

JANUARY 2020  
VOLUME 28, NUMBER 3

# CALIFORNIA TAX LAWYER

CALIFORNIA  
LAWYERS  
ASSOCIATION



## TOPICS

- 3** Tax Lawyers Be Aware of New Ethical Rules Governing Law Practice in California  
*By Richard A. Shaw*
- 13** When Will Modifications of a By-Pass Trust Be Respected for Basis Step-Up?  
*By Robin L. Klomparens*
- 18** Suggestions for Improved Transparency and Accountability of California Taxes Via Improved Tax and Budget Literacy  
*By Annette Nellen, CPA, Esq.*
- 32** Removing Intangible Assets from a Property Tax Assessment: The “Rushmore Method” Really Has Been Rejected in California  
*By C. Stephen Davis*
- 37** Tax Business

# Suggestions for Improved Transparency and Accountability of California Taxes Via Improved Tax and Budget Literacy

---

By Annette Nellen, CPA, Esq.<sup>1</sup>

---

## I. INTRODUCTION

Californians pay a variety of taxes and are often asked to vote on ballot initiatives that involve taxes, such as how business income should be apportioned or if tax rates should be increased. Despite the significance of taxes to all individuals—both directly and indirectly, as well as sometimes even at the ballot box, the understanding of taxes among the public is low. For example, taxpayers are unlikely to be able to do the following:

- State how much they pay to the state for income taxes, sales and use tax, and various excise taxes, as well as their share of corporate income tax.
- Explain the rate structure for the income tax, and the types of exclusions, deductions and credits provided (as well as the meaning of these terms).
- Explain where their tax dollars go at both the state and local levels.
- Understand their tax situation in relation to other taxpayers.
- Understand the taxes paid by their employer and other employers (whether for profit or non-profit).
- Know and understand the operation and benefit of various tax preferences provided for health care, housing, retirement savings or higher education expenses,<sup>2</sup> as well as other tax preferences, or know the role and effect of tax preferences in a tax system and within the government system of distributing various benefits.
- Explain the purpose of various tax incentives, or to distinguish between a tax preference (tax expenditure) and a provision that is part

of the basic design of a particular tax (such as the standard deduction in the personal income tax), or to understand that tax preferences usually are a type of government spending performed through the tax system rather than via direct spending.<sup>3</sup>

- Explain how various tax preferences benefit themselves relative to individuals with different income levels or how to appropriately measure and compare the benefits.
- Know where to get more information about California's tax structure or budget or gain awareness or understanding of legislative proposals for tax law changes.

A low understanding of a jurisdiction's tax system despite paying taxes, indicates a tax system weakness of not being transparent or accountable to taxpayers—two principles of good tax policy. Not meeting these principles can also lead tax systems to not measure up well against other principles such as simplicity and equity. Understanding taxes should also help support voluntary compliance and positive tax morale.<sup>4</sup>

When taxpayers better understand tax systems and the effect of these taxes on government finances, they can be described as having a high degree of “tax literacy” which will also improve “budget literacy.” There are numerous ways that the State of California can help individuals improve these literacies. The outcome should be an improved tax system in that increased tax and budget knowledge of taxpayers will help the system to better meet the principles of good tax policy. In addition, it helps taxpayers play a more significant role in state and local functions and interactions with elected officials and candidates for office due to having a more complete understanding of fiscal matters.

This article presents suggestions to help improve tax and budget literacy among the public. While the focus is on California taxes, the suggestions would be appropriate in any



jurisdiction including at the federal level. The suggestions offered fall within the following categories:

- (a) Tax returns, instructions and publications.
- (b) Taxpayer receipt.
- (c) Information in public spaces.
- (d) Transparency website.
- (e) Basic information accompanying tax legislative proposals.
- (f) Information and celebration events in the community.
- (g) K-12 education.

Implementation considerations are also addressed. The article begins with a brief review of principles of good tax policy. These foundations are crucial to an effective tax system and help guide the suggestions offered here for improving tax and budget literacy.<sup>5</sup>

## **II. TAX POLICY REVIEW**

### **A. Definitions**

Various formulations of principles of good tax policy exist. For example, the National Conference of State Legislatures (NCSL) has a document entitled, *Principles of a High-Quality State Revenue System*.<sup>6</sup> The nine principles of this system are (taken verbatim from the NCSL report):

- 1. A high-quality revenue system comprises elements that are complementary, including the finances of both state and local governments.
- 2. A high-quality revenue system produces revenue in a reliable manner. Reliability involves stability, certainty and sufficiency.
- 3. A high-quality revenue system relies on a balanced variety of revenue sources.
- 4. A high-quality revenue system treats individuals equitably. Minimum requirements of an equitable system are that it imposes similar tax burdens on people in similar circumstances, that it minimizes regressivity, and that it minimizes taxes on low-income individuals.
- 5. A high-quality revenue system facilitates taxpayer compliance. It is easy to understand and minimizes compliance costs.

- 6. A high-quality revenue system promotes fair, efficient and effective administration. It is as simple as possible to administer, raises revenue efficiently, is administered professionally, and is applied uniformly.
- 7. A high-quality revenue system is responsive to interstate and international economic competition.
- 8. A high-quality revenue system minimizes its involvement in spending decisions and makes any such involvement explicit.
- 9. A high-quality revenue system is accountable to taxpayers.

The American Institute of Certified Public Accountants (AICPA) suggests a set of twelve principles of good tax policy.<sup>7</sup> These are explained as follows (taken verbatim from the AICPA report):

- 1. Equity and Fairness. Similarly situated taxpayers should be taxed similarly.
- 2. Certainty. The tax rules should clearly specify how the amount of payment is determined, when payment of the tax should occur, and how payment is made.
- 3. Convenience of Payment. Facilitating a required tax payment at a time or in a manner that is most likely convenient for the taxpayer is important.
- 4. Effective Tax Administration. Costs to collect a tax should be kept to a minimum for both the government and taxpayers.
- 5. Information Security. Tax administration must protect taxpayer information from all forms of unintended and improper disclosure.
- 6. Simplicity. Simple tax laws are necessary so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner.
- 7. Neutrality. Minimizing the effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction is important.

8. Economic Growth and Efficiency. The tax system should not unduly impede or reduce the productive capacity of the economy.
9. Transparency and Visibility. Taxpayers should know that a tax exists and how and when it is imposed upon them and others.
10. Minimum Tax Gap. Structuring tax laws to minimize noncompliance is essential.
11. Accountability to Taxpayers. Accessibility and visibility of information on tax laws and their development, modification and purpose, are necessary for taxpayers.
12. Appropriate Government Revenues. Tax systems should have appropriate levels of predictability, stability and reliability to enable the government to determine the timing and amount of tax collections.

The principles of good tax policy or a high-quality revenue system that are the focal point of this paper involve transparency (#9 on the AICPA list) and accountability (#11 on the AICPA list and #9 on the NCSL list).

The NCSL further explains that the “essence of accountability” requires tax laws to be “explicit, not hidden.” Debate should be encouraged by widely publicizing proposals to change the tax rules. The NCSL also promotes the use of tax expenditure reports to help meet the accountability principle. The NCSL suggests that such reports show not only the “revenue loss” or cost of tax preferences, but also provide information “to evaluate the effectiveness and efficiency of” the policies that underlie various tax preferences.<sup>8</sup>

In line with the NCSL, the AICPA states that accountability to taxpayers allows for “broader and more well-informed debate” about tax changes. The AICPA observes that to achieve this principle, taxpayers need “access to information for understanding sources and uses of tax revenues.” The AICPA also highlights that accountability helps improve respect for the tax system.<sup>9</sup>

The AICPA combines transparency with visibility as necessary to allow taxpayers “to know the true cost of transactions.” The Government Accountability Office (GAO) lists transparency as a criterion for a “good tax system” along with equity, economic efficiency, simplicity and administrability. Per the GAO:<sup>10</sup>

“The transparency of a tax system refers to taxpayers’ ability to understand how their liabilities are calculated, the logic behind the tax laws, what

their own tax burden and that of others is, and the likelihood of facing penalties for noncompliance.”

Achievement of the principles of transparency and accountability to taxpayers require that taxpayers have adequate and appropriate information that is easily accessible and understandable.

### **B. Benefits of Increased Transparency and Accountability to Taxpayers**

When a tax system meets the principles of transparency and accountability to taxpayers, it is more likely to also meet other principles of good tax policy. For example, if individuals better understand the concepts of progressivity and regressivity, they are more likely to question lawmakers about deductions, exclusions or exemptions that provide greater benefits to higher income taxpayers relative to lower income taxpayers. They might demand changes that allow the system to better achieve principles of good tax policy. They might also seek changes in what government subsidies are provided via direct spending versus the tax system (tax expenditures), and even question and suggest changes as to the design and value of various subsidies.

The GAO notes that lack of transparency (along with complexity of a system) “exacerbate doubts about the current tax system’s fairness.” The GAO further notes that because our tax systems rely on voluntary compliance, low understanding and its side effects can harm compliance.<sup>11</sup>

## **III. SUGGESTIONS FOR IMPROVING TRANSPARENCY AND ACCOUNTABILITY FOR TAXPAYERS**

This section offers suggestions to help California’s tax system better achieve the tax principles of transparency and accountability to taxpayers. Another way to consider the goal of these suggestions is that they should improve an individual’s tax and budget literacy.

The suggestions are offered within broad categories. The suggestions vary in terms of the party responsible for implementation, execution and maintenance costs, parties reached, and intricacy. Some of the suggestions are unlikely to work until tax and budget literacy levels have been raised. For example, telling an individual how much they saved in income and/or sales tax due to various tax preferences is unlikely to have a positive impact until individuals first understand what tax preferences (tax expenditures) are, why they exist, how they are evaluated, and more.

The suggestions address not only the delivery or access approach for the information, but also the type of information that should help improve tax and budget literacy.

Categories of suggestions:

- (a) Tax returns, instructions and publications.
- (b) Taxpayer receipt.
- (c) Information in public spaces.
- (d) Transparency website.
- (e) Basic information accompanying tax legislative proposals
- (f) Information and celebration events in the community.
- (g) K-12 education.

## **A. Tax Returns, Instructions and Publications**

### **1. *Modifying Existing Forms, Instructions and Publications***

Tax returns tend to include terminology best understood by someone knowledgeable in taxation. Some individuals may not be aware that terms have special definitions, such as head-of-household, dependent, or student. Given wide access to the internet, providing an online tax form with explanations that “pop up” when the user scrolls over a line would be extremely helpful to individuals, rather than only providing an online “static” form. While individuals can look for the instructions to the form, such approach dates back to what made sense when we could only look at these items in paper format.

Also, while many individuals (and even more each year) use tax preparation software, tax agencies are likely to continue to post all forms on their website for education and access purposes. Making these forms as user friendly and informative as possible is a good use of technology and for promoting a stronger understanding of tax rules and compliance requirements.

The internet and web browsing allow for better access to information. For example, when someone scrolls over “Filing Status” on Form 540 online, a pop-up (or “mouseover”) could explain the basics and that for more information, they should scroll over each of the listed options for filing status. Where lines require individuals to insert figures from other forms, the pop-up can let them know where to get that information. The pop-up for “tax due” could remind the filer to review their withholding and estimated taxes for the current year to avoid tax due for the current year. Pop-ups could also provide tips for areas where mistakes are common. For example, reminders on federal-California differences can be provided.

While some lines may require more than a pop-up window, the basic information could be in the pop-up

window with a link provided for where more information may be obtained. In addition, reminders could be given about the need to maintain proper records and where they can get more information to help them with this task.

The pop-up per line approach to explaining tax return information can also provide information beyond a compliance focus. Where appropriate, the pop-up could also state, for example, for each filing status, “approximately X% of filers claim the single status.”

The pop-up information approach could remove the need to have separate instructions, although making them available in pdf should still be an option for individuals who want to look at the complete instructions in one document.

Online publications could also have pop-ups to explain terminology to reduce the need to skip around in the publication and to make the resource more user friendly and to take advantage of technology that can make the resource easier to use.

Any web-based resource should also be available for viewing on a smartphone as that is how many individuals access information.

A consideration for state tax agencies is that they are likely required to be sure all websites are accessible. California law requires all electronic information technology created by state agencies be accessible to individuals with disabilities.<sup>12</sup> Advances in technology often consider the need for such capabilities and ideally, state tax agencies can find the proper resources to allow existing websites to provide additional information to help advance tax and budget literacy for viewers.

### **2. *New Tax Forms or Schedules***

New tax forms or schedules should also be considered if they can help improve understanding of how tax systems work. One idea is to have a form that lists all tax preferences so that a taxpayer can easily see the tax savings they obtain from these special rules. The form could list the most common preferences such as (a) exemptions for employer-provided health insurance, fringe benefits and tax-exempt interest income, (b) itemized deductions (Schedule A), and (c) tax credits. Instructions could list all such items, which can easily be over 50 items at the federal level, as well as in some states. Taxpayers would report the amount of the exemption, deduction, credit or special rate. Instructions would explain what original form has the information. The total would be multiplied by the taxpayer’s marginal tax rate to show the tax reduction received, or the tax table can be used to compute the tax savings. Tax preparation software would make this tax preferences form seamlessly simple to prepare.

Another potential benefit of such a form is that it could be used if a jurisdiction needs an across the board spending cut such as due to an economic recession. The tax preferences could be added, multiplied by the taxpayer's marginal tax rate, and multiplied by the spending cut percentage (such as 5 percent), with that amount added to the taxpayer's tax liability for the year. This exercise would likely also improve tax and budget literacy to highlight that not all spending is direct spending in agency budgets, but that spending also exists in the tax system.

A challenge for states using such a tax expenditure form is that states with sales taxes also have significant exemptions such as for food, medical procedures, and often also for entertainment, digital goods and personal services. Taxpayers don't readily have access to their spending on such items. However, spending data gathered by the U.S. Census Bureau could be used to make such estimates based on the taxpayer's income level. This information might be more suitable for including on a taxpayer receipt where the website can be programmed to make these calculations (see III.B. next).

## B. Taxpayer Receipt

Prior to 2017 returns, the Franchise Tax Board (FTB) offered a taxpayer receipt to interested parties who visited the taxpayer receipt website.<sup>13</sup> Taxpayers entered their California state income tax figure from Form 540 and clicked the button for "Get CA Tax Receipt." This produced a website that showed how that money was used in the broad spending categories of the state budget, such as health services, K-12 education, higher education, environmental protection, and government operations.

The FTB receipt was good but limited. It could be improved by changes such as the following:

- Have taxpayers also enter other California taxes they pay. Such taxes can be estimated by the online tool based on income, miles driven, certain purchases, such as alcohol, etc. This will also help individuals see all the state taxes they pay.
- Calculate and show the taxpayer's marginal and effective income tax rates.
- Show the tax preferences claimed by the individual and how much they saved due to these rules. The receipt can also include how key preferences are used among different income levels and the "cost" of these tax expenditures (which can be pulled from reports on this

information that the California Department of Finance already prepares).

- Include taxes paid indirectly (tax incidence). For example, what is the individual's share of the corporate income tax? What is a renter's share of property tax? An explanation of "tax incidence" should also be provided. The Texas Comptroller's Tax Exemptions and Tax Incidence Report explains taxes collected at the state and local levels, tax expenditures data and explanations, and the incidence of each tax. For example, the report for 2018 includes a table (reproduced below) that shows the incidence of the school property tax by household income quintile. It shows the average amount paid, percent of total tax paid and the tax as a percent of the individual's income.<sup>14</sup>

Final Incidence of Tax - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as Percent of Total Income
Quintile 1	Less than \$37,630	\$2,354.3	6.5%	6.4%
Quintile 2	37,630 - 66,112	3,047.0	8.4%	3.1%
Quintile 3	66,112 - 99,619	4,476.3	12.4%	2.8%
Quintile 4	99,619 - 149,453	6,450.5	17.9%	2.7%
Quintile 5	149,453 and higher	12,528.3	34.7%	1.9%
Residents		\$28,856.4	79.9%	
Exported		\$7,256.5	20.1%	
Total		36,112.9	100.0%	

### Estimated Equity of Tax

Suits Index	-0.099
-------------	--------

Note: Totals may not sum due to rounding.

The above information helps individuals see that they pay some taxes indirectly (such as renters indirectly paying property taxes imposed directly on the property owner). Such information provides a better picture of everyone's tax obligations. The above table also illustrates the regressivity of the Texas school property tax as it represents a greater percentage of the income of a low-income taxpayer relative to a high-income taxpayer.

The tax incidence information requires background information on how taxes are paid directly and indirectly (from an economic perspective). Without this background information in layperson terms, the data will likely only confuse taxpayers.

The incidence information showing taxes paid indirectly could be explained and provided on the taxpayer receipt.

Additional information that would be helpful to include on a taxpayer receipt includes the following:

- The income quintile the taxpayer is in and the dollar size range of that quintile and other quintiles.
- The spending breakdown based on the state budget of five years ago to highlight significant changes.
- The names and email addresses of their elected state officials so they can ask questions, offer suggestions, or seek additional information.

To help more individuals be aware of the receipt option, the website address (URL) and brief explanation of the tool and its benefits can be noted on MyFTB, an email receipt or window provided once a return is e-filed, as well as listed on the main FTB website and that of a few other government agency websites.<sup>15</sup>

The receipt could also be “pushed” to individuals such as through MyFTB or the mail. H.R. 3855, Taxpayer Receipt Act (114th Congress), called for a taxpayer receipt to be “made available to each taxpayer as soon as practicable upon the processing of that taxpayer’s income tax return by the Internal Revenue Service.” Problems with using the U.S. Post Office include cost of printing and mailing and the fact that many individuals would prefer to receive the information electronically.

Provision of a taxpayer receipt via a “California Tax App” (also see Section IV later), should be a low-cost approach for providing the receipt (after the app is developed of course). Occasional messages could be delivered via the app to remind taxpayers of the opportunity to get a receipt and the benefit of the information to them.

### **C. Information in Public Spaces**

There are numerous opportunities for posting tax and budget information in public spaces including on government websites, emails and offices. Following are some examples.

#### **1. Paper and Digital Posters**

Attractive posters should be created for government agencies, junior and senior high schools, and California colleges and universities about various budget and tax topics. These posters could include pie charts on the major sources of revenues and expenditures for the state, types of taxes individuals and businesses pay, how to determine how much and the type of taxes individuals pay directly and indirectly, reminders of income tax due dates and where to get information, use tax explanation and the importance of paying it, how gig workers become tax compliant and grow their business, and more. In addition to paper posters, digital posters should be provided as many locations have monitors that display information. If government agencies and schools can easily download and display the tax and budget information, it might be more widely shared.

The following example from the California Department of Tax and Fee Administration (CDTFA) is a good one as the picture sends a message of when and why the tax is owed (<https://www.cdtfa.ca.gov/taxes-and-fees/use-tax-banners.htm>). A URL (as well as a QR code with the URL embedded) should be included in the poster to allow viewers to easily obtain more information.

Posters that can grab attention could show how people’s tax dollars are used. For example, “\$X of tax dollars covers the costs of each third grade class at your local elementary school.” Or, “paying your use tax enables cities to hire more teachers and police officers.”<sup>16</sup> These messages could be created in a manner that would allow schools to individualize them for display at their school.

#### **2. Tax Information on Particular Products**

Various products, such as beer and gasoline, involve specific excise taxes, usually in addition to sales tax. Signs could be posted near the location where consumers purchase these items that shows how much of what that pay constitutes federal, state and local taxes. For example, tax agencies can provide durable signs for gasoline stations or provide them for download via a website. The signs should enable the seller to post their specific price and tax information.<sup>17</sup> Similar



information can be provided to grocery stores and similar vendors of alcohol and tobacco products so they can show the tax information near where these products are displayed in their stores. Tax agencies can make these vendors aware of the availability of signs on other information they provide to them already, such as sales tax reporting forms.

In addition, gas stations and sellers of alcohol and tobacco products could be encouraged or required to print the federal and state excise taxes on customer receipts.

In designing these tax signs, drafters should consider the nutritional information on food containers. That is, be sure it is something that catches one's attention and provides useful information in a concise and clear manner.

### 3. *Promotion Via Outreach by Elected Officials and Government Employees*

Email signature lines of employees and elected officials should include a link to the (new) California Transparency website (see III.D. next) or something specific on that website. Government agency websites should also include a link to this website.

### 4. *Need for Coordination and Refreshment*

Tax agencies have various information websites and YouTube videos, which are helpful. However, videos (and some websites) are not well-known by the public, can get

outdated, and do not seem to be coordinated with other outreach and educational efforts. Better coordination including links to the videos on the agency website and links in the videos to the agency website for the related information, would be helpful to increase the audience of viewers and improve transparency. Also, a system is needed to be sure all websites and videos are regularly reviewed (at least annually) by tax agency employees for currency.

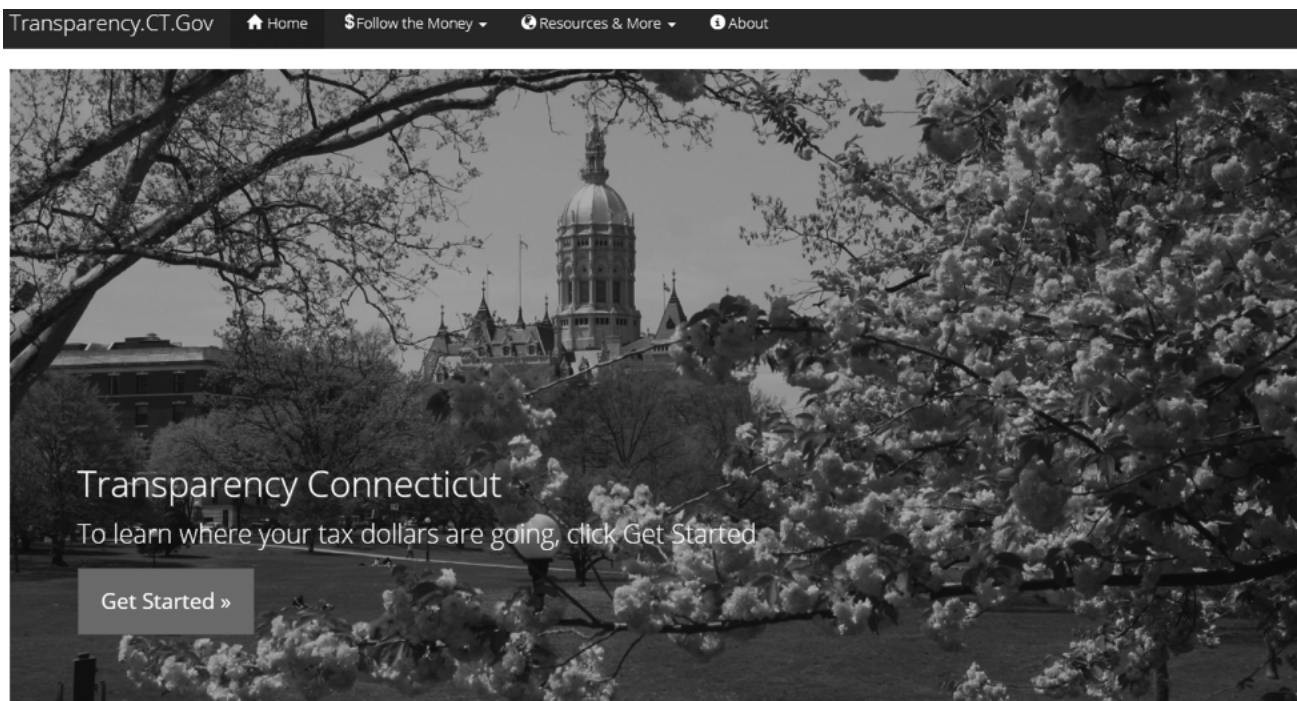
### D. Transparency Website

Some states have a "transparency" website with significant information about revenues, spending, debt, types of taxes, economic forecasts, cash flow, budgets, and a variety of state reports. Examples of such websites include the transparency websites of Connecticut, Oregon and Texas. Elements of each are described below.

#### 1. *Transparency Connecticut—<http://transparency.ct.gov>*

The "Transparency Connecticut" website includes the following broad content areas:

- State expenditures
- Employee compensation
- Contract spending



#### State Expenditures

The State Budget is comprised of ten appropriated funds that support the major operations of State



#### Employee Compensation

Employee Compensation is calculated from actual fiscal year payroll payments. Totals are for the



#### Contract Spending

State Agencies negotiate contracts with vendors to provide services or goods at set prices. Click to



- Grants
- Payments
- Pensions
- Visualize (enables users to create color graphs and pie charts showing various agencies and categories of spending).
- Data-To-Go (allows for downloads of various reports in a spreadsheet to use for further analysis).

The “about” page includes the following quote from Thomas Jefferson (1802) (<http://transparency.ct.gov/html/about.asp>):

“We might hope to see the finances as clear and intelligible as a merchant’s books, so that every member of Congress, and every man of every mind in the Union should be able to comprehend them, to investigate abuses, and consequently, to control them.”

The website is required by law and maintained by the Office of Fiscal Analysis and Office of the State Comptroller.

## 2. Oregon Transparency—<https://www.oregon.gov/transparency/>

The broad topic categories on Oregon’s transparency website include:

- State budget



## Oregon Transparency - Opening State Government to Everyone

Search

Contact Us

About Us

Subscribe to Updates

---

Public Meetings

State Budget

Performance Measures

Revenue Reports

Expenditure Reports

Contracts & Procurement

State Workforce

PERS Transparency

---

Economic Development

Education (ESD's)

Higher Education

Local Government

Quasi-Public Entities

---

Public Records Request

Administrative Rules

Transparency Oregon Advisory Commission

---

Questions (FAQ's)

Resources

### Home

[About Transparency](#)

[Public Meetings](#)

[State Budget, Agencies and Performance](#)

[Revenue Reports: Show Me the Money](#)

[Expenditure Reports: Time to Pay the Bills](#)

[Contracts/Procurement: Who's the state doing business with?](#)

[State Workforce](#)

### About Transparency

This Website is a tool to help you get to know your state government. Its purpose is to show you how government works, what your taxes buy, and how purchasing decisions are made.

A good place to start is by reviewing [annual budget information](#), listings of [public meetings](#), and agency [key performance measures](#).

### Questions & Suggestions

Send us your questions and suggestions by clicking the Inbox, using our [online form](#), or sending an email to [oregon.transparency@oregon.gov](mailto:oregon.transparency@oregon.gov).

### Subscribe to Oregon Transparency Updates

Receive monthly updates about the Oregon Transparency website and Oregon Transparency Program. Click the **Subscribe** button or [sign-up link](#).

### Disclaimer

Unless otherwise specified, the data and information provided throughout this site is current as of June 30, 2017, and is updated on an annual basis.

- Performance measures
- Revenue reports
- Expenditures reports
- Contracts & Procurement
- State workforce
- Economic development
- Education
- Higher education
- Local government
- Quasi-public entities

- State revenue
- State spending
- Budget and finance
- Local governments
- Open data tools and information

The website is maintained by the state comptroller. Within the categories listed above, there are several subcategories with links to numerous reports, datasets and links to government websites.

The Texas Transparency website is easy to navigate although it has a lot of information and links. For example, a link for “visualizations” (<https://comptroller.texas.gov/transparency/revenue/visualizations.php>) under the State Revenue category, leads to a website on “where the money comes from.” Clicking the “tax collections” link leads to the following website showing tax collections and trends for the state sales tax. Links at the right side of the page (see picture below), allow for production of similar graphs for all other types of taxes imposed in Texas.

Many of the links lead to reports, downloadable data files, definitions, and links to government websites. Interested individuals may subscribe to the website to receive monthly updates.

### 3. *Texas Transparency—<https://comptroller.texas.gov/transparency/>*

The broad topic categories for the Texas Transparency website include the following:

Transparency ▾

Q

## Transparency

Texas state government is an enormously complex undertaking, including everything from road construction to professional licensing, from prisons to university research. It's a more than \$110 billion-a-year enterprise that relies on funding from a variety of sources, including about \$50 billion annually that the Texas Comptroller's office collects from more than 60 separate taxes, fees and assessments.

How are we doing? Take our survey. [↗](#)

### Where the Money Comes From

Tools to review revenue dollars and better understand the state's finances.



#### 4. Tax Transparency Website Design Considerations

In designing a transparency website for state government, the following strengths and weaknesses discovered at the above sites should be considered.<sup>18</sup>

Strengths:

- use of the word “transparency” and the existence of such websites helps taxpayers to access and know what information can help them better understand the overall budget picture and the types of government spending;
- data can be readily accessed from one website rather than searching among numerous state government agency websites;
- the site can provide easy access to many different types of government reports that otherwise are not easy to know about or find, including tax expenditure reports; and
- the website can include contact information for the user to ask a question or offer a suggestion, including in real time via a chat function on the website.

Weaknesses:

- tax information is not highlighted;
- tax expenditure reports are noted, but the context of their relevance is not provided, other than on the Oregon website;
- references to state expenditures (direct spending) do not also include a link to an explanation of tax expenditures;
- tax statistics, such as number and type of taxpayers, return data sortable by income groups, and more, are not included (the Texas website includes a link to various tax information but not to statistical data);
- there is no link to information on how the branches of government work and where more information can be found, including contact information for elected officials and lists of legislative proposals;



#### Tax Collections | Previous Fiscal Years

Fiscal 2009 - 2018 (All Funds Excluding Trust)

Tax collections represent the state's largest revenue source. This application allows you to compare tax collections by tax type, and includes multiple years of data, allowing you to see historical trends.

Begin by selecting a year (or years) from the Fiscal Year list. Compare specific categories by clicking selections in the Tax Revenue Category menu. Click an item again to deselect it. Click "Clear" to remove all selections. Click "Undo" to go back one step.

#### CURRENT SELECTIONS

Fiscal Year: 2014, 2015, 2016, 2017, 2018  
Tax Revenue Category: Sales Taxes

On-Screen Help

Previous Fiscal Years  
State Revenues by Source

#### Fiscal Year

- ☐ 2009 ☒ 2016 ☐ Select All  
☐ 2010 ☒ 2017  
☐ 2011 ☒ 2018  
☐ 2012  
☐ 2013  
☒ 2014  
☒ 2015

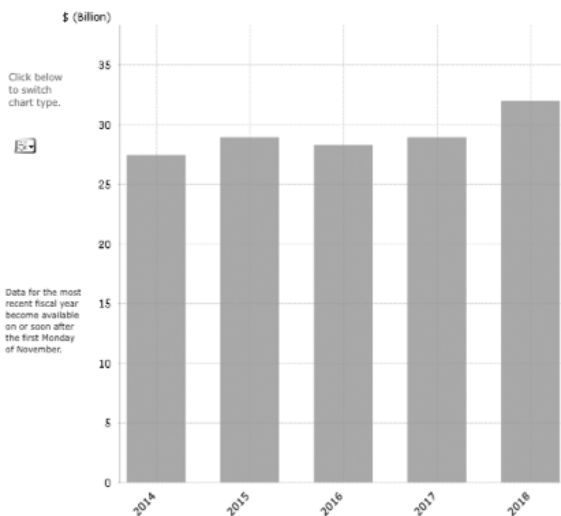
#### Tax Revenue Category (Tax Type)

- ☒ Sales Taxes  
☐ Franchise Tax  
☐ Motor Vehicle Sales and Rental Taxes  
☐ Motor Fuel Taxes  
☐ Oil Production Tax  
☐ Insurance Taxes  
☐ Cigarette and Tobacco Taxes  
☐ Natural Gas Production Tax  
☐ Alcoholic Beverages Taxes  
☐ Hotel Occupancy Tax  
☐ Utility Taxes  
☐ Inheritance Tax  
☐ Other Taxes  
☐ Select All  
☒ \*\*\* Total Revenue (Excluding Trust)

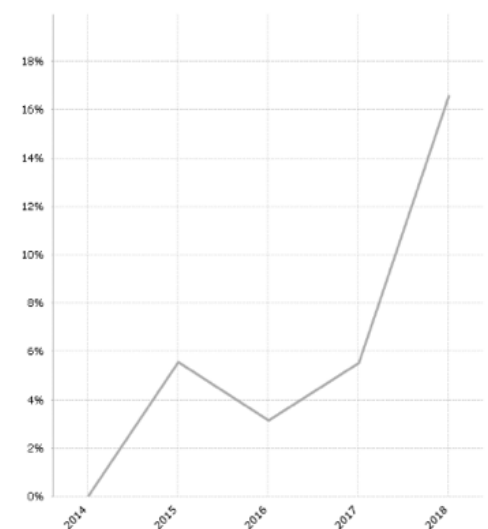
Source: Texas Comptroller of Public Accounts Annual Cash Report, Table 3

Note: Data includes Other Sources (Investments, Bond and Note Proceeds, and Interfund Transfers/Other Sources).

#### Total Tax Collections by Tax Type



#### Percent Change in Revenues



Revenues - Current Fiscal Year to Date			
Fiscal Year	Revenue Category Number	Revenue Category	Revenue Amount
			<b>\$145,441,953,233.50</b>
2014	06	Sales Taxes	\$27,396,624,899.10
2016	06	Sales Taxes	\$28,257,548,774.85
2017	06	Sales Taxes	\$28,512,207,427.07
2015	06	Sales Taxes	\$28,924,481,546.64
2018	06	Sales Taxes	\$31,949,090,587.84

- unlike many instructional websites today, there are no apparent videos to help explain the website or any of its elements; and
- the sites appear busy and complex due to the numerous information posted, even on the landing page.

Ideas for improving state transparency websites are offered in Section IV.

#### **E. Basic Information Accompanying Tax Legislative Proposals**

Proposals to change tax laws, whether via legislation or ballot initiative, are excellent opportunities to improve tax literacy. State legislatures and Congress vary on how much detail is provided on the website where bills are listed. Some sites provide the text of the bill and any amendments, the history, fiscal effect, and explanations of how the bill works and why it was introduced. A few, such as Arizona, include video links to watch hearings (live or recorded) about the bill.

Greater tax and budget literacy would enable more individuals to understand tax legislative proposals. For example, a proposal for a new sales tax exemption would easily be identified by a tax literate individual as reducing revenues, adding complexity due to the need for new definitions, and possibly creating inequities among industries and varying income levels of consumers. Knowing this information can help individuals understand whether the change is needed, whether it should be temporary or permanent, and whether other changes are also needed to address any revenue loss.

States should consider a standard format for providing background on tax proposals that would include the type of tax collected, budget effect, who is affected directly and indirectly, why the change is needed, a summary of the arguments for and against, and links for obtaining more information and providing input to lawmakers. The process for making the change should also be described so interested individuals can know the vote count required, the timing required, and for constitutional changes, how that process works and why that avenue is needed.

#### **F. Information and Celebration Events in the Community**

Taxpayer education can also be addressed via community events for all types of taxpayers. The CDTFA already has a significant number of seminars and classes taught throughout the state such as on basics of sales and use tax, non-profits, recordkeeping, and industry specific ones such as for restaurants, auto repair shops, and liquor stores. The FTB offers occasional webinars as well.

Additional information about the California tax system can be addressed in existing business information events. For example, information can be added to existing seminars to help attendees see how the particular tax addressed at the seminar fits into the state's revenue structure, relevant tax expenditures for that tax and their "cost", and the tax gap for that tax and its effect on the state. Such segment might be called "tax transparency" to highlight to attendees that it is important to know more than just the basic mechanics of a tax.

Elected officials often hold community events. Tax education materials could be made available for use at such events directed to both individuals and businesses.

Celebratory events should also be considered, such as making April 30 "Celebrating Taxpayers Day."<sup>19</sup> A 2015 report from the Organization for Economic Cooperation and Development (OECD) describes various educational and celebratory events used in 28 developing countries to build "tax culture" and promote positive tax morale.<sup>20</sup> Examples include the following:

- Nigeria created a soap opera for television called "Binding Duty" that includes well-known actors, scripts with accurate tax information, and "dramatic flair [on] how the old order of inefficient and corrupt tax collection has changed, that it pays to be compliant, and that everyone has a responsibility to contribute to the development of their community and country."<sup>21</sup>
- Guatemala uses "tax lotteries" where individuals deposit official VAT receipts with the possibility of winning a prize. The government also produces a series of "tax dramas" featuring honest Simón, a good taxpayer. These dramas are shown on television, YouTube and at public events. Also, since 2008, the country holds annual "Strength Lies in Numbers" festivals each April. The goal is to strengthen a culture of tax compliance and citizenship. The festivals also promote art and culture.<sup>22</sup>
- Rwanda holds an annual Taxpayers' Day to celebrate tax compliance and help citizens understand the connection between taxes and economic development. A report is published to help people understand data on tax revenues and challenges facing the tax agency. The president of Rwanda officiates at the celebration.<sup>23</sup>

While the events described in the 2015 OECD report take place in developing countries, the ideas should not solely be viewed as relevant only in these countries. While a key theme in these countries is to improve tax compliance and understanding of how that helps the country advance, that message is not only relevant in developing countries. The IRS estimates that the annual federal tax gap is about \$458 billion<sup>24</sup> and tax gaps exist in every U.S. subnational taxing jurisdiction. Also, as noted in this article, there are numerous tax technical topics where understanding is low, as well as weak understanding of tax system design (tax policy) and the interaction of tax systems and government budgets. Any ideas on how to improve tax and budget literacy, should be considered due to the benefits to overall tax compliance and effective tax systems. In addition, occasional thanking of taxpayers for their voluntary compliance should help build and support positive tax morale.<sup>25</sup>

### **G. K-12 Education**

Understanding taxation—a topic that affects everyone, need not wait until a person gets their first job and completes an income tax return. We have all likely heard stories of the high school student or graduate surprised that their first paycheck is less than expected. For a student to study government operations in various grades from 4th to 12th and not be aware of income and other taxes, is just wrong. How can someone truly learn how government functions without knowing where the resources for its operation come from and their own role in that funding?

It should be simple to find many places where various tax topics can be included in the K-12 curriculum. For example, math problems can include not only calculating a worker's gross earnings, but their net earnings after taxes are considered.

The California Common Core for Grade 7 math includes the following as a focal area:<sup>26</sup>

“Students extend their understanding of ratios and develop understanding of proportionality to solve single- and multi-step problems. Students use their understanding of ratios and proportionality to solve a wide variety of percent problems, including those involving discounts, interest, taxes, tips, and percent increase or decrease.”

A sample 6th grade math problem from the State of Louisiana involves an individual who earns \$6 per hour plus a \$30 bonus for the week. If she works 32 hours in the week, how much did she earn.<sup>27</sup> This problem (and many like it in many grades) overlooks an opportunity to define “gross earnings” and “net earnings” and to also have students calculate federal and state taxes withheld. The additions

to this simple gross earnings problem would also enable students to use percentages (such as to calculate FICA and Medicare taxes, as well as state and local taxes), and use tax tables.

Math students could also visit the FTB and CDTFA websites for the information they need. A section on these websites for teachers and students of various grades could provide basic tax information at the appropriate age level. The information should be suitable for various grade levels and subjects including math, social studies, civics, history, and classes where students may be reporting on current events.

State tax agencies and professional tax organizations (such as CalCPA, AICPA, California Lawyers Association (CLA)) could provide tax problems for various grade levels along with explanations of answers. Graduate tax programs (MST and LLM) could have students create such problems as well. Perhaps the FTB and CDTFA or other California agency website could serve as a repository for the information.

In addition to promoting tax and budget literacy through math courses, civics courses should include lessons on where government revenues come from, the basics of different types of taxes, who pays and how, and an individual's role and responsibilities in the tax system. Again, appropriate state agencies could include links on their websites for students with the information appropriate for various specified grade levels. Professional organizations and graduate tax programs could assist in providing the materials.

A few examples exist of tax information for students and teachers. These sites can provide additional information for state tax agencies and materials to build from. Examples of tax education sites offered by various government agencies include the following:

- IRS—“Understanding Taxes” for teachers and students at <https://apps.irs.gov/app/understandingTaxes/>.
- U.S. Government—“Explaining Taxes to Kids Lesson Plan” at <https://www.usa.gov/taxes-lesson-plan>.
- Federal Reserve Bank of Atlanta—“Teaching about Taxes: Tips and Tools” at <https://www.frbatlanta.org/education/publications/extra-credit/2015/spring/resources-for-teaching-about-taxes.aspx>.
- Federal Reserve Bank of St. Louis—“It's Your Paycheck! Curriculum Unit” at <https://www.stlouisfed.org/education/its-your-paycheck-curriculum-unit>.



Digital games use should also be considered for providing educational materials. An example of this approach is Uruguay which loads tax education information, including games, on laptops provided to school children.<sup>28</sup>

#### **IV. IMPLEMENTATION CONSIDERATIONS**

Some of the suggestions offered in this article should be made via legislation to ensure adequate funding and greater attention to the effort. Some of the changes can be completed by the FTB and CDTEA, such as is already done with seminars they provide to mostly business taxpayers.

Not all individuals will pursue the information, perhaps thinking they will not understand it, or it is not relevant to them. A transparency website and taxpayer receipt should also include a link to brief information (text and video) on what the user will find and how they may find it relevant. Use of celebrities to help promote this information should help. Wording must also be engaging rather than only descriptive, such as “information for line 14 of your Form 540”. Some examples of more engaging headings for tax information include “How do your taxes compare to those of a millionaire?”, “Why should I care?” and “How will this make my life better?”

While websites are the likely repository to provide information to improve transparency, “apps” should also be considered to address the way many individuals access information via their smartphone or other handheld device. In addition, the functionality of a secure app can not only provide information but allow individuals to access their tax information (such as what is available on MyFTB). The app could also push out reminders about estimated tax payments, help the taxpayer collect information (such as perhaps also linking to capture situations where an online purchase results in use tax to pay and linking to a Form 1099 filed for the taxpayer).

A task force with government and private sector individuals of varying demographics and with varying expertise on taxation, budgets, education, advertising and use of social media, would be a good avenue for creating a California Transparency website and projects that would be of greatest benefit to individuals and the state.

Greater transparency and accountability can help taxpayers feel more engaged with their government and their own role as citizen and taxpayer. It can also help improve tax systems in better meeting principles of good tax policy. The benefits are enormous and improved efforts, as described in this article and expanded by government employees and government/public citizen task forces can only make tax and budget systems even better.

#### **ENDNOTES**

1. Annette Nellen, Professor, San Jose State University, [www.sjsu.edu/people/annette.nellen](http://www.sjsu.edu/people/annette.nellen).
2. A 2015 survey by NerdWallet concluded that Americans earn an “F” in their understanding (or lack thereof) on personal finances related to income taxes. Questions asked in the survey included use of IRAs and other retirement plans, 529 education plans, what qualifies as a charitable contribution deduction. NerdWallet, “Americans Failing on Basic Income Tax Knowledge,” Feb. 24, 2015; <https://www.nerdwallet.com/blog/taxes/americans-failing-basic-tax-knowledge/>.
3. Congressional Research Service, Grant A. Driessen, *Spending and Tax Expenditures: Distinctions and Major Programs*, June 17, 2016; <https://fas.org/sgp/crs/misc/R44530.pdf>. Both spending programs and tax expenditures are described as the two key ways that the government provides benefits to the public with both increasing net budget deficits.
4. Tax morale refers to attitudes and perceptions about taxes. Positive perceptions are required to help support voluntary compliance of tax obligations. The Organization for Economic Cooperation and Development (OECD) describes tax morale as measuring “taxpayer perceptions and attitudes towards paying and evading taxes.” OECD, *The Role of Tax Morale in Development*; <http://www.oecd.org/tax/role-of-tax-morale-in-development-conference-january-2019.htm>.
5. This article is based on a paper presented as part of the California Lawyers Association Tax Section’s annual Sacramento Delegation project. The author thanks all of the participants of this event held on October 12, 2018 in Sacramento, as well as Mark Hoose and Roger Royse who provided comments on the initial draft of the delegation paper.
6. NCSL, *Principles of a High-Quality State Revenue System*, Fourth Edition, June 2007; <http://www.ncsl.org/research/fiscal-policy/principles-of-a-high-quality-state-revenue-system.aspx>.
7. AICPA, *Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals*, 2017; <https://www.aicpa.org/ADVOCACY/TAX/downloadabledocuments/tax-policy-concept-statement-no-1-global.pdf>.
8. NCSL, *supra*.
9. AICPA, *supra*, p. 13.
10. GAO, *Understanding the Tax Reform Debate: Background, Criteria, & Questions*, GAO-05-1009SP, Sept. 2005, pages 4-5; <https://www.gao.gov/assets/210/202725.pdf>.
11. GAO, *supra*, p. 1.
12. California Government Code sections 7405 and 11135. Also see <https://www.ca.gov/accessibility/>.

13. FTB, 2017 Income Tax Receipt; <https://www.ftb.ca.gov/individuals/taxreceipt/index.shtml> (visited Oct. 1, 2018). At April 15, 2019, this website was not available.
14. Texas Comptroller, Tax Exemptions & Tax Incidence, Nov. 2018, page 67; <https://comptroller.texas.gov/transparency/reports/tax-exemptions-and-incidence/2018/96-463.pdf>. The Comptroller also reports a “Suits Index” as part of the tax incidence of each tax. This index shows ranges of +1.0 (progressive) to -1.0 (regressive tax), with 0.0 indicating a “perfectly proportional” tax for all income quintiles (see page 46 of the report).
15. For more on taxpayer receipts, see Nellen, “Transparency for Individual Taxes,” *AICPA Tax Insider*, April 14, 2016; <https://www.thetaxadviser.com/newsletters/2016/apr/transparency-for-individual-taxes.html>.
16. “The CDTEFA estimates that more than \$1 billion of use tax goes unpaid each year, equivalent to the salaries of more than 11,000 teachers or 7,000 policy officers.” CDTEFA, Tax Information Bulletin, June 2018, p. 6; <http://www.cdtfa.ca.gov/formspubs/pub388.pdf>.
17. Connecticut proposed a mandatory posting of gasoline taxes at gasoline stations “to provide transparency in the retail sale of gasoline.” H.B. 6563 and H.B. 5934 (2017).
18. This list of strengths and weaknesses is mostly taken from Annette Nellen, “Oh, I See’: Suggestions for Greater Tax Transparency,” *State Tax Notes*, Nov. 20, 2017, pages 737-738.
19. Reasons for such a day are noted in the article, as well as at the author’s blog: “How about making April 30th Celebrating Taxpayers Day?” (4/16/19); <http://21stcenturytaxation.blogspot.com/2019/04/how-about-making-april-30-celebrating.html>.
20. OECD, *Building Tax Culture, Compliance and Citizenship: A Global Source Book on Taxpayer Education*, 2015.
21. OECD, *supra*, p. 143.
22. OECD, *supra*, pages 84-86.
23. OECD, *supra*, pages 153-154.
24. IRS, The Tax Gap; <https://www.irs.gov/newsroom/the-tax-gap>.
25. Thank you to taxpayers seem uncommon in the U.S. However, IRS Commissioner Rettig released a message to taxpayers on April 12, 2019 that included thanking taxpayers for filing and paying their taxes and reminding them of the importance of this civic duty. IRS, “IRS Commissioner Chuck Rettig’s Message to taxpayers: Thank you for filing,” April 12, 2019; <https://www.irs.gov/newsroom/irs-commissioner-chuck-rettigs-message-to-taxpayers-thank-you-for-filing>.
26. California State Board of Education, California Common Core State Standards—Mathematics, p. 46; <https://www.cde.ca.gov/be/st/ss/documents/ccssmathstandarAug2013.pdf>.
27. Louisiana Dept. of Education, Grade 6 Math Practice Test 2013-2014, p. 13, problem 22; <https://www.louisianabelieves.com/docs/assessment/practice-test-math-grade-6.pdf>.
28. OECD, *supra*, pages 183-186.