

REPORT TO THE

GENERAL ASSEMBLY

Electronic Administration of Landlord Certificates

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by

The Vermont Department of Taxes

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Section I
Statutory Charge

Act 143 of 2012

Sec. 32. LANDLORD CERTIFICATES

The commissioner of taxes shall report to the senate committee on finance and the house committee on ways and means no later than January 15, 2013 on how to develop an electronic system for the reporting and issuance of the landlord certificate under 32 V.S.A. § 6069. The commissioner's report shall include recommendations for legislative changes to implement such a system.

Section II
Business Case

Given this study, the Department's Taxpayer Services Division reviewed the annual filing and processing of the Renter Rebate Claims (**Form PR-141**) and the required Landlord Certificate (**Form LC-142**). The Department processes between 13,000 – 14,000 renter rebate claims annually. The experience of income tax examiners and supervisory staff is that the time required to review and process these claims is high in proportion to the number received. Also, renter rebates result in a high volume of incoming telephone calls and emails.

Common issues that arise with the processing of the claims are:

- The Landlord Certificate is improperly completed and/or does not contain all of the required information.
- All of the occupants of the rented dwelling are not listed on the Landlord Certificate.
- The tenant files the claim without the Landlord Certificate.
- Taxpayers filing Renter Rebate claims with their Income Tax returns file their returns by paper rather than electronically in order to attach their landlord certificate.
- The filing of Renter Rebate claims may delay the income tax refund due to the processing of the renter's claim.

The department believes that these issues could be mitigated through electronic administration of the landlord certificate process and other administrative changes set forth in this report.

Beyond the specific issues described above, the continued paper based administration of the landlord certificate process is in opposition to the Department's strategic plan and related outcome measures. The Tax Department's strategic plan is set forth in relevant part below:

Goal 1: Process Taxes More Efficiently

Summary: Our strategies will dramatically reduce paper transactions and manual data entry in order to increase taxpayer convenience, increase turnaround speeds, decrease errors

Goal 1 Performance Measure(s)

- A. Reduce processing time of Business and Corporate Income tax returns 10% comparing 2010 and 2012 tax returns
- B. Increase total number of online filings (tax returns, registrations, applications, etc.) by 10% comparing 2010 and 2012 tax returns
- C. Increase ePTTR filings to 70% of total property transfer filings by end of 2012
- D. Increase the number of tax types available for electronic filing by one in 2012

Section III

Required Elements of an Electronic System

Development of an online electronic filing system for the Landlord Certificate would require landlords to submit the following information;

- Tenant's name
- Landlord's name
- Full mailing address and telephone number of the landlord
- Location of the rental unit including the apartment number
- The number of units in the building
- SPAN number of the unit from the property tax bill

- Type of rental unit
- Items such as heat, electricity and other services which are included in the rent and the cost of these items
- Number of months rented during the calendar year
- The amount of the monthly rent charged
- Names of all renters for the rental unit during this period

The collection of this information does not require a statutory change, as it is within the commissioner's administrative authority set forth in 32 V.S.A. § 3201(a)(6).¹ The Department would develop forms suitable for electronic administration of the landlord certificate process.

The following elements of electronic administration would require statutory change.

- Require all landlords to file their certificates electronically, regardless of the number of units rented, by January 31.²
- Create a penalty for failure to file an electronic landlord certificate that replaces the current \$200.00 per certificate penalty.³

The information required above and submitted by the landlords would be matched against the annual Grand List to verify that the SPAN numbers are valid and that the property is not a declared homestead. The information filed by the claimant would be matched against the landlord's filing using the SPAN as the unique identifier.

¹ 32 V.S.A. § 3201. Administration of taxes

(a) In the administration of taxes, the commissioner may:

(6) Determine the form in which returns and reports shall be filed and what shall constitute a signature on such returns and reports, including those filed in other than paper form, such as electronically or over telephone lines.

² 32 V.S.A. § 6069

(b) The owner of each rental property *consisting of more than one rented homestead* shall, not later than January 31 of each year, furnish a certificate of rent to each person who rented a homestead from the owner at any time during the preceding calendar year. All other owners of rented homestead units shall furnish such certificate upon request of the renter. If a renter moves prior to December 31, the owner may either provide the certificate to the renter at the time of moving or mail the certificate to the forwarding address if one has been provided by the renter or in the absence of a forwarding address, to the last known address. *Emphasis added.*

³ See 32 V.S.A. § 6069 (d)(1).

Section IV

Additional Recommendations

While not required for electronic administration of the landlord certificate process, the Department would recommend that the following changes be made to improve the annual processing of the Renter Rebate claims.

- Delink the Renter Rebate Claim from the Personal Income Tax Form.

The Renter Rebate form would stand alone. Taxpayers would file Form PR-141 to request their rebate, and the rebate would not be carried over to Form IN-111, the Personal Income Tax form. Delinking the renter rebate and income tax return would prevent delays in processing the income tax returns and refunds of many taxpayers.

- Remove the option to apply the Renter Rebate claim to the Vermont Income Tax liability.

In 2011, only 943 out of 13,640 renter rebate claimants utilized this option.

Section V

Potential Concerns with an Electronic System

The department has four potential concerns with electronic administration of the landlord certificate process, based on prior feedback and a review of its own operations.

- Landlord with multiple tenants would have to enter a large amount of data.

Electronic administration may not provide efficiency for landlords with many units. This concern may be addressed in part depending on the design of the electronic filing system.

- Some landlords and tenants may lack computer or internet access.

Not all Vermonters own a computer or have ubiquitous internet access. Electronic filing will represent a challenge to these landlords and tenants. While a concern, it is important to note that the department's strategic plan seeks to promote electronic filing and other state revenue agencies have increasingly mandated electronic filing of returns and related documents.

- Implementation of a hybrid system

The department has serious concerns about any system that treats landlords differently or allows both paper and electronic filing. Any hybrid system would place a difficult new burden on the department.

- Effective dates

The Tax Department is engaged in a process that will lead to the implementation of a new integrated tax processing system. At the present time, the Department is beginning a review of our business procedures in order to identify a comprehensive business solution. Given this effort, it would be inadvisable to build anything new into our current systems. Accordingly, an independent effort to develop a renter rebate filing system would be counterproductive at this time. Any change in the law should reflect a timeline that is congruent with the development of an integrated tax system to avoid redundant IT work, unnecessary cost incurred by the State of Vermont, and transition issues for taxpayers and the department.