



Tax Administration Reforms and Federal Tax Conformity Recommendations

LAO Proposals	Department	Summary	Net 2009-10 Revenue (In Millions)
Implement financial institutions record match (FIRM) system	FTB	<ul style="list-style-type: none"> Allows access to taxpayers' accounts at financial institutions for collection purposes 	\$33.0
Faster use of liens in collection process	BOE	<ul style="list-style-type: none"> Establish after 60 days (currently 180 days) Reduce tax debt threshold to \$1,000 (currently \$2,000) 	1.0
Comply with federal withholding requirement	FTB/SCO	<ul style="list-style-type: none"> Federal law change specifies the state must withhold 3 percent of payments made to businesses for contracts Direct SCO to develop a plan to implement 	—
Penalize "baseless" overstated refund claims	FTB	<ul style="list-style-type: none"> Penalty equal to 20 percent of disallowed portion of refund (currently no penalty) 	1.3
Extend period before interest is suspended during audit activities	FTB	<ul style="list-style-type: none"> Increase to 36 months (currently 18 months) 	4.0
Increase penalty for failure to file partnership tax returns	FTB	<ul style="list-style-type: none"> Increase to \$17 per partner (currently \$10 per partner) 	0.9
Penalize shareholders for failure to file S corporation return	FTB	<ul style="list-style-type: none"> Impose penalty of \$17 per partner (currently FTB can only levy a penalty on the corporation, not the individual shareholders) 	0.6
Increase bad check and money order penalty	BOE/FTB	<ul style="list-style-type: none"> Set at \$25 for checks up to \$1,250 and 2 percent of face value for checks over \$1,250 	0.4
Increase penalty for tax preparer who understates taxpayer liability	FTB	<ul style="list-style-type: none"> Set at greater of \$5,000 or 50 percent of the income from preparing the return (currently \$250 per return) 	—
Modify fees to enter into installment agreement	BOE/FTB	<ul style="list-style-type: none"> Set at rate to cover processing costs (currently BOE charges no fee and FTB charges \$20 per agreement) 	4.0
Modify and assess fees for OIC	BOE/FTB	<ul style="list-style-type: none"> Require BOE to enter into collateral agreements with open businesses Require FTB to offer payment plan for OICs Impose application fee for OIC 	0.4
Implement backup withholding	FTB	<ul style="list-style-type: none"> Withhold 7 percent of payment if taxpayer ID is not valid above standard withholding 	35.0
Conform to federal "kiddie tax" rules	FTB	<ul style="list-style-type: none"> Tax unearned income of children up to 18 years (or 24 years if dependant student) over \$1,700 at parents' tax rate 	—



Tax Administration Reforms and Federal Tax Conformity Recommendations *(Continued)*

Definitions	
Property lien	A legal claim on property to secure the payment of taxes.
"Baseless" claim	A claim for a refund that is not supported by state tax laws.
Installment agreement	An agreement between the state and a taxpayer that allows the taxpayer to pay their delinquent tax debt over a specified period of time.
Offer in compromise (OIC)	An agreement between the state and a taxpayer to settle taxpayer liabilities for less than the full amount owed under certain circumstances.
Collateral agreement	An agreement made by the taxpayer that, if there is an unanticipated increase in income in the five-year period following execution of an OIC, they will repay a greater portion of the tax debt forgiven under the OIC.
Backup withholding	When an employee or other payee fails to supply the payer a correct taxpayer identification number, the payer is required to withhold a percentage of the payment over and above the payee's normal withholding. This is referred to as backup withholding and is intended to compensate the government for potential lost revenues.