

Non-Monetary Sanctions as Tax Enforcement Tools: Evaluating California's Top 500 Program

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FTA

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Any views expressed in this presentation are those of the authors and not official positions of the California Franchise Tax Board, the SEC, or the U.S. Dep't of Treasury.

We want to reduce outstanding tax debt

- Various tools are used to encourage resolution of unpaid liability
 - Primarily financial: interest, penalties, liens, levies
- Lesser-used and lesser-studied tools: **collateral sanctions**
 - “Name and shame” lists
 - License suspensions

Agenda

- Description of CA Top 500 program
- Statistical highlights of program impact
- Overview of social welfare analysis
 - Framework from Keen and Slemrod

The CA Top 500 Program

- 2006 legislation – Publish top 250 debtors annually
- 2011 legislation – Publish top 500 twice per year
 - Suspension of professional licenses
 - Prohibition on receiving state contracts
- Separate lists for Sales Tax and Income Taxes
 - This study only on Personal Income Taxes (about 80% of Income Tax list)

Recent highest published CA balances

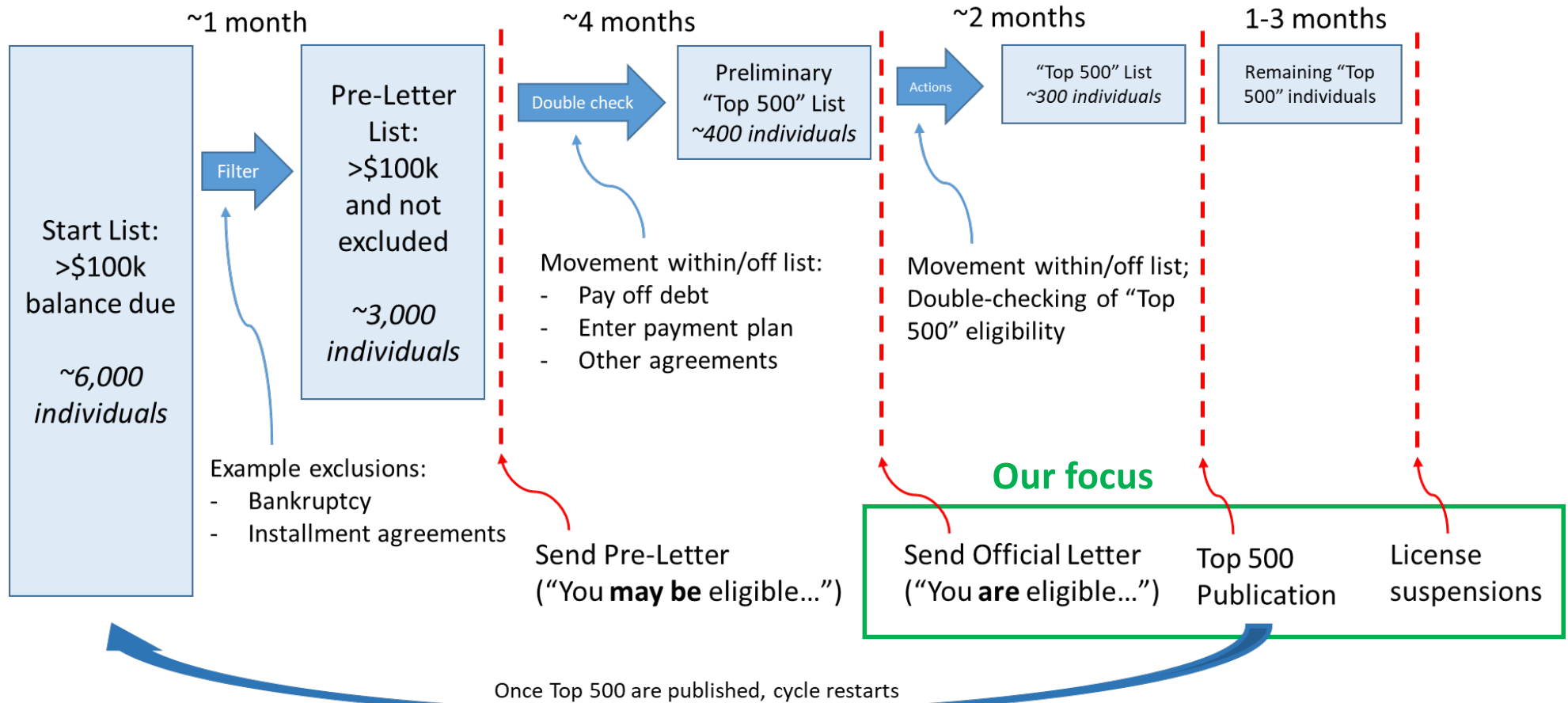
This is a list of the 500 largest tax delinquencies over \$100,000. [By law](#), we must publish this list at least twice a year.

Last updated: 10/06/2020

Name	Address	Subtotal	Total	Lien	License	Status	Number
Moreland, Peggy J & Terry L	Bakersfield, CA 93306	\$5,306,836.86	\$5,306,836.86	01/24/2008	Contractor's State License Board	Expired	856954
					Contractor's State License Board	Expired	362166
Cooksey, Jimmy D	Bowling Green, KY 42104	\$2,403,194.62	\$2,403,194.62	04/25/2008			
Amin, Joseph & Sharona	Beverly Hills, CA 90210	\$1,730,698.65	\$1,730,698.65	04/14/2014	Board of Pharmacy	Active	0034252
Patrick, William L & Susan K	Cody, WY 82414	\$1,648,546.31	\$1,648,546.31	05/31/2019			

<https://www.ftb.ca.gov/about-ftb/newsroom/top-500-past-due-balances/personal-income-tax-list.html>

Note: our analysis focuses only on **individual taxpayers**, not businesses



Official letter

Arguably, the response to the official letter is a response to the threat of a *bundle* of two sanctions:

1. Certain publication
2. Potential license suspension

Notice of Public Disclosure of Tax Delinquency

Notice Date:
Taxable Years:

Account Number:
Balance Due:
Pay By:

Revenue and Taxation Code (R&TC) Section 19195 directs the Franchise Tax Board (FTB) to publicly disclose a list of the 500 largest state income tax delinquencies. These delinquencies must total in excess of \$100,000 and be subject to a recorded notice of state tax lien. We intend to post this list on our website at ftb.ca.gov.

Your account qualifies for this disclosure and Internet posting. If you do not pay your tax liability or take other action described below, we may add to a list posted on our website:

- Your name and address.
- Your occupational or professional licenses with type, status, and license numbers.
- The lien amount owed and the earliest date a notice of state tax lien was recorded.

Your inclusion on the list may lead to the denial or suspension of your licenses, including driver's licenses, under Business and Professions Code Section 494.5, and will preclude you from entering into contracts for the acquisition of goods or services with California state agencies under Contract Code Section 10295.4.

To avoid public disclosure of tax delinquency, you must do one of the following within 30 days of the notice date:

- **Pay your balance due.** You may be required to make payments electronically. Go to ftb.ca.gov and search for mandatory e-pay. If your estimated tax or extension payment exceeds \$20,000 or your tax liability exceeds \$80,000 for any taxable year beginning on or after January 1, 2009, you must make all future payments electronically, regardless of the taxable year. Payments made by other means will result in a penalty of 1 percent of the amount paid, unless your failure to pay was for reasonable cause and not willful neglect (R&TC Section 19011.5). If you are not required to pay electronically, enclose the above part of this notice and mail it with a check or money order for the total amount due payable to the Franchise Tax Board. Write your full name and account number on your payment. **Use the enclosed return envelope and mail to:** FRANCHISE TAX BOARD, PO BOX 3065, RANCHO CORDOVA, CA 95741-3065. No additional penalties or interest accrue on the existing liability if we receive full payment within 15 days of the notice date.
- **Arrange to pay your balance due.** To determine if you qualify for installment payments, call us at 888.426.8555.

Partial payment (even a reduction of the balance due below \$100,000) will not preclude you from being on the list. If your name appears on the list, FTB will continue to pursue collection actions. Call 888.426.8555 if you believe you should not be on the list, have questions, paid the balance due, made payment arrangements, otherwise resolved the balance due, think you do not owe the balance due, or filed bankruptcy.

Get FTB 1131, *Franchise Tax Board Privacy Notice*, at ftb.ca.gov and search for **privacy notice**.

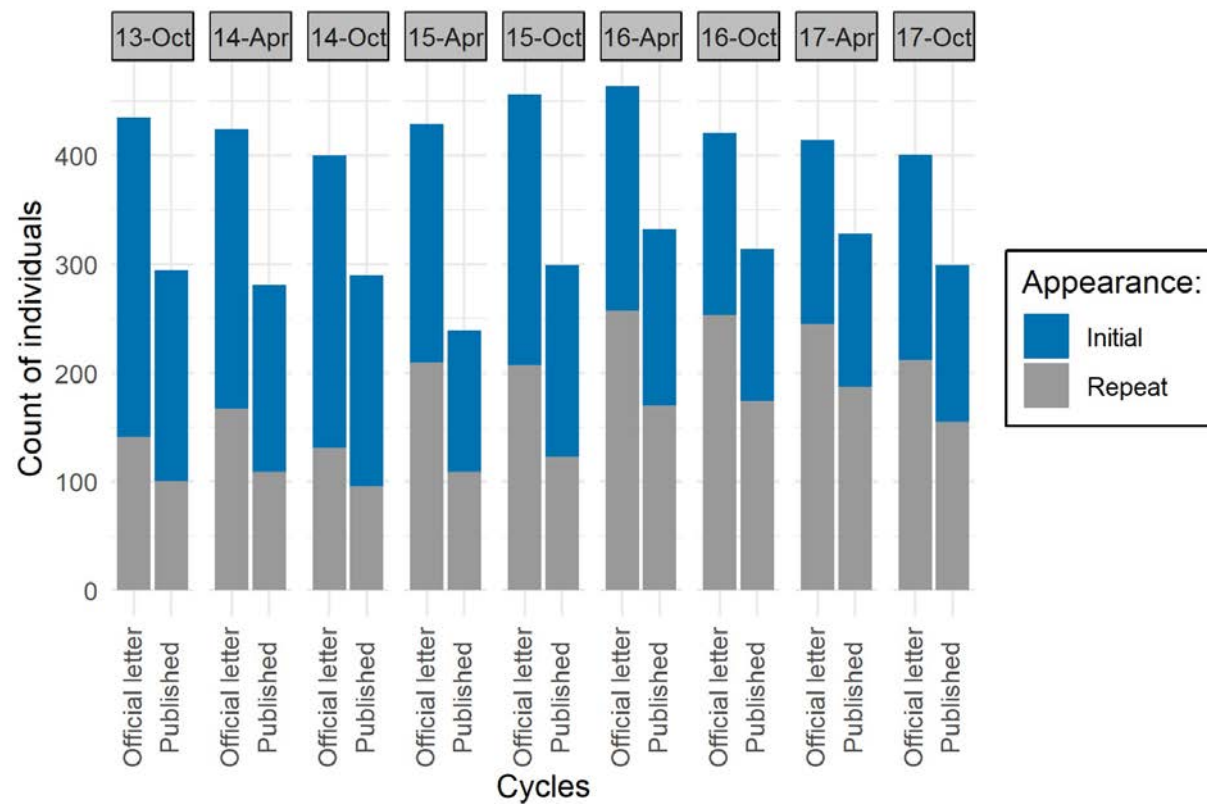
Get FTB 1140, *Personal Income Tax Collections Information*, at ftb.ca.gov and search for **1140**.

Internet and Telephone Assistance

Website: ftb.ca.gov
Telephone: 888.426.8555 from within the United States
916.845.7874 from outside the United States
TTY/TDD: 800.822.6268 for persons with hearing or speech impairments

FTB 4192 PIT PC (REV 10-2012)

Lists are somewhat “sticky”



Data

- Study includes publication cycles during 2013-2017
 - 10 Top 500 cycles (April and October publication)
- Admin data on debt/balance due over time
- Outcomes:
 - Payments made, and when
 - “Status codes” which allow identification of new Installment Agreements
- Linked to CA state income tax returns
 - Indication of on-time or late filing, or no filing
 - Among filers, CA AGI, Wages, presence of business income, and residency

Summary stats – official letter recipients

	Mean	Std. Dev.	P5	P25	Median	P75	P95
<i>Panel A: Among all official letter recipients</i>							
Balance due as of official letter (\$ thousands)	859	7,069	181	245	324	539	1,796
Filed on-time return for two-years prior tax year (1/0)	0.57	0.50	0.00	0.00	1.00	1.00	1.00
Filed return for prior tax year (1/0)	0.55	0.50	0.00	0.00	1.00	1.00	1.00
<i>Among those with filed returns for prior tax year:</i>							
AGI (\$ thousands)	-250	3,913	-1,100	2	40	152	884
Wages (\$ thousands)	71	699	0	0	0	36	213
Has business income (1/0)	0.49	0.50	0.00	0.00	0.00	1.00	1.00
CA resident (1/0)	0.96	0.19	1.00	1.00	1.00	1.00	1.00
<i>Panel B: Among first-time official letter recipients</i>							
Balance due as of official letter (\$ thousands)	606	2,012	172	229	300	493	1,512
Filed on-time return for two-years prior tax year (1/0)	0.56	0.50	0.00	0.00	1.00	1.00	1.00
Filed return for prior tax year (1/0)	0.53	0.50	0.00	0.00	1.00	1.00	1.00
<i>Among those with filed returns for prior tax year:</i>							
AGI (\$ thousands)	-111	3,509	-825	2	41	165	983
Wages (\$ thousands)	98	943	0	0	0	43	272
Has business income (1/0)	0.49	0.50	0.00	0.00	0.00	1.00	1.00
CA resident (1/0)	0.97	0.17	1.00	1.00	1.00	1.00	1.00

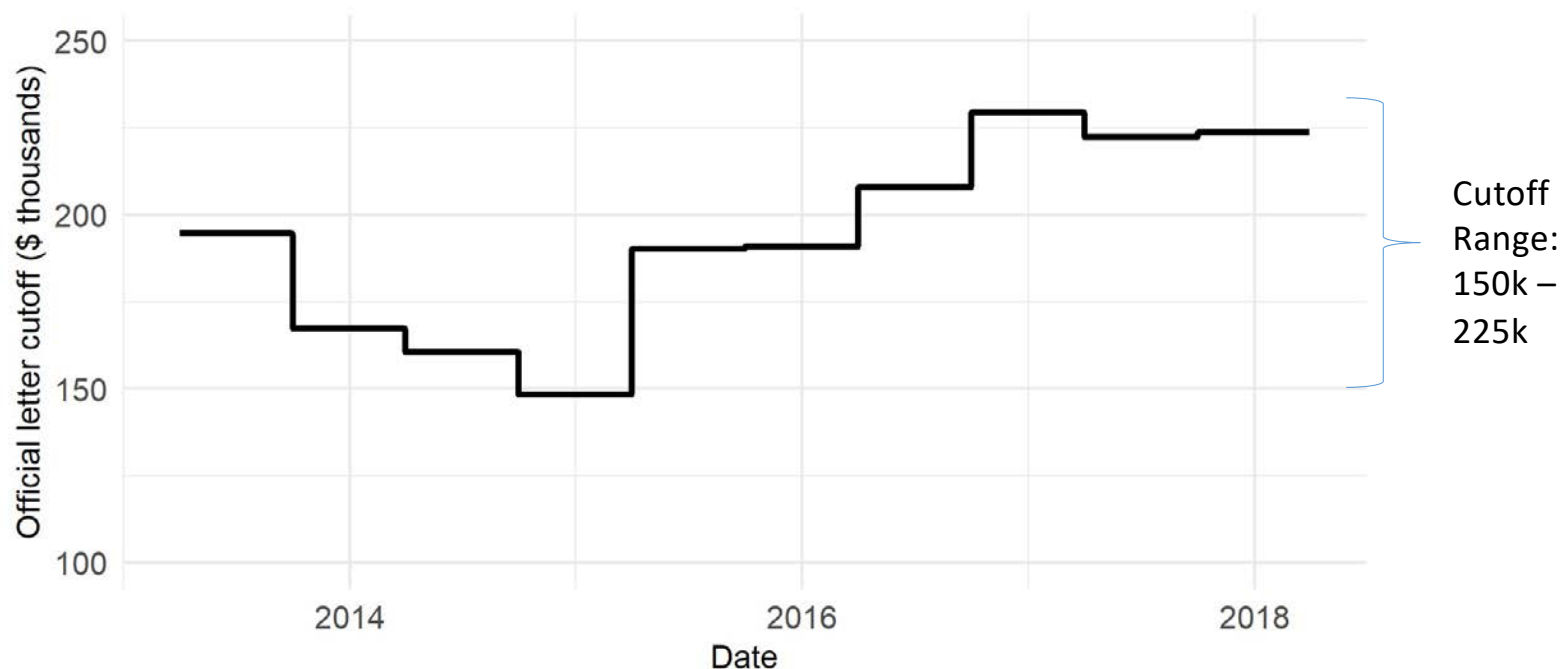
Skewed balance distribution
About 50% filing

Large variation in AGI
~50% have bus. inc.
Almost all CA residents

Comparisons

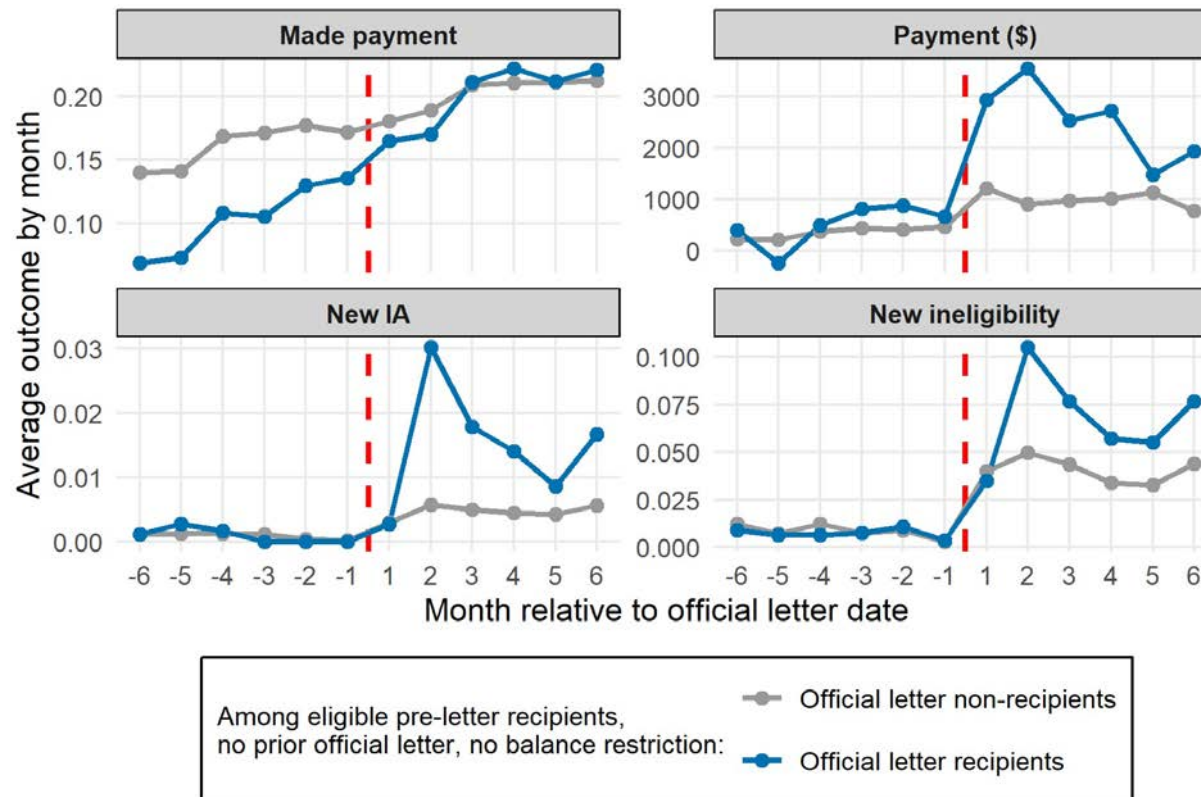
- Four Outcomes
 - Made a Payment
 - \$s Paid
 - Enter Installment Agreement
 - Newly Ineligible
- Two Groups
 - Full Range
 - May not be random
 - Band Around Cutoff
 - Less of the debt

Varying cutoff values for warning letter



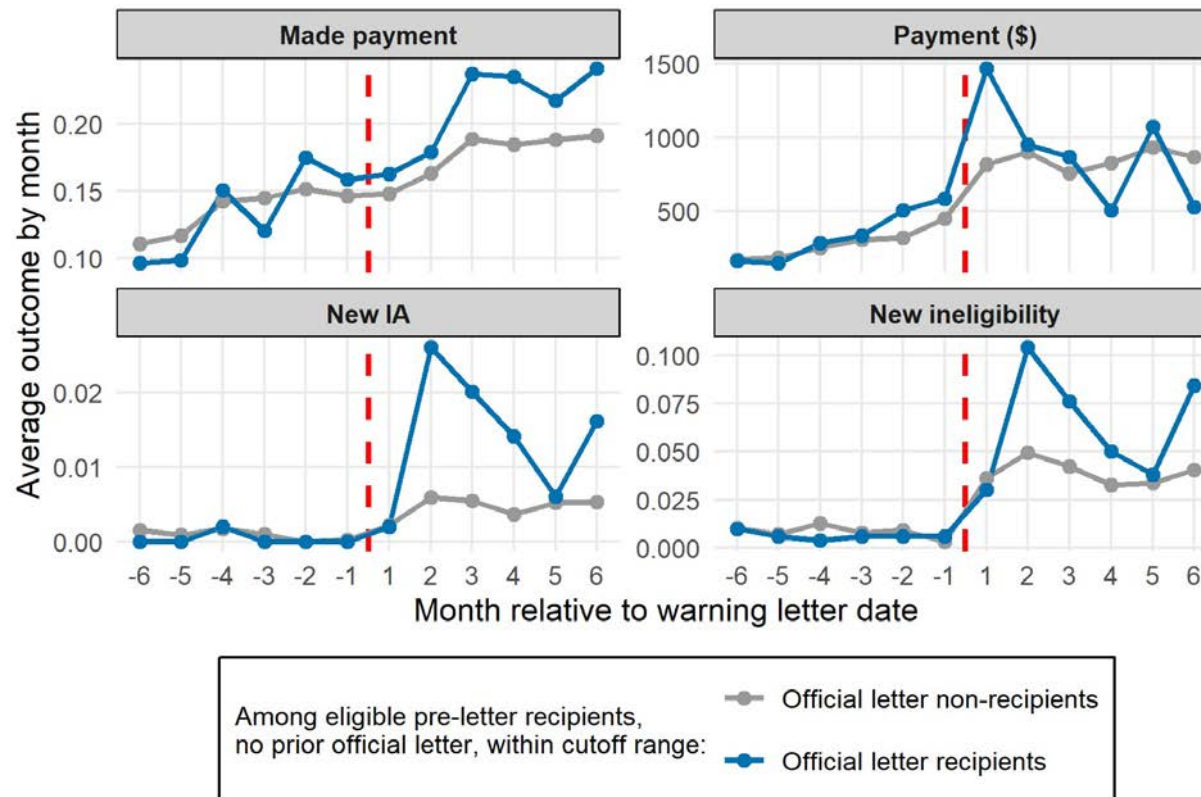
Within the range of cutoff values, warning letter receipt is quasi-random

Official letter: Graphical approach - full range



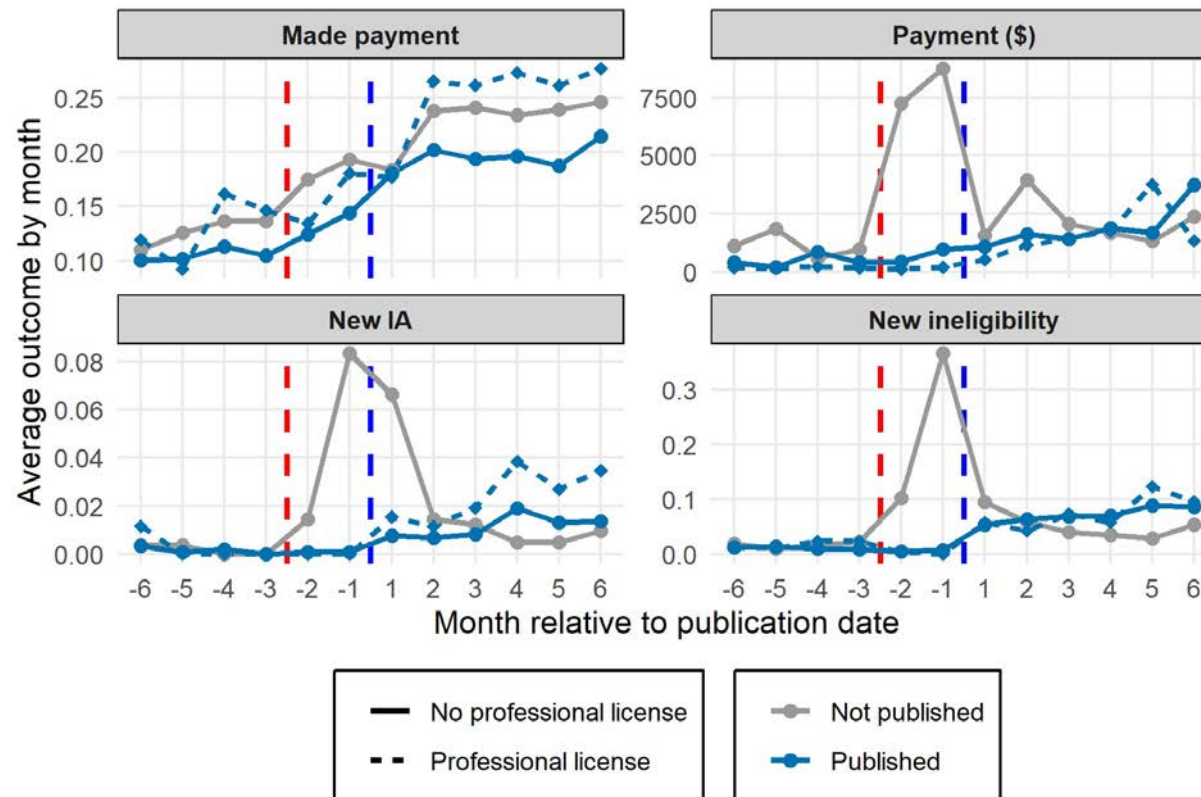
- Compares among those:
- eligible for official letter (based on most recent status change);
 - who received pre-letter that cycle;
 - who have not received a prior official letter;
 - with balance >\$100K.

Official letter: Graphical approach - near-cutoff only



- Compares among those:
- eligible for official letter (based on most recent status change);
 - who received pre-letter that cycle;
 - who have not received a prior official letter;
 - **with balance roughly \$150-225K (within range of cutoffs)**
 - **Generally confirms full-sample, but payments lower as expected**

Publication: Some evidence for license effect



Among letter recipients, we compare published vs. non-published

Selection is very important to consider here!

Official letter: Diff-in-Diff results - full range

Main spec includes:

- Letter date +/- 3 months
- eligible for official letter (using most recent status)
- received pre-letter that cycle
- no prior official letter
- balance > \$100K

We find significant positive effects for payment amount, starting IA, and becoming ineligible.

	Dependent variables:			
	Made payment	Payment amount (\$)	New IA	New ineligibility
Official letter * Post	0.0392*** (0.0063)	1621.5*** (471.06)	0.013*** (0.0018)	0.0271*** (0.0035)
Official letter	-0.05*** (0.0073)	(220.47) (216.96)	-0.0005*** (0.0001)	0.0007 (0.0012)
Post	0.0193*** (0.0016)	590.31*** (82.80)	0.004*** (0.0003)	0.0379*** (0.0009)
Balance	0***	0.2771	0***	0.0000
(\$ thousands)	0.0000	0.1811	0.0000	0.0000
April publication	-0.0414*** (0.0027)	-497.45*** (99.07)	-0.0007** (0.0003)	-0.0001 (0.0009)
Intercept	0.196*** (0.0047)	629.87*** (69.95)	0.001*** (0.0002)	0.0066*** (0.0006)
Observations	126,444	126,444	126,444	126,444
R2	0.0048	0.0018	0.0042	0.0167
Mean dep var.	0.1803	842.2733	0.0031	0.0268

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Official letter: Diff-in-Diff results – near cutoff

Main spec includes:

- Letter date +/- 3 months
- eligible for official letter (using most recent status)
- received pre-letter that cycle
- no prior official letter
- **balance roughly \$150-225K (within range of cutoffs)**

Results are robust to:

- Data filters (pre-letter, eligibility, prior letter)
- Balance filters (narrower cutoff range, excluding balance control)
- Lengthening time window

	Dependent variables:			
	Made payment	Payment amount (\$)	New IA	New ineligibility
Official letter * Post	0.0223* (0.0118)	155.77 305.11	0.0119*** (0.0032)	0.0283*** (0.0066)
Official letter	0.0010 (0.0146)	73.73 173.93	-0.0004 (0.0003)	-0.0004 (0.0022)
Post	0.0192*** (0.0028)	467.612*** 77.52	0.0041*** (0.0005)	0.036*** (0.0016)
Balance (\$ thousands)	-0.0002 (0.0002)	0.93 2.03	0.0000 (0.0000)	0.0000 (0.0000)
April publication	-0.0441*** (0.0049)	-253.07*** 83.20	-0.0014*** (0.0005)	-0.0001 (0.0015)
Intercept	0.1974*** (0.0440)	319.08 356.70	0.0030 (0.0022)	0.0099 (0.0066)
Observations	37,848	37,848	37,848	37,848
R2	0.0047	0.0014	0.0041	0.0157
Mean dep var.	0.1583	606.2506	0.0029	0.0258

Official letter: Cumulative payment effect – full range

This specification includes:

- Letter date +/- 3 months
- eligible for official letter (using most recent status)
- received pre-letter that cycle
- no prior official letter
- balance > \$100K

	Dependent variables: Cumulative payment amount post-official-letter (\$)			
	3 months	6 months	12 months	24 months
Official letter	5388.73*** (1,318.31)	8332.44*** (1,746.36)	13608.8*** (2,234.60)	18283.3*** (2,628.68)
Balance (\$ thousands)	1.13 (0.74)	1.85 (1.15)	2.61* (1.50)	2.63* (1.59)
April publication	-2048*** (510.48)	-2487.13*** (684.55)	-2406.15*** (740.21)	-2034.9** (831.59)
Intercept	3869.5*** (405.42)	6838.05*** (562.87)	10802.19*** (703.61)	15299*** (835.56)
Observations	21,074	21,074	21,074	21,074
R2	0.0039	0.0049	0.0070	0.0075
Mean dep var.	3,626	6,835	11,519	16,620

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Stages of the process

- Biggest impact from the Official Letter.
- Impact of preletter has the right sign but is imprecise.
- Also some impact from actual publication.

Social Welfare Estimate

- Keen and Slemrod (2017) welfare test:

$$\phi(\textit{Revenue} - \textit{Admin Cost}) - \textit{Private Cost} > 0$$

- ϕ is the marginal value of public spending

Social Welfare, Continued

- Estimate of additional revenue:
 - ~400 new taxpayers receiving warning letter each year
 - X \$18K in additional payments after two years
 - \$7.2M** in additional payments induced by letter each year
 - Note that this is a lower bound (IAs are longer-term; ignores publication effect)***
 - Also include pre-letter effects (small positive effects on large group) of **\$3.2M**
 - = Total Revenue \$10.4M**
- Estimate of administrative cost: **\$1.6M**
- Net Increase to government **\$10.4M - \$1.6M = \$8.8M**

Social Welfare, continued

- Private Costs
 - Direct Costs **\$10.4M** (should they be included?)
 - + Disutility from Shaming **\$7.4M**
 - Bounded by the cost of paying to avoid publication
 - - Reduced Avoidance Costs for newly compliant **\$7.2M**
- = **\$10.6M**

Social Welfare, Continued

- Keen and Slemrod (2017) welfare test:

$$\phi(\textit{Revenue} - \textit{Admin Cost}) - \textit{Private Cost} > 0$$

- Assume ϕ (marginal value of public spending) is greater than one (1.5)
- $1.5 \times \$8.4m - \$10.6m = \$2.6m$

Conclusions

- Warning letter induces positive compliance responses
 - Time series graphs show effects; Regressions give quantitative estimates
 - Notable increase in probability of starting an Installment Agreement
 - Meaningful increase in long-run cumulative payments
 - Additional \$18K/person paid over two years when including full range of balances
- Publication may also have small effect
- Tentative evidence of small positive effect of professional license suspension
- Cost-benefit analysis yields favorable assessment of program overall
 - Consideration of private costs is especially important for collateral sanctions
 - Appendix includes detailed notes
- Comments welcome! allen.prohofsky@ftb.ca.gov