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Business tax non-compliance is a problem that plagues states across the U.S., but could be improved if states were able to more easily share data, according to new research by the Governing Institute. The survey of tax and revenue officials across 29 states found that 85 percent believe business tax non-compliance is a key concern in their states. The research was sponsored by LexisNexis Risk Solutions.

Officials said non-compliance is sometimes unintentional, and other times not. Many businesses are simply unaware of tax requirements, or are confused by complicated tax codes that change frequently. But intentional tax evasion is also a contributing factor, according to a majority of state officials. A common lament in states where fraud is a major issue is that it is simply hard to prove and easy to get away with.

"Tax non-compliance impacts everyone," said Haywood Talcove, CEO, Government, LexisNexis Risk Solutions. "Business owners can inadvertently find themselves in violation, leaving their companies liable to penalties and even dissolution. Non-compliance can also shift a greater share of the tax burden to honest taxpayers. Whether it's unfamiliarity of tax code requirements, misreporting or fraud, states want and need to do a better job in closing the tax gaps by accessing more data and leveraging new technologies."

The research found that a small group of tax types cause the most problems. Respondents said sales and use, withholdings and corporate taxes are the most problematic, while excise taxes, environmental taxes and mining/fishing/gaming

Many states have joined multi-state data sharing consortiums like the Multi-State Tax Commission, or have formed data sharing partnerships. But these sources do not fully meet the needs of revenue and tax agencies. Less than half of respondents expressed any satisfaction with current external tools. They said more data and better analytics tools are needed to improve tax compliance.

"Officials said additional, diverse data would provide a more complete view of a business. Accessing business activities across state lines, integrating states' data warehouses, and accessing federal payroll information would help enormously. Using modern analytics tools to visualize the data can show agencies where problems are most likely to arise, allowing them to more effectively target resources," said Steve Lappenbusch, Ph.D., Market Planner, Tax and Revenue, LexisNexis Risk Solutions.

Other information "wish list" items included access to business organizational charts, lease agreements, utility bills, property ownership documents, and Social Security and federal employer ID number information.

Future Challenges

By commissioning the study, LexisNexis Risk Solutions wanted to gauge agencies' attitudes on what future challenges loom for business tax non-compliance. A key concern is figuring out how to equitably tax businesses participating in the "sharing economy," which includes such businesses as ride sharing, home lodging and peer-to-peer lending.

According to one study1, 40 percent of Americans will be "sharing economy freelancers" by 2020, creating a host of new problems for tax and revenue agencies. "Tax laws lag behind these economic changes, further complicating matters," added Lappenbusch. "The sharing economy challenges were not envisioned by state legislators and revenue departments. The tax compliance improvement needs

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