Budget Brief – Tax Auditing Division

NUMBER EDR-18-07

SUMMARY

The Tax Auditing Division is responsible for the audit of all taxes collected by the Commission except for property taxes, which are audited in conjunction with the counties. The Division increases voluntary compliance by providing educational outreach and selectively examining returns and supporting records to determine whether tax liabilities have been properly reported. The Division also seeks the discovery of non-filers.

Statutory Authority for the Tax Commission's general auditing function is provided in UCA 59-1-210, *General Powers and Duties*.

ISSUES AND RECOMMENDATIONS

Additional Auditors

During the 2006 General Session, the Tax Commission requested funding to hire additional auditors and collectors in FY 2007, maintaining that adding these positions would lead to an increase in revenue. The Legislature did not fund the Commission's request, but instead directed the Office of the Legislative Fiscal Analyst and the Office of the Legislative Auditor General to study the impact of additional auditors and collectors.

The offices presented their report, which is available online at http://www.le.state.ut.us/interim/2006/pdf/00001660.pdf, to the Executive Appropriations Committee during the 2006 Interim. The analysis was unable to prove or disprove whether adding auditor and collector positions to the Tax Commission will increase revenues. Any new revenue will go into a revenue stream with so many other more influential factors that the impact of the additional employees will be statistically undetectable and immeasurable. Auditing and collecting revenue streams have such large variances that the impact of the additional employees can not be measured at that level either. However, if one assumes that all other factors will remain constant, the net benefit of additional auditors and collectors can be measured. Based on past performance discounted for education, training and delinquency of collections, legislative staff estimates that each additional auditor could bring in between $120,000 and $2,300,000 per year depending on what type of tax they audit (corporate, sales, or income). Staff further estimates that additional collectors will bring in about $510,000 each.

Figure 1: Tax Commission - Tax Administration - Auditing Division - Budget History

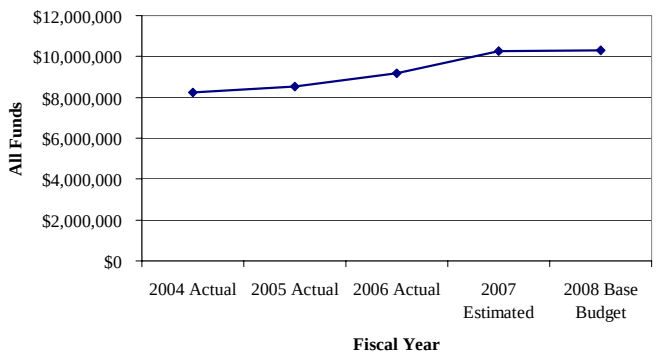


Figure 2: Tax Commission - Tax Administration - Auditing Division - FTE History

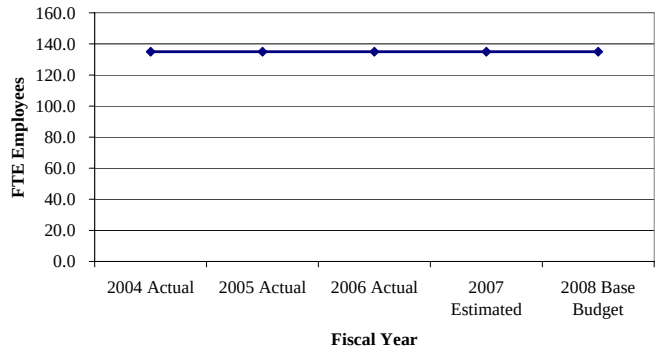
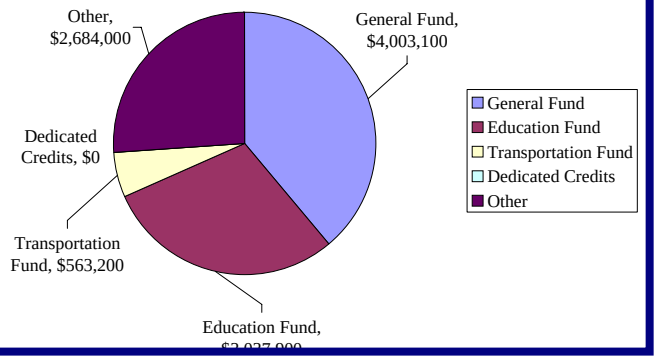
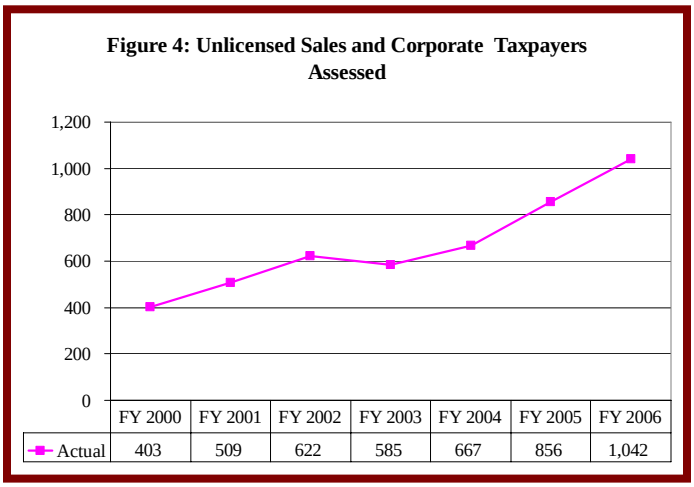


Figure 3: Tax Commission - Tax Administration - Auditing Division - FY 2008 Funding Mix



ACCOUNTABILITY DETAIL

Following an audit, the Auditing Division asks taxpayers to rate their experience on a scale of one to five; a rating of. five indicates strong agreement with the statement, "over all, I was satisfied with the manner in which the audit was conducted," a rating of one indicates strong disagreement with the statement. The division has consistently maintained a rating between four and five since FY 2000.



The tracking of discovery and audit of unlicensed sales tax and corporate franchise tax liabilities is another indicator that the division uses to measure success. The graph at the right shows that between FY 2000 and FY 2006, the number of unlicensed sales and corporate taxpayers assessed by the division grew more than two-fold.

BUDGET DETAIL

The Auditing Division accounts for about 15 percent of the Administration line item. Funding for the Division is made up mostly of General Fund, Uniform School Fund, and the Sales and Use Tax Administrative Fees Restricted Account (see the Administration line item budget brief for more details on this account.

Tax Commission - Tax Administration - Auditing Division

Sources of Finance	FY 2006 Actual	FY 2007 Appropriated	Changes	FY 2007 Revised	Changes	FY 2008* Base Budget
General Fund	3,514,400	3,981,000	22,100	4,003,100	0	4,003,100
General Fund, One-time	0	(11,700)	0	(11,700)	11,700	0
Uniform School Fund	2,667,000	3,021,200	16,700	3,037,900	0	3,037,900
Uniform School Fund, One-time	0	(8,900)	0	(8,900)	8,900	0
Transportation Fund	563,200	563,200	0	563,200	0	563,200
Federal Funds	459,500	434,000	(400)	433,600	0	433,600
GFR - Sales and Use Tax Admin Fees	1,885,900	2,130,000	11,800	2,141,800	6,300	2,148,100
Transfers	100,200	0	102,300	102,300	0	102,300
Total	$9,190,200	$10,108,800	$152,500	$10,261,300	$26,900	$10,288,200
Programs						
Auditing Division	9,190,200	10,108,800	152,500	10,261,300	26,900	10,288,200
Total	$9,190,200	$10,108,800	$152,500	$10,261,300	$26,900	$10,288,200
Categories of Expenditure						
Personal Services	8,349,200	9,202,000	179,100	9,381,100	30,100	9,411,200
In-State Travel	85,200	72,900	15,000	87,900	0	87,900
Out of State Travel	355,300	376,000	0	376,000	0	376,000
Current Expense	370,200	426,600	(28,200)	398,400	(3,200)	395,200
DP Current Expense	30,300	17,900	0	17,900	0	17,900
DP Capital Outlay	0	13,400	(13,400)	0	0	0
Total	$9,190,200	$10,108,800	$152,500	$10,261,300	$26,900	$10,288,200
Other Data						
Budgeted FTE	135.0	135.0	0.0	135.0	0.0	135.0

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.

LEGISLATIVE ACTION

The Analyst suggests the following action for the Auditing Division budget:

- Adopt a base budget totaling $10,288,200.