



State of California  
Franchise Tax Board

# ANNUAL REPORT



# 2007

# EXECUTIVE OFFICER'S MESSAGE

**Thank you for your interest in the Franchise Tax Board's new and improved Annual Report.** This report streamlines much of the information previously found in our Operations Report, Annual Report, and Annual Performance Report. The detailed tables and statistics from these reports are still available on our website at [ftb.ca.gov](http://ftb.ca.gov).

Our new annual report focuses on the three critical areas around which we measure our success. These areas include customers, revenue, and employees and ensure that California's tax system is administered in a way that is equitable and fair to all. We are committed to improving our processes, products, and services to make filing returns and paying taxes less burdensome for all Californians.

This report includes a financial and operations overview of our organization for fiscal year 2006-2007, highlights our major accomplishments in 2007 and outlines some of our major initiatives for 2008.

We are proud of what we accomplished in 2007, and look forward to providing improved service to all of our stakeholders.


Sincerely,



Selvi Stanislaus  
Executive Officer







7.6 million visits to  
our website.

\$8.8 billion in refunds.

3.6 million telephone calls.

# 2007

15.8 million  
Personal Income Tax  
returns processed.

\$1 billion deposited each  
day for six consecutive days.

9.4 million tax forms and  
publications downloaded.

6.7 million tax return  
booklets, forms, and  
various other tax  
products distributed.

6 million tax related  
automated telephone  
calls received.



## Table of Contents

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**7 MISSION AND PRINCIPLES**

**11 FRANCHISE TAX BOARD AT A GLANCE**

**17 MAJOR PROGRAM REVENUES**

**21 OPERATIONS OVERVIEW**

Products and Services  
Expenditures  
California's General Fund  
Self-Assessment Activities  
Filing Enforcement Activities  
Tax Audit Activities  
Tax Collection Activities  
Other Programs  
Expenditure Analysis

**33 ACCOMPLISHMENTS**

Goal 1 Improve Customer Service  
Goal 2 Increase Fairness and Compliance with Tax Law  
Goal 3 Increase Transparency  
Goal 4 Create a Great Place to Work, Contribute, and Learn  
Goal 5 Demonstrate Operational Excellence  
Goal 6 Protect Taxpayer Information and Privacy

**47 THE YEAR AHEAD**

Enhancing Online Services  
Partnering with Other Government Organizations  
Increasing Transparency  
Creating and Maintaining a Great Place to Work, Contribute, and Learn  
Demonstrating Operational Excellence

**ANNUAL REPORT**

2007





## MISSION AND PRINCIPLES

public confidence

administer

reasonable and vigorous

interpretation of the Tax Code

purpose

fair and impartial

integrity, efficiency and fairness

## Mission

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The purpose of the Franchise Tax Board is to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness.



## Statement Of Principles Of Tax Administration

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The primary function of the Franchise Tax Board is to administer the Revenue and Taxation Code (Tax Code). Tax policy for raising revenue is determined by elected officials.

With this in mind, it is the duty of the Franchise Tax Board to carry out that policy by correctly applying the laws enacted by the Legislature; to determine the reasonable meaning of various Tax Code provisions in light of the legislative purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view.

At the heart of administration is interpretation of the Tax Code. It is the responsibility of each person in the Franchise Tax Board, charged with the duty of interpreting the law, to try to find the true meaning of the statutory provision and not to adopt a strained construction in the belief that he or she is “protecting the revenue.” The revenue is properly protected only when the true meaning of the statute is ascertained and applied.

The Franchise Tax Board also has the responsibility of applying and administering the law in a reasonable, practical manner. Issues should only be raised when they have merit, never arbitrarily or for trading purposes. At the same time, employees should never hesitate to raise a meritorious issue. It is also important that care be exercised not to raise an issue or to ask a court to adopt a position inconsistent with an established Franchise Tax Board position.

Administration should be both reasonable and vigorous. It should be conducted with as little delay as possible and with great courtesy and considerateness. It should never try to overreach, and should be reasonable within the bounds of law and sound administration. It should, however, be vigorous in requiring compliance with law and it should be relentless in its attack on unreal tax devices and fraud.





# FRANCHISE TAX BOARD AT A GLANCE

## HISTORY

On March 1, 1929, the Franchise Tax Board's (FTB) predecessor, the Franchise Tax Commission, was established by the Bank and Corporation Franchise Tax Act (Stat. 1929, ch. 13). Six years later, the Legislature created the state's personal income tax with the passage of the Personal Income Tax Act of 1935 (Stat. 1935, ch. 320). On January 1, 1950, the Commission was replaced by a three-member Board who appointed the first Executive Officer. The FTB consists of the California State Controller (who chairs the FTB), the Chair of the State Board of Equalization, and the Director of the Department of Finance.

## Board Member Biographies

Taxpayers in California have a voice in the makeup of the Franchise Tax Board, electing two of its three members. The FTB is chaired by the State Controller, John Chiang. Other board members include Dr. Judy Chu, chair of the Board of Equalization and Michael C. Genest, director of the Department of Finance.



**John Chiang**

State Controller

Chair,  
Franchise Tax Board

John Chiang was elected to statewide office as State Controller in 2006. As one of California's twelve constitutional officers, Mr. Chiang is the highest ranking Asian-American officeholder in the continental United States.

Mr. Chiang brings extensive experience and fiscal leadership to the State Controller's Office. He was first elected to the Board of Equalization in 1998. During his two terms, Mr. Chiang represented the Board of Equalization on the Franchise Tax Board and led with innovative and groundbreaking taxpayer-friendly services like the State's free income tax return program, ReadyReturn.

Mr. Chiang has sponsored innovative tax seminars to guide small businesses, non-profit organizations and religious institutions in understanding the state and federal tax codes. These programs provided access to information and services for those without the time, expertise, or resources to study the laws, rules, and regulations applicable to their circumstances.

Mr. Chiang has also boosted small businesses by sponsoring events featuring experts from various government agencies to explain in clear and concise language compliance issues, the latest tax laws, policies, rules, and regulations. These seminars provide entrepreneurs with the tools to strengthen their businesses and prosper.

Mr. Chiang graduated with honors from the University of South Florida with a degree in finance, and received his law degree from the Georgetown University Law Center. He began his career as a Tax Law Specialist with the Internal Revenue Service and served as an attorney with the State Controller's Office.

➤ For more information about the State Controller's Office, visit their website. [sco.ca.gov](http://sco.ca.gov)



### Dr. Judy Chu

Chair,  
State Board of  
Equalization

Member,  
Franchise Tax Board

Dr. Judy Chu was elected to the California State Board of Equalization in November 2006. In January 2007, she was unanimously selected as Vice Chair by her colleagues, and named Chair of the Legislative Committee. In January 2008, Dr. Chu was unanimously elected Chair of the Board of Equalization.

Before joining the State Board of Equalization, Dr. Chu served three terms as a State Assembly Member for the 49th District in the West San Gabriel Valley from 2001 to 2006. She was Chair of the Assembly Appropriations Committee, which oversees all legislation that has a fiscal impact on the state.

In addition, Dr. Chu served as Chair of the California Asian and Pacific Islander Legislative Caucus, Assembly Select Committee on Hate Crimes, and Assembly Subcommittee on Health and Human Services. She was also a member of the Assembly Revenue and Taxation Committee, Labor and Employment Committee, and Environmental Safety and Toxic Materials Committee.

In 2004, Dr. Chu authored a landmark tax amnesty bill which was estimated to bring in \$300 million but actually brought in \$4.8 billion in revenue for the state budget without raising taxes. Several states offered tax amnesty that year, and California had the most successful tax amnesty program in the nation.

Prior to the State Assembly, Dr. Chu served on the Monterey Park City Council for thirteen years from 1988 to 2001, and served as Mayor three times. She began her career in public service as a Board Member of the Garvey School District from 1985 to 1988. Dr. Chu has been dedicated to education for decades, and was a community college professor of psychology for 20 years. She holds a Ph.D. in psychology and a B.A. in mathematics.

- > For more information about the State Board of Equalization, visit their website. [boe.ca.gov](http://boe.ca.gov)

## Board Member Biographies

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**Michael C. Genest**

Director,  
Department of  
Finance

Member,  
Franchise Tax Board

Michael C. Genest has served as Director of the Department of Finance since December 2005.

Mr. Genest first served as Chief Deputy Director of the Department of Finance from November 2003 to February 2005, when he was named Undersecretary for the Health and Human Services Agency. He returned to Finance in September 2005, as Acting Director. Prior to that, he was on loan to the newly reorganized Department of Corrections and Rehabilitation serving as Acting Director of support services. Earlier, he was Director of the Senate Republican Fiscal Office and advisor to the leader on matters relating to the state budget and state and local government finance.

Mr. Genest's experience also includes more than three years as Assistant Deputy Director of prevention services for the Department of Health Services, 10 years as Director of the Social Services Section of the Legislative Analyst's Office and more than three years as Deputy Director for Welfare Programs for the Department of Social Services.

Mr. Genest received a bachelor of arts degree from San Jose State University, and a master's degree in public policy from University of California, Berkeley.

➤ For more information about the Department of Finance, visit their website. [dof.ca.gov](http://dof.ca.gov)

## Executive Officer Biography

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**Selvi Stanislaus**

Executive Officer

Selvi Stanislaus was appointed Executive Officer of the Franchise Tax Board in January 2006. She is FTB's fourth executive officer and is the first woman to hold the post.

Prior to FTB, Ms. Stanislaus served as the Board of Equalization's Acting Assistant Chief Counsel for the Legal Department, Tax and Fee Programs Division. There she formulated legal policies affecting every tax and fee program in California administered by the Board, which collects nearly \$53 billion annually in taxes and fees. Ms. Stanislaus began her legal career in the private sector and interned in the Office of State Public Defenders where she conducted research and drafted appellate briefs for defendants on death row.

In 1986, Ms. Stanislaus and her husband immigrated to the United States from Sri Lanka. She completed her J.D. with Honors from Lincoln Law School and an LL.M. in Tax Law from McGeorge School of Law.







# MAJOR PROGRAM REVENUES

collection activities

Withholding

filing enforcement

Remittances

audit

Refunds of Overpayments

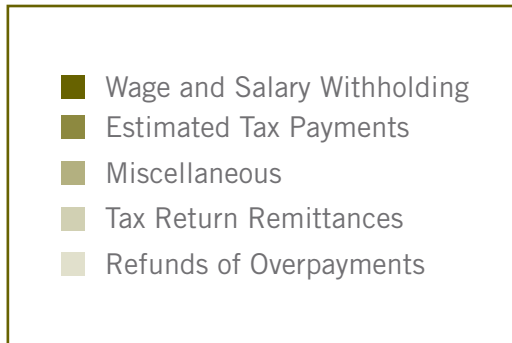
(Dollars in Millions)

2006-2007

## Personal Income Tax

Net Revenue

\$33,558



(Dollars in Millions)

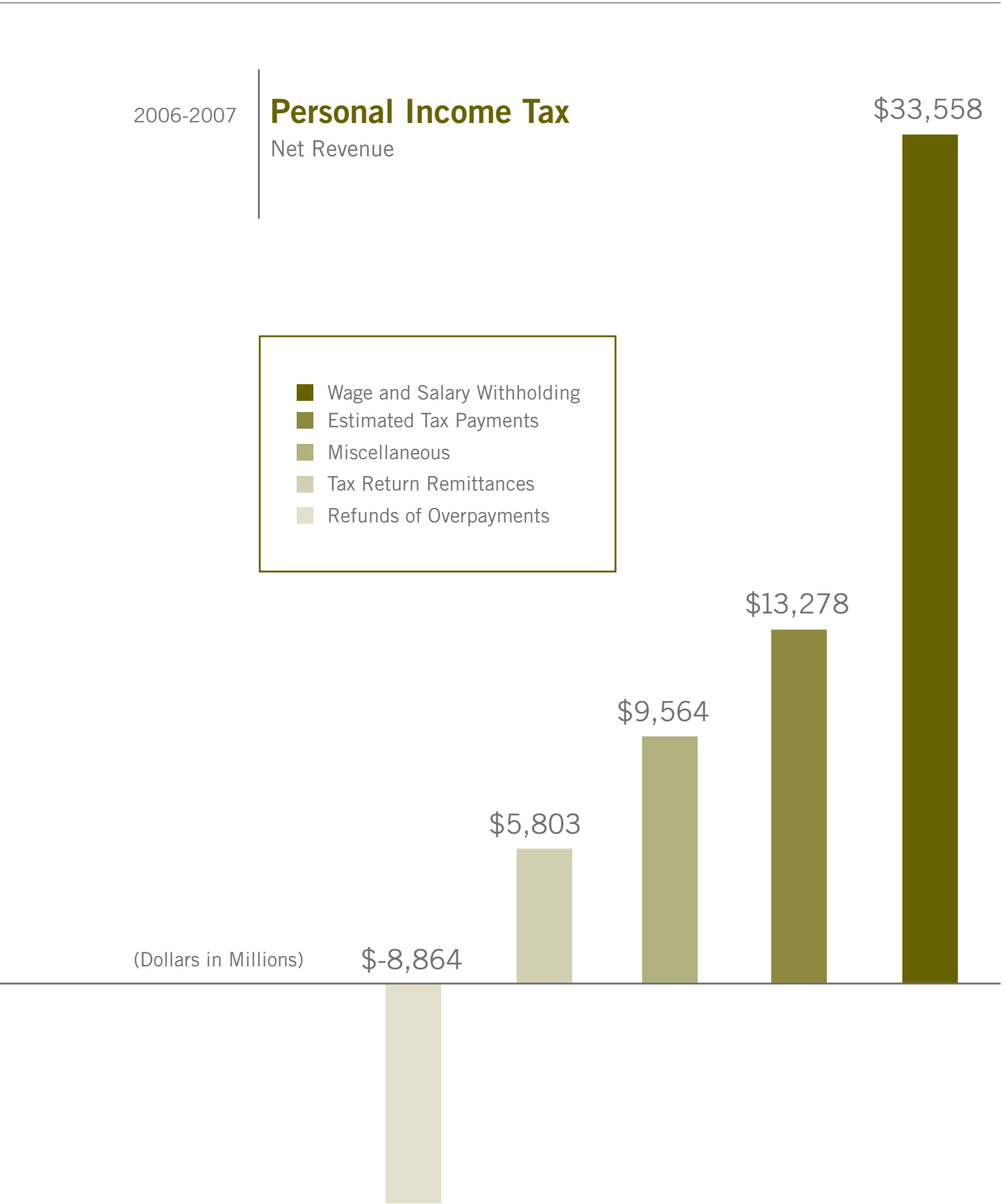
\$-8,864

\$5,803

\$9,564

\$13,278

\$33,558



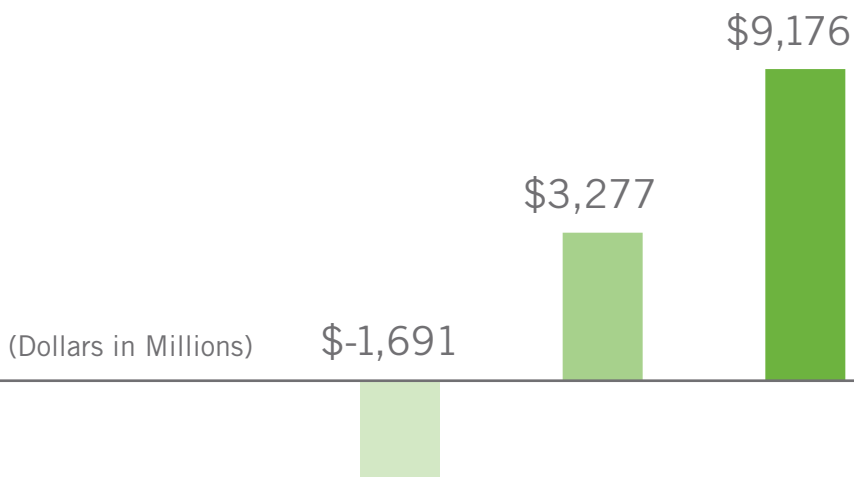
2006-2007

## Corporation Tax

Net Revenue

- Estimated Tax Payments
- Miscellaneous\*
- Refunds of Overpayments

\*Includes revenues from final return payments as well as audit, filing enforcement, and collection activities.



MAJOR PROGRAM REVENUES

**FREE**

ASK ME ABOUT FREE

INCOME TAX  
PREPARATION

**FREE**





# OPERATIONS OVERVIEW

nontax programs

Interactive Voice Response

audits of reports

tax counseling

electronic filing methods

# Tax Gap

public service

corporation tax

## Products and Services

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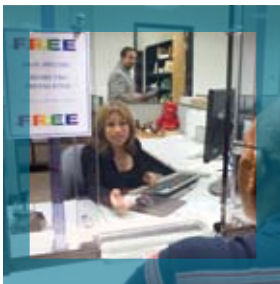
The Franchise Tax Board's primary responsibility is to administer California's personal income and corporation tax laws. Over the years, we have also been given responsibility to administer certain nontax programs such as the Homeowner and Renter Assistance Program (HRA), Political Reform Act audits, and certain nontax collection programs such as delinquent vehicle registration and court-ordered debt.

In administering these programs, we assist taxpayers in many ways. We offer tax help through our toll-free telephone assistance line, and we provide a wealth of information on our website 24/7. We also provide public service during normal business hours at our six California field offices. Furthermore, we provide filing assistance to various groups through our Volunteer Program, which includes volunteer income tax assistance, tax counseling for the elderly, military tax preparation assistance, and Homeowner and Renter Assistance.

In addition, our website ([ftb.ca.gov](http://ftb.ca.gov)) offers a variety of electronic services that allow taxpayers to:

- e-file their tax returns free with us or through one of many online filing services.
- Check their tax refund status.
- Check their account status for payments made or balance due.
- Apply for an installment payment plan for taxes owed.
- Download and print current and prior year forms and publications.

In fiscal year 2006-2007 there were over 7.6 million visits to our website and approximately 9.4 million tax forms were downloaded.



# Expenditures

Our expenditures in Fiscal Year (FY) 2006-2007 totaled \$715.4 million, a 10 percent increase over the prior year.

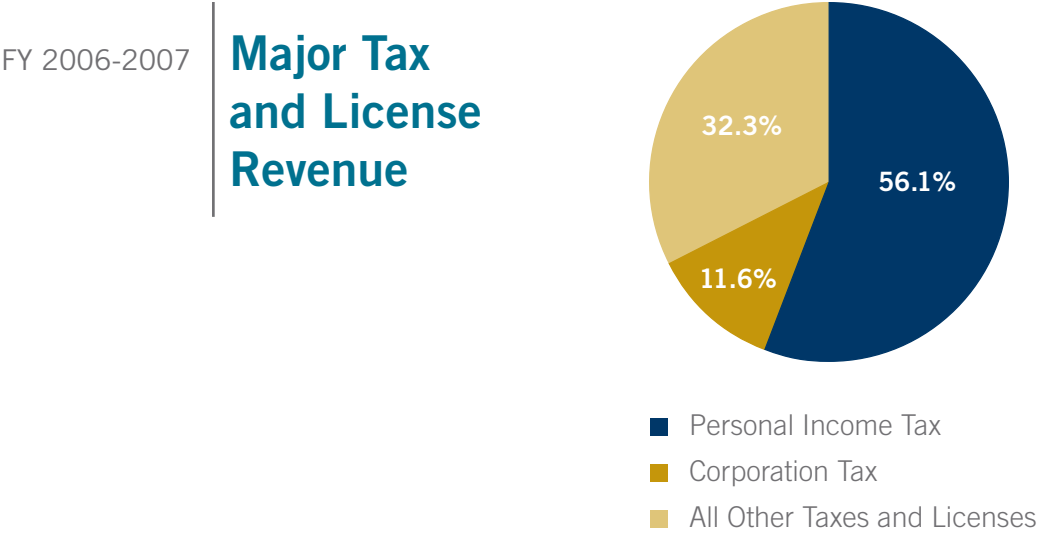
## Expenditures by Program | A Two-Year Comparison (Thousands)

|                                      | Fiscal Year<br>2006-2007 | Fiscal Year<br>2005-2006 |
|--------------------------------------|--------------------------|--------------------------|
| Tax Programs                         |                          |                          |
| Personal Income Tax                  | \$295,466                | \$270,432                |
| Corporation Tax                      | 167,029                  | 152,866                  |
| Non-Admitted Insurance Tax           | 103                      | 104                      |
| Total Tax Programs                   | \$462,598                | \$423,402                |
| Nontax Collection Programs           | 19,808                   | 15,448                   |
| Other Nontax Programs                | 233,015                  | 211,054                  |
| <b>Total Expenditures by Program</b> | <b>\$715,421</b>         | <b>\$649,904</b>         |



# California's General Fund

The General Fund received \$93.3 billion from all major tax and license revenue sources. As illustrated below, personal income tax and corporation tax were principal contributors. The General Fund is the state's primary funding source for government services.



| Major Tax and License Revenue <sup>1/</sup><br>(Millions) |                          |                          |
|---|--------------------------|--------------------------|
|   | Fiscal Year<br>2006-2007 | Fiscal Year<br>2005-2006 |
| Personal Income Tax <sup>2/</sup>                         | \$52,353                 | \$49,947                 |
| Corporation Tax   | 10,767                   | 10,436                   |
| Subtotal  | 63,120                   | 60,383                   |
| Other Major Taxes and Licenses                            | 30,158                   | 30,832                   |
| <b>Total</b>  | <b>\$93,278</b>          | <b>\$91,215</b>          |

<sup>1/</sup> Source: Statistics extracted from State Controller's Annual Financial Report 2006-2007.

<sup>2/</sup> Including withholdings by Employment Development Department: \$33,653 million for FY 2006-2007 and \$31,678 million for FY 2005-2006.



# Self-Assessment Activities

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## General

Self-assessment activities include several tax return filing products and services. We design, produce, and distribute tax forms and publications. We process tax forms and payments as well as issue refunds. Additionally, we provide customer service to taxpayers and practitioners. Our call center provides automated and personal telephone filing assistance, while our district offices provide full service assistance for walk-in customers. We also respond to questions regarding notices.

We receive millions of tax returns and telephone calls a year. Our preferred business transaction method, both internally and externally, is through electronic transmissions. Over the last decade, we implemented online services that allow California taxpayers to transact business instantaneously in a self-service manner. Taxpayers can file returns through tax practitioners, commercial tax software, or directly to us using CalFile, our free e-file option, and ReadyReturn which allows qualified taxpayers to accept and file FTB completed returns. In addition, taxpayers can request direct deposit of their refunds with either paper returns or e-filed returns; pay their balances online with a check or credit card (through a third-party vendor); check the status of their refund status; and view a summary of their account and payments.

## Taxpayer Assistance

We assist taxpayers and tax practitioners so they can file complete, accurate returns and pay taxes due in a timely manner. We accomplish this by responding to telephone inquiries, written correspondence, Internet correspondence, and field office walk-in requests. We received 6 million tax related automated telephone calls through our Interactive Voice Response (IVR) system. Additionally, public service staff responded to 3.6 million telephone calls, paper and electronic correspondence, and field office public counter requests during 2006-2007.

In addition to these services, we develop and deliver paper and electronic filing methods to taxpayers, their representatives, and external stakeholders. For FY 2006-2007, we distributed 6.7 million tax return booklets, forms, and various other tax products. Our customers downloaded 9.4 million tax forms and publications.

## Self-Assessment Activities (Continued)

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### Return Processing

In FY 2006-2007, we processed 15.8 million Personal Income Tax (PIT) returns and reported \$46.6 billion in tax revenues. At the end of April 2007, we made a record number of \$1 billion deposits each day for six consecutive days. We issued \$8.8 billion in refunds for 10.2 million returns due to withholding, prepayments, and refundable credits.

Of the PIT returns we processed, taxpayers and tax practitioners electronically filed 9.5 million returns and we electronically scanned 3.2 million returns.

We also processed 1.4 million Business Entities (BE) tax returns with a total tax liability of \$10.7 billion.

### READYRETURN

The ReadyReturn Pilot was suspended in July 2006. However, due to the pilot's success, the three-member Board directed us to implement a permanent ReadyReturn program starting with tax year 2007. We will offer the permanent program on an opt-in basis. Taxpayers can go to our website or call the Interactive Voice Response (IVR) system to check their eligibility. For tax year 2007, we will offer ReadyReturn to approximately 1 million people.

### BUSINESS E-FILE

We expanded the business e-file program to allow partnerships, limited liability companies, and S corporations to electronically file:

- Form 565, *Partnership Return of Income*
- Form 568, *Limited Liability Company Return of Income*
- Form 100S, *California S Corporation Franchise or Income Tax Return*

## Filing Enforcement Activities

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Filing enforcement activities identify individuals and corporations that are required to file a return, but have not done so. We receive records from various sources that help us identify and appropriately tax individuals and corporations. For FY 2006-2007, we used over 350 million income records.

Delinquent taxpayers who fail to respond to request-to-file or demand-to-file letters are issued tax assessments based on the income records available to us.

During FY 2006-2007, the filing enforcement activities generated revenue of over \$487 million from individuals and over \$25 million from corporations.

# Tax Audit Activities

We conduct professional audits of income tax returns filed by corporate, partnership, and personal income taxpayers. In addition, we partner with the Internal Revenue Service to administer a joint federal/state automated audit program.

Our primary responsibilities are to:

- Conduct examinations of taxpayer income tax returns.
- Determine the correctness of self-assessed tax liabilities.
- Notify taxpayers of proposed changes.
- Resolve taxpayer disputes.



We continue to address the following high profile, significant issues.

## Abusive Tax Shelters

We aggressively pursue investors in and promoters of abusive tax avoidance transactions and shelters that are used to improperly understate significant amounts of tax liability. These transactions are complex and are typically reported on a tax return in a way to avoid or hinder detection.

## Tax Gap

The tax gap is the difference between what taxpayers should pay and what they actually paid. In California, the tax gap has grown over the years to an estimated \$6.5 billion. This places an additional burden on those paying their fair share and creates an unnecessary strain on the state's General Fund.

We took the following actions to reduce California's increasingly large tax gap:

- Detection of preparers filing fraudulent returns.
- Additional audit staff to manage new workloads.
- Discovery audit activities.

## Protective Claims

In connection with the Tax Amnesty Program (February 1, 2005 - May 31, 2005), we received protective claim payments, also known as tax deposits, from taxpayers who anticipated they might have a tax liability related to ongoing or anticipated audits, protests, appeals, or settlements. Protective claim payments received by March 31, 2005, amounted to \$3.6 billion.

## Tax Audit Activities (Continued)

### Audit Assessments <sup>1/</sup> (Thousands)

|   | Fiscal Year<br>2006-2007 | Fiscal Year<br>2005-2006 |
|---|--------------------------|--------------------------|
| <b>Personal Income Tax</b>                |                          |                          |
| Tax Audit - PIT                           | \$499,243                | \$238,821                |
| Federal Audit Report - PIT                | 316,480                  | 388,893                  |
| <b>Bank and Corporation Tax (B&amp;C)</b> |                          |                          |
| Tax Audit - B&C                           | \$1,178,519              | \$1,366,381              |
| Federal Audit Report - B&C <sup>2/</sup>  | 73,270                   | -24,718                  |
| <b>Total Audit Workload Summary</b>       | <b>\$2,067,512</b>       | <b>\$1,969,377</b>       |

<sup>1/</sup> The assessment amounts include claim denials.

<sup>2/</sup> Federal Audit Report - B&C negative revenue amount for FY 2005-2006 is due to interest and penalty adjustments related to a single settlement case.



## Tax Collection Activities

We collect unpaid personal and corporation income tax. Our automated system initiates the billing process. Our collection staff conducts manual collection efforts to ensure that nonvoluntary taxpayers contribute their fair share to the General Fund.

### Accounts Receivable Inventories\*

(Thousands)

|   | Fiscal Year<br>2006-2007 | Fiscal Year<br>2005-2006 |
|---|--------------------------|--------------------------|
| <b>Collection Revenue</b>                         |                          |                          |
| Beginning Total Available For Collection (7/1/05) | \$5,306,282              | \$4,267,213              |
| Added During FY 2005-2006                         | 5,150,168                | 5,533,043                |
| Abated During FY 2005-2006                        | -1,642,632               | -2,221,124               |
| Available for Collection                          | 8,813,818                | 7,579,132                |
| Collected   | 1,929,914                | 1,762,045                |
| Discharged  | 1,484,720                | 510,804                  |
| Total Accounts Closed                             | 3,414,633                | 2,272,850                |
| Ending Total Available for Collection (6/30/06)   | \$5,399,185              | \$5,306,282              |
| <b>Collection Accounts</b>                        |                          |                          |
| Total Number of Accounts (7/1/05)                 | 1,240,580                | 1,257,037                |

\* Totals may not add due to rounding.

## Other Programs

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### Homeowner and Renter Assistance

The Homeowner and Renter Assistance (HRA) program provides partial reimbursement of property taxes or rent paid by eligible senior citizens, disabled, and blind individuals as provided by the Senior Citizens Property Tax Assistance Law. The principal program activities include designing and distributing claim forms and instructions, providing advisory services to claimants, and processing claims.

### Political Reform Audit

The Political Reform Act of 1974 requires complete public disclosure of receipts and expenditures by political candidates and lobbyists. We are authorized to conduct, on behalf of the Fair Political Practices Commission, randomly selected audits of reports, statements, and issues to ensure accuracy and completeness. We also investigate and report information to the commission regarding the delinquent nonfiling of such reports and statements.

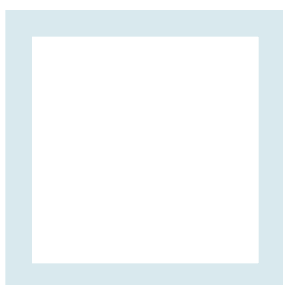
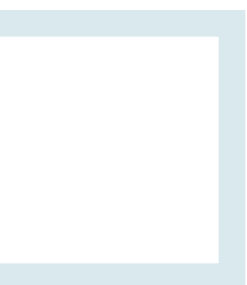
### Contract Work

We provide high quality data processing services to other governmental entities utilizing data processing equipment and skilled personnel. We also assist governmental agencies to determine eligibility for various services by providing information such as income verification, tax liability, and filing status. Our contractual service costs are reimbursed by the respective governmental entities.

### Child Support Automation Program

State Assembly Bill 150 (Stats. 1999, ch. 479) mandated the creation of a single statewide child support system, the California Child Support Automation System (CCSAS). We have been given responsibility for developing, implementing, and maintaining the operation of CCSAS on behalf of the Department of Child Support Services.

CCSAS Version 1.3, which includes statewide allocation of payments, was placed into production in July 2006. Full statewide implementation and federal certification of the statewide system are expected in November 2008.



## Expenditure Analysis

The costs of administering our tax and other programs entrusted to us for the past two fiscal years are reflected below.

### Program/Process Cost Details

(Thousands)

|  | Fiscal Year<br>2006-2007 | Fiscal Year<br>2005-2006 |
|--|--------------------------|--------------------------|
| <b>Tax Programs</b>  |                          |                          |
| Conduct Tax Amnesty  | \$535                    | \$6,465                  |
| Provide Assistance   | 42,714                   | 44,281                   |
| Provide Tax Forms  | 19,168                   | 17,961                   |
| Provide Analyses & Recommendations <sup>1/</sup>   | 12,099                   | 11,268                   |
| Process Tax Returns  | 64,723                   | 53,348                   |
| Process Payments   | 23,752                   | 21,219                   |
| Conduct Tax Auditing   | 146,806                  | 133,338                  |
| Conduct Tax Collection   | 114,653                  | 101,011                  |
| Conduct Filing Enforcement   | 20,751                   | 16,999                   |
| Conduct Investigations <sup>2/</sup>   | 10,088                   | 10,575                   |
| Conduct Withholding Services <sup>3/</sup>   | 7,309                    | 6,935                    |
| <b>Total Tax Program</b>   | <b>\$462,598</b>         | <b>\$423,400</b>         |
| <b>Other Programs</b>  |                          |                          |
| Homeowner and Renter Assistance  | 6,294                    | 5,786                    |
| Political Reform Audit   | 1,692                    | 1,473                    |
| Child Support Automation System  | 220,368                  | 199,333                  |
| Department of Motor Vehicles Collections   | 6,146                    | 5,704                    |
| Court Collections  | 10,547                   | 6,037                    |
| Contract Work Program  | 7,776                    | 8,170                    |
| <b>Total Program Costs</b>   | <b>\$715,421</b>         | <b>\$649,903</b>         |
| <p><sup>1/</sup> Provide research services covering tax and nontax policy and California economic conditions (includes legislative analysis) and issuing regulations, rulings, and notices.</p> <p><sup>2/</sup> Investigate cases that appear to involve the willful failure to file a tax return, the filing of fraudulent returns, and other criminal violations of the tax laws.</p> <p><sup>3/</sup> Educate withholding agents and collect withholding on payments to taxpayers.</p> |                          |                          |





# ACCOMPLISHMENTS

1.4 million business tax returns

e-file

employee engagement

## tax clearance

ReadyReturn

English, Spanish, and via TDD

CalFile

operational excellence

## Goal 1 Improve Customer Service

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We commit to providing all customers excellent service. In 2007, we did the following to address the needs of our diverse customers.

### **Implemented call center improvements**

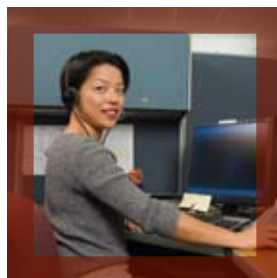
We partnered with AT&T to design and implement an improved enterprise-wide call center platform. The platform provides us with a vastly improved method of incoming call traffic management. The new platform provides our customers with self-service options and dynamic routing to get them to an agent who can best assist them the first time they call. Our supervisors and managers also receive real-time and historical report statistics to increase resource management effectiveness. We implemented these improvements on December 3, 2007.

### **Eliminated the tax clearance process**

On September 29, 2006, the Governor signed an FTB sponsored bill, AB 2341 (Stats. 2006, ch. 773). AB 2341 streamlined the steps to dissolve business entities by eliminating the need to get a tax clearance certificate from us. We completed implementation on June 30, 2007.

### **Enhanced ReadyReturn for deployment**

Beginning in tax year 2007, we provided a voluntary ReadyReturn program to ease the filing burden for taxpayers who file the simplest tax returns. We use data the state already has to complete a taxpayer's state tax return for them. This program includes a web interface and an on-demand print option. Taxpayers can review, update, and file ReadyReturns online or on paper.



### **Launched redesign of FTB's website**

On January 23, 2007, the California eServices Office issued a policy notice stating that all State of California websites should maintain a common look and feel and a common navigational framework. This policy makes it easier for people to access information on official state websites. State agencies were required to adopt the new state-sanctioned look and feel by November 1, 2007. On October 23, 2007, we launched a redesign of our public website with the new standards.

### **Formed call center partnership with the Office of Emergency Services**

In partnership with the Governor's Office of Emergency Services (OES), our call center now provides assistance with emergency recovery efforts resulting from natural disasters. Our call center staff answers telephone calls and provides emergency information to citizens including referral numbers for citizens in impacted counties and the locations of assistance centers. Our contact center is prepared to take calls in English, Spanish, and via TDD for the hearing impaired.

### **Increased the number of statewide volunteer income tax assistance sites**

We administer the Volunteer Income Tax Assistance (VITA) program with the Internal Revenue Service. The objective of the VITA program is to help individuals prepare their state and federal personal income tax returns for free. To expand the VITA program, we established new VITA sites at our field offices in Sacramento, Oakland, San Francisco, Los Angeles, Santa Ana, and San Diego, recruited more volunteers, and increased publicity.



## Goal 2 Increase Fairness and Compliance with Tax Law

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We work to ensure that all taxpayers pay their fair share of taxes — no more, no less — through means that are fair and equitable. For those who still do not pay their fair share of taxes, we took appropriate enforcement action, which included:

### **Made significant efforts to address the tax gap**

Our strategic tax gap plan is innovative and multi-faceted. The plan includes short-term tactical actions as well as long-range strategic efforts. The plan also balances “soft” approaches, such as reducing the filing burden to increase voluntary compliance, with enforcement actions.

In 2007, we made significant progress toward accomplishing the key initiatives we outlined in our tax gap plan. The Department of Finance approved funding to continue with existing tax gap activities, and to develop new initiatives to further help close the tax gap. To date, these activities resulted in \$114 million in revenue. In recognition of our effective, successful, and innovative activities combating the tax gap, we provided input at federal joint senate hearings, sat on national conference panels, and responded to US senate requests regarding our efforts. The following list identifies specific steps we are taking to reduce the tax gap:

- Auditing taxpayers, such as independent contractors and sole proprietors, that underreport income or over deduct their expenses.
- Conducting discovery audits to study new, cost-effective trends for future audits of taxpayers and preparers. Discovery audits use new audit initiatives to identify taxpayers who are filing but not including all of their income in accordance with the Revenue and Taxation Code.
- Investigating out-of-state tax avoidance schemes that intentionally avoid California income taxes.
- Increasing actions against known problem preparers and issuing penalties on fraudulent preparers based on audits of their clients. We issued self-compliance letters on 140 tax returns. These letters advise the taxpayers of our pending examinations and give them the opportunity to self correct their returns prior to an examination.
- Increasing our collection activities and identifying viable tax gap leads through the normal course of the collection workload.
- Partnering with the IRS to identify and develop strategies to increase voluntary tax compliance. We partnered with IRS on two primary efforts, the Independent Contractor Team and the Practitioner Team. These activities send a strong message to the public about our combined commitment to make taxes fair for all Californians.

### **Continued to aggressively identify and audit abusive tax shelters**

Abusive tax shelters are a significant issue and result in billions of dollars in lost tax revenues. We are working with other states and the IRS to actively exchange audit information and leads that help identify abusive tax schemes. Activities include:

- Partnering with 21 other states and the Multistate Tax Commission on the Voluntary Compliance Program. This has resulted in the states collecting \$21 million from abusive tax shelters.
- Conducting audits of investors and promoters of abusive tax shelters.
- Identifying over 700 tax returns with potential tax shelters and referring over 500 informant tips to outside agencies.
- Identifying potential tax shelters and issuing 118 self-compliance letters.

### **Expedited the resolution of protective claims**

Protective claims, also known as tax deposits, are payments taxpayers estimate they might owe in connection with ongoing or anticipated audits, protests, appeals or legal settlements.

More than 800 taxpayers made tax deposit payments of approximately \$3.6 billion before March 31, 2005. We took significant steps to expedite the resolution of protective claim audits and protests. Accelerating the protective claim timeframes ensures that taxpayers who paid significant sums outside of amnesty will receive expedited identification and consideration of their potential tax liabilities so that we can apply their payments on a timely basis.

Of the \$3.6 billion in tax deposits we received, only \$340 million remain under audit. \$1.9 billion is pending post audit resolution and \$1.4 billion is closed. Processing these cases is a top priority in the audit program. We anticipate the protective claims will be fully resolved by 2010-2011.

### **Created California Compliance Resolution Program to address backdated stock options**

We conformed to the IRS initiative allowing employers to pay additional taxes incurred by rank-and-file employees caused by a company that backdated stock options. We sent self-compliance letters to approximately 190 corporations with backdated stock options. As a result, 46 corporations elected to participate in the California 409A Compliance Resolution Program. These employers reported 3,700 employees and paid \$30.8 million in tax.

### **Completed the Withhold at Source Feasibility Study Report**

We prepared and submitted to the Department of Finance a feasibility study report (FSR) requesting project approval to replace our department's nonwage withholding system. The new system will increase tax compliance, improve customer service, and provide efficiencies in our processes. We expect revenue generated from this project to be \$6.6 million over a five-year period. The project is scheduled to begin in July 2008 with system implementation in August 2010. The Department of Finance approved the budget change proposal to fund the project for fiscal year 2008-2009. Final approval of the FSR is pending.

## Goal 3 Increase Transparency

We strive to make our information and processes more accessible and understandable to taxpayers. Transparency increases public trust in government and increases voluntary compliance with the tax laws. We did the following to increase transparency in 2007:

### **Translated our CalFile application into Spanish**

In order to better serve our Spanish-speaking population, we implemented a Spanish version of our CalFile application beginning with the 2007 tax year. We marketed this new application through our tax booklets and via our website.

### **Expanded our offering of translated publications and web content**

Perhaps more than ever before, we recognize the importance of responding to California's diverse demographics and changing taxpayer needs. We focus on making more of our information and processes available and understandable to all taxpayers, including those for whom English is their second language. Based on stakeholder input and analysis, our staff continues to translate more of our forms, publications, and web content into other languages including: Chinese, Korean, Vietnamese, Russian, and Spanish.

### **Developed a publication to assist registered domestic partners**

Beginning January 1, 2007, California enacted Senate Bill 1827 (Stats. 2006, ch. 802), requiring registered domestic partners to use the same filing status as married couples. We worked together with interested parties and tax practitioners to discuss and identify filing concerns, provide technical guidance, and develop Publication 737 - *Tax Information for Registered Domestic Partners*. Through our combined efforts, we addressed the areas of greatest concern and provided taxpayers with tools to assist them in meeting the requirements of this new law.

### **Expanded our education and outreach efforts**

We believe that the most efficient and effective way to communicate our policies, procedures, and key audit issues is through direct contact with citizens. We reached thousands of tax professionals and taxpayers by making speeches and presentations to various groups statewide, including tax practitioner groups, non-profit organizations, and the business community.

Since January 2007, we have increased Tax News subscriptions by 19.7 percent to 9,328. Tax News strives to cover issues of importance and interest for our primary subscribers - tax professionals.



### **Developed new “My FTB Account” web applications**

An important component of our strategic objectives is to provide services to taxpayers that help reduce their filing burden. We strive to achieve this in large part by providing online services that focus on accessibility, convenience, and transparency. Existing online services include viewing estimated tax payments, payments applied to a tax year, current balance due, and a summary of the balance due.

### **Instituted interested parties meetings**

In 2007, we institutionalized the use of interested parties meetings to generate feedback from the public about specific topics such as:

- New law implementation.
- Proposed initiatives.
- Items pending policy consideration by our Board.
- Future policy issues.
- Possible solutions to issues raised by court decisions.

We view these open forums as one key step in increasing public trust in government and increasing voluntary compliance with our tax laws.

### **Posted top 250 largest state income tax delinquencies list**

The Legislature passed Assembly Bill 1418 (Stats. 2006, ch. 716) that directed us to publicly disclose a list of the top 250 largest state income tax delinquencies. On August 24, 2007, we mailed a Notice of Public Disclosure of Tax Delinquency to taxpayers required to appear on the list, representing \$263 million in unpaid debt. On October 12, 2007, we publicly disclosed the list on our website. Public posting of the list stimulated significant media interest and public comment, the overwhelming majority of which was very favorable. Prior to posting the list, we received just over \$300,000 in revenue as a result of letters sent to affected taxpayers advising them of the upcoming posting. We refresh the list once a year, considering debts in existence on December 31 of each calendar year.

## Goal 4 Create a Great Place to Work, Contribute, and Learn

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We strive for a high level of employee engagement and innovation. We improve the long-term viability of our organization through recruiting the most qualified employees, fostering innovation, providing training and development, and ensuring collaborative and effective communication. Our accomplishments include the following:

### Developed activities to strengthen our organization

We strive to create an enjoyable work environment that provides employees the opportunity to develop their skills and enhance their careers. We also recognize that innovation begins with our employees. This year we did a number of things to strengthen our organization, including:

- Implemented *Ed-Tool*, an easy-to-use, online resource that helps employees identify career and development goals and opportunities.
- Completed an administrator rotation effort designed to strengthen and develop our supervisors and managers and increase their breadth of knowledge. The process also helps improve communication and understanding across organizational lines, promote efficiency and effectiveness in every program area, and improve overall job satisfaction.

### Developed online service to facilitate matching state retirees to job openings

In partnership with the State and Consumer Services Agency (SCSA) and its departments, we developed the website to connect state retirees with hiring managers. The website was designed to tap into the knowledge base of State of California retirees. On September 5, 2007, we released Phase 1 of the new Boomerang Website ([boomerang.ca.gov](http://boomerang.ca.gov)). Nearly 500 retirees posted online profiles listing their skills, work history, and employment preferences. On October 31, 2007, Phase 2 of Boomerang enabled hiring managers to match retirees with relevant job opportunities. The State Personnel Board administers the program and coordinates with state departments to manage the centralized database of retiree information. In January 2008, the initial implementation, originally limited to SCSA's departments, was expanded to all state departments.





## Goal 5 Demonstrate Operational Excellence

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We demonstrate operational excellence by delivering efficient, high quality business results. Our employees identify and implement ways to reduce operating costs while maintaining or increasing the quality of our products and service. To reach our goals and provide customers the services they need, we did the following:

### **Continued success with the California Child Support Automation System Project**

The State of California has paid significant penalties (about \$200 million annually) to the federal government due to its failure to successfully implement a federally certified, single statewide automated child support system by October 1998. Acting as agent to the Department of Child Support Services (DCSS), we undertook the responsibility to procure, develop, and implement the statewide system. Successful implementation of the California Child Support Automation System (CCSAS) Project will meet Child Support Program goals thereby eliminating federal penalties and enhancing customer service to child support clients. While the project is on track to fully implement a single statewide system by November 2008, we are seeking federal certification and early penalty relief through an “Alternative System Configuration” (ASC). With the submission of an ASC Certification request in September 2006, federal penalties were put in abeyance, pending the outcome of the federal certification review.

The size and complexity of the proposed statewide system required that CCSAS be implemented in two phases. Version 1, which became operational in late October 2005, consolidated local systems, providing a link to new statewide services to support Statewide Disbursement Unit operations. Version 2 will expand the statewide services component, retire the local systems, and provide a single, centralized database of child support cases. Version 2 implementation began in November 2006 with implementation in DCSS, and will continue rolling out to the 58 counties through November 2008. As of November 2007, Version 2 was implemented in 18 of California’s 58 counties.

## Goal 5 Demonstrate Operational Excellence (Continued)

### Realized 2007 filing season success

During 2007, our tax administration activities resulted in the collection of \$62 billion or 67 percent of General Fund Revenues. The total number of deposits received this year is up by 3.5 percent, and the total dollar amount is up .4 percent compared to 2006 at the same time. While paper continues to be the payment choice for taxpayers, the volume of electronic deposits was 8.9 percent higher than 2006.

### PERSONAL INCOME TAX (PIT)

For the 2007 filing season, we received approximately 15.3 million personal income tax returns, which is up 2.1 percent compared to 2006. We received 9.6 million electronically filed returns, an increase of approximately 7.4 percent over 2006. Taxpayers electronically filed 62.5 percent of all personal income tax returns.

We received a record setting 324,211 e-filed returns on April 17, 2007, the final filing date for 2007. This is the highest number of e-filed returns ever received in a single day. In the last ten years, personal income tax e-file has grown from 1 million returns filed to 9.6 million.

Our CalFile program experienced growth this year as well. We received 142,000 CalFile returns for the 2007 process year. This is an increase of 27.2 percent from 2006's volume.

In 2007, we issued approximately 10.5 million personal income tax refunds amounting to \$9.1 billion. The total volume of refunds issued is 2.6 percent higher than 2006. The total dollar amount of these refunds also increased by 7.8 percent. PIT direct deposit refunds were up 10.7 percent for a total of 4.3 million refunds equaling \$4.1 billion.

### BUSINESS ENTITIES (BE)

In 2007, approximately 1.4 million business tax returns were filed, which is up 15.8 percent compared to 2006. In 2008, we entered the third year of offering business e-file. We experienced substantial growth in the first two years, and look forward to business e-file's progress to include the majority of business returns. In 2007, business e-file expanded to include partnerships, limited liability companies, and S corporations. We received 56,673 business e-file tax returns, which is an increase of 438 percent over 2006.

We issued 138,649 business entity refunds in 2007 amounting to \$1.7 billion. Business entities direct deposit refunds were up 38.1 percent over 2006. The total volume of refunds issued this year is .8 percent higher than 2006. The total dollar amount also increased by 18.7 percent compared to 2006.

### **Embarked on a tax systems modernization effort**

In April 2007, we began a concerted effort to modernize our tax systems. This effort involved development of an Information Technology Strategic Plan (ITSP) leading to the identification of IT projects. This modernization effort was consistent with and an extension of our recently completed Franchise Tax Board Strategic Plan. This detailed business and IT planning was a collaborative effort and involved the highest levels of our executive leadership, including business and technology, supported by consultant services. We believe our modernization efforts are critical to generate additional revenue for the state, meet rising customer expectations, and operate in an efficient and effective manner.

### **Implemented the Scan and Shred Project**

In July 2007, we implemented the Scan and Shred Project that automated the storage and retrieval for all business entity (corporations, partnerships, limited liability companies, and exempt organizations) tax returns and attachments through the use of imaging technology. Our staff can now view images of tax returns and documents at their personal computers. Multiple users can view the same information at the same time. This process allows us to shred the paper forms, eliminating the costs of the physical storage space and the personnel hours expended filing and retrieving the paper returns. With the implementation of the Scan and Shred project, we will scan approximately 55 million pages annually.

### **Achieved project milestones on the Court Ordered Debt Expansion Project**

For the Court Ordered Debt (COD) Collections program, we partnered with superior courts, municipal courts, justice courts, and counties to reduce the amount of uncollected court imposed delinquencies statewide. In August 2004, legislation was passed making COD a permanent program and mandating that we design, develop, and implement a collection system to accommodate statewide participation that could potentially increase the client base from 40 to over 174 and the number of cases on the system by over 500 percent to approximately 8 million. The new collection system replaces the interim mainframe system designed for the COD pilot. The system uses the latest software to standardize procedures, build on best practices, and offer more customer services. The COD Expansion project hired state and contractor staff, completed the system architecture design, and developed a project communication plan.

### **Completed new Strategic Plan and Key Initiatives Process**

In January 2007, we completed our Strategic Plan for 2007-2011 and posted the plan on our public website. In their role of providing strategic direction across the enterprise, our executive management team adopted an annual Key Initiative process to provide an operational focus on the Strategic Plan in 2007. The executive management team sponsors and assigns projects to project managers and teams to develop and implement within the year. This planning methodology proved successful in 2007 as enterprise teams worked together to improve how we do business.

## Goal 6 Protect Taxpayer Information and Privacy

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Our job of safeguarding confidential information is essential to continued taxpayer confidence and support. To control and reduce our exposure to threats and vulnerabilities, we did the following:

### **Performed security certifications**

In 2007, 190 security certifications were performed on new and rebuilt Windows, Linux, and Unix servers to ensure they met or exceeded Franchise Tax Board security baseline standards prior to being released into production.

In 2007, we ensured that our major tax systems were protected by certifying that all development, staging, and production servers that support the department's online applications met or exceeded our security baseline standards.

### **Held worksite security events**

In 2007, we held our first Emergency Preparedness Month. We designed this event to coincide with the First Lady of California Maria Shriver's emergency preparedness campaign through the Office of Emergency Services. Our Emergency Preparedness Month included informational bulletins to all staff on preparedness measures for home and the workplace. The event also involved evacuation drills for all buildings at our central office campus.

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### **Established secure data sharing with IRS**

In 2007, the IRS established the Secure Data Transfer (SDT) program to provide encrypted electronic transmission of federal tax information between the IRS and government agencies. We were one of the first state departments to test the program. We now receive all federal data extracts from the IRS via the SDT program.

Along with the Board of Equalization and the Employment Development Department, we submitted a request to the IRS to renew the authorization to share federal tax information among the agencies. Approval of this request provides for the continued sharing of common federal tax information between the state agencies and promotes a greater level of efficiency and effectiveness in each agency's respective collection and audit programs. Each agency remains committed to the protection and confidentiality of both state and federal taxpayer data.

### **Participated in IRS Publication 1075 revisions**

We participated with the Federation of Tax Administrators and tax departments from six other states to provide input on revisions to the IRS Publication 1075, *Tax Information Security Guidelines for Federal, State and Local Agencies and Entities*. This collaboration resulted in two separate revisions and releases of the document. Publication 1075 instructs state tax agencies on the protection of confidential IRS information shared with the states. Adherence to the guidelines is a requirement for the states in order to receive the federal tax information vital to many state tax audit, collection, and compliance programs. The latest revisions bring IRS and state tax agencies into compliance with the current federal government computer security standards published by the National Institute of Standards and Technology.

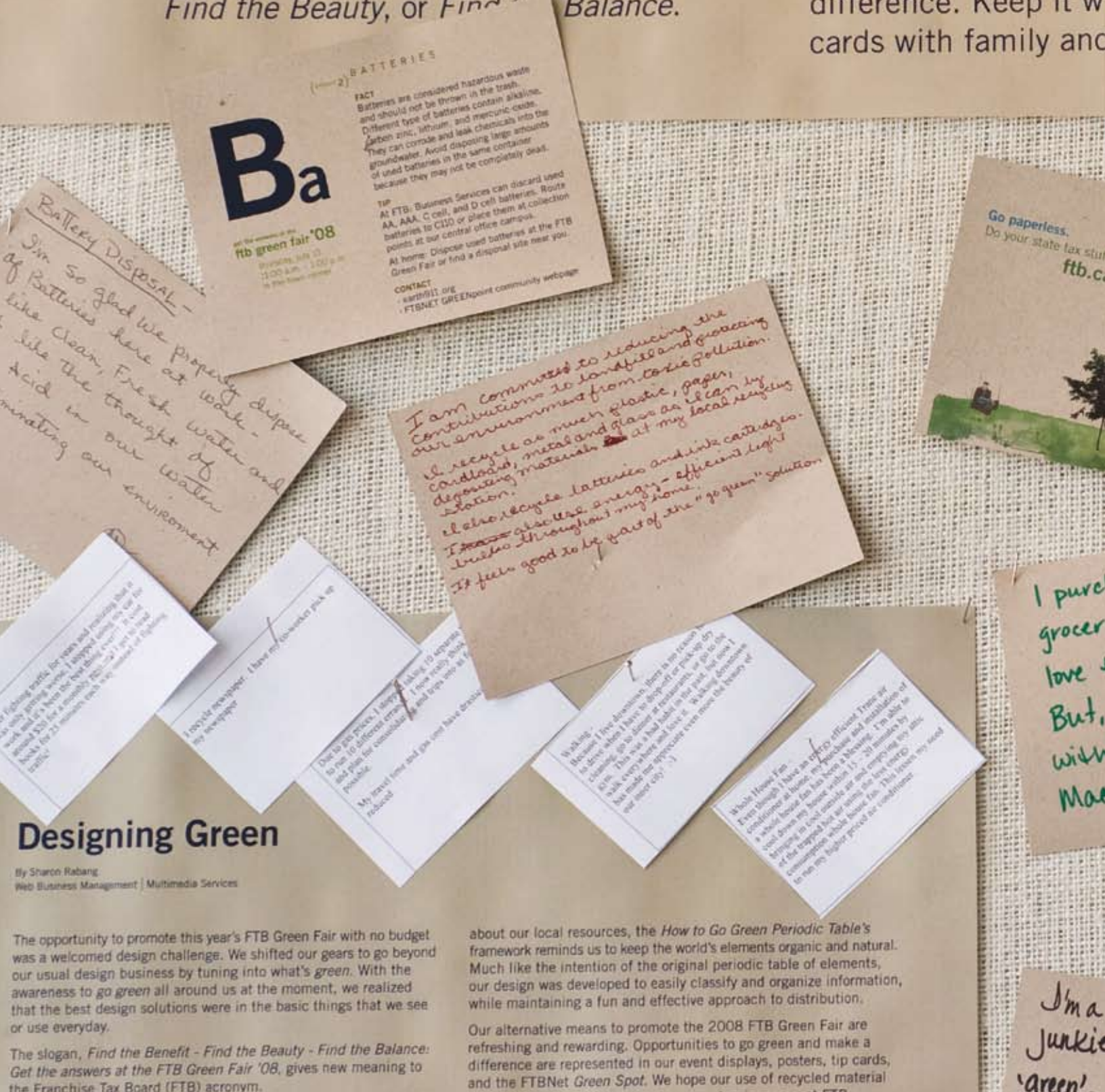
# LET'S GO GREEN

## (1) PICK A CARD

Choose a green element card that interests you to *Find the Benefit*, *Find the Beauty*, or *Find the Balance*.

## (2) MAKE A DIFFERENCE

Your green element card is a reminder to *Go Green* and make a difference. Keep it with family and friends.



## Designing Green

By Sharon Rabang  
Web Business Management | Multimedia Services

The opportunity to promote this year's FTB Green Fair with no budget was a welcomed design challenge. We shifted our gears to go beyond our usual design business by tuning into what's *green*. With the awareness to *go green* all around us at the moment, we realized that the best design solutions were in the basic things that we see or use everyday.

The slogan, *Find the Benefit - Find the Beauty - Find the Balance*: Get the answers at the FTB Green Fair '08, gives new meaning to the Franchise Tax Board (FTB) acronym.

about our local resources, the *How to Go Green Periodic Table's* framework reminds us to keep the world's elements organic and natural. Much like the intention of the original periodic table of elements, our design was developed to easily classify and organize information, while maintaining a fun and effective approach to distribution.

Our alternative means to promote the 2008 FTB Green Fair are refreshing and rewarding. Opportunities to go green and make a difference are represented in our event displays, posters, tip cards, and the FTBNet *Green Spot*. We hope our use of recycled material

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## THE YEAR AHEAD

“speaking with one voice”

accessibility

voluntary compliance

accountable

modernization

e-file development

transparent

My FTB Account

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re-usable grocery bag  
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## Enhancing Online Services

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An important component of our strategic objectives is to provide services to taxpayers that help reduce their filing burden. We strive to achieve this in large part by providing online services that focus on accessibility, convenience, and transparency. Existing online services include viewing tax payments, estimate payments, and a summary of the taxpayer's balance due. We will expand My FTB Account in 2008, to include California wage and withholding data and FTB-issued 1099G and 1099INT information.

In 2008, we will also deploy ReadyReturn, a voluntary program for taxpayers who file the simplest tax returns. We use data the state already has to complete a taxpayer's state tax return for them. Taxpayers are able to review, update, and file ReadyReturns online or on paper.

## Partnering with Other Government Organizations

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To tackle the rapidly evolving nature of the tax gap, we will continue to partner with the IRS and others to develop more innovative methods to detect and defeat new tax cheating strategies. We partner nationwide with the IRS and other states to actively exchange audit information and leads to identify abusive tax schemes. We will also partner with the IRS in public speaking events and practitioner liaison meetings to demonstrate that we are "speaking with one voice" with regard to the tax gap efforts. We will continue exchanging best practices with other states in the administration of our tax laws, focusing on noncompliance initiatives to increase tax revenues and change taxpayer behavior.

To better equip us in addressing long term tax gap issues, and based on the Legislative Analyst's Office recommendation, we have formed a joint agency data sharing team under the general direction of the Board of Equalization, Employment Development Department, and Franchise Tax Board members of the Federal State Partnership. Our primary goal is to ensure that new technology projects within each agency augment our current data sharing abilities and are consistent and compatible with the direction set by the State Chief Information Officer. The results of this effort will assist the agencies in better focusing on programs that are most efficient and effective in promoting compliance with California's tax laws.

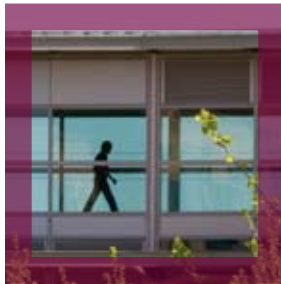
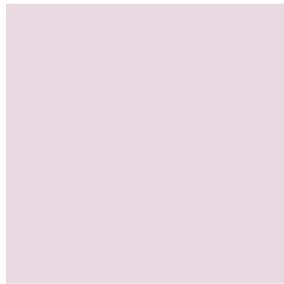
While we recognize the challenge and difficulty in measuring indirect results on compliance from customer service initiatives, we will initiate a study, similar to the IRS Taxpayer Assistance Blueprint, to develop a plan for future taxpayer service initiatives. Our goal is to ensure that future customer service initiatives support the desired increase in voluntary compliance.



## Increasing Transparency

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We strive to make our organizational goals and operations more transparent and accountable to the public to strengthen our relationship and reduce taxpayer burden. This relationship is also strengthened when taxpayers have secure access to their data. We will further this goal by making My FTB Account a “one stop service” for taxpayers that will allow them to view and change data and provide seamless authentication. We believe filing and paying taxes should be an intuitive experience for all taxpayers.



FTB.CA.GOV

# Creating and Maintaining a Great Place to Work, Contribute, and Learn

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FTB prides itself on a culture where everyone is treated with dignity and respect and connects their work to our mission and key strategies. The work environment is one where inclusion is fostered, ownership and accountability are the norm, and each employee believes they make a difference in our business. To help support these tenets and maintain a thriving workforce, we will initiate a talent development program that enables employees to take control of their own development in a way that is beneficial to themselves and the organization. The process includes self-evaluation, a workshop, exercises, 360° feedback, peer feedback, and ongoing coaching. With the increased focus on cross-functional teams, matrix organizations, customer service, and employee development, emphasis will shift to include feedback from a wide collection of sources (i.e., direct reports, peers, managers, customers, suppliers, interested stakeholders, as well as self assessments).

We will also sponsor our second annual Green Fair in July 2008. Our green initiatives for 2008 include:

- Recycling programs.
- Encouraging alternative transportation.
- Department-wide collection and redistribution of used equipment and office supplies.
- A “Summer Blowout” to encourage cleanup of employee workspace, hard drives, local and network drives, and email.

## Demonstrating Operational Excellence

We anticipate the California Child Support Automation System will be accepted by the Department of Child Support Services and federally certified in June 2008. This long-awaited milestone in the project's implementation will result in relief from federal penalties of nearly \$200 million. Los Angeles will be the final county to transition to the new child support system during November 2008. We plan to turn over the maintenance of the automated system to the system owner, the Department of Child Support Services, in January 2009.

To support our enterprise focus on customer service and upcoming modernization projects, we need a robust enterprise IT environment that can make changes easily and timely, and provide services as needed. Our enterprise architecture must ensure that information and data are complete, accessible, and useable without regard to the business process, system, program, or organization. During 2008, we will establish an IT operations organization that will support this vision. We will also evolve and expand the role of enterprise architecture in our decision-making based on industry best practices.

In mid-2008, we will complete the next major phase of business e-file development, when we roll out e-file for our largest business taxpayers – those that file on a combined return and Water's Edge basis. Because these taxpayers are largely already required to file electronically for federal purposes, we anticipate good state participation in the start-up years.





**FRANCHISE TAX BOARD**

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