



Fair, Efficient, and Customer-Focused Tax Administration

Policy Position

Position: *Fair, efficient and customer-focused tax administration is critical to the effectiveness of our voluntary system of tax compliance. A burdensome, unfair, or otherwise biased administrative system negatively impacts tax compliance and hinders economic competitiveness.*

Explanation: COST has long evaluated state statutes governing tax administration and has identified several key areas that are indicative of fair, efficient and customer-focused tax administration. These areas include:

- Equivalent Statutes of Limitations – Statutes of limitation should apply equally to assessments and refund claims. Requiring taxpayers to meet one statute while the tax administrator is granted additional time is unfair and should not be tolerated in a voluntary tax system. Extension of the statute of limitations for federal adjustments should apply equally for assessments and refunds. Claims for refund based on constitutional challenges should not be singled out for discriminatory treatment by shortening the statute of limitations.
- Equalized Interest Rates – Interest rates are meant to compensate for the time value of money and should apply equally to both assessments and refund claims. Failure to equalize interest rates diminishes the value of the taxpayer’s remedy of recovering tax monies to which it is legally entitled. While states are entitled to penalize taxpayers who underreport tax liabilities, the punishment should be imposed through the penalty structure. Refunds and liabilities should be offset in calculating the amount due.
- Adequate Protest Period – The first step in the administrative process in most states is the issuance of an assessment with notification of a right to protest. That protest period should be at least 60 days and preferably 90 days. Shorter protest periods are unreasonable and could jeopardize a taxpayer’s ability to fully respond to a proposed assessment. A notice period of 60 days or longer is of increasing importance in a global economy where taxpayers are working to comply with the laws of numerous jurisdictions and complex financial accounting rules.
- Reasonable Due Dates – The state’s corporate income/franchise tax return due date should be at least 30 days after the federal tax return due date. Further, the state’s corporate income/franchise tax return due date should be automatically extended with the granting of a federal extension. Extending state due dates assists taxpayers in their efforts to file correct returns based on complete federal return information. Although corporate taxpayers often file a single consolidated federal return, the adjustments necessary to generate the multitude of state tax returns required are complex and time-consuming. To ease administrative burdens, an automatic state extension should only require attaching a copy of the federal extension with the state return to qualify.

These areas represent the bare minimum necessary to provide fair, efficient and customer-focused tax administration. Other areas, including the administration of local taxes and other administration of federal tax audit adjustments, should be considered on a state-by-state basis.