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NACo, county treasurers support tax gap collection bill

WASHINGTON, D.C. – Barbara Ford-Coates, the elected tax collector for Sarasota County, Fla., told a House panel today that the nation's counties support legislation which would create a pilot program to collect delinquent local government tax debt by reducing federal tax refunds.

Ford-Coates is president of the National Association of County Treasurers and Finance Officers (NACTFO), which is an affiliate of the National Association of Counties (NACo). She testified today before the House Oversight and Government Reform Committee's Subcommittee on Government Management, Organization, and Procurement, chaired by Rep. Edolphus Towns (D-NY).

The committee is considering legislation (H.R. 1865) introduced this week by Rep. Jim Moran (D-Va) and Rep. Tom Davis (R-Va.) which would create a pilot program to collect delinquent local government tax debt by reducing federal tax refunds. The proposal would build on the Federal Offset Program, which already allows taxing authorities in 37 states to collect by attaching federal tax refunds.

Ford-Coates applauded the legislation and said it should serve as should as a model for building a collaborative intergovernmental partnership.

"First, H.R. 1865 would create exactly the opposite of an unfunded mandate," Ford-Coates said. "Rather than mandating expenditures by local government, the federal government would be providing a service to local governments for which we would pay the cost.

"Secondly, the legislation is designed to avoid creating an undue burden or administrative difficulty by building on existing mechanisms rather than creating a new program. It provides for the Treasury Department to have maximum flexibility in implementation.

"Finally, the legislation includes a trigger mechanism allowing the program to be terminated if it proves detrimental for the federal government. It is truly a win/win for all government and therefore for all the people."

According to Rep. Davis, the idea for the legislation came from Frank O'Leary, who has served as treasurer of Arlington County, Va., for 23 years. O'Leary estimates that Arlington County could collect up to \$2 million, Fairfax County could collect as much as \$5 million and all Virginia localities could collect as much as \$70 million in the first year of the program.

Text of Ford-Coates written testimony is below.

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The National Association of Counties (NACo) is the only national organization that represents county governments in the United States. Founded in 1935, NACo provides essential services to the nation's 3,066 counties. NACo advances issues with a unified voice before the federal government, improves the public's understanding of county government, assists counties in finding and sharing innovative solutions through education and research, and provides value-added services to save counties and taxpayers money. For more information about NACo, visit www.naco.org



**Testimony of Barbara Ford-Coates, Tax Collector
Sarasota County, Florida**

**On behalf of the
National Association of Counties and
National Association of County Treasurers and Finance Officers**

**Before the U.S. House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Government Management, Organization, and Procurement**

April 19, 2007

Chairman Towns, Ranking Member Bilbray, members of the subcommittee:

Thank you for the opportunity to testify today. My name is Barbara Ford-Coates. I am the elected tax collector for Sarasota County, Florida, and serve as President of the National Association of County Treasurers and Finance Officers (NACTFO). NACTFO was founded in 1954 and is the only national organization in the country that represents all elected and appointed county financial officers. The objectives of our organization are to promote professional growth and encourage a high level of customer service to the general public in an efficient and effective manner. In pursuing these objectives, we are often proactive in federal legislation and regulations that affect county government, tax collection and treasury management.

NACTFO is an affiliate of the National Association of Counties (NACo), the only national organization that represents county governments in the United States. NACo was founded in 1935 and provides essential services to the nation's 3,066 counties. NACo advances issues with a unified voice before the federal government, improves the public's understanding of county government, assists counties in finding and sharing innovative solutions through education and research and provides value-added services to save counties and taxpayers money. In August 2006, NACo was named one of nine remarkable associations in the United States after a four-year study conducted by the American Society of Association Executives and The Center for Association Leadership.

I am testifying today on behalf of both NACo and NACTFO in support of legislation that should serve as a model for building a collaborative intergovernmental partnership. The federal government is not the only level of government that faces a tax gap; ensuring tax compliance is also a challenge that we face at the local level. Those who shirk their legal responsibility to pay the taxes that fund local government services impose an expensive burden on their neighbors. The result is that the rest of us pay higher tax rates.

H.R. 1865 would create a pilot program to collect delinquent local government tax debt by reducing federal tax refunds. This is a modest proposal to expand an enforcement tool already available to the states. It builds on successful models in 14 states that are both participating in the Treasury Offset Program for state tax debts and have an in-state program for offsetting state tax refunds for local tax debts.

This is a fee-based service so there will be no cost to the federal treasury. The administrative burden will be minimal because local governments can only apply if their state is willing to serve as a conduit. Also, the Secretary of the Treasury has full authority to prescribe additional conditions to ensure that the debt is a past-due, legally enforceable tax obligation and that we have made reasonable efforts to obtain payment. Finally, the IRS can pull the plug if it determines that the pilot program has negatively affected federal revenue or revenue collection.

I would like to suggest three minor modifications which we believe will improve the legislation:

- First, we suggest that you reconsider the language limiting the Secretary's discretion in selecting states for the pilot program. There are several states not included in the list that both participate in the existing Treasury Offset Program for state tax debts and have an existing statewide offset program. For example, North Carolina has an existing statewide offset program that has returned \$35.5 million to 275 participating cities and counties since inception of their statewide offset program in 2002. We believe the Secretary should have the discretion to take advantage of programs like North Carolina.
- Second, after expiration of the pilot program, we would like to clarify that the definition of an 'eligible State' does not prevent states without an income tax from participating. For example, my own state of Florida has no income tax but may wish at a future date to participate in order to collect property taxes on behalf of cities, counties, schools and other local taxing districts.
- Finally, I ask you to reconsider the requirement for notification by certified mail with return receipt. This is not necessarily the best or most cost-effective means of ensuring taxpayer notification. In my experience, many working taxpayers do not have the time to make a special trip to sign for certified mail.

In seeking enactment of this legislation we strive to follow the Golden Rule – Do Unto Others as You Would Have Them Do Unto You. First, H.R. 1865 would create exactly the opposite of an unfunded mandate. Rather than mandating expenditures by local government, the federal government would be providing a service to local governments for which we would pay the cost. Secondly, the legislation is designed to avoid creating an undue burden or administrative difficulty by building on existing mechanisms rather than creating a new program. It provides for the Treasury Department to have maximum flexibility in implementation. Finally, the legislation includes a trigger mechanism allowing the program to be terminated if it proves detrimental for the federal government. It is truly a win/win for all government and therefore for all the people.

This is a refreshing departure from the unfortunate, but more familiar, Golden Rule of Federalism – Those Who Coin the Gold Make the Rules. The current focus on reducing the federal tax gap has already provided some troubling examples of coercive rather than cooperative federalism, with the federal government dictating practices to state and local governments rather than working in partnership with us to address our mutual challenges. Both recently enacted and proposed legislation would require local officials to collect federal taxes,

implement new reporting software or procedures, or provide federal tax advice without consultation or payment of the costs involved.

An example is Section 511 of the Tax Increase and Prevention Act, which will soon require many counties to withhold federal taxes on nearly every payment for a service or product – from plumbing services to paper clips - with no minimum transaction and regardless of whether the payment is made by check or credit card. This is effectively a federal sales tax on county purchasing. It will be very expensive for counties to implement and will require programming changes to financial and accounting systems and the hiring of additional staff. It will also likely discourage contractors from bidding on government contracts and increase the costs of procurement.

This mandate is particularly egregious because it was inserted into the final version of an omnibus tax bill that had already passed both the House and Senate and was never subject to a formal vote, hearings or consultation with any state and local government officials or our national organizations. It will likely cost counties more to implement than it will yield for the federal government. I urge members of the subcommittee to cosponsor H.R. 1023 to repeal this unfunded mandate.

Another example is a recent recommendation of the Joint Committee on Taxation “to require State and local taxing jurisdictions to report to the IRS and taxpayers the amount of taxes paid (excluding nondeductible amounts).” In other words, the collectors of local taxes would have to determine deductibility for all our taxpayers. The administrative burden would be enormous and county officials charged with producing tax bills are, in the vast majority of cases, not qualified to make a determination of whether special assessments appearing on the tax bill are deductible or nondeductible under the IRS code. Nor do we have a method to collect the identity of property taxpayers or to compel them to report Social Security numbers or taxpayer identification numbers.

I urge you to resist such approaches and instead work with us in developing strategies to improve compliance with local, state and federal tax laws. H.R. 1865 is a step down the path of intergovernmental cooperation and should serve as a model for any future efforts to close the federal tax gap with the assistance of state and local government.

Thank you for the opportunity to provide testimony today. I look forward to answering any questions.

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