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May 19, 2009

Elizabeth Harchenko, Director
Oregon Department of Revenue
955 Center St NE
Salem, OR 97301-2555

Dear Ms. Harchenko:

This letter transmits the results of our comparison of data from the Oregon Real Estate Agency with data maintained by the Oregon Department of Revenue (department). This effort is part of a larger audit to determine whether certain state data sources may be of value to the department in identifying individuals who fail to file timely state personal income tax returns. You indicated that it would be useful to have this preliminary information prior to our completing the remainder of the audit. To meet your request, we provide this interim report, which is not an all-inclusive or a formal presentation of audit findings or recommendations. As is our normal practice, we will meet with you toward the end of the overall audit to present our findings and recommendations.

Based on our work, we have sufficient reason to find that using information from the Oregon Real Estate Agency would help the department identify potential state personal income tax non-filers. Our initial analysis showed that about 9 percent of individuals licensed by the Oregon Real Estate Agency, or nearly 1,500 of almost 16,000 people, had not filed a 2007 state personal income tax return.

Furthermore, we performed in-depth analysis on a sample of 40 individuals we selected from the nearly 1,500 who did not file a 2007 return. This follow-up work showed that almost 68 percent of the individuals in our sample (27 of 40) needed to file a state personal income tax return because their gross income met or exceeded the state's minimum filing threshold.[1] According to gross income information from the Oregon Employment Department (OED) and the Internal Revenue Service (IRS), reported income for these 27 individuals ranged from about $7,200 to $161,800 for tax year 2007.[2] In addition, more than half of these 27 individuals also failed to file a 2006 state personal income tax return, although their gross income exceeded the 2006

[1] Some individuals are not required to file an Oregon income tax return, as established in Oregon Revised Statute chapter 316.362. We did not determine if the individuals in our sample had a tax liability. Our follow-up work results are accurate as of April 23, 2009.
[2] Total gross income for these individuals may have been higher. The reported amounts are based on OED and IRS data, which may not capture all personal income sources.

minimum filing thresholds. According to OED and IRS data, they had gross income ranging from $13,000 to $121,800 during 2006.[3]

Enclosed you will find details regarding our audit methodology and the scope of our review. Should you have any questions regarding our work, please feel free to contact me at (503) 986-2283. We appreciate the time and effort your staff provided as we worked on our interim review and we look forward to working with them throughout the duration of our audit.

Sincerely,
OREGON AUDITS DIVISION

James E. Scott, MM, CIA
Audit Manager

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[3] Ibid.

Background and Audit Purpose

The Oregon Department of Revenue (department) released a report on personal income tax compliance in Oregon on January 30, 2009, as requested by the Legislature through Senate Bill 1082. The department identified several proposals to help improve tax compliance, one of which was to work with Oregon licensing boards to establish the tax compliance status of applicants before a license is issued or renewed.

In March of this year, the Oregon Audits Division began an audit to determine whether the department could benefit from using available state information resources to identify personal income tax non-filers. This interim review focused specifically on whether the department could benefit from Oregon Real Estate Agency (OREA) information.

Methodology

To identify potential non-filers, we matched OREA data with department personal income tax information for tax year 2007.[4] Before we performed the match, we limited the OREA information to Oregon residents who held active OREA licenses during calendar year 2007. We used social security numbers to perform the match. We considered as potential non-filers the individuals whose social security number appeared in OREA data but not in department data. From the results of our match, we randomly selected a sample of potential non-filers to determine whether they had a need to file based on gross income, as established by Oregon statutes.[5] Because we could not verify the age of the individuals in our sample, we selected a more conservative threshold and treated everyone in our analysis as if they were all at least 65 years old.[6] As a result, the gross income thresholds we used in our analysis were $6,190 for single filing and $11,995 for joint filing.

In order to determine whether individuals in our sample met the state personal income tax filing requirement for 2007 based on gross income, we used the income thresholds mentioned above, gross income information reported to the Oregon Employment Department (OED) and the Internal Revenue Service (IRS), and the last filing status the department had on file for each individual. To gain additional perspective, we also checked the department's information to determine whether individuals had filed a 2006 Oregon income tax return.

We did not do the following when we analyzed our potential non-filer sample:

- compare resident addresses from OREA to Department of Motor Vehicles information to verify Oregon residency;
- include partner income when calculating gross income for joint filing statuses;
- verify that non-filers actually had a 2007 tax liability;

[4] We used the following resources to perform our review: ORS chapters 305, 316 and 696, Oregon Administrative Rules (chapters 150 and 863), 2007 Oregon Income Tax Full-Year Residents Forms 40 and 40S and instructions, Department of Revenue policies and procedures, gross income information third parties provided to the OED and IRS, U.S. Internal Revenue Code and the OREA website.
[5] See Oregon Revised Statute chapter 316.362(1)(a)(B).
[6] The gross income filing threshold increases for individuals 65 or older.

- verify that gross income was associated with real estate activity;
- determine all gross income for the tax year. (Actual gross income may have been higher, as in some cases we did not add all reported income. Rather, we stopped our analysis once we identified sufficient income to establish that individuals had a need to file. Furthermore, individuals may have had additional income that did not appear in the OED and IRS information.);
- determine the ages of the individuals in our sample; or
- determine whether the department had access to other data sources that could have been used to identify these non-filers, such as 2007 Federal tax filing information.[7]

Additional Detail

Population Details

- We received a download from OREA, which included active licensees as of April 1, 2009. We limited our analysis to the population of Oregon residents who held an active license during calendar year 2007. In addition, we removed from our analysis new licensees who obtained their license in the last quarter of 2007 because we believe they had a lower chance to earn income in excess of the minimum filing thresholds from the sale of real property during calendar year 2007. The following table displays the population described above, divided into Oregon residents and non-residents:

Data Categories	Count of Individuals
Oregon residents	15,936
Non-Oregon residents	801

Analysis Details

- We focused our analysis on the 15,936 individuals who were Oregon residents.
- We matched the 15,936 individuals with the department's 2007 personal income tax return data. The results of our analysis identified 1,526 out of 15,936 individuals for whom the department did not have a 2007 personal income tax return.
    - 38 of the 1,526 individuals filed an extension for 2007; we removed these individuals from our analysis because they made contact with the department regarding tax year 2007.
    - The remaining 1,488 individuals represent potential non-filers. We use the word potential because of the following limitations:
        - These individuals might not have been required to file as defined in ORS chapter 316.362.

[7] According to ORS 316.362(1)(a)(A), every Oregon resident who filed a federal tax return is required to file an Oregon return for the same tax year.

- Some individuals could have filed a 2007 personal income tax return after we performed our analysis.
- We did not verify that all the social security numbers OREA provided were valid.

Sample Details

- We selected a random sample of 40 individuals from the 1,488 potential non-filers in order to determine whether they needed to file a 2007 state personal income tax return, based on gross income.

- We found that 27 of the 40 individuals, or 67.5 percent, had gross income in excess of their filing status threshold and thus needed to file a 2007 personal income tax return. The income range we identified for these individuals was between $7,210 and $161,870. The median income was $42,740, and the average was $52,652.

  We also determined that 17 of the 27 individuals, or 63 percent, who did not file in 2007 also failed to file in 2006, although we found they earned taxable income in excess of thresholds for their filing status. The income range we identified for these individuals was between $13,000 and $121,800. The median income was $56,400, and the average was $53,720.

- For 9 of the 40 individuals in our sample, or 22.5 percent, we were not able to find any 2007 income or the income we found placed them below the thresholds for their filing status, based on reporting to OED and IRS.

- We determined that the remaining 4 of the 40 individuals, or 10 percent, had filed a 2007 state tax return. Two individuals' social security numbers OREA provided had typographical errors. We determined their correct social security number using their name and address information and found that they filed a 2007 Oregon income tax return. In addition, two individuals filed a 2007 Oregon income tax return after we received the department information in April 2009, but before we ended our fieldwork for OREA data.