Legislative Fiscal Bureau

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Advanced Technology System Project (Revenue -- Tax Administration)

[LFB 2023-25 Budget Summary: Page 543, #3]

CURRENT LAW

The Department of Revenue's (DOR) Compliance Bureau is responsible for collecting all delinquent taxes and providing taxpayer assistance and information. The Bureau also provides collection services for state agencies, counties, and municipalities through the statewide debt collection (SDC) program.

DOR currently utilizes an integrated tax system (Gentax) offered by Fast Enterprises which, beginning in 2005, integrated and replaced more than 35 separate computer systems that supported the work of the Income, Sales, and Excise Tax Division within DOR. The system was implemented through the course of 11 different rollouts and was completed in 2011. The system currently has 7.4 million active accounts and averages over one million transactions per day during the tax season. Since 2011, DOR has continued to automate processes in order to enhance operational efficiency, defeat fraud, and improve the customer experience.

DISCUSSION POINTS

1.   DOR's current collection case system is set up with the goal that each delinquent tax and SDC case would be reviewed annually by a revenue agent. As such, each case is assigned a work date. However, in addition to the annual reviews, the system sends an alert to agents if it identifies that additional action needs to be taken on a specific case. Collection actions begin with letters requesting voluntary payment or the establishment of a payment plan before progressing to involuntary actions, such as ordering a wage attachment or bank levy. DOR indicates that revenue agents prioritize alerts received by the system, which has resulted in many annual case reviews sitting in the past due stage.

2.   Under AB 43/SB 70, the Governor recommends providing $1,350,000 GPR and

$1,350,000 PR in 2023-24 and $600,000 GPR and $600,000 PR in 2024-25 to implement an advanced technology system in DOR's Compliance Bureau. The GPR funding would be provided to DOR's collection of taxes -- general program operations appropriation, and the PR funding would be provided to the collections of taxes -- debt collection appropriation. Any fee revenues generated by the SDC program in excess of program expenses are deposited in the general fund. It is estimated that increased PR expenditures authorized under this provision would reduce the year-end transfer to the general fund by an estimated $1,350,000 in 2023-24 and $120,000 in 2024-25.

3.   The advanced technology system is a cloud-based service (Fast Collection Services) offered by Fast Enterprises. DOR indicates that the vendor would create a model that utilizes data analytics beyond that available to the Department to sort collection cases by type of action needed, and DOR employees would work with the vendor to refine the model. The Department states that $1.5 million (all funds) of the requested funding in 2023-24 would be one-time costs for initial setup and implementation of the model. The remaining $1.2 million in 2023-24 and annually thereafter would cover the ongoing license costs of Fast Collection Services, as well as the cost of having Fast Enterprises' professionals update and maintain the model. According to the Department, the model can be developed to sort collections in a way that will significantly improve efficiency. DOR has provided several examples of how this model would use data analytics to sort collection cases.

Address Update. The model would search external databases and alert DOR employees when a debtor address may no longer be active. In response, DOR employees would send a letter prompting debtors to review and update their address using DOR's secure online system, My Tax Account. DOR indicates that this solution would allow DOR to notify persons of their liability in a timely manner, resulting in quicker resolutions.

Payment Plan Options. The model would identify persons who are best suited for a certain payment plan based on external income and expense data, rather than having such persons provide income and expense details and pick a payment amount. This solution would identify persons that are likely to pay over time and send a letter to those persons with three payment options and a QR code that allows them to electronically accept an option.

Involuntary Collections. The model would identify a potential course of action, either attaching wages or levying a bank account, for collection cases where debtors do not make voluntary arrangements to pay.

Offset Likely. The model would review both state and federal tax returns to identify collection cases that are likely to be resolved through tax refund offset during the income tax filing season. This solution would delay collection letters and actions for such cases and allow DOR agents to focus their time on cases that are unlikely to be resolved on their own.

Responsible Person. The model would utilize data from tax returns and external sources to help agents make associations between business accounts and account owners (responsible persons). DOR indicates that this would result in increased collections from individuals responsible for business operations.

4.   The system could identify collection cases that are likely to be resolved without revenue

agent assistance, as well as cases that are likely uncollectible, and automatically provide self-serve options for debtors to resolve their cases in a timely manner. As such, it would allow DOR revenue agents to prioritize collection cases that would benefit from revenue agent attention. In addition, the system's ability to identify and notify persons of inactive addresses would not only result in more timely collections for DOR but also reduce interest owed by debtors on delinquent tax amounts.

5.   DOR indicates that more than 42,000 delinquent tax cases have not been reviewed by their annual work date. Delinquent tax amounts accrue interest at a rate of 18% per year. This means that such cases may be accruing more interest than they otherwise would have if DOR had the time and resources to address and take action on the debt sooner. A taxpayer notified more quickly under the proposed system that a tax case were in a delinquent status could resolve the delinquency in a more timely manner and avoid accruing additional interest of 18%.

6.   Prior to implementing the system, DOR would have to sign all of the required contracts with Fast Enterprises and establish a work schedule for beginning the implementation process. Fast Enterprises' representatives would then begin working with DOR employees to establish and test the models. This process is estimated to take between six months and one year. If the system were approved, it is estimated that it would begin enhancing DOR tax and debt collections one year after approval. DOR indicates that this system would utilize data analytics to enhance collections of both delinquent taxes and debts owed to local governments and state agencies by $10.8 million in 2024-25.

7.   The Department estimates that 70% ($7.6 million in 2024-25) of enhanced collections would come from delinquent general fund taxes. The remaining 30% ($3.2 million in 2024-25) of enhanced collections would come from debts owed to state agencies and local governments under the SDC program. It is anticipated that, as the system improves and DOR employees become more familiar with its operation, the system will enhance collections by $15 million in 2025-26 and $21 million in 2026-27 and annually thereafter.

8.   Of the $3.2 million of estimated enhanced collections for the SDC program in 2024-25, DOR estimates that 15% ($480,000) of this amount would be from increased SDC collection fees. As such, the advanced technology system project is estimated to: (a) increase fees collected by DOR by $480,000 in 2024-25; (b) increase expenses incurred by $1,350,000 PR in 2023-24 and $600,000 PR in 2024-25; and (c) decrease the year-end transfer to the general fund by an estimated $1,350,000 in 2023-24 and $120,000 in 2024-25. Assuming enhanced collections from the advanced technology system through 2026-27, it is likely that enhanced SDC collection fees would offset (and possibly exceed) the ongoing PR expenses associated with the system upgrade. It should be noted that the Administration did not include an estimate for increased SDC fee revenues under AB 43/SB 70.

9.   The Compliance Bureau had a delinquent tax balance of $1,052.2 million and an SDC closing balance of $463.7 million as of June 30, 2022, while actual collections for each program were $290.3 million and $59.6 million, respectively, in 2021-22. It is currently estimated that each new delinquent tax revenue agent and SDC revenue agent would generate approximately $1.8 million and $2.4 million in new collections, respectively. Therefore, it is estimated that the advanced technology system would generate the same amount of delinquent tax and debt collections as providing an additional 4.2 delinquent tax revenue agents and 1.1 SDC revenue agent (after fees are subtracted from total SDC collections). However, the system is expected to increase the efficiency of existing

revenue agents, rather than to replace such agents.

10.   DOR indicates that other states, such as South Carolina and Illinois, are in the process of implementing the Fast Collection Services solution. However, the results of such implementations are not yet known.

11.   According to DOR, its current integrated tax system through Fast Enterprises has been successful since its implementation. Benefits of the current system include: (a) advanced audit selection capabilities using software tools; (b) integrated audit and collection case managers; (c) robust fraud and error detection in return processing systems; and (d) a secure e-service portal offering customer self-service features and free tax return filing options. The advanced technology system would further DOR's progress in creating a fully integrated system within its Compliance Bureau, and would provide more self-service options for taxpayers.

12.   The Department has implemented other information technology upgrades to enhance state revenues in prior budgets. For example, DOR implemented a financial record matching program in 2010. Similar to the advanced technology system, the financial record matching program provides DOR with access to external data that enhances the Department's ability to collect taxes and debts owed. The 2009-11 biennial budget (Act 28) provided $208,900 in 2009-10 and $402,900 PR in 2010-11 and 3.0 PR positions annually to implement and administer the financial record matching program for the collection of delinquent state taxes. At the time the funding was provided, it was estimated that the program would generate an additional $13 million in delinquent tax collections annually. DOR reports that the program was successful in generating the full $13 million in additional revenue and anticipates similar results from the advanced technology system, if approved.

ALTERNATIVES

1.   Provide $1,350,000 GPR and $1,350,000 PR in 2023-24 and $600,000 GPR and $600,000 PR in 2024-25 for supplies and services to implement an advanced technology system in DOR's Compliance Bureau. Estimate enhanced delinquent general fund tax collections of $7,600,000 in 2024-25, $10,500,000 in 2025-26, and $14,000,000 in 2026-27. Estimate increased fees collected of $480,000 PR-REV in 2024-25. Estimate a reduction in the year-end transfer to the general fund of $1,350,000 GPR-REV in 2023-24 and $120,000 GPR-REV in 2024-25.

ALT 1	Change to Base
GPR	$1,950,000
PR	1,950,000
Total	$3,900,000
GPR-Tax	$7,600,000
PR-REV	$480,000
GPR-REV	-$1,470,000

2.   Take no action.

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