NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 353 (Second Edition)

SHORT TITLE: DOR Debt Collection Changes - AB

SPONSOR(S): Senator Kerr

FISCAL IMPACT

Yes (X) **No ( )** **No Estimate Available ( )**

	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
REVENUES					
General Fund					
Debt Collections	$19,200,000	$19,200,000	$19,200,000	$19,200,000	$19,200,000
Collection Asst. Fee	No Estimate Available				
EXPENDITURES					
General Fund					
RFP Assistance	$200,000 to $500,000 in FY 2001-02				
Computer update	$300,000				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue

EFFECTIVE DATE: The act becomes effective July 1, 2001.

BILL SUMMARY: Section one of the bill allows the Department of Revenue to contract with vendors for the collection of delinquent tax debts. The Department will impose a collection fee on debtors in order to pay contractor charges. Sections two and three allow the Department to use General Fund tax collections to fund database changes and a contract request for proposal. Section four changes the federal debt setoff fee from the current $15 to an amount equal to the federal charge for debt collection assistance plus $5 for the Department of Revenue.

BACKGROUND: The 1999 General Assembly mandated the Department of Revenue "to identify and evaluate proposals for more efficient collection of taxes including using electronic commerce and other technology to increase efficiency". (S.L. 1999, chapter 341, section 6). The Department hired PricewaterhouseCoopers (PwC) to conduct a Delinquent Tax Collection Best Practices Report. Assistant Secretary of Revenue Sabra Faires presented the results of the PwC study to the Revenue Laws Study Committee on April 27, 2000.

ASSUMPTIONS AND METHODOLOGY:

Collecting Delinquent Debt

Section 1 of the bill states that the Secretary of Revenue may contract for the collection of delinquent tax debt. Based on Governor Easley's 2001-03 NC State Budget Summary of Recommendations, the Department must collect $18 million each year from enhanced collection efforts. The Department should be able to fulfill the Governor's revenue goals according to a Delinquent Tax Collections – Best Practices Study conducted by PricewaterhouseCoopers (PWC). The PWC study found that by contracting with collection agencies for out of state debt and long term delinquent accounts, the Department could collect $31 million for existing delinquencies and $3 million per year on new out of state delinquencies. The Department would also be able to increase debt collection up to $20 million a year for long term delinquencies.

To meet the Governor's FY 2001-03 enhanced revenue collection goals, the Department proposes to use the authority granted in Section 1 to outsource the collection of in-state low priority accounts and a portion of the out of state accounts receivables. Outsourcing of in-state accounts with a value of $25 to $500 is expected to generate $8 million annually. Another $8 million is expected to come from small to moderate size out of state delinquent accounts. The Department will use its staff to work on the larger out of state accounts in order to avoid paying the fee charged by collection agencies.

Another $3.2 million is anticipated each year from a collection assistance fee that is authorized in section 1 of the bill. The 20% fee now paid by the Department to a collection agency to collect bad debt will be borne by the taxpayer owing the debt. The fee will be collected along with the debt. The estimated $3.2 million is based on collections of $16 million each year.

Departmental Expenditures

The Department estimates that it will need $300,000 to update its computer systems in order to work efficiently with collection agencies. Section 2 allows the Department to withhold from tax collections the amount needed to modify the Department of Revenue database "to conform to the requirements of the contractor." The Department requests the funds for the following actions:

- Modify existing system to extract data based on collection agencies' requirements and to process the data received back from the collection agencies;
- Provide an electronic mechanism for transmitting data to and from the collection agencies; and
- Provide a mechanism to process funds received from collection agencies into the Department's existing systems for accounting purposes.

The PwC study recommended the Department: 1) implement an automated case management system to track debt activity, automate wage garnishment and payment agreements, and prioritize cases; and 2) centralize the collection processes for individual income taxes, installment agreements, low dollar debts, and wage garnishments. PwC estimates the automated system will increase delinquent tax collections by $11 million to $30 million per year. Section 3 of the bill allows the Secretary of Revenue to use General Fund revenue from income tax collections to obtain assistance in developing a request for proposal (RFP) for a performance-based contract to do the work recommended by PwC. The Department estimates this RFP assistance will cost from $200,000 to $500,000. The Department was given the authority to withhold from tax collections for the RFP assistance by the 2000 General Assembly (S.L. 2000, chapter 120, section 17), but the Office of State Budget, Planning and Management blocked action on this item due to budget concerns.

Federal Setoff

Section 4 replaces the $15 collection assistance fee with a fee equal to the amount charged by the U.S. Department of the Treasury for debt setoff plus $5 for the Department of Revenue to cover administrative costs. The US Department of Treasury Offset Program charges the state $9.65 for each case submitted by the NC Department of Revenue. This rate is adjusted annually and will rise to $16.45 per case in 2001. The $15 fee now charged provides the Department with $5.35 to pay for the administrative costs of the program. The Department will use a portion of its fee to cover the $2.24 cost of certified mail to each delinquent taxpayer. When the federal charge rises to $16.45 on July 1, 2001, the department will have to use agency receipts to cover their administrative costs and to pay for the additional $1.45 not covered by the $15 fee.

In FY 2000-01, the Department identified 9,000 cases that could be forwarded to the US Treasury Offset Program. Certified letters were sent to the taxpayers to apprise them of what the Department was going to do with their case and to give them an opportunity to pay their tax. The Department must wait until April 16, 2001 to send the cases to the federal offset program. Given that the first year effort is not complete, the Department cannot estimate the number of cases it will send forward each year and the amount of collection assistance fees it will receive.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION 733-4910
PREPARED BY: Richard Bostic

APPROVED BY: James D. Johnson

DATE: April 4, 2001

Official Fiscal Research Division Publication

Signed Copy Located in the NCGA Principal Clerk's Offices