

Business Tax Customer Listening Session Summary Report



Report Date: January 17, 2017

Listening Session: December 16, 2016

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Greetings,

I want to thank you – on behalf of the entire Minnesota Department of Revenue – for attending our Business Tax Customer Listening Session on December 16. We appreciated the opportunity to have an open discussion and learn from our tax, legal, and business partners. Exchanges like this are an essential part of our ongoing efforts to improve our work and the state tax system.

We cannot do our work without you and your work on behalf of your clients, employers, and members. We value your insights and engagement as we seek – and implement – new ways to better serve Minnesota taxpayers. The listening session identified many ideas, a number of which we can act on immediately. For example the department will:

- Increase conversations with our customers, industry members, and practitioners through conference calls, meetings, and sharing drafts before we publish Facts Sheets, Revenue Notices, or other written guidance.
- Continue to improve the quality of our audit services by expanding our Audit Quality Survey – currently used at the completion of Sales and Use Tax and Special Taxes audits – to Corporate audits.
- Continue to emphasize collaboration and communication across audit units and administrative appeals to support consistency and continuous improvement.
- Continue to provide and improve advanced training provided to our auditors.
- Enhance our public interaction and dialogue with you by continuing to increase our presence – from all levels of the department – at events and conferences with organizations like the Minnesota Society of Certified Public Accountants, Minnesota Association of Public Accountants, and Minnesota State Bar Association, among others.
- Continue to include the supervisor name and phone number in our audit confirmation letters, and encourage our customers and their representatives to call the supervisor if they have any concern.
- Improve the clarity of information that introduces the publication of Revenue Notices, including the statutory authority to publish Revenue Notices, on our website and in the State Register.

Since the listening session, we have continued the conversation with many of you, and more communication and contact is planned. We will continue to explore some of the other ideas and solutions we gathered after the legislative session. We look forward to continuing our collaboration as we build on this dialogue. In the meantime, please let us know if we can be of service or if you have additional thoughts on how we can improve our services.

Thank you again for sharing your thoughts and ideas about how Revenue can meet your needs and enhance our communications, working relationships, and customer services. We value our longstanding relationships with Minnesota's tax, legal, and business communities – and with many of you personally. These relationships serve each us and our mutual efforts benefit all Minnesotans.

Sincerely,



Cynthia Bauerly
Commissioner

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Introduction

The Minnesota Department of Revenue held a listening session with business customers to learn about their needs and identify ways to enhance communications, working relationships, and services for our customers. This report documents the ideas gathered during the session on December 16, 2016.

We appreciate all of the ideas generated at our listening session. The department cannot do its work without our business and tax professional partners. We value their perspectives and look forward to continuing our collaboration as we find ways to better serve Minnesota taxpayers.

Background

To identify business and tax thought leaders, we consulted with the Minnesota Business Partnership, Minnesota Center for Fiscal Excellence, Minnesota Chamber of Commerce, Minnesota Society of Certified Public Accountants, and Minnesota State Bar Association Tax Section. We invited over 40 people to our listening session; 25 of them registered, and 23 attended the event.

Leaders from across the Department of Revenue were present to listen, including the agency's:

- **Senior Management Team:** Commissioner, Deputy Commissioner, Assistant Commissioner for Business Taxes, Assistant Commissioner for Individual Taxes, Assistant Commissioner for Administration, Chief Information Officer, and Manager for Tax Policy.
- **Division Leadership from:** Appeals and Legal Services, Corporate Franchise Tax, Sales and Use Tax, Communications, Income Tax and Withholding, and Taxpayer Rights Advocate Office.

During the listening session, participants sat at five small-group discussion tables to consider the following questions:

1. Many of you practice in other states and have professional experiences in other states. What works well in Minnesota? What works well in other states?
2. What areas of administration in Minnesota do you think could benefit the most from renewed focus and improvements?
3. What one or two words would you use to describe this listening session?

After discussion of each question, each table reported out to the larger group. We captured the discussion in three ways:

- Department leaders facilitated and took bullet-point notes on large poster-size pages.
- Department staff took more detailed notes on computers.
- Each table kept brief notes of their small-group discussion.

The information provided below documents the discussion we heard, and is displayed in each of the ways we captured the discussion.

Note: To honor our commitment to learning about our customers' concerns and to respect the process of open communication, we chose to present the following notes in their raw form. This approach results in redundancy across the three sections. We made every effort to capture the ideas we heard from those who attended – rather than use this report as a medium in which to respond to those ideas.

Discussion Points from Posters

Question 1: Many of you practice in other states and have professional experiences in other states. What works well in Minnesota? What works well in other states?

What Minnesota does well

- Clear appeals process – procedures are clear, know what to do
- Use of technology – web, newsletter, Audit Room [online file exchange for audits]
- Fact sheets and industry guides, high volume, good for general population
- Willing to meet informally to gather ideas and listen
- Taxpayer Rights Advocate Office – good communication, access, service well-received
- You can get to the correct person – both auditor's and supervisor's name and number [included on audit communications]
- Appeals time has gotten much better

What other states do well

- Attorneys present during appeals/conferences
- North Dakota – emails can be relied on for technical assistance
- Private Letter Rulings
- New York – work with tax section prior to publishing guidance
- Michigan – business tax advisory group – work with top leadership, share ideas, small group discussion
- Number of states have robust regulation and consult prior to rules publication
- Communication flows in both directions
- Could find new ideas to process appeals more quickly

Question 2: What areas of administration in Minnesota do you think could benefit the most from renewed focus and improvements?

Relationships

- Technical advice – go back and forth with technicians – transparent and involve attorneys and be transparent about the process
- Tell us the statutory and rule support for [the department's] position – not the fact sheet or Revenue Notice
- If department could point out/anchor in law, then what needs to change legislatively is clear
- Trust-Access-Education – develop better relationships all the way through the ranks, including managers and supervisors
- Have a networking event out in the public
- Discussions need to have a give and take – all of us should tone it down a little bit – it should not be all one-sided

- Management group needs to feel empowered to make decisions – give people more ability to make practical decisions
- Technical advice program – we are unsure of the process and we receive a yes or no answer without the rationale for the decision
- More conversation helps inform the legislative process – do not leave the complex analysis in Revenue Notices incomplete/unfinished – complete analysis helps identify where legislative attention is needed
- Working relationship is great but took a long time to be accessible
- Auditors at times are out-of-step with other auditors; this used to be resolved by contacting an attorney
- Identify subject matter experts so that we communicate with the right people – builds trust
- We need trust to engage in conversation – even informally that re-establishes relationships – access.
- Complex transactions – more education internally and transparency on those transactions the department is struggling with – education
- There may be fear in the department to express or share what goes beyond the fact sheets and Revenue Notices – the community needs more guidance than the published materials

Communication

- More communication on those things the department is doing that practitioners are not experiencing [such as taxpayer outreach, etc.]
- Communication on front end of change in policy
- Content on Tax Orders lacks details; too skinny and lacks detail needed for taxpayers to know what to appeal – sometimes we go to appeals without knowing the issues
- Mixed experience in appeals to receive something substantial prior to order that allows taxpayer to identify the hazards – sometimes hard to get anything in writing
- Consistency in views held by auditors – [inconsistency] leads to uncertainty – sales and use tax in particular – training issues
- Need to move up chain of command, including advising attorney within the department

Service Delivery

- Sometimes administrative appeal feels like a second audit; be clear on the purpose of an appeal
- Preliminary write-up prior to hearing in appeals is not always helpful – can make the conference feel predetermined
- Penalty – substantial understatement penalty is not or should not be applied on percent basis but include consideration of other factors – stacking penalties – need to ensure right people with the necessary authority are at the table
- Revenue Notices at the end include statute reference on what Revenue Notices are – “not binding” – [should instead] clarify function of notices in the notices themselves.

- Private Letter Rulings – helpful to taxpayers and publish for all – broadly – so others receive insight into department’s thinking
- Training auditors on law – keep up training
- Legacy of compliance initiatives– purpose of audit is to get right answer
- What feedback loop can there be, or is there, to ensure feedback from appeals to audit staff – to help reduce math errors or guidelines of fact
- Audit – [original] fact-finding and application of law; this is the focus of appeals, not additional fact-finding.
- During audit the auditors should reach out for support to ensure quality in audit
- Appeals remain backlogged
- Corporate tax return is complex and lengthy
- Construct for abatement of penalty seems ambiguous – bring transparency here
- Purpose of appeal? – Support audit? Settle? Get to correct tax? [voices for all of these]

Question 3: What one or two words would you use to describe this listening session?

- Good start
- Open up the process
- Beneficial
- Positive development
- Encouraging
- Open forum
- Access
- Old school (in a good way) – feels like home
- Encouraging
- Encouraging start – needs to continue
- Good first step
- Open dialogue
- Listening session as advertised
- Great listening session
- Tech advice
- Providing feedback
- Progress
- Brainstorm
- Festivus [“airing of grievances”]
- Encouraging
- Taking a step closer
- Communicate issues
- Hopeful – start of improvement
- Helpful
- Collaboration

Discussion Points from Staff Notes

Question 1: Many of you practice in other states and have professional experiences in other states. What works well in Minnesota? What works well in other states?

What Minnesota does well

- Use of technology. Website update, newsletters, daily correspondence, and Audit Room implementation.
- Fact sheets and industry guides have lots of info for the general public. Minnesota does more of that compared to other states, which is a good thing. Some practitioners may disagree with the content. Minnesota has a better appeals process than some states.
- Willing to meet with taxpayers and practitioners to discuss our questions and concerns.
- Taxpayer Rights Advocate Office is very good here, communication and access they get is very well received.
- You can get to the right person, put names on letters and who to contact. Appeals process is getting more timely, while it's getting longer in other states.

What other states do well

- New York works with local tax section when giving rules/guidance and provides ahead of time for comment. Opportunity to vet before issuing. Mechanisms in place to process administrative appeals more quickly. Give a quicker determination. Having attorneys along during appeals conferences, multiple minds working on taxpayer sides, to reach a solution quickly.
- Michigan has a business tax advisory group. Small group of attorney and accountants work with leadership at Revenue to share ideas. If department is thinking of issuing a Revenue Notice, get together with a small group and show them a draft. Helps vet the issue and the document. North Dakota has good back and forth via email on technical issues, emails are not formal but they can rely on them.
- Robust regulations, interactive dialogue, find concerns of taxpayers. Private letter rulings and request guidance on an issue is very helpful
- Michigan tax advisory group. The way communication flows in both directions.

Question 2: What areas of administration in Minnesota do you think could benefit the most from renewed focus and improvements?

Relationships

- If we can develop better relationships through the ranks, it would help things go better. Have good relationships with leadership group, but not with managers and below since they're not accessible. Opportunity to develop that relationship, networking event, allowing them to be more out there. Discussions become confrontational at times, practitioners can tone it down a bit and allow for better two-way communication, cannot all be one-sided. You are not willing to tell what the department's position is or where they're coming from, above the pay grade. Department needs to give people more ability to make decisions. Be more transparent, in audits not sure where decisions are made, there's no basis for some decisions, may not agree

but at least know why. Technical advice, be able to go back and forth with technician so it is transparent like the IRS. Tell the statutory basis for decisions, would all be better off.

- Trust, access, and education. Making experts available to community. Cannot have conversations until you know who you're supposed to speak with. Trust that the advice from tax expert will not be thrown back into our faces, that it is not written in stone. Trust for both parties, re-establishing that trust. Educational piece, transaction stuff is complex, educating community about which problem the department is concerned with. Create mechanism for questions to be vetted and discussed; provide both groups with better understanding to provide guidance and work together. Fear within the department about expressing views of what the department's position is. Need to go beyond fact sheets and guides, empower people at Revenue to take a chance; they will most likely be right when expressing their views of what the likely outcome should be on an issue.
- Do not leave the department's decision hanging. Too often Revenue feels that Notices and industry guides are fine for more technical and complicated issues, remains unfinished.
- Auditor training, some are out of step with other auditors, used to get access to subject matter experts who then can call auditor and explain issue and what Revenue's position is. Connect resources within the agency.

Communication

- Concern of consistency, lack of auditors. Some will give different decisions on similar issues, they cannot point out where their position is derived from. Consistency is key. Be able to go up the chain of command to talk to decision maker, more difficult to do so. Issues from taxpayer rights survey Minnesota Center for Fiscal Excellence, be able to sit down and work through issues, work together and work on the communication breakdown on taxpayer bill of rights issues.
- Content of Tax Orders in terms of communications. A lot of times Tax Orders lack necessary detail that would allow taxpayers to know if they want to appeal. More analysis and detail would be helpful, heading into appeals not knowing the landscape, and the timing, clarity on Revenue's position is needed. Sometimes the prelim write-ups are helpful, Tax Orders have been skinny on what the department's position is.
- Communications on front end of policy changes, do not like surprises. Want a heads up.

Service Delivery

- Revenue Notices would be helpful if there was a reference to statutory language or the actual language. Some taxpayers are not aware that they are not binding, making it clear what a Revenue Notice is. Letter rulings would be helpful to taxpayer and others after taxpayer info is redacted, and shared more broadly and published, provide more clarity and transparency. Training of auditors, making sure new ones are up to speed on the law and continue to get better trained auditors. Legacy issue where you'd hire more auditors to gain revenue, purpose of an audit to get right answer, not raise money. Shift of focus in terms of the purpose of the audit. Issue with appeals, appears appeals officer trying to come up with good settlement, what's a good settlement? Receive a write-up prior to meeting with appeals, might be good to see conclusions before the hearing, purpose is to discuss the issue. Penalties, appears recently that substantial understatement is applied, reasonable cause exception should be included,

stacking of penalties. Auditors and appeals officers need to have authority to discuss and address the issue to get the service and resolution that is needed.

- Corporate tax return is complicated and lengthy, working group to sit down and make it less complex. Not sure what the purpose of an appeal is, some to look at risk, some for taking a second look at the audit to make sure it was decided correctly.
- Construct for abatements is ambiguous, more guidance on how process works and what is taken into consideration by officers. Is there a review process to look at audit report? Separate what should be clearly settled issues in calculation with a clean answer from the problems that are conceptual. Appeals should not be looking at math errors. Take a look at how the law was applied; the appeals process should look at how that law was interpreted. A lot is indirectly tied back to source of what's going to appeals, knowledge base of the auditor, and the auditor feeling okay about reaching out for assistance.

Question 3: What one or two words would you use to describe this listening session?

- Open dialogue
- Respectful session
- Listening session
- Now do something
- Listening session
- Technical advice
- Providing feedback
- Progress
- Brainstorming
- "Festivus" airing of grievances
- Encouraging
- Communicate issues
- Hopeful that it's a start of a better relationship with the department
- Helpful
- Hopeful
- Collaboration
- Good start to open the process a bit and hear from the other side
- Beneficial
- Positive development and different from what was heard a year ago
- Open forum
- Access
- Old school, looks like department I've come out of
- Encouraging
- Really, really encouraging
- Encouraging start
- Good first step to build a more open dialogue

Discussion Points from Small-Group Notes

Question 1: Many of you practice in other states and have professional experiences in other states. What works well in Minnesota? What works well in other states?

What Minnesota does well

- Fact sheets, industry guides, and newsletters are good for general information
- Website has a lot of info but hard to navigate
- Access to top Revenue leaders
- Voluntary disclosure agreements
- Use of technology
- Emails

What other states do well

- Private letter rulings (PLR) or written advice by a different name
- Michigan – business tax advisory group
- Review draft revenue rulings
- Concern here is no public input before a Revenue Notice is issued
- North Dakota – go back and forth by email. Technically cannot rely on it, but as a practical matter good
- Clear delineation between law and guidance, binding guidance and clarity
- Understanding of process behind Revenue Notices
- Participation in the drafting stage
- PLR or formal guidance – give clarity
- Advisory board for the input process.
- Binding guidance on a process
- Statute of limitations – date of payment provisions
- Revenue Notice – department bound, process is more transparent with practitioner input
- New York – guidance from tax section

Question 2: What areas of administration in Minnesota do you think could benefit the most from renewed focus and improvements?

Relationships

- Not enough access to managers below top level
- Need give and take discussions on what law means, get input before issuing guidance
- Department professionals need to feel more empowered to express their views on answers to questions
- Hangover of “collection culture” from fiscal crisis days

- Technical advice program or bring attorneys in, more transparency on Revenue positions including policy
- Define and articulate the purpose of an appeal

Communication

- Timelines are good but quality is better
- How you got to a conclusion is useful
- Need analysis on Tax Orders
- Need analysis behind positions
- Need policy interpretation at audit level
- Penalty abatement process
- Appeals should not be predetermined
- If not, respond with issue of Final Notice
- Tax Orders – lack of details and analysis is detrimental to both sides
- If we had info about the basis or rationale for adjusting, we could better evaluate whether to appeal or resolve
- Mix experience in appeals to eliminate inconsistencies

Service Delivery

- Audit Room is a great start – more of this
- Settlement authority – right people and let taxpayers know

Question 3: What one or two words would you use to describe this listening session?

Question 3 was not recorded in the small-group notes. The question was discussed in the large group.

Working Together with Minnesota's Businesses

Our mission is **Working together to fund Minnesota's future**. The most important part of that statement, to us, is the word "together." We cannot do this work alone. We rely on our customers – and the tax professionals who work with them – to help.

Our Commitment

We work to address the needs of our diverse and broad set of customers through investments in a wide variety of initiatives. We are committed to finding innovative ways to implement the revenue system with transparency, fairness, and a focus on doing our best for the people of our state.

We are committed to learning from our business customers about their needs and make changes based on comments and suggestions we received both informally and formally – from listening sessions convened in 2010 and 2013, to targeted surveys, town halls, and more.

Putting Our Customer's Feedback Into Action

Using customer feedback and focusing our resources efficiently means providing customers with the guidance and tools to meet their obligations under the law.



Returns Each Year

- Almost **3 million individual income tax** customers file returns
- Over **150,000 businesses** collect and remit sales tax



Our Customers

Our customers range from first-time income tax filers to Fortune 100 companies, and from start-up businesses to city and county governments.



Focus on Excellent Customer Service

- Plain language communication
- Classes for our business tax filers
- Fact sheets and our NEW industry guides that give businesses the information they need to satisfy their tax obligations



Innovating with Technology

- Audit Room: Secure, online document exchange tool, available 24/7 for audit customers
- Sales Tax Rate Calculator: determine the state and local general sales and use tax rate on our website



Audit Quality Assurance

- 95% of our Sales Tax audit customers feel they were treated fairly
- 89% agree that the Sales Tax auditor appropriately educated them about the audit process and tax laws
- 87% of Corporate Tax customers gave the phone service they received the highest rating



Reduction in Administrative Appeals

- Reduce the number of administrative appeals over 2 years old from over 140 in 2011 to 15 today
- Fewer than 4% of administrative appeal orders are appealed to Tax Court each year
- Majority of appeals are resolved within the department, avoiding costly litigation

In The Works

We have heard a desire from our customers for more guidance on Minnesota's business tax laws – particularly for large, complex organizations in the state – and have already begun working to increase the number of revenue notices we issue, and are considering how best to dedicate more resources toward rulemaking.

Continuous Improvement

In addition to all of these improvements and our continued focus on customer service, we know there is more to do. Please continue to share your ideas and suggestions with us. If you have feedback during an audit, contact the supervisor identified on the initial audit letter. If you receive a survey from us, please share your ideas.

We value your responses and use them to improve our services. You can also find contact information for each of our divisions on our website (revenue.state.mn.us). There is always someone to help answer your question.

