

# CONTROLLER STEVE WESTLY

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FOR IMMEDIATE RELEASE:  
JUNE 10, 2004

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## Westly Tax Cheat Crackdown Shrinks Budget Gap

*Franchise Tax Board Expects to Collect \$92 million in Taxes Owed but Unpaid*

SACRAMENTO – State Controller Steve Westly today announced plans to collect \$92 million in unpaid taxes by cracking down on withholding fraud and expanding efforts to track phony tax shelters.

In his role as chair of the Franchise Tax Board, Westly called for the Board to improve auditing methods, reinstate programs to identify people attempting to hide their income through improper withholding and continue working to curb use of abusive tax shelters.

“The first step in closing the budget gap should be collecting the taxes already on the books,” Westly said. “Before we raise taxes or cut vital services, let’s make sure everyone is paying their fair share.”

Westly’s proposals, which were to be discussed by the Board today, could help offset many of the proposed budget cuts to California colleges and universities.

The steps to be considered by the FTB include:

- **Reinstate Questionable Wage Withholding Program**

Westly has proposed restarting a program last operated in 1999 to identify taxpayers who underwithhold their taxes by claiming excessive dependents (more than 10) or claiming exempt status. *Estimated accelerated revenue: \$30 million*

- **Establish Abusive Tax Shelter Strike Force**

To build on recent successes in cracking down on abusive tax shelters, Westly called on the FTB to create a special tax shelter strike force to collect and analyze information about abusive tax shelters; identify organizers, promoters, and participants in abusive tax shelters; and share information with federal, state, and in some cases foreign, tax authorities. Funding for the strike force is included in the proposed May budget revision for the 2004-2005 fiscal year. *Estimated revenue: \$56 million*

- **Improve FTB Auditing and Increase Penalties for Tax Cheats**

FTB will utilize new audit modeling techniques and information sources to identify non-filers and underreported income. In addition, FTB will implement additional enforcement for filing false returns or failure to pay taxes, file returns, or provide required information. *Estimated revenue: \$5.9 million*

Westly also called on the Legislature to consider a number of new steps to reduce tax fraud, including proposals to identify taxpayers and corporations failing to file returns, create a reward program for informants who report tax violations and to bar unscrupulous tax practitioners from doing business.

Controller Westly's new package seeks to build on the success of California's Voluntary Compliance Initiative, created through legislation by Assembly Majority Leader Dario Frommer, Senator Gil Cedillo and Senate President pro Tem John Burton.

The initiative gave taxpayers who used abusive tax shelters a one-time chance to amend their returns before increased penalties took effect. The effort was projected to collect \$90 million, but actually brought in \$1.325 billion.

Westly is also co-sponsor of legislation to provide a two-month tax amnesty. The bill, AB 2203 by Assemblymember Judy Chu, would increase penalties and interest rates on unpaid tax liabilities at the end of the amnesty period. The new program is expected to raise \$300 million.

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