External Reaction

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Taxpayer outcry over bills.

Taxpayers come to the legislature with this issue and ask for amnesty and new or wider exemption.

Legislature votes to create exemption for these taxpayers.

Audit Aftermath – End Result

The Tax Department does outreach to educate taxpayers who might be in similar situations.

Legislature votes to create exemption for these taxpayers.

Exemption may conflict with Tax Department regulation and collections may be lost for the future.

Why do we audit?



Majority of taxpayers are compliant

Compliant taxpayers:

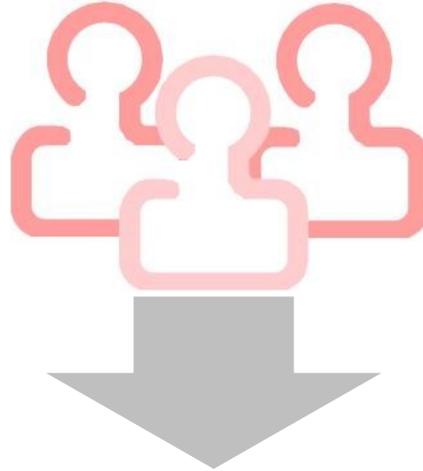
- Dutifully read the laws each year for updates
- Invest in technology such as point of sale software
- Train employees



Some taxpayers are *negligently* non-compliant.

- Tax isn't a priority
- Cost-benefit analysis, low risk of audit
- Do not keep up with complex law
- Do not keep meticulous books and records
- Does not have point of sale software

Why do we audit?

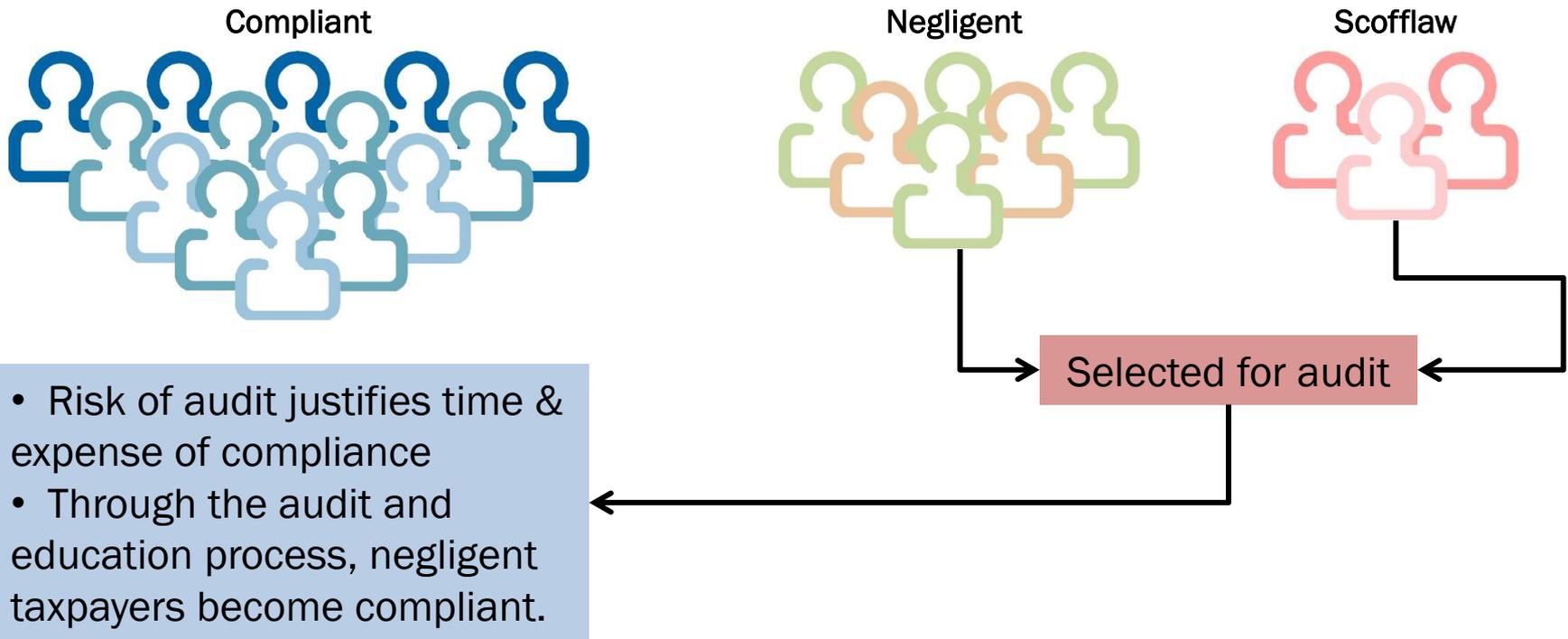


Small number of taxpayers are *intentionally* non-compliant

- Cost-benefit: risk of being caught, severity of penalty vs. benefit from the competitive advantage of charging lower price.
- Has no intention of charging right tax

Why do we audit?

Studies show that audits increase voluntary compliance.¹



¹ <http://aaajournals.org/doi/abs/10.2308/accr-50187>

Why do we audit?

Audits are a necessary part of the process to ensure tax fairness for all of Vermont taxpayers.



Diligent Taxpayer

- Software
- Books
- Records



Sloppy Competitor

- Does not spend on compliance
- Undercuts price by not charging tax



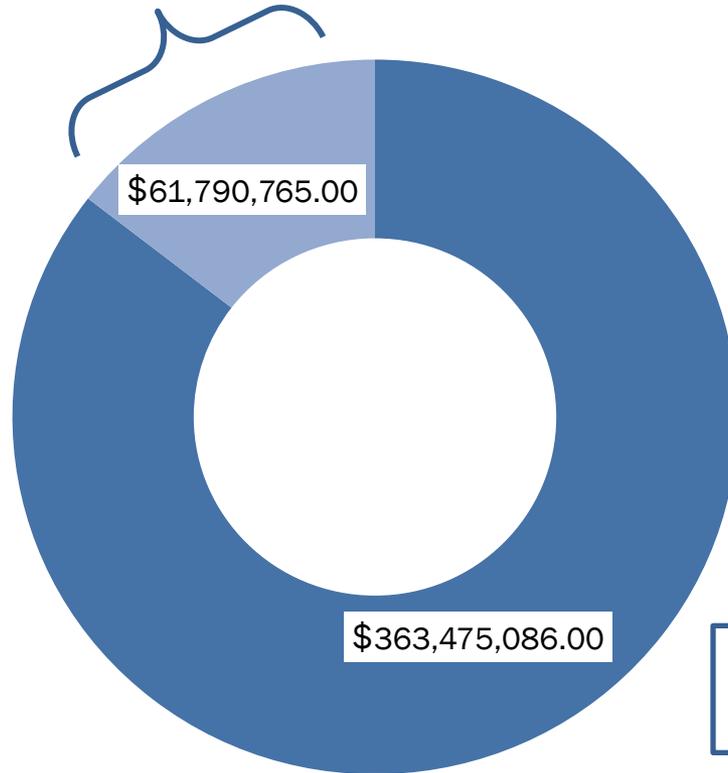
Online Retailer

- Compliant
- Undercuts price by not having to charge sales tax

We focus on the unfairness of online retailers like Amazon, but our diligent taxpayers also lose businesses to stores down the street who are not playing by the rules... either intentionally or negligently.

Why do we audit?

17% non-compliance¹
means missing revenue



Total Sales & Use Tax
Revenue for FY14

¹ Based on IRS non-compliance estimate

Why do we audit?

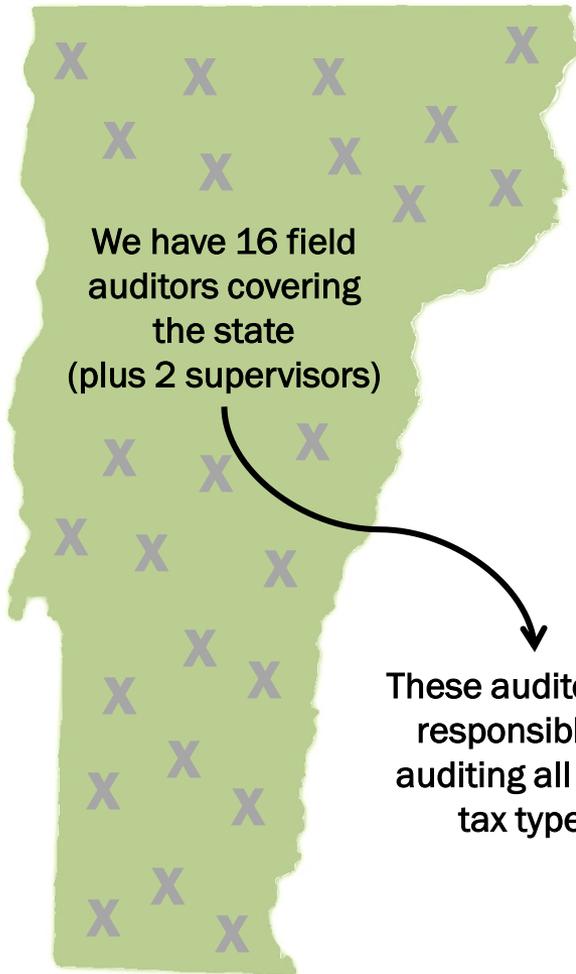
The indirect effect of audits is, on average, about eleven times as large as the audit's direct effect on revenue in a given year.¹



This means that an audit that directly yields \$10,000 will also indirectly yield an additional \$110,000 over time.

¹ www.irs.gov/pub/irs-soi/pub1916b.pdf

Sales and Use Audit Coverage



We have 16 field auditors covering the state (plus 2 supervisors)

These auditors are responsible for auditing all of our tax types.

33,500 sales and use tax filers
 \div 16 auditors

1 auditor for every 2,094 taxpayers

9,800 taxpayers (who remit >\$25,000/yr)
 \div 16 auditors

1 auditor for every 612 large taxpayers

Department Initiatives

Div. of Policy, Outreach, and Leg Affairs (2012)

MyVTax Newsletter (2013)

Fact Sheets (2014) (37 and counting)

ITS Modernization (2014-2017)

Improved Communications (2014-2017)

Department Initiatives

Notice of Intent to Assess (2015)

Appeals Standard Operating Procedure (2015)

New Website (2015)

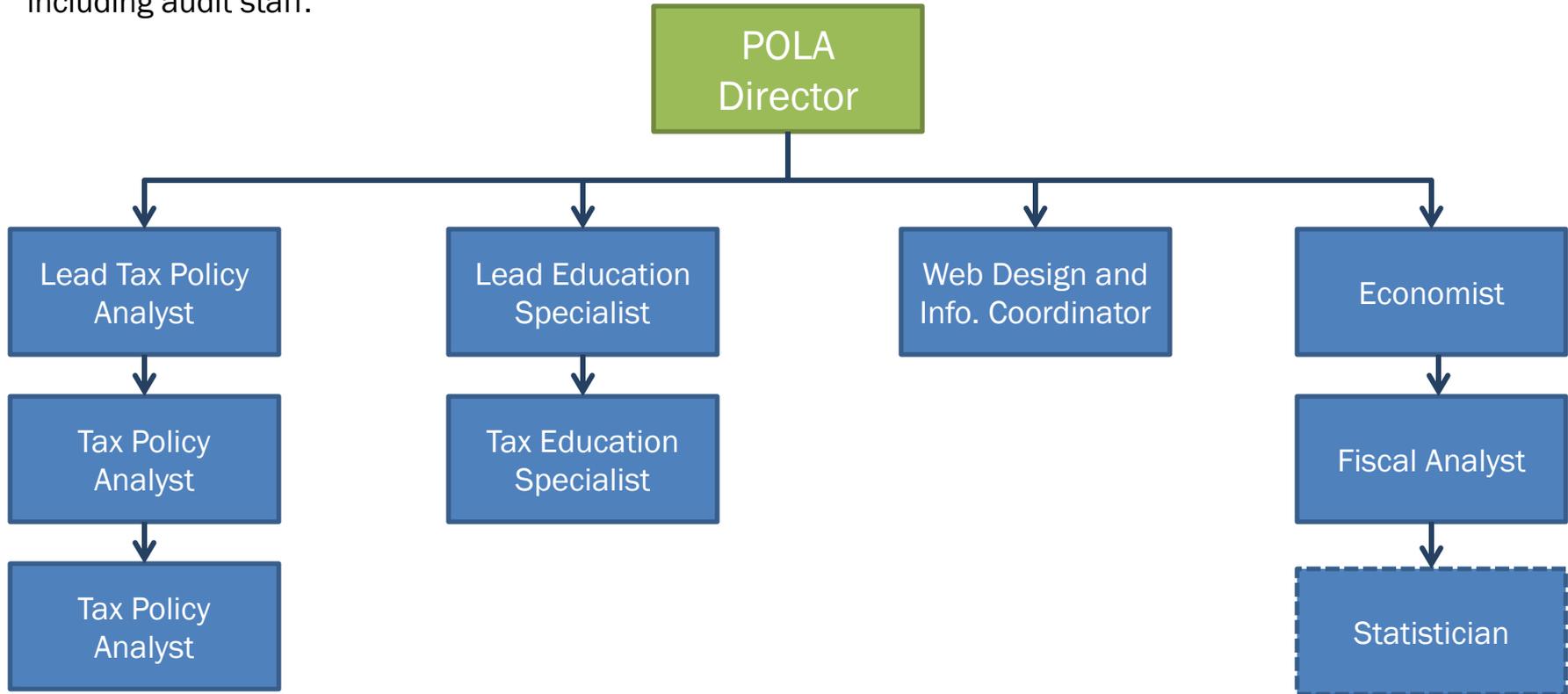
New Discovery option (coming soon)

Offer & Compromise Program (coming soon)

Resolution Review Process (coming soon)

Policy, Outreach, and Legislative Affairs (POLA)

POLA was formed in 2012 as a new division with a goal to enhance voluntary compliance through transparent policy development, education, and outreach. This division was created by repurposing existing positions, including audit staff.



All lawyers who research grey issues to give correct, consistent, clear guidance.

Work on all manner of communication, including industry events, fact sheets, and newsletters

Modernized Systems

The Department has started the work towards a modernized, integrated tax system – VTax.



This is a 4 year, multimillion dollar project intended to integrate all of our processing. The result will be one platform for all functions (e.g., return processing, correspondence, accounting) for all tax types. This also includes seamless online services for taxpayers.

VTax will provide much improved service, making it easier and more convenient for voluntary compliance. It will also allow us to further modernize our audit techniques.

Coming Soon . . .

New Initiatives for 2015

Audit Selection, Procedure, and Assessment

- The new IT system will give us modern tools to improve our audit processes, everything from how businesses are selected, additional opportunities for voluntary come forwards, more refined assessments
- For example, we will pilot programs where we define markers of non-compliance, and give businesses the opportunity to explain the discrepancy or come forward to clear up without penalty prior to audit

Notice of Intent to Assess

- Traditional audit practices result in an assessment being sent to taxpayers. By statute, taxpayers then have 60 days to appeal or the assessment becomes fixed.
- Under this pilot initiative, the Department will issue an “intent to assess,” prior to the official assessment. This will give taxpayers additional time to work with auditors and increase the accuracy of assessments.

Coming Soon . . . (continued)

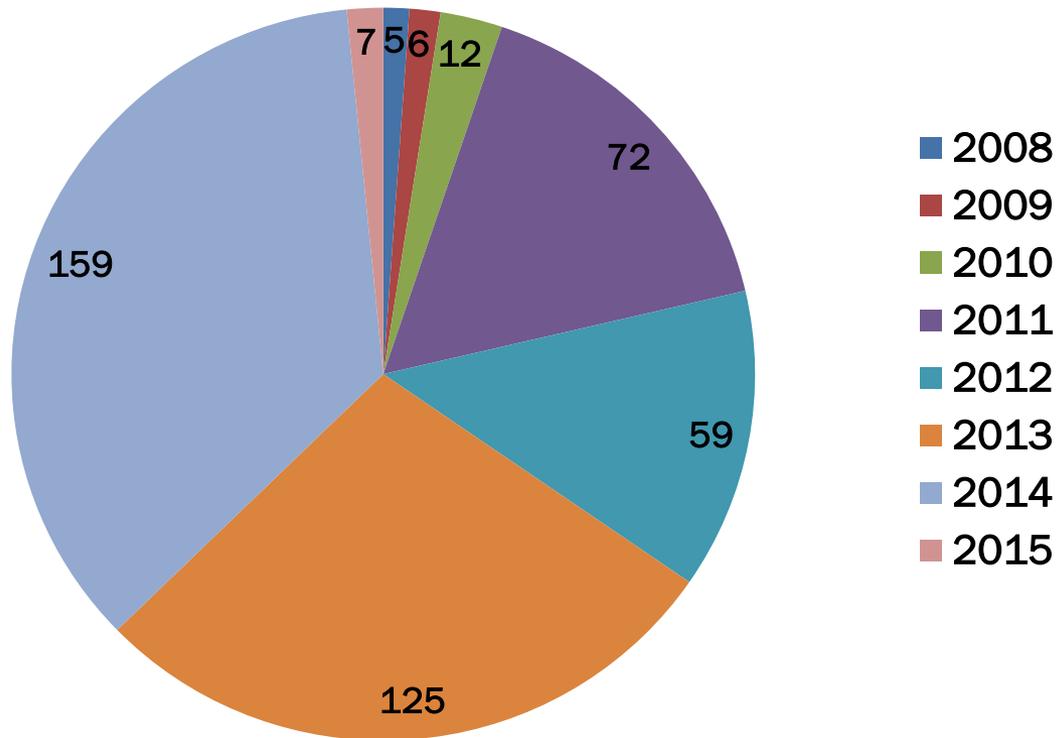
New Initiatives for 2015

Standard Operating Procedure for Appeals

- We are finishing a draft SOP designed to provide transparent timelines to move an appealed case along from assessment to hearing in 18 months
- We are working on an implementation strategy

Appeals Backlog Feb 2015

Total Compliance Appeals = 445



Other Initiatives

- Two tax advisory boards
 - Tax Technical Working Group
 - Vermont Tax Advisory Board
- Increased use of voluntary disclosure
 - Targeted mailings on use tax
 - General initiative aimed at small businesses:
“Know What You Owe”
- Redrafting of technical bulletins
- Attended 23 industry events in 2014.

Expensive “One Free Pass”

Various proposals to issue warnings instead of assessments for a taxpayer’s first audit would likely create substantial costs.

Direct Cost

The past three years, we have collected approximately \$4M per year on assessments for sales and use tax.

The vast majority of these assessments are on first-time taxpayers who would be subject to a “free pass” allowance.

Indirect Cost

There would be considerably less incentive to be diligent about applying tax, putting at risk the over \$360M that we collect voluntarily.

If just 5% more non-compliance:
additional \$18M lost/year

If 10% more non-compliance:
additional \$36M lost/year

Other States: Vendor Compensation

45 states impose a sales and use tax. A majority (27) provide some discount or reimbursement to vendors.

Amount ranges from 0.25% to 5.0% tax collected, with most falling between 1% and 3%.

1% would cost about \$3.6M/annually.

This aligns incentive to collect. Vendors can use the money to:

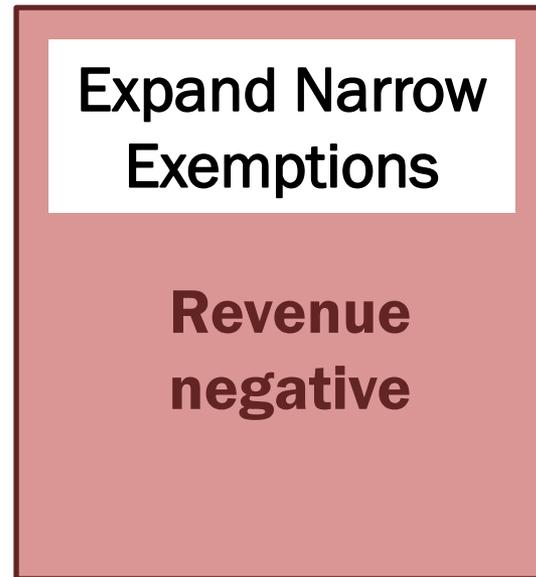
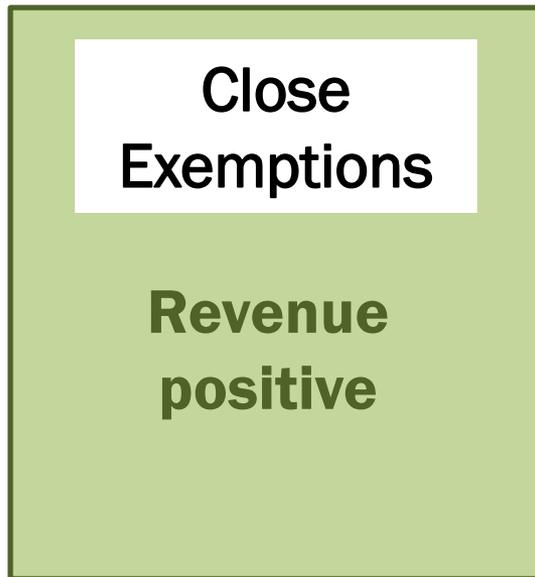
Train

Purchase point of
sale software

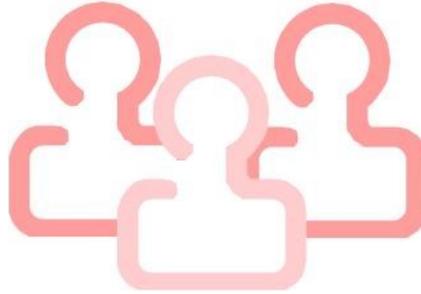
Buffer for audit

Possible Legislative Responses: Simplify Complex Law

Deliberate or negligent non-compliance often involve vendor's liberal use of narrow exemptions.



Delinquent Taxpayers List



In an effort for further tax fairness, Act 174 of 2014 granted the Department permission to publish the names of top 100 business and 100 individuals with the highest amounts of tax debt.

After two letters were sent notifying those who might appear on the list, the lists were published on Jan. 12, 2015.

28 other states publish lists of delinquent taxpayers – to date it has helped collect over \$1,200,000 in back taxes owed

Find more information on our website at:

tax.vermont.gov

Facebook/VTDeptTaxes

Twitter: @VTDeptTaxes

Contact us with any questions!

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