



Administrative and Residual Employees Union Local 4200, AFT CT, AFT, AFL-CIO

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Professionals Working So State Government Works

Testimony before the Government Administration and Elections Committee
on May 2nd by Michael Winkler, First VP of A&R, Local 4200 of AFT-CT

Commission on Enhancing Agency Outcomes – Revenue Enhancements

Numbers used are from work done by the Commission on Enhancing Agency Outcomes and research done by the Office of Legislative Research for the CEAO (attached).

Proposal Number One

The CEAO found that DRS collects 25%-30% of assessments that its tax audits reveal are owed the State. Appeals frequently result in most of the assessment being “forgiven”.

If we limit, by statute, the permissible reasons for reducing tax audit assessments, we can increase the collection rate to 50%. This would net the State \$100 million per year.

\$148,077,777 was collected in 2010. If we assume a 30% collection rate, increasing the rate to 50% would raise \$98,718,518. If the collection rate was 25%, the enhancement would be \$148,077,777. We chose \$100 million as a conservative estimate of the money that could be raised by collecting half of what current audits reveal is owed the State.

Proposal Number Two

The CEAO estimates that hiring five people for two DRS Divisions, Audits, and Collections and Enforcement, would net (after wages and benefits) \$1 million in the first year and net \$4.1 million in the second year and thereafter.

The recommendation is scalable. Taking the number of audits per staff member per year and the number of productive audits left undone each year, our members at DRS estimate that 400 staff could be hired without exhausting productive audits. A&R’s officers arbitrarily cut this estimate in half so there would be no argument about estimates.

One hundred people hired into each unit would net \$20 million the first year and \$82 million per year thereafter.

NOTE: There is a strong beneficial interaction between these two proposals. If we collect a greater percentage of additional audits the revenue enhancements are considerably larger than stated above.

Why hasn’t the State of Connecticut made the changes and hired the staff it needs to collect money owed, by statute, to the State of Connecticut?

Previous administrations were so opposed to “big government” that they were unwilling to make money if it meant hiring people to do so.

Previous administrations decided not to enforce the tax laws.

**COMMISSION ON ENHANCING AGENCY OUTCOMES
SUMMARY SHEET**

Department of Revenue Services Audits, Collection and Enforcement (#39)

Staffing in DRS Audit and Collections and Enforcement. There are currently 362 employees in both the Audit and Collection and Enforcement (C&E) Divisions at the Department of Revenue Services. The information provided by DRS and contained in the Office of Legislative Research Issue Brief attached shows that in FY 10 there are 22 fewer staff in the Audits Division and 5 additional staff in the Collection and Enforcement Division, following the Retirement Incentive Program of 2009. As Table 1 below indicates, there has been a total reduction of 17 staff in the two divisions.

	Audit	C&E	Total – Both Divisions
Pre-RIP	301	78	379
Post-RIP	279	83	362

Source: DRS

Productivity of DRS Audit and C&E divisions. Despite the reduction in staff in the audit division, there has been an increase in the total number of audits conducted as well as the total dollar amount assessed (see Table 2 of OLR report). While the table indicates a 4 percent reduction in the dollars assessed per audit (\$437), by other measures there has been an increase in staff productivity of about 16 percent. For example, with the reduced staff, each auditor conducted 156 audits in FY 10, compared with 135 audits conducted in FY 09. Also, the amount of tax assessments per auditor rose from \$1,590,286 in FY 09 to \$1,759,383 in FY 10, an increase of nearly \$170,000 each (10.7%).

Because of appeals and negotiated settlements, not all dollars assessed are ultimately collected. The last two years' experience shows between 25 and 30 percent of assessed amounts are collected. (CEAO staff examined prior years' collections to assessments and this is typically the percentage range).

The Collections and Enforcement Division increased its staff by 5 after the RIP – from 78 to 83 (6%). However, the total amount collected increased by 21 percent from \$122.2 million to \$148.1 million.¹ This translates to about \$1.57 million per C&E Division staff in FY 09 to \$1.76 million in FY 10 (with the private collections subtracted), an increase of \$190,000 per DRS staff. It appears that this increase in productivity or collection outcomes may be due to greater use of selected methods of enforcement. For example, arrests more than doubled from FY 09 to FY 10, and the use of tax warrants to attach wages and other income increased by about 60 percent.

Increasing revenue collection with additional staff. Of course, C&E staff can only collect on what auditors assess. Therefore, increasing revenue to the state through increasing tax

¹ According to DRS, \$1.85 million of that was collected by a private collection agency. The agency is paid on a contingency basis, and was paid \$248,161. However, private collection agencies do not have all enforcement tools available (tax warrants, arrests) that DRS C&E agents do.



OLR RESEARCH REPORT

October 6, 2010

2010-R-0418

OLR BACKGROUNDER: DEPARTMENT OF REVENUE SERVICES AUDIT AND COLLECTION AND ENFORCEMENT STATISTICS

By: Rute Pinho, Associate Analyst

This report describes employment and audit and collection statistics for the Department of Revenue Services' (DRS) Audit and Collection and Enforcement (C&E) divisions. It updates OLR report 2009-R-0270 to include employment figures for both divisions before and after the 2009 retirement incentive program (RIP) and collection statistics for FYs 09 and 10.

DRS' AUDIT AND COLLECTION AND ENFORCEMENT DIVISIONS

Table 1 shows the number of Audit and C&E division employees before and after the 2009 RIP. According to DRS, the divisions lost 29 employees due to the RIP. It refilled 11 of these positions and transferred an additional employee from within the agency, resulting in a current balance of 362 employees across both divisions, down from 379 before the RIP. DRS also transferred several audit employees to the C&E division due to an internal reorganization. As a result, there are currently 22 fewer employees in the Audit Division and 5 additional employees in the C&E Division.

Table 1: DRS Audit and C&E Employees

	<i>Audit</i>	<i>C&E</i>	<i>Total Both Divisions</i>
Pre- RIP	301	78	379
Post- RIP	279	83	362

Source: DRS

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Table 3 shows C&E division statistics for FYs 09 and 10. As the table shows, revenue collections from FY 09 to FY 10 increased from \$122.2 million to \$148.1 million, a 21% rate of change. The division opened fewer criminal investigations, with 805 in FY 10 as compared to 976 in FY 09, but more than doubled the number of arrests from 179 to 398. It also increased the number of tax warrants issued by 60%, from 6,280 to 10,057. The number of permit suspension hearings remained relatively stable. (DRS issues permits to allow businesses to sell items subject to state sales and excise taxes.)

Table 3: C&E Division Statistics, FYs 09 - 10

	FY 09	FY 10
Criminal investigations opened	976	805
Arrests	179	398
Tax warrants	6280	10,057
Permit suspension hearings	838	845
Revenue collected	\$122,235,123	\$148,077,777

Source: DRS

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