

FOSTERING INTER-ORGANISATIONAL RELATIONSHIPS AS A WAY TO INCREASE EFFICIENCY IN TAX ADMINISTRATION

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Abstract. The paper examines efficiency gains of inter-organisational cooperation within the context of federalism. The paper attempts to evaluate cooperation between federal and state agencies responsible for administration of taxes in the United States of America. The cornerstone of such cooperation is an intensive exchange of information between federal and state tax authorities. By adopting the tax structure in all relevant ways close to federal income tax structure, states may benefit from tax audit and other taxpayer return information generated by the federal government. The paper examines the federal-state cooperation in tax administration through the lens of several critical contingencies that determine the type of inter-organisational relationships. Although there is a recent tendency to make the programme a two-way street, state tax administrations receive the greater part of benefits in the consequence of cooperation.

Jel classification: H11, H26, H83, H71, H77.

Keywords: inter-organisational relationships, cooperation, tax administration, tax auditing, tax compliance.

Reikšminiai žodžiai: tarporganizaciniai ryšiai, bendradarbiavimas, mokesčių administracija, mokesčių auditas, mokesčių įstatymų laikymasis

1. Introduction

Collecting taxes owed to the state at the least cost is one of the golden rules of good taxation. In the context of federalist system of the American government, states are given a choice to ease the burden of collecting taxes by relying on superior federal tax administrative infrastructure. In the case of individual income taxes, administrative assistance is facilitated by adopting the tax structure in all relevant ways similar to the federal income tax structure. Nearly all states with broad individual income taxes have chosen tax structures that mirror federal income tax and thus benefit from audit and other taxpayer information collected by the federal government.

However, by accepting the existing collaborative arrangements for granted the relevant questions of the costs and benefits of cooperation, and its broader impact on

public choice in the area of taxation and federalism remain unanswered. In order to answer some of those questions it is important to evaluate the federal-state cooperation in the framework of existing literature on inter-organisational relationships and collaborative management.

The goal of the article is to make a theoretical and practical appraisal of inter-organisational co-operation in tax administration. To achieve this goal, the article provides a background for federal-state cooperation; evaluates its various facets through the lenses of theoretical literature on inter-organisational relationships. It produces statistical evidence of efficiency gains, draws conclusions of its wider impact on tax compliance, implications for fundamental tax reform, and tax enforcement strategy. The methods used include: literature review, analysis of legal documents, personal interviews, processing and presentation of statistical data.

2. Background

Federal law authorises the Internal Revenue Service (IRS) to provide federal tax return information to state tax agencies, provided it is solely used for tax administration purposes. Currently, all states have entered into an exchange of information agreement with the IRS. Information is shared on a recurring basis, such as monthly, quarterly, or annually. On an annual basis, states also enrol in the IRS Data Exchange Program, which enables them obtain additional valuable federal tax information in an electronic format based on established schedules. Under this program, states can receive extracts from the Individual Master File (IMF), International Returns Master File (IRMF), and other information such as taxpayer address request (TAR), forms CP2000 on underreporting taxpayers, and different transcripts (Internal Revenue Service 2007). Generally, states' agencies share with the IRS tax returns and returns information similar to the information shared by the IRS. Currently, 40 states are enrolled in the State Reverse File Match Initiative (SRFMI) under which they provide extracts to the IRS on individual income tax payers (IRS, 2009). In addition, either the IRS or the states may submit written requests to receive information not covered by the agreements.

3. Theoretical framework

Research on collaborative public management is on the surge and is mostly presented as a relatively recent phenomenon. However, research also suggests that collaboration in the public sector has been occurring for many decades, and even earlier. The most enduring model of collaborative problem resolution is the American federalism itself (Agranoff and McGuire 2001). The grants-in-aid system in America is the most prominent context within which collaboration has occurred in the 20th century. However, even in the absence of joint financing, the governments at all levels cooperated both informally and officially, vertically and horizontally, in many different

ways and through different mechanism for decades (McGuire 2006; Grodzins 2007). Collaborative structures can be highly formalised, prescribed or encouraged by law, or be sustained by informal ties within specific policy areas.

The exhaustive taxonomy of the population of inter-organisational arrangements does not exist, and the terms partnerships, networks and collaborations are sometimes used interchangeably (Mandell and Steelman 2003). Inter-organisational relationships (IORs) are defined as “relatively enduring transactions, flows, and linkages that occur among and or between an organization and one or more organizations in its environment” (Oliver 1990 p.241). What sets such inter-organisational arrangements apart is the lack of hierarchical structure embodied in traditional bureaucratic organisations. However, recent empirical research suggests that a clear distinction between hierarchies and collaborative managements is not always accurate. Indeed, there is evidence to suggest that a blending of the two management approaches in practice is not uncommon (McGuire 2006).

The theoretical lineages employed in studying inter-organisational arrangements are numerous. Among them are: resource scarcity (Molnar, 1978; Paulson, 1976, as cited in Oliver, 1990); resource dependence (Provan and Milward 1995); exchange theory (Emerson, 1962, as cited in Oliver, 1990); transaction costs (Williamson 1991; Feiock 2007); and inter-organisational theory (O’Toole 1997). Based on these different strands of literature on inter-organisational relationships, researchers formulated generalisable predictions of different types of inter-organisational relationships and management models. Following a continuum from more bureaucratic, traditional types of structures to the collaborative structures that offer more flexibility, Agranoff and McGuire (2001) defined four models of managing within federalism: top-down, donor-recipient, jurisdiction-based, and network model (Agranoff and McGuire 2001). To capture the full-range of collaborations, from those that involve only loosely based coordination mechanisms, to those that involve complex networks with multiple actors, Mandel and Steelman (Mandell and Steelman 2003) classified inter-organisational arrangements, for which they used the term “inter-organisational innovations”, into five types: intermittent coordination, permanent and/or regular coordination, coalitions, and network structures. Oliver (1990) integrated the literature on inter-organisational relationships into six generalisable determinants of relationship formation. These six determinants of relationship formation, or critical contingencies, are: necessity, asymmetry, reciprocity, efficiency, stability, and legitimacy. The relative salience of these contingencies and their interaction determine the type of inter-organisational relationship that is more likely to occur: trade associations, voluntary agency federations, joint ventures, joint programs, corporate-financial interlocks, and agency-sponsor linkages (Oliver 1990).

4. Determinants of federal-state joint program

The critical contingencies that determine the type of inter-organisational relationships (IORs) derived by Oliver (1990) offer a convenient lens through which to view

a specific collaborative structure. Based on these predictions, the current study concludes that the best way to characterise the type of relationship that exists between federal and state tax administrations is a “joint program” that falls between the extremes of mandated interagency integration and agency autonomy. Joint programs are defined “as two agencies working jointly in planning and implementing specific programs or activities” (Oliver 1990 p.255). The joint program in tax administration will inevitably differ in important aspects from joint programs established to deliver social services, a most studied type of IORs. However, there are enough similarities to make the application of the same analytical lens to both types of programs meaningful.

Oliver (1990) listed six determinants of relationship formation, or critical contingencies, under which the relationship is likely to occur: necessity, asymmetry, reciprocity, efficiency, stability, and legitimacy. Which contingencies are more salient in determining the fed-state joint program in tax administration? Which contingencies may have no relevance for the development of the program? Those are the questions that this part of the paper attempts to answer.

4.1. Necessity/mandate

An organisation often establishes linkages or exchanges with other organisations in order to meet necessary legal or regulatory requirements (Oliver 1990). Congressional mandates in implementing intergovernmental programs are prominent and have remained a relatively constant phenomenon for many decades (Hall and O’Toole 2000; Hall and O’Toole 2004). There is mandate involved in federal-state relationships in tax administration area. However, it is of a different nature than the mandates involved in implementing federally led social programs. There is no clearly prescribed Congressional order to supply states with federal audit information or otherwise share federal administrative resources with states. Rather, the law creates a legal framework for the exchange of taxpayer return information and is closely related to the debate over the publicness of tax return information.

Historically, the disclosure of tax return information evolved from the public, albeit restricted, character of such information to strictly confidential. The Congress has used two basic approaches in determining whether, and under what circumstances, tax information could be disclosed. Under the first approach, taken prior to 1977, tax information was considered a “public record”, but was open to inspection only under presidential order. This approach was used essentially unchanged until 1977. Under the second approach, the Congress established a new statutory scheme under which tax information was confidential and not subject to disclosure except to the extent explicitly provided by the Internal Revenue Code. This change was made in response to the increased public concern about the widespread use of tax information by government agencies for purposes unrelated to tax administration. This approach was enacted in the Tax Reform Act of 1976 (Law Reference Guide, Publication 4639 [10-2007], (Internal Revenue Service 2007). “Tax information with respect to specified taxes shall be open to inspection by state agencies<...>. Inspection is permitted only for state tax administration purposes”(Internal Revenue Service 2007 Chapter 8, p.1).Therefore, the

law does not mandate but rather permits intergovernmental exchanges.

This need for strict confidentiality and states' request for regularity of information exchanges in turn determines the form of cooperation: highly formalised arrangements through standardised (model) agreements. Agreements define the persons responsible for the disclosure of information, the kind of information that can be disclosed, its format, and various limitations.

Can the IRS refuse to furnish information to the states? Under Internal Revenue Code, section 6103(p)(7), the IRS may terminate disclosure of federal tax information to a state tax agency if it determines that the agency made an unauthorised disclosure of federal tax information or that it does not maintain adequate procedures for safeguarding information. This rather narrow and specific reason to deny federal information to the states implies the mandated character of the relationship between the IRS and the states.

Great emphasis is put on safeguarding the confidentiality of taxpayer information in the agreements. States are required to provide special safeguards for federal tax return and return information, and can be audited by the IRS to determine if the safeguards meet the requirements set in the Internal Revenue Code. States must also furnish an annual report to the IRS describing procedures established and utilised by the state tax agency ensuring confidentiality of returns and return information. In addition to the provisions that allow for the termination of the agreements, Treasury Regulations, in paragraph 301.6103(p)(7) also provide that if IRS determines that federal tax administration would "otherwise be seriously impaired", it may "suspend" the disclosure of federal tax information, even if it may have a detrimental effect on state's tax system (Internal Revenue Service 2007). This vague language opens more room for the IRS' discretion, and introduces some uncertainty and unpredictability in fed-state cooperative relationships.

4.2. Asymmetry

Asymmetry refers to inter-organisational relationships that are triggered by the potential to exercise power or control over another organisation or its resources. The sources of inter-organisational power are the size of an organisation, and control over the rules governing the exchange, among other things. There is asymmetry in size and resources between IRS and state tax agencies. The IRS possesses superior resources and information that states need, thus states are eager to tap into those resources. There is evidence that some income tax states requested and received transcripts of federal tax returns in early 1920s, even before the Congress specifically authorised the state inspection of federal income returns in the Revenue Act of 1926 (Federation of Tax Administrators 1975).

However, as predicted theoretically, relationship formation on the contingency of asymmetry creates interdependencies that necessitate the loss of decision-making latitude and discretion. In order to facilitate the exchange of information with the IRS, states amended their income tax laws to bring their definitions of taxable income, deduction and other provisions into conformity with provisions of the federal law (Melichar 1963). Such conformity establishes convenience to both taxpayers and enforcement officials. However, it comes with the threat of losing control over state tax policies and revenue

stability as congressional changes to the tax laws have a direct effect on state revenues (Penniman 1980; Atkins and Chamberlain 1991). Although there is a desire to supplement the scarce administrative resources through an inter-organisational relationship, there is also a counterbalancing reluctance to relinquish autonomy.

4.3. Reciprocity

The reciprocity model of inter-organisational relations is theoretically rooted in exchange theory. Motives of reciprocity emphasise cooperation, collaboration, and coordination among organisations rather than domination, power or control (Oliver, 1990). According to this perspective, IORs occur for the purpose of pursuing common or mutually beneficial goals and interests. The stated goal of federal-state cooperative administration is: “to better meet the needs of taxpayers, to ensure fairness in the tax system and increase opportunities to reduce taxpayer burden. Working together improves the chances for increasing both voluntary and enforced compliance” (Policy Statement 6-14, approved 08-31-1991, (Internal Revenue Service 1993).

The joint program starts as a “cooperative federalism” with benefits of cooperation accruing largely to the states. However, cooperation is not costless for the federal government. There has to be either pecuniary compensation or a mutual benefit that outweighs the cost. Before the agreements became the mode through which states and federal agency cooperated, states either sent their own employees to Washington to examine returns, or paid federal employees overtime to make copies of the information, or states were billed for services on a regular basis (Federation of Tax Administrators 1975). Demanding or encouraging reciprocity is another way to create mutual benefit.

Historically, the effort to make federal-state tax cooperation a “two-way street” dates back to 1950s. At the recommendation of the conference of federal, state, and local officials on intergovernmental tax problems in 1949, the IRS started a pilot project for the routine exchange of audit information with two states: North Carolina and Wisconsin. In the next two years three more states joined the program. However, no further agreements were made during the next 5 years. In 1957 the IRS concluded that, with the exception of the exchange with Wisconsin which produced significant amount of federal revenue, federal-state cooperation remained a “one-way street” (Federation of Tax Administrators 1975). The first “new type” agreement, requiring more contribution from the states, was signed with Minnesota in 1957. This agreement encouraged greater exchange between states and the federal government and became a prototype for coordination agreements that were eventually signed with all states taxing personal income.

Reciprocity seems to have become a more prevalent feature of federal-state exchange of information program in recent years. Forty states participate in the SRFMI (State Reverse Filing Matching Initiative) program through which states provide information to the IRS.

Currently, as a matter of general policy, the IRS does not charge states for the routine exchange of information, although Internal Revenue Code provides for the possibility to charge on a reimbursable basis for the time expended by IRS employees in complying with disclosure and recordkeeping requirements (Internal Revenue Service 2007).

Reciprocity is facilitated through domain similarity. “Domain similarity refers to the similarity of agencies’ services, clients, and outputs” (Oliver 1990, p. 255). Both the federal agency and state tax administration agencies basically provide the same services to the same clients. The clients of tax agencies are the taxpayers who pay both federal and state income taxes. The output is revenue collected. Theory suggests that, at a high extreme of domain similarity, the potential for competition and territorial disputes impede interaction. In the case of tax administration, states and federal agencies have clearly separate jurisdictions, collect taxes for a different level of governments, and their budgets are determined by separate legislatures preventing any “turf” disputes. It is the possibility to complement resources rather than compete over resources that propels federal-state cooperative relationships.

The question, whether administrative cooperation between federal and state tax agencies has become a genuine “two-way street”, cannot be settled without data on the value of the recoveries based on state information for the federal government. However, information on the added revenue accruing to the federal government is generally not available (Federation of Tax Administrators 1975; Penniman 1980). According to the research carried out by Wisconsin and New York states, the recovered tax amounts were considerable (Federation of Tax Administrators 1975). However, even states with the best state tax administration might concede that the IRS’s greater resources pay off in more audit items for the states than they reciprocate. “The volume of information that the state provides to IRS is rather small in comparison to the information that IRS provides to us.” (B. Berg, personal communication, May 15, 2008).

Contingency of reciprocity may interact with the contingency of asymmetry. Conditions of reciprocity may disguise the acquiescence of a dominated exchange partner to the terms and conditions prescribed by a more powerful partner. How much voice do states have in shaping the information exchange program? There is evidence from the past that “state concerns are never uppermost with national officials” (Penniman 1980 p.254). Nevertheless, intergovernmental relations change over time. As a rule, the Congress eventually responds to the appeals of most states for the recognition of their needs. A recent model Implementing Agreement (2005) provides for regular meetings between IRS personnel and state tax agency “to examine the need for and use of data being exchanged, and explore additional areas where exchange would be beneficial” (Internal Revenue Manual, Exhibit 11.3.32-3, (Internal Revenue Service 2007).

4.4. Efficiency

Efficiency contingencies refer to an organisation’s attempt to improve its internal input-output ratio. Joint programs may increase efficiency by reducing the cost of service delivery, by easing funding constraints, and by eliminating redundancy (Oliver 1990). The argument that efficiency is an underlying determinant of IORs is also consistent with transaction cost perspective positing that the formal inter-organisational arrangements will occur as a result of an organisation’s attempt to economise on the costs of transaction (Williamson 1991). Agreements between the IRS and state revenue departments eliminate the need for states to negotiate with the federal government in

order to receive necessary information. Agreements can also be interpreted as contracts, through which parties to the agreement assure the stability and predictability of the collaboration, and costs are settled.

Elimination of duplicative activities produces significant efficiency gains. Since both agencies in effect have to serve the same clients, repeated efforts to gather information on taxpayers or subject them to two or three separate audits is a waste of resources. Entirely separate from the benefits that states derive from superior federal jurisdiction and resources, cooperation brings about a more efficient allocation of resources and greater total audit coverage. In the end, there are efficiency gains for both organisations. It also reduces taxpayer compliance burden, since one examination serves as a basis for two tax actions. Easier and less expensive compliance is an important appeal of cooperation.

Joint programs are more likely to be formed for efficiency reasons when the anticipated cost of developing and maintaining cooperation between two agencies is low, relative to the anticipated gains from program establishment. Though the gains of federal-state exchange of information program have been quantified at least to some extent, the costs are completely elusive. In response to the direct inquiry, the IRS informed that the costs of the program are not tracked and there is no separate line-item in the IRS budget for that purpose.

4.5. Stability and legitimacy

Contingencies of stability and legitimacy are less salient than other contingencies in the formation of fed-state relationships. Contingency of stability is important for the formation of relationships when there is high level of institutional uncertainty. There is probably less uncertainty surrounding tax administration than with other intergovernmental programs. The federal-state exchange of information program has been regarded as a showcase of effective intergovernmental cooperation (Federation of Tax Administrators 1975).

Contingency of legitimacy suggests that IORs can originate from the need for the organisations to demonstrate or improve their reputation, image or prestige. Although there is strong public pressure for tax administrations to justify their actions and outputs, the fact that federal and state tax agencies cooperate hardly adds significantly to their legitimacy in the eyes of taxpayers. However, the outcome of the cooperation, i.e. reduced taxpayer compliance burden, may reduce the pressure to challenge their performance. Another outcome of the program—economy and efficiency—may also improve the reputation of tax collection agencies.

5. Benefits of cooperation for the states

States benefit from the cooperation with federal tax administration in several important ways. The most costeffective impact of IRS audits is state income taxes paid without any action on the part of the state tax agency. These are so-called “silent effects”.

When the federal agency audits taxpayer returns and finds some discrepancies with federal individual income tax, it sends a report to the taxpayer advising them to submit a corrected state tax return as well. When a taxpayer responds by filing the corrected state tax return and paying taxes due, this happens so without any intervention by the state tax auditor. Those “silent effects” may not be large in terms of dollar amounts recovered, but have a significant impact on state enforcement resources saved and at inducing voluntary tax compliance.

The most marked benefit accrues to the states in the form of the so-called “piggyback audits”, i.e. state audits based on information furnished by federal tax agency. Thanks to federal information on taxpayer audits and other enforcement measures, state revenue departments issue assessments of state income tax due. As a result, some states choose to invest little or nothing in independent state audit function, and still generate “audit” revenue.

There have been several previous attempts to gauge the value of federal-state cooperation for the states. In 1975, the Federation of Tax Administrators (FTA) circulated questionnaires among state revenue departments to collect data on the usage and value of federal information for the states. Responses indicate significant benefits accruing to the states as a result of information received from the federal tax agency. States vary according to the extent that they use federal data, but all of the reporting states indicated using Revenue Agent Reports (RARs), Income Master File (IMF), and federal tax returns. The percentage of total audit revenue attributable to the use of federal information ranged from 15% in Wisconsin to 95% in Mississippi (Federation of Tax Administrators 1975).

Data collected for this article confirmed this level of benefits. As shown in Table 1, the share of assessments generated as a result of IRS information ranged from 56% to 84% in Iowa. Although there is considerable variation in assessments between years, two sources of federal information—Revenue Agent Reports (RARs) and Underreporter Program (CP2000 notices)—produce the bulk of assessments attributable to the IRS information. In a five-year period between 2001 and 2005, in all years but one, federal information in the form of RARs and CP2000s added together produced more assessments than independent state audits.

Table 1. Amount of individual income tax assessments generated by different information sources (in dollars) – Iowa Department of Revenue

FY	Assessments based on information from the IRS				Independent audits	Percent of assessments attributed to IRS information
	Federal Audit (RARs)	CP2000	Other IRS information	Total IRS		
2001	7,947,792	5,910,554	1,731,195	15,589,541	8,143,849	66%
2002	3,288,038	7,390,127	3,272,311	13,950,476	9,205,252	60%
2003	2,172,350	3,267,129	12,497,973	17,937,452	7,284,541	71%
2004	552,266	4,848,594	19,269,034	24,669,894	4,794,649	84%
2005	550,353	5,727,345	5,823,340	12,101,038	9,353,164	56%

Source: Iowa Department of Revenue.

The value of IRS information in generating state tax assessments is also considerable in Indiana. Table 2 indicates the amount of assessments attributable to RARs and CP2000 notices, as well as share of those assessments in total assessments generated by the Indiana Department of Revenue. The share of assessments attributable to the IRS information ranges from 34% to 48% in Indiana in years 1998 through 2001.

Table 2. Amount of individual income tax assessments generated by different sources of information (in dollars) – Indiana Department of Revenue

FY	Internal Revenue Service (IRS)		Indiana Department of Revenue		Percent of assessments attributed to IRS information
	Federal Audit (RARs)	CP 2000	Withholding discrepancies	Individual desk audits	
1998	1,851,176	624,732	2,862,654	191,622	45%
1999	2,261,925	543,175	2,956,175	63,291	48%
2000	1,787,427	1,788,678	6,986,000	78,544	34%
2001	3,447,735	1,824,419	7,776,716	83,782	40%

Source: Indiana Department of Revenue Annual Report for Years 1998, 1999, 2000, and 2001.

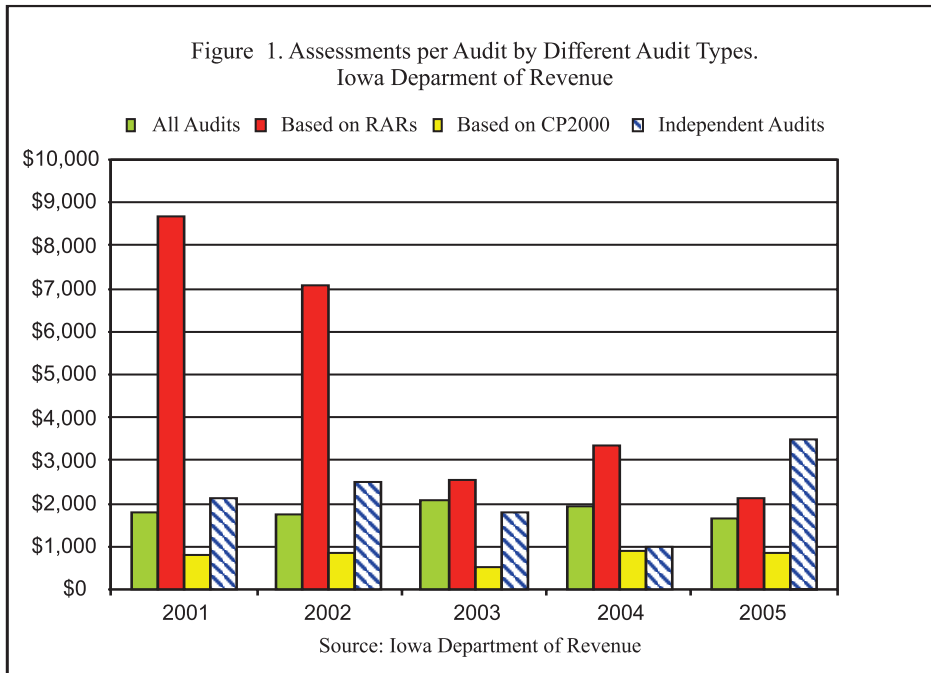
The California Franchise Tax Board provides information only on the value of assessments attributable to RARs. Although California conducts independent field audits, the type of audits that typically produce the largest amount of assessments per audit, the share of assessments based on federal information is large, and ranges from 37% to 78% between 1997 and 2005 (see Table 3).

Table 3. Amount of individual income tax assessments generated by different sources (in dollars) – California Franchise Tax Board

FY	Audit			Total assessments	Percent of assessments based on RARs
	Federal (RARs)	Desk	Field		
1997	328,254,628	125,272,190	70,783,680	524,310,498	63%
1998	340,397,536	65,748,724	28,709,761	434,856,021	78%
1999	234,491,989	73,472,852	47,867,660	355,832,501	66%
2000	174,507,217	64,391,799	46,345,629	285,244,645	61%
2001	220,613,637	78,839,022	53,973,806	353,426,465	62%
2002	134,794,549	112,344,066	78,878,459	326,017,074	41%
2003	217,896,745	52,725,489	99,585,931	370,208,165	59%
2004	149,203,231	83,253,683	124,412,307	356,869,221	42%
2005	155,222,581	182,431,366	87,387,934	425,041,881	37%

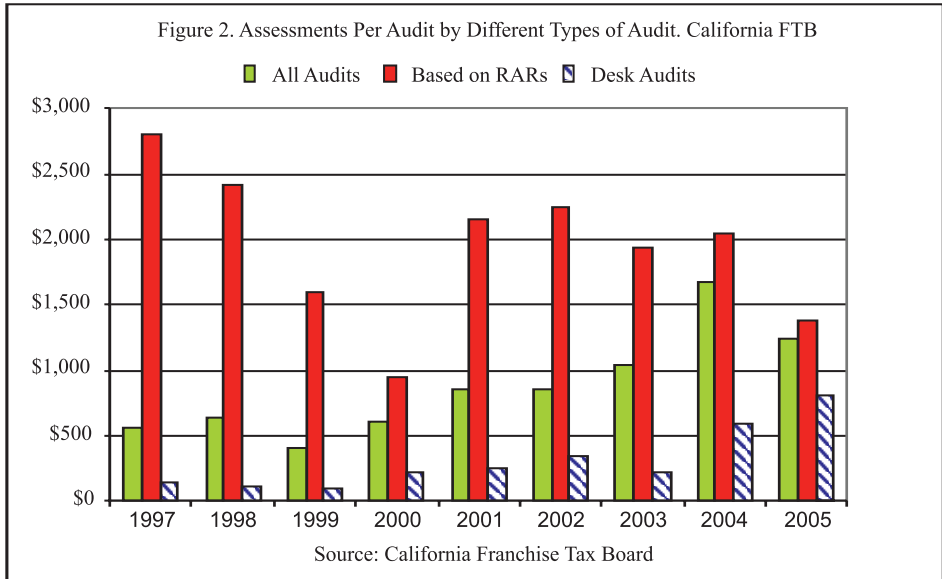
Source: California Franchise Tax Board, Operations Report for selected years.

Moreover, the share of assessments attributable to the IRS information in total assessments seems to be increasing over time for Iowa and Indiana. In a 1975 survey by the FTA, 20% of the total audit revenue was attributed to the use of federal information in Indiana, and 29.2% in Iowa (FTA, 1975). The increase of assessments attributable to federal information over those years indicates the continued value of federal information to the states. It may reflect both the increase of the information shared, and better audit targeting due to more sophisticated audit selection techniques.

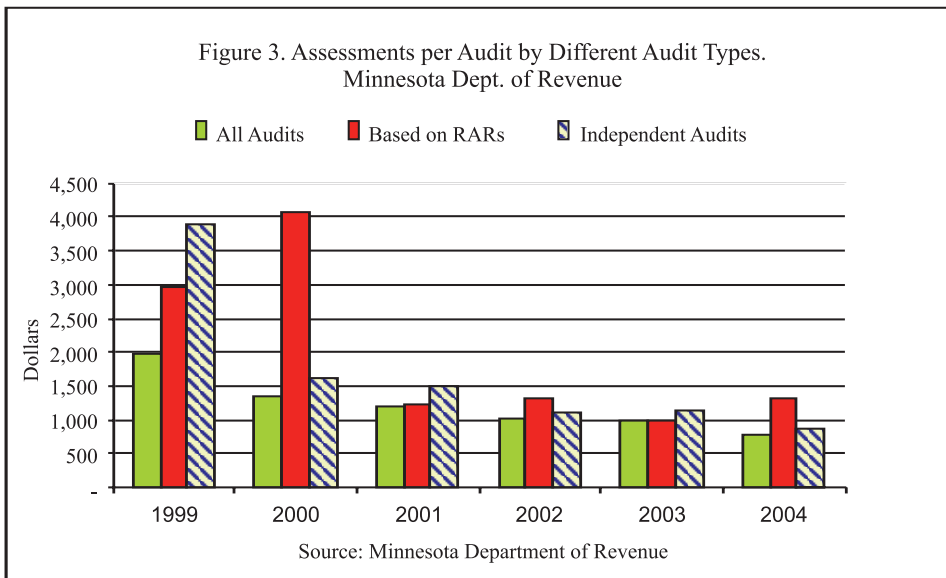


In addition, audits based on information furnished by the IRS, especially audits based on RARs are more productive than other types of audit. Audit productivity is measured as amount of assessments generated by an audit. As shown in Figure 1, audits based on RARs have been the most productive type of audit in Iowa in all covered years but one, though the productivity seems to be declining. The data also indicate that audits based on federal tax audit yield largest returns for California's Franchise Tax Board (See Figure 2).

State data, however, should be interpreted with a caveat. Direct comparisons between states should not be made, because states levy different tax rates and conduct various types of audits. For example, out of the states that made the data available, only California and Minnesota conduct field audits.



Minnesota is the state with a very active independent audit program. As shown in Figure 3, the productivity of audits based on RARs compares favourably with the productivity of independent state audits.



In the case of California, it is also impossible to determine the extent to which other types of information, apart from RARs, contribute to assessments of taxes generated by desk and field audits. In addition, although states differentiate between different types of audits, all audit selection programs rely on the use of federally processed information.

6. Conclusion

Federal-state exchange of tax information program is one of the most effective cases of intergovernmental and inter-organisational cooperation in the US. Based on the information received from the IRS, state revenue departments can automatically generate additional tax revenue. States reciprocate in information exchanges with the federal government, but the available data indicate that states benefit more from the program. The volume of information from the IRS far exceeds the volume of information sent by states. States conduct very few independent audits, and the value of assessments based on federal information by far exceeds assessments based on other sources of information. Increasingly, the federal-state cooperation in tax administration is becoming a genuine “two-way” street. There is not enough data to gauge the net value of the program to the IRS, but the joint federal-state efforts increase the economy and efficiency of tax collection process for both levels of government.

7. Implications

The dependence of states on federal tax agency for the enforcement of state individual income taxes has an implication for major national tax reform. Among various proposals to overhaul the U.S. tax system is the recommendation to repeal federal income tax and replace it with some sort of a national sales tax (Teplitz and Brooks 1986; Nellen 1999; Bickley 2006). If federal income tax were eliminated, the states would be unable to maintain and administer their own broad-based income taxes over the long term (Auten and Toder 1997; Duncan 2005). This study provides additional evidence on federal-state interdependence and on the intensity of states' reliance on federal administrative infrastructure.

Another important implication pertains to audit coverage. Federal audit rate has been decreasing steadily over several decades, and reached a 10-year low of 0.11% in 2000 (Treasury Inspector General For Tax Administration 2008). This trend causes concerns of deteriorating tax compliance. However, when various factors are taken into account in estimating the revenue to be obtained from increased funding for auditing, one relevant factor is overlooked. That factor is the crucial role federal auditing plays in enforcing state individual income taxes. Although attention is focused on reducing the federal tax gap, inaction to provide more resources for auditing function of the IRS, would have grave results for state tax collections as well. Therefore, any deliberations about the efficiency and effectiveness of audit as a tax enforcement strategy should take into consideration the effect federal audits have on state tax collections.

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BENDRADARBIAVIMO TARP ORGANIZACIJŲ SKATINIMAS SIEKIANT PADIDINTI MOKESČIŲ ADMINISTRAVIMO EFEKTYVUMĄ

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Santrauka. Straipsnyje nagrinėjama, kaip Jungtinių Amerikos Valstijų federalizmo kontekste vykstantis bendradarbiavimas tarp organizacijų didina jų veiklos produktyvumą. Straipsnio tikslas yra įvertinti bendradarbiavimą tarp federalinių ir valstijų lygio organizacijų, atsakingų už mokesčių administravimą. Šio bendradarbiavimo šerdį sudaro intensyvus keitimasis informacija tarp federalinės mokesčių administracijos ir valstijų mokesčių administravimo organizacijų. Priimdamos mokesčių įstatymus, kurie įteisina mokesčių struktūrą visais svarbiais atžvilgiais panašią į federalinio mokesčio struktūrą, valstijos gauna naudos iš federalinių įstaigų atliekamo mokesčių audito ir kitos mokesčių deklaracijose esančios informacijos. Bendradarbiavimas tarp federalinės valdžios ir valstijų lygio mokesčių administravimo organizacijų įvertinamas pagal keletą vadybos literatūroje pateiktų kritinių kriterijų, kurie nulemia tarporganizacinių ryšių pobūdį. Nors pastaraisiais metais išryškėjo tendencija pasiekti abipusiai naudingą bendradarbiavimą, didesnė bendradarbiaujant gauta naudos dalis atitenka valstijų mokesčių administratoriams.

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