

## **Outline - Blockchain Use Case for California – Taxation**

### I. Use case summary

Distributed ledger, or “blockchain,” technology is useful in helping the various state tax authorities administer the regime of different types of taxes, which may include verifying, calculating, invoicing, collecting taxes from taxpayers and paying refunds to taxpayers. The eventual use case is expected to be the automated or near automated calculation and payment/refund of taxes in California across all types of taxes.

### II. Types of Taxes in California

- A. Income Tax
- B. Sales and Use Tax
- C. Payroll Tax
- D. Property Tax
- E. Other Taxes and Fees
  - Alcoholic Beverage Tax
  - California Tire Fee
  - Cannabis Tax
  - Childhood Lead Poisoning Prevention Fee
  - Cigarette & Tobacco Products Licensing Program
  - Cigarette & Tobacco Products Tax
  - Cigarette Tax Stamp Program
  - Covered Electronic Waste Recycling Fee
  - Diesel Fuel Tax
  - Emergency Telephone Users Surcharge
  - Energy Resources (Electrical) Surcharge
  - Fire Prevention Fee
  - Hazardous Waste Activity Fee
  - (effective 9/13/16 administration of this fee transferred to DTSC)
  - Hazardous Waste Disposal Fee
  - Hazardous Waste Environmental Fee
  - Hazardous Waste Facility Fee
  - Hazardous Waste Generator Fee
  - Integrated Waste Management Fee (Solid Waste & Wood Waste)
  - International Fuel Tax Agreement (IFTA) and Interstate User Diesel Fuel Tax
  - Interstate User Diesel Fuel Tax
  - Jet Fuel Tax
  - Lead-Acid Battery Fees
  - Lumber Products Assessment
  - Marine Invasive Species (Ballast Water) Fee
  - Motor Vehicle Fuel Tax

- Natural Gas Surcharge
- Occupational Lead Poisoning Prevention Fee
- Oil Spill Prevention, Response and Administration Fees
- Emergency Telephone Users (911) Surcharge and Local Charges
- Sales & Use Tax
- Tax on Insurers
- Timber Yield Tax Program
- Underground Storage Tank Maintenance Fee
- Use Fuel Tax
- Water Rights Fee

### III. Types of Services/Functionality

#### A. Income Tax

1. Prepare estimated quarterly payments
2. Prepare return or prepayment
3. Calculate taxes due
4. File return or prepayment
  - a) *Request filing extension*
  - b) *Request relief from penalty*
  - c) *File amended return*
  - d) *Declaration of timely filing*
1. Tax payments – use of cash or potential use of digital asset
  - a) *Make prepayment or payment*
  - b) *Issue refund*
  - c) *Payment plan*

#### B. Sales and Use Tax and Other Taxes and Fees

1. Receive and verify registrations from users
2. Receive, verify and review applications for licenses and permits
3. Issue certificates for sales and use tax purposes
4. Calculate taxes due
5. File return or prepayment
  - a) *Request filing extension*
  - b) *Request relief from penalty*
  - c) *File amended return*
  - d) *Declaration of timely filing*
1. Tax payments – use of cash or potential use of digital asset
  - a) *Make prepayment or payment*
  - b) *Issue refund*
  - c) *Payment plan*

#### C. Payroll Tax

1. Employers and Independent contractors
  - a) *Administration*

1. Receive and verify payroll withholding information from employees
  2. Store elections and exemption information of employees
  - b) *Calculate taxes due*
  - c) *File return*
    1. Request filing extension
    2. Request relief from penalty
    3. File amended return
    4. Declaration of timely filing
  - d) *Made payroll tax payments – use of cash or potential use of digital asset*
    - (1) Make prepayment or payment
    - (2) Apply refund to next payment
    - (3) Receive refund
  2. Employees
    - a) *Administration*
      1. Store elections and exemption, information provided on withholding tax forms, effective tax withholding rates
      2. Store copy of tax documentation forms
- D. Property Tax
1. Administration
    - a) Store property information, such as purchase date, price, etc.
    - b) Calculate and store valuation information
    - c) Appeal valuation
  1. Calculate taxes due
  2. Tax payments – use of cash or potential use of digital asset
    - a) *Make prepayment or payment*
    - b) *Issue refund*
    - c) *Payment plan*
    - d) *Request penalty relief*

IV. Who we need to hear from

- A. Expert testimony from stakeholders
  1. Tax agency administrators,
  2. Tax auditors
  3. Tax agency IT
  4. Security experts due to personal data involved
  5. Payments experts
  6. Other experts
  7. Other stakeholders and interested parties

- B. Resources and learnings from other regimes that have implemented DLT into tax administration
  - 1. Other states
  - 2. Other countries
  
- V. Questions for the subcommittee/working group and public
  - A. What would you like to see in a “minimum viable product” for the Tax use case?
  - B. What are the state’s priorities when it comes to tax administration?
  - C. Is the state open to using digital assets to facilitate tax payments and refunds?
  - D. Are there any pilot projects or literature that you are aware of that is relevant to the Tax use case?
  - E. Tax administration in California is currently fragmented and manual. Are you aware of failures and successes from other states or countries, or other use cases that we can learn from?
  - F. How mature is the current IT infrastructure, including staffing, hardware, network speed, in order to support the implementation of a tax compliance framework in California administered via distributed ledger technology?
  - G. What trade-offs should be considered before deciding whether to adopt a blockchain-based system for tax administration in California? What are the potential risks and benefits?
  - H. Other than the stakeholders listed in Section IV above, who else should be consulted before making a recommendation on this use case?
  - I. What is the best way to integrate digital identity technology into the Tax use case?