

# TAX IMPLEMENTATION

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# Implementation means

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- To begin
- Start
- Take the first steps
- Put into play
- Roll it out

# You need to think about “the first”

## **The first**

- reporting deadline
- payment due date
- unpaid tax
- NSF check
- media call
- irate taxpayer
- call to the tribal government
- refund request
- audit
- appeal



THE GOOD NEWS  
IS.....

**YOU CAN PLAN FOR ALL OF  
THIS!**



# Assumption #1

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- You want to collect as much money as possible with the least amount of administrative expenses while managing risk.
- This means you want high **voluntary compliance**.
  - taxpayers willingly send you the correct amount of money on time.

# Five Principles for **Voluntary Compliance**

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Make filing **easy**.

Make paying **convenient**.

Make tax obligations **understandable**.

Have systems in place so that noncompliance can be **detected**.

Have **assistance** available.

And the good news is you can plan for high compliance!



# Key to a Successful Implementation

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- View this as project management.
- ❑ Appoint a **Lead** and perhaps form a **Team**
- ❑ Set out **milestones** and expectations
- ❑ **Document** (make a handbook)
- ❑ **Train** staff (use the handbook)
- ❑ Feedback loop so you can measure progress and make **corrections** (fix things)

# The Implementation Plan

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- Effective date (when the tax will start)
- Communication plan (who needs to know what when)
- Administration plan (how does the work flow and what triggers specific actions)
- IT Systems
- Internal controls



# Effective Date of Tax

- Based on a variety of factors, some unique.
- The date should be part of the tax ordinance.
- The tax administrator should have a great deal of input into the start date.
  - Good practice is the administrator is involved in the drafting and development of the tax code.
- The tax should start on a sensible day, with enough lead time to get ready for imposition.

# Effective Date Continued

- July 1, Oct 1, and Jan 1 are typical effective dates.  
“The tax imposed by this Chapter shall be due and payable for calendar quarters beginning January 1, 2015.”
- An effective date has to work for you. It is not random.
- The tax code could have a conditional effective date.
- Are there regional governments that will also be implementing the tax?
- Other issues that could impact timing:
  - Litigation
  - Negotiations on fisheries, water, gaming, and so forth.

# Communication Plan

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- The purpose of the plan is to keep in the forefront the importance of sharing information internally and externally.
- It is a political plan as well as an operational plan.
- The right amount of information is provided in the right format, at the right time, and with the right impact. (Strategic and thoughtful.)
- It begins with analyzing the “authorizing environment.”

# Strategic

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Carefully and thoughtfully

- calculated,
- designed, and
- planned

to serve a particular purpose

# What is Authorizing Environment

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- A tax administrator is surrounded by persons, businesses, associations, institutions, and others that impact his or her job.
- Government officials, legislators, interest groups, media, courts, taxpayers, and the public are all relevant in this context.
- Strategic communications will help build support and legitimacy for the tax program.

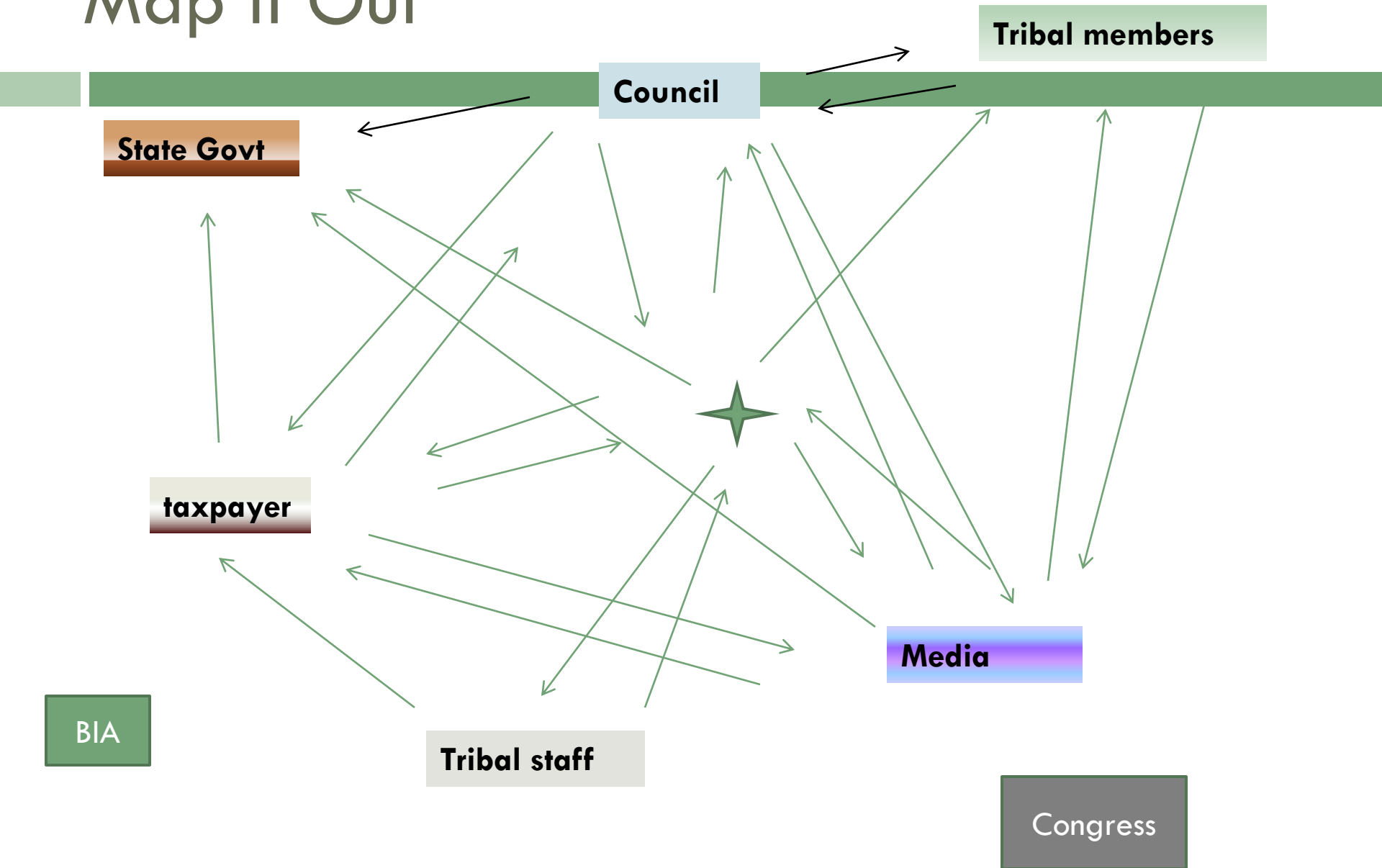
# Authorizing Environment

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Ask the question - who needs to know?

- Who directs the work?
- Who sets the budget
- Who will be negatively/positively impacted?
- Who cares?
- Who is watching?
- Who can help?
- Who should you not surprise?

# Map it Out



# Public View of the Tribal Tax

- A good communication plan increases the chance that the public and taxpayers will be less hostile, maybe neutral, and perhaps supportive of the tribal tax.
- Nobody likes taxes.
- The role of the media is important.
- Transparency helps. (This can be a challenge.)
- Due process.

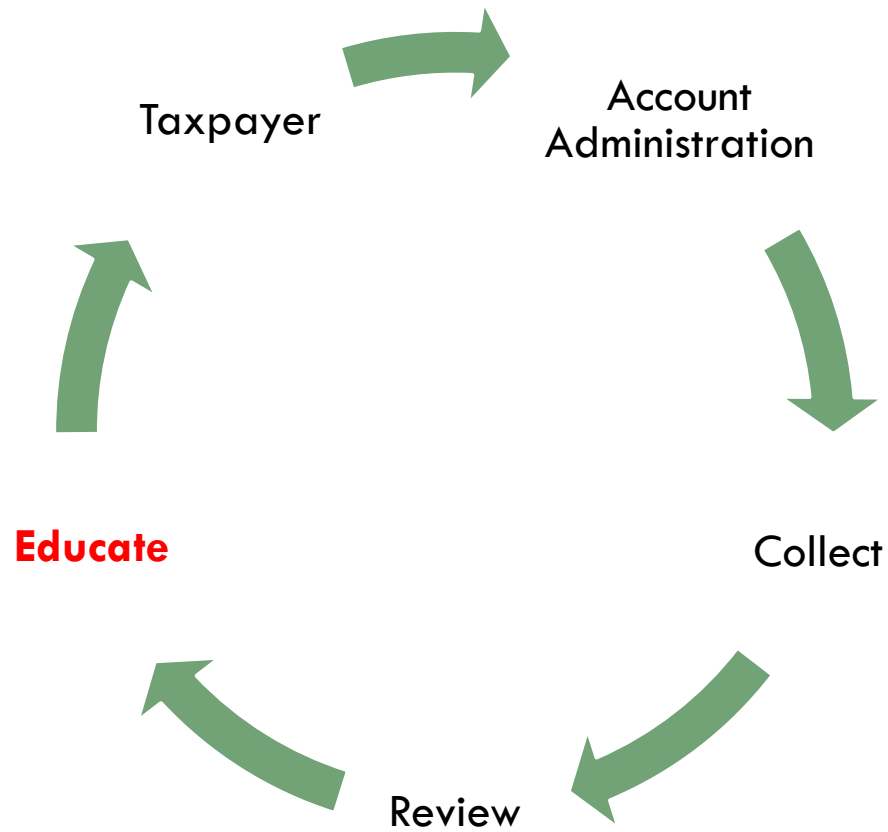


# Due process

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- Provide notice.
- Collect tax in a fair manner (adopt practices for consistency.)
- Develop a procedure for disputes (opportunity to be heard), and follow it.
  - Presumably this will reflect the unique traditions in each particular tribe's justice systems.

# Administration Plan



# Administration Plan Detail

(Many of these decisions are made before the tax code is drafted)

- Governance (who is in charge)
  - Tax commission, department, or office; scale, scope, and authority
- Process
  - Educate, impose, reconcile, collect, review, and educate
- Information Technology
- Internal controls
  - Hard controls – segregation of duties
  - Soft controls – competency and professionalism of staff

# Education

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- Ways to educate the taxpayer range from billboards to personal letters to phone calls to webinars

Please pay your taxes

# Education continued

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- Tailor the approach to the problem.
- Don't create a solution where there is no problem.
- If you know all your taxpayers, you have a different task than if you have to cast a wide net and discover your taxpayers.
  - ▣ Permanent improvements
  - ▣ Activities under a lease
  - ▣ Leasehold or possessory

# Forms

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- A system for gathering, processing, and compiling specific information.
- A form is an “interview.”
- A form is how you gather data.
- Develop the form with the intent of using the information on it.
- Try something radical and invite taxpayers in to help you evaluate the forms.
  - This will improve usability and build relationships.

# Taxpayer Accounts

Managing taxpayer accounts is the core tax administration activity.

- Taxpayers need to have discrete identification (registration.)
- Taxpayer information needs to be processed and retained and secure (document management.)
- Payments need to be received and reconciled (accounting.)
- Billings promptly sent for underpayments and refunds for overpayments.

# What to do with the money

- What sort of money will you accept?
- How will the money arrive and where and how long will you keep it?
- Will you accept cash, checks, credit, pay pal, automatic deposit?
- Will you require electronic deposit?
- Will you use a third-party processor for ACH debit/credit services and internet check operations?

Provide documentation for every step (standard operating procedures)



# Refunds/Claim Periods

- The parameters for refunds is a tax code decision.
- Need to include in ordinance whether interest is part of refund claim.
- The “statutory refund claim period” is a time set in statute beyond which no refunds may be filed. It is a “nonclaim” statute, versus a statute of limitations.
  - Claims not filed within the time period are extinguished as a matter of law.

# Taxpayer Records

- Your tax code should specify the types of records the taxpayer should keep and for how long.
- These are the records the tax administration staff will access for reconciliation, enforcement, or audit.

## Navajo Tax Code Business Activity Tax

### “414. **RECORDKEEPING.**

Records required to be kept must be preserved for six years beyond the time payment of tax is made, or if no payment is due, for six years beyond the end of the period to which the records relate. “

# Enforcement Authority

- Your tax code should provide the authority for **audit** of accounts and **collection** of delinquent taxes.
  - ▣ Audit books and records
  - ▣ Subpoena power
  - ▣ Access to taxpayer property and places of business
- Collection tools include:
  - ▣ Late letters
  - ▣ Penalties and interest
  - ▣ Garnishment
  - ▣ Suspension of licenses
  - ▣ Liens
  - ▣ Seizure of property

# Audit

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- The examination of a taxpayer's books and records, and a review of its business processes, to determine whether the taxpayer is reporting tax correctly.
- Assumption - a properly run business will have an accounting system to record all assets, liabilities, entries and events, and there will be no undisclosed items.
- Correspondence audits ( aka desk audits) and full books and records audits (aka field audits.)
  - Field audits are expensive and are used “strategically.”

# Collection of Delinquent Taxes

- Delinquent taxes are simply taxes that have not been paid on their due date.
- Tax administrators need to establish a process and practices to collect delinquent taxes.
- Typically the process escalates from simple, using administrative processes, to complex, using the judicial system.
  - Methods range from inexpensive to expensive, and should be managed strategically.

# Collection Best Practices (proven to improve payment)

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- Have written policies and procedures.
- Make contact with the debtor within 30 days.
- Include contact by phone in all collection efforts.
- Send reminder letters periodically to past due accounts.
- Provide flexible payment options.

# Best practices continued

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- Use data to identify assets that could be used to pay the debt.
- Take legal actions, such as requesting court warrants resulting in liens against business property.
- Consider using a collection agency if necessary.
- Take visible legal action against tax evaders for the deterrence effect.

# Collection Scenario – Escalation

- Call the taxpayer on the phone.
- Send collection letter for tax, penalties, and interest.
- Require an installment agreement and a lien.
- File notices of tax liens in the county where the company is located -
  - impacts taxpayer ability to sell or mortgage interests in real property.
  - impairs the company's credit.
- The tax administrator seizes the company's property.



# IT Systems - How will you use IT?

- Rule #1 - Do not turn your tax implementation into an IT project.
  - Over 50% of IT projects end in failure. This is costly.
- You could take an incremental and logical approach to the role IT plays in tax administration.
- Manage the change in work processes.
- Address security issues.

# Electronic Tax Administration (proven to improve voluntary compliance)

- Web based
- E-file
- E-pay
- DIY Filing
- Automated dialing
- Fill-in forms
- Email
- Chat
- YouTube
- Podcast

# Internal Controls

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- Define responsibility for each function
- Describe authorization for tasks
- Supervise
- Use protective measures (i.e., locked rooms for inventory, etc)
- Segregation of duties
- Independent internal verification (useful for small organizations)

# The Reality about the taxpayer

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- They have been paying oodles of money to the State for years in a routine manner.
- We should not mirror the State's massive systems, but we can steal some of what they do.
- It might even be that similarities between our processes might be useful for taxpayers.
- It is important to keep scale in mind. A small tax department has unique management issues that are distinct from issues faced by larger organizations.