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Thank you for your time here today.

I am a practitioner with over 35 years of experience in individual and business income tax preparation, and am grateful for the time to inform the committee of the viewpoints of independent accountants in Oregon and SW Washington when it comes to working with the Oregon Department of Revenue.

<u>Background on Taxation:</u>

Our system of collecting and reporting income taxes is one of voluntary compliance.

As opposed to many foreign countries who impose a PAYE (Pay as You Earn) system of withholding at the source with taxpayer filings or refunds (except in the cases of business returns), the United States and its state and local governments require that the citizen report their earnings and allowed deductions annually to reconcile with withholdings and payments, thus creating a balance due or a refund situation.

- The tax rules change continually based upon the efforts of lawmakers to incentivize or disincentivize certain behaviors and/or industries. These changes lead to complexity and confusion. As an example of the complexity of the income tax rules, the basic IRS Form 1040 is almost two full pages with 3 Schedules, each double sided. The Oregon Form 40 is now 8 pages, and the non-resident Oregon form is now 11 pages.

- Education is a key to voluntary compliance. The Department of Revenue works well with the practitioner community to relay their interpretation of the tax laws and applicability. However, a regular citizen, not trained in reading legislation and income taxes, and unfamiliar with the particular language of income tax, struggles to understand the technical applications to their particular situation. To stress this point, please notice both the Oregon Board of Tax Practitioners and the CASH Oregon speakers pointing out the amount of time and effort that it takes in order to train individuals to prepare individual income taxes.

- Taxes in the United States are based upon accounting principles. Thus, unless an individual understands accounting, the product of return preparation may be incorrect.

- Business returns are more complex than individual returns.

    - Individuals are allowed just a few deductions against their taxable income, and those deductions are granted by Congress and encompass certain medical, tax, mortgage interest, charitable contributions, and a few others.
    - Businesses are allowed to deduct all ordinary, necessary, and reasonable business expenses (including those that would be disallowed by an individual.) However, the business is required to keep receipts and document the purpose of the expense
    - Businesses are also subject to multiple tax regimes in the State of Oregon from localities to the Corporate Activity Tax. Thus, additional knowledge is required to prepare those returns.
    - Businesses are held to a higher standard of due diligence and knowledge that an individual. This is due to the theory that if an individual wants to start a business, as opposed to being a wage earner, then that individual will have attained the knowledge, or paid someone to assist with those functions, of actually being in business.
    - Businesses hold money in trust for the government, unlike individuals. Should a business pay employees, they are subject to holding the employee's withholdings in trust and to remit those payments to the government because the money belongs to the employees and not to the employer.
    - There are very few exceptions to business rules for "small" businesses. They are held to the same standards of conduct and reporting as multinational large corporations.

<u>Taxpayer Interaction with Oregon Department of Revenue:</u>

Powers of Attorney to represent a taxpayer in front of the Department of Revenue

- A Power of Attorney allows an individual to step into the shoes of the taxpayer in order to work with DOR to obtain information, represent in collections or audit, and to sign certain documents to bind a taxpayer to agreements with the DOR – meaning a POA can tell the DOR the taxpayer will pay $500 per month on their delinquent account, even if the taxpayer doesn't want or isn't able to pay that much
- The Power of Attorney form is complex due to the legal complexities of allowing another individual legal access to a taxpayer's account with DOR and the ability to make decisions for them
- The Power of Attorney restricts eligibility to certain family members, attorneys, CPAs, PAs, EAs, LTCs, LTPs, employees, officers, etc. Attorneys, CPAs, PAs, and EAs must all have valid Oregon licensure or the ability to practice in Oregon.
- Clarity in form design is always preferred, but the problems our membership have sent to us are more about the rule definitions of who can be someone's POA as interpreted by the person answering the phone at Department of Revenue

Revenue Online as a resource for taxpayers and representatives to see and share tax information. It allows taxpayers to see if their refund has been issued, letters or messages from the DOR, online payments to be made on tax accounts, and allows taxpayers to review current and prior year tax information to a limited extent.

- Revenue Online is a great resource to be able to see and share tax information but upgrades to the system would be beneficial:
    - More information on where a payment has been sent. Some payments are taken from one year to apply to an outstanding balance on another year.
    - Detail of tax filing – the ability to see a snapshot of what was filed with DOR for a certain year. Currently just shows the amount of tax due and payments applied against that tax due
    - Practitioner access to taxpayer letters was something that Revenue Online would have. When a taxpayer had a letter posted from DOR, the practitioner would have an alert on Revenue Online and the ability to download the letter for potential response. That feature does not seem to be active now.

Software providers must be more responsive to state tax issues. As more taxpayers are confused by the changes in tax law and the additional complexities of the forms and publications, they are turning to software as an answer. However, the old standard of "garbage in-garbage out" still applies.

- Software providers who do not comply with changes or do not correct state tax issues are not held to account when those errors negatively impact the taxpayers
- Taxpayers accept whatever the software provides, even when it is wrong – whether by the taxpayer entering information incorrectly or the software performing in an incorrect method – because the taxpayer doesn't know any better.
- For a good percentage of Oregon income tax returns, there is no reason that the DOR cannot have a system for the basic taxpayer to input their information directly to the DOR – especially if the standard deduction for Oregon is increased to match the standard deduction for Federal.
    - Please note: This would allow a faster, more accurate, EIC calculation if it is independent of the IRS form.

Small Businesses are the heart of the economy. Especially since the pandemic, the number of small business start-ups has increased dramatically. However, there is a fundamental lack of understanding of what it takes to be a business:

- Legal issues – what can/can't the business do based upon their formation and what are the legal liabilities
- Compliance issues – what does the business need to track to respond to regulatory agencies
- Employment issues – what does it take to have an employee from a legal, compliance, regulatory, and tax basis
- Tax preparation issues – what records need to be kept and how to translate those records to a business return – whether it be a sole proprietorship filed on an individual return or a business entity return

When each of these business issues is taken separately, and truly dissected, there is nothing easy or simple about opening your own business. In the current environment, bookkeeping programs and tax preparation software tell an owner that it is easy and that they can do it themselves – but please note, Intuit is now preparing business tax returns and their base rate is $1,499 for a return – on top of the $600 per year to give a business owner a digital checkbook to enter their income and receipts into.

- Even countries with PAYE systems do not have simple filing options for businesses, because every business is unique with different requirements, income generation, and expenses.
- Then, the tax laws with regard to business change even faster than the laws for individuals.
- The IRS does not offer free tax preparation for businesses because of all of these issues, and the fact that businesses are held to a higher standard, even though it may be just an individual who has chosen to be a freelancer.

<u>Earned Income Tax Credit</u>

The Treasury Inspector General for Tax Administration (TIGTA) deems that around 42% of the EIC returns filed in the US in a given year are incorrect. This is why the IRS has not reduced the audit rate of EIC returns the same way that the audit rate for all other returns has been slashed in the past two decades.

The rules for the EIC are very complex with regard to what is Earned Income, does everyone have a Social Security number, who are your dependents, and did everyone live in the right place during the year. In classes that I have given covering just the EIC, the discussion is a 2–4-hour discussion.

The penalties for claiming the EIC incorrectly at the Federal level are very high, including being unable to claim that credit for years into the future.

Practitioners are held to a very high Due Diligence standard when determining whether a taxpayer is eligible for the Earned Income Credit, and the penalty for failure to adhere to those standards can be as much as $2,240 per return prepared.

The filing requirement for the State of Oregon is lower than the Federal filing requirement by around $20,000 for married couples and $15,000 for Head of Household filers. Taxpayers with income below those amounts would be eligible for the EIC, but may not be filing returns because they don't believe they are required to.

Tax year 2021, returns filed in 2020, gave the State of Oregon an opportunity to enhance its outreach to parents who might have been able to claim the EIC, because those parents without enough income to be required to file a return would benefit from the refundable Child Tax Credit and Dependent Care Credits. An outreach campaign may still be done to bring some taxpayers into filing in order to take advantage of these benefits, and that may open the door to the filing for the Oregon EIC.

I thank you for your time, and hope to answer any questions.