Data Driven Decisions

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Data Driven Decisions

Without better information, we are destined to do the same thing, year after year, without knowing if we are making a difference

Agency Lacked Basic Tools and Information To:

- Know if we were making headway in increasing compliance over time

- Determine how we can best target the use of our resources

- Identify alternative means to address noncompliance in a cost-effective way

Primary Information Deficits

- **We needed to know more about:**
  - Tax types
  - Causes
  - Noncompliance by Industry and size of business
  - Changes over time

- **We needed the ability to pull together internal and external data**
  - Revise audit selection
  - Target educational opportunities
  - Identify unregistered businesses

Uses for Data Analysis

- Targeted education
- Audits/Compliance
- Tax discovery

Use Tax Targeted Education

- Use tax - highest level of noncompliance

- Noncompliance rates higher among smaller, newer firms

- Noncompliance was concentrated in certain industries, including services

- "Lack of knowledge" most common reason for noncompliance

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Phase One:
Direct Mail Targeted Education

- Created tri-fold special notice sent as self-mailer

- Allowed taxpayers to reconcile on their next tax return

- No penalties or interest on past liabilities

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Data Analysis of Use Tax Noncompliance

Service Industry Firms - Use Tax /Targeted Education
Fiscal Year 1998

Sic	Description	Number of Firms	Average Gross Income	Total 1993 Reported Use Tax	Firms Reporting Use Tax	Gr. Income Firms Rpt Use Tax	% of Gross Firms Rpt Use Tax	Average Reported Use Tax	# of Firms Reporting No Use Tax	Gr. Income Firms Not Reporting	100 Pct Projected Use Tax
70	Hotels/Motels	2,217	638,260	2,064,210	490	1,036,486,867	0.199	4,213	1,727	378,536,507	753,872
72	Personal	11,228	116,619	1,107,451	984						1,674,598
73	Business				536						9,236,235
75	Auto Repair				873						914,552
76	Misc Repair				572						606,011
78	Motion Pictures				129						353,114
79	Amusement				472						1,835,520
80	Health				574						4,415,335
81	Legal				383						220,637
82	Educational				549						4,374,869
83	Social				192						491,308
84	Museums,				11						22,486
86	Membership Org	1,099	359,967	350,307	157						506,671
87	Engineering,Acct, & Mgmt	13,046	678,329	4,097,390	1,559	5,209,468,335	0.079	2,628	11,487	3,640,006,737	2,862,965
88	Private Households	5	43,054	11	1	45,988	0.024	11	4	169,284	40
89	Services (NEC)	1,341	120,694	50,908	85	64,872,760	0.078	599	1,256	96,977,365	76,102
		97,524		38,976,477	11,567	31,105,913,209			85,957	24,321,680,232	28,344,316

11,567 firms reported $39 million in use tax during Fiscal Year 1998

85,957 firms did not pay use tax

($24 million potential loss)

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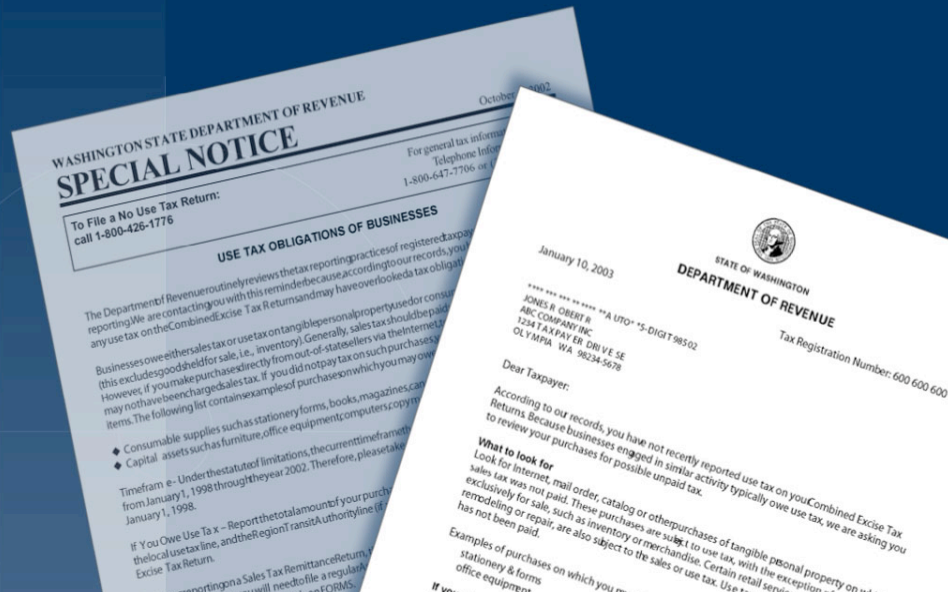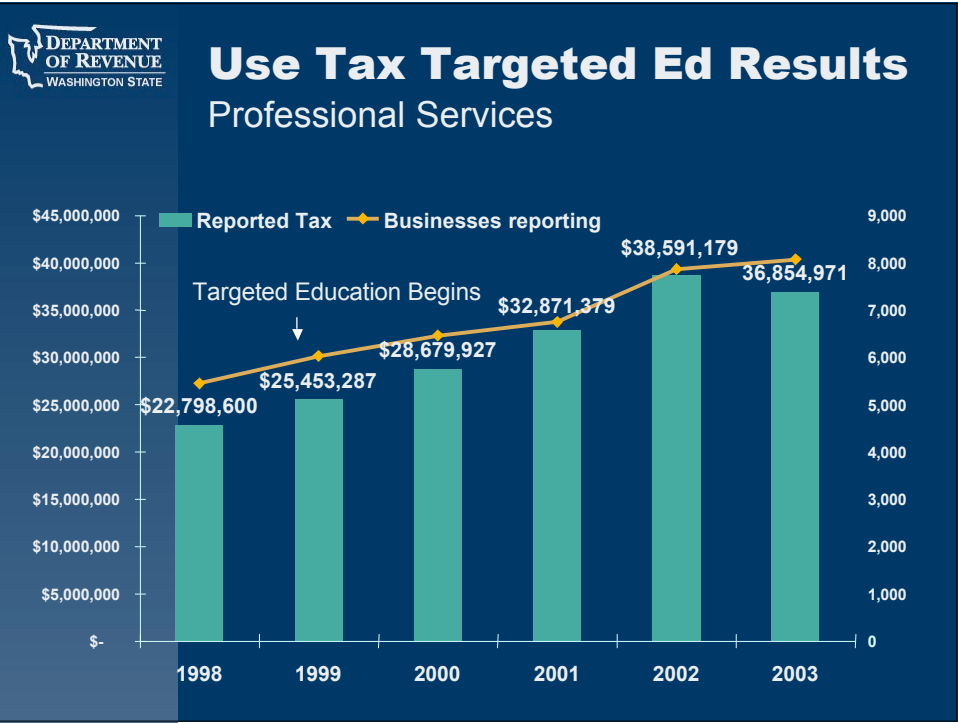WASHINGTON STATE

Phase Two:
Straight Talk Letters

- Personalized letter developed using clear writing principles

- Mailed in window envelope with tax registration number to appear as official as possible

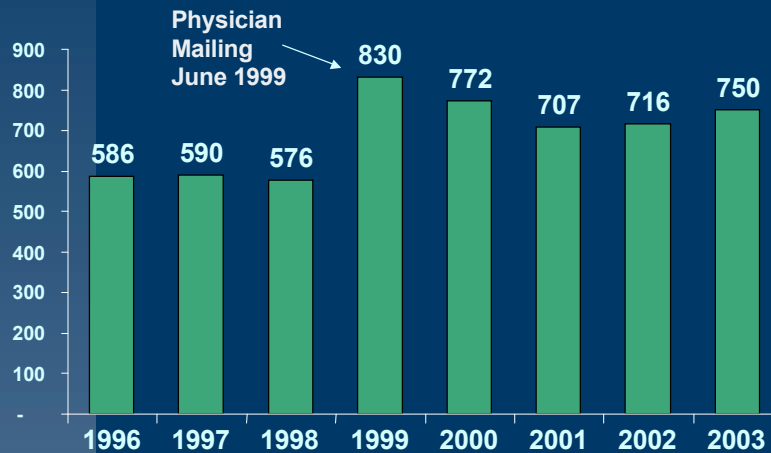- Interactive voice mail system established so taxpayers who owed no use tax could respond

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Response Tripled!

Use Tax Targeted Ed Results
Professional Services

Reported Tax — Businesses reporting

Targeted Education Begins

$22,798,600
$25,453,287
$28,679,927
$32,871,379
$38,591,179
36,854,971

1998 1999 2000 2001 2002 2003

Use Tax Reported
Professional Services

Professional Services
All Businesses

Targeted Education Begins

14.7%
16.2%
17.0%
17.1%
18.9%
17.8%

11.7%
11.7%
11.5%
11.5%
12.0%
11.7%

1998 1999 2000 2001 2002 2003

Sustainability
Number of Physician Businesses Reporting Use Tax

Physician Mailing June 1999

Year	Value
1996	586
1997	590
1998	576
1999	830
2000	772
2001	707
2002	716
2003	750

Phase Three:
Innovative Compliance Experiments (ICE) Lab

- Cooperative effort with WSU and ASU

- Hypothesis: the higher the perceived risk of detection, the more likely it is that taxpayers will report

- Eight different letter types, each stepping up the perceived risk of detection

Increasing Litter Tax Compliance

- **1999 study showed poor compliance**
  - Only 82 percent of tax paid voluntarily
  - More than 18 percent recovered through enforcement

- **Tax only reported annually on separate form**
  - Many taxpayers simply forgot to file

- **Tax rate low: small amounts not cost-effective to bill**

Increasing Litter Tax Compliance

- **Legislative changes sought**
  - Litter tax reported on regular tax return

- **Intensive education effort undertaken**

- **Balance due notices sent to any taxpayer owing $2.50 or more**
  - One-tenth normal billing threshold of $25

Litter Tax Compliance

Bridging the Analysis Gap with a Data Warehouse

› **Transforms large volumes of raw data into useful subsets of information**

› **Helps users make better decisions faster**
  › Readiness of information
  › Flexibility in analysis

Bridging a Data Warehouse

- Collects, cleans, consolidates, and organizes data

- Generates "business intelligence"

- Bridges the analysis gap

Data Warehouse Advantages

- Test a local idea

- Easily determine problem industries

- Select accounts to get geographical coverage

- Identify other registered accounts at the same address

- Track businesses in like industries

- Identify changes

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Data Warehouse Advantages

- Identifying under-reporting accounts

- Identifying unregistered or
  non-reporting accounts

- Increased timeliness and accuracy
  of information

- Increased flexibility to pull reports
  as needed

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Improving Audit Selection Through Data Warehouse Analysis

- First results
  - Priority accounts list
  - NAICS industry analysis

- Used by audit managers to select businesses
  to audit

- Detailed analysis of past revenue recovery
  per hour by NAICS

- Information being used on geographic basis to
  identify the most productive industries to audit

Data Warehouse
Adding Payment Information

- Share effective collection techniques

- Identify problem areas

- Uncover trends

- Tracking capability

Limited Scope Audits

- Non-compliance is highly concentrated in certain tax types

- Increase the perception of a "high risk of detection"

Questions?