# Prime Contracting Study

Arizona Department of Revenue

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**by:**

ASR Analytics, LLC
1389 Canterbury Way
Potomac, MD 20854

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**Submitted to:**
Dr. Grant Nulle
Arizona Department of Revenue
1600 W. Monroe
Phoenix, Arizona 85007

# Contents

# Section 1. Executive Summary

The Arizona Department of Revenue (ADOR) is seeking to understand the tax gap (i.e., level of noncompliance) with Prime Contracting in the State of Arizona. A "bottom up" approach to match data across various datasets presents challenges and limits results. Instead, the approach described in this deliverable answers the underlying question with a different approach that is statistically defensible. Estimating the tax gap is inherently challenging. There is no single approach for estimating all the components of the tax gap, and each is subject to sampling and non-sampling error.

Our methodology estimates the level of noncompliance for prime contractors (class code 015) and contractors – owner builder (class code 037) using several methods, including models based on state and national data. We follow similar methods used by the Internal Revenue Service (IRS) in tax gap estimation, and like the IRS studies we do not report confidence intervals due to the inherent uncertainty that cannot be captured using traditional sample-based estimates. Our analysis is based on the IRS methods but is augmented due to the availability of state provided data on Transaction Privilege Tax (TPT) returns and audit results, which IRS studies did not have. The added benefit of using these state data on audit assessments is that these data provide an actual value for the lower bound of current noncompliance within this industry.

The study of the non-compliance in this industry requires definitions of the components of the tax gap and several related concepts:

- The Gross Tax Gap is the amount of true tax liability that is not paid voluntarily and timely. The gross tax gap has three main components:
    - Nonfiling – approximately 7 percent of the gross tax gap
    - Underreporting – approximately 84 percent of the gross tax gap
    - Underpayment – approximately 9 percent of the gross tax gap
- The Net Tax Gap is the gross tax gap less tax that will be subsequently collected, either paid voluntarily or as the result of administrative and enforcement activities. It is the portion of the gross tax gap that will not be paid.
- The Voluntary Compliance Rate (VCR) is a ratio of the amount of tax paid voluntarily and timely divided by the total true tax, expressed as a percentage. The IRS has estimated the VCR as 81.7 percent.
- The Net Compliance Rate (NCR) is defined by the IRS as the sum of "tax paid voluntarily and timely" and "enforced and other late payments" divided by "total true tax," expressed as a percentage. The estimated NCR is 83.7 percent.
- The Net Misreporting Percentage (NMP) is defined as the net misreporting amount on a line item divided by the absolute value of the amount that should have been reported.

- The Voluntary Reporting Rate (VRR) is a measure of the overall extent of reporting compliance for a particular type of tax. VRR is the amount of reported tax divided by the amount of tax that should have been reported. It reflects reporting compliance on timely filed returns.

Research conducted by the IRS and the Government Accountability Office (GAO)[1] illustrates that underreporting of business income accounted for nearly half of the individual income tax underreporting gap. This includes income from sole proprietors[2], which accounted for the largest share of individual income tax underreporting. Most business-related income tax return items also had high net misreporting percentages, which is the sum of the net misreported amount divided by the sum of the absolute values of the amounts that should have been reported, as a percentage. The extent to which taxpayers accurately report their income is closely aligned to the amount of income that is reported to them and to the IRS by third-parties. For example, according to 2008–2010 IRS data, taxpayers misreported over half of the types of income for which there is little or no third-party information reporting, such as business income. These facts are especially relevant given the nature of income, deduction, and exemption amounts reported on TPT returns for prime contractors, where little, if any, third-party information exists.

The IRS has found that there is a clear and obvious link between reporting compliance and third-party information reporting. The NMP for income amounts subject to substantial information reporting and withholding is 1 percent, for income amounts subject to substantial information reporting but not withholding is 7 percent, income subject to some information reporting is 19 percent, and the income amounts subject to little or no information reporting, such as nonfarm proprietor income, is 63 percent. These facts are especially relevant for this study since income reported on TPT returns does have some third-party information reporting. Payment Settlement Entities (PSE) are required to report Form 1099-K for most merchants that accept credit cards. However, line items on a TPT return, such as deductions, are not subject to third-party information reporting.

The IRS developed corporation income tax underreporting estimates for two types of corporations: small corporations (those without a balance sheet or with assets less than $10 million) and large corporations (those with assets of $10 million or more). The IRS estimated the voluntary compliance rate for all corporations to be 83 percent for tax years 2008–2010.[3] The estimates are based on adjusted data from operational examinations, which focus on the tax returns most likely to have substantive noncompliance rather than examinations of a statistically representative sample of corporation tax returns.

The data presented in Table 1 and Table 2 illustrate the estimates of the tax gap for prime contractors (class code 015) and contractors – owner builder (class code 037), respectively. We have presented three estimates of the tax gap using the methods

[1] "IRS Needs Specific Goals and Strategies for Improving Compliance" (GAO-18-39), https://www.gao.gov/products/GAO-18-39.
[2] Sole proprietors are self-employed individuals who should file a Schedule C with their individual tax return to report profits and losses from their business.
[3] "Employment Taxes: Timely Use of National Research Program Results Would Help IRS Improve Compliance and Tax Gap Estimates" (GAO-17-371), https://www.gao.gov/products/GAO-17-371.

described by the IRS. The Gross Tax Gap is based on the IRS findings that the VCR is 81.7 percent of all income for this TPT classification. The Tax Gap with NMP at 7 percent assumes the rate calculated by the IRS for income with substantial information reporting (in the form of 1099-K data from Payment Settlement Entities). The Tax Gap with NMP at 19 percent assumes the rate calculated by the IRS for income with some information reporting. While the Tax Gap with NMP at 7 percent is substantially lower than the estimates using the other two methods, it should be noted that TPT is highly reliant on self-reported income and deductions. While some limited information return data are available on this industry in the form of 1099-K information returns, these data have largely gone unused in most states due to several data quality and consistency issues.

**Table 1. Tax Gap Estimates for Prime Contractors, Class Code 015 (in Millions)**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $17,918 | $6,115 | $413 | $506 | $93 | $35 | $96 |
| 2011 | $22,960 | $7,944 | $580 | $710 | $130 | $50 | $135 |
| 2012 | $28,319 | $9,409 | $687 | $841 | $154 | $59 | $160 |
| 2013 | $34,575 | $10,650 | $712 | $872 | $160 | $61 | $166 |
| 2014 | $30,443 | $11,176 | $704 | $861 | $158 | $60 | $164 |
| 2015 | $28,459 | $9,062 | $572 | $700 | $128 | $49 | $133 |
| 2016 | $31,560 | $9,877 | $624 | $764 | $140 | $53 | $145 |

It is also noteworthy that since 2010, Prime Contractors (class code 015) has represented over 99 percent of the Total TPT Tax Due. For this reason, our analysis in this report will focus on Prime Contractors. Both class codes will be considered when analyzing potential non-compliance in this project. Contractors – Owner Builders (class code 037) are likely to not have a material impact on the Total Tax Gap since the estimates in Table 2 below illustrate that the tax gap for most years is less than $1 million.

**Table 2. Tax Gap Estimates for Contractors – Owner Builder, Class Code 037 (in Millions)**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $143.70 | $55.95 | $3.85 | $4.71 | $0.86 | $0.33 | $0.89 |
| 2011 | $87.81 | $28.01 | $2.03 | $2.48 | $0.45 | $0.17 | $0.47 |
| 2012 | $185.80 | $44.86 | $3.26 | $4.00 | $0.73 | $0.28 | $0.76 |
| 2013 | $134.13 | $33.47 | $2.21 | $2.70 | $0.49 | $0.19 | $0.51 |
| 2014 | $173.61 | $27.79 | $1.75 | $2.14 | $0.39 | $0.15 | $0.41 |
| 2015 | $255.78 | $149.85 | $4.78 | $5.85 | $1.07 | $0.41 | $1.11 |
| 2016 | $50.33 | $28.76 | $0.97 | $1.19 | $0.22 | $0.08 | $0.23 |

While Table 1 illustrates that the TPT Gross Tax Gap from Prime Contracting could be as high at $145 million, it is also important to note that Prime Contracting likely contributes to less than 10 percent of TPT noncompliance.

The Arizona statutes that pertain to Prime Contractors and Contractors Owner Builders can be complex and allow for many deductions, exemptions, and limitations. In general, contractors are required to pay TPT on building materials for some types of projects instead of paying tax on 65 percent of their gross receipts. However, for other types of projects, contractors may continue purchasing building materials tax free because they or the prime contractor they work for is subject to Arizona's prime contracting tax. There are several operational challenges to closing this TPT Gross Tax Gap, including lack of information returns, poor recordkeeping on the part of taxpayers, lack of taxpayer understanding of qualified deductions and credits, and inconsistent rules for licensure/certification across state agencies. For example, contractors that only work on maintenance, repair, replacement or alteration (MRRA) projects, or that only work as subcontractors on prime contracting projects, are not required to maintain their TPT license if they already have one or to obtain a TPT license if they are just going into business. Arizona's Registrar of Contractors (ROC) may no longer require contractors to provide a TPT license number when applying for or renewing a contractor's license. Cities, towns, and counties may not require an applicant for a building permit to hold a TPT license or a business license as a condition for issuing the permit. The removal of a TPT license requirement for ROC may have led to a misunderstanding of some taxpayers that will not be engaged in TPT covered activities. This has likely contributed to the Nonfiling Tax Gap, since contractors are not aware of their TPT obligations.

ROC licenses have steadily increased since 2013, while the number of active TPT licenses for Prime Contractors has steadily decreased. From 2013 to 2016, over 7,500 ROC licenses have been issued, while at the same time there are 7,600 fewer active TPT licenses for Prime Contractors. This might indicate that some nonfiling tax gap is present

in this industry, and that the nonfiling tax gap could be growing. This nonfiling behavior could be due to at least two situations. First, contractors applying for ROC licenses may not understand whether they will have TPT-related activity and therefore are not applying for a TPT license. Second, existing contractors may not be renewing TPT licenses because they interpret the new rules such that filing TPT returns is no longer necessary. In either case, it is possible that the interpretation of TPT application to this industry could be incorrect and lead to an increased tax gap for Prime Contractors.

# Section 2. Data Used in the Study

This section describes the data used to complete the estimate of Prime Contracting noncompliance. The data used in the study are provided separately.

## 2.1 Bureau of Economic Analysis

The Bureau of Economic Analysis (BEA) creates data about the nation's economy, including the United States gross domestic product (GDP) and industry data.[4] This study utilizes two datasets created by BEA:

1. Industry Economic Accounts Underlying Estimates – wages and salaries, supplements to wages and salaries, taxes on production and imports, subsides, government surplus, consumption of fixed capital, business current transfer payments, and corporate and noncorporate other gross operating surplus by industry for calendar years 2000 – 2016.[5] Specific data used include the national annual total wages for all industries and construction.
2. Annual Industry Accounts Underlying Estimates – wages and salaries, supplements to wages and salaries, taxes on production and imports, subsides, government surplus, consumption of fixed capital, business current transfer payments, and corporate and noncorporate other gross operating surplus by industry for calendar years 2000 – 2016.[6] Specific data used include the Arizona annual total wages for all industries and construction.

## 2.2 Bureau of Labor Statistics

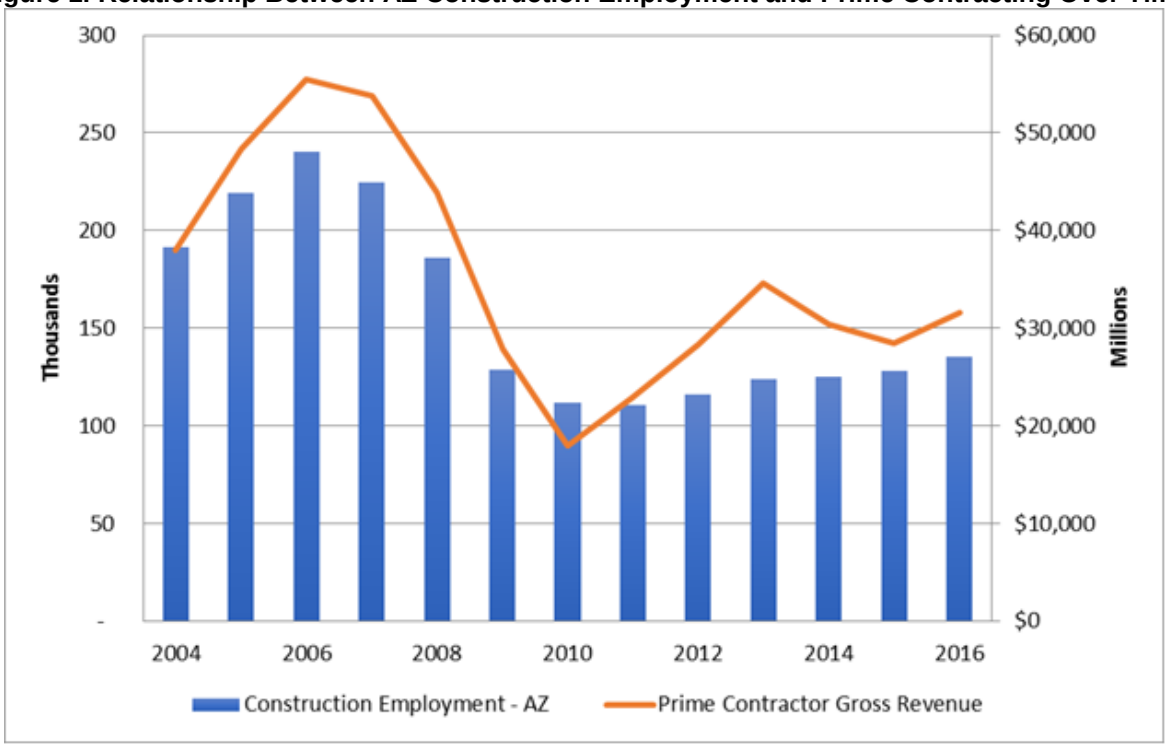
The Bureau of Labor Statistics (BLS) is the principal federal agency responsible for measuring labor market activity, working conditions, and price changes in the economy. Its mission is to collect, analyze, and disseminate essential economic information to support public and private decision making.[7] This study utilizes two datasets created by BLS:

[4] https://www.bea.gov/about
[5] https://www.bea.gov/products/industry-economic-accounts/underlying-estimates
[6] https://apps.bea.gov/itable/iTable.cfm?ReqId=70&step=1
[7] https://www.bls.gov/bls/infohome.htm

1. Employment levels by industry, seasonally adjusted for calendar years 2000 – 2016.[8] Specific data used include the national monthly total employment for all industries and construction.
2. Economy at a glance for the State of Arizona for calendar years 2000 – 2016.[9] Specific data used include the Arizona monthly total employment for all industries and construction.

Figure 1 illustrates that Prime Contracting TPT Gross Receipts are closely related to employment in the Arizona construction industry. While construction employment and Prime Contractor TPT Gross Receipts have both been trending upwards since 2010, they are still well below the pre-recession highs of 2006. The bars in the chart correspond to the left axis and represent construction employment. The line in the chart corresponds to the right axis and represents the gross revenue for Prime Contracting.

**Figure 1. Relationship Between AZ Construction Employment and Prime Contracting Over Time**




## 2.3 Transaction Privilege Tax Return Data

Although commonly referred to as a sales tax, the Arizona Transaction Privilege Tax (TPT) is actually a tax on a vendor for the privilege of doing business in the state.[10] The Transaction Privilege, Use, and Severance Tax Return is completed by vendors monthly.

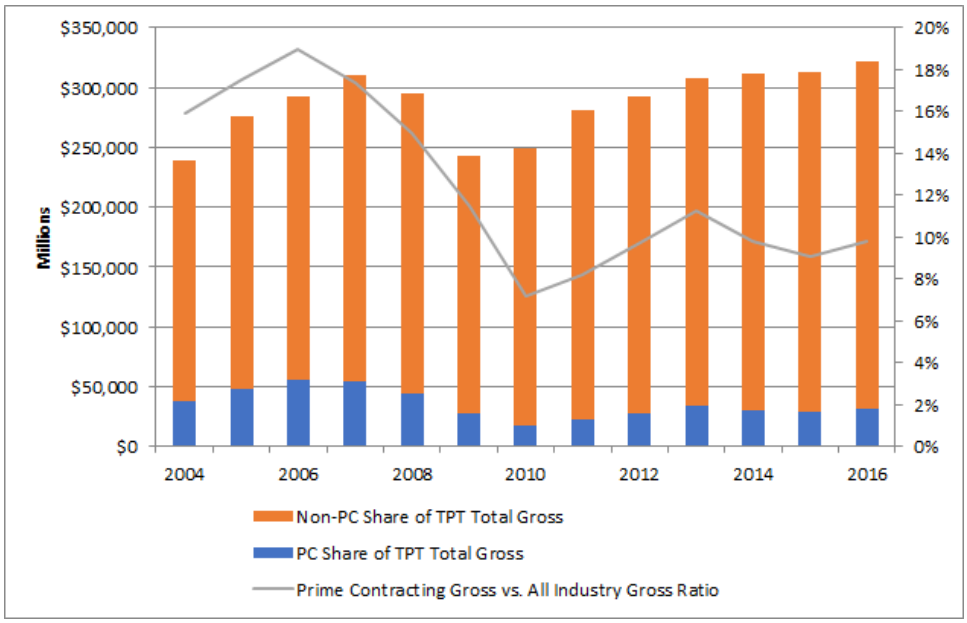
[8] https://www.bls.gov/charts/employment-situation/employment-levels-by-industry.htm
[9] https://www.bls.gov/eag/eag.az.htm
[10] https://azdor.gov/transaction-privilege-tax-tpt

This form was referred to as TPT-1 for filing periods before June 1, 2016,[11] and TPT-2 for returns filed after this date.[12]

These tax returns are not publicly available. The TPT data used in this study were provided by ADOR. Specific data used include Arizona annual total gross, taxable, tax due, and deductions for all industries and Prime Contracting for calendar years 2000 – 2016.

Figure 2 illustrates the percentage of all TPT Gross Receipts that are due to Prime Contracting. The bars in the chart correspond to the left axis and represent the total dollars reported as TPT Gross Receipts on TPT returns filed. The line in the chart corresponds to the right axis and represents the percentage contribution of Prime Contracting TPT Gross Receipts to All Industries. This figure illustrates the substantial decline in Prime Contracting that coincides with the recession that began in December 2007. Prior to the recession, Prime Contracting accounted for up to 19 percent of Total TPT Gross Receipts. This illustrates that Prime Contracting has weakened as a source of revenue for the state not just in absolute terms, but also relative to all other industries. While the share of TPT Gross Receipts for Prime Contracting are off the low in 2010 of 7 percent, receipts remain well below the high in 2006, and only account for approximately 10 percent of Total TPT Gross Receipts. If we assume that noncompliance is uniformly distributed across industries filing TPT returns, we should expect the relative contribution of the tax gap to be small (less than 10 percent of the total tax gap) in Prime Contracting.

**Figure 2. TPT Gross Receipts Share by Year**




[11] https://azdor.gov/forms/tpt-forms/tpt-1-transaction-privilege-use-and-severance-tax-return-filing-periods-june-1-2016
[12] https://azdor.gov/forms/tpt-forms/tpt-2-transaction-privilege-use-and-severance-tax-return-filing-periods-beginning-or

## 2.4 Transaction Privilege Tax Audit Data

ADOR's TPT audit results are not publicly available. The audit results used in this study were provided by ADOR. Specific data used include the TPT license number, completion date of the audit, and the monetary result of the audit for calendar years 1985 – 2018. It should be noted that most TPT audits cover a four-year look back period. Audits conducted in the most recent years may still be in progress and are excluded from portions of the analysis.

It is possible to derive the average revenue per audit, the average cost per audit, and the average revenue-to-cost ratio (often called "Return on Investment," or ROI). These metrics have the advantage of being relatively easy to derive from operational data, and they have some use in managing enforcement programs and documenting results. However, none of these average measures provide the correct basis for allocating scarce resources to the programs competing for those resources. That is, these simple metrics cannot determine the quantity of resources to devote to each program. In fact, devoting more budget to the programs exhibiting the highest average ROI is often not the most cost-effective way to manage agency resources. Net benefits are maximized when the marginal benefit/cost ratio is equal across all audit programs. Otherwise, net benefits could be increased by shifting resources from activities having low marginal benefit/cost to those that exhibit higher marginal benefit/cost.[13] The marginal revenue generated by a tax enforcement program generally declines as the level of effort (i.e., the budget) expended in that program increases. This is because most audit programs are successful in giving priority to cases that are more cost-effective to work than others. If the tax agency had no way of identifying in advance which cases would be more cost-effective than others, it would inevitably select cases randomly, whereupon the marginal revenue/cost ratio would be the same as the overall average – a constant.

Most audits cover a four-year look back period for taxpayers. A reasonable measure of taxpayer compliance is how much the taxpayer is assessed after audit relative to the total amount of tax paid during the audit examination period. Figure 3 illustrates this percentage for audits conducted between 2010 and 2014. We use this period because most audits during these calendar years are now complete. Audits have been sorted in descending order of this measure, meaning the highest assessment relative to actual tax reported are first and the lowest are last. Only the first 38 audits are listed to aid in readability of the chart. Of the cases selected for audit, only a small portion of taxpayers are assessed significantly high percentages, and this percentage drops quickly each year, typically after the first 5 largest assessments. Once the top five audit assessments are removed from each year, the average taxpayer assessment is less than 5 percent of taxes paid during the exam period for the next 75 audits per year. In fact, not every taxpayer selected for audit produces positive assessments for ADOR. Some audits result in no assessment, and some result in a refund owed to the taxpayer. This evidence suggests that adding more audits using the same selection methods may not add to audit

[13] Estimating Marginal Revenue/Cost Curves for Correspondence Audits, Ron Hodge, Alan Plumley, Kyle Richison, Getaneh Yismaw, Nicole Olson, and H. Sanith Wijesinghe. IRS-TPC Research Paper, June 2015.

assessments linearly. In fact, since there are only a few highly productive audits each year, it is much more likely that audits with low productivity, much lower than average, will be selected. Over the period, approximately 15 percent of audits in the analysis resulted in either no assessment or a refund to the taxpayer.

**Figure 3. Audit Revenue as a Percent of Original Tax Reported**

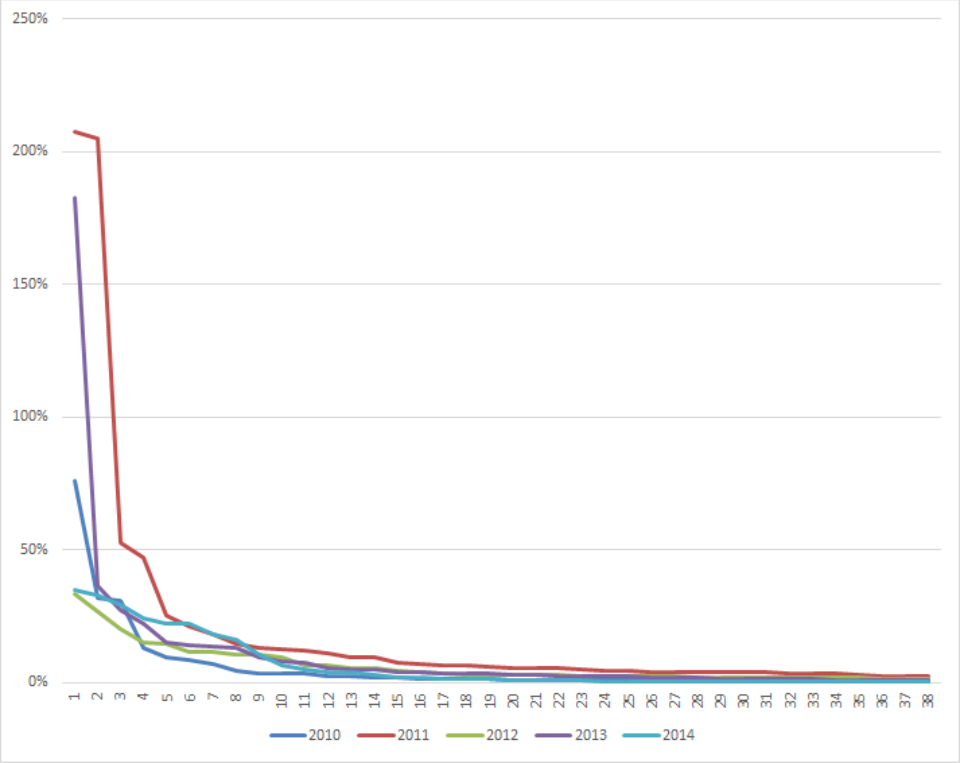



Figure 4 illustrates a similar result when looking at cumulative audit revenue each year. With the exception of 2011, 90 percent of the total positive assessments are made in the top 38 audits. This further illustrates that high dollar value assessments in Prime Contracting are difficult identify using current methods of audit selection. These difficulties are addressed later in this report.

**Figure 4. Cumulative Audit Revenue by Year**

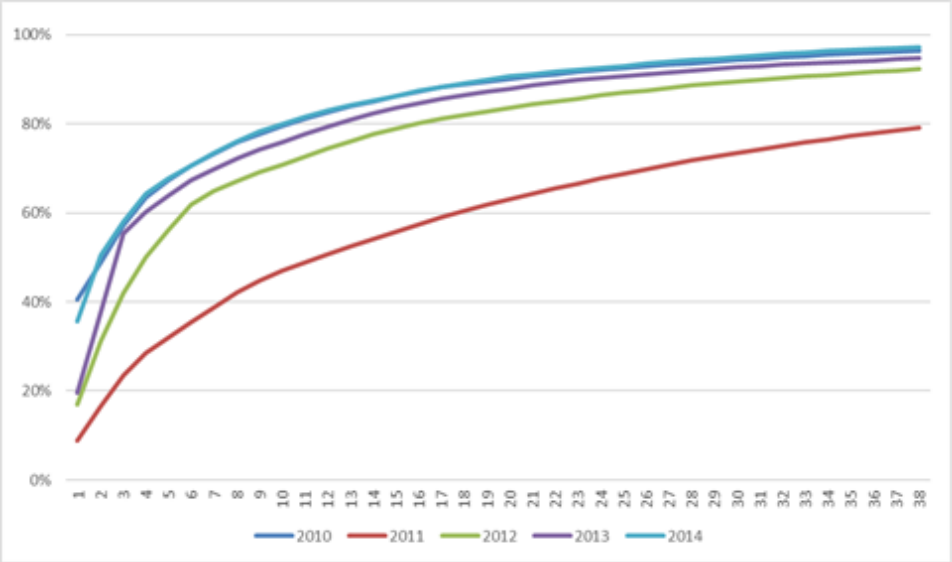
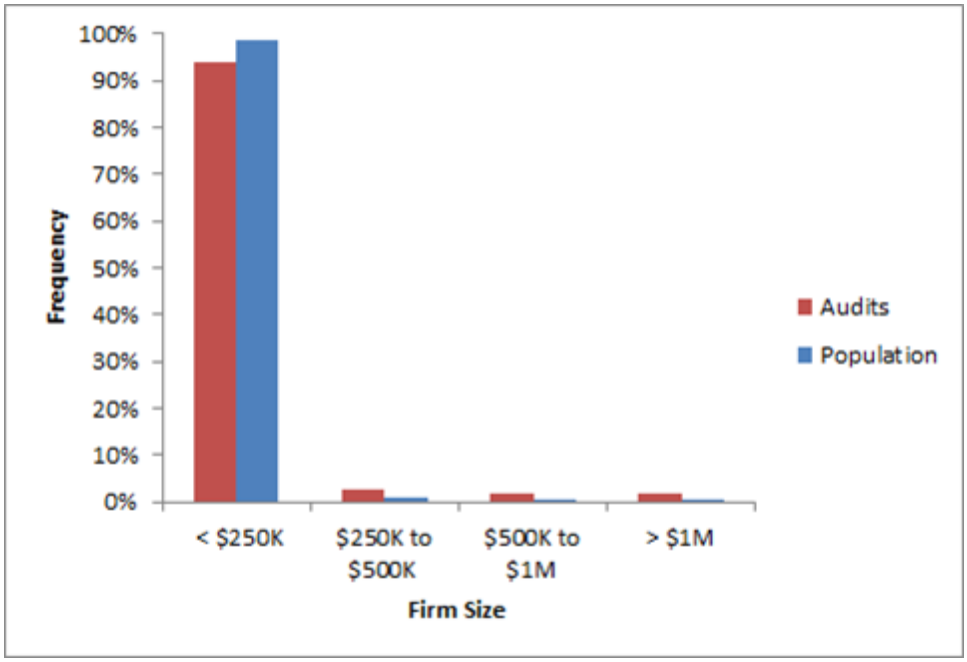



Figure 5 illustrates the distribution of audits and firms by firm size for the 2014 calendar year. We illustrate 2014 since most audits from this calendar year are complete and this pattern is representative of all years from 2010 to 2017. The vast majority of firms (99 percent or over 33,000 firms) filing TPT returns report less than $250,000 in total revenue. In addition, larger firms are typically selected for audit more frequently, relative to their presence in the population. There is a correlation between firm size and length of filing history, and this would lead to a higher proportion of larger firms being selected for audit, since there is a typical four-year look back for audits. Combining the information in Figure 3, Figure 4, and Figure 5 is suggestive that the majority of new audit cases that would be selected would come from firms reporting relatively low revenue, with relatively small potential audit assessment amounts.

Previous studies conducted by the IRS have demonstrated support for the importance of the audit examination function. Most notably, that the employees responsible for conducting audits and ensuring taxpayer compliance are both a direct and indirect driver of taxpayer compliance and revenue generation.[14]

[14] IRS, Publication 1916, The Determinants of Individual Income Tax Compliance: Estimating the Impacts of Tax Policy, Enforcement, and IRS Responsiveness (Nov. 1996).

**Figure 5. Distribution of Audits and Firms by Firm Size for 2014**




# Section 3. Methodology

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## 3.1 Voluntary Reporting Complexities

The following subsections provide examples of how the lack to third-party information reporting can lead to incorrect TPT filing outcomes by taxpayers (purposefully or not). There is little empirical evidence available at the federal, state, or local level that allow for the estimation of the voluntary reporting rates for prime contractors in Arizona. However, these examples illustrate the many and varied areas for which there exists little or no information reporting, and these areas have been determined by the IRS to be the most problematic areas for tax compliance.

### 3.1.1 Exemption Certificates

Materials purchased by a TPT-licensed contractor for incorporation into a taxable modification project that is not an MRRA project are not subject to retail TPT at the time of purchase from a retailer because such projects are subject to prime contracting TPT. The TPT-licensed contractor would provide a properly completed TPT Exemption Certificate (Form 5000) to the retailer to provide a basis to exempt from retail TPT the purchase of materials that will be physically incorporated or fabricated into the project.

A subcontractor without a TPT license who is purchasing materials that are to be incorporated into a modification project subject to prime contracting TPT will be unable to purchase such materials exempt from retail TPT unless the subcontractor is working for a TPT-licensed prime contractor who has provided the subcontractor with a valid Department-issued Form 5009L Contractor's Project Certificate for the project. The prime contractor is the person who submits a Form 5009L to the Department for registration and would then provide a copy of the registered Form 5009L to the unlicensed subcontractor, which allows that subcontractor to purchase materials from a retailer exempt from retail TPT.

The regulations, as stated, do not provide a compliance mechanism regarding the use of exemption certificates. Compliance is at the discretion of the retail or wholesale establishment. It is quite possible that these establishments do not have the internal controls or computer systems in place to effectively monitor the use of exemption certificates. Even in cases where the exemption certificates are adequately monitored by

[17] "Employment Taxes: Timely Use of National Research Program Results Would Help IRS Improve Compliance and Tax Gap Estimates" (GAO-17-371), https://www.gao.gov/products/GAO-17-371.

retail and wholesale materials establishments, the classification of these purchases is voluntary and can be misreported (purposefully or not) by prime contractors. There has been no study done to date to determine the revenue loss due to the misuse of exemption certificates, therefore, no empirical assessment can be made as to the size (large or small) of the fiscal impact of this leakage. However, given that there is a lack of third-party verification of certificate usage, misuse of exemption certificates would be consistent with previous studies by the IRS.

### 3.1.2 Deductions and Exemptions

The list of allowable deductions and exemptions to TPT Gross Sales is long and complex. Additionally, the understanding, interpretation, and reporting of these deductions and exemptions is at the sole discretion of the taxpayer. There is little third-party information reporting of these amounts directly to ADOR, which complicates compliance with existing statutes. Previous studies of the tax gap conducted by the IRS demonstrate that this lack of verification provides a large area for misreporting, and it is likely that a nontrivial portion of these deductions and exemptions are being misreported (purposefully or not). For the calendar years 2010 to 2016, prime contractors filing TPT returns reported between 63 and 69 percent of total gross receipts as deductions. On average this is approximately $18 billion per year reported as deductions to gross sales averaging $27 billion. Compared to all other TPT-covered industries, the average deductions were between 7 and 11 percent over the same time period.

### 3.1.3 Out of State Purchases and Use Tax

A portion of construction materials used for Arizona construction projects may be purchased out of state. The State of Arizona relies on the taxpayer (i.e., prime contractor) to self-report and pay Use Tax on these materials. While information and education to taxpayers is available and provided by ADOR, ultimately Use Tax is the responsibility of the taxpayer to report. The nature of e-commerce has been continuously changing how industries operate and it is unlikely that all materials used in the construction industries are solely provided by firms within Arizona. This is another example of lack of third-party information reporting to verify income and expenses of the taxpayer. Taxpayers can obfuscate these records even if subject to audit.

### 3.1.4 Electronic, Cash, and Check Transactions

There are many forms of payment, including credit card, Payment Settlement Entities (PSE), Automated Clearing House (ACH), cash, and check. While some entities are required to report aggregated transactions using the 1099-K, there are limitations to reporting that could make electronic transactions difficult to trace – especially for a large portion of prime contractors in Arizona.

In addition, some transactions have little or no visibility after the fact. For example, cash transactions can be completely obfuscated and removed from TPT reporting. Even payments made by check to a prime contractor are easily hidden from reporting. For

example, it is relatively straightforward for a prime contractor to cash checks at the issuing bank written by the bank's account holders. To protect themselves from fraud, many banks have specific requirements before they will cash a check. However, this type of check transaction obfuscates the money received by the prime contractor. Some banks will charge a small fee for the privilege of cashing your check without an account, but not all banks charge such a fee to non-account holders. If the prime contractor is working without a signed contract with its clients, this transaction has little or no third-party verification visible to ADOR.

# Section 4. Results

The data presented in Table 3 and Table 4 illustrate the estimates of the tax gap for prime contractors (class code 015) and contractors – owner builder (class code 037), respectively. We have presented three estimates of the tax gap using the methods described by the IRS. As described in Section 3 above, there are many similarities among information reporting in the IRS studies and the estimates for noncompliance in Arizona. We therefore base our estimates on the IRS research and report these numbers as the baseline for Prime Contracting noncompliance in Arizona. For more information on the IRS research, please see Appendix 1. The Tax Gap.

The Gross Tax Gap is based on the IRS findings that the VCR is 81.7 percent of all income for this TPT classification. The Tax Gap with NMP at 7 percent assumes the rate calculated by the IRS for income with substantial information reporting (in the form of 1099-K data from Payment Settlement Entities). The Tax Gap with NMP at 19 percent assumes the rate calculated by the IRS for income with some information reporting. While the Tax Gap with NMP at 7 percent is substantially lower than the estimates using the other two methods, it should be noted that TPT is highly reliant on self-reported income and deductions. While some limited information return data are available on this industry in the form of 1099-K information returns, these data have largely gone unused in most states due to several data quality and consistency issues.

**Table 3. Tax Gap Estimates for Prime Contractors, Class Code 015 (in Millions)**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $17,918 | $6,115 | $413 | $506 | $93 | $35 | $96 |
| 2011 | $22,960 | $7,944 | $580 | $710 | $130 | $50 | $135 |
| 2012 | $28,319 | $9,409 | $687 | $841 | $154 | $59 | $160 |
| 2013 | $34,575 | $10,650 | $712 | $872 | $160 | $61 | $166 |
| 2014 | $30,443 | $11,176 | $704 | $861 | $158 | $60 | $164 |
| 2015 | $28,459 | $9,062 | $572 | $700 | $128 | $49 | $133 |
| 2016 | $31,560 | $9,877 | $624 | $764 | $140 | $53 | $145 |

It is also noteworthy that since 2010, Prime Contractors (class code 015) has represented over 99 percent of the Total TPT Tax Due. For this reason, our analysis in this report will focus on Prime Contractors. Both class codes will be considered when analyzing potential non-compliance in this project. Contractors – Owner Builders (class code 037) are likely to not have a material impact on the Total Tax Gap since the estimates in Table 2 below illustrate that the tax gap for most years is less than $1 million.

**Table 4. Tax Gap Estimates for Contractors – Owner Builder, Class Code 037 (in Millions)**

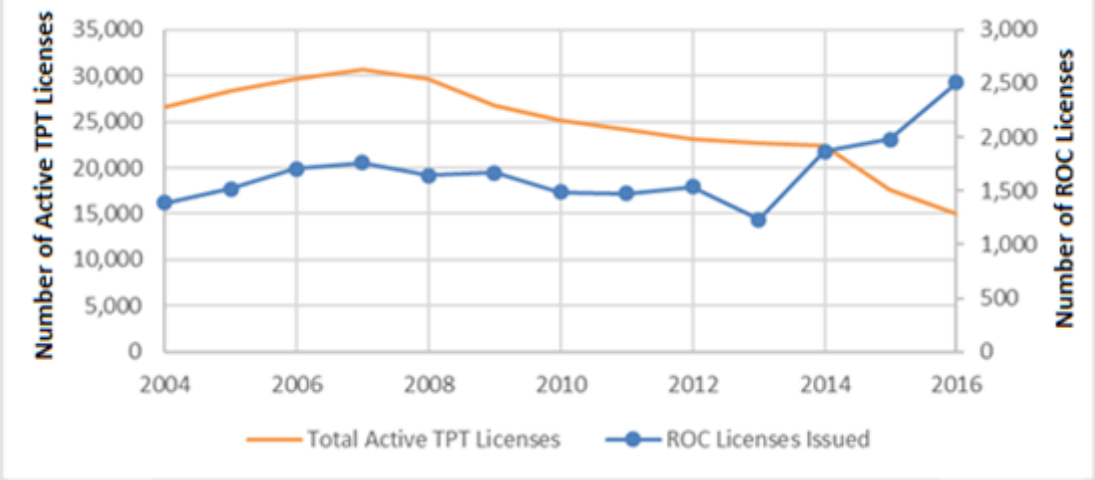
| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $143.70 | $55.95 | $3.85 | $4.71 | $0.86 | $0.33 | $0.89 |
| 2011 | $87.81 | $28.01 | $2.03 | $2.48 | $0.45 | $0.17 | $0.47 |
| 2012 | $185.80 | $44.86 | $3.26 | $4.00 | $0.73 | $0.28 | $0.76 |
| 2013 | $134.13 | $33.47 | $2.21 | $2.70 | $0.49 | $0.19 | $0.51 |
| 2014 | $173.61 | $27.79 | $1.75 | $2.14 | $0.39 | $0.15 | $0.41 |
| 2015 | $255.78 | $149.85 | $4.78 | $5.85 | $1.07 | $0.41 | $1.11 |
| 2016 | $50.33 | $28.76 | $0.97 | $1.19 | $0.22 | $0.08 | $0.23 |

While Table 3 illustrates that the TPT Gross Tax Gap from Prime Contracting could be as high at $145 million, it is also important to note that Prime Contracting likely contributes to less than 10 percent of TPT noncompliance.

The Arizona statutes that pertain to Prime Contractors and Contractors Owner Builders can be complex and allow for many deductions, exemptions, and limitations. In general, contractors are required to pay TPT on building materials for some types of projects instead of paying tax on 65 percent of their gross receipts. However, for other types of projects, contractors may continue purchasing building materials tax free because they or the prime contractor they work for are subject to Arizona's prime contracting tax. There are several operational challenges to closing this TPT Gross Tax Gap, including lack of information returns, poor recordkeeping on the part of taxpayers, lack of taxpayer understanding of qualified deductions and credits, and inconsistent rules for licensure/certification across state agencies. For example, contractors that only work on MRRA projects, or that only work as subcontractors on prime contracting projects, are not required to maintain their TPT license if they already have one or to obtain a TPT license if they are just going into business. Arizona's Registrar of Contractors (ROC) may no longer require contractors to provide a TPT license number when applying for or renewing a contractor's license. Cities, towns, and counties may not require an applicant for a building permit to hold a TPT license or a business license as a condition for issuing the permit. The removal of TPT license requirement for ROC may have led to a misunderstanding of some taxpayers that will not be engaged in TPT covered activities. This has likely contributed to the Nonfiling Tax Gap, since contractors are not aware of their TPT obligations.

Figure 6 illustrates the potential taxpayer misunderstanding for TPT requirements. The solid line represents the total number of active TPT licenses for prime contractors, measured on the left axis. The marked line represents the total number of ROC licenses issued, measured on the right axis. ROC licenses have steadily increased since 2013, while the number of active TPT licenses for prime contractors has steadily decreased. From 2013 to 2016, over 7,500 ROC licenses have been issued, while at the same time there are 7,600 fewer active TPT licenses for prime contractors. This might indicate that some nonfiling tax gap is present in this industry, and that the nonfiling tax gap could be growing. This nonfiling behavior could be due to at least two situations. First, contractors applying for ROC licenses may not understand whether they will have TPT-related activity, and therefore not applying for a TPT license. Second, existing contractors may not be renewing TPT licenses because they interpret the new rules such that filing TPT returns in no longer necessary. In either case, it is possible that the interpretation of TPT application to this industry could be incorrect and lead to an increased tax gap for prime contractors.

**Figure 6. ROC Licenses Issues and Active Prime Contracting TPT Licenses**




# Appendix 1. The Tax Gap

This appendix describes the national tax gap, heavily citing IRS and related publications on the topic. This summary provides an overview of tax gap study, an estimate of the tax gap, and the methodology for calculating the tax gap. The final subsection includes references to additional reading material on the tax gap.

## A.1 Tax Gap Overview[18]

The tax gap and associated concepts are a particular way of defining and analyzing compliance and noncompliance and are based on tax year liability. The tax gap provides a rough gauge of the level of overall noncompliance and voluntary compliance given all the events that occurred during the relevant tax periods and the Internal Revenue Code (IRC) provisions in effect at the time. Tax gap estimates provide the Internal Revenue Service (IRS) with periodic appraisals about the nature and extent of noncompliance for use in formulating tax administration strategies.

Unlike prior tax gap estimates that pertain to a single tax year, these estimates reflect an estimated average compliance rate and associated average annual tax gap for the TY 2008–2010 timeframe. This approach was motivated by the decision to pool multiple years of compliance data from the annual individual income tax reporting compliance component of the National Research Program (NRP) to provide greater reliability of individual income tax underreporting gap estimates by sources of noncompliance.

Estimating the tax gap is inherently challenging and requires assessing the merits of alternative methods, assumptions, and data sources. There is no single approach for estimating all the components of the tax gap. Each approach is subject to nonsampling error; the component estimates that are based on samples are further subject to sampling

[18] All content copied directly from "Tax Gap Estimates for Tax Years 2008–2010" (some sections omitted): https://www.irs.gov/pub/newsroom/tax%20gap%20estimates%20for%202008%20through%202010.pdf

error. The uncertainty of the estimates is not readily captured by standard errors that typically accompany estimates based on sample data. For that reason, standard errors, confidence intervals, and statistical comparisons across years are not reported.

## A.2 Tax Gap Estimates[19]

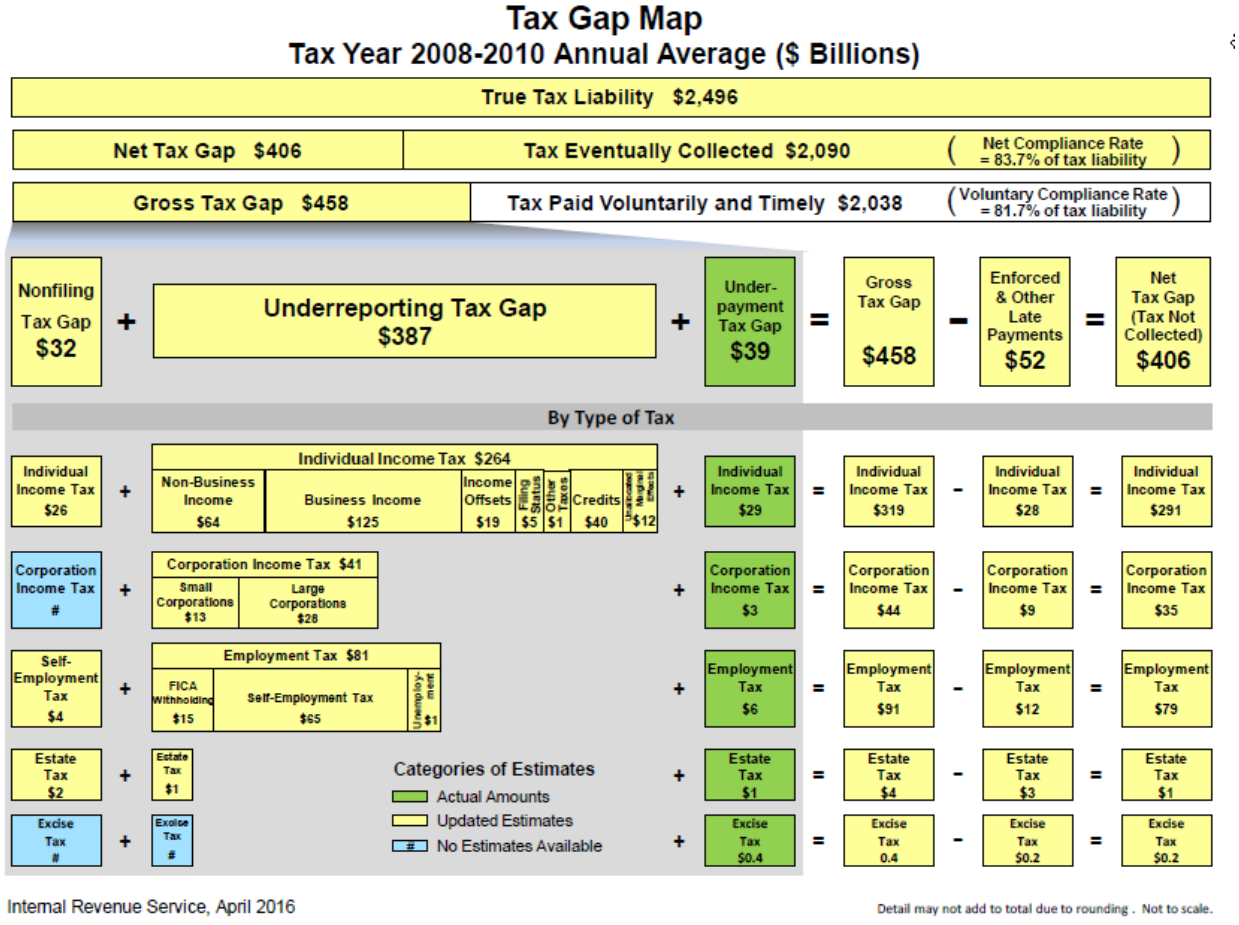
The gross tax gap is the amount of true tax liability that is not paid voluntarily and timely. The estimated gross tax gap is $458 billion. The net tax gap is the gross tax gap less tax that will be subsequently collected, either paid voluntarily or as the result of IRS administrative and enforcement activities; it is the portion of the gross tax gap that will not be paid. It is estimated that $52 billion of the gross tax gap will eventually be collected resulting in a net tax gap of $406 billion. The voluntary compliance rate (VCR) is a ratio measure of relative compliance and is defined as the amount of tax paid voluntarily and timely divided by total true tax, expressed as a percentage. The VCR corresponds to the gross tax gap. The estimated VCR is 81.7 percent. The net compliance rate (NCR) is a ratio measure corresponding to the net tax gap. The NCR is defined as the sum of "tax paid voluntarily and timely" and "enforced and other late payments" divided by "total true tax", expressed as a percentage. The estimated NCR is 83.7 percent. (See Figure 7, Tax Gap Map.)

Many factors contribute to differences over time in both the gross tax gap and the VCR. These include factors such as the overall level of economic activity, changes in the composition of economic activity with shifts toward those with higher or lower compliance rates, changes in tax law and administration, updated data and improved methodologies, and changes in underlying compliance behavior on the part of taxpayers and preparers. Since the tax gap typically moves with the economy, the December 2007 through June 2009 recession and the weak recovery that followed contributed to the gross tax gap remaining substantially unchanged from the previously released TY 2006 estimate. As reported in the IRS Data Book, gross collections were $2.52 trillion in Fiscal Year (FY) 2006 and increased to $2.69 trillion in FY 2007 and $2.75 trillion in FY 2008. They declined to $2.35 trillion in FY 2009 and remained at that level in FY 2010.

The gross tax gap is composed of three components: nonfiling, underreporting, and underpayment. The estimated gross tax gaps for these components are $32 billion, $387 billion, and $39 billion respectively. The gross tax gap estimates can also be grouped by type of tax. The estimated gross tax gap for individual income tax is $319 billion, for corporation income tax is $44 billion, for employment tax is $91 billion, and for estate and excise tax combined is $4 billion.

[19] All content copied directly from "Tax Gap Estimates for Tax Years 2008–2010" (some sections omitted): https://www.irs.gov/pub/newsroom/tax%20gap%20estimates%20for%202008%20through%202010.pdf

**Figure 7. Tax Gap Estimates for Tax Years 2008–2010: Attachment 1**




## A.3 National Research Program (NRP)[20]

The IRS needs reliable compliance measures to determine which key areas of noncompliance to address and which treatments to apply to maximize the use of its limited resources. Data provided by NRP examinations gives us the information to meet these needs.

NRP applies specific guidelines to existing examination techniques and processes to capture necessary compliance data. Using enhanced internal information and established processes, NRP minimizes the burden to both the taxpayer and examination personnel.

NRP Examination Process:

1. The NRP examination process follows the normal examination process to the extent possible. By adhering to normal examination processes and procedures, NRP is able to minimize the burden to both the taxpayer and examiner while still

[20] All content copied directly from "Examination of NRP Returns" (some sections omitted): https://www.irs.gov/irm/part4/irm_04-022-004r

capturing the necessary data. Each NRP study consists of the following processes for a single tax year:

a. Sample Selection – Each NRP study selects a statistically valid, stratified random sample of returns. Data from the sampled returns produce a set of data that is representative of the study population from which the returns were selected. With appropriate weighting, the results from the sample returns can be used to develop estimates for the study population.
b. Case Building – Refer to IRM 4.22.2 NRP Case Building, for detailed information about the NRP Case Building process.
c. Classification – Refer to IRM 4.22.3 Classification of NRP Returns, for detailed information about the NRP Classification process.
d. Examination – Except as otherwise specified in IRM 4.22.4 Examination of NRP Returns, existing examination processes and procedures are to be followed for NRP cases.
e. Data Transmission – Refer to IRM 4.22.4.4 Examination of NRP Returns, for detailed information about the NRP Data Transmission process.

2. To facilitate continued improvements to NRP studies and processes, the NRP staff will communicate with the Area, Territory, or Industry Offices in coordination with the NRP Coordinators, to solicit feedback and insights on each study. These discussions should include any recommended changes for future studies, taxpayer reactions to the program and ways of accomplishing NRP with reduced taxpayer and examiner burden.

The examination outcomes of NRP returns provide the data used to understand the extent and nature of noncompliance for the relevant population of returns from which the NRP returns are drawn. These data are used in many ways. Primary among these are developing noncompliance estimates, including the tax gap estimates; developing estimates to satisfy the reporting requirements of the Improper Payments Information Act (IPIA) of 2002 as amended; and developing or updating models for scoring returns as to their probability of significant tax understatement. The scope and depth of the examination of an NRP-selected return should be sufficient to provide reliable information for these purposes. Examiners should be mindful of causing unnecessary burden for the taxpayer.

## A.4 Additional Sources

The sources below provide additional information on the tax gap:

- “Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2008–2010” (Publication 1415), https://www.irs.gov/pub/irs-soi/p1415.pdf
- “IRS Needs Specific Goals and Strategies for Improving Compliance” (GAO-18-39), https://www.gao.gov/products/GAO-18-39

- "Tax Gap Estimates for Tax Years 2008-2010" (IRS News), https://www.irs.gov/newsroom/the-tax-gap

# Appendix 2. Additional Tax Gap Estimates

This appendix provides additional summaries of the estimated tax gap by different population segments.

## A.1 Prime Contracting (015)

**Table 5. Metro Firm Size Total Gross <= $250,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $907,403,696 | $370,844,214 | $25,333,612 | $31,008,093 | $5,674,481 | $2,170,566 | $5,891,538 |
| 2011 | $877,335,723 | $361,429,085 | $26,236,600 | $32,113,342 | $5,876,742 | $2,247,934 | $6,101,535 |
| 2012 | $835,063,521 | $351,926,804 | $25,547,298 | $31,269,642 | $5,722,345 | $2,188,875 | $5,941,232 |
| 2013 | $795,313,873 | $334,828,976 | $22,336,221 | $27,339,316 | $5,003,095 | $1,913,752 | $5,194,470 |
| 2014 | $778,169,480 | $335,614,046 | $21,000,970 | $25,704,982 | $4,704,012 | $1,799,349 | $4,883,946 |
| 2015 | $529,673,805 | $151,082,620 | $9,463,189 | $11,582,850 | $2,119,662 | $810,800 | $2,200,742 |
| 2016 | $433,760,335 | $106,853,044 | $6,689,485 | $8,187,864 | $1,498,379 | $573,151 | $1,555,694 |

**Table 6. Metro Firm Size Total Gross > $250,000 & Total Gross <= $500,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $827,419,266 | $308,128,173 | $20,978,696 | $25,677,719 | $4,699,023 | $1,797,440 | $4,878,767 |
| 2011 | $833,369,188 | $316,926,416 | $22,999,256 | $28,150,864 | $5,151,608 | $1,970,560 | $5,348,664 |
| 2012 | $835,168,237 | $313,148,065 | $22,729,097 | $27,820,192 | $5,091,095 | $1,947,413 | $5,285,837 |
| 2013 | $852,394,546 | $335,737,508 | $22,380,684 | $27,393,737 | $5,013,054 | $1,917,562 | $5,204,810 |
| 2014 | $868,617,698 | $345,930,363 | $21,663,202 | $26,515,547 | $4,852,345 | $1,856,088 | $5,037,954 |
| 2015 | $638,014,910 | $149,256,409 | $9,345,273 | $11,438,523 | $2,093,250 | $800,697 | $2,173,319 |
| 2016 | $574,553,020 | $125,474,915 | $7,866,752 | $9,628,828 | $1,762,075 | $674,018 | $1,829,477 |

**Table 7. Metro Firm Size Total Gross > $500,000 & Total Gross <= $1,000,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $1,223,772,846 | $440,576,161 | $29,962,669 | $36,674,013 | $6,711,344 | $2,567,181 | $6,968,063 |
| 2011 | $1,291,930,813 | $472,997,470 | $34,346,010 | $42,039,180 | $7,693,170 | $2,942,743 | $7,987,444 |
| 2012 | $1,274,414,085 | $456,366,361 | $33,132,375 | $40,553,703 | $7,421,328 | $2,838,759 | $7,705,204 |
| 2013 | $1,382,031,071 | $515,367,886 | $34,303,475 | $41,987,118 | $7,683,643 | $2,939,098 | $7,977,552 |
| 2014 | $1,384,624,010 | $534,840,558 | $33,489,999 | $40,991,431 | $7,501,432 | $2,869,400 | $7,788,372 |
| 2015 | $1,134,294,773 | $269,830,568 | $16,906,054 | $20,692,845 | $3,786,791 | $1,448,499 | $3,931,640 |
| 2016 | $1,046,777,329 | $223,083,342 | $13,975,733 | $17,106,161 | $3,130,427 | $1,197,431 | $3,250,171 |

**Table 8. Metro Firm Size Total Gross > $1,000,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $11,076,244,670 | $3,564,456,504 | $238,598,563 | $292,042,305 | $53,443,742 | $20,442,961 | $55,488,038 |
| 2011 | $15,292,314,439 | $5,079,168,345 | $369,127,176 | $451,808,049 | $82,680,873 | $31,626,563 | $85,843,529 |
| 2012 | $19,721,012,883 | $6,208,733,793 | $451,104,009 | $552,146,890 | $101,042,881 | $38,650,282 | $104,907,909 |
| 2013 | $20,578,311,831 | $7,261,500,191 | $483,273,340 | $591,521,836 | $108,248,496 | $41,406,529 | $112,389,149 |
| 2014 | $21,208,454,584 | $7,733,332,484 | $484,874,861 | $593,482,082 | $108,607,221 | $41,543,746 | $112,761,596 |
| 2015 | $20,692,232,166 | $6,781,577,443 | $425,649,891 | $520,991,298 | $95,341,408 | $36,469,391 | $98,988,347 |
| 2016 | $23,779,779,001 | $7,606,339,449 | $477,500,596 | $584,456,054 | $106,955,458 | $40,911,924 | $111,046,650 |

**Table 9. Non-Metro Firm Size Total Gross <= $250,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $441,591,833 | $175,834,736 | $12,268,515 | $15,016,542 | $2,748,027 | $1,051,158 | $2,853,143 |
| 2011 | $414,707,748 | $166,754,271 | $12,334,751 | $15,097,615 | $2,762,863 | $1,056,833 | $2,868,547 |
| 2012 | $401,173,308 | $164,812,974 | $12,215,185 | $14,951,267 | $2,736,082 | $1,046,589 | $2,840,741 |
| 2013 | $380,306,060 | $158,951,860 | $10,851,859 | $13,282,569 | $2,430,710 | $929,780 | $2,523,688 |
| 2014 | $383,372,671 | $161,465,309 | $10,393,712 | $12,721,802 | $2,328,090 | $890,526 | $2,417,142 |
| 2015 | $289,130,748 | $84,419,354 | $5,445,347 | $6,665,051 | $1,219,704 | $466,554 | $1,266,360 |
| 2016 | $258,556,447 | $68,875,324 | $4,448,198 | $5,444,551 | $996,353 | $381,119 | $1,034,465 |

**Table 10. Non-Metro Firm Size Total Gross > $250,000 & Total Gross <= $500,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $367,375,814 | $137,259,884 | $9,495,510 | $11,622,411 | $2,126,901 | $813,569 | $2,208,258 |
| 2011 | $363,094,328 | $136,122,200 | $10,036,200 | $12,284,211 | $2,248,011 | $859,895 | $2,334,000 |
| 2012 | $349,238,594 | $130,487,166 | $9,656,959 | $11,820,023 | $2,163,064 | $827,402 | $2,245,804 |
| 2013 | $357,809,763 | $137,414,534 | $9,319,684 | $11,407,202 | $2,087,518 | $798,504 | $2,167,368 |
| 2014 | $378,044,121 | $143,657,171 | $9,230,071 | $11,297,517 | $2,067,446 | $790,826 | $2,146,528 |
| 2015 | $339,682,185 | $91,563,069 | $5,884,249 | $7,202,263 | $1,318,014 | $504,158 | $1,368,430 |
| 2016 | $316,541,338 | $81,724,043 | $5,267,544 | $6,447,422 | $1,179,878 | $451,320 | $1,225,010 |

**Table 11. Non-Metro Firm Size Total Gross > $500,000 & Total Gross <= $1,000,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $493,250,958 | $182,099,492 | $12,615,490 | $15,441,236 | $2,825,746 | $1,080,887 | $2,933,835 |
| 2011 | $476,730,128 | $175,737,111 | $13,002,436 | $15,914,855 | $2,912,418 | $1,114,040 | $3,023,822 |
| 2012 | $481,282,656 | $180,430,911 | $13,310,250 | $16,291,616 | $2,981,366 | $1,140,413 | $3,095,407 |
| 2013 | $535,440,999 | $199,657,356 | $13,523,760 | $16,552,950 | $3,029,190 | $1,158,706 | $3,145,060 |
| 2014 | $552,235,761 | $206,983,583 | $13,227,147 | $16,189,899 | $2,962,751 | $1,133,293 | $3,076,081 |
| 2015 | $500,761,408 | $141,106,753 | $9,085,731 | $11,120,845 | $2,035,115 | $778,459 | $2,112,961 |
| 2016 | $513,126,943 | $143,163,238 | $9,212,866 | $11,276,458 | $2,063,592 | $789,352 | $2,142,527 |

**Table 12. Non-Metro Firm Size Total Gross > $1,000,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $2,580,831,987 | $936,120,681 | $63,991,695 | $78,325,208 | $14,333,513 | $5,482,765 | $14,881,789 |
| 2011 | $3,411,121,710 | $1,234,859,634 | $91,863,462 | $112,439,977 | $20,576,516 | $7,870,798 | $21,363,596 |
| 2012 | $4,422,009,615 | $1,602,982,233 | $119,303,076 | $146,025,797 | $26,722,721 | $10,221,806 | $27,744,901 |
| 2013 | $9,695,681,889 | $1,706,829,198 | $116,145,330 | $142,160,747 | $26,015,417 | $9,951,252 | $27,010,542 |
| 2014 | $4,891,940,731 | $1,714,040,527 | $109,954,925 | $134,583,751 | $24,628,826 | $9,420,863 | $25,570,913 |
| 2015 | $4,341,571,262 | $1,393,331,297 | $90,322,304 | $110,553,616 | $20,231,312 | $7,738,753 | $21,005,187 |
| 2016 | $4,662,017,473 | $1,520,697,540 | $98,814,205 | $120,947,619 | $22,133,414 | $8,466,333 | $22,980,048 |

## A.2 Owner Builder (037)

Within this section, data have been redacted due to the small sample size. These redactions are noted with an asterisk (*).

**Table 13. Metro Firm Size Total Gross <= $250,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $8,839,162 | $3,656,534 | $251,586 | $307,939 | $56,353 | $21,556 | $58,508 |
| 2011 | $8,584,308 | $4,669,189 | $339,353 | $415,365 | $76,012 | $29,076 | $78,919 |
| 2012 | $10,693,316 | $5,454,910 | $396,362 | $485,143 | $88,781 | $33,960 | $92,177 |
| 2013 | $8,834,514 | $4,420,876 | $296,243 | $362,599 | $66,356 | $25,382 | $68,894 |
| 2014 | $9,626,290 | $4,591,374 | $287,558 | $351,968 | $64,410 | $24,638 | $66,874 |
| 2015 | * | * | * | * | * | * | * |
| 2016 | * | * | * | * | * | * | * |

**Table 14. Metro Firm Size Total Gross > $250,000 & Total Gross <= $500,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $5,362,125 | $2,039,468 | $137,429 | $168,212 | $30,783 | $11,775 | $31,960 |
| 2011 | $5,356,100 | $1,787,474 | $129,847 | $158,931 | $29,084 | $11,125 | $30,197 |
| 2012 | $6,520,156 | $1,772,609 | $128,634 | $157,447 | $28,813 | $11,021 | $29,915 |
| 2013 | $7,869,561 | $3,725,655 | $252,880 | $309,522 | $56,643 | $21,667 | $58,809 |
| 2014 | $6,733,260 | $2,295,977 | $143,991 | $176,244 | $32,253 | $12,337 | $33,486 |
| 2015 | * | * | * | * | * | * | * |
| 2016 | * | * | * | * | * | * | * |

**Table 15. Metro Firm Size Total Gross > $500,000 & Total Gross <= $1,000,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $7,362,766 | $2,907,783 | $197,175 | $241,340 | $44,165 | $16,894 | $45,855 |
| 2011 | $6,144,848 | $3,019,117 | $219,241 | $268,349 | $49,108 | $18,784 | $50,986 |
| 2012 | $5,291,169 | $2,142,711 | $155,492 | $190,321 | $34,829 | $13,322 | $36,161 |
| 2013 | $10,523,430 | $3,364,449 | $224,547 | $274,844 | $50,296 | $19,239 | $52,220 |
| 2014 | $11,393,165 | $3,209,707 | $201,187 | $246,251 | $45,064 | $17,238 | $46,788 |
| 2015 | * | * | * | * | * | * | * |
| 2016 | * | * | * | * | * | * | * |

**Table 16. Metro Firm Size Total Gross > $1,000,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $68,900,994 | $29,069,628 | $2,022,517 | $2,475,542 | $453,024 | $173,288 | $470,353 |
| 2011 | $54,693,595 | $13,778,700 | $993,652 | $1,216,220 | $222,568 | $85,135 | $231,082 |
| 2012 | $124,604,112 | $31,306,652 | $2,279,146 | $2,789,653 | $510,506 | $195,276 | $530,034 |
| 2013 | $93,729,780 | $17,099,290 | $1,105,721 | $1,353,391 | $247,671 | $94,737 | $257,144 |
| 2014 | $120,749,509 | $12,164,728 | $758,822 | $928,790 | $169,969 | $65,015 | $176,470 |
| 2015 | * | * | * | * | * | * | * |
| 2016 | * | * | * | * | * | * | * |

**Table 17. Non-Metro Firm Size Total Gross <= $250,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $2,883,681 | $991,154 | $70,486 | $86,274 | $15,788 | $6,039 | $16,392 |
| 2011 | $4,107,920 | $1,776,687 | $130,742 | $160,027 | $29,285 | $11,202 | $30,405 |
| 2012 | $3,814,900 | $1,470,952 | $107,054 | $131,033 | $23,979 | $9,172 | $24,896 |
| 2013 | $3,823,385 | $1,618,036 | $110,373 | $135,095 | $24,722 | $9,457 | $25,668 |
| 2014 | $4,662,072 | $2,061,590 | $131,304 | $160,715 | $29,411 | $11,250 | $30,536 |
| 2015 | $2,958,916 | $956,207 | $29,976 | $36,691 | $6,714 | $2,568 | $6,971 |
| 2016 | $2,662,046 | $676,689 | $18,755 | $22,956 | $4,201 | $1,607 | $4,362 |

**Table 18. Non-Metro Firm Size Total Gross > $250,000 & Total Gross <= $500,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $2,147,218 | $692,751 | $50,557 | $61,881 | $11,324 | $4,332 | $11,757 |
| 2011 | $2,693,803 | $897,581 | $64,723 | $79,220 | $14,497 | $5,545 | $15,052 |
| 2012 | $2,729,413 | $1,073,937 | $79,499 | $97,306 | $17,807 | $6,811 | $18,488 |
| 2013 | $5,331,690 | $2,476,278 | $161,370 | $197,515 | $36,145 | $13,826 | $37,528 |
| 2014 | $2,198,437 | $954,416 | $61,011 | $74,677 | $13,666 | $5,227 | $14,189 |
| 2015 | $3,168,791 | $796,734 | $21,634 | $26,480 | $4,846 | $1,854 | $5,031 |
| 2016 | * | * | * | * | * | * | * |

**Table 19. Non-Metro Firm Size Total Gross > $500,000 & Total Gross <= $1,000,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | * | * | * | * | * | * | * |
| 2011 | $4,798,207 | $2,078,490 | $152,671 | $186,867 | $34,197 | $13,081 | $35,505 |
| 2012 | $4,036,614 | $1,595,390 | $114,476 | $140,117 | $25,641 | $9,808 | $26,622 |
| 2013 | $4,012,866 | $769,376 | $57,046 | $69,824 | $12,778 | $4,888 | $13,267 |
| 2014 | * | * | * | * | * | * | * |
| 2015 | * | * | * | * | * | * | * |
| 2016 | * | * | * | * | * | * | * |

**Table 20. Non-Metro Firm Size Total Gross > $1,000,000**

| Year | Total Gross Receipts | Total Taxable | Total Tax Due | True Tax Liability | Gross Tax Gap | Tax Gap with NMP at 7 Percent | Tax Gap with NMP at 19 Percent |
|---|---|---|---|---|---|---|---|
| 2010 | $45,345,408 | $15,728,972 | $1,053,825 | $1,289,872 | $236,047 | $90,291 | $245,076 |
| 2011 | * | * | * | * | * | * | * |
| 2012 | * | * | * | * | * | * | * |
| 2013 | * | * | * | * | * | * | * |
| 2014 | $15,523,209 | $1,789,967 | $113,635 | $139,088 | $25,453 | $9,736 | $26,427 |
| 2015 | $247,037,643 | $146,868,996 | $4,681,989 | $5,730,709 | $1,048,720 | $401,150 | $1,088,835 |
| 2016 | $44,832,564 | $27,062,153 | $931,579 | $1,140,244 | $208,665 | $79,817 | $216,646 |