

Practitioner Perspectives on the State of Minnesota's Tax Administration

EXECUTIVE SUMMARY

This Issue Brief presents the findings of an MCFE survey of Minnesota tax practitioners regarding the condition of Minnesota's state tax administration and current procedural protections for taxpayers. The survey was motivated by three issues: 1) some critical tax administrative functions have not undergone an external evaluation; 2) since the last major reform effort in state tax administration the Minnesota Department of Revenue has experienced many organizational changes; and 3) the state's tax community has expressed concerns about some aspects of the Department's administrative practices, some of which appear to have been validated by recent court decisions.

The survey collected 124 organizational and individual perspectives on the current state of state tax administration, the adequacy of current taxpayer supports, and the merits of nearly 30 potential new or enhanced procedural protections that have precedence either at the national level or in other states.

Key Findings:

Survey respondents directed their strongest praise regarding Minnesota state tax administration toward what might be described as administrators' "first line" of communication with taxpayers on basic compliance matters. Recent Departmental investments in information products, services, and compliance resources have been generally well received and ably serve routine and common compliance matters.

Respondents' primary criticism regarding the general state of tax administration concerns an environment of ambiguity and uncertainty regarding more complex interpretive tax topics and administrative processes that makes voluntary compliance difficult. Three primary issues triggered this frustration:

- The Department's unwillingness to promulgate new regulations with input from the tax community (relying instead on fact sheets and publication of some revenue notices),
- Concerns about the knowledge base and interpretive consistency within the Department, and
- A reluctance on the part of the Department to provide actionable verbal or written guidance on these more complex interpretive issues.

A second area of criticism revolved around what might be called "fair treatment" concerns. Lengthy procedural delays – especially in appeals and refunds – was most often cited, but respondents identified other case-specific circumstances across the spectrum of tax compliance activities in which they felt norms of fair and just treatment had been violated.

While respondents expressed moderate to strong support for nearly 30 new and enhanced procedural protections to address "fair treatment" concerns, a majority of respondents agreed that the existing protections could be improved by improving trust and dialogue with the Department.

We conclude Minnesota's basic state-level tax administration infrastructure is sound, and recent Departmental investments in taxpayer communication and understanding have been very beneficial and yielded positive returns. As a result the state provides a good foundation for compliance in routine and commonplace tax situations and circumstances affecting the majority of Minnesota taxpayers. However, an opportunity for improvement exists in activities and processes pertaining to more sophisticated and complex areas of tax law. Specifically, Minnesota must improve interpretive consistency and provide more reliable, actionable guidance on these matters, which are critical for both voluntary compliance and business planning. A key enabling condition will be the Department's ability to attract and retain necessary talent, which has been a chronic challenge for over a decade. With respect to ensuring fair treatment and appropriate taxpayer protections, better communication between the Department and taxpayers is vital but should not preclude new statutory protections in the form of enhancements to Minnesota's existing

Taxpayer Bill of Rights – an effort which must include the Department’s direct involvement and participation.