



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 347 (as reported without amendment)
Sponsor: Senator Laura M. Toy
Committee: Finance

Date Completed: 5-26-05

RATIONALE

Reportedly, some residents who have called the Department of Treasury to inquire as to why their refund checks were delayed only reached a recorded message stating that their returns had been selected for manual review and were given no further information. Apparently, many of the residents who have complained about the Department's system for tracking returns are seniors who needed their refund money to cover their living expenses, and were confused by the phone system or the answers it provided. To address this situation, some people believe that the Department should be required to inform taxpayers if their returns are selected for manual review and give them an opportunity to speak with a departmental employee.

CONTENT

The bill would amend the revenue Act to provide that, if the Department of Treasury selected a tax return for manual review, the Department would have to send notification to the taxpayer within 10 days of that selection. The notification would have to contain all of the following:

- That the taxpayer's return was selected for manual review by the Department.
- The approximate time frame in which the Department would conduct the manual review of the return.
- The name, title, and telephone number of a contact person at the Department who could answer the taxpayer's questions regarding the manual review.

Proposed MCL 205.21a

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Many Michigan residents, especially senior citizens, are dependant upon their tax refund checks to make ends meet. When their checks are delayed by the Department, they may face a financial hardship. Apparently, legislators regularly hear from taxpayers asking for assistance in determining the status of their refund checks, after the individuals have been unable to get the answers they need from the Department's automated telephone system, and cannot get an employee to speak with them. Under the bill, any taxpayer whose return was selected for manual review by the Department would receive notice of the review with an approximate time frame for the review and have the opportunity to speak with someone familiar with the review. The change would make the Department more taxpayer-friendly and would improve the service it provides to older residents who are uncomfortable using automated telephone systems.

Opposing Argument

The flood of phone calls that would result from the mailing of notices under the bill either would require the Department to hire additional staff to handle taxpayer phone calls or would lead to residents' waiting longer for their refunds, because the current staff would have to divert its time from reviewing returns to answering phones. Tax returns are pulled for manual review based on a number of criteria, the most common

being that the Department's computer scanning system is unable to read the taxpayer's writing. Each year, the Department manually reviews between 500,000 and 600,000 returns and most reviews are done for the sole purpose of clarifying issues relating to legibility. If the Department were to mail letters to each taxpayer whose return was manually reviewed, most recipients probably would call immediately to ask the status of their return. The Department simply is not set up to handle that amount of phone traffic at present. Last year, the Department sent out a new tax form, the 1099-G, and the resulting deluge of taxpayer questions overwhelmed the phone system. A letter informing taxpayers that their returns had been selected for manual review likely would generate an even greater number of calls than were generated by the new form.

Opposing Argument

The Department is statutorily prohibited from disclosing to the public the criteria it uses in determining whether a taxpayer's return should be audited. Section 28 of the revenue Act states that, with certain exceptions, "...an employee, authorized representative, or former employee or authorized representative of the department or anyone connected with the department shall not divulge any facts or information obtained in connection with the administration of a tax or information or parameters that would enable a person to ascertain the audit selection or processing criteria of the department for a tax administered by the department." This provision would prevent departmental staff from telling taxpayers why their returns were selected for manual review if it were for the purpose of auditing the returns.

Opposing Argument

It could be difficult for departmental staff to tell a taxpayer all of the issues that would be looked at during the manual review of his or her return. Currently, the Department's computer system pulls a return for manual review when it finds an issue with it, and then stops the automated review process. There may, however, be multiple issues with the individual's return. A taxpayer calling to ask about a return could be told only the reason it was initially pulled for manual review, not all of the potential issues that would be examined during the review process.

Opposing Argument

There would be no reasonableness component to the notice required by the bill. The Department would be required to send notice to any taxpayer whose return was subject to manual review, even if that review only delayed the processing of a return for a few days. Since the notice would have to be sent within 10 days of the selection for manual review, it is feasible that the notice would go out after the review already had concluded and the refund checks had been mailed. A taxpayer who received notice of the review after it had been completed and nothing was found to be wrong would be needlessly alarmed by the notice.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

According to the preliminary estimates from the Department of Treasury, the bill would result in additional mailing costs of \$400,000. The Department estimates staff costs of 20.0 FTEs and \$1.1 million. Actual funding would depend on appropriations by the Legislature.

Fiscal Analyst: Bill Bowerman

A0506\s347a

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.