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Exclusive articles on state policy, politics and trends from the staff of Stateline.org

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States forgive penalties, reap late taxes

By Kimberly Leonard, Special to Stateline.org

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State tax amnesty programs Tax amnesty collections this year have ranged from \$1.1 million in Vermont to more than \$700 million in New Jersey. Seen by politicians as a way to quickly generate revenue, amnesty periods encourage delinquent taxpayers to file what they owe during a set time period in exchange for waived or reduced interests and penalties. Twelve states are participating this year, including Oregon and Hawaii for the first time.

Dates

Waived Penalties / Interest

Funds Received or Expected

Most Recent Amnesty

Advertising and Marketing

Online option

Alabama

Feb. 1 to May 15, 2009

Waived only penalties

\$8.1 million received; no prior estimate

1984 amnesty netted \$3 million.

Internal funding of about \$3,000

No online service

Arizona

May 1 to June 1, 2009

Waived all penalties and half the interest

\$32 million received; no prior estimate 2003 amnesty netted \$73 million.

No extra funds allotted. Used internal resources.

No online service

Connecticut

May 1 to June 25, 2009

Waived all penalties and 25 percent of the interest \$40 million estimate; Final numbers not yet available 2002 amnesty netted \$109 million.

Deducted \$1 million from amount received during amnesty

Online service available Delaware

Sept. 1 to Oct. 30, 2009.

Waiving all penalties and interest

\$10 million estimated goal Last amnesty was 25 years ago.

Outsourced advertising and online information

Online service available

Hawaii

May 27 to June 26, 2009

Waived all penalties and half the interest

\$14 million received No prior amnesty

Data not yet available

No online service

Louisiana

Sept. 1 to Oct. 30, 2009

Waiving all penalties and half the interest

\$150 million estimated goal. 2001 amnesty netted \$192.7 million.

Data not yet available

No online service

Maine

Sept. 1 to Nov. 30, 2009

Waiving 90 percent of penalties but no interest \$9.5 million estimated goal 2003 amnesty netted \$37 million.

No extra funds allotted. Used internal resources.

No online service

Maryland

Sept. 1 to Oct. 30, 2009

Waiving all penalties and half the interest

\$5 million to \$10 million estimated goal 2001 amnesty netted \$39.2 million (of estimated \$70 million)

\$300 for public service announcements using internal resources

Online service available New Jersey

May 4 to June 15, 2009

Waived all penalties and half the interest

\$725 million received, (of estimated goal of \$200 million) 2002 amnesty netted \$277 million (of estimated goal of \$150 million)

Legislature provided \$10 million to run the program, \$2.2 million of which was for advertising.

Online service available

Oklahoma

Sept. 15 to Nov. 14, 2008

Waived all penalties, interest and collection fees.

\$81 million received, (of estimated goal of \$32 million) 2002 amnesty netted \$18.8 million.

\$500,000 for publicity (allocated by legislature)

Online service available

Oregon

Oct. 1 to Nov. 19, 2009

Will waive all penalties and half the interest No estimated goal No prior amnesty

Legislature provided \$1 million for administration and publicity

No online service

Vermont

July 20 to Aug. 31, 2009

Waived all penalties and interest \$1.1 million received, (of estimated \$2.5 million goal)1990 tax amnesty netted \$880,000.

Data not yet available

Online service available

Virginia

Dates not yet been announced

Information not available \$47.8 million estimated goal 2003 amnesty netted \$98.3 million, almost twice the \$48.4 million goal.

Data not yet available

Information not yet available

Sources: Federation of Tax Administrators, Tax Foundation, Center of Budget and Policy Priorities, State Departments of Revenue and Stateline.org reporting State legislators looking for extra money to balance their budgets are historically quick to forgive penalties for tax delinquents, provided they pay their back taxes during these amnesty periods. Twelve states are offering programs this year, including two — Hawaii and Oregon — that are holding amnesties for the first time.

First enacted in Arizona in 1982, amnesty programs give tax offenders incentive to pay what they owe during a set time frame by reducing or waiving interest and penalties. The state gets a quick cash flow in return to pay for projects or to help close budget holes.

“It’s a short burst of money, so it makes sense they have them during a recession,” said Justin Higginbottom, a tax analyst for the non-partisan Tax Foundation. “It’s not going to give you a lot of money, but if you’re looking for a couple million on a short-term, it is likely to give you that.”

Delaware, Louisiana, Maine and Maryland are currently in their tax amnesty periods, and Oregon and Virginia will offers theirs later this year. The programs are triggered by bills passed by state lawmakers who see the amnesty periods as an easy way to raise revenue, said Nick Johnson, director of state fiscal projects at the Center of Budget and Policy Priorities (CBPP).

New Jersey’s program netted an estimated \$725 million earlier this year — almost four times more than the legislature predicted — and Oklahoma collected \$129 million in late 2008 when it had estimated a goal of only \$34 million. Arizona, Alabama, Connecticut, Hawaii and Vermont have also completed their amnesty periods this year.

“It’s a cheaper way to come up with cash than borrowing or raising taxes,” said Verenda Smith, spokeswoman for the Federation of Tax Administrators.

In Maryland, about 177,000 individuals and 18,000 businesses are delinquent on their taxes, representing a total of \$500 million in unpaid revenue. The state hopes to bring in \$5 million to \$10 million during the amnesty. In Vermont, 1,445 scofflaws paid \$1.1 million in delinquent taxes, but that was less than half of the state’s estimated goal of \$2.5 million.

Besides coming up short, amnesty programs sometimes face additional problems — and critics. New York and Louisiana have had four programs each since 1985, compared with most states’ average of one every 10 years, leading experts to question the wisdom of frequent amnesties.

“You don’t want to undermine your normal enforcement systems by granting these amnesties,” CBPP’s Johnson said. “People need to view them as one-time events and not assume they will come every four or five years” and put off paying their taxes on time, he said.

He also pointed out “the fairness aspect.”

“People who are paying their taxes on time and following the law might look at those benefiting from the amnesty program and see the system as unfair,” he said.

In Pennsylvania, where the 2010 state budget that was to have taken effect July 1 remains unresolved, state Del. John Bear (R) presented a tax amnesty bill that he said could generate \$100 million to \$150 million to help plug the state’s \$3.2 billion budget hole. Bear has the support of House Republicans and said he was confident the bill would pass, even though the state’s department of revenue and Gov. Ed. Rendell (D) oppose it.

Stephanie Weyant, a state revenue department spokeswoman, thinks amnesties hinder future efforts to collect taxes. After the last amnesty under former Gov. Tom Ridge (R) in 1995, a department study concluded that enacting additional amnesty programs would damage its efforts to get citizens to pay taxes, Weyant said.

That program also did not generate as much as legislators had hoped, she said. Although initial numbers showed the state had generated \$92 million, the real benefit was calculated at \$11 million after the cost of waived penalties, administration and reduced delinquent tax collection in the next two years were figured in, she said.

Some states, such as Connecticut, deduct the administrative costs out of the total collected during the amnesty; others, such as Vermont, get administrative costs to cover the program from the legislature. In Arizona, the department of revenue had to use internal resources to run the program without extra cost.

Revenue departments in states with programs said the amount of money they generate depends mainly on advertising and marketing efforts. "If you don't send the word out, you don't get responses," Smith said.

A few states are now setting up special tax amnesty Web sites allowing delinquent taxpayers to file what they owe online. The department of revenue in New Jersey attributed its program's success to its Web site, saying 92 percent of those who did pay, totaling an initial 100,000, used the site. The department of revenue mailed out more than 600,000 notices to known delinquents — 56 percent owed corporate business tax, 23 owed percent sales and use tax and 14 percent owed gross income taxes.

Maryland revenue officials said they hoped providing a Web site for payments would help taxpayers file what they owe more easily and maybe make the program more successful than the last one in 2001, when they brought in only half their revenue goal.

While tax amnesty programs rob states of interest and late fees, state officials think they help these taxpayers get back on track.

"It gave people incentive to get right with the state," said Todd Stacey, Alabama governor's press secretary. The state's amnesty program, called "Operation Clean Slate," reeled in \$8.1 million from the 3,161 taxpayers who came forward. "We were very confident that it was going to work, but we had no preconceived expectations about how much would be brought in," he said.

Higginbottom of the Tax Foundation said people often had honest reasons for not filing taxes or for filing incomplete forms. "They might not know they are not paying their taxes or they may not be doing it on purpose. They may be confused or just forget," he said. The tax code might be too complex, he said, or hiring someone to help might cost too much.

"States should focus on reducing the compliance costs if they want people to pay more in taxes," he said.

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Reports: Bleak state budgets through 2011 (6/4/2009)

Report: State tax revenues see record drop (7/17/2009)

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Friday, September 18, 2009

Weekly wrap: Recession setting records in Wisconsin, Oregon

By Stephen C. Fehr, Stateline.org Staff Writer

The historic nature of what the New York Times now has dubbed “the Great Recession” was brought home vividly this week in separate developments in Wisconsin and Oregon.

Wisconsin began collecting a retail sales tax in 1962 and every year since then tax receipts have increased — until now.

State revenue officials reported that sales tax receipts declined 4.3 percent between June 30, 2008 and June 30, 2009, the first such decrease in Wisconsin history. The drop reflects consumers’ worry about the economy, which translated to fewer purchases last holiday season and throughout the year. Wisconsin’s base sales tax rate is 5 percent.

Officials say they expect sales tax revenue, which is about \$4 billion a year, to increase in the current fiscal year. But overall, tax revenues still are down from fiscal 2007-2008 levels, which could punch a \$2 billion gap in the two-year budget that starts July 1, 2011. Lawmakers already cut \$3 billion in spending and raised taxes on wealthy residents to balance the current state budget.

In Oregon, state officials reported a record demand for food stamps. Between Aug. 1, 2008 and Aug. 1, 2009, the number of Oregonians getting food stamps spiked nearly 32 percent.

Human services officials said they were surprised, according to a report in The (Portland) Oregonian, because demand for food stamps usually slacks off in the summer.

The Oregon Food Bank said it distributed nearly 900,000 emergency food boxes last year. “It’s by far the largest number of emergency food boxes the Oregon Food Bank Network has ever distributed in a single fiscal year,” said Rachel Bristol, chief executive officer of the food bank.

Increases in sin taxes on tobacco and alcohol were popular among states this year; at least 18 states hiked tobacco and or booze to help balance budgets. Pennsylvania apparently will not be among them, despite lawmakers’ need to find \$1 billion to complete a spending plan for fiscal 2009-2010.

A tobacco tax increase, which Gov. Ed Rendell (D) supports, was missing from a \$27.9 billion bipartisan budget proposal lawmakers sent him this week. Rendell and anti-tobacco groups were stunned, said a report in the Philadelphia Inquirer. Polls show most Pennsylvanians back taxes on smokeless tobacco or cigars; most states tax both.

But the tobacco industry prevailed on lawmakers, prompting Johnna Pro, press secretary for the House Majority Appropriations Committee, to surmise that the real reason is “the majority of people negotiating the budget are cigar-chomping men. It’s sexism.”

The quote of the week belongs to Jerry Nickelsburg, senior economist with the UCLA Anderson Forecast, an authoritative source on the California economy. California often is a barometer of economic trends in other states, and if Nickelsburg is right, the New York Times may have to change its characterization of the downturn to the Great Recovery. In remarks at the Brookings Institution, a Washington, D.C. think tank, Nickelsburg said the words some people have been waiting to hear for 21 months.

“All of the indicators are that the recession is over with, even in California,” he said.