

**FEDERATION OF TAX ADMINISTRATORS
ANNUAL CONFERENCE
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**COMPLIANCE BREAKOUT SESSION
VERIFYING SSNs on INCOME TAX RETURNS
MATCHING WITH THE IRS**

State of Maryland
Comptroller of Maryland
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In Maryland, each state agency is audited every three years by a team of auditors from the Office of Legislative Audits. The Office of Legislative Audits is under the management of the Department of Legislative Services.

The audit covers a period of approximately three fiscal years. There are approximately 9 members of the Office of Legislative Audits audit team assigned to our audit and this audit takes about 9 months of actual audit work in our organization.

One of the items included in the Audit Report was as follows:

We recommend that the Revenue Administration Division improve its procedures for addressing multiple income tax returns processed under the same social security number. Specifically, we recommend that returns filed with a duplicate social security number be investigated and adequately resolved prior to the issuance of any refund. Additionally, the Revenue Administration Division should continue to pursue all possible means for more effectively identifying the use of invalid social security numbers by individuals filing income tax returns with the state.

During the previous audit the Office of Legislative Audits made a similar comment and at that time we agreed that we would allow three returns containing the same social security number to be processed. Any and all returns after the third return would be disallowed and the individuals notified. Our logic was this would account for individual errors made by the taxpayers in transposing digits and our misread of a digit, especially on hand written returns, through our high speed imaging equipment.

We contacted our Internal Revenue Service Government Liaison Officer, Kyle Roberts, to obtain information on how we could verify the SSNs in our system against the files of the IRS. Mr. Roberts put us in touch with the proper individuals and we began discussing various approaches to be considered. It was determined we would validate the SSNs in our system against the SSN file IRS receives from SSA. Approval to move forward with this project came in late 2006.

Programming was required to retrieve the data from our system in the format required by the IRS, transmitting the data to and from the IRS, establishing a secure data transfer server, training and testing of the programs downloading files from the mainframe and then uploading the returned files. This process took two programmers approximately five months relating to \$76,000 in programming costs.

On July 1, 2007, we reviewed the processing system (SMART) records for active individual filers and this produced 8,053,271 records.

At first we were advised we could send a file containing 100,000 records. Our first attempt at sending a file of that size failed. The file size was reduced to 75,000 records and that file failed also.

We then reduced the file size to 50,000 records and that file was successful. The format of the file included the social security number and four-alpha and our DLN (Document Locator Number for current return) for each taxpayer. We continued this process during the months of July and August until we completed sending all of the records to IRS for validation and in this process we submitted as many as 20 files during one day.

Process

A programmer submits a job that pulls 50,000 records from the mainframe and loads them on a file. This file is placed on a computer that has a direct link to IRS. A job is run that sends those records to IRS. When the match is completed we receive an email from the IRS and we then access the IRS website to download the completed file from the IRS. A job is run that loads the results to the mainframe.

When the employee logs onto the computer to transmit the file to the IRS, they logon with their “digital certificate” which authorizes them access to that specific area of the IRS website. During the transporting of the file, both to and from the IRS, the information is encrypted.

Our System Application Control Section then runs a job to update the taxpayer’s record with a “Y” or “N”. Listed below are the codes the IRS issues and we convert those codes to either the “Y” or “N”. Code 0 receives a “Y” and codes 1 through 5 receive an “N”.

- 0 = TIN and name combination matches IRS records
- 1 = TIN was missing or TIN not 9 digit numeric
- 2 = TIN entered is not currently issued
- 3 = TIN and Name combination does not match IRS records
- 4 = Invalid TIN matching request (all zeroes)
- 5 = Duplicate TIN matching request (multiple years filed at same time)

With the processing of personal income tax returns received during the October 15, 2007, six month extensions, we experienced a number of returns where the spouse’s social security number/name would come back as invalid. Many times when an individual would get married and their last name changed, they would forget to notify Social Security Administration.

A decision was made for the 2007 tax return processing season, we would allow the return to process where the primary taxpayer’s SSN was valid and the spouse’s SSN was invalid, but place those SSN’s on a file and follow up this summer in contacting the taxpayer and advising them of the discrepancy.

During the 2007 tax return processing season, all SSN's that were already marked as valid were processed. If an SSN was marked as invalid, when the 2007 return was received it would be sent to the IRS again and if it came back as valid, the file was updated and the return processed. If a new taxpayer filed for the first time, their SSN was forwarded to IRS for validation and the results were noted accordingly.

The file is forwarded to the IRS by 9:00 a.m. each morning and is received from the IRS by 2:00 p.m. the same day. The taxpayer's records would be updated accordingly and the return would then process. This turnaround time frame eliminated the one day delay in processing returns and issuing the refunds that we initially anticipated.

This filing season we have processed 2,635,919 returns. To date we have issued the following number of notices related to the SSN validation project.

Code 930 – We have received information from the IRS that the name and social security number you filed with Maryland is not valid. Therefore, some or all of your Maryland withholding and/or credits have been denied. Please send written confirmation from the Social Security Administration if you disagree with this notice. A copy of your social security card will not suffice. Initially we received 37,500 records noted as invalid. We reviewed the record, name spelling, etc. and corrected 21,072 which were resubmitted to the IRS and came back as valid. Notices were mailed to 16,428 indicating they were invalid.

Code 931 – We have received information from the Internal Revenue Service that the name and social security number of your spouse that you filed with Maryland is not valid. Therefore, some or all of your Maryland withholding and/or credits may have been denied. Please send written confirmation from the Social Security Administration if you disagree with this notice. We received 14,300 invalid last names and these were placed on the file for the summer project. 597 were invalid social security numbers and notices were mailed to these individuals.

Code 932 – We have received information from the Internal Revenue Service that the names and social security numbers of both you and your spouse that you filed with Maryland are not valid. Therefore, some or all of your Maryland withholding and/or credits have been denied. Please send written confirmation from the Social Security Administration if you disagree with this notice. 163 notices.

In Maryland we have two Earned Income Tax Credits on the individual income tax return. One is 50% of the federal earned income tax credit and only reduces the Maryland income tax liability down to zero.

The second one is a Refundable Earned Income Tax Credit which is 20% of the federal amount. Any excess over the State tax liability is refunded to the taxpayer. At the end of December 2007, we had processed 2,770,441 tax year 2006 individual income tax returns in which 198,731 returns received REIC of \$87.8 million. As of May 31, 2008, we have processed 2,635,919 individual income tax returns in which 181,210 returns received REIC of \$78.9 million.

The initial figures for the REIC for tax year 2006 had 209,150 returns receiving REIC in the amount of \$95.5 million. As a result of receiving the SSN validations, we reviewed the returns for single taxpayers where the SSN was invalid, adjusted their return and billed them accordingly. If they responded with proof from SSA, we adjusted their return to allow the withholding and exemption amounts. In many cases we never received a response from the individuals billed.

Although this system isn't perfect, it has enabled us to meet the requirement of the Office of Legislative Audits to pursue all possible means for more effectively identifying the use of invalid social security numbers by individuals filing income tax returns with the State. We will continue to determine how we can make this process more effective in processing tax returns.