

Alabama attempts to modernize

The superauditor experience in collections

By Ed Gentle

In the Spring of 2002, Justin Harrison, an accountant with my firm, and I implemented the Governor's superauditor program with the Finance Department and the Alabama Department of Revenue.

This effort to jumpstart business tax collections succeeded on some levels and failed at others. In this article, we summarize the program and critique its legacy.

The superauditor program involved the hiring of additional tax talent or superauditors, the training of the Department of Revenue's current auditors, and joint audits by the new superauditors and the old,

seasoned ones. The campaign targeted large national taxpayers. It was an eye-opening experience in many ways, from illustrating tax abuse to revealing Department of Revenue operations.



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Savvy auditors produce collections

When we arrived on the scene, the Department of Revenue had 15 or so "foreign audit specialists," who are assigned the task of making sense of tax returns prepared by the largest companies and the most ingenious tax minds in the world. Our joining the group and the department's hiring of three superauditors as employees brought the team to 20.

When we joined the auditing corps, we found it in a very rough position. Businesses cringe when the state

auditor walks through the door. Couple this with a department that may or may not support you, taxpayers who game the tax laws, and a legal division of the department that does not participate in refining auditing theories, and one can

That was our first impression of the Department of Revenue's auditors. Losing tax battles time and time again had taken its toll. We found auditors were low in spirit because our own tax judge often ruled in favor of the taxpayer or the influence of outside lobbyists had filtered its way into reducing tax assessments.

We were able to implement the superauditor program from a fresh perspective. We had no limitations, restrictions, or special interests. We tried to interpret Alabama's tax laws with the legislature's intent in mind and using an economic reality approach. If you make money in our state, pay your share of tax. For some time we received resistance in the department.

Resistance came from many directions: "We can't. We don't. We should not. We used to." Undaunted, our goal was to broaden the auditors' tax knowledge and give them the technical and legal support they deserve.

We conducted worthwhile tax auditing seminars that caught the attention of the audit division. Through extensive training efforts on cutting edge business tax schemes and on how to enforce the 2001 tax reform legislation, our auditors refined their ability to tackle tough taxpayers. Productivity of the auditors who accepted our methods and theories soared. Once the group was onboard and behind our project, auditor excitement at receiving proper training and the department's newfound support was evident. Many auditors felt rejuvenated, and you could sense a sea of change in attitude for the first time.

Armed with an understanding of new tax avoidance techniques, Justin and I conducted field audits with the department's experienced auditors. The department's auditors have sound knowledge of Alabama's tax laws, adequate auditing skills, and long-standing experience in auditing Alabama's largest taxpayers. Through our joint efforts, we successfully assessed taxpayers who severely underreported tax liabilities, benefiting the state by millions of dollars.

Although the efforts of the superauditor program have been reduced due to a change in administrations and the appointment of a new commissioner, the large tax abusers still continue their questionable handiwork.

What is the current mind set of our auditors? Are they going to fall back into the same rut where we found them, or will they continue auditing with the same level of intensity we saw at the end of our tenure in November? Currently, we understand that auditor training may have ceased. For the good of Alabama's children, it needs to be started again immediately.

Modernize the toolshed

The superauditor experience taught us one thing loud and clear: To stem the steady decline in business tax revenues, the Department of Revenue will need new auditing techniques.

The department must improve compliance through the use of strategic audits and innovative strategies. We've entered the era where speed, technology, and communications separate successful campaigns from dysfunctional operations.

Outlined below are auditing strategy recommendations that the Department of Revenue might consider in order to reach the level of efficiency it will take to properly fund our schools.

Many hands make light work

The Multistate Tax Commission (MTC) is a nonprofit association sponsored by state governments, including Alabama, and established to help state tax systems be fair, effective, and efficient. The MTC helped with the superauditor training program. More importantly, the MTC conducts joint audits of large businesses for several states at the same time. To date, the Alabama Department of Revenue has not participated in these multistate audits, forfeiting millions of dollars in potential tax revenues. Our children cannot afford to leave this money on the table any longer.

The department should also conduct joint audits and share audit leads with sister states. Currently, we are missing the boat when it comes to communications with other state revenue departments. Revenue administrators refuse to allow the department to conduct joint audits and share information. Joint ventures with the MTC and sister states can give the Department of Revenue audit teams a much needed shot in the arm. We encourage the department to schedule and conduct joint audits with the MTC and other states to maximize the effectiveness of the audit process, while giving our auditors a fresh perspective and new audit ideas.

This joint audit effort would target large multinational corporations with complex and elaborate tax schemes that are often too much for one auditor to effectively tease apart.

Use mini-audits instead on touring major cities

In many cases, traveling to the multistate taxpayers' location is inefficient. Multinational businesses are often headquartered in Chicago, New York, Los Angeles, and other remote and expensive destinations; however, our auditors currently travel

out of state to visit these multistate taxpayers no matter what the circumstances. The department should perform a much larger number of desk audits and a limited number of field audits. The desk audit would involve a review of the business tax return and its substantiation for contradictions or questionable items. It would help determine the probability of a successful field audit, and thereby, help the auditing team decide whether an onsite taxpayer visit is worthwhile.

This approach of testing the waters before conducting the field audit is also in-line with Governor Riley's request to cut back on unnecessary travel.

Federal audit mining

The department could strengthen its relationship with the Internal Revenue Service. Effective cooperation and coordination will improve tax compliance and reduce the audit burden on taxpayers. The department should fully utilize available IRS programs that allow states to exchange audit leads and training.

The IRS has numerous training seminars. This may take the form of state employees participating in IRS-sponsored training seminars or vice versa. There is a wide range of compliance, service, and education efforts that our state should consider. The department's top revenue administrators with no audit experience now travel all over the country attending seminars. But, our auditing workforce never sees the training materials. Relay this information to the field auditors or don't go to the seminar.

Conclusion

In summary, Alabama once grabbed national headlines in the tax world through its supraauditor program. For a short while, big business knew that Alabama, like the progressive states of North Carolina and New Jersey, would be able to unscramble business tax avoidance and enforce the tax laws. We encourage Revenue Commissioner Carlisle and Governor Riley to build on the supraauditor program by hiring more auditors and continuing to train and support the ones we have. Business will then know that Alabama is no longer a tax haven state with a voluntary income tax.