RECOMMENDATIONS FOR IMPROVING TAXPAYER COMPLIANCE AND DEPARTMENT ADMINISTRATION

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■ TAXPAYERS' CONCERNS AND SUGGESTIONS TO DEPARTMENT

On June 20, 2000, the Indiana Department of Revenue conducted its **Annual Public Hearing** in accordance with the Taxpayer's Bill of Rights (IC 6-8.1-14). State Revenue Commissioner Kenneth L. Miller presided at the Indianapolis meeting. As in previous years, the hearing's announcement was contained in the IT-40 Individual Income Tax Booklet, distributed through news releases and posted on the Department's Internet website. Taxpayers were provided with the option of attending the hearing in person or submitting written comments.

The Department has reviewed the proposals offered by the taxpayers as follows:

$1,000 Income Tax Exemption
All taxpayers are allowed a $1,000 exemption on their Indiana tax return for each exemption they claim on their federal return. However, a taxpayer attending the hearing voiced his opinion that the exemption should be increased for inflation since it has not been increased since 1985. He says that the federal government started doing this since 1984 when the federal exemption was $1,000 and today it is $2,800. Any change in the amount of the exemption would have to be approved by the Indiana General Assembly. The Department does note, however, that a $1,500 exemption for certain dependent children was allowed in 1999, an increase of $1,000 from the prior year.

Exemption for Dependent Children
A taxpayer also believes that the exemption for dependent children should be changed to allow for grandchildren to qualify in those instances when grandparents are raising them, which he also believes to be more common in today's society. According to state statue, the dependent child must be a son, stepson, daughter, stepdaughter and / or foster child who is the taxpayer's child (and / or taxpayer's spouse's child if filing a joint return). Grandchildren do not qualify; legislation would be required.

Amended Returns
A complaint was made that when taxpayers file an amended return, they never receive any further information or if they do, there seems to be a delay. The Department will review its procedures regarding amended returns and any backlog.

Retirees
A group of three individuals voiced their concerns about their tax status as retired Indiana citizens. Most of their concerns were in regard to Social Security benefits versus exemption of retirement benefits as former federal employees. One stated that she thought retired federal employees are penalized when it comes to state taxes, or in the case of one taxpayer who is now widowed, she can no longer receive a $2,000 exemption from the state since her deceased husband was a civil service employee and not her. It was also pointed out that our surrounding states exempt retirees from state taxes. It is true that Indiana does tax most pension benefits. A $2,000 deduction can be taken if a taxpayer's Federal Adjusted Gross Income (Line #1 of the state return) includes federal civil service annuity payments and the taxpayer is at least 62 years of age. Any change in these requirements would require approval by the Indiana General Assembly.

Information Bulletins
An individual representing a group of payroll professionals inquired about the Department's website and the status of Information Bulletins. She found many to be outdated. The Department has reviewed the status of Information Bulletins and has started a project to update them on a more timely basis.

Tax Reciprocity with Illinois
An inquiry was made as the status of a reciprocal tax agreement between Indiana and Illinois. Illinois ended its reciprocal agreement with Indiana on January 1, 1998. At the time of the hearing, the taxpayer was informed that the Department was still exchanging information with the Illinois Department of Revenue and no new agreement had been reached.

Inability to Resolve Tax Problems
The Department received a letter in response to its announcement for public comments about tax administration. The letter outlined the taxpayers' frustration in trying to resolve a tax problem with the Department. The taxpayers had tried to contact the Department numerous times and were unsuccessful in either getting a direct response or a call back from a tax analyst. The Department apologizes for its unresponsiveness and has contacted the taxpayer in an attempt to resolve the issue.

Form Revision
One taxpayer, who was unable to attend the Public Hearing, provided his numerous suggestions for changes on the IT-40: 1.) Ask for name first and not Social Security Number or at least ask for them in the similar style that the federal form is patterned where they appear on the same line. The taxpayer finds the present request "rude." 2.) Do not ask if the taxpayer has died during the year. If the taxpayer is deceased just allow someone to write a simple statement on the return. 3.) The request for motor vehicle ownership and authorization section, which allows the Department to confirm information with the Social Security Administration "is self-incrimination and in violation of the state constitution," and/or "harassment." The Department will take the recommendations under advisement.

Medical Deductions
A taxpayer wrote her concerns about the inability to deduct medical expenses from the state return, especially for senior citizens. She pointed out that the State of New York allows such deductions " and should be deductible in every state, but especially, here in Indiana." It is true that there is no deduction on the IT-40 for medical expenses and such a deduction would need approval by the Indiana General Assembly.

Military Deduction
An Indiana resident serving on active duty in the U.S. Army and who has not resided in the state for a long period of time wrote to express his concerns about still having to pay Indiana taxes. He noted the $2,000 Military Service Deduction, still paid the state $1,600 in taxes and was "associated with the state in name only." It is true that when an individual joins the military he / she must report a state of residence. If Indiana is regarded as the home state, then state taxes are applicable. Some states exempt military pay; Indiana does not. Any change would require approval by the Legislature.

■ IMPROVEMENTS IN THE TRAINING OF DEPARTMENT EMPLOYEES

Audit Division

Regional seminars were presented to the instate auditors and the out-of-state auditors as part of the Audit Division's Continuing Education Program during the fiscal year ending June, 2000. Topics presented included: Qualified Subchapter S Subsidiaries; corporate partners and partnerships; agency relationship; application of court cases; sales tax treatment of installation charges; separate return limitation years as it pertains to net operating losses; and audit review problems.

The Special Tax auditors held their annual meeting in November, 1999. The discussion subjects included International Fuel Tax Agreement computer programming; single state registration system; cigarette and other tobacco products; International Registration Plan update; gas and oil inspection problems; and audit review issues.

Personnel Division

During the past fiscal year, the Personnel Division hired 71 full time employees and 167 intermittent employees. All intermittent and full time employees attended New Employee Orientation 101 and Basic Ethics. All full time employees also attended a one day orientation within their first month of employment. During the year the following core curriculum classes which are required for all employees were trained.

ABC's of Discrimination
(Sexual Harassment, EEO and ADA)

ABC's of Discrimination for Supervisors

Customer Service

Cultural Diversity

The Training Section also trained 99 employees on the newly developed computer system. Approximately 90 employees were trained on Word 97. The following classes are in the process of development of new material:

Violence in the Workplace

Progressive Discipline

Performance Appraisals

Supervisory Skills Training

The Department has continued to have a functioning Training Advisory Council to address the Department's training needs.

The Benefits/Payroll Section conducted training for management staff on Family and Medical Leave.

The Health and Safety Committee sponsored First Aid/ CPR training for employees in the Indianapolis area. Approximately 12% of our employees are now certified in CPR.

■ *IMPROVEMENTS IN TAXPAYER COMMUNICATION AND EDUCATION*

Outreach

Partnership with Another State Agency
As a part of the Department's outreach program, a brochure was designed with a particular group of taxpayers in mind. It was acknowledged that many of our senior Hoosiers may not be aware of new legislation concerning additional exemptions and deductions they were allowed to take on their State tax returns (additional $500 exemption for being 65 or older with a federal AGI of less than $40,000 and the homeowner's property tax deduction up to $2,500). Included in the brochure were explanations of some existing credits for the elderly.

Besides providing the brochures as handouts at the Governor's Conference on Aging and In-Home Services, the Department partnered with Indiana Family and Social Services Administration (FSSA) in having 10,000 brochures delivered with their In-Home Meal Program across the state. A News Release was shared between the two agencies, in addition to the FSSA's sixteen Area Agencies on Aging receiving copies of the tax brochure, to assist the elderly if they called with questions.

The Department has found that establishing partnerships with other state agencies helps to deliver services to thousands more deserving Hoosiers than either agency could accomplish on its own.

Future Taxpayers
In its never-ending quest for "voluntary compliance," the Department surmised that there was a group of taxpayers or "future" taxpayers who were not tax savvy. The Department wrote a computer program to teach high school students where their tax dollars go and how to file their state income tax return, as part of their school curriculum. The information was installed in the World Wide Web for easy access from any computer connected to the Internet, throughout the state. The program was tested/used in two pilot schools in FY00.

■ *INCREASES IN THE ENFORCEMENT CAPABILITY OF THE DEPARTMENT*

During FY00, the Criminal Investigation Division tracked an increase in Charity Gaming violations, as well as in Dyed Fuel and other motor carrier violations. The Division will become more proactive in the investigation of charity gaming applicants and will pursue criminal violations of license holders, not just civil sanctions of the Indiana Code.

A cooperative effort with the Indiana State Police (ISP) Motor Carrier Division targets oversize/overweight permit violations and the unlawful use of dyed fuel on the highways. The Department's Motor Fuel Tax Evasion investigators are working with ISP's Motor Carrier Enforcement Division to train its officers on how to pull fuel samples and determine which carriers are exempt from the I.R.S. Code but subject to the Special Fuel Tax under Indiana Code.