

chair **John Chiang**
member **Jerome E. Horton**
member **Michael Cohen**

State of California
Franchise Tax Board

11.03.14

To: Hon. Mark Leno, Chair
Joint Legislative Budget Committee

Mr. Daniel Alvarez
Secretary of the Senate

From: Selvi Stanislaus

**Subject: Supplemental Report of the 2010-11 Budget Package - Item #7730-001-0001
FTB's Audit and Compliance Programs**

Memorandum

Enclosed you will find FTB's Supplemental Report that is required to be prepared and submitted to the chair of the Joint Legislative Budget Committee and chairs of the legislative fiscal committees. This report includes information on the hours, costs, revenues, and cost to benefit ratios associated with FTB's audit and compliance activities. The information is presented for the past, current, and budget years.

The factual contents of the report are true, accurate, and complete to the best of my knowledge.

If you have any questions, please contact Jeanne Harriman at 916.845.6431.



Executive Officer

cc: Peggy Collins, Joint Legislative Budget Committee
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Jeanne Harriman, Director, Financial Management Bureau, Franchise Tax Board

Enclosure

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The Supplemental Report of the 2010 Budget Act directed the Franchise Tax Board (FTB) to provide an annual report on its audit and compliance activities. The 2010 Budget Act requests the following information:

FTB shall provide (a) description of the methodological approach used to conduct its audit and compliance activities, including the work plans relating to these activities:

(b) The number of hours and costs, costs associated with direct audit and compliance activities, as well as supporting overhead activities;

(c) The revenues associated with its audit and compliance activities;

(d) The average and marginal benefit/cost ratios of all its audit and compliance activities; and

(e) Data regarding the revenue and cost impacts associated with any increase or decrease in resources devoted to audit and compliance activities.

Increases in resources related to workload growth augmentations devoted to audit and compliance activities will be reported as a component of items (b) and (c). Increases in resources related to specific program enhancements of audit and compliance activities will be reported as a component of item (e).

Items (b), (c), (d), and (e) should include prior-year actual data, current-year estimated data, and budget-year projected data. The information shall also be provided as part of any budget change proposal submitted to the Legislature regarding resources for auditing or compliance activities.

This report contains the requested information for FTB's audit and compliance activities and includes the following Exhibits:

- Exhibit I – Collection Program Workplan
- Exhibit II – Collection Program Schedule of Revenue
- Exhibit III – Audit Program Workplan
- Exhibit IV – Audit Program Schedule of Revenue
- Exhibit V – Filing Compliance Program Workplan
- Exhibit VI – Filing Compliance Program Schedule of Revenue
- Exhibit VII – Tax Return Validation Program Workplan
- Exhibit VIII – Tax Return Validation Program Schedule of Revenue
- Exhibit IX – Budget Change Proposal Schedule of Revenue
- Exhibit X – Glossary of Workplan Activities

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Accounts Receivable Management Program

Background

The collection program of FTB involves collection of accounts receivable that the department establishes by its self-assessment, audit, and filing enforcement activities. The Accounts Receivable Management Division within FTB administers the collection program. The Accounts Receivable Collections System (ARCS), an automated billing/collection system, manages the collection process by issuing billings, notices, liens, levies, attachment of assets, and when further action is necessary, routes the accounts to collectors. The division workloads are organized as automated/reactive and proactive and collected \$2.9 billion during fiscal year 2013/14. For 2012/13, the overall cost benefit ratio (CBR) totaled \$15 to \$1. For 2013/14, the overall CBR totaled \$14 to \$1. This is a temporary reduction resulting from costs associated with the Enterprise Data to Revenue (EDR) project.

- **Automated/Reactive Collections**
 - In 2013/14, approximately \$2.4 billion, representing 84 percent of total revenue collected by the Accounts Receivable Management Division was attributed to the automated notices and levies issued through ARCS and the immediate reactive staff response to taxpayer inquiries about those notices and levies. As part of that response, reactive collection staff negotiates payment in full or establishes and maintains installment agreements on the delinquent accounts. In 2013/14, the overall average CBR for automated/reactive collections totaled \$17 to \$1.
 - For 2013/14, the installment agreement process generated \$492 million, representing 21 percent of the total revenue for automated/reactive revenue collections.

- **Proactive Collections**
 - In 2013/14, proactive collection revenue totaled \$453 million, representing 16 percent of total revenue collected by the Accounts Receivable Management Division. Proactive staff handles accounts that were not resolved in the automated and reactive processes. Accounts are assigned through the ARCS system based on specific criteria, and collectors initiate contact with delinquent taxpayers to ensure that all taxpayers pay the proper amount of tax they owe. For 2013/14, the overall average CBR for proactive collections totaled \$7 to \$1.

The following six bureaus within the division are tasked with the department's diverse revenue collection activities.

- Statewide Collection Bureau
- Personal Income Tax (PIT) Billing, Compliance, and Collection Bureau
- Business Entity (BE) Collection Bureau
- Field and Complex Account Collection Bureau

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- Special Programs Bureau
- Advisory, Analysis and Services Bureau

The **Statewide Collection Bureau** proactively collects revenue from personal income taxpayers to ensure that all taxpayers pay the proper amount of tax they owe. The Bureau also administers the two non-tax debt collection programs, which are for motor vehicle license fees, known as Vehicle Registration Collections and collections for courts throughout the State of California, known as Court Ordered Debt. These non-tax workloads are budgeted separately and are not included in the tax collection revenue figures or in the workplan. For 2013/14, Vehicle Registration Collection Program revenue totaled \$130 million and Court Ordered Debt Program revenue totaled \$84 million. In addition, the bureau administers the Private Debt Collection program, which contracts with outside vendors to collect from delinquent taxpayers and Interagency Intercept and Federal Treasury Offset Programs.

The **PIT Billing, Compliance, and Collection Bureau** provides direct taxpayer assistance for personal income taxpayers, ranging from general assistance to processing the most complex and sensitive accounts with balances exceeding \$25,000. Bureau staff assist taxpayers in resolving outstanding collections and compliance issues through the personal income tax collection contact center, which utilizes an Automated Call Distribution (ACD) system. The bureau is the first point of contact when an individual receives a billing notice or collection action, such as a bank levy or wage garnishment. In addition, taxpayers can resolve outstanding debts through a self-service Interactive Voice Response (IVR) system and electronic Installment Agreement Application (eIA), accessed from the FTB website. The bureau also processes correspondence received from taxpayers or their representative.

The **Business Entity Collection Bureau** administers the Business Entity Collection Program. The bureau's primary responsibility is to ensure all Corporations, Partnerships, and Limited Liability Companies (LLC's) meet their obligation to pay the proper amount owed. The bureau uses available resources and collection tools (ACD, IVR, business suspension, and bank levy) to collect the proper amount of taxes, increase taxpayer compliance, and educate taxpayers to prevent future liabilities. The bureau includes a business entity contact center and proactive collectors working assigned accounts, including the most complex and sensitive business entity accounts with balances exceeding \$25,000. The bureau also processes correspondence received from taxpayers and/or their representative(s).

The **Field and Complex Account Collection Bureau** includes the PIT complex account resolution teams, which handle proactive collections on the most complex and sensitive personal income tax accounts with balances exceeding \$25,000. This bureau also administers collection on the TOP 500 Delinquent Personal Income Tax and Business Entity accounts. Field office collectors make field collection calls on the most difficult to collect PIT and BE accounts that could not be resolved from the central office. In addition, the field offices provide public counter service to taxpayers.

The **Special Programs Bureau** provides specialized collection expertise for the Accounts Receivable Management Division. The bureau manages the specialized collection activities

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such as liens, bankruptcy, offers in compromise, innocent spouse, luxury vehicle pilot program¹, business transfer accounts and decedent collections.

The **Analysis, Advisory and Services Bureau** provides centralized support for the collection program. The bureau provides divisional budget and financial reporting, professional collector training, expert technical collection guidance regarding collection policy and law, collection systems analysis and direct support to collection staff by processing account transactions, Installment Agreement (IA) requests and correspondence.

Workplan Development

The collection program workplan (Exhibit I) is developed using various analytical tools, including historical trend analysis, current accounts receivable inventories, and changes in audit and filing enforcement activities. The workplan is the basis for allocating collection resources to collect in an efficient manner and includes the hours and costs associated with direct tax collection activities as well as supporting overhead activities. Please refer to Exhibit X for a description of workplan activities.

Current Issues

During 2013/14, FTB's collection program generated \$2.9 billion, which is three percent above projected revenue and 11 percent above revenue collected in 2012/13. Fiscal year 2013/14 was the highest revenue year in the history of the program.

At the end of 2013/14 the total accounts receivable balance was at \$8.8 billion. Accounts receivable for personal income tax increased from \$6.3 billion to \$6.5 billion. Business entity tax accounts receivable increased from \$2.2 billion to \$2.3 billion. The overall increase in accounts receivable was four percent. The increase is due to additional liabilities entering the collection system.

During 2013/14, revenue for personal income tax collections was \$2.2 billion, an increase of \$226 million from the previous year. The value of pre-collection notices increased by \$467 million from 2012/13 to 2013/14, resulting in a rise in revenue for personal income tax. Revenue for business entity tax collections was \$613 million in 2013/14, an increase of \$49 million from 2012/13. The increase, in part, was attributable to two large anomaly payments totaling \$30 million.

Revenue

The collection program revenue, cost, and CBR for prior year actual data, current year estimated data, and budget year projected data is provided in Exhibit II. Refer to Exhibit IX for the schedule of revenue associated with Budget Change Proposals.

¹ The DMV Luxury Vehicle Program ended June 30, 2014. The study was successful and use of the DMV luxury vehicle registration data was incorporated into the collection program as another collection resource available for use by all collectors.

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Audit Program

Background

The Audit program incorporates FTB's strategic goals. The program works with taxpayers and their representatives to administer and enforce the law effectively to ensure that all taxpayers meet their obligations to file and pay the proper amount owed. The program utilizes innovative methods to promote these objectives through customer service, education, self-compliance letters, initiatives, and partnerships with other federal and state agencies. In performing these activities, the program considers the effects on taxpayers, increases the timeliness and effectiveness of enforcement actions, and focuses on adherence to FTB Regulation Section 19032, Audit Procedures, to complete audits in a timely manner. When new issues arise, FTB collaborates with subject matter experts to operate its programs in an efficient manner and seeks better use of technology and data. FTB continues to seek new opportunities to form partnerships with taxpayers and other agencies and promote best audit practices.

FTB's Audit Division administers the audit program, which is organized into four operating units:

- **National Business Audit Bureau** – audits business entities including corporations, banks, and financials that conduct business both within and outside of California.
- **Individual & Pass Through Entity Audit Bureau** – audits individual taxpayers and pass through entities including partnerships, S-corporations, limited liability companies, estates, and trusts. Conducts specialized programs including federal/state and automated audit programs.
- **Audit Protest & Administration Bureau** – provides protest, technical and administrative activities for audit programs.
- **Technical Resource & Services Bureau** – provides technical service and support to FTB programs and stakeholders.

The primary responsibility of the audit positions are to conduct examinations of taxpayer income tax returns, determine the propriety of self-assessed tax liabilities, issue notices of proposed assessment to taxpayers, and resolve taxpayer disputes.

Approximately 285,000 tax returns were examined during 2013/14, which accounted for \$1.45 billion in net assessments and denied refund claims.

The audit program benefits the state in several ways:

- An audit presence and issuance of assessments or penalties encourages compliance and ensures taxpayers meet their obligations to pay the correct amount of tax.
- The enforcement of tax law secures unreported tax revenues needed to fund state operations.
- Auditing provides self-compliant taxpayers with assurance that everyone with a valid tax liability pays their correct amount.

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Workplan Development

The audit program workplan (Exhibit III) covers all activities conducted within the Audit Division and includes the hours and costs associated with direct audit activities as well as supporting overhead activities. Please refer to the Glossary of Workplan Activities (Exhibit X) for a description of workplan activities. Personnel hours are allocated to these activities based on legislative mandates, audit program priorities and budgeted revenue goals.

The methodology to calculate CBRs, as well as the matrix format, is in the manner prescribed by the Bureau of State Audits and the Department of Finance. Workload CBRs are obtained through the comparison of certain direct and indirect costs to expected revenue benefits. The revenue used to calculate CBR is based on net tax assessments (less tax abatements). The costs used in the calculation of CBR include direct audit and support costs incurred within the Audit Division, as well as indirect costs associated with producing audit assessments incurred elsewhere in the department (such as Legal). However, costs included in the calculation of CBR do not include collection costs or some departmental fixed costs. The audit program regularly evaluates its modeling process and individual audit models to identify potentially higher CBR workloads. Audit models are then ranked according to CBR, and resources are generally allocated to the models based upon that ranking.

The primary purpose of the CBR schedule is to provide a format for prioritizing audit workloads and to provide management with performance measures for program decisions. A secondary purpose of the CBR is to give a sense of the relative value of audits that have been identified but cannot be undertaken because of resource constraints. The CBR schedule is not meant to be a financial accounting document since costs frequently do not occur in the same accounting period as assessments, and assessments issued in one year can be reversed and may reflect a revenue decrease several years after issuance.

Current Issues

During 2013/14, FTB's audit program generated \$1.45 billion in net assessments and denied refund claims. The audit program continues to address high profile and significant workloads in addition to its operational workloads.

Tax Gap

The tax gap is the difference between the amount of taxes legally owed and voluntarily paid. Addressing issues that cause taxpayers to underreport, under pay, or to not file their returns remains a top priority for FTB. These priorities are complemented by efforts to educate the citizens of California regarding prevalent areas of noncompliance. FTB continues to apply new tools or data sources that will aid in the detection of taxpayers who contribute to the tax gap by utilizing or promoting schemes to evade taxes.

In 2013/14, FTB efforts to reduce the tax gap were geared toward addressing non-compliance in the higher CBR traditional audit workloads.

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FTB continues to pursue abusive tax shelter transactions. FTB's ongoing partnership with other states, the IRS, and other agencies enhances the sharing and exchanging of abusive tax shelter information, training, and informant leads. FTB focuses audit resources to identify, evaluate and examine these transactions and the related tax shelter penalties.

Self-compliance letters are developed in connection with projects initiated to efficiently resolve compliance issues while avoiding much of the expense and burden to the taxpayer and FTB associated with conventional audits. These projects are typically undertaken when FTB has information suggesting that taxpayers understated their tax liability. Taxpayers are given an opportunity to self assess by filing a corrected tax return and pay the additional tax (and sometimes penalties), or request a conventional audit.

Revenue

The audit program revenue, cost, and CBR for prior year actual data, current year estimated data, and budget year projected data is provided in Exhibit IV. The revenue estimates are subject to revision based on our on-going analysis of revenue trends in our audit models. Refer to Exhibit IX for the revenue schedule associated with Budget Change Proposals.

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Filing Compliance Program

Background

The filing compliance program is administered within FTB's Filing Division, which is currently organized into three operating units:

- Filing Enforcement
- Non Wage Withholding
- Fraud and Discovery

Filing Enforcement

The filing enforcement program identifies and contacts individuals and business entities that have a requirement to file a California tax return and have not filed. The Integrated Non-filer Compliance (INC) system uses various income sources to contact wage earners, self-employed individuals, individuals with unreported capital gains, nonresidents with California source income, individuals who have partnership income, and any other individuals with unreported income.

More than 500 million income records are provided to FTB by the Internal Revenue Service (IRS), Employment Development Department (EDD), Board of Equalization (BOE), financial institutions, and other sources. The income information is loaded into the INC system and compared against our accounting systems to determine if a tax return has been filed. Cases with no record of a tax return on file are sent a letter requesting a tax return, proof that a return was filed or an explanation of why a return is not required. If no response is received, either by the filing of a return or sending correspondence, the INC system continues by issuing a Notice of Proposed Assessment. If the issue is not resolved, a balance due is created and the balance due is pursued by collection staff.

Staff are involved throughout the filing enforcement cycle, performing quality assurance to ensure the correct income is associated to the correct taxpayer and perfecting account information prior to notices being issued, performing review and account analysis on the most complex accounts, processing incoming filing enforcement correspondence, and responding to taxpayer and representative phone calls and written inquiries.

The business entity nonfiler program also uses various income sources, including information from the IRS, BOE, EDD, and financial institutions, to identify potential nonfiler corporations, Limited Liability Companies, Limited Liability Partnerships and Limited Partnerships.

During 2013/14, the filing enforcement program issued approximately 900,000 Personal Income Tax Requests/Demands for Returns, 580,000 Personal Income Tax Notices of Proposed Assessment, 109,000 Business Entity Demands for Returns and 71,000 Business Entity Notices of Proposed Assessment.

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Non Wage Withholding

The withholding services and compliance program administers non wage withholding, including the withholding program for income tax on sellers of California real estate, nonresident entertainers, nonresident independent contractors, nonresident partners and beneficiaries, and the backup withholding. The program also administers the non-admitted insurance tax program and the bulk sales certificates program. Staff educates withholding agents and the withholding agents collect withholding on payments to taxpayers at the time they have a taxable event in California. Staff also validates withholding forms and payments posted to the withholding system, and withholding credits are allocated to taxpayers. Taxpayers claim these credits when they file their returns. Staff responds to taxpayer or representative phone calls and written inquiries regarding all aspects of non wage withholding. The section also performs audits to ensure appropriate withholding is withheld and remitted to FTB and responds to questions from taxpayers, tax representatives, and withholding agents regarding notices and general withholding information questions. The discovery and compliance teams identify industries that can benefit from education and outreach activities and tailor the appropriate communication methods to reach them.

Fraud and Discovery

The fraud and discovery program uses innovative selection methods and conducts studies to detect and prevent fraudulent claims and discover taxpayers who file false claims, underreport their taxes or do not file their tax returns. The section's fraud workloads arise from referrals from several FTB business areas, as well as discovery and modeling activities to identify potential fraud patterns and schemes, for example as they relate to questionable W-2 and Child and Dependent Care claims. The accounts are worked both manually and using automation to perform mass transactions and letter generation.

During 2013/14, the fraud program manually analyzed approximately 11,000 fraud referrals, 135,200 W-2 fraud cases, 600 Child and Dependent Care fraud cases and 19,700 potential identity theft related cases (12,400 cases and 7,300 other assignments).

The discovery workloads focus on improving the filing enforcement program's effectiveness and determining the usefulness of potential new income sources. This group also analyzes taxpayer behavior to measure the direct and indirect effects of FTB's compliance activities on taxpayer behavior and coordinates tax gap studies and analysis to identify personal income tax and business entity underreporting. In addition, this group actively pursues tax preparer compliance initiatives focused on changing the behavior of tax preparers that may be knowingly or unknowingly preparing returns incorrectly.

Workplan Development

The workplans for the filing compliance program (Exhibit V) are developed using historical trend analysis, workload inventories, legislative changes, and budget augmentations and reductions. Once the workplans are developed, resources are allocated based on management discretion considering CBR, inventories on hand, and seasonal variances. The workplans include the hours and costs associated with filing compliance activities as well as

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supporting overhead activities. Please refer to Exhibit X for a description of workplan activities.

Current Issues

The fraud and discovery program has monitored the growth of suspicious refunds related to withholding fraud and identity theft fraud over the last few years. In fiscal year 2010/11, the volume of suspicious refunds was over 211,000 and this has grown to over 421,000 in 2013/14.

Revenue

The filing compliance program revenue, cost, and CBR for prior year actual data, current year estimated data, and budget year projected data is provided in Exhibit VI. Refer to Exhibit IX for the revenue schedule associated with Budget Change Proposals.

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Tax Return Validation

Background

The tax return validation activities are administered within FTB's Filing Division. The validation program resolves routine math errors, complex taxpayer errors, incomplete tax returns, keying errors, and validates e-file returns and payments. All of these activities are necessary to perfect tax returns and payments prior to the data loading to our main tax systems used by the audit, collection, and filing compliance programs.

Personal Income Tax Validation

The unit responsible for personal income tax return validation reviews, corrects, and approves tax assessments and refunds. The section issues return correction notices, called Return Information Notices (RINs), for all personal income tax returns that do not meet the mathematical or logical criteria of the return processing system. Tax returns that cannot be processed by the automated system are referred for manual resolution. Online validation is performed on all tax returns and documents, including original returns, amended returns, fiduciary returns, and payments. Section staff also identify and refer possible fraud cases to the Fraud and Discovery Section and analyze highly complex accounts and make appropriate account adjustments. The section processes both paper and electronically transmitted documents.

During 2013/14, the validation staff processed approximately 2.4 million personal income tax returns and 70,000 fiduciary returns, resulting in the issuance of approximately 397,000 RINs. Staff also analyzed and applied 361,000 payments.

Business Entity Return Validation

The Business Entity Return Validation Section is responsible for reviewing and perfecting business entity returns and payments. The section validates returns received from corporations, Partnerships, Limited Liability Companies and Limited Liability Partnerships that do not meet the processing and posting criteria for the automated front-end processing Business Entity Tax System. It is important to note that business entity returns and payments that do not pass front-end automated processing criteria are often the most complex and require significant manual intervention. After staff perfects the payments and returns, they generate return correction notices similar to personal income tax. This section also administers FTB's Exempt Organizations program and reviews, corrects, and posts tax assessments and refunds based on income tax returns and information received from FTB's Audit, Collection, and Legal Divisions.

During 2013/14, staff handled approximately 333,000 business entity returns, and analyzed and applied 143,000 payments. Business Entity Return Validation Section also assisted in resolving approximately 90,000 transactions related to Exempt Organizations, including processing returns, audits, and answering taxpayer questions.

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Revenue related to tax return validation for both personal income tax and business entity validation programs was \$1.6 billion. During 2013/14, the tax return validation program exceeded their workplan estimate for revenue.

Workplan Development

The tax return validation program primary workloads are mandated by statute and state policy. The workloads are the result of returns and payments not being successfully processed through the automated systems due to errors on the returns or returns being processed for prior years. The workplan is not dependent upon the relative CBR of the available work, rather the validation program allocates their resources based on workload priorities as determined by legislative mandates, department policies, statute of limitations, and current year processing return volumes to minimize interest paid. Further prioritization is determined based on volumes within each specialized workload. The tax return validation workplan (Exhibit VII) includes the hours and costs associated with direct tax return validation as well as supporting overhead activities. Please refer to Exhibit X for a description of workplan activities.

Revenue

The tax return validation program revenue, cost, and CBR for prior year actual data, current year estimated data, and budget year projected data is provided in Exhibit VIII. Tax return validation revenue is the result of a processing correction or billing notice for a personal income tax or business entity tax return. FTB receives 89 percent of the tax return validation revenue within four years of the initial billing. This process, which loads payment and tax return data to our main accounting systems, facilitates our collection and audit work. Refer to Exhibit IX for the revenue schedule associated with Budget Change Proposals.

Exhibit I
Collection Program Workplan

TAX PROGRAM CATEGORY	Actual FY 2013/2014			Planned FY 2014/2015			Proposed FY 2015/2016		
	DIRECT	SUPPORT/ OVERHEAD	TOTAL HOURS	DIRECT	SUPPORT/ OVERHEAD	TOTAL HOURS	DIRECT	SUPPORT/ OVERHEAD	TOTAL HOURS
AUTOMATED/ REACTIVE COLLECTIONS									
Direct	899,827		899,827	1,047,598		1,047,598	1,047,598		1,047,598
Total Automated/ Reactive Hours	899,827		899,827	1,047,598		1,047,598	1,047,598		1,047,598
Total Automated/ Reactive Positions			514			599			599
PROACTIVE COLLECTIONS									
Direct	549,432		549,432	605,380		605,380	605,380		605,380
Total Proactive Hours	549,432		549,432	605,380		605,380	605,380		605,380
Total Proactive Positions			314			346			346
OTHER COLLECTIONS WORKLOADS									
Filing Assistance & Public Counter	16,557	1,938	18,494	20,682	2,088	22,770	20,682	2,088	22,770
CalEMA Disaster Center Support		33	33		43	43		43	43
Missing Year Assessments	1,873		1,873	1,895		1,895	1,895		1,895
Illegal Activity Support	266		266	275		275	275		275
Income Tax Protestor-FAN	6,164		6,164	6,658		6,658	6,658		6,658
Total Other Collections Workloads Hours	24,859	1,971	26,829	29,510	2,131	31,641	29,510	2,131	31,641
Total Other Collections Workloads Positions			15			18			18
SUPPORT/OVERHEAD									
Management/Supervision		211,738	211,738		244,575	244,575		244,575	244,575
Meetings & Misc./Projects/Activities		153,193	153,193		185,527	185,527		185,527	185,527
Training	32,146	145,387	177,533	19,150	76,288	95,438	19,150	76,288	95,438
Total Support/Overhead Hours	32,146	510,318	542,464	19,150	506,390	525,540	19,150	506,390	525,540
Total Support/Overhead Positions			310			300			300
GRAND Total Hours	1,506,264	512,289	2,018,552	1,701,638	508,521	2,210,159	1,701,638	508,521	2,210,158
GRAND Total Positions			1,154			1,264			1,264
Collection Program Revenue (In Thousands)			\$2,851,113			\$3,021,700			\$3,406,956
Collection Program Cost (In Thousands)			\$203,580			\$207,294			\$207,294
Cost Benefit Ratio (\$x to \$1)			\$14 to \$1			\$15 to \$1			\$16 to \$1

Exhibit II
Collection Program
Schedule of Revenue*

data in thousands

PY 2013/14	Workplan Revenue	Actual Revenue	Revenue Allocation		Cost	CBR
			Total PIT	Total BE		
Collection Program Revenue	\$2,761,788	\$2,851,113	\$2,238,473	\$612,640	\$203,580	\$14 to \$1
Automated/Reactive		\$2,398,539				
Proactive		\$452,574				

CY 2014/15	Workplan Revenue	Actual Revenue	Revenue Allocation		Cost	CBR
			Total PIT	Total BE		
Collection Program Revenue		\$3,021,700	\$2,358,300	\$663,400	\$207,294	\$15 to \$1
Automated/Reactive		\$2,586,100				
Proactive		\$435,600				

BY 2015/16	Workplan Revenue	Actual Revenue	Revenue Allocation		Cost	CBR
			Total PIT	Total BE		
Collection Program Revenue		\$3,406,956	\$2,665,204	\$741,752	\$207,294	\$16 to \$1
Automated/Reactive		\$2,971,356				
Proactive		\$435,600				

*These revenue estimates are reported at a point-in-time. Semi-annually, program area staff continue to evaluate the revenue estimates with additional data that is captured throughout the fiscal year and modifications are made as appropriate.

Exhibit III
Audit Program Workplan

	Actual FY 2013/14			Planned FY 2014/15			Proposed FY 2015/16		
	DIRECT	SUPPORT/ OVERHEAD	TOTAL	DIRECT	SUPPORT/ OVERHEAD	TOTAL	DIRECT	SUPPORT/ OVERHEAD	TOTAL
AUDIT									
Audit Direct	1,149,383		1,149,383	1,230,581		1,230,581	1,236,581		1,236,581
Audit Select - Modeling	26,210		26,210	25,226		25,226	25,226		25,226
Claims	108,950		108,950	130,283		130,283	130,283		130,283
Protest and Legal Support	62,990		62,990	83,793		83,793	83,793		83,793
Total Audit Hours	1,347,532		1,347,532	1,469,883		1,469,883	1,475,883		1,475,883
Total Audit Positions			771			840			844
SUPPORT/OVERHEAD									
Management/Supervision		190,520	190,520		230,369	230,369		233,867	233,867
Meetings & Misc./Projects/Activities		76,090	76,090		76,770	76,770		76,770	76,770
Training		78,742	78,742		104,902	104,902		98,902	98,902
Total Support/Overhead Hours		345,352	345,352		412,041	412,041		409,539	409,539
Total Support/Overhead Positions			197			236			234
GRAND Total Hours	1,347,532	345,352	1,692,884	1,469,883	412,041	1,881,924	1,475,883	409,539	1,885,422
GRAND Total Positions			968			1,076			1,078
Audit Program Revenue (In Thousands)			\$1,445,242			\$1,407,993			\$1,407,993
Audit Program Cost (In Thousands)			\$206,829			\$201,758			\$193,572
Cost Benefit Ratio (\$x to \$1)			7			7			7

Exhibit IV
Audit Program
Schedule of Revenue*

data in thousands

PY 2013/14	Workplan	Actual	Revenue Allocation		Cost	CBR
	Revenue	Revenue	PIT	BE		
Audit Program Revenue	\$1,396,950	\$1,445,242	\$760,996	\$684,246	\$206,829	\$7 to \$1
Direct Audit		\$901,988			\$192,298	
Claims /1		\$543,254			\$14,531	

CY 2014/15	Workplan	Actual	Revenue Allocation		Cost	CBR
	Revenue	Revenue	PIT	BE		
Audit Program Revenue /2		\$1,407,993	\$695,097	\$712,896	\$201,758	\$7 to \$1
Direct Audit		\$1,242,421			\$187,584	
Claims /1		\$165,572			\$14,174	

BY 2015/16	Workplan	Actual	Revenue Allocation		Cost	CBR
	Revenue	Revenue	PIT	BE		
Audit Program Revenue /2		\$1,407,993	\$695,097	\$712,896	\$193,572	\$7 to \$1
Direct Audit		\$1,242,421			\$179,973	
Claims /1		\$165,572			\$13,599	

*Revenue figures denote net assessments and denied refund claims. These revenue estimates are reported at a point-in-time. Semi-annually, program area staff continue to evaluate the revenue estimates with additional data that is captured throughout the fiscal year and modifications are made as appropriate.

1/ Claims workload validates the amount of refund claimed by the taxpayer and ensures only the appropriate refund amount is issued based on the applicable tax laws.

2/ Workplan revenue has been adjusted for economic impacts, increased complexity of audit issues, and a decrease in large IRS revenue assessments.

Exhibit V
Filing Compliance Program Workplan
Filing Enforcement

	Actual FY 2013/14			Planned FY 2014/15			Proposed FY 2015/16		
	DIRECT	SUPPORT/ OVERHEAD	TOTAL	DIRECT	SUPPORT/ OVERHEAD	TOTAL	DIRECT	SUPPORT/ OVERHEAD	TOTAL
FILING ENFORCEMENT									
Incoming Mail Processing		1,521	1,521		1,662	1,662		1,662	1,662
Quality Assurance	53,586		53,586	60,492		60,492	60,492		60,492
Voluntary Disclosure/Filing Compliance	2,239		2,239	2,735		2,735	2,735		2,735
Complex FE	6,493		6,493	8,050		8,050	8,050		8,050
Correspondence	37,118		37,118	42,579		42,579	42,579		42,579
Taxpayer Assistance	7,164		7,164	8,625		8,625	8,625		8,625
Total Filing Enforcement Hours	106,600	1,521	108,121	122,481	1,662	124,143	122,481	1,662	124,143
Total Filing Enforcement Positions			62			71			71
SUPPORT/OVERHEAD									
Management/Supervision		13,749	13,749		15,994	15,994		15,994	15,994
Meetings & Misc./Projects/Activities		14,019	14,019		15,987	15,987		15,987	15,987
Training		6,130	6,130		7,636	7,636		7,636	7,636
Total Support/Overhead Hours		33,898	33,898		39,617	39,617		39,617	39,617
Total Support/Overhead Positions			19			23			23
GRAND Total Hours	106,600	35,419	142,019	122,481	41,279	163,760	122,481	41,279	163,760
GRAND Total Positions			81			94			94
Total Filing Enforcement Revenue (In Thousands)			\$788,000			\$757,000			\$784,000
Total Filing Enforcement Costs (In Thousands)			\$26,567			\$30,818			\$30,818
Cost Benefit Ratio (\$x to \$1)			30			25			25

Exhibit V
Filing Compliance Program Workplan
Non Wage Withholding

	Actual FY 2013/14			Planned FY 2014/15			Proposed FY 2015/16		
	DIRECT	SUPPORT/ OVERHEAD	TOTAL	DIRECT	SUPPORT/ OVERHEAD	TOTAL	DIRECT	SUPPORT/ OVERHEAD	TOTAL
NON WAGE WITHHOLDING									
Data Entry & Validation	23,675		23,675	29,789		29,789	29,789		29,789
Taxpayer Assistance	23,702		23,702	29,529		29,529	29,529		29,529
Nonadmitted Insurance	553		553	722		722	722		722
WASS Project	7,834		7,834	9,264		9,264	9,264		9,264
Withhold Forms & Publications Support	2,019		2,019	2,499		2,499	2,499		2,499
Discovery & Compliance	8,594		8,594	10,328		10,328	10,328		10,328
Audit	10,655		10,655	13,373		13,373	13,373		13,373
Total Non Wage Withholding Hours	77,032		77,032	95,504		95,504	95,504		95,504
Total Non Wage Withholding Positions			44			55			55
SUPPORT/OVERHEAD									
Management/Supervision		10,254	10,254		14,390	14,390		14,390	14,390
Meetings & Misc./Projects/Activities		10,664	10,664		13,691	13,691		13,691	13,691
Training		4,718	4,718		6,333	6,333		6,333	6,333
Total Support/Overhead Hours		25,636	25,636		34,414	34,414		34,414	34,414
Total Support/Overhead Positions			15			20			20
GRAND Total Hours	77,032	25,636	102,668	95,504	34,414	129,918	95,504	34,414	129,918
Grand Total Positions			59			75			75
Non Wage Withholding Revenue (In Thousands)			\$1,698,000			\$1,740,000			\$1,782,000
Non Wage Withholding Costs (In Thousands)			\$13,024			\$16,541			\$16,541
Cost Benefit Ratio (\$x to \$1)			130			105			108

Exhibit V
Filing Compliance Program Workplan
Fraud and Discovery

	Actual FY 2013/14			Planned FY 2014/15			Proposed FY 2015/16		
	DIRECT	SUPPORT/ OVERHEAD	TOTAL	DIRECT	SUPPORT/ OVERHEAD	TOTAL	DIRECT	SUPPORT/ OVERHEAD	TOTAL
DISCOVERY & UNDERREPORTING									
Sports	1,268		1,268	1,784		1,784	1,784		1,784
Filing Enforcement Analysis	1,644		1,644	2,428		2,428	2,428		2,428
Tax Gap	1,875		1,875	2,556		2,556	2,556		2,556
Studies & Projects	15,532		15,532	20,269		20,269	20,269		20,269
Total Discovery & Underreporting Hours	20,320		20,320	27,037		27,037	27,037		27,037
Total Discovery & Underreporting Positions			12			15			15
FRAUD PROGRAM									
Fraud Analysis	10,055		10,055	12,444		12,444	12,444		12,444
Referrals	1,685		1,685	2,151		2,151	2,151		2,151
Fraud Support Workloads	67,547		67,547	82,758		82,758	125,308		125,308
Fraud QR	4,418		4,418	5,355		5,355	5,355		5,355
Total Fraud - Fraud Program Hours	83,705		83,705	102,708		102,708	145,258		145,258
Total Fraud - Fraud Program Positions			48			59			83
SUPPORT/OVERHEAD									
Management/Supervision		13,786	13,786		14,587	14,587		18,287	18,287
Meetings & Misc./Projects/Activities		5,762	5,762		8,035	8,035		8,035	8,035
Training		2,800	2,800		4,312	4,312		4,312	4,312
Total Support/Overhead Hours		22,348	22,348		26,934	26,934		30,634	30,634
Total Support/Overhead Positions			13			15			18
GRAND Total Hours	104,025	22,348	126,373	129,745	26,934	156,679	172,295	30,634	202,929
GRAND Total Positions			73			89			116
Total Fraud and Discovery Revenue (In Thousands)			\$57,000			\$60,000			\$122,000
Total Fraud and Discovery Costs (In Thousands)			\$5,739			\$7,116			\$9,251
Cost Benefit Ratio (\$x to \$1)			10			8			13

Exhibit VI
Filing Compliance Program
Schedule of Revenue*

data in thousands

PY 2013/14	Workplan	Actual	Revenue Allocation		Cost	CBR
	Revenue	Revenue	PIT	BE		
Filing Compliance Program	\$2,600,000	\$2,543,000	\$2,030,500	\$512,500	\$45,331	\$57 to \$1
Filing Enforcement Revenue	\$810,000	\$788,000	\$700,000	\$88,000	\$26,567	\$30 to \$1
Non Wage Withholding Revenue	\$1,735,000	\$1,698,000	\$1,273,500	\$424,500	\$13,024	\$130 to \$1
Fraud and Tax Gap Revenue	\$55,000	\$57,000	\$57,000	\$0	\$5,739	\$10 to \$1
CY 2014/15	Workplan	Actual	Revenue Allocation		Cost	CBR
	Revenue	Revenue	PIT	BE		
Filing Compliance Program		\$2,557,000	\$2,027,000	\$530,000	\$54,475	\$47 to \$1
Filing Enforcement Revenue		\$757,000	\$662,000	\$95,000	\$30,818	\$25 to \$1
Non Wage Withholding Revenue		\$1,740,000	\$1,305,000	\$435,000	\$16,541	\$105 to \$1
Fraud and Tax Gap Revenue		\$60,000	\$60,000	\$0	\$7,116	\$8 to \$1
BY 2015/16	Workplan	Actual	Revenue Allocation		Cost	CBR
	Revenue	Revenue	PIT	BE		
Filing Compliance Program		\$2,688,000	\$2,145,500	\$542,500	\$56,610	\$47 to \$1
Filing Enforcement Revenue		\$784,000	\$687,000	\$97,000	\$30,818	\$25 to \$1
Non Wage Withholding Revenue		\$1,782,000	\$1,336,500	\$445,500	\$16,541	\$108 to \$1
Fraud and Tax Gap Revenue		\$122,000	\$122,000	\$0	\$9,251	\$13 to \$1

* Filing Enforcement revenue is actual cash collected. Non Wage Withholding revenue is gross withholding collected before any refunds. Fraud and Tax Gap revenue is pre-processing "amount stopped" and post-processing "amount billed" discounted by collectability. These revenue estimates are reported at a point-in-time. Semi-annually, program area staff continue to evaluate the revenue estimates with additional data that is captured throughout the fiscal year and modifications are made as appropriate.

**Exhibit VII
Tax Return Validation Program Workplan**

	Actual FY 2013/2014			Planned FY 2014/2015			Proposed FY 2015/2016		
	DIRECT	SUPPORT/ OVERHEAD	TOTAL	DIRECT	SUPPORT/ OVERHEAD	TOTAL	DIRECT	SUPPORT/ OVERHEAD	TOTAL
PERSONAL INCOME TAX									
Routine & Complex Resolution	145,827		145,827	152,662		152,662	152,662		152,662
Research & Statistics	13,886		13,886	15,397		15,397	15,397		15,397
Analysis & Verification		28,304	28,304		36,294	36,294		43,623	43,623
Total PIT Program Hours	159,713	28,304	188,017	168,059	36,294	204,353	168,059	43,623	211,682
Total PIT Program Positions			107			117			121
CORP PROCESSING									
Return & Payment Processing	143,086		143,086	177,174		177,174	177,174		177,174
Quality Review/Technical Assistance		32,032	32,032		38,347	38,347		38,347	38,347
Total Corp Processing Hours	143,086	32,032	175,118	177,174	38,347	215,521	177,174	38,347	215,521
Total Corp Processing Positions			100			123			123
PROGRAM SUPPORT									
Claims/Offsets/Settlements Audit Support	3,447		3,447	3,993		3,993	3,993		3,993
Auditors		8,480	8,480		8,925	8,925		8,925	8,925
Project Analysts		13,213	13,213		12,602	12,602		12,602	12,602
Production Support		47,614	47,614		52,851	52,851		52,851	52,851
Inventory Control		13,642	13,642		15,025	15,025		15,025	15,025
Total Program Support Hours	3,447	82,949	86,396	3,993	89,403	93,396	3,993	89,403	93,396
Total Program Support Positions			49			53			53
EXEMPT ORGANIZATIONS									
EO Taxpayer Assistance		7,556	7,556		8,483	8,483		8,483	8,483
EO Audits/Determinations/Rtn & Noncompliance Resolution	52,793		52,793	62,508		62,508	62,508		62,508
EO Support		9,192	9,192		11,163	11,163		11,163	11,163
Total Exempt Organizations Hours	52,793	16,748	69,541	62,508	19,646	82,154	62,508	19,646	82,154
Total Exempt Organizations Positions			40			47			47
SUPPORT/OVERHEAD									
Management/Supervision		67,813	67,813		87,557	87,557		87,557	87,557
Meetings & Misc./Projects/Activities		37,915	37,915		41,827	41,827		41,827	41,827
Training		30,934	30,934		38,268	38,268		38,268	38,268
Total Support/Overhead Hours		136,662	136,662		167,652	167,652		167,652	167,652
Total Support/Overhead Positions			78			96			96
GRAND Total Hours	359,038	296,695	655,733	411,734	351,342	763,075	411,734	358,671	770,404
GRAND Total Positions			374			436			440
Tax Return Validation Revenue (In Thousands)			\$1,603,630			\$1,860,211			\$1,878,813
Tax Return Validation Costs (In Thousands)			\$59,581			\$69,113			\$69,805
Cost Benefit Ratio (\$x to \$1)			27			27			27

Exhibit VIII
Tax Return Validation Program
Schedule of Revenue*

data in thousands

PY 2013/14	Workplan Revenue	Actual Revenue	Revenue Allocation		Cost	CBR
			PIT	BE		
Tax Return Validation Revenue	\$1,453,351	\$1,603,630	\$1,138,577	\$465,053	\$59,581	\$27 to \$1

CY 2014/15	Workplan Revenue	Actual Revenue	Revenue Allocation		Cost	CBR
			PIT	BE		
Tax Return Validation Revenue		\$1,860,211	\$1,320,750	\$539,461	\$69,113	\$27 to \$1

BY 2015/16	Workplan Revenue	Actual Revenue	Revenue Allocation		Cost	CBR
			PIT	BE		
Tax Return Validation Revenue		\$1,878,813	\$1,333,957	\$544,856	\$69,805	\$27 to \$1

*Although the CBR is presented in the above chart, CBRs do not drive the tax return validation program workplan. The tax return validation and payment processing workloads are statutorily mandated or policy driven. Tax return validation revenue is the natural result of a processing correction or billing notice for a personal income tax or business entity tax return. These revenue estimates are reported at a point-in-time. Semi-annually, program area staff continue to evaluate the revenue estimates with additional data that is captured throughout the fiscal year and modifications are made as appropriate.

Exhibit IX
Franchise Tax Board
Budget Change Proposal Schedule of Revenue*

data in thousands

PY 2013/14	Workplan Revenue	Actual Revenue	Revenue Allocation	
			PIT	BE
1) Enterprise Data to Revenue Project (BCP 1)	\$261,583	\$560,316	\$472,573	\$87,743

CY 2014/15	Workplan Revenue	Revenue Allocation	
		PIT	BE
	\$519,221 -	\$410,185 -	\$109,036 -
1) Enterprise Data to Revenue Project (BCP 1)	\$684,648	\$543,070	\$141,578
2) Accounts Receivable Management Program (BCP 2) /1	\$108,000	\$81,000	\$27,000
	\$627,221 -	\$491,185 -	\$136,036 -
	\$792,648	\$624,070	\$168,578

BY 2015/16	Workplan Revenue	Revenue Allocation	
		PIT	BE
	\$800,488 -	\$648,395 -	\$152,093 -
1) Enterprise Data to Revenue Project (BCP 2)	\$1,145,976	\$924,752	\$221,224
2) AB 1424 - Top 500 (BCP 3)	\$70,000	\$65,400	\$4,600
	\$870,488 -	\$713,795 -	\$156,693 -
	\$1,215,976	\$990,152	\$225,824

* Revenue figures on this schedule are included in the totals on Exhibits II, IV, VI, and VIII.

1/ This was a workload growth BCP. Revenue associated with this initiative is not tracked separately, but is included in the overall revenue.

Exhibit X Glossary of Workplan Activities

Collection Program

Automated/Reactive Collections

Direct – Automated/reactive collection activities taken to collect on taxpayer accounts which occur after a balance becomes due on an account. Automated collection activities are activities that result from purely system-automated processes and include resources that support automated system functions. Reactive collection activities involve manual interventions that are a result of automated processes.

Proactive Collections

Direct – Proactive collection activities taken to collect on taxpayer accounts which occur after a balance becomes due on an account. Proactive staff handles accounts that were not resolved in the automated and reactive processes.

Other Collections Workloads

Filing Assistance & Public Counter - Time associated with activities at the public counter to assist taxpayers with preparation of tax returns.

CalEMA Disaster Center Support - Relief activities in support of the California Emergency Management Agency deployment of FTB staff to California fires, earthquakes, and floods.

Missing Year Assessments - Identifying all missing assessments associated with a specific taxpayer.

Illegal Activity Support - Professional activities related to filing enforcement assessments for individuals arrested by law enforcement agencies.

Income Tax Protestor-FAN - Professional activities related to Post-Notices of Proposed Assessment (NPA) actions for Filing Enforcement, including all the tasks to respond to taxpayers who have received NPAs.

Support/Overhead

Management/ Supervision - Time associated with performing duties as a manager or supervisor. This function consists of the direct time of all levels of management.

Meetings & Misc./Projects/Activities – Attend staff meetings and other activities that support the division and FTB as a whole.

Training - Time associated with the employee development training for professional, technical, and clerical positions.

Audit Program

Audit

Audit Direct - Audit of personal income tax and business entities taxpayers.

Audit Select - Modeling - The development of the audit selection models in PASS and other stand-alone systems. Maintenance and system enhancements for audit IT programs.

Exhibit X Glossary of Workplan Activities

Claims - Audit of claims for refund personal income tax and business entities taxpayers filed in the form of amended returns.

Protest and Legal Support - Activities related to the resolution of an audit after a Notice of Proposed Assessment (NPA) has been issued; includes hearings, analysis and further factual development.

Support/Overhead

Management/Supervision - Time associated with performing duties as a manager or supervisor. This function consists of the direct time of all levels of management.

Meetings & Misc./Projects/Activities - Attend staff meetings and other activities that support the division and FTB as a whole.

Training - Time associated with the employee development training for professional, technical, and clerical positions.

Filing Compliance Programs

Filing Enforcement

Filing Enforcement

Incoming Mail Processing - Sort and deliver all returns, requests, demands and NPAs.

Quality Assurance - Process work lists by analyzing and perfecting INC cases to ensure that the correct income is associated to the correct taxpayer. Perfect taxpayer information (name, address, date of birth/death).

Voluntary Disclosure/Filing Compliance - Support processing and analysis for R&TC 19192 for qualified taxpayers that are eligible for the Voluntary Disclosure Program and the Filing Compliance Agreement Program.

Complex FE - Review and analyze accounts and returns of the most complex, sensitive and largest dollar accounts for corporations and individuals.

Correspondence - Responds to both Personal Income Tax and Business Entity Filing Enforcement correspondence and analyzes taxpayers' responses to NPAs, Requests and Demands to determine filing requirements. Resolves accounts that have a different SSN or entity number based on taxpayers' response.

Taxpayer Assistance - Answer calls and make personal income tax filing requirement determinations based on Mortgage Interest and K-1 income sources.

Support/Overhead

Management/Supervision - Time associated with performing duties as a manager or supervisor. This function consists of the direct time of all levels of management.

Exhibit X Glossary of Workplan Activities

Meetings & Misc./Projects/Activities – Attend staff meetings and other activities that support the division and FTB as a whole.

Training - Time associated with the employee development training for professional, technical, and clerical positions.

Non Wage Withholding

Non Wage Withholding

Data Entry & Validation - Data entry and validation of withhold-at-source returns and payments. Includes allocation of withholding credits to taxpayer accounts, processing waivers requests, and conducting audits and assessing penalties to gain compliance and generate revenue.

Taxpayer Assistance - Answer phone calls and correspondence from withholding agents, payees, taxpayers, and other third parties. Develop and present education and outreach material for external stakeholders in order to gain compliance and increase revenue.

Nonadmitted Insurance - Post payments, process and validate returns for Nonadmitted Insurance Program. Answer phone calls and correspondence from policyholders, agents, and brokers. Assess penalties and interest on late payments. Issue billing notices.

WASS Project - Identify business requirements, review use cases, develop communication tools, create training module, create procedures, perform user acceptance testing, and provide project management support.

Withhold Forms & Publications Support - Review and update withhold-at-source forms and publication due to new laws, procedures, and processes.

Discovery & Compliance – The Discovery team’s primary focus is to research industry types and other sources to determine if withholding is required on California source income. The team also provides education and outreach to industries via phone, email, mailings.

Audit - The audit team is responsible for conducting withholding audits to ensure withholding agents are in compliance with withholding requirements, including issues related to nonresident, real estate, and backup withholding.

Support/Overhead

Management/Supervision - Time associated with performing duties as a manager or supervisor. This function consists of the direct time of all levels of management.

Meetings & Misc./Projects/Activities – Attend staff meetings and other activities that support the division and FTB as a whole.

Training - Time associated with the employee development training for professional, technical, and clerical positions.

Fraud and Discovery

Discovery & Underreporting

Sports - All tasks related to nonresident athletes performing personal services in California.

Exhibit X

Glossary of Workplan Activities

Filing Enforcement Analysis - Conduct complex review and analysis of the Filing Enforcement Program to improve its effectiveness of the automated system. Analyzes and validates data to determine usefulness as a new income source. Identifies and secures new taxpayer profiler information and test for non-filer patterns. Identifies areas of non-compliance with filing requirements and determine ways to address the non-compliance. Receive and respond to Filing Enforcement correspondence from customers and claimants or their representatives.

Tax Gap - Perform audits, research and analysis to detect trends and opportunities to address California's tax gap.

Studies & Projects - Conduct and recommend studies and projects to measure the direct and indirect effects of FTB compliance activities on taxpayer behavior.

Fraud Program

Fraud Analysis - Provide education and outreach to tax practitioners on W-2 and CDC and demonstrates how to identify fraudulent claims. Fraud staff also works with the California Tax Education Council (CTEC) to identify unregistered preparers and provide them with information on how to become registered and will issue penalties for non-compliance.

Referrals - Fraud receives referrals from several different areas within FTB when questionable claims are identified. A large number of referrals are received from tax preparer agencies. When the agencies have W-2s that look questionable, they contact FTB and we are able to identify if information is reported on EDD files.

Fraud Support Workloads - Fraud support staff consists of Tax Program Assistants that handle the daily incoming mail by sorting and distributing to staff. They also handle the account correspondence after resolution and file appropriately according to the case number. They also assist with any other support functions we may have during peak filing season; such as reviewing accounts received and separating based on criteria given. Fraud Technician Teams consist of Tax Program Technician I and Tax Program Technician II staff. They review refund-due Personal Income Tax returns to investigate and resolve possible fraudulent refund claims or Identity Theft activity. This is done by researching provided information, contacting taxpayers and/or employers, and verifying wage and withholding data against 3rd party sources. Some staff also gathers and analyzes account information before referring to auditors on BOE appeals when the Child and Dependent Care Credit has been denied.

Fraud QR - Used to report time spent on quality review activities of the various fraud technician workloads. The activities being reviewed are things like answering phones, working taxpayer correspondence, and work list account processing.

Support/Overhead

Management/Supervision - Time associated with performing duties as a manager or supervisor. This function consists of the direct time of all levels of management.

Meetings & Misc./Projects/Activities - Attend staff meetings and other activities that support the division and FTB as a whole.

Training - Time associated with the employee development training for professional, technical, and clerical positions.

Exhibit X Glossary of Workplan Activities

Tax Return Validation Program

Personal Income Tax

Routine & Complex Resolution - Processing of the routine and complex remit and non-remit Personal Income Tax keyed, e-filed, and scanned returns requiring math error resolution and verification of taxpayer data, multiple taxpayer problems, estimate payment discrepancies, multiple and identical returns, and State Disability Insurance discrepancies, tax year moves and consolidation of accounts, including verification of tax withholding.

Research & Statistics - Extraction and/or coding of information from tax returns for use in statistical reports that are required by DOF.

Analysis and Verification - Assures that the quality of departmental and section output meets established criteria. This includes review of notices over \$10,000, identifying and applying unclaimed payments to specific tax years so they can offset liabilities or be refunded. Also included are the allocations of Partnership Payments (national partnership workload). Process microfiche request for purging tax years for the department, typing notices and bills, and scheduling refunds.

Corp Processing

Return & Payment Processing - Processing remit, non-remit, refund and e-File returns for Corporations, Partnerships, LLCs, Combined and amended returns. Procedure development and processing for LLC claims for refund from SF Superior Court denying FTB appeal on two cases. Transfer of payment from LLC returns to Non-Resident LLC member's account. Processing payments, bills, and electronic funds transfers for Corporations, Partnerships, and LLCs.

Quality Review/Technical Assistance - Quality review and lead duties for Corporations, Partnerships, Combined and LLCs. Technical and system analysis resulting in submitting a system change request.

Program Support

Claims/Offsets/Settlements Audit Support - Process most complex returns, primarily amended returns, over \$25,000 refunds, and specialized workloads. Provide production staff with technical guidance and direction pertaining to tax law. Processing claims, handling the voluntary compliance initiative program, processing requests for interest computation, Corporation offsets, settlements and posting notice of proposed assessments (NPAs).

Auditors - Process most complex returns, primarily amended returns, over \$25,000 refunds, and specialized workloads. Provide production staff with technical guidance and direction pertaining to tax law.

Project Analysts - Provide analytical support by managing section projects and activities related to the maintenance & enhancement of various system applications and programs, assist in procedure writing in accordance to legislative analysis, and provide legislative proposal costing.

Production Support - Technical support including Personal Computer Telecom representative, and SWAT (Someone Waiting at Terminal) assistance. Specialized workload (Payments, Amendeds, and Data Aging Research) staff support.

Inventory Control - Movement of inventory of returns/trucks into, through, and out of the section, and production of management inventory reports. Mail pickup/delivery. issuing non-qualifying ID numbers and temporary ID numbers.

Exhibit X

Glossary of Workplan Activities

Exempt Organizations

EO Taxpayer Assistance - Answering phone calls and data entry for: applications, revivors, correspondence, PASS, and parent/sub-coding.

EO Audits/Determinations/Rtn & Noncompliance Resolution - Application determination, evaluating form 3500A, processing exemption applications and federal denials, processing Exempt Organization returns: Form 199, 109, and 100. General filing exemption, including account review and sending letters. Issuing assessments and revocations from registry of charitable trusts. Receiving DLC responses, including review, account clean-up and referral to Auditor. Processing revivor requests for suspended Exempt Organizations and Form 3500A. Account transactions, auditor adjustments and correspondence. Various audit activities including: qualified audits, audits resulting from informant contacts, audits resulting from IRS RAR reports, case referrals from the Attorney General's Office, claims for refund and audits resulting from delinquency control (DLC) responses. Activity follow-up including: application control and referral, district office support, contact organizations with no federal letter, denials, and refiles.

EO Support - Lead duties for auditor teams and quality review of support staff. Design, build, test, implement, and monitor Exempt Organizations database. Program, legislative, and development support, ADCORR, correspondence, reports.

Support/Overhead

Management/Supervision - Time associated with performing duties as a manager or supervisor. This function consists of the direct time of all levels of management.

Meetings & Misc./Projects/Activities - Attend staff meetings and other activities that support the division and FTB as a whole.

Training - Time associated with the employee development training for professional, technical, and clerical positions.