Sustaining a Proactive Compliance Program While Implementing an Integrated Tax System (ITS)

NESTOA Annual Conference
October 2012
• Strategic view
• An integrated tax system (ITS) project is underway – PA Revenue timeline
• Challenge – how to keep the ‘lights on’ and even advance agency activities, especially compliance functions?
• Investing in compliance personnel, resources and tools, including our data warehouse
  • Leading up to the ITS
  • Ongoing during the ITS implementation
The Secretary of Revenue’s Goals:
1. Improve customer service,
2. Create efficiencies,
3. Enhance the equitable collection of taxes due,
4. Align Revenue’s initiatives with the priorities of the Governor, and
5. Attract, develop and retain skilled and motivated employees
The mission of the Bureau of Enforcement Planning, Analysis & Discovery (EPAD) is to advance the enforcement program of the PA Department of Revenue through 

*strategic planning*,

*coordinated project management,*

and *decision analysis*

with the ultimate goal of

*stimulating and retaining voluntary compliance.*
<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>2008</td>
<td>Revenue Roadmap - Strategy</td>
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<tr>
<td>2010</td>
<td>ITS contract with Accenture Work begins for contractor and dedicated agency staff</td>
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<tr>
<td>2011</td>
<td>Business process reengineering and architecture</td>
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<tr>
<td>2012</td>
<td>Programming and testing</td>
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<tr>
<td>2013</td>
<td>Corporation taxes implemented</td>
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<tr>
<td>2014 and beyond</td>
<td>Other taxes implemented</td>
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</table>
We are charged with addressing tax non-compliance /closing the tax gaps.

How do we assure a robust, effective compliance and collections program that addresses the tax gaps AND is sustained during the ITS?
THE IRS TAX GAP

Tax Gap “Map”
Tax Year 2006 ($ billions)

Total Tax Liability $2,660

IRS GAP

Gross Tax Gap: $450
(Voluntary Compliance Rate = 83.1%)

Enforced & Other Late Payments of Tax $65

Net Tax Gap: $385
(Tax Never Collected)
(Net Compliance Rate = 85.5%)

Tax Paid Voluntarily & Timely: $2,210

Nonfiling $28

Individual Income Tax $235
Corporation Income Tax #
Employment Tax #
Estate Tax $3
Excise Tax #

Underreporting $376

Individual Income Tax $25
Corporation Income Tax #
Employment Tax #
Estate Tax $3
Excise Tax #

Underpayment $46

Categories of Estimates
- Actual Amounts
- Updated Estimates
- No Estimates Available

Internal Revenue Service, December 2011
We are charged with addressing tax non-compliance / closing the tax gaps.

How do we assure a robust, effective compliance and collections program that addresses the tax gaps AND is sustained during the ITS?

... Have a plan ...
Our response has been proactive:

- Enforcement planning and funding
- Decision analytics and applications
- Enforcement programs to address major compliance problems (‘tax gaps’)
Three approaches have been used:

• **Program Revision Requests**
  - Line item funding within the budget
  - Specific program proposals for tax enforcement

• **Enhanced Revenue Collection Account**
  - Restricted account within the general fund
  - Now $10 million funding authority
  - Payment from deposited program benefits for enforcement personnel and additional resources

• **Contingent Fee (new in 2012)**
• Stimulate and Retain Voluntary Compliance (SVC)
  • Maximize overall dollars collected
  • Focus on changing taxpayer behavior
  • Assure taxpayers pay their fair share
• Rely upon Decision Analytics
• Need to Improve Collections Processes
  • Competition with private businesses
  • E-Commerce solutions where possible
We want to:

1. Grow the Pie – Increase voluntary compliance

2. Slim the Slice – Decrease the requirement for delinquent collection

3. Lower the Cost (per dollar collected)
• **Why? Transform doing business**
  - Data → Information → Knowledge → Action

• **Goals are to select:**
  - The right programs and
  - For cases – the ‘Right Treatment at the Right Time for the Right Taxpayer’ (RT)³

• **How?**
  - Using the most critical tool – compliance data warehouse, and
  - Building applications for innovative compliance programs using formal and ‘shadow’ IT resources
Data Warehouse Timeline:
2004 Pilot analytics projects
2005 Executive presentation / buy-in
2006 Live with Sybase IQ
  • FTI data store (all extracts back to 2001)
  • Business use tax application (production!)
2007-10 Data and application growth
2011 ITS archival strategy
Data Warehouse functionality:

- Analyze taxpayer behavior
- Define appropriate ‘treatments’ or actions
- Facilitate case-specific research and actions
- Measure program performance - reporting
Enforcement Programs

- Personal income tax – pass through entities (PTE’s) and their owners
  - Strategy to address key tax gap
  - Responds to growth in PTE’s
- Use tax – business voluntary compliance initiative
- State tax delinquent collections tools
  - Liens – routine and automated
  - Citations for delinquent sales tax licensees
  - Responsible party assessments automated
  - Clearances for licensees and state employees
  - Administrative bank attachment
• Stages of a VCI
  • Outreach and education
  • Notice/contact campaign – invitation to the taxpayer to voluntarily comply (carrot)
    • (tax professionals become aware)
    • Stepped-up enforcement (stick)
• Benefits
  • Emphasis on taxpayer knowledge leads to increased compliance
  • Greater customer service
  • Collections efficiency
  • Greater collections – expanded tax base
• Keep fiscal investment options open
  • Expand/extend Enhanced Revenue Collection Account (ERCA)
  • Benefits based procurement model
• Enforcement Program Plan
  • One example – the comprehensive sales and use tax strategy for remote sellers
    • Discover and register Internet retailers
    • Business and consumer use tax efforts
  • New information returns (e.g., 1099-K)
• New statutory tools – legislative proposals
KEY FUNCTIONS AND THE ITS

Unregistered and Under Reporting
- Exam
- Audit
- Discovery

Voluntary Compliance Registrations, Returns and Revenue
- Tax Processing

Accounts Receivable
- Collection & Enforcement

ITS + ITS + ENHANCED COMPLIANCE + ITS
A Few Takeaways

- Consider adoption and wider use of voluntary compliance initiative model
  - Greater efficiency
  - Greater customer service
  - Greater overall compliance – tax base expansion

- Perpetual acquisition and expanded use of data
  - For collections, underreporting analysis, fraud detection and discovery of unregistered taxpayers
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