

CALIFORNIA LAWYERS ASSOCIATION
TAXATION SECTION
TAX POLICY, PRACTICE & LEGISLATION COMMITTEE

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**SUGGESTIONS FOR IMPROVED TRANSPARENCY AND
ACCOUNTABILITY OF CALIFORNIA TAXES AND RELATED
INFORMATION**

This proposal was prepared by Annette Nellen, member of the Tax Policy, Practice and Legislation Committee of the Taxation Section of the California Lawyers Association.¹ The author thanks reviewers Mark Hoose and Roger Royse for their helpful comments.²

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¹ The comments contained in this paper are the individual views of the author who prepared them, and do not represent the position of the California Lawyers Association or its Taxation Section.

² Although the participants on this project might have clients affected by the rules applicable to the subject matter of this paper and have advised such clients on applicable law, no such participant has been specifically engaged by a client to participate on this project.

EXECUTIVE SUMMARY

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. This 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.

There are various ways that the State of California can help individuals improve their “tax literacy.” 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 should enable taxpayers to 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 paper presents suggestions to help improve tax and budget literacy among the public. The suggestions fall within the following categories:

- A. Tax returns, instructions and publications.
- B. Taxpayer receipt.
- C. Information in public spaces.
- D. Transparency website.
- E. Information events in the community.
- F. K-12 education.

Implementation considerations are also addressed.

DISCUSSION

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. Yet, the understanding of our tax and budget system by most taxpayers 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 (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,³ 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).

³ 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/>.

- 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.

There are various ways that the State of California can assist taxpayers in improving their “tax literacy.” The outcome would 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 should enable taxpayers to 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.

II. TAX POLICY

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.⁴ 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.

⁴ 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>.

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.⁵ 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.

⁵ 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. 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. They also suggest the use of tax expenditure reports to help meet the accountability principle. The NCSL also 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.⁶

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 notes that to achieve this principle, taxpayers need “access to information for understanding sources and uses of tax revenues.” The AICPA also suggests that accountability helps improve respect for the tax system.⁷

The AICPA combines transparency with visibility as necessary to allow taxpayers “to know the true cost of transactions.” The Government Accountability

⁶ NCSL, *supra*.

⁷ AICPA, *supra*, p. 13.

Office (GAO) lists transparency as a criterion for a “good tax system” along with equity, economic efficiency, simplicity and administrability. Per the GAO:⁸

“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 understood the concepts of progressivity and regressivity, they might 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.⁹

III. SUGGESTIONS FOR IMPROVING TRANSPARENCY AND ACCOUNTABILITY TO 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

⁸ 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>.

⁹ GAO, *supra*, p. 1.

consider the goal of these suggestions is that they should improve an individual's tax and budget (or fiscal) 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 fiscal literacy.

Categories of suggestions:

- A. Tax returns, instructions and publications.
- B. Taxpayer receipt.
- C. Information in public spaces.
- D. Transparency website.
- E. Information events in the community.
- F. K-12 education.

A. Tax Returns, 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 or dependent. 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, this approach dates back to what made sense when we could only look at these items in paper form.

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. For example, where appropriate, the pop-up could state at the end, for example, of 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.

B. Taxpayer Receipt

The Franchise Tax Board (FTB) already offers a taxpayer receipt to interested parties who visit the taxpayer receipt website.¹⁰ Taxpayers enter their

¹⁰ FTB, 2017 Income Tax Receipt; <https://www.ftb.ca.gov/individuals/taxreceipt/index.shtml>.

California state income tax figure from Form 540 and click the button for “Get CA Tax Receipt.” This produces a website that shows 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 receipt is good but limited. It could be improved by such changes 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 of the state taxes they pay.
- 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.
- 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 2017 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.¹¹

¹¹ Texas Comptroller, Tax Exemptions & Tax Incidence, Feb. 2017, page 47; <https://comptroller.texas.gov/transparency/reports/tax-exemptions-and-incidence/2017/96-463.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).

Final Incidence of Tax -- By Household Income Quintile

Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as a Percent of Total Income
1	Less than \$35,108	\$2,158.3	6.8	6.7
2	\$35,108 - 61,522	3,157.1	9.9	3.7
3	\$61,522 - 95,635	4,349.6	13.7	3.2
4	\$95,635 - 146,699	5,945.4	18.7	2.8
5	\$146,699 and higher	9,403.4	29.6	1.5
Residents		\$25,013.8	78.8	
Exported		6,718.1	21.2	
Total		\$31,731.9	100.0	

Estimated Equity of Tax

Suits Index -0.242

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 directly imposed on the property owner). Such information provides a better picture of everyone's tax obligations. The above table also illustrates the regressivity of the 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.

- Show what income quintile the taxpayer is in and its dollar size range, among other quintiles.

- Show what the spending breakdown would have been based on the state budget of five years ago to highlight significant changes.
- Include the names and email addresses of their elected state officials so they can ask questions or seek additional information.

To help more individuals be aware of the receipt option, the 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.¹²

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). Occasional reminder 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.

- Create attractive posters for government agencies and junior and senior high schools about various budget and tax topics. These 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

¹² 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>.

information, use tax explanations and the importance of paying, how gig workers become tax compliant and grow their business, and more. In addition to posters, digital posters should be provided as many locations have monitors that show 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 is good 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 should be provided for obtaining more information:



Additional information that can grab attention might be showing 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.”¹³

These messages could be created in a manner that would allow schools to individualize them for display at their school.

- Provide diagrams and text on the portion of the price for a gallon of gasoline that is made up of federal and state excise and sales taxes. These could be sent to stations or posted on a website for easy download by the gas stations.¹⁴ Gas stations could be encouraged or

¹³ “The CDTFA 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 police officers.” CDTFA, Tax Information Bulletin, June 2018, p. 6; <http://www.cdtfa.ca.gov/formspubs/pub388.pdf>.

¹⁴ 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).

required to print the federal and state excise taxes on customer receipts.

- Provide diagrams and text on the portion of the price of alcohol and tobacco products that consists of federal and state excise and sales taxes. These can be sent to stores that sell these products or made available via a government website for easy downloading. Information on availability can be noted on sale tax reporting forms.

In designing such diagrams, the drafters should consider the nutritional information on food containers. That is, something that catches one's attention and provides useful information in a concise and clear manner.

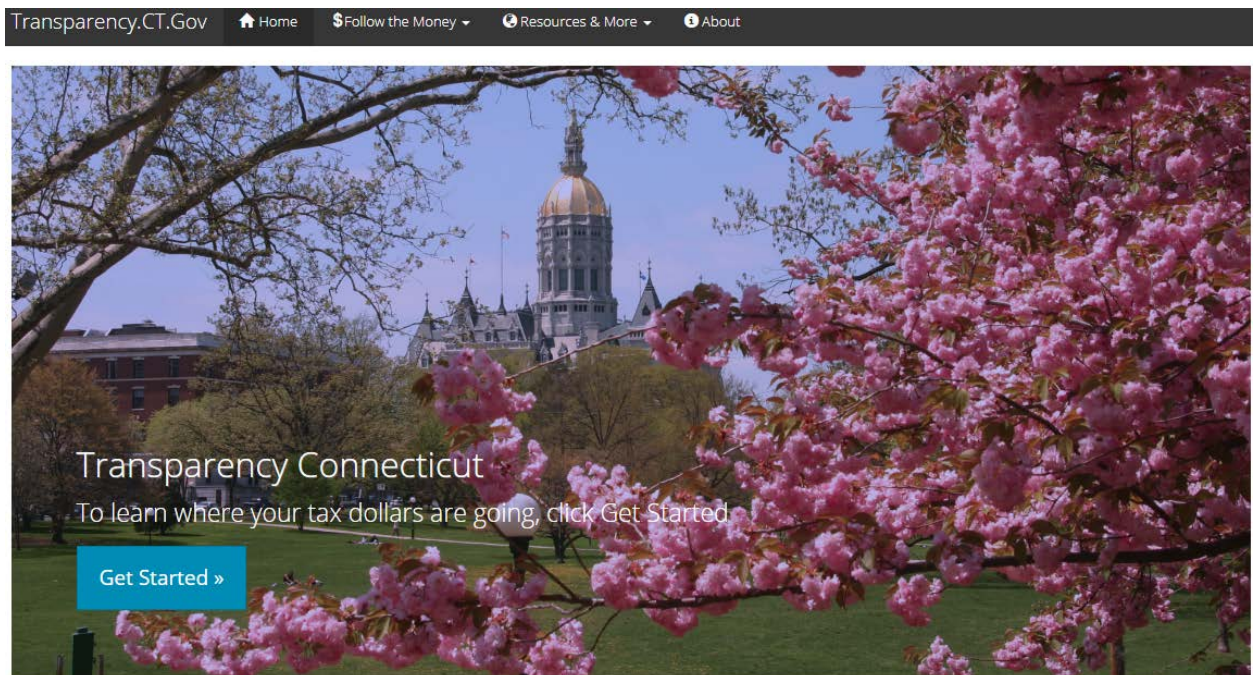
Email signature lines of employees and elected officials could include a link to the (new) California Transparency website or something specific on that website. Government agency websites should also include a link to this page. For more information about this recommended website, see the next suggestion at III.D.

Note: Tax agencies have various YouTube videos, which are helpful. However, they 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 useful.

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.

Transparency Connecticut - <http://transparency.ct.gov>



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

Broad content areas covered:

- State expenditures
- Employee compensation
- Contract spending
- 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.



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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](#).

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



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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.

Topic categories include:

- State budget
- Performance measures
- Revenue reports
- Expenditures reports

- Contracts & Procurement
- State workforce
- PERS Transparency
- Economic development
- Education
- Higher education
- Local government
- Quasi-public entities

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.


Texas Transparency - <https://comptroller.texas.gov/transparency/>

Transparency ▾ Enter a search term

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.

Topic categories include:

- State revenue
- State spending

- Budget and finance
- Local governments
- Open data tools and information

The website is maintained by the 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. 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 of the other tax types used in Texas.



Texas Transparency

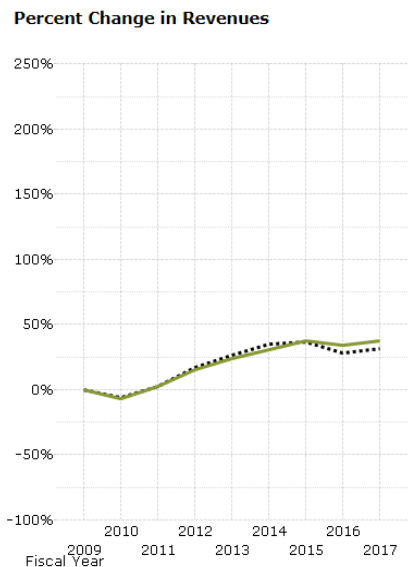
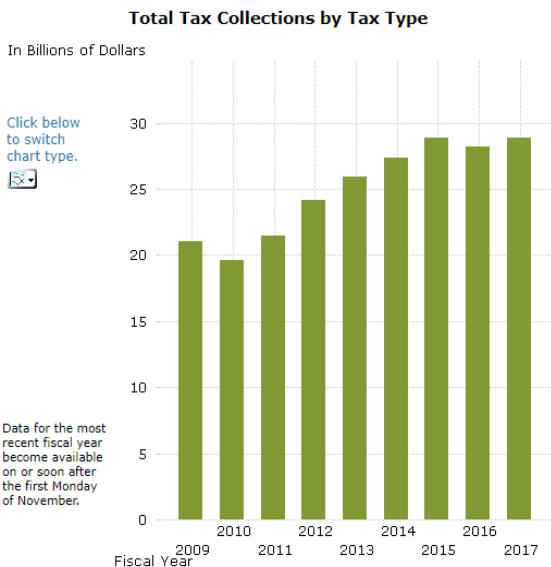
Tax Collections | Previous Fiscal Years Fiscal 2009-2017 (All Funds Excluding Trust)

Tax collections represent the state's largest revenue source. This application allows you to compare tax collections by tax type, and includes five-year historical data. To compare specific categories, make selections from the Tax Revenue menu. Click an item again to deselect it, or click "Undo" or "Clear" to remove selections.

Click the Previous Fiscal Years State Revenues by Source button to see the revenue sources.

[Previous Fiscal Years State Revenues by Source](#)

[Undo](#)
[Clear](#)



Compare Tax Types
Select from the list below to compare specific tax revenues:

Tax Revenue Category

- 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).

In designing a transparency website for state government, the following strengths and weaknesses discovered at the above sites should be considered.¹⁵

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.

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; and
- unlike many instructional websites today, there are no apparent videos to help explain the website or any of its elements.

¹⁵ This list of strengths and weaknesses is taken from Annette Nellen, “‘Oh, I See’: Suggestions for Greater Tax Transparency,” *State Tax Notes*, Nov. 20, 2017, pages 737-738.

E. Information 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.

Additional information about the California tax system can be addressed in existing business information events. For example, helping 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.

Elected officials often hold community events. Materials could be made available for use at such events but directed to individuals rather than only businesses.

F. 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 role in that funding?

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

The California Common Core for Grade 7 math includes the following as a focal area:¹⁶

“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.¹⁷ 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 the website 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) could provide tax problems for various grade levels along with explanations of answers. Perhaps the FTB and CDTFA or other California agency website could serve as a repository for the information and links to organizations who can provide more (such as Junior Achievement and similar educational organizations).

¹⁶ California State Board of Education, California Common Core State Standards – Mathematics, p. 46; <https://www.cde.ca.gov/be/st/ss/documents/ccssmathstandarAug2013.pdf>.

¹⁷ 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>.

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. For example:



IV. Implementation Considerations

Some of the suggestions offered in this report 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, CDTFA and BOE, such as is already done by the FTB with its taxpayer receipt.

Not all individuals will pursue the information, perhaps thinking they will not understand it, or it isn't 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. Possible wording for such links (including using more than one option):

- “Why should I care?”
- “How will this make my life better?”
- “What’s the point?”

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. 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, collecting information (such as perhaps also linking to capture situations where an online purchase results in use tax to pay).

A task force with government and private sector individuals would be a good avenue for creating a California Transparency website and projects that would be of greatest benefit to individuals and the state.