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A typology of sales tax noncompliance: Targeting enforcement to diverse intentions

Cary Christian¹

Abstract

This paper presents a study of taxpayer rationales for evasion and theft in a sales tax environment. It is based on content analysis of 375 criminal investigation case files in multiple industries and author interviews with business owners facing criminal investigations. The evidence examined supports the development of a typology of sales tax noncompliance that informs a more targeted, responsive and effective enforcement regime informed by the specific peculiarities of the sales tax environment. The study suggests that such an approach could result in rehabilitation of a substantial number of noncompliant taxpayers without reliance on incapacitating deterrence measures.

Keywords: Compliance enforcement, responsive regulation, sales tax, tax administration, tax evasion, tax theft

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1. INTRODUCTION

Sales tax enforcement efforts in the states are structurally similar to the income tax enforcement model utilised by the Internal Revenue Service (IRS). Adoption of this structure assumes the same voluntary reporting scheme with enforcement carried out through punishing deterrence policies linked to delinquency identification and audit capabilities. This paper documents an exploration of how this adaptation of enforcement regime to sales tax systems does not recognise that sales tax compliance enforcement issues are very different from income tax enforcement issues because of the fiduciary nature of sales tax collection. Theft of sales tax, as opposed to evasion, is the more pressing issue and the efficient and effective third-party reporting regime that is relied upon so heavily for income tax enforcement allows for the possibility of theft of state funds in the sales tax environment. In this respect, sales tax theft is more akin to the theft of withheld payroll taxes by employers, but without the added control of being able to compare withholding amounts reported by the employer to employee reporting on their individual income tax returns.

This paper also explores how sales tax evasion and theft are generally confined to specific industries and taxpayer types and why that is so. As a result of the nature of the sales tax environment it is important to more finely target enforcement efforts and to understand that sales tax theft and evasion are not one-size-fits-all. People steal or evade sales tax for a variety of reasons, and their motivation to steal or evade has an impact on the selection of appropriate enforcement tools. Some steal or evade without the overt intention to commit a crime. The typology of sales tax noncompliance presented herein represents an attempt to provide a workable framework for better understanding of the fraud risk and to assist with more effective targeting of enforcement efforts, including less punishing interventions where possible.

This paper will proceed with a discussion of tax evasion generally and some of the differences between income tax enforcement and sales tax enforcement; a description of the methodology used in the development of the typology; presentation of the typology of sales tax noncompliance; and a discussion of current enforcement tools with a proposal for improvement based on the typology.

2. TAX EVASION IN THE LITERATURE

Perhaps the most enduring model of tax enforcement was set forth by Allingham and Sandmo (1972). Known as the deterrence model, the authors theorised that the choice by a rational person to evade taxes is based on the expected gains (money saved) or losses (severe penalties) associated with the decision to evade. The deterrence model became the underlying premise for nearly all approaches to tax enforcement for decades and remains in wide use in practice, even though it has been somewhat discredited in theory consistent with general criticisms levelled against expected utility theory and more specifically with respect to rationality. People generally do not behave as rationally as the deterrence model would predict in that taxpayers do not fully understand their alternatives or the related consequences of their actions (Tanzi & Shome, 1993). Perhaps the most important criticism is that the deterrence model would predict much lower rates of compliance than presently achieved given low audit levels and the very small probability of getting caught evading taxes. For this reason, the deterrence model is deemed a very poor predictor of evasion activities (Jones,

2003; Mikesell & Birskyte, 2006; Korobow, Johnson & Axtell, 2007). Results of surveys and experiments suggest that most taxpayers would never consider tax evasion even though the probabilities of audit are tiny (Long & Swingen, 1991). Varma and Doob (1998) found that harsh penalties under the deterrence model are ineffective in controlling tax evasion if people do not believe they will get caught.

Braithwaite (2011) argues that regulators tend to rush toward law enforcement solutions to compliance enforcement problems before giving adequate consideration to the full range of possible approaches that support building more compliance capacity on the part of the noncompliant business. The concept of responsive regulation holds that beginning the enforcement process with less dominating, more respectful options tends to provide legitimacy for the more coercive processes of deterrence should they become necessary after less harsh measures fail.

In the continuing search for a robust theory of tax evasion, researchers have evaluated cultural, administrative and individual factors that act as potential determinants of evasion behaviour. Among these factors are the quality of services provided by the government, the existence of high tax rates, the complexity of tax laws, social norms, morality, tax amnesty policy, income levels, size of businesses, tax ethics and source of income (Madeo, Schepanski & Uecker, 1987; Reckers, Sanders & Roark, 1994; Alm, 1999; Cummings et al, 2004; Torgler & Murphy, 2004; Christian & Frank, 2006; Hyun, 2006). These determinants can be thought of as contributors to tax morale, defined by Torgler and Murphy (2004, p.4) as ‘the intrinsic motivation one has to pay their tax’. All of these determinants have been empirically shown to have a statistically significant impact on tax evasion, but Alm (1991) noted that theoretical models are not capable of including very many of these factors in a single analysis, which limits their explanatory power.

Income tax enforcement efforts are greatly enhanced by the level of third-party reporting required. Based on data from the IRS 2007 Statistics of Income, 82.59 per cent of reported income items and 72.66 per cent of adjustments for adjusted gross income are subject to some type of third-party verification (Internal Revenue Service, 2007). Based on IRS tax gap data, the majority of the tax gap is related to income that is not subject to such third-party verification, as presented in Table 1 (Internal Revenue Service, 2012).

Table 1: IRS Tax Gap and Information Reporting Status

Information Reporting Status	Misreporting Percentage
Little or no information reporting	56
Subject to some information reporting	11
Substantial information reporting	8
Substantial information reporting and withholding	1

The impact of third-party reporting with respect to such a large portion of gross income is likely a better explanation of why more people do not evade income taxes than any fault found with the deterrence model. Research indicates that third-party

verification plays an important role in compliance enforcement on several levels. The 1982 Taxpayer Compliance Measurement Program (TCMP) found a positive correlation between under-withholding of income tax and a subsequent underreporting of the tax liability (Chang & Schultz, 1990). Martinez-Vazquez, Harwood and Larkins (1992) observed that people with liquidity problems were less likely to pay commercial debts and theorised that liquidity problems may have the same effect on the behaviour of taxpayers. Utilising experimental methods they found that if the possibility of evading taxes in a safe manner existed, a near-majority of people would take that chance, and the proportion of individuals choosing to evade who were in an illiquid position was significantly larger. Blanthorne (2000) found that taxpayers who have the opportunity to underreport income actually underreported more, in both frequency of underreporting and in the amount underreported, and had lower tax reporting ethics than taxpayers who did not have the opportunity to underreport. Carnes and Englebrecht (1995) found that tax compliance increases as the visibility of income to the taxing authority increases. Antonides and Robben (1995) found that the probability of tax evasion was related to the opportunity available to the taxpayer to conceal income.

2.1 Evasion and theft in sales tax systems

There is a generally implied assumption that there is virtually no opportunity for evasion with respect to sales tax because it is collected, and thus ostensibly verified, by third-party business entities. This assumption dismisses an important point: in a retail sales tax system there is no mechanism to verify that all of the sales tax collected by these third parties is actually remitted to the government. Therefore, the larger issue is not sales tax evasion; it is sales tax theft by the parties who collect the tax as an agent of the state².

In a sales tax system, retail businesses become collection agents for the government and agency theory provides some important insights in evaluating sales tax compliance enforcement efforts. Two primary concerns addressed by agency theory are the problems of adverse selection and moral hazard (Droege & Spiller, 2009). Adverse selection occurs when a principal selects an inappropriate agent based on false or inaccurate information. Moral hazard refers to situations where the agent does not provide appropriate effort to achieve the goals of the principal. Agency theory assumes adverse selection can be controlled if the principal has access to all available information, and further assumes that the required information can be obtained for a price. The principal must balance the cost of acquiring that information with the potential gain derived from selecting an appropriate agent. The principal can control moral hazard through either behavioural contracts designed to control the activities of the agent, or through outcome-based contracts, which are designed to align the goals of the principal and agent and allow the principal to monitor specific outcomes produced by the agent rather than the agent's activities (Droege & Spiller, 2009).

The state will encounter problems with both adverse selection and moral hazard in its dealings with sales tax collection agents since the state cannot filter agents (all

²This is not to imply that sales tax evasion does not exist: it exists in the form of a business refusing to collect the tax or through the application of inappropriate exemptions, usually as a form of achieving a competitive pricing advantage over competing retailers; losses through this type of evasion can be substantial depending on the structure of the sales tax system. Of course, both evasion and theft have the same result: lower tax revenues collected by the state.

businesses are generally required to register, collect and remit sales tax) and cannot provide appropriate incentives to align principal and agent goals and priorities or monitor each of the millions of agents collecting the tax. Agency theory makes an implicit assumption that the agent is dishonest, and this somewhat ‘politically incorrect’ assumption contributes to the theory’s power to predict poor results for the principal when control over agent dishonesty is not perfected (Bohren, 1998). Government is left with auditing being the primary tool used to counter evasion and theft. Unfortunately, state governments are able to audit less than 1 per cent of accounts each year for compliance. The problem of inadequate audit rotation is compounded by the fact that audits are normally based on strategic lead development programs rather than random sampling (Murray, 1995; Alm, Blackwell & McKee, 2004). This means that a business that understands how to ‘fly below the radar’ with respect to strategic evidence of fraud, will likely never be caught through the standard audit regimen. In an environment where there are no third-party controls to help enforce remittance of sales taxes collected, government cannot reasonably assume that sales tax theft will not occur regularly.

Research related to evasion in value-added consumption taxes (VAT) provides some context to studies of the American retail sales tax. VAT obligations are assumed to be more easily enforced because the tax is collected at multiple stages during the production process. Taxes not collected at one stage can still be collected at a subsequent stage of production. More importantly, the VAT calculations at each stage of production leave a paper trail that makes it easier to find and prove evasion, and provides an incentive for proper reporting because of the built-in credit structure (Garner, 2005). However, studies have shown that even given the extensive paper trail that exists in a VAT system evasion and theft is still common and estimated to be very high (Reckon LLP, 2009; Center for Social and Economic Research & Central Planning Bureau, 2013). Yet, because of this trail, it may be easier for a tax authority to quantify evasion and theft though not necessarily easier to recover stolen taxes due to the cross-border techniques utilised in VAT fraud. This verification and incentive structure does not exist with a retail sales tax making it both more difficult to identify theft and more difficult to estimate tax gaps.

Sales tax theft is primarily a small business problem (Christian, 2013). In this respect, sales tax theft and evasion is similar to the income tax. As noted in the IRS tax gap discussion and data, it is underreporting by small businesses and individuals that accounts for 83.5 per cent of the tax gap (Internal Revenue Service, 2012). According to Morse, Karlinsky and Bankman (2009) there are at least two simple reasons why this is so. First, small business owners who cheat tend to do so because they can cheat successfully since there is no reporting of their income (in the case of the income tax) or tax collected from customers (in the case of the sales tax) to the government by third parties. It is a function of opportunity and those who evade income taxes also tend to evade or steal sales tax and employment taxes collected. Second, small businesses tend to collect more of their revenues in cash, which is easier to hide from authorities during an audit. However, we must be careful how we define a ‘small business’. A focus on the existence of internal controls is a more valid indicator of sales tax theft potential (and likely of income tax evasion potential as well, though that is not the focus of this study). Public companies and the majority of larger private enterprises have internal controls in place that make it more difficult to retain sales tax monies collected from customers and, at a minimum, would require a high degree of collusion among multiple positions within the business to accomplish the theft and

conceal it. Larger businesses tend to rely instead on exploitation of the ‘grey areas’ of the law to reduce liabilities, which may in some cases rise to the level of evasion, but outright theft is rare. In many smaller businesses, whether incorporated, operating as partnerships, or sole proprietorships, the owner or owners exercise more control over all aspects of operations, and internal controls are generally lacking. This enables the theft of state funds without collusion, which is important since employees in many cases, though certainly not all would have less incentive to participate in theft.

Does a lack of internal controls result in actual theft of taxes collected as an agent of the government? Employment taxes withheld from employee salaries represent a type of fiduciary relationship at the federal level that is similar to the state sales tax principal–agent relationship. During 2012 the IRS issued 1.6 million delinquency penalties related to employment taxes, 3.9 million penalties for failure to remit employment taxes, and 1.5 million penalties for violations of federal tax deposit rules with respect to employment taxes (Internal Revenue Service, 2012). State experience shows that theft is similarly an issue with respect to sales tax. Disagreements exist over the amount of sales tax stolen annually with estimates ranging from 1 per cent to 19 per cent (Office of Performance Evaluations, 1996; American Economics Group, Inc, 2002; State of Washington Department of Revenue, 2010; Institute for Wisconsin’s Future, 2010; Due, 1974), but it is clear that the amounts are large enough to warrant greater understanding since theft at only a 5 per cent rate would represent \$15 billion annually nationwide.

Morse, Karlinsky and Bankman (2009, 43) note that there is a lack of ‘thick qualitative description of the actions and attitudes’ of small businesses that fail to pay a sizable portion of their taxes. This is still the case and the research void applies equally to taxes collected in a fiduciary capacity as it does to income taxes. This study furthers their line of inquiry and provides one of the first complete descriptions of those small businesses and the reasons they fail to meet their tax obligations. Additionally, this study clearly shows that sales tax theft, as well as evasion related to other taxes, occurs not only with respect to cash-basis revenues, but extends to all revenues of the small business enterprise, a result made possible by miniscule audit rates.

3. METHODOLOGY

The discussion and conclusions in this paper were developed based on data gathered during a mixed methods field study carried out over a two-year period within the Florida Department of Revenue (DOR). The author worked onsite and was immersed in the compliance enforcement environment during the entire period. The author had full access to agency personnel at all levels and full access to documentary materials of all types. The typology developed in this paper is but one part of the overall study of sales tax enforcement undertaken during this period and the methodology presented herein applies only to the development of the typology of sales tax noncompliance.

All discussions herein related to the compliance enforcement environment, enforcement tools, and how those tools are used are based on participant observation, informal interviews and discussions with DOR field personnel, and through review of current and historical management data, reports, audit and investigative results, and other relevant documents covering a period of ten years.

The typology of sales tax noncompliance was developed primarily through content analysis of interviews of subjects in criminal investigations from Miami–Dade County from the years 2003 through 2012. The focus of this paper is on sales tax evasion and theft; therefore criminal cases are the appropriate context for this study. In Florida, audits that uncover evidence of evasion or theft are referred to Criminal Investigations and all audit activities immediately cease. Therefore, all tax evasion and theft will ultimately be dealt with through criminal investigation rather than audit. There were three types of criminal investigation files used in developing the typology:

1. complete case files for cases that were referred for prosecution;
2. case disposition forms and various investigative reports for cases closed without prosecution that were available only online in the Case Management System (CMS); and
3. files for current, ongoing investigations. Each type of file and its contribution to the typology will be discussed in the following sections.

3.1 Criminal investigations referred for prosecution

There were 375 cases in various industries that proceeded to prosecution. Complete files existed on site for these cases and were reviewed. These files contain subject and witness interviews, financial statements and analyses, copies of all federal and state returns filed, an historical record of liens filed and correspondence with the taxpayer, documentation of inventory purchases from third-parties, bank statements for the business and the owners, and other types of documentation required based on the specific circumstances of the case. The industry represented and general descriptive information about the cases is presented in Table 2.

Table 2: Summary of Criminal Cases Reviewed

Miami–Dade County 2003–2012

Industry	Tax Liability (\$)	No of Cases	Average Unremitted Tax (\$)	Median Unremitted Tax (\$)
Auto dealers	13 051 885	70	186 455	78 512
Convenience stores	1 812 029	10	181 202	36 551
General retail	8 462 680	217	38 999	19 563
Security services	1 573 870	15	104 925	23 884
Third party (accountant, employee)	281 568	4	70 392	84 177
Bars & restaurants	3 814 492	59	64 652	28 765
Totals	28 996 525	375	77 324	26 864

3.2 Cases closed without prosecution

Case closings without prosecution occur where there is insufficient evidence to prove all of the elements of a crime, but often do result in the collection of substantial unremitted tax as a result of the investigation. If the failure to remit tax is due to, for example, a lack of understanding of the law, illness of the taxpayer, or mistakes by accounting personnel within the organisation, there is generally no evidence of intent to commit sales tax theft or evasion, which is required for criminal prosecution. Taxes and penalties would still be due, but the amounts not paid would be collected using civil rather than criminal procedures. In other cases it may be rather obvious to the investigator that a crime was committed, but there is no evidence available with which to prove the crime. These types of criminal cases would be closed without prosecution. About 80 per cent of all criminal investigations are closed without prosecution. While the full case files for these cases were archived and not available for review, the author was able to review case disposition forms, case summaries and other investigative reports in the online CMS which were sufficient to support the typology developed in this study. Case disposition forms generally describe why the case was closed without prosecution and give an indication of where the case would fit within the typology. Additionally, closed case files generally contain little information that is not available in the CMS since these cases are primarily closed due to a lack of evidence.

3.3 Files for current investigations

Desiring to paint a more complete picture of noncompliance through direct interaction with subjects in criminal cases, case files for an additional 59 business owners who were involved in current ongoing investigations were reviewed and the subjects in these cases or, in some instances, their representatives, were interviewed by the author. In some instances the subjects agreed to discuss their cases with the author while not consenting to a formal interview and, in other cases, the subject's attorney agreed to speak with the author. These 59 cases represent the only open cases where either the subjects or the subjects' attorneys would consent to speak with the author. Most of these subjects ultimately either paid the unremitted tax due outright or entered into agreements to pay the balances due in instalments. Based on a review of prior prosecution referrals and closed case summaries available in the online CMS the author was able to determine that the 59 open cases under review were representative of the normal criminal investigations caseload and consistent with prior cases under review. The total amount of unremitted tax from these taxpayers was \$5 746 329, or an average of \$97 395 per case with median unremitted tax of \$54 921. The breakdown of these cases by outcome is presented in Table 3.

Table 3: Summary of Additional Open Cases Reviewed

Outcome	No of Cases	Tax Not Remitted (\$)	Average per Case (\$)	Median Per Outcome (\$)
No crime; payment or payment plan	39	2 133 378	54 702	44 064
Theft by third party identified	5	544 637	108 927	69 381
Prosecution decision pending	15	3 068 314	204 554	68 857
Totals	59	5 746 329	97 395	54 921

The interviews and interactions with business owners currently under criminal investigation, the evaluation of prior criminal prosecution cases, and the review of case disposition forms in CMS allowed each instance of sales tax noncompliance to be categorised and classified based on reasons for noncompliance identified during the investigation. Interviews and interactions with subjects in a sales tax criminal investigation are designed to allow the subject to rationalise their actions. The interview questions are chosen to establish that the subject understood their responsibilities to collect and remit the tax to the government, and to provide them an opportunity to explain why they did not carry out those responsibilities. All interviews follow this predetermined approach to enable investigators to prove the elements of the crime. As noted by Cressey(1953) individuals caught embezzling funds, a similar crime to sales tax theft, will almost always feel the need to explain why they stole the money: in this case, sales tax collected and not remitted. Most do not realise that their rationalisations are tantamount to an admission of guilt. The structure of the interview process and its standardisation in approach provides a valuable tool for the classification and categorisation of the reasons subjects fail to remit collected taxes. The interview will generally begin with questions designed to establish that the subject was the person responsible for collecting and remitting the tax, fully understood their responsibilities, and actively decided not to remit the taxes collected. This line of inquiry would include a large number of questions that establish knowledge and control such as:

1. Who manages the business operations of ... ?
2. Who is responsible for accumulating the amounts of taxes collected?
3. Who prepares the sales tax returns?
4. Who signs the sales tax returns?
5. If you do not prepare the returns, do you review them before you sign them?
6. Who signs the cheque to pay the taxes?
7. Can you tell me how you determine what is taxable and what is not?
8. Are you current on your payments to vendors and for other expenses?

Ultimately, questions are asked that allow the subject to rationalise his or her failure to properly account for and remit the taxes collected, such as:

1. Can you explain why you have failed to file returns (on specific occasions)?
2. Can you explain why you failed to remit the sales taxes you have collected to the Department of Revenue?
3. Can you explain why you have not replaced cheques written to the Department that were dishonoured by your bank?

A complete example of prepared interview questions used by investigators generally and used in this study specifically is attached in Appendix 1. While not all interview questions are exactly the same and the content will vary based on investigator knowledge of specific taxpayer- or case-related circumstances, all interviews are designed to acquire evidence of the elements of the crime and are therefore similar in intent if not exact wording. The result of this categorisation and classification based on direct interviews, content analysis of interviews and, in some cases, follow up discussions with subjects is part of the typology of sales tax noncompliance.

The completion of the typology required a thorough review of the non-subject interview evidence in the case. Interviews of witnesses, link analysis to identify related parties, and reviews of other documentary evidence collected by investigators were important with some classifications. For example, the two subclasses within the 'Criminal' type could only be classified through thorough review of all of the evidence in the case. While rationalisation provides evidence for typology in those cases where the subject is contrite and cooperates, those classified in the 'Criminal' type will generally decline to be interviewed or will strongly deny all allegations and refuse to provide any justification for a crime they swear they did not commit. As a result, the typology begins with two overall types:

1. those who attempted to explain that they had no intention to commit a crime; and
2. those who understood all along they were committing a crime and were relatively confident the crime could not be proven.

Review of the non-subject interview evidence in each case was also important as a means of verifying rationales provided by the subject. For example, some subjects may lie during their interviews in an attempt to explain why their behaviour does not rise to the level of a crime. In those cases other evidence found in the case files will generally expose inaccuracies in subject interviews and allow an accurate classification. For example, if a subject claims tax was not remitted properly due to accounting errors, a review of interviews of witnesses who are familiar with the business that are also contained in the case files, such as interviews of employees, may show this explanation to be false and indicate a different classification.

4. THE TYPOLOGY OF SALES TAX NONCOMPLIANCE

Just as it is with income tax evasion, sales tax theft and evasion is not one-size-fits-all: people steal or evade for different reasons and in different ways. This study suggests

that some are noncompliant with no overt intent to evade while others carefully map strategies to steal large amounts of sales tax collections. The results of this study suggest a typology of sales tax noncompliance to help guide the appropriate choice of enforcement measures and provides a basis from which a realistic evaluation of current and proposed enforcement methodologies can be derived. A summary of this typology is presented in Table 4 and is followed by a discussion of how the characteristics of each type of noncompliant agent might inform enforcement choices. The typology suggests that current enforcement methodologies are inadequate for addressing theft and evasion by most types of evaders, and particularly those evaders most likely to steal and/or evade large amounts of sales tax over extended periods of time.

Table 4: Typology of Sales Tax Noncompliance

Type	Subtype	Description
Delinquent		The most understood type. They either fail to file a return or file a return and fail to pay the taxes reported on the return. This type of noncompliance is called a ‘delinquency’. Delinquents are registered, have a filing history, and the amounts due are generally known.
Deficient	Inadequate training	These individuals exhibit a lack of understanding of at least some portion of their responsibilities for sales tax collection and remittance, and as a result, either fail to collect all of the taxes required, or fail to remit all of the taxes collected.
	Poor business skills	These individuals may run their business from a chequebook, ie ‘if there is money in the account, I must be profitable’. They maintain no, or very poor, sales records, resulting in poor reporting compliance and under-remitted sales tax.
	Illness of the owner	Reporting and remitting of sales tax suffers because of the extended medical problems of the primary responsible party. Family members or friends may assist, but they are generally not well trained in the paperwork aspects of the business.
	Untrained bookkeeper	The deficient business owner hires an untrained bookkeeper who prepares returns from bank statements, failing to realise that many small businesses, especially bars, restaurants, convenience stores and many general retail stores, do not deposit all of their cash and often pay vendors with cash from the register.
Negligent	Absentee owners	Those who trust others to manage their business but do not institute adequate internal controls to prevent theft or evasion by those entrusted.
	Poor control over associates	Those who share their business name, licenses and other resources for a fee, but do not maintain control over associate tax reporting. Sometimes this occurs in an industry where proper licensing is necessary to conduct that business but the associates cannot qualify for the license.
Stressed	Survivor	These individuals evade in order to remain competitive in their industry. In many cases, ‘Survivors’ were found to have knowledge of widespread theft and evasion in their industry and had given up on remaining compliant, reflecting the ‘if you can’t beat them, join them’ mentality.
	Borrower	These individuals do not intend to convert state funds permanently, but reduce remittance of sales tax to ‘tide them over’ until their financial condition improves.
Criminal	Hardcore	This group has learned, through experience or counselling, to ‘fly below the radar’ to conceal their sales tax theft. They conceal the theft by appearing to comply. They always file a sales tax return and pay the reduced tax reported. When caught, they will generally become compliant for a time, but will return to noncompliant behaviour at some point, likely through a new entity.
	Proficient	While similar in some respects to the ‘Hardcore’ group, this group has taken theft to a new level. ‘Proficient’ evaders make every effort to conceal their theft of state funds, and have become quite proficient at eliminating all indicators of fraud, thus avoiding identification through strategic lead development programs. This group is the most difficult to catch evading, and when caught, will adjust their methods rather than become compliant.

4.1 Current enforcement tools

Before looking more closely at the typology, it may be useful to review the tools currently used by state revenue agencies to enforce the sales tax laws. There are a number of general enforcement tools available. First, the agency's collections personnel are the initial line of defence against delinquent taxpayers. Collections staff instantly address any failure to file a return or failure to pay amounts reported as due on returns received without an accompanying payment. Second, the agency audits companies that are identified via a strategic lead development process that utilises data from a variety of sources to identify potential underreporting of sales tax. Many states use sophisticated data analytics to generate strategic leads, such as link analysis, anomaly detection and predictive models. In Florida, approximately 72 per cent of all audits result in a tax adjustment, so audits are a productive endeavour. If (during the collections process, the lead development process, or later during an audit) it is suspected that a company may be involved in fraudulent activities or evasion, then the third enforcement tool comes into play as companies may be referred for criminal investigation. Criminal investigations may also be launched based on third-party complaints from outside the agency. Finally, discovery operations are designed to identify companies that are not registered with the agency for the tax obligations that relate to their specific business operations and to collect use tax on major purchases. It should also be noted that certain types of data matching are done automatically each year. For example, even a state like Florida that has no individual income tax obtains data from the IRS for matching revenues reported for federal income tax purposes to revenues reported by unincorporated businesses for sales tax purposes. Such an analysis is useful to catch the 'low-hanging fruit' but accomplished thieves are rarely caught through such a straightforward analysis.

4.2 Status of enforcement tools based on the typology

Current enforcement methodologies are adequate for addressing the 'Delinquent' evader type and generally result in favourable outcomes. The majority of compliance enforcement efforts, and the majority of compliance enforcement personnel, are focused upon and dedicated to resolution of delinquencies. For example, in Florida more than 80 per cent of compliance enforcement personnel are tasked with collection of delinquencies or other non-verification activities. The handling of 'Delinquent' taxpayers is consistent with the concept of responsive regulation in that these taxpayers are generally given opportunities to become compliant before incurring large penalties. They are also offered training if it becomes apparent they have such a need. In this study it was noted that companies involved in sales tax theft were careful not to become delinquent.

Sales tax evasion by 'Deficient' evaders is generally discovered only when delinquencies occur or an audit is performed on the business. Agency educational initiatives properly applied can counteract evasion as a result of lack of knowledge of the sales tax rules but the major obstacle to the success of such initiatives is that they must generally be requested by the taxpayer, rely on voluntary attendance by the taxpayer, and are generally not required as a condition of obtaining a sales tax license. Due to the lack of sophistication of 'Deficient' evaders, the collections process (for delinquencies) and the strategic lead generation process are generally sufficient enforcement efforts for this group.

The ‘Negligent’ evader is normally discovered only when an audit or criminal investigation is undertaken and detailed analysis of the business source records is performed. Even if the ‘Negligent’ evader becomes delinquent, collections activity will generally not be sufficient to identify the additional tax due. When pressed to file a return or provide sales and tax collection information, the owner will provide information with respect to his or her ‘official’ sales only, not those of his or her associates, or sales accumulated from their inadequate accounting systems, and those sales will likely be consistent with prior filings, ending any further inquiry on the part of collectors.

‘Stressed’ evaders are motivated by finance-related pressures on their business. ‘Survivor’ subtypes do not generally set out to evade sales taxes: many do so to compete. A business stealing sales tax gains a 4–11 per cent profit advantage over their competitors. In many business models, particularly in industries with low profit margins, this advantage results in doubling profit or better. Many ‘Survivor’ business owners interviewed indicated that they engage in intelligence gathering and know when these anticompetitive situations are created and which competitors create them. A business owner faced with this situation must decide whether to compete by becoming noncompliant also or by taking alternative action, such as cooperating with the authorities to address the noncompliant behaviour of their competitors. Even when an unfair tax advantage is not specifically identified by the compliant competitor, the impact of unfair competition may nevertheless force the same choice.

The preferred tool for ensuring compliance among ‘Survivors’ is the fair application of the law to everyone and immediate attention to complaints of unfair competition through evasion. If it becomes impossible to fairly apply a specific statute, then it is imperative that the statute be changed so that it can be enforced, or repealed if changes are likely to be ineffective. A lack of fair enforcement causes distortions in the market and damages the tax morale of compliant businesses, making them more likely to be noncompliant generally. Equity theory, for example, posits that when the system of taxation is considered fair, compliance will be high, or at least higher than when the system is considered unfair (Thibalt, Fredland & Walker, 1974). An example of states changing laws to make them easier to enforce is the change many states made in the handling of fuel taxes. Compliance with fuel tax requirements for collection and remittance at retail was routinely a problem, so most states now require payment of the fuel tax ‘at the rack’ or at the point of wholesale distribution rather than at the point of retail sale. This change in the law eliminated the ability of retailers to gain competitive advantage through theft of fuel tax.

‘Borrower’ evaders do not begin with the intent to convert sales taxes collected to personal use permanently. They are usually confronted with severe cash flow problems that force them to make a decision between paying the rent or mortgage, paying vendors, paying employees, or sending in the full amount of sales taxes collected during the previous month. They understand that the state has no way of knowing how much sales tax was collected during the previous month, nor how much their sales were for that period of time. They fear an audit or other enforcement efforts, so the intent is not to steal but to ‘adjust’ the timing of their remittances. They ‘borrow’ the money from the state, mentally pledging to repay the taxes when financial conditions improve. In rare cases the borrower may actually repay the borrowed tax money by reporting and remitting more sales tax than was actually collected in a subsequent period. However, in most cases, if they are not caught they

will simply keep the money, assuming that if they are audited they can explain a single month deviation as an error and not intentional. In the worst cases, they learn from not getting caught and begin ‘borrowing’ some of the tax money every month, making the transformation from ‘Stressed’ to ‘Criminal’.

True borrowers keep only a portion of the sales tax collected and do so only when financial pressures require. They continue to file a sales tax return every month reporting less sales tax collected than actual for those months where borrowing occurs, and faithfully remit the amount of tax they report. There are no delinquencies to raise alarms.

This type of ‘borrowing’ occurs now at the federal level with respect to the payroll trust fund taxes even though employers understand that their ‘borrowing’ may be uncovered once employees file their income tax returns and claim their withholding credits. There is no such ‘check and balance’ with respect to sales tax ‘borrowing’.

‘Criminal’ evaders are classified as either ‘Hardcore’ or ‘Proficient’. ‘Hardcore’ evaders learn through experience (or counselling by their advisors in many cases) that filing a return on time every month and reporting and paying a reasonable amount of tax collected virtually guarantees little scrutiny from the tax authorities. They understand that delinquent returns or payments receive immediate attention and should be avoided. These evaders are betting against being selected for audit as long as the amounts they report are relatively reasonable, ie they are playing the ‘audit lottery’. Generally theft by ‘Hardcore’ evaders is only discovered if they are selected for audit or criminal investigation based on other strategic indicators of fraud or based on a criminal complaint initiated by a third party.

‘Proficient’ evaders are careful to cover every potential indication of fraud and have become very adept at sales tax theft. They understand how to use the laws to their advantage and generally limit their exposure to misdemeanours rather than felonies by manipulating the types of evidence available if they are caught. For example, in many cases they will raise prices and refuse to charge sales tax, a misdemeanour, rather than charging the sales tax and retaining it, a felony. The company receives the same amount of money from the customer but structures the transaction to manage the risk. They file sales tax returns and report relatively low amounts of sales tax collected. When audited or investigated, the records have been maintained in a manner that guarantees they cannot be used to prove fraud. While an assessment may be issued in an audit, the assessment will remain unpaid, buried in a chain of succeeding corporations owned by straw owners. The owner of a ‘Proficient’ evader remains behind the veil. The owner will not hold title to the property directly and actual ownership may lead offshore and be untraceable, or the property will be simply rented from a third party who knows nothing of the fraud. If the individual committing the fraud is not the owner of the property upon which the business sits, liens generally cannot be placed on the property. In many cases, the owner already owns multiple locations, making it fairly easy to change and move operations at will. One case was observed where the owners of such an enterprise owned more than 300 convenience stores and gas stations across Florida, Georgia, Alabama, Louisiana, Arkansas and Texas. Search warrants executed on 30 of these locations failed to gather solid evidence of felony sales tax theft, but enough circumstantial evidence was obtained to ultimately charge one of the owners with Racketeer Influenced and Corrupt Organizations Act (RICO) violations. When caught, ‘Proficient’ evaders do not become compliant; they adjust their methods and continue to steal sales tax.

‘Proficient’ evaders frequently close businesses that have been in operation for several years, even though they have never been audited or investigated, and open new business entities owned by relatives or straw owners, understanding that closed corporations pose more difficult enforcement scenarios for tax authorities and help to bury the audit trail (churning). Most ‘Proficient’ evaders operate businesses that deal with substantial amounts of cash, and use cash to pay bills rather than depositing cash into bank accounts, which would leave evidence of greater sales than have been reported.

Criminal investigations are most productive with respect to ‘Criminal’ type evaders as one might expect, but few resources are available for investigations. For example, Florida has only 30 investigators state-wide, and some state revenue departments do not have a criminal investigations component at all.

4.3 Better targeting of enforcement based on the typology

Proactive methodologies are required to address ‘Negligent’, ‘Stressed’, and ‘Criminal’ noncompliant types. Given that most theft occurs in several specific industries, an effective proactive methodology is to direct strategic lead development activities into specialised, targeted industry enforcement programs specifically designed to identify advanced evader types. The interpretation of fraud indicators can vary quite widely by industry and an analyst who does not have fairly in-depth knowledge of specific industries may not be capable of interpreting fraud indicators consistently from industry to industry. This study advocates a more specifically focused approach labelled as ‘Targeted Industry Lead Development’ (TILD). TILD refers to lead development activities designed to consider all applicable fraud indicators for a particular industry that has been targeted because of its high-risk nature with respect to theft.

TILD focused upon specific industries provides a number of benefits. First, enforcement personnel assigned to specific industries can develop expertise within that industry. Such expertise increases the probabilities of being able to identify outliers and anomalies within the data that might indicate fraud or evasion. Second, lead development data will be more directly comparable within industries than across industry lines, making recognition of patterns that indicate fraud and evasion easier. Third, industry focus helps the agency develop sophisticated indicators of fraud within each industry, addressing the issue that fraud takes many forms and, in many cases, those forms are suggested or dictated by peculiarities of the industry. Fourth, the major portion of sales tax evasion and fraud occurs within specific industries. Some industries have relatively low rates of fraud. As a result, the allocation of resources to an industry rather commonly known to have little fraud is a waste of resources.

It is further recommended that a substantial portion of audit activities be redirected from strategically developed audit leads to a completely random audit process designed to identify those noncompliant types who have been successful in eliminating outward signs of fraudulent activities, primarily the ‘Criminal’ type. Stealing sales tax has become part of the business model for this type and represents a significant source of profit. Often these businesses are part of a controlled group or criminal enterprise, and the identification of one business can lead to the identification of many others if the procedures for identifying related companies are used appropriately (link analysis). Since ‘Criminal’ types are the most accomplished thieves, they are much less likely to be discovered through existing strategic lead

development activities currently in place. Few of the criminal cases reviewed had been initiated through strategic lead development efforts: most were the product of external complaints or were developed by the investigators themselves. As a result, a random element to enforcement is needed. A random element has an alternative benefit as well: it will allow generalisation of audit findings to the population for purposes of generating a tax gap profile for the sales tax, and to do so by industry if the random element is stratified. To accomplish this purpose, however, stratified sampling must be used to a fairly low level. For example, all retail stores as one stratum is not refined enough. Industries where theft is known to be rampant must have their own stratum with generalisation of results done industry-by-industry.

Converting some audits to a random selection process may appear to be taking a step backward in enforcement since current audit activities yield adjustments in 72 per cent of all audits (in Florida).³ Strategic lead development processes as they exist in the states are quite sophisticated and do result in generally high adjustment rates. However, it is critical to understand that the most prolific sales tax evaders and thieves do not leave clear trails for strategic lead development processes. As a result, the worst offenders often escape detection. A stratified random audit process focused on industries known to have high rates of noncompliance would likely result in much higher yields and very little reduction in the rate of audits resulting in an adjustment. For example, the average audit assessment is \$6900 (General Tax Administration, 2008) whereas the average criminal investigation, which is more heavily focused on 'Hardcore' and 'Proficient' evaders, yields an average assessment of more than \$77 000 with a median of almost \$27 000 (see Table 2). It should be noted that audit assessments in these cases would be higher since the evidence required to support restitution in court is much more stringent than required for an audit assessment. Additionally, the author does not advocate converting all audit activity to a random process: just the portion needed to ensure good coverage of problematic industries.

4.4 Enforcement tool sequencing

Collection activities and most discovery operations should continue to operate as they do now. These activities function well as standalone operations. The audit, criminal investigations, and strategic lead development processes should be reorganised with a greater level of collaboration to better address the needs suggested by the typology set out herein.

The enforcement process should begin with the selection of the stratified random pool of taxpayers for audit. Selection for audit in the random pool will remove a taxpayer from consideration by the TILD process. Failure to select a taxpayer for random audit

³ The performance measure 'per cent of audits resulting in an assessment' is not considered to be a rigorous indicator of performance since it does not consider the cost of producing assessments. Florida ceased using this performance measure in the fiscal year beginning July 2015 and has moved to measuring performance with an 'enforcement cost per dollar assessed' indicator. While the cited assessment rate of 72 per cent would appear to argue against conversion of any audits to a stratified random audit process, it should be noted that 14 per cent of audits produce assessments of less than \$1000. Further, 70 per cent of all sales tax assessments during the study period were generated from out-of-state audits, which would not be affected by the substitution of stratified random audits for audits generated through the strategic lead development process. Additionally, the Florida assessment rate is not necessarily representative. Georgia, for example, realises assessments on 52 per cent of the audits they conduct.

does not mean a taxpayer will not be audited: additional strategically-selected audit leads will be generated from within the TILD process. For example, audit resources could be tasked 30 per cent to performing audits related to strategic leads generated through the TILD program, and 70 per cent to purely random audits. In the case of Florida, approximately 400 000 business locations operate in industries where sales tax evasion and theft are high. Initiating a stratified random audit regime and assuming seven strata with respect to those businesses would require a sample size of approximately 2636 businesses (95 per cent confidence level with a 5 per cent confidence interval). In 2008, the Florida Department of Revenue completed 3679 audits using 410 auditors (General Tax Administration, 2008). Therefore, stratified random audits would have represented about 72 per cent of the total audit workload. The appropriate mix of strategic versus random audit can be adjusted over time based on the results of each type of enforcement effort.⁴

The TILD process will drive the remainder of the compliance enforcement effort. Lead development will be refocused to those industries where most theft occurs and designed to seek out those noncompliant types that are most difficult to identify. TILD shares similarities to current discovery operations that utilise external data compared to internal data to identify potential noncompliance. For example, discovery operations are used to locate potentially unregistered businesses through comparing internal registrations to business and occupation licenses; to identify use tax due on imports of large purchases into the state through comparison to transportation company shipping records; to police the proper payment of sales tax on non-dealer auto sales based on comparing fair market values of vehicles sold to amounts reported on titles transferred; and to identify commercial property rental locations not remitting sales tax through comparison of internal registrations and property records. Existing discovery programs are often situated at the state level, as they are in Florida, and some are executed only periodically. TILD enforcement programs as envisioned in this study are planned and executed wholly at the local level (county or region) by local employees, and represent a continuous process rather than an isolated compliance exercise that may not be repeated for several years. The employees given responsibility for a particular industry will not approach their task as a linear process of research, target identification, and intervention, but as one of continuous research and target identification simultaneous with engagement. The approach is one of consistent compliance pressure on an industry utilising a minimum amount of resources prepared with the maximum amount of knowledge and information, and supported by the sophisticated technology that currently exists in the state-level strategic lead development program. As noted previously, not all industries will require dedicated TILD enforcement action, since many industries do not engage in taxable activities⁵ and some have fewer opportunities for noncompliance due to the nature of the industry.⁶ Industries where compliance is a greater problem are well known by revenue agencies, can be identified quite easily by reference to previous audit and criminal investigations activities, and are targeted specifically with TILD

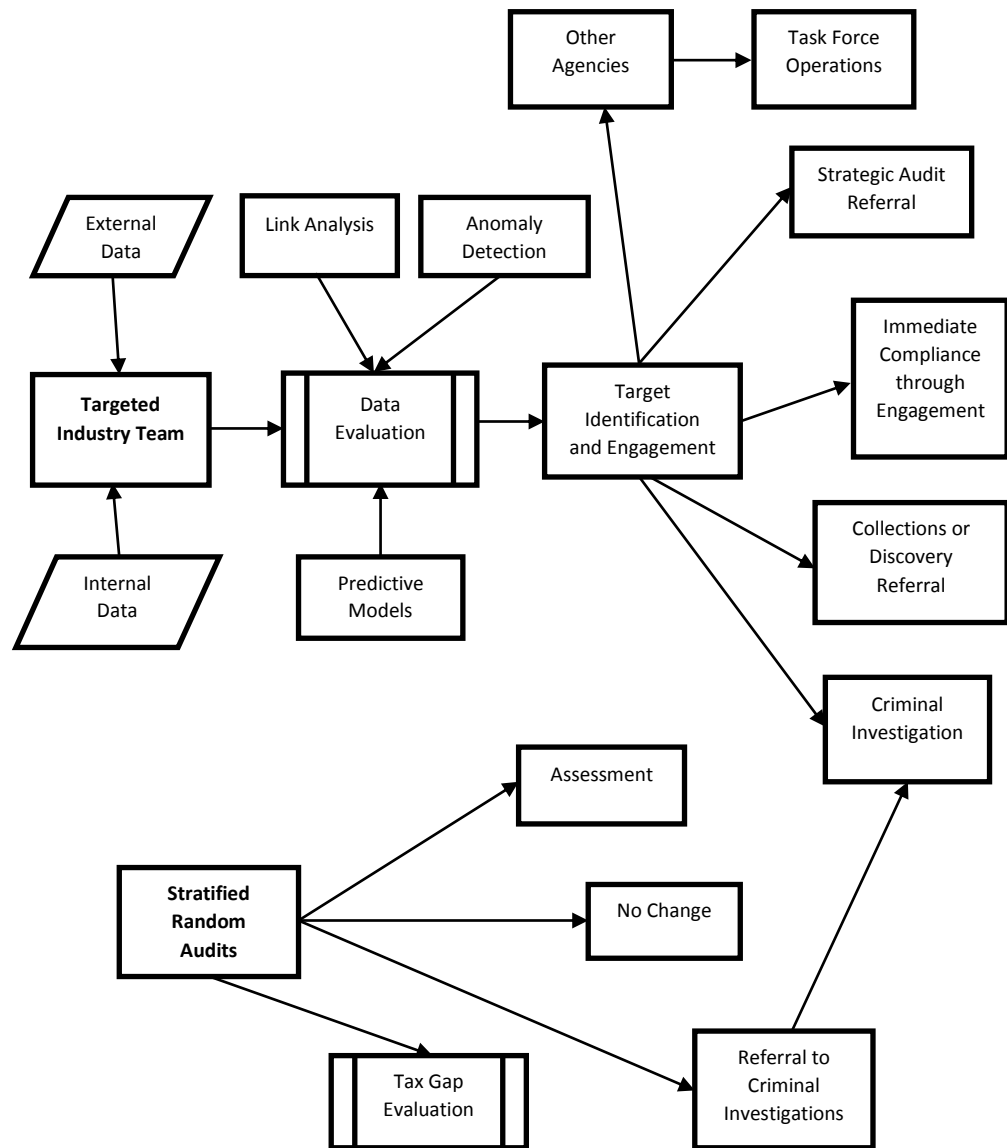
⁴ Each state will need to determine how much of their audit resources are to be devoted to stratified random audits. States that are unsure of the impact of the process can limit the percentage of audits devoted to a random process each year by cycling the audits over, for example, a three-year period, or by selecting only one or two strata each year. Since conditions can vary dramatically from state to state, the application of this process will vary as well.

⁵ For example, wholesalers, financial institutions, law firms, accountants, real property construction, etc.

⁶ For example, certain contractors who are not allowed a resale certificate but rather pay the tax when they purchase taxable materials.

and stratified random audits. The least compliant industries will receive the most generous allotments of personnel resources devoted to TILD. A separate TILD team will focus on reviewing the remaining pool of businesses, those not in high risk industries, using common fraud indicators across industry lines, so businesses will not escape all types of review just because they are located in a low-risk industry. Existing staff levels should be adequate for implementation of TILD and the stratified random audit processes.

Where possible, TILD analysts, or an employee on the industry team specifically trained for the assignment, should be tasked with the first contact with noncompliant taxpayers identified through the process because this will increase the quality of the leads developed. Through first contact, false positives can be eliminated, some cases may be resolved on the spot requiring less resources, and leads to be passed on to other processes can be further developed. More importantly, engagement with the taxpayer allows the implementation of more responsive regulation by giving the first responder the ability to educate and work with the noncompliant taxpayer to rehabilitate them and return them to a compliant state without incapacitating penalties and criminal punishment. The exceptions to the process of engagement are those cases where the intent to defraud is virtually certain, that involve large potential tax liabilities, and where preliminary engagement could endanger successful prosecution of a potential fraud case. TILD analysts will be trained to recognise and respect the profile of cases where preliminary engagement should not take place. The key is activity informed by intelligence that is accurate and actionable. Figure 1 presents a simplified illustration of how the TILD and random audit processes would work and interact.

Figure 1: TILD Program and Random Audit Process

5. CONCLUSION

It is well known, though not well publicised, that the majority of sales tax theft occurs in a relatively few industries by companies that share a fairly similar profile. It stands to reason that the perennially stretched compliance enforcement resources available to states should be vigorously targeted to those industries. The typology of sales tax noncompliance presented herein is a first step toward creating a framework for more efficient enforcement based on a more thorough understanding of who steals sales tax and why. It allows the taxing authority to attempt to rehabilitate taxpayers where the profile indicates that noncompliance is due to lack of education or incapacity for reasons that are beyond the taxpayer's control to some extent. Rather than an immediate application of punishing deterrence, the tax authority can consider the more measured approaches of responsive regulation.

A limitation of this study is that it was carried out within a single state.⁷ While there is no reason to believe the results would differ, this type of study should be replicated elsewhere. State revenue departments represent a 'black box' to researchers because of confidentiality laws, but efforts should be made to foster more collaboration between researchers and the state with greater access to data made available to researchers. There is no need for confidentiality to be breached in carrying out this type of study. Additionally, this type of study could be carried out with respect to other taxes internationally, especially in those cases where the tax in question involves third parties acting in a fiduciary capacity with respect to the collection and remittance of taxes. There appears to be a fairly common profile of noncompliant taxpayers across various tax systems.

Finally, as Varma and Doob (1998) note, deterrence has an impact if people can be convinced they will be caught. The use of TILD represents a method for applying constant pressure to an industry which magnifies the feeling that the enforcement capabilities of the state are greater than they actually are.

⁷ While this study was focused in Miami-Dade County, results were confirmed to be common state-wide.

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APPENDIX 1 – SAMPLE INTERVIEW QUESTIONS**RECORDED INTERVIEW FORMAT
(SUSPECT)**

1. SECTION I

This is Department of Revenue Case # _____. The date is _____.
The time is _____ (AM/PM).

The following is a tape-recorded interview of _____, who is a Suspect,
involved in the investigation of a business which is or was operating under the
name of _____ d/b/a _____. This interview is being conducted at
_____ by _____. Also present during this interview
is _____.

Please state your name and **spell** it for me.

Please state your **address**

Please state your telephone number.

Are you employed? (Yes/No)

Please state your employer's business name and address.
Are you aware that this interview is being recorded?

2. SECTION II

I am a Notary Public of the State of Florida and am authorized to administer
oaths or affirmations. I would like to place you under oath. Please raise your
right hand. Do you solemnly swear the statement you are about to make is
the truth, the whole truth and nothing but the truth?

3.

4. SECTION III

Use this section if person being interviewed is a **Suspect before Questions
and Responses.**

Before I ask you any questions, or you make any statements, I must **advise** you of certain rights.

I am a **(insert title here)** for the Florida Department of Revenue and as such, I am investigating tax matters that involve you and/or your business and the possibility of criminal violations of Florida tax laws and other related offenses.

I would like to ask you some questions. Before I do, however, I am obligated to advise you of the following:

- Under the Constitution of the United States and the State of Florida, you cannot be compelled to answer any of my questions or submit any information that you believe might incriminate you in any way.
- Anything you say and documents you submit may be used against you in a criminal proceeding.
- If you so desire, you may obtain the assistance of an attorney before responding to any of my questions.
- You do not have to answer my questions and you are free to leave or discontinue this interview at any time you wish.

Do you understand your rights as I have read them to you?

Do you wish to contact your attorney at this time?

Do you waive your right to have an attorney present at this time?

Have you been threatened or coerced in any way to make a statement or to consent to this interview?

Have any promises been made to you?

Do you wish to voluntarily answer my questions and/or submit the requested information at this time?

5.

6. SECTION IV

7. **(QUESTIONS & RESPONSES)**

1. Who manages the business operations of _____, which is doing business as _____?

2. Who prepares the cash register summaries of sales and taxes collected at the end of each day?
3. Who is responsible for accumulating the amount of taxes collected during the month?
4. Who is responsible for completing the sales tax return each month?
5. Who signs the sales tax returns before they are filed?
6. Who remits the sales tax payments to the Florida Department of Revenue?
7. What is your relationship to _____, Inc.?
8. How are you related to the owners of _____, Inc.?
9. Who is authorized to sign checks on the bank accounts of _____, Inc.?
10. (If he indicates he is not an authorized signer, show him a copy of one of the _____ checks issued to DOR with his signature). If you are not authorized to sign checks on the bank account of _____, why are you remitting taxes for _____ using a _____ check signed by you?
11. Why does the bank honor checks on the _____ account that you sign?
12. Are you current on your payments of other expenses of _____, such as rent, electric, telephone, payments to food wholesalers and so forth?
13. If not, what type of arrangements have you made for these payments?
14. (If necessary) How do you stay in business without paying these vendors?
15. How do you pay these vendors? (For example, cash, money order, _____ check).
16. Can you explain why you have failed to file so many sales tax returns for _____ and continue to fail to file?
17. Can you explain why you have failed to remit the sales taxes you have collected to the Department of Revenue?
18. Can you explain to me why you have not replaced or otherwise paid checks written to the Department of Revenue that were dishonored by the bank?
19. How long has _____ been in business?
20. When did _____ leave the _____ Mall location?
21. Where did _____ move to when it left _____ Mall? (Trace to current opening in _____ Mall. Evidence indicates progression is _____ Mall, _____ Mall, _____ Mall, _____ Mall).

22. How many _____ locations are currently open and operating?
23. Where are they located?
24. Were proceeds from _____ sales deposited into the _____ account?
25. Were funds generated by any other businesses deposited into the _____ account?
26. _____ had more than \$500,000 deposited into its bank account after leaving _____ Mall. If _____ was no longer in business, what was the source of these funds?
27. Even while _____ was doing business at the _____ location, bank deposits were much higher than the gross sales reported by _____. From January 2009 through October 2009, _____ reported less than \$100,000 in sales but more than \$400,000 was deposited into the bank account. What was the source of the additional \$300,000 during the year 2009?
28. How many bank accounts does _____ currently have open?
29. Who are the authorized signers on these accounts?
30. What is your relationship with signers other than yourself?
31. (If the existence of the _____ Mall and _____ Mall locations has not been disclosed): I am aware that _____ has locations open and operating in _____ and _____. I am also aware that substantial sales have been made at these locations since October 2009. Have you been collecting sales taxes at these locations as required by law?
32. Why have these locations failed to file sales tax returns and remit the taxes collected to the State?
33. Why was the decision made not to file the tax returns and pay the tax?
34. Who made this decision?
35. Overall, are there any other factors or problems you want to tell me about that might explain your failure to file returns and properly pay the tax due at all of these locations?

8.

9. **SECTION V**
In Closing:

1. Mr. _____, let me ask you again: Have you been threatened or coerced in any way to make a statement or to consent to this interview?
2. Have any promises been made to you?

3. Please state your full name as though you were signing a legal document.
4. Present and assisting during this interview is/are _____ (name person(s). *Have the person(s) state their name, title, and agency.*
5. The date is _____. The time is _____.

10. END OF STATEMENT