LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 209** HLS 11RS 656
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 29, 2011 3:14 PM
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Dept./Agy.: Revenue
Subject: Situations for sampling and managed audits
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REVENUE DEPARTMENT OR SEE FISC NOTE GF RV

Provides with respect to the use of managed and sampling audits of tax returns

Current law allows for the audit of tax returns, including a sampling procedure resulting in a projection of audit findings. In a sampling audit, computer audit specialists assist the audit staff with sampling techniques of transactions.

Proposed law specifies the situations in which sampling audit methods are appropriate. Proposed law also establishes the ability for the Secretary of Revenue to enter into an agreement to authorize the taxpayer to conduct a managed audit, which allows the taxpayer to self-audit using a review and analysis of invoices, checks, accounting records or other documents or information to determine the appropriate amount of tax liability. Broad situations that are appropriate for a managed audit are specified. The Secretary is also authorized to waive part or all of the accrued interest on amounts identified by a managed audit.

EXPENDITURES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

The Department of Revenue estimates that there will be minimal costs in training and software licenses, approximately $35,000 in the first year and about $15,000 in subsequent years, which will be absorbed in the current budget.

REVENUE EXPLANATION

According to the Department of Revenue, sampling audits require about 20-30 hours of computer assistance specialist time and potentially hundreds of hours of a field auditor's time. It is expected that the implementation of managed audits could make available additional resources for field audits as less auditor time would be required for computer assisted audits. The taxpayer will now perform many of these functions. To the extent that additional field audits will result in additional revenue collections, state general fund revenue will increase. Typically, average collections per field auditor are $1.6 million per year or about $819 per hour. It is expected that about half the hours now spent on sampling audits, or 6,726 hours, will be transferred to field audits, resulting in additional revenue collections of $5.5 million. However, this increase in collections would be partially offset as the Department anticipates reassigning two field auditors as computer assisted specialists to handle the managed audits, resulting in a decrease in collections of about $3.2 million ($1.6 million per auditor). The net result is estimated as an increase in collections of $2.3 million ($5.5 million less $3.2 million). This increase will only materialize if every auditor involved deals only with cases that have the collection impact consistent with the average auditor performance. Should the caseload be significantly different or the auditor perform outside the average, these figures could be materially different. This cost figure only allows for changes in collections due to the assignment of auditors. It is not clear from current research based in other states where this audit method is practiced whether a taxpayer self-audit typically results in higher or lower collections per audit. Additionally, should the Secretary decide to waive penalties and interest on amounts recognized by managed audits that would not be waived under regular or sampling audits, self generated revenue will decrease.

The legislation gives the Secretary the discretion to determine those taxpayers allowed to conduct managed audits, although, a critical component of the analysis above is the assumption that about half of current sampling audits will be converted to managed audits. To the extent implementation differs from these assumptions, actual results will differ from assumed results. Should actual implementation of managed audits require unforeseen resources which keep the auditors assigned as computer-assistance specialists, collections will not increase. While the bill appears to intend to increase the collections effectiveness of the auditing effort, estimates of specific net results rely on assumptions that may not be reliable.

Senate Dual Referral Rules House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
☐ 6.8(F)1 >= $500,000 Annual Fiscal Cost {S}
6.8(F)2 >= $100,000 Annual SGF Cost {H&S}
☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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