COLLECTION OF UNPAID BUSINESS TAXES
LOUISIANA DEPARTMENT OF REVENUE

PERFORMANCE AUDIT SERVICES
ISSUED JULY 10, 2019

July 10, 2019

The Honorable John A. Alario, Jr.,
  President of the Senate
The Honorable Taylor F. Barras
  Speaker of the House of Representatives

Dear Senator Alario and Representative Barras:

This report provides the results of our performance audit of the Louisiana Department of Revenue (LDR). The purpose of this audit was to evaluate LDR's enforcement process for collecting unpaid business taxes. As of the end of fiscal year 2018, businesses owed $785 million in unpaid state business taxes.

We found that LDR does not always rank cases to determine which ones offer the best possibility for collecting unpaid taxes. According to best practices, several factors affect the collectability of a case, including age of the debt, origin, amount, taxpayer assets, account history, and availability of taxpayer contact information. Ranking cases using these factors could help LDR focus on the most collectable ones.

In addition, LDR could better use data to evaluate its enforcement process and determine what works best. Right now, the department cannot link most payments to the enforcement actions that were used. This limits its ability to know which actions are most effective.

We also found that LDR could increase voluntary compliance by changing the tax letters it sends out to plain language, making its website more user-friendly, and improving its call center. All of these are best practices that have been shown to lead to greater voluntary compliance, which, in turn, could reduce the number of unpaid business tax cases.

The report contains our audit conclusions and recommendations. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to LDR for their assistance during this audit.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/aa
LDR UNPAID COLLECTIONS 2019

Louisiana Legislative Auditor
Daryl G. Purpera, CPA, CFE

Collection of Unpaid Business Taxes
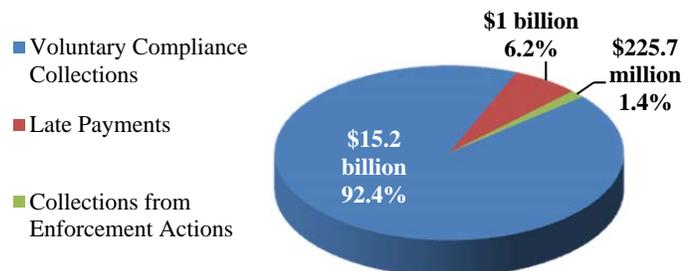**Louisiana Department of Revenue**

July 2019

Introduction

We evaluated the Louisiana Department of Revenue's (LDR) process for collecting unpaid business taxes, which includes sales taxes; employer withholding taxes; corporate income and franchise taxes; severance taxes; petroleum taxes; and tobacco, alcohol, and liquor taxes. State law[1] gives LDR the legal authority to levy and collect state taxes from individuals and businesses in Louisiana. We focused this audit on business taxes, because they make up approximately 90%[2] of the taxes LDR collects. In addition, collecting unpaid taxes owed to the state is important for the state's overall budget and to ensure that taxpayers are held accountable.

> LDR's **mission** is to fairly and efficiently collect state tax revenues to fund public services. In fiscal year 2018, LDR collected a total of $9.2 billion dollars across all tax types.

One of LDR's goals is to encourage voluntary compliance, which is the principle that taxpayers comply with tax laws and accurately report their income and other deductions. LDR encourages voluntary compliance through taxpayer services, such as walk-in visits, a call center where taxpayers can speak with a tax officer, and including tax information on its website as recommended by best practices. LDR collected 92.4% ($15.2 billion) of $16.5 billion for all tax types through voluntary compliance during fiscal years 2016 through 2018, as shown in Exhibit 1.

Exhibit 1
Total Business Tax Debt Collected
Fiscal Years 2016 through 2018

- Voluntary Compliance Collections
- Late Payments
- Collections from Enforcement Actions

$1 billion 6.2%
$225.7 million 1.4%
$15.2 billion 92.4%

Source: Prepared by legislative auditor's staff using LDR data and Annual Reports.

As of the end of fiscal year 2018, businesses owed $785 million in unpaid state business taxes.[3] Of the outstanding unpaid business taxes, $544.6 million (69.4%) is considered potentially collectable, and $240.4 million (30.6%) is considered uncollectable by LDR. LDR labels tax debt uncollectable when its tax officers have exhausted their enforcement collection

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[1] R.S. 36:451, 47:31, 47:32 and 47:302
[2] The 90% includes employer withholdings, which is a part of individual income tax that LDR collects from businesses.
[3] Our analysis only includes unpaid tax debt that has gone through due process and is considered a final debt.

tools or once the debt reaches 10 years of age.[4] Exhibit 2 shows the amount of outstanding debt that LDR considers potentially collectable and uncollectable for fiscal year 2018. In addition, of the $785 million in unpaid tax debt, the majority ($550.3 million, or 70.1%), is for sales tax and employer withholding taxes that businesses collected from individuals but did not remit to the state. See Appendix C for a breakdown of outstanding debt by tax type.

The Business Tax Enforcement division (BTE) is part of LDR's tax collection program and is responsible for collecting unpaid business taxes. Tax debt is created when a taxpayer files a return but does not pay what is owed (self-assessed tax). Tax debt is also created as part of LDR's non-filer program, which estimates a tax debt[5] because a taxpayer failed to file a return (estimated tax). Taxpayers have a period of due process allowing them to pay taxes owed, appeal the amount owed, or file a late return. Once due process is complete, the tax debt is final and LDR can legally take enforcement action to forcibly collect the tax debt. Appendix C outlines the due process for unpaid business taxes.

Exhibit 2
Total Outstanding Unpaid Business Tax Debt
Fiscal Year End 2018
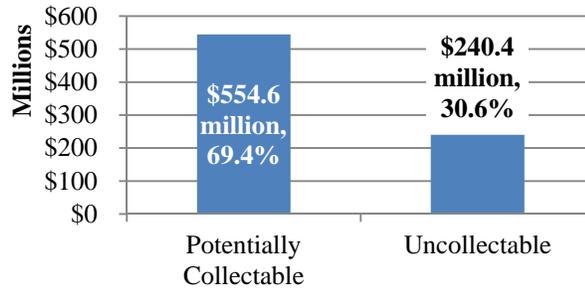
Source: Prepared by legislative auditor's staff using information provided by LDR.

Tax officers use a variety of enforcement tools to collect unpaid taxes. The primary collection tool that tax officers use is a bank levy, meaning LDR removes funds from a taxpayer's bank account. Tax officers can also issue payment plans, place liens on property, intercept federal tax refunds, deny tax clearances for alcohol licenses, issue cease and desist orders on business operations, attempt to collect from business officers' personal bank accounts, or garnish employment wages. Some actions are manual steps taken by tax officers, such as levying a bank account, while others are automatic actions the data system initiates, such as intercepting tax refunds. According to LDR, as collection cases are complex and varied, there is not a standardized process that tax officers must follow for cases. Instead, LDR relies on the expertise of its supervisors and tax officers to determine which types of enforcement actions to use. Exhibit 3 shows some enforcement actions that tax officers or the data system can initiate.

Exhibit 3
Business Tax Enforcement Actions
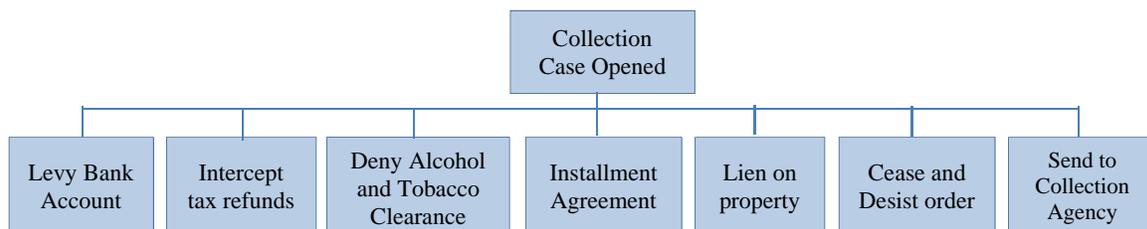
Source: Prepared by legislative auditor's staff using information from LDR.

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[4] Tax officer supervisors review uncollectable cases to ensure that all enforcement actions have been exhausted.
[5] LDR estimates tax debt based on past filed returns, when available, or on tax estimates.

While LDR attempts to collect all outstanding debt, it is unlikely that it will collect the full amount of unpaid taxes for a variety of reasons. For example, some taxpayers have filed bankruptcy, which prevents LDR from collecting on a debt, and some businesses have closed and have no assets to levy or lien. In addition, some unpaid business tax is merely estimated and may not result in actual taxes owed.[6]

To evaluate LDR's process for collecting unpaid business taxes, we used best practices outlined in reports issued by the Internal Revenue Service, the Treasury Inspector General for Tax Administration, the Government Accountability Office, and the Commercial Collection Agency Association, as well as practices from seven other states.[7] We also analyzed BTE collections case data for all cases that were active at some point during fiscal years 2016 through 2018. In addition, LDR provided us with statistics on the amount of outstanding unpaid tax debt, the amount of tax dollars BTE collected, and statistics regarding its call center.

The objective of this audit was:

To evaluate LDR's enforcement process for collecting unpaid business taxes.

Our results are discussed in detail throughout the remainder of the report. Appendix A contains LDR's response to this report, Appendix B contains our scope and methodology, Appendix C outlines the Business Tax Debt Due Process, Appendix D contains the Total Outstanding Business Tax Debt, and Appendix E contains the Total Potentially Collectable Outstanding Business Tax Debt. Appendix F contains BTE's use of enforcement actions for fiscal years 2016 through 2018, and Appendix G includes an example of an LDR Tax Letter.

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[6] Sometimes estimated tax may not result in actual taxes owed because, for example, when LDR estimated unpaid tax, such as sales tax, the business might have already been closed during that tax period. In addition, taxpayers may file a delinquent return, which results in no taxes owed.
[7] We surveyed seven states: Alabama, Georgia, Mississippi, Minnesota, North Carolina, Wisconsin, and Utah.

Objective: To evaluate LDR's enforcement process for collecting unpaid business taxes.

Overall, we found that BTE collections have increased 24.7%, from $65.1 million in fiscal year 2016 to $81.1 million in fiscal year 2018. However, the number of incoming collection cases has increased by 92%, a $170.8 million increase in new unpaid tax debt since fiscal year 2016. During this same time, BTE staffing levels have decreased by 8.3%. Because of this, LDR needs to strengthen its enforcement process for collecting unpaid business tax debt by prioritizing new incoming collections cases, using data to monitor effectiveness, and make adjustments to taxpayer services as discussed below. Exhibit 4 shows the amount of BTE collections, new tax debt amount, and the number of new collections cases from fiscal year 2016 through fiscal year 2018.

Exhibit 4
BTE Collections, New Tax Debt, and Number of New Collections Cases
Fiscal Years (FY) 2016 through 2018

Source: Prepared by legislative auditor's staff using data from LDR and its DELTA data system.
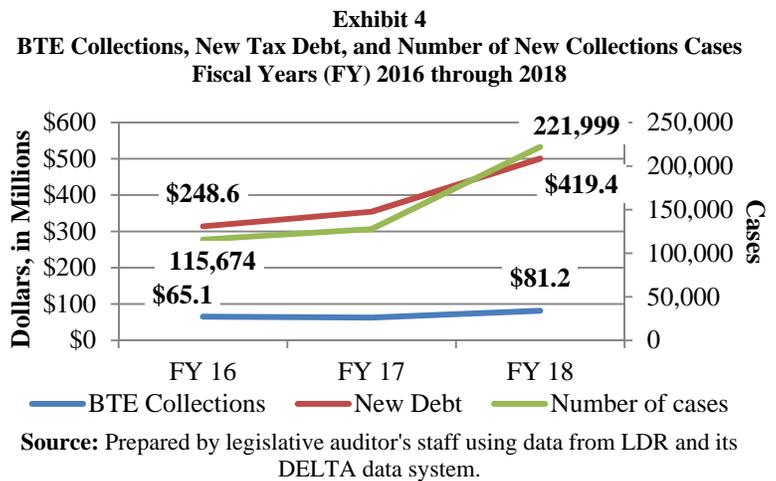
Specifically, we found:

- **BTE does not always prioritize collections cases, as recommended by best practices. Although BTE began prioritizing cases in fiscal year 2018, it primarily prioritized older collections cases. According to best practices, several factors affect the collectability of a case, including the debt age, origin, amount, taxpayer assets, account history, and availability of taxpayer contact information.** Effectively prioritizing cases using these factors could help BTE focus on the most collectable cases.

- **LDR could better use data to evaluate its enforcement process. Using data to monitor its performance could help LDR determine whether its process is effective. Currently, LDR cannot link most payments to the enforcement actions that were used, which limits its ability to know which actions are most effective.** Setting measurable program goals and using data to inform management decisions could help LDR focus resources on the actions most likely to increase BTE collections.

- **LDR could increase voluntary compliance by changing the tax letters it sends out to plain language, making its website more user-friendly, and improving its call center.** As shown by best practices, these taxpayer services lead to greater voluntary compliance, which may decrease the amount of collection cases that need to be worked.

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Our findings, as well as recommendations to improve LDR's enforcement process, are discussed in more detail on the following pages.

BTE does not always prioritize collections cases, as recommended by best practices. Although BTE began prioritizing cases in fiscal year 2018, it primarily prioritized older collections cases. According to best practices, several factors affect the collectability of a case, including the debt age, origin, amount, taxpayer assets, account history, and availability of taxpayer contact information. Effectively prioritizing cases using these factors could help BTE increase collections by focusing on the most collectable cases.

Best practices[8] show that the collectability of debt diminishes with time. The collection industry's collectability curve, which measures the probability of collecting debt over time, shows that collectability decreases to 70% after three months. In addition, the IRS conducted a study[9] and found that as more time elapses before the taxpayer makes at least one payment, it becomes less likely that they will make any subsequent payments.

During fiscal years 2016 and 2017, BTE did not prioritize collections cases. In fiscal year 2018, BTE began prioritizing cases; however, it primarily prioritized older collection cases rather than new ones.[10] As of fiscal year 2018, collection cases are organized in work queues that the computer assigns to tax officers. When a tax officer is assigned a case, the officer will open the case, review the details, and take the necessary next step for that case, such as levying a bank account or conducting taxpayer research. Cases are then returned to the queue until it is assigned to the next available tax officer.

In fiscal year 2016, supervisors manually assigned each tax officer 200 cases at a time, and in fiscal year 2017, supervisors divided all open cases among the tax officers. Tax officers use their expertise to determine the best action to take on a case as, according to LDR, there is no standard

Exhibit 5
BTE Collections Process
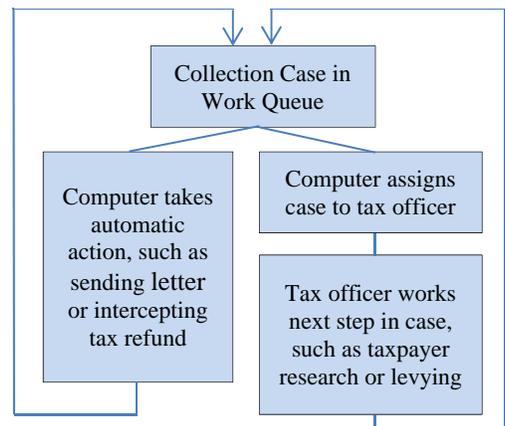
Source: Prepared by legislative auditor's staff using information from LDR.

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[8] Commercial Collection Agency Association, the IRS Research Bulletin: Publication 1500, 1999, and Treasury Inspector General for Tax Administration, "Reducing the Processing Time between Balance Due Notices Could Increase Collections," September 26, 2011.

[9] IRS Research Bulletin: Publication 1500, 1999

[10] For the purposes of this report, we are referring to unpaid tax filing periods as collection cases. LDR's data system organizes filing periods by taxpayer account, so if the taxpayer has multiple open collection cases (i.e., tax periods with unpaid balances), a tax officer may work multiple collection cases (new and old) at a time.

process on how to work a case. Exhibit 5 outlines the general process BTE takes to work a case. According to LDR, it prioritizes the oldest collection cases first or rotates the oldest cases and newest cases. It is important for LDR to focus its efforts on cases most likely to result in collections, because the number of BTE collections cases has increased by 92%, from 115,674 cases in fiscal year 2016 to 221,999 cases in fiscal year 2018.

Effectively prioritizing cases could help BTE increase collections by focusing on the most collectable cases. Because there are currently too many collection cases for tax officers to work each case, prioritizing newer cases, which are the most collectable, could improve collections. During fiscal year 2018, BTE had 77 employees and more than 58,000 business tax work items[11] in its queues. Of the 221,999 new collection cases in fiscal year 2018, 58,717 (26.4%) had not been assigned and worked by a tax officer as of February 2019, and the total amount of outstanding tax debt associated with these cases was $26.4 million. Establishing contact with taxpayers earlier in the process will improve the probability of LDR collecting the entire debt. LDR's data system (DELTA) completes some actions automatically, such as sending out past due letters and attempting to intercept state and federal tax refunds and federal vendor payments. However, we found that even if automatic actions take place, the collectability of a case increases the sooner a case is assigned to and worked by a tax officer. For example, BTE collected no tax debt for 82.5% of cases that tax officers did not work, while BTE collected 55.4% of cases in full when tax officers worked a case within one month. Exhibit 6 shows the success of cases based on how quickly tax officers were assigned and worked a collection case.

Exhibit 6 Collection Case Success by Time to Assignment to Tax Officer Fiscal Years 2016 through 2018				
Time to Assignment to Tax Officer	**No Tax Debt Paid**		**All Tax Debt Paid**	
	Cases	**Percent of Cases**	**Cases**	**Percent of Cases**
Less than 1 month	36,960	36.3%	56,430	55.4%
1 to 2 months	22,485	43.1%	25,297	48.5%
2 to 3 months	17,645	49.5%	15,126	42.4%
3 to 6 months	24,468	49.1%	21,817	43.8%
6 to 12 months	18,786	54.7%	13,338	38.8%
Over 1 year	9,363	60.4%	5,434	35.1%
Not assigned and worked	58,676	82.5%	10,277	14.4%
Grand Total*	**188,383**	**52.3%**	**147,719**	**41.0%**
*24,398 (6.8%) cases had some tax debt paid. **Source:** Prepared by legislative auditor's staff using data from LDR's DELTA system.				

More collectable

Least collectable
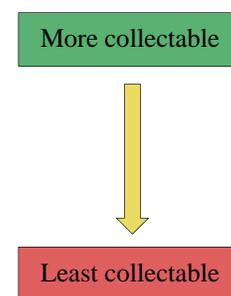
When tax officers did work a new case during fiscal years 2016 through 2018, it took an average of 3.5 months. Best practices, as mentioned above, show that collectability drops significantly after three months. However, in fiscal year 2018 it took longer to assign and work cases than in fiscal year 2016. For example, 59.7% of new cases were assigned and worked

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[11] One business may have multiple open collection cases (i.e., tax periods with unpaid balances).

within three months in fiscal year 2016, while 50.6% were assigned and worked within three months during fiscal year 2018. According to LDR, it could not identify any specific reasons why cases took longer to assign and work in fiscal year 2018; however, they said it could be due to a combination of factors, such as tax officers working cases more thoroughly, an increase in the number of taxpayer calls or correspondence, or due to changes in the way tax officers are assigned cases.

All seven states that we surveyed[12] prioritize collection cases in some way, and four use sophisticated collectability ratings. For example, Utah calculates collectability based on factors like the age of the debt, the origin of the debt, the availability of contact information for the taxpayer, and whether previous payments had been made on the account. According to LDR, the current version of tax software it uses does not have the capability to calculate collectability ratings similar to Utah, but the newer version of the software will be able to. LDR is looking into upgrading its tax software in the near future. In the meantime, LDR should at least prioritize newer cases. Exhibit 7 shows common factors used by the states we surveyed to prioritize collection cases.

> **Exhibit 7**
> **Common Factors to Prioritize Debt Collection Cases**
>
> - Age of debt
> - Origin of debt
> - Type of tax
> - Outstanding balance
> - Taxpayer assets
> - Account history
> - Availability of contact information for taxpayers
>
> **Source:** Prepared by legislative auditor's staff using information from other states and national best practices.

Recommendation 1: LDR should continue to pursue an upgrade to its tax software. Once completed, the department should consider using the function that will prioritize cases based on collectability factors.

Summary of Management's Response: LDR agrees with this recommendation and stated that it has decided to upgrade from its current version of the software. Some of the tracking mechanisms mentioned by the auditor will be available with the implementation of the upgrade. LDR is planning to upgrade its tax software in the 2019-2020 fiscal year. See Appendix A for management's full response.

Recommendation 2: BTE should develop a prioritization strategy that includes factors commonly used by other states. Until LDR upgrades its tax software, this strategy should ensure that newer cases are prioritized before older ones, which is a best practice.

Summary of Management's Response: LDR disagrees with this recommendation and stated that it has met with its software vendor to explore available prioritization strategies within the system. Prioritization strategies will continue when the system is upgraded next year. In addition, as members of the Federation of Tax Administrators, Multistate Tax Commission and the Southeastern Association of Tax Administrators, it regularly meets with other states on 'best practice' methodologies. In addition, LDR and other collecting states begin the prioritization of collection of taxes long before they reach final debt status and become the responsibility of the BTE division.

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[12] We surveyed seven states: Alabama, Georgia, Mississippi, Minnesota, North Carolina, Wisconsin, and Utah.

LLA Additional Comments: Our audit focused on BTE-specific actions regarding tax collection. LDR could improve, specifically, in prioritizing cases that are already finalized debt. For these cases, there are various established factors that affect the collectability of a case. As discussed previously, other states prioritize using all or some of these factors.

LDR could better use data to evaluate its enforcement process. Using data to monitor its performance could help LDR determine whether its process is effective. Currently, LDR does not link most payments to the enforcement actions that were used, which limits its ability to know which actions are most effective. Setting measurable program goals and using data to inform management decisions could help LDR focus resources on the actions most likely to increase BTE collections.

While LDR has some reports it regularly reviews,[13] using program data to determine the most successful types of enforcement actions and utilizing these actions more frequently could help LDR more efficiently and effectively collect unpaid business taxes. In addition, tracking other program performance information would allow LDR to better evaluate its enforcement of unpaid business taxes and potentially lead to better collection rates.

LDR does not link most payments to enforcement actions or tax bills, which limits its ability to know what actions are most effective at collecting unpaid taxes. When LDR processes tax payments, it does not specify what enforcement action prompted payment for most actions. For example, according to LDR, bank levies are one of the most successful enforcement tools in collecting unpaid taxes. However, it does not determine the amount collected through bank levies because it does not have a process in place to log these payments as levies in its data system. While BTE's overall collection amount has increased, the number of bank levies BTE issued during fiscal years 2016 through 2018 decreased by 27.3%, from 39,734 levies to 28,875 levies, respectively. According to LDR, it has been encouraging tax officers to work cases more thoroughly and issue levies that are more likely to be successful. However, because LDR does not document what payments came from levies, it cannot determine if levies have become more successful.

Some states, such as Wisconsin, Georgia, and Mississippi[14] have designed or adjusted billing processes to link payments to enforcement actions. For example, these states have different payment vouchers and/or transaction types associated with different actions or letters. During payment processing, the action or letter type is documented in the computer system. LDR does not always include payment vouchers on letters sent to banks or taxpayers. For example,

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[13] LDR reviews reports including ones on the total collection amounts, number of levies issued, number of enforcement action letters sent out, and number of bills sent out.

[14] These three states use a GenTax data system, which is the platform used for LDR's DELTA system.

when the department sends a letter notifying a business that it has been denied a tax clearance for an alcohol or tobacco license, it does not include a payment voucher, and when LDR receives bank levy payments, it does not log those payments as levy payments. LDR may want to consider revising and/or adding vouchers to its letters, along with specific transaction types, so it can begin to identify what actions or letters were most effective in prompting payments.

Because LDR does not always know which enforcement actions are most successful, it may be underutilizing effective ones. There are various types of enforcement actions that LDR can take to collect unpaid business taxes. Some are automatically initiated by the computer system and some must be completed manually by tax officers. For example, the computer system will automatically attempt to collect from federal or state refunds, while bank levies are a manual process requiring tax officers to initiate levies in LDR's computer system. LDR does link some enforcement actions to payments, such as offsets from individual income refunds and federal vendor payments, recoupments by collection agencies, and revoking alcohol and tobacco licenses. In fiscal year 2018, these actions recouped approximately $8.9 million unpaid business taxes. However, LDR does not have a process to link other actions to incoming payments, and for these actions, it only calculates statistics on how often actions are used, which is usually based on how many letters are sent to taxpayers notifying them of an action. Exhibit 8 shows the BTE enforcement actions that LDR does not link to payments, and Appendix F shows the number of letters LDR sent regarding the various enforcement actions and the amount collected by enforcement actions for the payments that can be tracked for fiscal year 2016 through fiscal year 2018.

Exhibit 8 BTE Enforcement Actions Not Linked to Payments Fiscal Year 2016 through Fiscal Year 2018	
Enforcement Action	**Description**
Tax Bills	LDR sends 30-day and 60-day bills for self-assessed and proposed taxes due, and periodically sends a statement of account letter to the taxpayer.
Bank Levy/Wage garnishment	Banks or employers take money from a taxpayer's bank account or wages and remits them to LDR. (R.S. 47:1569 – 47:1573)
Cross Period Offset	All or a portion of a refund on a tax period is offset and applied to an outstanding debt on another tax period within the same tax type. Ex: A refund on sales tax - January 2019 tax period is applied to an outstanding liability on sales tax - December 2018 tax period.
Alcohol and Tobacco Control (ATC)/Video Poker Clearance Denial	Taxpayers applying for an ATC permit or a video poker license require a good standing clearance from LDR. LDR can deny this clearance if the applicant owes the state unpaid taxes. (R.S. 26:78(A), R.S. 26:80(E), and R.S. 27:425)
Liens	LDR imposes liens on a taxpayer's property to secure the payment of unpaid tax debts owed to the state. (R.S. 47:1577)
Installment Agreements	If a taxpayer is unable to make a full payment to satisfy the unpaid taxes owed to the state, they can request a plan to pay the debt in installments.
Cease and Desist	LDR can request that the court order a business to cease operation if the business does not remit unpaid tax. (R.S. 47:314)
Cross Account Offset	All or a portion of a refund on one tax type is applied to an outstanding debt on another tax type. Ex: A refund on sales tax to applied to an outstanding liability on withholding tax.
Source: Prepared by legislative auditor's staff using information provided by LDR.	

As mentioned previously, there are too many collections cases for tax officers to work every case. Therefore, LDR should explore other actions, such as automatic levies or encouraging installment agreements that may be appropriate for cases that have not been assigned and worked or have had unsuccessful actions. For example, BTE did not initiate a bank levy for 71.5% unpaid tax cases during fiscal years 2016 through 2018, but there are many valid reasons why tax officers may not levy a case. Each month, LDR receives a financial institution data match (FIDM) list of taxpayer bank accounts. If a tax officer cannot identify a valid bank account for a taxpayer, they cannot issue a levy. Three[15] of the seven states we surveyed use automatic levies where the computer system will automatically send a levy request when the FIDM list generates a bank match. According to LDR, it is working towards implementing automatic levies.

In addition, other states[16] have found success with installment agreements that taxpayers can set up online without the assistance of a tax officer. Once cases have an installment agreement in place, it is not necessary for tax officers to work those cases. LDR has an online portal, LaTAP, where taxpayers can file returns and make payments. Taxpayers can request installment agreements through LaTAP; however, LDR issues few each year. For example, LDR issued 535 installment agreements in fiscal year 2018, and there were 115,352 businesses with active collections cases during the same year. To enter into an installment agreement, taxpayers must pay a $105 fee and pay a 20% down payment.[17] In addition, according to LDR, taxpayers cannot enter into an installment agreement if any delinquent tax period has been sent to a collection agency. To increase the use of installment agreements, LDR should evaluate its process and identify potential obstacles to taxpayers using these agreements.

LDR could develop other program measures or goals to monitor BTE performance and help identify ways to improve efficiency and effectiveness. Currently, BTE has one formal performance measure, which is to respond to taxpayer correspondence within 30 days. However, developing goals regarding the time to assign and work a case could help LDR work more efficiently. In addition, there are other types of performance goals that could help LDR measure program effectiveness. For example, other states have a variety of measures they use to determine program success; some states look at the time to collect a case in full,[18] number of cases paid to $0 or closed,[19] percentage of cases collected or reduced,[20] and returns on investment.[21] Over the course of the audit scope, BTE has adjusted or changed its approach to collecting unpaid taxes, so it should track overall performance to ensure that these changes result in better collection outcomes. However, LDR does not have any program measures or goals it can use to determine overall success of the program. For example, while LDR calculates an overall collection return on investment, it does not specifically calculate BTE's return on investment even though it has the data it needs, BTE budget and collection amount, to calculate return on investment.

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[15] North Carolina, Wisconsin, and Mississippi
[16] Georgia and Alabama
[17] According to LDR, the 20% down payment is negotiable and can be reduced or waived.
[18] Utah
[19] Utah and Georgia
[20] Mississippi, North Carolina, and Minnesota
[21] North Carolina, Mississippi, Wisconsin, Georgia, and Utah

LDR has begun working on developing data reports to help it understand program performance. However, it has faced some challenges due to data system limitations. For example, the DELTA data system is a complex system designed to accurately process returns and keep track of taxpayer refunds, taxes owed, and taxes paid. It is not designed to report on performance information. LDR should continue to work towards developing additional data reports to help it track and monitor BTE performance. In addition, LDR relies heavily on one or two staff to work on enforcement collections data reports, and one is semi-retired. As creating collection data reports is a complex process, LDR should develop a continuity plan when key staff retires to ensure that it can continue to run needed data reports in the future.

Recommendation 3: LDR should consider ways to adjust its billing process to link payments to enforcement actions, such as adjusting and/or including payment vouchers with all types of letters so it can begin to identify what actions or letters prompted payment.

Summary of Management's Response: LDR disagrees with this recommendation and stated that it employs a multitude of enforcement actions in order to promote the payment of delinquent business taxes and currently tracks enforcement actions by letter ID. Because of the numerous strategies employed by the Department to encourage taxpayers to pay outstanding liabilities, it is virtually impossible to link each payment to a specific letter, notice, telephone conversation or email. However, LDR is keenly aware of processes and procedures that generate payments. See Appendix A for management's full response.

LLA Additional Comments: While LDR employs various enforcement actions, it cannot determine if actions are actually successful because it does not link most actions to resulting payments. Tracking enforcement actions, such as letters, is not the same thing as tracking which actions result in payments. While we recognize that all types of enforcement actions cannot be captured, such as a telephone call or email, using vouchers and/or transaction types to link some payments to actions would help LDR fully understand what prompts taxpayers to pay outstanding bills. As discussed previously, other states that use the same tax software have developed processes to link most payments to enforcement actions.

Recommendation 4: LDR should evaluate its process and identify potential obstacles to taxpayers using installment agreements, especially online installment agreements.

Summary of Management's Response: LDR agrees with this recommendation and stated that a concentrated focus on installment agreements could enhance business tax collections. LDR has begun exploring options in this area to minimize obstacles to taxpayers who may want to enter into an installment agreement to pay delinquent business taxes. See Appendix A for management's full response.

Recommendation 5: LDR should develop measurable performance goals in order to determine BTE program effectiveness.

Summary of Management's Response: LDR disagrees with this recommendation and stated that it has developed internal measurable performance goals within the BTE Division to track program effectiveness. LDR currently utilizes various reports to track BTE program effectiveness and other reports are in the development process. See Appendix A for management's full response.

LLA Additional Comments: During the audit, LDR could not provide any specific, measurable goals for the BTE division other than responding to taxpayer correspondence within 30 days. As discussed previously, other states use a variety of performance goals to measure effectiveness. Reviewing data reports does not constitute setting measurable goals.

Recommendation 6: LDR should continue to work on developing data reports to track and monitor BTE performance.

Summary of Management's Response: LDR agrees with this recommendation and stated that its tax software system has a wealth of information and can be manipulated to pull information with the use of experienced staff. In addition, it regularly meets with the Office of Technology Services (OTS) and its vendors to prioritize the needs of its tax administration divisions. See Appendix A for management's full response.

LDR could increase voluntary compliance by changing the tax letters it sends out to plain language, making its website more user-friendly, and improving its call center. As shown by best practices, these taxpayer services lead to greater voluntary compliance which may decrease the amount of collection cases that need to be worked.

According to the Government Accountability Office, promoting taxpayer services, such as answering telephone calls and correspondence and providing services on a website, can promote voluntary compliance for taxpayers.[22] In addition, according to the Treasury Inspector General for Tax Administration, taxpayer services, such as answering taxpayers' questions, reduces unintentional noncompliance and shrinks the need for future collection activity.[23] Increasing voluntary compliance can result in fewer accounts that must be collected through enforcement actions, which means that more taxpayers would pay their taxes timely and appropriately and would help BTE to manage its cases more efficiently.

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[22] Government Accountability Office, "2013 Annual Report: Actions Needed to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits," April 2013.
[23] Treasury Inspector General for Tax Administration, "Problems at the Internal Revenue Service: Closing the Tax Gap and Preventing Identity Theft," Hearing before the Committee on Oversight and Government Reform Subcommittee on Government Organization, Efficiency, and Financial Management, April 2012.

LDR's tax notices are not written in plain language according to best practices.[24] The first page of LDR's notice of proposed tax due, for example, lists what taxes, penalties, and fees the business owes for which filing period and does not clearly explain why the business is receiving a proposed tax bill or what steps to take next. The second page of the notice is a listing of relevant legal citations that use legal terminology as opposed to being written in plain language. See Appendix G for an example of a proposed tax bill. In addition, if taxpayers owe taxes for different types of business taxes or for multiple filing periods, they receive multiple LDR tax letters,[25] which may confuse the taxpayer, especially when they are not written in plain language.

It is important for communication to be clear so taxpayers can understand what correspondence means and what actions they need to take. The Plain Writing Act of 2010 requires federal agencies to use clear government communication that the public can understand and use. The federal government provides guides and checklists to assist in revising communication in plain language. According to Wisconsin, revising its tax letters into plain language has significantly increased voluntary compliance. Prior to revision, the letters looked similar to LDR's current tax letters. In 2012, Wisconsin adjusted its letters by organizing the content around key customer questions and answers, simplifying the writing style, and providing clear next steps for the taxpayer. Exhibit 9 lists the questions Wisconsin's letters are organized around. According to LDR, it is in the process of revising some of its tax letters.

LDR's website is not always user-friendly for taxpayers to navigate, which can make it harder for taxpayers to find the assistance they need. According to LDR, taxpayers often call the call center because they cannot find needed forms or because the search function does not always produce the needed results. In addition, LDR's Frequently Asked Questions section regarding collections includes a listing of 39 questions and answers, but they are not organized in any way. Grouping similar topics and including headings could make it easier for taxpayers to locate information. According to LDR management, it is aware of its website limitations and is looking for solutions.

Exhibit 9 Wisconsin Tax Letter Plain Language Questions
1. Why did I get this notice?
2. How do I pay?
3. What if I don't agree with this notice?
4. What happens if I don't pay on time?
5. What if I can't pay?

From fiscal year 2016 through fiscal year 2018, wait times for the call center and the percent of abandoned calls have increased. LDR operates a call center where taxpayers can call to speak to a customer service representative, and calls related to business taxes are forwarded to a queue answered by BTE tax officers. From fiscal year 2016 through fiscal year 2018, the percent of calls abandoned has increased from 12.3% to 21.4%, and the average wait time in the call queue has increased from more than 12 minutes to more than 18 minutes. These increases may be due to an 8.3% decrease in BTE staff, from 84 staff in fiscal year 2016 to 77 in fiscal year 2018, while the number of calls in the business tax call center queue has increased by 19.1%, from 105,787 calls to 125,956. In addition, LDR previously contracted with an outside vendor for 30 positions to work the call center, but the contract ended on March 31, 2016, due to budget cuts.

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[24] Plain Language Action and Information Network, "Federal Plain Language Guidelines"
[25] Due process requires LDR to send separate tax letters for each type of tax owed.

Increased wait times in the call center queue leads to an increase in abandoned calls, as taxpayers hang up due to long waits. If taxpayers cannot get needed assistance, voluntary compliance is less likely. Other than increasing call center staff to answer calls, LDR could consider strategies that could reduce the amount of call center calls, such as revising tax letters based on plain language and creating a more user-friendly website. In addition, the Internal Revenue Service (IRS) and California have a live chat option on their websites. Exhibit 10 shows LDR's call center wait times and percent of abandoned calls for fiscal years 2016 through 2018.

Exhibit 10
Call Center Wait Times and Abandoned Calls
Fiscal Years (FY) 2016 through 2018
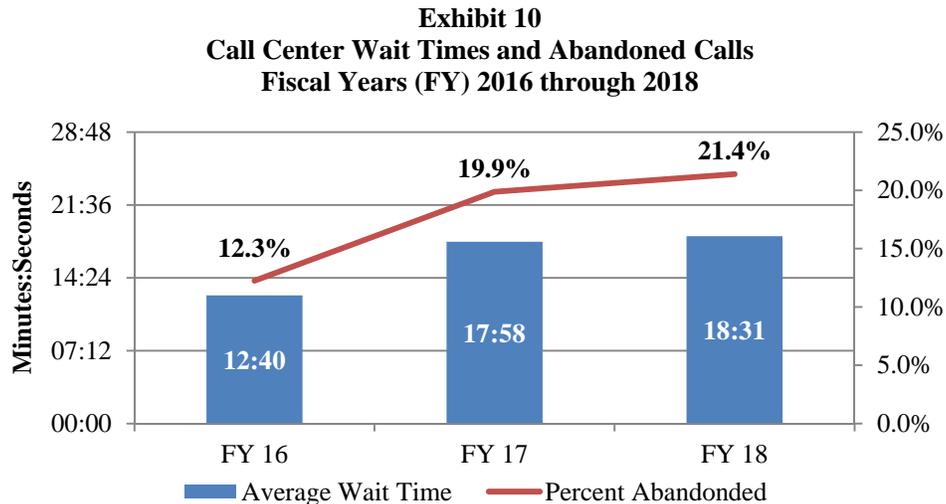
Source: Prepared by legislative auditor's staff using call center statistics from LDR.

On average, tax officers spent 43.6 hours per month (25.2% of monthly work days) working call center phones during fiscal years 2016 through 2018. According to LDR management, tax officers working the call center is one of its biggest challenges in effectively and efficiently collecting delinquent business taxes. Based on BTE collection trends, if tax officers spent those 43.6 hours working collection cases rather than answering call center phones, BTE could potentially collect an additional $18.4 million per year, if trends remained the same.[26]

Recommendation 7: LDR should revise its tax letters, using plain language guidance as recommended by the IRS.

Summary of Management's Response: LDR agrees with this recommendation and stated that it is in the process of revising its tax letters using plain language guidance. Currently, four letters are in production. One letter currently in the test phase is scheduled for implementation within the next month. Six other letters are in the final phase of review. See Appendix A for management's full response.

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[26] This is a hypothetical scenario based on collection trends. There are many external factors that can prevent collections, such as businesses being closed with no assets, deceased taxpayers, bankruptcies, and taxpayers refusing to pay. Even if tax officers devote all man hours to collections, it does not mean BTE *will* collect an additional $18.4 million per year.

Recommendation 8: LDR should modify its website to make it easier for taxpayers to find needed information and understand business tax situations.

Summary of Management's Response: LDR agrees with this recommendation and stated that prior to the commencement of the audit, LDR recognized that its website needed to be updated. It has created a working group within the agency to make recommendations for the needed changes, and a vendor has been selected. LDR expects the website to be updated by the end of fiscal year 2019-2020. See Appendix A for management's full response.

Recommendation 9: LDR should consider strategies to reduce call center wait times and percent of abandoned calls.

Summary of Management's Response: LDR agrees with this recommendation and stated that it continuously evaluates and tracks abandonment rates within the Call Center. LDR trains employees answering calls on the various tax types in an effort to increase first call resolution to reduce the number of repeat callers. LDR is also re-opening regional offices, which will offer taxpayers the option of resolving tax issues in a local office. See Appendix A for management's full response.

APPENDIX A: MANAGEMENT'S RESPONSE

JOHN BEL EDWARDS
Governor

KIMBERLY LEWIS ROBINSON
Secretary

Appendix A: Management's Response

One of the Louisiana Department of Revenue's ("LDR") goals is to encourage voluntary compliance by taxpayers. The goal of voluntary compliance is engrained in every division within the Tax Collection Program.

Louisiana's tax system is based on voluntary compliance – the expectation that taxpayers will voluntarily pay the right amount of tax in a timely manner. The tax collection program engages in a range of activities that directly or indirectly promote voluntary compliance, stretching from activities that occur before the taxpayer begins to fill out his or her return to enforcement of the tax laws through audit and litigation as shown in the chart below:

Tax Compliance Continuum

LDR	Draft & negotiate tax legislation	Publish forms, instructions, & guidance	Assist & educate taxpayers	Capture return data & process payments	Resolve exceptions	Issue bills & resolve protest	Collect	Audit	Litigate	Criminal Enforcement
Taxpayer		Review Instructions	Ask questions	File returns & make payments	Answer questions arising from exceptions	Review bills & file protests	Collection defense	Undergo audit	Litigation defense	Criminal enforcement defense

More Taxpayers – Less Cost (Voluntary Compliance)	Fewer Taxpayers – Higher Cost (Non-Compliance)

Activities associated with voluntary compliance are less costly than enforcement actions associated with non-compliance. It is for this reason that LDR promotes voluntary compliance – before a costly collection process. Over 92% of the taxes collected by LDR within the audited period were submitted with returns in accordance with established due dates. This was in no small part, a result of the agency's focus on voluntary compliance.

LDR's customer base is one of the largest of all state government agencies. In addition to responding to all persons and entities throughout the state and nation who have Louisiana tax responsibilities, the Department interacts with all levels of state, local and federal government, tax practitioners and business groups. As such, the vision of the Department of Revenue is that we strive to be a results-based, innovative and focused organization that is capable of rapidly responding to the needs of the citizens of Louisiana and all stakeholders.

Page four of the Louisiana Legislative Auditor's ("LLA") report shows that Business Tax Enforcement ("BTE") collections increased by 24.7% from $65.1 million in FY2016 to $81.2 in FY2018. This statistic shows that LDR strives to create efficiencies in its collection processes to collect outstanding business taxes. This is especially true when coupled with the fact that staffing levels in BTE decreased by 8.3% during the same period.

The LLA notes that debt increased by 92% or $170.8 million during the same period. We explained to the LLA that this increase is an anomaly and not a true representation of actual increases in business taxpayer liabilities. Roughly 85% of this increase, or $144.6 million, is directly attributable to a decision in 2017 to 'turn on' withholding estimates in our software system. Estimates are sent out to encourage taxpayers who have not filed returns for a certain period to do so or to contact the Department to explain why a return has not been filed. This management team decided to resume sending out notices to businesses who failed to file withholding tax returns. Over 30,000 notices went out to businesses notifying them that LDR had not received withholding returns. LDR worked with stakeholder groups such as the Louisiana Society of Certified Public Accountants and the Enrolled Agents to inform taxpayers how to resolve these notices. Many businesses that received notices from LDR did not have employees any longer, or had in fact closed. The reality is that during the audit period, the $144.6 million in withholding tax assessments were system-generated estimates and in most cases were not representative of an actual debt.

Tax estimates generated by the LDR system are just that – estimates. If a taxpayer does not file a return for a period, LDR estimates the tax liability for the period. This action is taken to notify the taxpayer of a potential liability for that period. Estimated taxes do not represent true liabilities in the same manner a filed return does. It is important to note this fact because the LLA states that business taxpayer debt increased by 92% over the three-year audit period. This is not a true reflection of the realities of business tax debt during this period, when we know that at a minimum 85% of this increase was due to withholding non-filer estimates. While non-filer estimates are a critically important tool in determining whether taxpayers are conducting business and required to file returns, they are not always an accurate representation of outstanding collectible debt. LDR strives to

place the appropriate balance on the use on estimates in the collection process and the overall compliance continuum.

BTE does not effectively prioritize its collection cases as recommended by best practices. During fiscal years 2016 through 2018, BTE prioritized older collection cases rather than new collection cases. In fiscal year 2018, 58,717 (26.4%) of 221,999 new incoming cases had not been assigned and worked by a tax officer. Effectively prioritizing cases could help BTE focus on the most collectable cases.

The LLA notes that best practices show that the collectability of debt diminishes with time. LDR agrees with this statement. A caveat to this is that LDR's BTE Division is not simply collecting actual debt; we are attempting to reach out to non-filers where estimates have been placed on our system. Once again, system generated estimates do not always represent immediately collectible tax debt. Estimated tax liabilities could be overstated or understated. In many instances, the estimate has been overstated because the taxpayer has failed to notify LDR that the business has closed. Other times the taxpayer has registered for an account with LDR before the business commences and the system generates estimates based on the date provided in the registration.

Collection cases are organized into work queues to be worked by our tax officers. Collection cases are prioritized by rotating the oldest and the newest cases. This is done because the cases worked by tax officers contain actual or true debt as well as estimated tax liabilities. Tax Officers are expected to collect the actual business tax debt and to update the system for changes in business openings and closings. They are also expected to have taxpayers file the necessary returns for periods that are missing returns.

BTE not only reviews how debt is prioritized, but routinely makes changes when necessary. The methodology changed several times during the audit period. In early 2016, tax officers were manually assigned 200 accounts each by management. Once these accounts were cleared, the supervisor manually assigned additional cases. Later in 2016, management decided to distribute the entire inventory of BTE debt and cases were evenly distributed to tax officers. This meant that 100% of collection cases were assigned to tax officers. Each tax officer was assigned approximately 3,000 cases. Management found that this resulted in tax officers overwhelmed by the volume of work and experiencing burnout. This method of prioritization proved to be somewhat ineffective and not as productive as desired.   However, what this does show is management's desire to continue to seek changes in processes and procedures in an effort to increase collection outcomes. These changes are the result of experience in the field of collections as well as benchmarking successful strategies employed by our colleagues at other departments of revenue around the country.

In 2018, working with our vendor, we implemented the 'Get Next Task' system. Managers had more control over the collection cases, correspondence, email inquiries and other files assigned. Tax officers are now assigned debt cases, both old and new. Prioritization was given to working an entire account from start to finish, rather than working some periods within the account only to work the remaining periods at a later time. While this

system is better than the previous two mentioned, LDR will continue to evaluate best practice methods for collecting outstanding business tax debt.

The LLA states that 26.4% of cases had not been assigned by the end of fiscal year 2018. As previously explained, assigning the entire inventory of cases to the staff resulted in each tax officer having an assigned caseload of approximately 3,000 cases. This was counterproductive and did not yield the collection results seen with the current 'Get Next Task' system. LDR continues to review processes and staffing resources. With more fiscal stability, we will have the option of increasing resources.

Recommendation 1: LDR should continue to pursue an upgrade to its tax software. Once completed, the department should consider using the function that will prioritize cases based on collectability factors.

As a matter of practice, LDR regularly meets with our software vendor (Fast Enterprises) to develop tools within the system to enhance data analytics and measurements used to increase collection efficiencies. Fast Enterprises is a globally recognized leader in integrated tax solution software for governments around the globe. Louisiana was the third taxing agency to contract with Fast Enterprises. The company is the tax software vendor in 30 states (including Puerto Rico), 7 countries, 9U.S. cities and 3 Canadian provinces. Fast regularly offers updates to its software as a means to enhance its customers' tax compliance efforts. Executive Management at LDR evaluates the IT needs of the agency regularly. Our last system upgrade took place in 2013. The current version (V.9), while still a viable version of the system, does not offer some of the enhanced analytical and reporting capabilities offered in the latest software version (V.12). It is for this reason that LDR has decided to upgrade from its current version of the software. Some of the tracking mechanisms mentioned by the auditor will be available with the implementation of this upgrade. LDR is planning to upgrade its tax software in the 2019-2020 fiscal year.

Recommendation 2: BTE should develop a prioritization strategy that includes factors commonly used by other states. Until LDR upgrades its tax software, this strategy should ensure that newer cases are prioritized before older ones, which is best practice.

LDR has met with its software vendor to explore available prioritization strategies within the system. Prioritization strategies will continue when the system is upgraded next year. However, it should be noted that LDR employs benchmarking strategies when considering and designing new collection processes.

As members of the Federation of Tax Administrators, Multistate Tax Commission and the Southeastern Association of Tax Administrators, LDR regularly meets with other states on 'best practice' methodologies. The Tax Compliance Continuum contains information that is used as guidance by many states when assessing and determining the most efficient and effective use of resources that will have the greatest impact on voluntary compliance. LDR and the other tax collecting states begin the prioritization of collection

of taxes long before they reach a final debt status and become the responsibility of the BTE division.

LDR could better use data to evaluate its enforcement process. Using data to monitor its performance could help LDR determine whether its process is effective. Currently, LDR cannot link most payments to what enforcement actions were used which limits its ability to know which actions are most effective. Setting measurable program goals and using data to inform management decisions could help LDR focus resources on the actions most likely to increase BTE collections.

LDR absolutely uses data to evaluate its enforcement process. The LLA notes that BTE levies decreased by 27.3% (from 39,734 to 28,875) in the review period. The LLA also noted that business tax collections during this period increased from $65.1 million to $81.2 million during the same period. This is a direct result of LDR analyzing the data to monitor performance. We know that the most effective enforcement tool in collecting business tax debt is the bank levy. The LLA notes this in its report as well. Data is used continuously and extensively to make decisions about the use of BTE resources. We recognize this is a perpetual process and will continue to improve upon our access and use of data analytics.

LDR previously had a longstanding practice of sending blanket levies to banks in an effort to collect outstanding debt. This proved to be ineffective. We also attempted to issue these blanket levies on estimated tax liabilities. This also proved ineffective. A change was made in 2017 to no longer issue bank levies on estimated tax liabilities and to issue levies on actual tax debt when we had a known levy source. The result – an increase in collections and a decrease in the number of bank levies. An excellent example of analyzing data and making process improvements based on the data.

The scope of this audit focuses on the Business Tax Enforcement Division. This division is charged with collecting final tax debt. As mentioned by the auditor, best practice dictates that the earlier that debt is pursued, the higher likelihood of success. Debt collection does not begin and end in BTE. We attempt to send out clear guidance from our Policy Division to educate taxpayers. We encourage taxpayers to speak to a representative in the Call Center with questions. Letters are sent out from our Taxpayer Compliance Divisions when errors are noted on the return. LDR's mission, as well as its debt collection efforts, is supported and enforced by all divisions within the Tax Collection Program. In addition, we resolve many tax matters in Headquarters and our New Orleans Regional office by offering face-to-face walk-in taxpayer assistance.

Recommendation 3: LDR should consider ways to adjust its billing process to link payments to enforcement actions, such as adjusting and/or including payment vouchers with all types of letters so it can begin to identify what actions or letters promoted payments.

LDR employs a multitude of enforcement actions to order to promote the payment of delinquent business taxes. LDR currently tracks enforcement actions by letter ID. Various divisions within the agency send out letters. All letters sent to taxpayers do not need a payment voucher attached. Bank levies and wage garnishments are tracked by LDR, by letter ID, not by payment voucher. In addition to this, the number and amount of liens issued are tracked, as well as clearances issued. LDR also tracks the effectiveness of its collection programs. We track BTE collections, Attorney General collections, collection agency collections as well as collections through the state reciprocal program and the treasury offset program. Because of the numerous strategies employed by the Department to encourage taxpayers to pay outstanding liabilities, it is virtually impossible to link each payment to a specific letter, notice, telephone conversation or email. However, LDR is keenly aware of processes and procedures that generate payments.

Recommendation 4: LDR should evaluate its process and identify potential obstacles to taxpayers using installment agreements, especially online installment agreements.

While LDR offers a self-service option (LaTap) for taxpayers to enter online installment agreements, we agree that a concentrated focus on installment agreements could enhance business tax collections. We have begun exploring options in this area to minimize obstacles to taxpayers who may want to enter into an installment agreement to pay delinquent business taxes.

Recommendation 5: LDR should develop measurable performance goals in order to determine BTE program effectiveness.

LDR has developed internal measurable performance goals within the BTE Division to track program effectiveness. LDR currently utilizes various reports to track BTE program effectiveness and other reports are in the development process. Version 12 of our tax software will provide additional opportunities and enhancements in this area.

Recommendation 6: LDR should continue to work on developing data reports to track and monitor BTE performance.

LDR works with the Office of Technology Support (OTS) and Fast Enterprises for our IT needs. OTS has been available to run reports for LDR when necessary. Our tax software system has a wealth of information and can be manipulated to pull information with the use of experienced staff. LDR regularly meets with the OTS and our vendor to prioritize the needs of our tax administration divisions. Project timelines are developed and deadlines are established to create reports necessary to track and create performance measures. This is a continuous process.

LDR could increase voluntary compliance by changing tax letters to plain language, making its website more user-friendly, and improving its call center. As shown by best practices, these taxpayers services lead to greater voluntary

compliance which may decrease the amount of collection cases that need to be worked.

We agree with this recommendation. LDR has proactively taken steps to ensure that we are providing excellent customer service to taxpayers via all modes of communication. In fact, the Department began using the "Plain Language" methodology to improve its communications with taxpayers more than two years ago.

Recommendation 7: LDR should revise its tax letters, using plain language guidance as recommended by the IRS.

As mentioned in the initial audit meeting, LDR is in the process of revising its tax letters using plain language guidance. As a member of the Federation of Tax Administrators, LDR has met with other states on best practices in this regard and this initiative began in 2017. Currently, four letters are in production. One letter currently in the test phase is scheduled for implementation within the next month. Six other letters are in the final phase of review. This process began before the commencement of this audit and the information was shared with the auditors during the audit process.

Recommendation 8: LDR should modify its website to make it easier for taxpayers to find needed information and understand business tax situations.

Prior to the commencement of this audit, LDR recognized that our website needed to be updated. In fact, some of the needed changes were made prior to the audit. We have created a working group within the agency to make recommendations for the needed changes. A vendor has been selected. We expect the website to be updated by the end of fiscal year 2019 – 2020.

Recommendation 9: LDR should consider strategies to reduce call center wait times and percent of abandoned calls.

LDR has a Customer Service Division that handles walk-in taxpayers as well as incoming phone calls for the agency. LDR has a finite number of resources (personnel) to answer taxpayer calls. The agency has contracted with a vendor to answer calls as a supplement to incoming calls in the call center. Noted in the report, the contract was terminated due to budget cuts in March of 2016. The agency has also routed calls to other divisions in order to assist with reducing abandonment rates. We have cross-trained other divisions to handle calls. The agency has also received approval from the Division of Administration to hire job appointment (temporary) employees to assist with the abandonment rates. Secretary Robinson has testified in legislative committees about the wait times on the telephones during our peak tax season. LDR continuously evaluates and tracks abandonment rates within the Call Center. We train employees answering calls on the various tax types in an effort increase first call resolution to reduce the number of repeat callers. LDR's phone system also has a feature that allows the caller to select an option to receive a call back. This option allows the caller to hang up and receive a call back without losing their respective place in line.

Another strategy is the re-opening of regional offices. In 2013, LDR regional offices were closed as an efficiency measure and limiting taxpayers to the Baton Rouge and New Orleans offices for walk-in taxpayer assistance. The opening of the regional offices will offer taxpayers the option of resolving tax issues in a local office. Alternative strategies have been, are currently, and will continue to be evaluated in order to reduce call center wait times.

Louisiana Legislative Auditor
Performance Audit Services

Checklist for Audit Recommendations

Agency: Louisiana Department of Revenue

Audit Title: Collection of Unpaid Business Taxes

Audit Report Number: 40170035

Instructions to Audited Agency: Please fill in the information below for each recommendation. A summary of your response for each recommendation will be included in the body of the report. The entire text of your response will be included as an appendix to the audit report.

Finding 1: BTE does not always prioritize collections cases, as recommended by best practices. Although BTE began prioritizing cases in fiscal year 2018, it primarily prioritized older collections cases. According to best practices, several factors affect the collectability of a case, including the debt age, origin, amount, taxpayer assets, account history, and availability of taxpayer contact information. Effectively prioritizing cases using these factors could help BTE focus on the most collectable cases.	
Does Agency Agree with Finding?	☐ Agree ☒ Disagree
Recommendation 1: LDR should continue to pursue an upgrade to its tax software. Once completed, the department should consider using the function that will prioritize cases based on collectability factors.	
Does Agency Agree with Recommendation?	☒ Agree ☐ Disagree
Agency Contact Responsible for Recommendation:	

Name/Title:	Kevin Richard
Address:	617 North Third Street
City, State, Zip:	Baton Rouge, LA 70802
Phone Number:	(225) 219-2153
Email:	kevin.richard@la.gov

Recommendation 2: BTE should develop a prioritization strategy that includes factors commonly used by other states. Until LDR upgrades its tax software, this strategy should ensure that newer cases are prioritized before older ones, which is a best practice.	
Does Agency Agree with Recommendation?	☐ Agree ☒ Disagree
Agency Contact Responsible for Recommendation:	
Name/Title:	Kevin Richard

Address:	*617 North Third Street*
City, State, Zip:	*Baton Rouge, LA 70802*
Phone Number:	*(225) 219-2153*
Email:	*kevin.richard@la.gov*

Finding 2: LDR could better use data to evaluate its enforcement process. Using data to monitor its performance could help LDR determine whether its process is effective. Currently, LDR cannot link most payments to what enforcement actions were used which limits its ability to know which actions are most effective. Setting measurable program goals and using data to inform management decisions could help LDR focus resources on the actions most likely to increase BTE collections.

Does Agency Agree with Finding?		Agree	X	Disagree

Recommendation 3: LDR should consider ways to adjust its billing process to link payments to enforcement actions, such as adjusting and/or including payment vouchers with all types of letters so it can begin to identify what actions or letters prompted payment.

Does Agency Agree with Recommendation?		Agree	X	Disagree

Agency Contact Responsible for Recommendation:

Name/Title:	*Kevin Richard*
Address:	*617 North Third Street*
City, State, Zip:	*Baton Rouge, LA 70802*
Phone Number:	*(225) 219-2153*
Email:	*kevin.richard@la.gov*

Recommendation 4: LDR should evaluate its process and identify potential obstacles to taxpayers using installment agreements, especially online installment agreements.

Does Agency Agree with Recommendation?	X	Agree		Disagree

Agency Contact Responsible for Recommendation:

Name/Title:	*Kevin Richard*
Address:	*617 North Third Street*
City, State, Zip:	*Baton Rouge, LA 70802*
Phone Number:	*(225) 219-2153*
Email:	*kevin.richard@la.gov*

Recommendation 5: LDR should develop measurable performance goals in order to determine BTE program effectiveness.

Does Agency Agree with Recommendation?		Agree	X	Disagree

Agency Contact Responsible for Recommendation:

Name/Title:	*Kevin Richard*
Address:	*617 North Third Street*
City, State, Zip:	*Baton Rouge, LA 70802*
Phone Number:	*(225) 219-2153*
Email:	*kevin.richard@la.gov*

Recommendation 6: LDR should continue to work on developing data reports to track and monitor BTE performance.

Does Agency Agree with Recommendation?	☒ Agree	☐ Disagree
Agency Contact Responsible for Recommendation:		
Name/Title:	*Kevin Richard*	
Address:	*617 North Third Street*	
City, State, Zip:	*Baton Rouge, LA 70802*	
Phone Number:	*(225) 219-2153*	
Email:	*kevin.richard@la.gov*	

Finding 3: LDR could increase voluntary compliance by changing tax letters to plain language, making its website more user-friendly, and improving its call center. As shown by best practices, these taxpayer services lead to greater voluntary compliance which may decrease the amount of collection cases that need to be worked.

Does Agency Agree with Finding?	☒ Agree	☐ Disagree

Recommendation 7: LDR should revise its tax letters, using plain language guidance as recommended by the IRS.

Does Agency Agree with Recommendation?	☒ Agree	☐ Disagree
Agency Contact Responsible for Recommendation:		
Name/Title:	*Kevin Richard*	
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Phone Number:	*(225) 219-2153*	
Email:	*kevin.richard@la.gov*	

Recommendation 8: LDR should modify its website to make it easier for taxpayers to find needed information and understand business tax situations.

Does Agency Agree with Recommendation?	☒ Agree	☐ Disagree
Agency Contact Responsible for Recommendation:		
Name/Title:	*Kevin Richard*	
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Phone Number:	*(225) 219-2153*	
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Recommendation 9: LDR should consider strategies to reduce call center wait times and percent of abandoned calls.

Does Agency Agree with Recommendation?	☒ Agree	☐ Disagree
Agency Contact Responsible for Recommendation:		
Name/Title:	*Kevin Richard*	
Address:	*617 North Third Street*	
City, State, Zip:	*Baton Rouge, LA 70802*	
Phone Number:	*(225) 219-2153*	
Email:	*kevin.richard@la.gov*	

APPENDIX B: SCOPE AND METHODOLOGY

This report provides the results of our performance audit of the Louisiana Department of Revenue's (LDR) enforcement process for collecting unpaid business taxes. We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. This audit covered fiscal years 2016 through 2018. Our audit objective was:

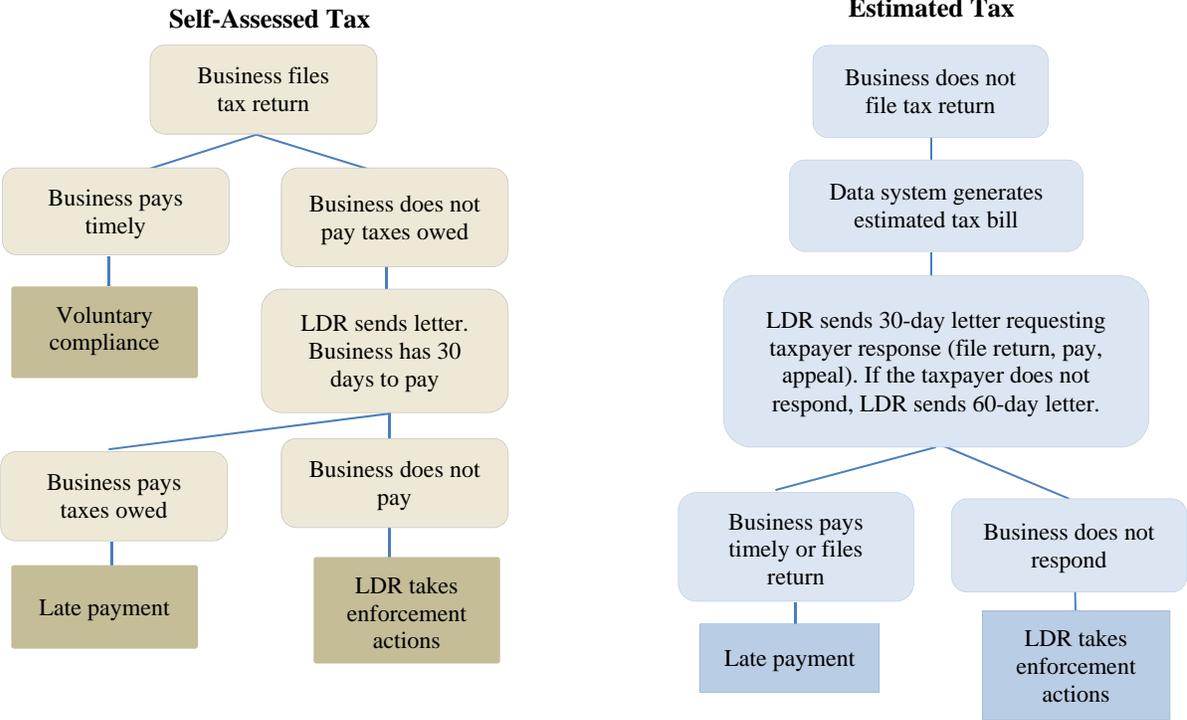**To evaluate LDR's enforcement process for collecting unpaid business taxes.**

We conducted this performance audit in accordance with generally-accepted *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. To answer our objective, we reviewed internal controls relevant to the audit objective and performed the following audit steps:

- Researched and reviewed relevant state and federal statutes and regulations related to business taxes, including requirements regarding collecting unpaid taxes.

- Researched best practices and other state and federal audits related to collecting unpaid taxes.

  - We contacted seven states to collect information on their collections processes: Alabama, Georgia, Mississippi, Minnesota, North Carolina, Utah, and Wisconsin.

- Interviewed LDR staff and obtained policies, procedures, and training materials to gain an understanding of its process for collecting unpaid business taxes.

- Obtained BTE budget and staffing numbers for our scope.

- Shadowed LDR tax officers to understand how they work collection cases and document their work in LDR's data system.

- Obtained and analyzed finalized tax period data for businesses that had open, unpaid tax debt at any point during fiscal years 2016 through 2018 from LDR's DELTA data system.

  - Met with LDR IT staff to understand the DELTA data system and develop queries to pull the data from the system.

- ▪ Tested DELTA for reliability. We did not identify significant reliability issues. For minor issues, we adjusted our analyses to exclude these records, if needed.

- ▪ Using tax period data, we tested each tax period to determine how much tax debt was outstanding and how much had been collected or adjusted.

- ▪ Using tax period data and case note data, we tested tax filing periods that became finalized debt during fiscal years 2016 through 2018 to determine the first time a tax officer opened a case and took any action (i.e., reviewed a case). For this analysis, we took into account tax periods that were sent to a collection agency. We excluded records that had reliability issues, such as tax periods that had bank levies prior to its finalized date.

- ▪ Using tax period data and data on issued levies, we identified tax filing periods that had levies and those that never had a levy issued.

- • We obtained LDR collection reports and annual reports to calculate the amount of taxes collected through voluntary compliance, late payments, and through enforcement actions. These amounts were not audited for accuracy or completeness.

- • We obtained information from LDR on how much business tax was outstanding, how much was uncollectable, and how much was estimated tax debt versus self-assessed tax debt. These amounts were not audited for accuracy or completeness; however, we discussed the queries used to pull the data with IT staff and the amount of outstanding debt and how much was uncollectable appeared reasonable compared to our calculations.

- • We obtained reports from LDR that showed how many times LDR used various enforcement actions or how much they collected through those actions, if available. These amounts were not audited for accuracy or completeness.

- • We obtained call center data from LDR to calculate call center statistics.

- • Discussed the results of our analysis with LDR management and provided LDR with the results of our data analyses.

APPENDIX C: BUSINESS TAX DEBT DUE PROCESS

Unpaid Business Taxes Due Process

Self-Assessed Tax

- Business files tax return
  - Business pays timely
    - Voluntary compliance
  - Business does not pay taxes owed
    - LDR sends letter. Business has 30 days to pay
      - Business pays taxes owed
        - Late payment
      - Business does not pay
        - LDR takes enforcement actions

Estimated Tax

- Business does not file tax return
  - Data system generates estimated tax bill
    - LDR sends 30-day letter requesting taxpayer response (file return, pay, appeal). If the taxpayer does not respond, LDR sends 60-day letter.
      - Business pays timely or files return
        - Late payment
      - Business does not respond
   - LDR takes enforcement actions

APPENDIX D: TOTAL OUTSTANDING BUSINESS TAX DEBT BY TAX TYPE AND COLLECTABILITY

Total Outstanding Unpaid Business Tax Debt Fiscal Year End 2018					
Tax Type	Total Outstanding Unpaid Business Tax Debt	Total Potentially Collectible	Percent Potentially Collectable	Total Uncollectible	Percent Uncollectable
Sales	$302,128,702	$218,268,671	72.2%	$83,860,030	27.8%
Withholding	248,168,406	194,135,420	78.2%	54,032,987	21.8%
Corporate	159,288,793	87,823,401	55.1%	71,465,392	44.9%
Excise	28,635,747	23,327,980	81.5%	5,307,767	18.5%
Fuel Tax	29,295,499	4,633,202	15.8%	24,662,297	84.2%
Severance	17,460,182	16,364,134	93.7%	1,096,048	6.3%
Total	**$784,977,329**	**$544,552,808**	**69.4%**	**$240,424,521**	**30.6%**
Source: Prepared by legislative auditor's staff using information provided by LDR.					

Total Outstanding Unpaid Business Tax Debt
**Fiscal Year End 2018**
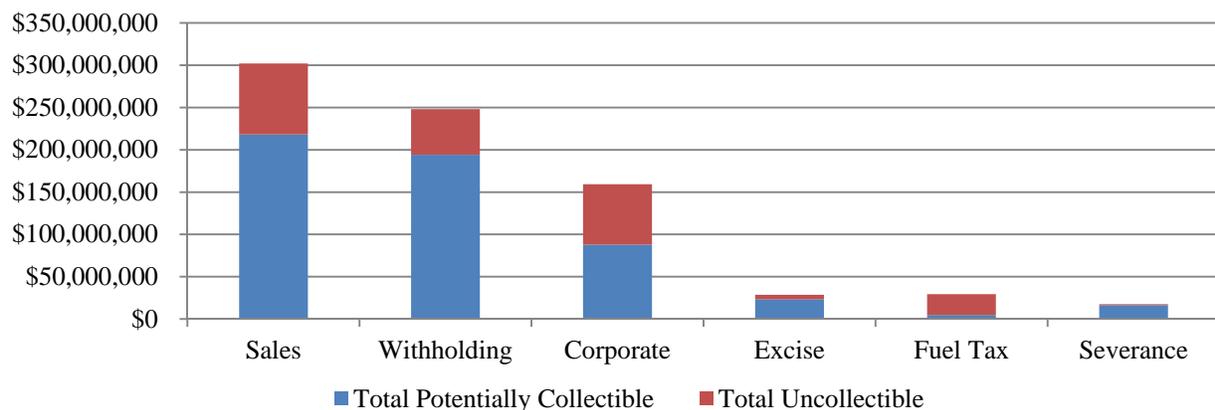
Source: Prepared by legislative auditor's staff using information provided by LDR.

APPENDIX E: TOTAL POTENTIALLY COLLECTABLE OUTSTANDING BUSINESS TAX DEBT BY TAX TYPE, ESTIMATED TAX, OR SELF-ASSESSED TAX

	Total Unpaid Potentially Collectable Business Tax Debt Fiscal Year End 2018			
Tax Type	Potentially Collectable - Estimated Tax	Percent Estimated	Potentially Collectable - Self-Assessed	Percent Self-Assessed
Sales	$94,017,548	43.1%	$124,251,123	56.9%
Withholding	$137,503,300	70.8%	$56,632,119	29.2%
Corporate	$27,400,220	31.2%	$60,423,180	68.8%
Excise	$4,239,050	18.2%	$19,088,930	81.8%
Severance	$3,339,524	20.4%	$13,024,610	79.6%
Fuel Tax	$3,987,536	86.1%	$645,665	13.9%
Total	**$270,487,178**	**49.7%**	**$274,065,627**	**50.3%**
Source: Prepared by legislative auditor's staff using information provided by LDR.				

Total Unpaid Potentially Collectable Business Tax Debt
Fiscal Year End 2018
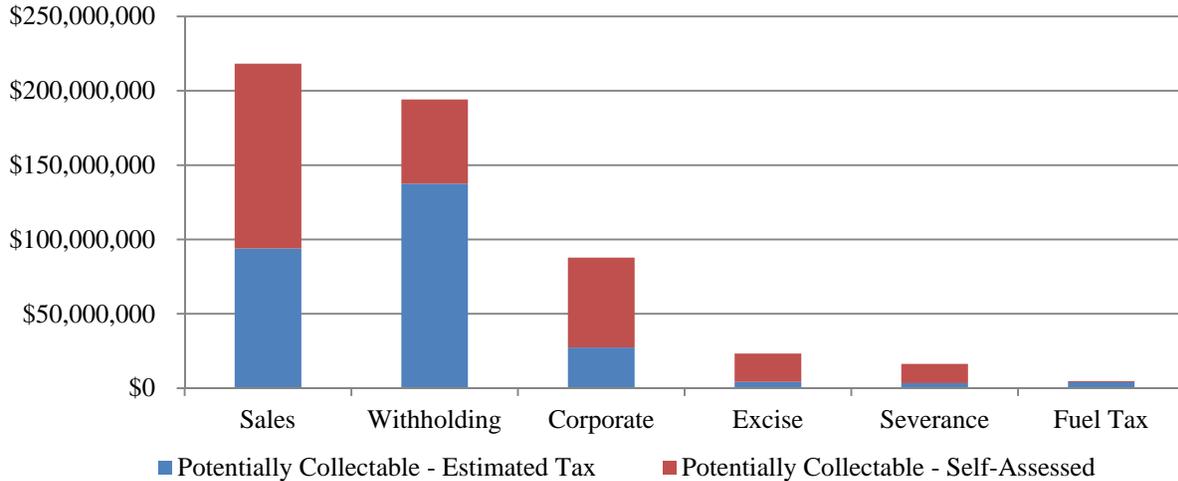
Source: Prepared by legislative auditor's staff using information provided by LDR.

APPENDIX F: BTE'S USE OF ENFORCEMENT ACTIONS

	BTE's Use of Enforcement actions Fiscal Year 2016 through Fiscal Year 2018				
Enforcement Action	**Description**	**FY16 Count/ Collections**	**FY17 Count/ Collections**	**FY18 Count/ Collections**	**Percent Change**
Number of Enforcement Letters Mailed to Taxpayers					
Tax Bills	LDR sends 30-day and 60-day bills for self-assessed and proposed taxes due, and periodically sends a statement of account letter to the taxpayer.	684,647	776,183	1,331,047	94.4%
Bank Levy/Wage Garnishment	Banks or employers take money from a taxpayer's bank account or wages and remits them to LDR. (R.S. 47:1569 – 47:1573)	52,955	49,395	28,370	-46.4%
Cross Period Offset	All or a portion of a refund on a tax period is offset and applied to an outstanding debt on another tax period within the same tax type. Ex: A refund on sales tax - January 2019 tax period is applied to an outstanding liability on sales tax - December 2018 tax period.	10,144	19,180	15,506	52.9%
Alcohol and Tobacco Control (ATC)/Video Poker Clearance Denial	Taxpayers applying for an ATC permit or a video poker license require a good standing clearance from LDR. LDR can deny this clearance if the applicant owes the state unpaid taxes. (R.S. 26:78(A), R.S. 26:80(E), and R.S. 27:425)	1,524	1,930	1,983	77.0%
Liens	LDR imposes liens on a taxpayer's property to secure the payment of unpaid tax debts owed to the state. (R.S. 47:1577)	1,432	970	955	-33.3%
Installment Agreements	If a taxpayer is unable to make a full payment to satisfy the unpaid taxes owed to the state, they can request a plan to pay the debt in installments.	539	440	535	613.4%
Cease and Desist	LDR can request that the court order a business to cease operation if the business does not remit unpaid tax. (R.S. 47:314)	1	1	1	0.0%
Dollars Collected for Actions that LDR Can Link to Actions					
State Reciprocal Program	Intercepts federal vendor payments to payees who owe tax debts to the state.	$485,523	$2,144,929	$4,190,844	763.2%

Enforcement Action	Description	FY16 Count/ Collections	FY17 Count/ Collections	FY18 Count/ Collections	Percent Change
Collection Agency and Attorney General	LDR sends some past-due tax debts to a private debt collection agency or the Louisiana Attorney General's office for collection. (R.S. 47:1516 and R.S. 47:1516.1)	$363,068	$2,128,323	$2,435,032	570.7%
IMF/BMF Link*	A taxpayer's individual income account is linked to their business account. A refund on a taxpayer's individual income account is stopped and applied to an outstanding debt on their business account.	$291,820	$667,838	$599,021	105.3%
48-hour Notice Program*	LDR tax officers deliver a notice to businesses with ATC licenses stating that if they do not pay unpaid tax liabilities within 48 hours, LDR will notify ATC, who will revoke their ATC license.	no statistics		$1,643,403	n/a
Cross Account Offset	All or a portion of a refund on one tax type is applied to an outstanding debt on another tax type. Ex: A refund on sales tax to applied to an outstanding liability on withholding tax.	no statistics			
*LDR does not regularly calculate these statistics but provided them during our audit. **Source:** Prepared by legislative auditor's staff using reports and data from LDR.					

APPENDIX G: EXAMPLE OF LDR TAX LETTER

LOUISIANA
DEPARTMENT *of* REVENUE

Post Office Box 4969
Baton Rouge, LA 70821-4969

Office hours are 8:00 a.m. to 4:30 p.m. Monday through
Thursday and Friday 9:00 a.m. to 4:30 p.m.
For assistance, you may call (855) 307-3893 or email us at:
Business.Inquiries@LA.Gov.
Visit our website at www.revenue.louisiana.gov

NOTICE OF PROPOSED TAX DUE

Date of Notice:	April 13, 2018
Letter ID:	
Account ID:	
Tax Type:	Withholding

PLEASE DO NOT IGNORE THIS NOTICE

Filing Period: 12/31/2017   Calculated Through: **May 03, 2018**

1.	Tax due:		$12,854.29
2.	Interest:		$0.00
3.	Penalties		$0.00
	A.	Late Payment	$0.00
	B.	Delinquent Filing	$3,213.55
	C.	Under Estimated	$0.00
	D.	NSF Fee(s)	$0.00
	E.	Other Penalties	($3,213.55)
4.	Other charges:		$0.00
5.	Balance Due:		$12,854.29
6.	Less credits from other periods:		$0.00
7.	Less payments and credits:		$0.00
8.	Total amount due and payable:		$12,854.29

TOTAL PERIOD BALANCE:	$12,854.29

This notice is a proposed assessment of tax, interest, and penalty. If you agree, please remit the amount due. If you disagree, Louisiana law (R.S. 47:1563) provides that you have 30 days from the date of this notice to object in writing. If we do not receive a response or payment within 30 days, Louisiana law (R.S. 47:1564) requires us to proceed with collection actions. Please give this matter your prompt attention.

Post Office Box 4969
Baton Rouge, LA 70821-4969
www.revenue.louisiana.gov

G.1

10741350403340100074

Important

R.S. 47:1502
The collector shall collect and enforce the collection of all taxes, penalties, interest, and other charges that may be due under the provisions of Sub-title II of this Title and administer the legislative mandate therein contained. To that end, the collector is vested with all the power and authority conferred by this Title, except such as is specifically conferred upon other officials.

For more information on LOUISIANA REVISED STATUTES see the Legislative website at www.legis.state.la.us.

R.S. 47:1562 - Proposed assessment of tax
If you failed to file a required tax return or a review of your return determined that an additional amount of tax may be due, the Department of Revenue has determined the amount of tax that may be due and proposes to assess that amount as shown on the reverse side. If you do not agree with this proposed assessment, Louisiana law (R.S. 47:1563) allows you to file a protest in writing within 30 days from the date of this letter. Any protest so filed will be given careful consideration, and if you so desire, you will be given an opportunity for a hearing. Please mail questions you may have in connection with this proposed assessment in sufficient time to allow action prior to the expiration of the 30-day period following the date of this letter.

R.S. 47:1601 - Interest
This statute provides that when a taxpayer fails to pay any tax before the statutory due date, interest will be added to the amount of tax due and shall be computed from the due date until the tax is paid. The annual interest rate is variable and is posted on LDR's website on Form R-1111, Interest Rate Schedule Collected on Unpaid Taxes. Also, LDR announces the current year's interest rate in a Revenue Information Bulletin that also includes the rate for prior years.

Computation of interest on notices of tax due shall be fifteen (15) days after the issue date of the notice. If payment is received on or before the fifteenth day after the issue date of the notice, no refund of interest shall be made. If payment is received after the fifteenth day but on or before the thirtieth day, no additional interest will be assessed.

R.S. 47:1602(A)(1) - Delinquent Filing Penalty
This statute imposes a delinquent filing penalty when a taxpayer fails to file a return on time. The delinquent filing penalty is 5 percent of the tax due if the delinquency is for 30 days or less. An additional 5 percent must be imposed for each additional 30 days or fraction thereof during which the delinquency continues, not to exceed 25 percent of the original tax due.

R.S. 47:1602(A)(2) - Late payment penalty for taxes other than individual income tax
This statute imposes a late payment penalty when a taxpayer files a return but fails to pay the tax due on the return by the statutory due date, determined without regard to any extension of time for filing the return. The penalty is 5 percent of the unremitted tax if the failure to remit is for 30 days or less and an additional 5 percent for each additional 30 days or fraction thereof that the unremitted tax is not paid. This penalty will not be imposed for any 30-day period for which a delinquent filing penalty is due and cannot be imposed for more than five 30-day periods in total for each return required to be filed.

R.S. 47:1604.1(A) - Negligence penalty
This statute provides that if a taxpayer fails to file a required tax return or files an incorrect return, and the circumstances indicate negligence or disregard of rules and regulations but no intent to defraud, a negligence penalty may be imposed. The penalty is calculated at 10 percent of the tax or deficiency found to be due.

R.S. 47:1604.1(C) - Understatement of tax negligence penalty for taxes other than individual income tax
This statute provides that if a taxpayer understated the tax liability by 25 percent or more and with no intent to defraud, a negligence penalty may be imposed. The penalty is calculated at 15 percent of the tax or deficiency found to be due. This penalty can be assessed in addition to the 10 percent negligence penalty.

This statute also provides that if the taxpayer understated the tax liability by 25 percent or more, and the circumstances indicate intent to defraud, the penalty is calculated at 20 percent of the tax or deficiency found to be due. This penalty can be assessed in addition to the 10 percent negligence penalty.

R.S. 47:1604.2 - Returned payment penalty (NSF fee)
This statute provides that a returned payment penalty must be imposed if a check or electronic debit used to make payment of a tax, penalty, interest, or fee is returned unpaid by the bank on which it is drawn. The penalty is 1 percent of the amount of the check or electronic debt, or $20, whichever is greater. In addition, a returned payment will be considered a failure to pay the tax and will give rise to interest and the late payment penalty.

If your check was returned unpaid, send your payment in the form of a cashier's check, money order, or certified check.

R.S. 47:1605 - Examination and hearing costs
This statute provides that if a taxpayer fails to file a required return, or files a grossly incorrect, false or fraudulent return, and the Department of Revenue audits the taxpayer, a specific penalty may be added to the amount of tax found to be due, in addition to any other penalty provided.

R.S. 47:642 - Failure to file reports
If any person, whether the person be a severer or purchaser, fails to make a report of the gross production and value of its natural products upon which the severance tax is herein levied within the time and in the manner prescribed, there shall be imposed upon that person a specific penalty of two hundred fifty dollars for each reporting period, in addition to any other penalties provided.

The specific penalties described above are by law an obligation that must be collected and accounted for in the same manner as if they were part of the tax due, and can be enforced either in a separate action or in the same action for the collection of the tax.