



TECHNICAL BRIEF

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RECOUPING DELINQUENT TAXES: Does “shame” work?

BY
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Observing Wisconsin’s Shame Mechanism

A year ago, the Wisconsin Department of Revenue began posting information about taxpayers who were delinquent on its website. The theory, it seemed, was to shame folks into paying the taxes. The Wisconsin statute requires the department to post the information if the taxpayer owes more than \$25,000, inclusive of tax, interest, penalty, fees and costs and if the amount is unpaid and in excess of 90 days have passed since all appeal rights expired. The department updates the site daily to remove names when payment agreements have been reached. It updates the site quarterly to add new delinquents who meet the terms of the statute. (There is no posting if the delinquent taxpayer has entered into a valid installment agreement, submitted a completed Petition for Compromise, or filed bankruptcy.)

At the startup of the Wisconsin website, the names and addresses of over 6,000 individuals and companies owing more than \$550 million in taxes to the state were listed. The Department of Revenue had issued 7,200 warning letters to individuals and companies indicating that their information would be posted online unless they made arrangements to pay the delinquency. Between the issuance of the warning letters in November of 2005 and the initial website posting – less than 60 days -- the Department of Revenue

had reached agreements with more than 900 taxpayers to pay a total of about \$8 million. While lawmakers are delighted with the immediate results, they anticipate collecting at least \$1.5 million a year in delinquent taxes from the pressure of the website.

State Representative Frank Lasee of Bellevue initially proposed the online posting in 2003. The concept was approved as part of the state's 2005 budget. With it, Wisconsin joins over a dozen states who already post information on delinquent taxpayers, including Colorado, Connecticut, Georgia, Louisiana, Maryland, Minnesota, North Carolina and Rhode Island. Maryland calls its website "Caught in the Web" while South Carolina refers to its website as its "Debtor's Corner". Louisiana refers to its website as "CyberShame".

The History of Shaming Delinquent Taxpayers

Connecticut was the first state to begin listing individual and corporate delinquents on its revenue pages. In the first seven years of its tax delinquency website list, state officials attribute the collection of \$161 million in delinquent taxes to the impact of the website. And Connecticut only lists its top 100 delinquents! The state of Georgia has been listing delinquent taxpayers online since early 2004. In its first two years, Georgia collected right at \$20 million. Colorado collected in excess of \$11 million in the same period. Illinois, which began posting debtors names on a website in 2005, raised its annual tax collections by 17% in the first year.

Are there problems? Of course. Individuals and agencies make mistakes. When mistakes are inevitably made, and individuals who are not delinquent are erroneously listed as delinquent, what is the measure of damages? And who pays? So far, there is little evidence, anecdotal or otherwise, on the costs of mistakes. For it seems that there have been few, if any, claims filed against the shaming states, so far, for errors in the delinquent rolls. There are, however, citizens who believe that they have been listed in error, and, for the most

part, they are working things out – through attorneys or individually – directly with the taxing authority rather than in the courts.

For example, Baseball Hall of Fame member, Rollie Fingers, the Milwaukee Brewers' sensational relief pitcher in the 1980s and winner of the Cy Young Award in 1981, was listed on Wisconsin's delinquent list. He vehemently denies the validity of the charge of delinquency, and has engaged tax lawyers to resolve the dispute with Wisconsin's Department of Revenue, which claims that Fingers owes over \$1 million.

Moreover, objectors remind us that Americans left debtors' prison behind in the 19th Century. They see this tact as penalizing the unfortunate, although most states list only significant debtors who have done nothing to rectify their delinquency despite repeated contacts. Still, shaming has serious advocates. Among others, the Council of State Governments favor the websites as an innovative and successful way to recoup state revenue without resorting to raising taxes. It might be worth considering...

Shaming Mississippi

According to the U. S. Census Bureau, Mississippi's state government tax collections in all categories totaled \$5,432,152,000.00 in 2005. In 2005, Mississippi's total income tax collection (corporate and personal) totaled \$1,456,296,000. You do the math. Assume that Mississippi could shame delinquent income taxpayers -- with the result of increasing annual income tax collections by 1% -- remember, Illinois raised its collections by 17% in the first year. A 1% increase in annual statewide income tax collections would amount to over **\$14 million dollars**. A 15% increase in annual statewide income tax collections would yield over **\$200 million dollars**. Even a fraction of this amount would have a significant impact on the financial resources of the State. It works well in an era of no increase in taxes.

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Lydia Quarles is a Senior Policy Analyst at the John C. Stennis Institute of Government, Mississippi State University. She received her *Juris Doctorate* in 1975 from Cumberland School of Law, Samford University, and her MA and BA from Mississippi University for Women, in 1972 and 1971 respectively, in political science and communication. After over a dozen years in the private practice of law in Alabama and Mississippi, she joined the Mississippi Workers' Compensation Commission as an Administrative Judge in 1993. Eight years later, in 2001, she was appointed Commissioner of the agency. In 2006, she resigned to join the Stennis Institute.

Quarles remains active in bar work, and currently chairs the Women in the Profession Committee, a standing committee of the Mississippi Bar. She also serves as co-chair of the Mississippi Supreme Court's "Gender Fairness Implementation Study Committee" and acts as the Chief Operating Officer of the Workers' Compensation Section of the Mississippi Bar. She is a fellow of the Mississippi Bar Foundation, a recipient of the Mississippi Bar's Distinguished Service Award, a member of the Mississippi School for Math and Science Foundation Board and a member of the MUW Alumni Board. Quarles was recently honored by the American Bar Association's Administrative Law and Regulatory Practice Section, receiving the Mary C. Lawton Award for lasting contributions to the Mississippi Workers' Compensation Commission in the areas of alternative dispute resolution and access for Hispanic workers.

In 2004, Quarles was named one of Mississippi's 50 Leading Business Women by the Mississippi Business Journal; the Journal recognized her service to the State as a Commissioner as well as entrepreneurial skills developed in her property management business in Starkville, Spruill Property Management, LLC

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